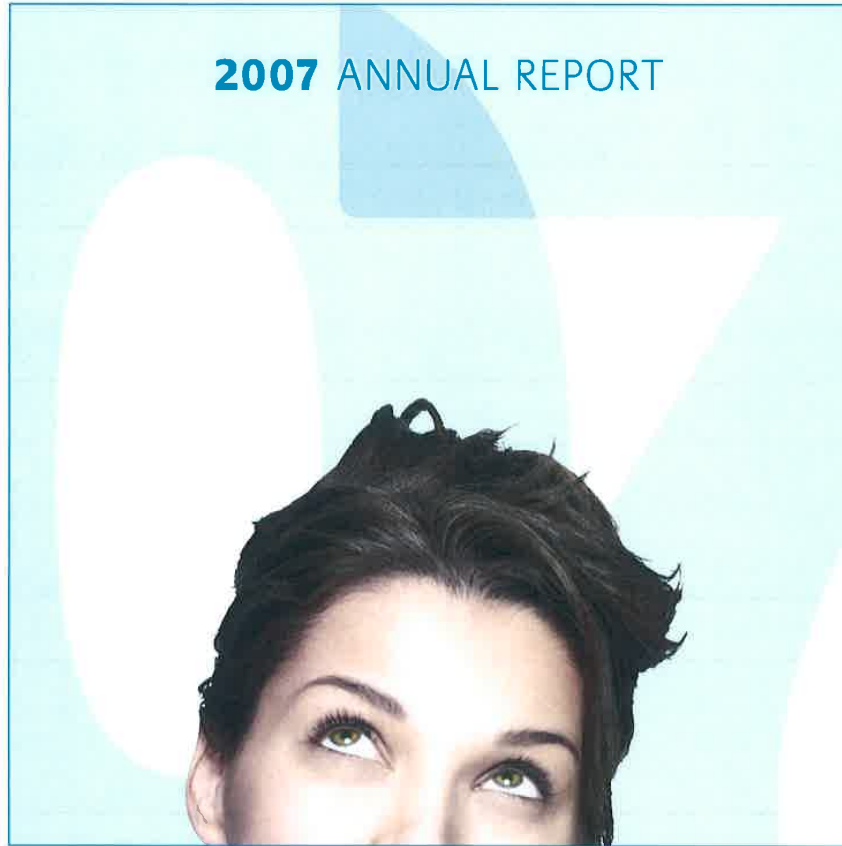


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determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 is effective upon initial adoption of FIN 48, which we will adopt in the first quarter of fiscal year 2008.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 affects other accounting pronouncements that require or permit fair value measurements where the FASB has previously concluded that fair value is the relevant measurement attribute. SFAS 157 does not require any new fair value measurements, but may change current practice in some instances. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We will adopt SFAS 157 in the first quarter of fiscal year 2009, and we are evaluating the financial statement and disclosure impact.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FAS 115" ("SFAS 159"). SFAS 159 allows companies to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. Unrealized gains and losses shall be reported on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 also establishes presentation and disclosure requirements. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and is required to be adopted by the Company in the first quarter of fiscal year 2009. SFAS 159 will be applied prospectively. We are currently determining whether fair value accounting is appropriate for any of our eligible items and cannot estimate the financial statement and disclosure impact which SFAS 159 would have, if any.

Results of Operations

Year Ended March 31, 2007 Compared with Year Ended March 31, 2006

Net Sales

Net sales by channel and product family for fiscal years 2007 and 2006 were as follows (in thousands):

	<u>2007</u>	<u>2006</u>	<u>Change %</u>
Net sales by channel:			
Retail	\$1,844,395	\$1,588,033	16%
OEM	222,174	208,682	6%
Total net sales	<u>\$2,066,569</u>	<u>\$1,796,715</u>	15%
Net sales by product family:			
Retail – Cordless	\$ 525,885	\$ 448,358	17%
Retail – Corded	332,129	314,695	6%
Retail – Video	313,932	273,340	15%
Retail – Audio	404,069	334,496	21%
Retail – Gaming	145,784	136,944	6%
Retail – Remote Controls	91,739	57,227	60%
Retail – Other	30,857	22,973	34%
OEM	222,174	208,682	6%
Total net sales	<u>\$2,066,569</u>	<u>\$1,796,715</u>	15%

for the Company's retail and OEM products. Retail sales growth was largely attributable to strong demand for desktops and keyboards, cordless mice, video, speakers and remote control products. OEM sales also returned to growth based on strong demand for embedded video. Approximately 55% of the Company's sales were denominated in currencies other than the U.S. dollar in fiscal year 2007. Although the Euro continued to strengthen in fiscal year 2007, any potential benefit does not consider the impact that currency fluctuations had on our pricing strategy, resulting in lowering or raising selling prices in one currency to avoid disparity with U.S. dollar prices and to respond to currency-driven competitive pricing actions. We believe that currency fluctuations did not have a material impact on our revenue growth in fiscal year 2007.

Retail Cordless. Sales of the Company's retail cordless products in fiscal year 2007 increased 17% compared with fiscal year 2006, while units sold increased 15%. The growth was led by sales of cordless mice, which increased 25% in dollars and 18% in units, based on the success of new launches such as the MX™ Revolution cordless laser mouse, the VX Revolution™ cordless laser mouse for notebooks and the V450 laser cordless mouse for notebooks. Cordless desktop and keyboard sales grew 11% while units increased 12%, anchored by the new ultra-high-end diNovo Edge™ keyboard.

Retail Corded. Desktops and keyboards also boosted sales of corded products by 6% with units increasing 7% compared with the prior year. The Logitech Alto, our portable notebook stand with an integrated keyboard, made a significant contribution to the growth in the category. Sales of corded mice declined 1% while units increased 3%, primarily due to a decline in gaming mice sales.

Retail Video. Retail video sales and units increased 15% compared with the prior year. Demand for webcams was strong in the first three quarters of the fiscal year, but faltered in the fourth quarter due to significantly slower market growth and loss in market share.

Retail Audio. Retail audio sales increased 21% and units increased 20% compared with the prior year. The growth came primarily from speakers, with sales increasing 35% and units increasing 38%, reflecting strength in both PC speakers and digital music speakers, including our portable speakers for iPod and the X-540 and X-230 PC speakers. Sales of headsets increased 24% and units grew 27%.

Retail Gaming. Sales in retail gaming grew 6% while units sold declined 11% compared with the prior year. Sales of PC gaming peripherals returned to growth, increasing 63% while units increased 24%. Demand was particularly strong for the G25 Racing Wheel and the G15 Gaming Keyboard. Sales of console peripherals decreased 38% in dollars and 36% in units, as consumers waited for the transition to Playstation 3 which occurred late in the fiscal year. Our peripherals for Playstation 3 were ready for the transition, resulting in an increase of 9% in console gaming sales in the fourth quarter.

Retail Remote Controls. Sales increased 60% and units sold increased 67% compared with the prior year, due to growth in demand, particularly for the touch-screen Harmony 1000.

Retail Other. Sales in the other retail category increased 34% compared with the prior year, primarily due to sales of Slim Devices products, which were acquired in fiscal year 2007. Other retail includes sales of 3D control devices and Slim Devices wireless music systems.

Retail Regional Performance. Retail sales in the Americas region increased 18%, with strong performance in the cordless product line and in Harmony remote controls. European retail sales increased 16%, due to strong

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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.

Results of Operations

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

Net Sales

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

	<u>2008</u>	<u>2007</u>	<u>Change %</u>
Net sales by channel:			
Retail	\$2,067,288	\$1,844,395	12%
OEM	<u>303,208</u>	<u>222,174</u>	36%
Total net sales	<u>\$2,370,496</u>	<u>\$2,066,569</u>	15%
Net sales by product family:			
Retail - Pointing Devices	\$ 622,074	\$ 508,449	22%
Retail - Keyboards & Desktops	458,434	372,266	23%
Retail - Audio	478,455	408,314	17%
Retail - Video	238,728	314,514	(24%)
Retail - Gaming	146,016	149,113	(2%)
Retail - Remotes	123,581	91,739	35%
OEM	<u>303,208</u>	<u>222,174</u>	36%
Total net sales	<u>\$2,370,496</u>	<u>\$2,066,569</u>	15%

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

Retail sales growth in fiscal year 2008 was primarily attributable to strong contributions from pointing devices, keyboards, desktops, audio products and remotes. OEM sales were higher as a result of strong sales of gaming peripherals, keyboards and desktops. We achieved strong sales growth in spite of a highly promotional market that resulted in higher consumer rebates as compared with the prior fiscal year. Approximately 54% of the Company's sales were denominated in currencies other than the U.S. dollar in fiscal year 2008. Net sales growth benefited from the strengthening of the Euro during fiscal year 2008;

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