LOGITECH INTERNATIONAL SA
Form 6-K
August 06, 2004
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File Number: 0-29174

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO

RULE 13a-16 OR 15d-16 OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended June 30, 2004

LOGITECH INTERNATIONAL S.A.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant s name into English)

Canton of Vaud, Switzerland

(Jurisdiction of incorporation or organization)

Logitech International S.A.

Apples, Switzerland

c/o Logitech Inc.

6505 Kaiser Drive

Fremont, California 94555

(510) 795-8500

(Address and telephone number of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

ü Form 20-F **Form 40-F**

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes **ü No**

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b).

Not applicable

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LOGITECH INTERNATIONAL S.A.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	June 30, 2004	March 31, 2004
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 273,976	$ 294,753
Accounts receivable	150,926	206,187
Inventories	179,884	135,561
Other current assets	49,360	45,304
Total current assets	654,146	681,805
Investments	16,644	16,172
Property, plant and equipment	42,068	37,308
Goodwill	131,778	108,615
Other intangible assets	20,744	12,543
Other assets	3,868	9,473
Total assets	$ 869,248	$ 865,916
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term debt	$ 9,898	$ 14,129
Accounts payable	156,622	143,016
Accrued liabilities	118,910	113,752
Total current liabilities	285,430	270,897
Long-term debt	140,037	137,008
Other liabilities	910	931
Total liabilities	426,377	408,836
Commitments and contingencies		
Shareholders equity:		
Registered shares, par value CHF 1 - 57,901,655 authorized, 17,890,465 conditionally authorized, 47,901,655 issued and outstanding at June 30, 2004 and March 31, 2004	33,370	33,370
Additional paid-in capital	130,153	132,797
Less registered shares in treasury, at cost, 3,421,247 at June 30, 2004 and 2,902,128 at March 31, 2004	(128,904)	(102,397)
Retained earnings	454,242	435,387
Accumulated other comprehensive loss	(45,990)	(42,077)
Total shareholders equity	442,871	457,080
Total liabilities and shareholders equity	$ 869,248	$ 865,916

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

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LOGITECH INTERNATIONAL S.A.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

	Three months ended June 30,	
	2004	2003
	(Unaudited)	
Net sales	$ 266,594	$ 218,192
Cost of goods sold	175,728	157,554
Gross profit	90,866	60,638
Operating expenses:		
Marketing and selling	39,569	28,032
Research and development	16,679	14,595
General and administrative	13,042	10,158
Total operating expenses	69,290	52,785
Operating income	21,576	7,853
Interest expense, net	(290)	(249)
Other income (expense), net	896	(483)
Income before income taxes	22,182	7,121
Provision for income taxes	3,327	1,424
Net income	$ 18,855	$ 5,697
Net income per share and ADS:		
Basic	$ .42	$ .12
Diluted	$ .39	$ .12
Shares used to compute net income per share and ADS:		
Basic	44,828	45,743
Diluted	50,295	48,056

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three months ended June 30, 2004	Three months ended June 30, 2003
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 18,855	$ 5,697
Non-cash items included in net income:		
Depreciation	5,916	5,861
Amortization of other intangible assets	1,396	1,377
Write-off of investments		500
Deferred income taxes and other	977	408
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	56,292	24,974
Inventories	(44,020)	237
Other assets	1,868	(7,074)
Accounts payable	12,646	(13,406)
Accrued liabilities	570	(8,169)
Net cash provided by operating activities	54,500	10,405
Cash flows from investing activities:		
Purchases of property, plant and equipment	(10,591)	(6,773)
Acquisitions and investments, net of cash acquired	(29,788)	(262)
Net cash used in investing activities	(40,379)	(7,035)
Cash flows from financing activities:		
Repayments of short-term debt	(4,073)	
Repayments of long-term debt	(148)	(341)
Purchases of treasury shares	(34,155)	(485)
Proceeds from sale of shares upon exercise of options and rights	5,001	8,924
Net cash provided by (used in) financing activities	(33,375)	8,098
Effect of exchange rate changes on cash and cash equivalents	(1,523)	(250)
Net increase (decrease) in cash and cash equivalents	(20,777)	11,218
Cash and cash equivalents at beginning of period	294,753	218,734
Cash and cash equivalents at end of period	$ 273,976	$ 229,952
Supplemental cash flow information:		
Interest paid	$ 1,449	$ 1,365

Income taxes paid	$ 1,217	$ 1,366

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

LOGITECH INTERNATIONAL S.A.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1 The Company:

Logitech International S.A. designs, manufactures and markets personal interface products that serve as the primary physical interface between people and their personal computers and other digital platforms. The Company s products include corded and cordless mice, trackballs, and keyboards; joysticks, gamepads and racing systems; Internet video cameras; PC speakers, headsets and microphones; 3D controllers; and with its recent acquisition of Intrigue Technologies, advanced remote controls. The Company sells its products to both original equipment manufacturers (OEMs) and to a network of retail distributors and resellers.

Logitech was founded in Switzerland in 1981, and in 1988 listed its registered shares in an initial public offering in Switzerland. In 1997, the Company sold shares in a U.S. initial public offering in the form of American Depositary Shares (ADSs) and listed the ADSs on the Nasdaq National Market. The Company s corporate headquarters are in Fremont, California through its U.S. subsidiary, with regional headquarters in Romanel, Switzerland, Hsinchu, Taiwan, and Hong Kong, China through local subsidiaries. The Company has its principal manufacturing operations in China, and distribution facilities in the U.S., Europe and Asia.

Note 2 Basis of Presentation:

The accompanying consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and therefore do not include all the information required for non-condensed financial statements. These financial statements should be read in conjunction with the Company s 2004 Annual Report on Form 20-F. In the opinion of management, these financial statements include all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the financial position, results of operations and cash flows of the Company. Operating results for the three month period ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending March 31, 2005.

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

Note 3 Net Income per Share and ADS:

Basic net income per share is computed by dividing net income by the weighted average outstanding registered shares. Diluted net income per share is computed using the weighted average outstanding registered shares and dilutive registered share equivalents. The registered share equivalents are registered shares issuable upon the exercise of stock options computed using the treasury stock method, and upon the conversion of convertible debt computed using the if-converted method. For the three months ended June 30, 2004, the conversion of convertible debt was included in the registered share equivalents due to its dilutive effect. For the quarter ended June 30, 2003, the conversion of convertible debt was excluded from the registered share equivalents as the inclusion would have been antidilutive.

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

	Three months ended June 30,	
	2004	2003
Net income basic	$ 18,855	$ 5,697
Convertible debt interest expense, net of income taxes	721	
Net income diluted	$ 19,576	$ 5,697
Weighted average shares - basic	44,828	45,743
Effect of dilutive stock options	2,743	2,313
Effect of dilutive convertible debt	2,724	
Weighted average shares - diluted	50,295	48,056
Net income per share and ADS basic	$ .42	$ .12
Net income per share and ADS diluted	$ .39	$ .12

Potentially dilutive ordinary share equivalents from outstanding stock options to purchase 377,055 and 1,708,521 shares during the three months ended June 30, 2004 and 2003 were excluded from the computation of diluted net income per share because the exercise price of these options was greater than the average market price of the Company s registered shares during these periods.

Note 4 Acquisition of Intrigue:

In May 2004, the Company acquired Intrigue Technologies, a privately held provider of advanced remote controls, based in Mississauga, Canada. The acquisition is part of the Company s strategy to pursue new opportunities in the living room environment, positioning Logitech at the convergence of consumer electronics and personal computing in the digital living room.

Under the terms of the purchase agreement, the Company acquired all the outstanding shares of Intrigue Technologies for $29 million in cash. An additional $1.6 million was incurred for transaction costs. The agreement provides for possible performance-based payments to the former shareholders of Intrigue tied to the achievement of remote control revenue targets. The aggregate amount of performance payments, if any, will not be known until the end of the revenue measurement period, which may be as late as fiscal year 2008, and will be recorded as a purchase price adjustment.

The acquisition has been accounted for using the purchase method of accounting. Therefore, the assets acquired and liabilities assumed were recorded at their estimated fair values as determined by Company management based on information currently available. The Company obtained an independent appraisal to assist management in its determination of the fair values of the acquired identifiable intangible assets. The results of operations of the acquired company were included in Logitech s consolidated statement of operations from the acquisition date forward. Pro forma results of operations are not presented, as the effect of the acquisition is not material to the Company s consolidated financial statements.

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The total purchase price was allocated to the fair values of assets acquired and liabilities assumed as follows (in thousands):

Net tangible liabilities assumed	$ (663)
Intangible assets acquired:	
Database	5,700
Technology	2,400
Trademark/tradename	900
Customer contracts	600
Goodwill	23,163
Transaction costs	(1,550)
Total consideration	$ 30,550

The net tangible liabilities assumed reflect their estimated fair values at the date of acquisition. The acquired database consists of various proprietary databases developed by Intrigue, including its device and infrared database, which support infrared-controlled devices made by manufacturers. The acquired technology relates to developed software used in Intrigue s line of advanced remote controls. Trademark/tradename relates to the Harmony brand name which the remote controls are sold under and which Logitech will continue to use in its product portfolio. Customer contracts relate to certain existing relationships with distributors through established contracts.

The acquired intangible assets will be amortized on a straight-line basis over their estimated useful lives. The database will be amortized over an estimated useful life of ten years and all other acquired intangible assets will be amortized over estimated useful lives of five years. Goodwill associated with the acquisition is not subject to amortization and is not expected to be deductible for tax purposes.

Note 5 Equity Investments:

In July 2003, the Company made a $15 million cash investment in the Anoto Group AB (Anoto) which represents approximately 10% of Anoto s outstanding shares and is accounted for under the cost method. In connection with the investment, a Logitech executive was elected to the Anoto board of directors. Anoto is a publicly traded Swedish high technology company from which Logitech licenses its digital pen technology. The license agreement requires Logitech to pay a license fee for the rights to use the Anoto technology and a license fee on the sales value of digital pen solutions sold by Logitech. Also, the agreement includes non-recurring engineering (NRE) service fees primarily for specific development and maintenance of Anoto s licensed technology. Royalty and NRE expenses recognized pursuant to the agreement amounted to $.3 million and $.2 million during the three months ended June 30, 2004 and 2003.

In prior years and most recently in May 2004, the Company made cash investments in A4Vision, Inc. totaling $1.2 million, which represents approximately 6% of A4Vision s outstanding shares. The Company accounts for the investment under the cost method. In connection with the investment, a Logitech executive was appointed to the A4Vision board of directors. A4Vision is a privately held company from which Logitech licenses face tracking software. The license agreement requires Logitech to pay a license fee based on the number of its products sold with A4Vision s licensed software. Royalty expense recognized pursuant to the agreement was not material during the three months ended June 30, 2004 and 2003.

The Company uses the cost method of accounting for all other investments, all of which represent less than 20% ownership interests.

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Note 6 Balance Sheet Components:

The following provides a breakout of certain balance sheet components (in thousands):

	June 30, 2004	March 31, 2004
Accounts receivable:		
Accounts receivable	$ 189,660	$ 249,175
Allowance for doubtful accounts	(6,081)	(6,068)
Allowance for customer programs and returns	(32,653)	(36,920)
	$ 150,926	$ 206,187
Inventories:		
Raw materials	43,122	32,592
Work-in-process	531	554
Finished goods	136,231	102,415
	$ 179,884	$ 135,561
Other current assets:		
Tax and VAT refund receivables	$ 14,258	$ 17,520
Deferred taxes	17,396	17,390
Prepaid expenses and other	17,706	10,394
	$ 49,360	$ 45,304
Property, plant and equipment:		
Land	$ 1,913	$ 1,929
Plant and buildings	20,737	20,640
Equipment	74,308	72,431
Computer equipment and software	64,302	59,111
	161,260	154,111
Less: accumulated depreciation	(119,192)	(116,803)
	$ 42,068	$ 37,308
Other assets:		
Debt issuance costs	$ 1,076	$ 1,216
Deferred taxes	55	46
VAT refund receivable		4,900
Deposits and other	2,737	3,311
	$ 3,868	$ 9,473

Note 7 Goodwill and Other Intangible Assets:

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

	June 30, 2004			March 31, 2004		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademark/tradename	$ 16,891	$ (9,734)	$ 7,157	$ 15,985	$ (9,208)	$ 6,777
Existing and core technology	25,423	(12,426)	12,997	17,323	(11,557)	5,766
Customer contracts	600	(10)	590			
	$ 42,914	$ (22,170)	$ 20,744	$ 33,308	$ (20,765)	$ 12,543

Additions to intangible assets during the three months ended June 30, 2004, primarily related to intangible assets assumed from the Company s acquisition of Intrigue Technologies in May 2004.

For the three months ended June 30, 2004 and 2003 amortization expense for other intangible assets was $1.4 million during each period. The Company expects that amortization expense for the nine-month period ending March 31, 2005, will be $4.9 million, and annual amortization expense for fiscal years ending 2006, 2007, 2008 and 2009 will be $4.8 million, $3.9 million, $2.5 million and $1.6 million, and $3.0 million in total thereafter.

The following table summarizes the activity in the Company s goodwill account during the three months ended June 30, 2004 (in thousands):

Balance as of April 1, 2004	$ 108,615
Additions	23,163
Balance as of June 30, 2004	$ 131,778

Additions to goodwill are a result of the Company s acquisition of Intrigue Technologies. The Company intends to fully integrate Intrigue s remote control business into its existing operations, and discrete financial information for Intrigue will not be maintained. Accordingly, the acquired goodwill will be evaluated for impairment at the total enterprise level. The Company performs its annual goodwill impairment test during its fiscal fourth quarter.

Note 8 Long-Term Convertible Debt:

On June 8, 2001, Logitech sold CHF 170,000,000 ($95,625,000 based on exchange rates at date of issuance) aggregate principal amount of its 1% convertible bonds, which mature in June 2006. The Company registered the convertible bonds for resale with the Swiss Exchange. The convertible bonds were issued in denominations of CHF 5,000 at par value, with interest at 1.00% payable annually, and final redemption in June 2006 at 105%, representing a yield to maturity of 1.96%.

The convertible bonds are convertible at any time into Logitech registered shares at the conversion price of CHF 62.4 ($49.8 based on exchange rates at June 30, 2004) per share. The Company may redeem the bonds on notice if the closing price of its registered shares is at least 150% of the conversion price on 20 consecutive trading days or if 95% of the bonds have been converted. The Company accounts for the redemption premium over the term of the loan by recording interest expense and increasing the carrying value of the loan. As of June 30, 2004, the carrying amount of the convertible bonds was CHF 175,204,000 ($139,951,000) and the fair value based upon quoted market value was CHF 195,500,000 ($156,164,000).

Note 9 Comprehensive Income:

Comprehensive income is defined as the total change in shareholders equity during the period other than from transactions with shareholders. Comprehensive income is comprised of net income and other comprehensive income. Other comprehensive income is comprised of foreign currency translation adjustments from those entities not using the U.S. dollar as their functional currency, unrealized gains and losses on marketable equity securities and net deferred gains and losses on hedging activity. Accumulated other comprehensive income is presented as a component of shareholders equity. For the three months ended June 30, 2004 and 2003, comprehensive income was $14.9 million and $8.9 million.

Note 10 Shareholders Equity:

Share Repurchases

Pursuant to a buyback program announced in April 2004 authorizing the repurchase of up to CHF 250 million (approximately $200 million based on exchange rates at the date of announcement), the Company repurchased 746,500 shares for approximately $34.2 million in open market transactions during the three months ended June 30, 2004. The program expires at the date of the Company s 2006 Annual General Meeting at the latest.

To provide the Company with greater flexibility in managing share buyback programs under Swiss law, at its Annual General Meeting in June 2004, shareholders approved a proposal authorizing the Company to repurchase more than 10% of its own shares, with the expectation that the repurchased shares that exceed the 10% ownership threshold will be cancelled, with shareholder approval, or used for other purposes.

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Stock-Based Compensation

The Company has adopted the pro forma disclosure-only requirements of Statement of Financial Accounting Standards (SFAS) 123, Accounting for Stock-Based Compensation and SFAS 148, Accounting for Stock Based Compensation, Transition and Disclosure, which require companies to measure employee stock compensation based on the fair value method of accounting. The Company follows the accounting provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees which measures compensation expense for employee stock-based compensation plans using the intrinsic value method. Accordingly, the Company recognizes compensation expense only when it grants options with a discounted exercise price.

If compensation expense under the Company s stock plans had been accounted for pursuant to SFAS 123, the Company s net income and net income per share and ADS would have been as follows (in thousands except per share amounts):

	Three months ended June 30,	
	2004	**2003**
Net income:		
As reported	$ 18,855	$ 5,697
Deduct: Total stock-based compensation expense determined under the fair value based method, net of tax (1)	(4,047)	(5,251)
Pro forma net income	$ 14,808	$ 446
Basic net income per share and ADS:		
As reported	$ .42	$ .12
Pro forma	$ .33	$ .01
Diluted net income per share and ADS:		
As reported	$ .39	$ .12
Pro forma	$ .31	$ .01

(1) As a result of the Company releasing a valuation allowance on specific deferred tax assets in November 2003, pro forma stock-based compensation expense for the three months ended June 30, 2004 is reported net of a $1.3 million tax benefit on expenses attributable to stock option grants to U.S. employees. The three months ended June 30, 2003 did not reflect a tax benefit because the related deferred tax asset was reserved in the valuation allowance for that period.

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

	Three months ended June 30,			
	Purchase Plans		Stock Option Plans	
	2004	**2003**	**2004**	**2003**

Dividend yield	0	0	0	0
Expected life	6 months	6 months	3.5 years	3.4 years
Expected volatility	48%	58%	59%	64%
Risk-free interest rate	1.03%	1.75%	3.19%	1.75%
Weighted average fair value per grant	$ 12.49	$ 11.30	$ 20.66	$ 15.41

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Note 11 Derivative Financial Instruments Foreign Exchange Hedging:

The Company enters into forward foreign exchange contracts (accounted for as cash flow hedges) to hedge against exposure to changes in foreign currency exchange rates related to forecasted inventory purchases by subsidiaries. Hedging contracts generally mature within three months. Gains and losses in the fair value of the effective portion of the contracts are deferred as a component of accumulated other comprehensive loss until the hedged inventory purchases are sold, at which time the gains or losses are reclassified to cost of goods sold. If the underlying transaction being hedged fails to occur or if a portion of the hedge is ineffective, the Company immediately recognizes the gain or loss on the associated financial instrument in other income (expense). The Company did not record any gains or losses due to hedge ineffectiveness during the three months ended June 30, 2004 and 2003. The notional amount of foreign exchange contracts outstanding at June 30, 2004 and 2003 were $9.4 million and $16.0 million. The notional amount represents the future cash flows under contracts to purchase foreign currencies. Deferred realized gains totaled $.2 million at June 30, 2004 and is expected to be reclassified to cost of goods sold when the related inventory is sold. Realized net losses reclassified to cost of goods sold during the three months ended June 30, 2004 and 2003 was $.1 million and $.7 million.

The Company also enters into forward exchange contracts to hedge against foreign currency exposures inherent in forecasted sales denominated in non-functional currencies, also designated as cash flow hedges. The foreign exchange contracts are entered into on a monthly basis and generally mature between one to two months, corresponding with the expected payment terms on the Company s sales. Gains and losses in the fair value of the effective portion of the contracts are deferred as a component of accumulated other comprehensive loss until the hedged receivable is settled, at which time the gains or losses are reclassified to other income (expense). The notional amount of foreign exchange contracts outstanding at June 30, 2004 was $2.6 million and none at June 30, 2003. Deferred gains on the contracts recorded in accumulated other comprehensive loss were immaterial as of June 30, 2004.

Note 12 Commitments and Contingencies:

The Company has guaranteed the purchase obligations of some of its contract manufacturers and original design manufacturers to certain component suppliers. These guarantees have a term of one year and are automatically extended for one or more additional years as long as a liability exists. The amount of the purchase obligations of these manufacturers varies over time, and therefore the amounts subject to Logitech s guarantees similarly vary. At June 30, 2004, the amount of these outstanding guaranteed purchase obligations was approximately $2.6 million. The Company does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these guarantee arrangements.

Logitech indemnifies some of its suppliers and customers for losses arising from matters such as intellectual property rights and product safety defects, subject to certain restrictions. The scope of these indemnities varies, but in some instances, includes indemnification for damages and expenses, including reasonable attorneys fees. No amounts have been accrued for indemnification provisions at June 30, 2004. The Company does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under its indemnification arrangements.

In December 1996, the Company was advised of the intention to begin implementing a value-added tax (VAT) on goods manufactured in certain parts of China since July 1995, including where the Company s operations are located, and intended for export. In January 1999, the Company was advised that the VAT would not be applied to goods manufactured during calendar 1999 and subsequent years. With respect to prior years, the Company has been assured that, notwithstanding statements made by tax authorities, the VAT for these prior periods would not be charged to the Company. The Company believes the ultimate resolution of this matter will not have a material adverse effect on the Company s financial position, results of operations or cash flows.

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The Company is involved in a number of lawsuits relating to patent infringement and intellectual property rights. The Company believes the lawsuits are without merit and intends to defend against them vigorously. However, there can be no assurances that the defense of any of these actions will be successful, or that any judgment in any of these lawsuits would not have a material adverse impact on the Company s business, financial condition and result of operations.

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LOGITECH INTERNATIONAL S.A.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

This quarterly report on Form 6-K contains forward-looking statements that involve risks and uncertainties. The Company s actual results could differ materially from those anticipated in these statements as a result of certain factors, including those set forth below in Risk Factors, and in Quantitative and Qualitative Disclosure About Market Risk.

Overview

Logitech is a leading global technology company and earns revenues and profits from the sale of personal interface products that serve as the primary physical interface between people and their personal computers and other digital platforms. The Company offers a broad range of products including cordless and corded input and pointing devices such as mice, trackballs, and keyboards; interactive gaming devices for entertainment such as joysticks, gamepads, and racing systems; web cameras; speakers, headsets and microphones; 3D controllers and with its recent acquisition of Intrigue Technologies, advanced remote controls. The Company sells its products through two primary channels, original equipment manufacturers (OEMs) and a network of retail distributors and resellers (retail).

For the first quarter of fiscal year 2005, the Company reported record first quarter sales and profitability, with 22% growth in revenues and 231% growth in net income over the year ago quarter. During the same period last year, revenue grew 12% compared to the previous year, while gross profit declined 9% to $60.6 million and net income declined 47% to $5.7 million. In response to competitive pressures and weak demand in several key product categories, the Company implemented price reductions resulting in lower margins during the year ago quarter. Further contributing to the decline in margins during that period was a higher concentration of lower margin OEM business.

The Company addressed these issues in the beginning of the second quarter of fiscal year 2004, focusing on lower cost new products, cost reductions of existing products and effective distribution and logistics management. Along with a new marketing and advertising campaign that sought to increase brand awareness and promote the cordless connectivity of its products, the Company reported growth in revenues and profitability in fiscal year 2004. Entering into fiscal year 2005, the Company s business continued to show healthy growth. The Company s retail revenues grew 32% in the first quarter of fiscal year 2005 compared to the same period last year driven by robust growth in its core product categories, including cordless mice, webcams and gaming peripherals. OEM business was hurt by a steep decline in sales of peripherals for gaming consoles, as sales fell 11% compared to the prior year quarter. Cash generated from operations during the quarter totaled $54.5 million, a significant improvement over the year ago quarter of $10.4 million.

Following the acquisition in May 2004 of Intrigue Technologies, the Company has largely integrated the Harmony remote control business into its operations. Leveraging its knowledge and experience in control devices for the PC and game consoles with Intrigue s expertise and know-how in advanced remote control technology, Logitech believes it is well positioned to capitalize on opportunities in the digital living room market.

For the remainder of fiscal year 2005, the Company will continue to focus on expanding beyond the PC platform, pursue new areas of growth and build on its current strengths. With continued strong growth in demand for cordless mice and desktops in the first quarter, Logitech foresees cordless becoming a standard for consumers. The Company is committed to investments in the technology, products and marketing to capitalize on and accelerate the cordless opportunity. Logitech also intends to accelerate the adoption of cordless gaming, committing investments to make cordless gaming solutions more functional and affordable. Video is another area where the Company sees significant growth opportunities, enabled by the growth in instant messaging and in broadband connectivity. Foreseeing webcams as eventually becoming a part of mainstream personal computing, Logitech is committed to investments in this market. The Company will continue to focus on supply chain management in order to increase efficiency and effectively manage component supply and further customer satisfaction. To ensure it has the manufacturing capacity and resources to meet its growth objectives, the Company is investing in a new expanded manufacturing facility in China which is targeted for completion in the summer of 2005.

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Results of Operations

Three Months Ended June 30, 2004 Compared to Three Months Ended June 30, 2003

Net Sales

Net sales by channel and product family for the three months ended June 30, 2004 and 2003 were as follows (in thousands):

	Three months ended June 30, 2004	Three months ended June 30, 2003	Change
Net sales by channel:			
Retail	$ 223,471	$ 169,825	32%
OEM	43,123	48,367	(11)%
Total net sales	$ 266,594	$ 218,192	22%
Net sales by product family:			
Retail - Cordless	$ 76,680	$ 55,357	39%
Retail - Corded	57,569	59,444	(3)%
Retail - Video	45,895	21,815	110%
Retail - Audio	21,499	19,507	10%
Retail - Gaming	16,249	8,175	99%
Retail - Other	5,579	5,527	1%
OEM	43,123	48,367	(11)%
Total net sales	$ 266,594	$ 218,192	22%

The Company sells its products through two primary channels, original equipment manufacturers (OEMs) and a network of retail distributors and resellers (retail). The Company s core retail product categories are cordless, corded, video, audio, gaming and others. The cordless and corded product families include the Company s mice, trackballs, keyboards and desktops. Video is comprised of PC webcams and dualcams; audio includes PC speakers and headset products; gaming includes console and PC peripherals; and other is primarily comprised of the Company s digital pen, advanced remote control and 3D input device offerings.

The growth in net sales during the first quarter of fiscal year 2005 was driven by strong growth in the Company s retail business, offset by lower OEM revenues. Retail growth was driven primarily by robust sales of cordless mice, web cameras and gaming peripherals, while weak OEM sales were largely a result of a steep decline in sales to Sony of the EyeToy™ camera and USB headsets for the Playstation®2. Approximately 51% of the Company s sales were denominated in currencies other than the U.S. dollar in the June 2004 quarter. While the Euro was stronger compared to the same period last year, the benefit from the strengthening Euro in the current period was not as significant compared to prior periods. Further, this benefit does not take into account the impact that currency fluctuations have on its pricing strategy which results in the Company 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.

Robust demand for cordless products in the retail sector contributed to higher sales. Sales of cordless mice increased 121% over the prior year quarter, while cordless desktops grew 17%. Unit shipments of cordless mice and cordless desktops grew 126% and 48% over the year ago quarter. The Company s value segment cordless mice and desktop offerings introduced late in fiscal year 2004 contributed to the growth in the cordless category. Also, sales of cordless optical mice for notebooks performed well during the quarter and largely contributed to the growth in the cordless mice segment. Cordless desktop sales also benefited from sales of Bluetooth® cordless desktops that were introduced in the second half of fiscal year 2004. During the quarter, the Company reached a new milestone, shipping more than 50 million cordless peripherals worldwide since it first introduced the radio-frequency cordless mouse in 1991.

The migration by consumers towards cordless peripherals impacted the Company s corded product family. The largest component in this category, corded mice, declined 3% and unit shipments dropped 12% compared to a year ago. Also impacted were sales of the Company s corded keyboards, declining 15%, while unit shipments decreased 19%. Offsetting the decreases was higher sales of corded desktops. The Company expects consumer adoption of cordless peripherals will continue to impact its corded category in future quarters.

Retail video sales grew 110% and unit shipments increased 119% compared to the year ago quarter due to the increased popularity of PC webcams spawned by the growth of instant messaging and broadband connectivity. During the quarter, the Company announced that users of MSN had logged more than one billion video instant messaging sessions using Webcam for MSN Messenger, a feature that Logitech has provided since March 2003.

Retail audio sales grew by 10% and unit shipments declined 8%. While PC speaker sales were relatively flat compared to the prior year, the Company benefited from increased sales of its PC headsets and mobile headsets. Despite flat growth in sales of PC speakers, unit shipments increased 7%. The increase in unit shipments is due to the impact of Logitech branded mid-range offerings introduced in the second half of fiscal year 2004.

Demand for retail gaming peripherals continued to show strength, with sales of peripherals for both the PC and consoles increasing compared to the same period last year. Console gaming peripheral sales grew 75% and unit shipments increased 106%, driven primarily by strong demand for the Company s cordless controllers for both Playstation®2 and Xbox™, which began shipping during the first quarter of fiscal year 2005. Gaming peripherals for the PC did even better, with sales increasing 120% and unit volumes up 108%, as the Company continued to benefit from Microsoft s decision to exit this product category. Demand for PC gaming peripherals was healthy across all PC entertainment products.

Regionally, retail sales in the Company s North America region grew 33% compared to the year ago quarter. Sales to mass retailers in the North America region are contributing to a greater portion of retail sales compared to the prior year quarter. Strong demand for cordless, video and gaming products contributed to the increased sales, offset by reductions in sales of corded and audio products. Retail sales in Europe grew 42% over the prior year, in part, benefiting from the strengthening Euro. While the Euro was stronger compared to the same period last year, the benefit from the strengthening Euro in the current period was not as significant compared to prior periods. Further, this benefit does not take into account the impact that currency fluctuations have on the Company s pricing strategy resulting in it lowering or raising selling prices in a currency in order to avoid disparity with U.S. dollar prices and to respond to currency-driven competitive pricing actions. While European sales growth occurred across all product categories, the most significant increases came from sale of cordless mice, PC webcams, headsets and gaming products. Retail sales in Asia Pacific were relatively flat compared to the prior year quarter increasing only 1%. Growth in cordless, video and audio products in the region were offset by lower sales of corded and gaming offerings. The Company is in the process of expanding its presence in China and intends to make substantial investments in promoting the Logitech brand in this region.

OEM business declined 11% compared to the prior year quarter and represented 16% of total sales, compared to 22% of total sales in the year ago quarter. The most significant driver of this decline was a steep drop in sales to Sony of peripherals for the Playstation®2, namely USB headsets and the EyeToy™ camera. Sales of OEM mice did especially well, with sales increasing 25% and unit shipments growing 15%. While corded products remain the most significant component of OEM sales, cordless sales are on the rise. Sales of cordless mice increased 281% and unit shipments were up 151% compared to the prior year quarter. Consistent with results in the first quarter of fiscal year 2005, the Company expects year over year OEM sales to decline, driven by the weakened OEM console peripheral business. The nature of opportunities for our OEM gaming products are difficult to predict, as they are sensitive to trends in the gaming industry, including customer preferences and the popularity and nature of games that are introduced.

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Gross Profit

Gross profit for the three months ended June 30, 2004 and 2003 was as follows (in thousands):

	Three months ended June 30, 2004	Three months ended June 30, 2003	Change
Net sales	$ 266,594	$ 218,192	22%
Cost of goods sold	175,728	157,554	12%
Gross profit	$ 90,866	$ 60,638	50%
Gross margin	34.1%	27.8%	

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

The increase in gross profit correlates with the increase in revenues during the first quarter of fiscal year 2005 compared to the same period last year. The increase reflects a favorable product mix, product cost reductions and to a lesser degree, a shift in the mix between retail and OEM sales. Margins in the retail business were higher across most product categories. The Company s cordless mice, webcams and gaming peripherals all delivered significant year over year margin improvements. The Company anticipates that the expected faster growth in its retail business and decline in its OEM business will benefit margins over the course of the next few quarters.

Operating Expenses

Operating expenses for the three months ended June 30, 2004 and 2003 were as follows (in thousands):

	Three months ended June 30, 2004	Three months ended June 30, 2003	Change
Marketing and selling	$ 39,569	$ 28,032	41%
% of net sales	14.8%	12.8%	
Research and development	16,679	14,595	14%
% of net sales	6.3%	6.7%	
General and administrative	13,042	10,158	28%

% of net sales	4.9%	4.7%	
Total operating expenses	$ 69,290	$ 52,785	31%