

LOGITECH INTERNATIONAL SA

Form 10-Q

November 26, 2014

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

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.

7600 Gateway Boulevard

Newark, California 94560

(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 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 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

As of November 10, 2014, there were 163,259,279 shares of the Registrant's share capital outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
<u>Part I</u>	
<u>FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	3
<u>Financial Statements (Unaudited)</u>	
<u>Item 2.</u>	27
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Item 3.</u>	45
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	
<u>Item 4.</u>	47
<u>Controls and Procedures</u>	
<u>Part II</u>	
<u>OTHER INFORMATION</u>	
<u>Item 1.</u>	50
<u>Legal Proceedings</u>	
<u>Item 1A.</u>	50
<u>Risk Factors</u>	
<u>Item 2.</u>	62
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
<u>Item 3.</u>	62
<u>Defaults Upon Senior Securities</u>	
<u>Item 4.</u>	62
<u>Mine Safety Disclosures</u>	
<u>Item 5.</u>	62
<u>Other Information</u>	
<u>Item 6.</u>	63
<u>Exhibit Index</u>	
<u>Signatures</u>	64

Exhibits

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)

Financial Statement Description	Page
• <u>Consolidated Statements of Operations for the three and six months ended September 30, 2014 and 2013</u>	4
• <u>Consolidated Statements of Comprehensive Income for the three and six months ended September 30, 2014 and 2013</u>	5
• <u>Consolidated Balance Sheets as of September 30, 2014 and March 31, 2014</u>	6
• <u>Consolidated Statements of Cash Flows for the six months ended September 30, 2014 and 2013</u>	7
• <u>Consolidated Statements of Changes in Shareholders' Equity for the six months ended September 30, 2014 and 2013</u>	8
• <u>Notes to Consolidated Financial Statements</u>	9

Table of Contents

LOGITECH INTERNATIONAL S.A.
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
Net sales	\$ 530,311	\$ 531,143	\$ 1,012,514	\$ 1,009,673
Cost of goods sold	325,533	348,181	625,984	657,449
Gross profit	204,778	182,962	386,530	352,224
Operating expenses:				
Marketing and selling	95,862	93,451	186,908	194,544
Research and development	32,325	37,485	63,641	74,012
General and administrative	34,470	29,172	71,149	58,249
Restructuring charges, net		5,465		7,799
Total operating expenses	162,657	165,573	321,698	334,604
Operating income	42,121	17,389	64,832	17,620
Interest income, net	355	183	613	160
Other (expense) income, net	(885)	62	(1,083)	279
Income before income taxes	41,591	17,634	64,362	18,059
Provision for income taxes	5,501	3,058	8,596	2,257
Net income	\$ 36,090	\$ 14,576	\$ 55,766	\$ 15,802
Net income per share:				
Basic	\$ 0.22	\$ 0.09	\$ 0.34	\$ 0.10
Diluted	\$ 0.22	\$ 0.09	\$ 0.34	\$ 0.10
Shares used to compute net income per share :				
Basic	163,230	159,969	163,121	159,637
Diluted	166,065	161,183	165,949	160,875
Cash dividends per share	\$	\$ 0.22	\$	\$ 0.22

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

Table of Contents**LOGITECH INTERNATIONAL S.A.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(In thousands)****(unaudited)**

	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$ 36,090	\$ 14,576	\$ 55,766	\$ 15,802
Other comprehensive income:				
Foreign currency translation (loss) gain	(3,852)	2,728	(3,651)	3,427
Defined benefit pension plans:				
Net gain (loss) and prior service costs, net of taxes	807	(804)	946	(239)
Amortization included in operating expenses	109	309	222	1,394
Hedging gain (loss):				
Unrealized hedging gain (loss)	3,505	(1,373)	3,753	(2,286)
Reclassification of hedging loss (gain) included in cost of goods sold	(215)	(94)	185	184
Other comprehensive income:	354	766	1,455	2,480
Total comprehensive income	\$ 36,444	\$ 15,342	\$ 57,221	\$ 18,282

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 per share amounts)
(unaudited)

	September 30, 2014	March 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 500,222	\$ 469,412
Accounts receivable, net	252,692	182,029
Inventories	245,237	222,402
Other current assets	69,169	59,157
Total current assets	1,067,320	933,000
Non-current assets:		
Property, plant and equipment, net	89,749	88,391
Goodwill	343,955	345,010
Other intangible assets	5,046	10,529
Other assets	67,440	74,460
Total assets	\$ 1,573,510	\$ 1,451,390
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	\$ 300,128	\$ 242,815
Accrued and other current liabilities	216,591	211,972
Total current liabilities	516,719	454,787
Non-current liabilities:		
Income taxes payable	86,390	93,126
Other non-current liabilities	96,040	99,349
Total liabilities	699,149	647,262
Commitments and contingencies (note 11)		
Shareholders equity:		
Registered shares, CHF 0.25 par value:	30,148	30,148
Issued and authorized shares 173,106 at September 30, 2014 and March 31, 2014		
Conditionally authorized shares 50,000 at September 30, 2014 and March 31, 2014		
Additional paid-in capital	6,478	
Less shares in treasury, at cost 9,847 at September 30, 2014 and 10,206 at March 31, 2014	(109,976)	(116,510)
Retained earnings	1,032,058	976,292
Accumulated other comprehensive loss	(84,347)	(85,802)
Total shareholders equity	874,361	804,128
Total liabilities and shareholders equity	\$ 1,573,510	\$ 1,451,390

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

Table of Contents

LOGITECH INTERNATIONAL S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Six Months Ended September 30,	
	2014	2013
Operating activities:		
Net income	\$ 55,766	\$ 15,802
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	19,692	21,842
Amortization of other intangible assets	5,358	10,518
Share-based compensation expense	12,999	8,499
Impairment of investment	105	530
Loss (gain) on disposal of property, plant and equipment	(10)	2,456
Excess tax benefits from share-based compensation	(666)	
Deferred income taxes	(2,358)	(3,901)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	(73,561)	(76,305)
Inventories	(26,984)	(21,673)
Other assets	(5,640)	(7,141)
Accounts payable	60,112	38,593
Accrued and other liabilities	15,891	27,089
Net cash provided by operating activities	60,704	16,309
Investing activities:		
Purchases of property, plant and equipment	(24,964)	(25,186)
Investment in privately held companies	(2,550)	
Acquisitions, net of cash acquired		(650)
Purchase of trading investments	(2,230)	(6,146)
Proceeds from sales of trading investments	2,545	6,602
Net cash used in investing activities	(27,199)	(25,380)
Financing activities:		
Payment of cash dividends		(36,123)
Contingent consideration related to prior acquisition	(100)	
Repurchase of ESPP awards	(1,078)	
Proceeds from sales of shares upon exercise of options and purchase rights	1,533	6,135
Tax withholdings related to net share settlements of restricted stock units	(1,323)	(453)
Excess tax benefits from share-based compensation	666	
Net cash used in financing activities	(302)	(30,441)
Effect of exchange rate changes on cash and cash equivalents	(2,393)	484
Net increase (decrease) in cash and cash equivalents	30,810	(39,028)
Cash and cash equivalents, beginning of the period	469,412	333,824
Cash and cash equivalents, end of the period	\$ 500,222	\$ 294,796
Non-cash investing activities:		

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

Property, plant and equipment purchased during the period and included in period end liability accounts	\$	1,568	\$	1,935
---	----	-------	----	-------

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, together with its consolidated subsidiaries, (Logitech or the Company) develops and markets innovative hardware and software products that enable or enhance digital navigation, music and video entertainment, gaming, social networking, and audio and video communication over the Internet.

The Company has two operating segments, peripherals and video conferencing. Logitech's peripherals segment encompasses the design, manufacturing and marketing of peripherals for personal computers (PCs), tablets and other digital platforms. The Company's video conferencing segment offers scalable high-definition (HD) video communications endpoints, HD video conferencing systems a Software as a Service (SaaS) video service infrastructure software and appliance to support large-scale video deployments, and services to support these products.

The Company sells its peripherals products to a network of distributors, retailers and original equipment manufacturers (OEMs). The Company sells its video conferencing products and services to distributors, value-added resellers, OEMs and, occasionally, direct enterprise customers. The large majority of the Company's net sales have historically been derived from peripherals products for use by consumers.

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

Note 2 Revision of Previously Issued Financial Statements

As disclosed in the Company's Annual Report on Form 10-K for the year ended March 31, 2014 and in the audited consolidated financial statements contained therein, the Company has restated and revised its financial statements for the fiscal years ended March 31, 2012 and 2013, respectively. The impact of the adjustments also immaterially impact the financial statements for the first three quarters of the fiscal year ended March 31, 2014 as previously included in the Company's quarterly reports on Form 10-Q for Fiscal 2014. The financial statements for three and six months ended September 30, 2013 included in this Form 10-Q are revised as described below for those adjustments and should be read in conjunction with Item 8, Financial Statements and Supplementary Data disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2014, filed with the SEC on November 13, 2014.

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

The adjustments included in these financial statements for the three and six months ended September 30, 2013 primarily related to a correction to revenue that was previously recorded as an out-of-period adjustment and is now being reported in the correct period, capitalization of property, plant and equipment which was previously incorrectly expensed, other misstatements, and the tax impact of these adjustments.

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

Table of Contents

Consolidated Statements of Operations.

The following table presents the impact of the correcting adjustments on the Company's previously reported consolidated statement of operations for the three and six months ended September 30, 2013 (in thousands):

	Three Months Ended September 30, 2013			Six Months Ended September 30, 2013		
	As Reported	Adjustments*	As Revised	As Reported	Adjustments*	As Revised
Net sales	\$ 531,972	\$ (829)	\$ 531,143	\$ 1,009,896	\$ (223)	\$ 1,009,673
Cost of goods sold	348,559	(378)	348,181	658,128	(679)	657,449
Gross profit	183,413	(451)	182,962	351,768	456	352,224
Operating expenses:						
Marketing and selling	93,710	(259)	93,451	194,345	199	194,544
Research and development	37,633	(148)	37,485	73,824	188	74,012
General and administrative	29,395	(223)	29,172	58,543	(294)	58,249
Restructuring charges	5,465		5,465	7,799		7,799
Total operating expenses	166,203	(630)	165,573	334,511	93	334,604
Operating income	17,210	179	17,389	17,257	363	17,620
Interest income, net	183		183	160		160
Other income, net	62		62	279		279
Income before income taxes	17,455	179	17,634	17,696	363	18,059
Provision for income taxes	3,057	1	3,058	2,255	2	2,257
Net income	\$ 14,398	\$ 178	\$ 14,576	\$ 15,441	\$ 361	\$ 15,802
Net income per share:						
Basic	\$ 0.09	\$	\$ 0.09	\$ 0.10	\$	\$ 0.10
Diluted	\$ 0.09	\$	\$ 0.09	\$ 0.10	\$	\$ 0.10
Shares used to compute net income per share:						
Basic	159,969		159,969	159,637		159,637
Diluted	161,183		161,183	160,875		160,875

* The adjustments included in these financial statements for the three and six months ended September 30, 2013 primarily related to a correction to revenue that was previously recorded as an out-of-period adjustment and is now being reported in the correct period, capitalization of property, plant and equipment which was previously incorrectly expensed, pension obligation, other misstatements, and the tax impact of these adjustments.

Consolidated Statements of Comprehensive Income

The following table presents the impact of the correcting adjustments on the Company's previously reported consolidated statement of comprehensive income for the three and six months ended September 30, 2013 (in thousands):

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

	Three Months Ended September 30, 2013			Six Months Ended September 30, 2013		
	As Reported	Adjustments*	As Revised	As Reported	Adjustments*	As Revised
Net income	\$ 14,398	\$ 178	\$ 14,576	\$ 15,441	\$ 361	\$ 15,802
Other comprehensive income:						
Foreign currency translation gain	2,728		2,728	2,829	598	3,427
Defined benefit pension plans:						
Net loss and prior service costs, net of taxes	(804)		(804)	(1,000)	761	(239)
Reclassification of amortization included in operating expenses	309		309	615	779	1,394
Hedging gain (loss):						
Unrealized hedging loss	(1,373)		(1,373)	(2,286)		(2,286)
Reclassification of hedging (gain) loss included in cost of goods sold	(94)		(94)	184		184
Other comprehensive income:	766		766	342	2,138	2,480
Total comprehensive income	\$ 15,164	\$ 178	\$ 15,342	\$ 15,783	\$ 2,499	\$ 18,282

* The adjustments included in these financial statements for the three and six months ended September 30, 2013 primarily related to a correction to revenue that was previously recorded as an out-of-period adjustment and is now being reported in the correct period, capitalization of property, plant and equipment which was previously incorrectly expensed, pension obligation, other misstatements, and the tax impact of these adjustments.

Table of Contents*Consolidated Statement of Cash Flows*

The following table presents the impact of the correcting adjustments on the Company's previously reported consolidated statement of cash flows for the six months ended September 30, 2013 (in thousands):

	Six months ended September 30, 2013		
	As Reported	Adjustments*	As Revised
Cash flows from operating activities:			
Net income	\$ 15,441	361	\$ 15,802
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	19,283	2,559	21,842
Amortization of other intangible assets	10,518		10,518
Share-based compensation expense	8,499		8,499
Impairment of investments	530		530
Loss on disposal of property, plant and equipment	2,456		2,456
Deferred income taxes	(3,902)	1	(3,901)
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable, net	(77,042)	737	(76,305)
Inventories	(21,350)	(323)	(21,673)
Other assets	(5,893)	(1,248)	(7,141)
Accounts payable	39,555	(962)	38,593
Accrued and other liabilities	26,091	998	27,089
Net cash provided by operating activities	14,186	2,123	16,309
Cash flows from investing activities:			
Purchases of property, plant and equipment	(23,063)	(2,123)	(25,186)
Acquisitions, net of cash acquired	(650)		(650)
Purchases of trading investments	(6,146)		(6,146)
Proceeds from sales of trading investments	6,602		6,602
Net cash used in investing activities	(23,257)	(2,123)	(25,380)
Cash flows from financing activities:			
Payment of cash dividends	(36,123)		(36,123)
Proceeds from sales of shares upon exercise of options and purchase rights	6,135		6,135
Tax withholdings related to net share settlements of restricted stock units	(453)		(453)
Net cash used in financing activities	(30,441)		(30,441)
Effect of exchange rate changes on cash and cash equivalents	484		484
Net decrease in cash and cash equivalents	(39,028)		(39,028)
Cash and cash equivalents at beginning of period	333,824		333,824
Cash and cash equivalents at end of period	\$ 294,796	\$	\$ 294,796
Property, plant and equipment purchased during the period and included in period end liability accounts			
	\$ 1,935	\$	\$ 1,935

* The adjustments included in these financial statements for the six months ended September 30, 2013 primarily related to a correction to revenue that was previously recorded as an out-of-period adjustment and is now being reported in the correct period, capitalization of property,

plant and equipment which was previously incorrectly expensed, pension obligation, other misstatements, and the tax impact of these adjustments.

Table of Contents

Note 3 Summary of Significant Accounting Policies

Basis of Presentation

The consolidated interim 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 (GAAP) for interim financial information and therefore do not include all the information required by 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, 2014, included in its Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on November 13, 2014. In the opinion of management, these consolidated 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 six months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2015, 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.

Changes in Significant Accounting Policies

There have been no substantial changes in the Company s significant accounting policies during the six months ended September 30, 2014 compared with the significant accounting policies described in its Annual Report on Form 10-K for the fiscal year ended March 31, 2014.

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. Examples of significant estimates and assumptions made by management involve the fair value of goodwill, accruals for customer programs, inventory valuation, valuation allowances for deferred tax assets and warranty accruals. 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 May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, (ASU 2014-09). ASU 2014-09 outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. The new standard will be effective for the Company beginning April 1, 2017. Early application is prohibited. The Company is currently evaluating the impact that adopting this new guidance will have on its consolidated financial statements.

Table of Contents**Note 4 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 September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$ 36,090	\$ 14,576	\$ 55,766	\$ 15,802
Shares used in net income per share computation:				
Weighted average shares outstanding - basic	163,230	159,969	163,121	159,637
Effect of potentially dilutive equivalent shares	2,835	1,214	2,828	1,238
Weighted average shares outstanding - diluted	166,065	161,183	165,949	160,875
Net income per share:				
Basic	\$ 0.22	\$ 0.09	\$ 0.34	\$ 0.10
Diluted	\$ 0.22	\$ 0.09	\$ 0.34	\$ 0.10

Share equivalents attributable to outstanding stock options and RSUs, and ESPP of 8,317,744 and 15,408,542 for the three months ended September 30, 2014 and 2013 and 8,147,312 and 16,829,424 for the six months ended September 30, 2014 and 2013 were excluded from the calculation of diluted net income per share because to do so would have been anti-dilutive for the periods indicated.

Note 5 Employee Benefit Plans***Employee Share Purchase Plans and Stock Incentive Plans***

As of September 30, 2014, the Company offers the 2006 ESPP (2006 Employee Share Purchase Plan (Non-U.S.)), the 1996 ESPP (1996 Employee Share Purchase Plan (U.S.)), the 2006 Plan (2006 Stock Incentive Plan) and the 2012 Plan (2012 Stock Inducement Equity Plan). Please refer to our fiscal year 2014 Form 10-K for additional information regarding the Employee Share Purchase Plans and Stock Incentive Plans.

The Company was not current with its periodic reports required to be filed with the SEC and was therefore unable to issue any shares under its Registration Statements on Form S-8 after July 31, 2014. Given the proximity of the unavailability of those registration statements and the end of the current ESPP offering period, also on July 31, 2014, the Compensation Committee authorized the termination of the current ESPP offering period and a one-time payment to each participant in an amount equal to the fifteen percent (15%) discount at which shares would otherwise have been repurchased pursuant to the current period of the ESPPs. This one-time payment was accounted for as a repurchase of equity awards that reduced additional paid in capital, resulting in no additional compensation cost. Given the unavailability of the Company's Registration Statements on Form S-8, no new ESPP offering periods were initiated during the three months ended September 30, 2014.

Table of Contents

The following table summarizes the share-based compensation expense and related tax benefit recognized for the three and six months ended September 30, 2014 and 2013 (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
Cost of goods sold	\$ 627	\$ 594	\$ 1,165	\$ 1,171
Marketing and selling	1,653	1,017	4,209	2,923
Research and development	552	840	1,396	1,934
General and administrative	3,229	1,658	6,229	2,471
Total share-based compensation expense	6,061	4,109	12,999	8,499
Income tax benefit	(1,913)	(1,300)	(3,097)	(2,175)
Total share-based compensation expense, net of income tax	\$ 4,148	\$ 2,809	\$ 9,902	\$ 6,324

During both of the three months ended September 30, 2014 and 2013, the Company capitalized \$0.4 million of stock-based compensation expenses as inventory.

Defined Contribution Plans

Certain of the Company's subsidiaries have defined contribution employee benefit plans covering all or a portion of their employees. Contributions to these plans are discretionary for certain plans and are based on specified or statutory requirements for others. The charges to expense for these plans for the three months ended September 30, 2014 and 2013 were \$1.1 million and \$1.6 million, and for the six months ended September 30, 2014 and 2013 were \$2.7 million and \$3.3 million, respectively.

Defined Benefit Plans

Certain of the Company's subsidiaries sponsor defined benefit pension plans or non-retirement post-employment benefits covering substantially all of their employees. Benefits are provided based on employees' years of service and earnings, or in accordance with applicable employee benefit regulations. The Company's practice is to fund amounts sufficient to meet the requirements set forth in the applicable employee benefit and tax regulations. The cost recorded of \$1.9 million and \$2.2 million for the three months ended September 30, 2014 and 2013 and \$3.9 million and \$5.2 million for the six months ended September 30, 2014 and 2013 was primarily related to service costs.

Note 6 Income Taxes

The Company is incorporated in Switzerland but operates in various countries with differing tax laws and rates. Further, a portion of the Company's income (loss) before taxes and the provision for (benefit from) income taxes are generated outside of Switzerland.

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

The income tax provision for the three months ended September 30, 2014 was \$5.5 million based on an effective income tax rate of 13.2% of pre-tax income, compared to an income tax provision of \$3.1 million based on an effective income tax rate of 17.3% of pre-tax income for the three months ended September 30, 2013. The income tax provision for the six months ended September 30, 2014 was \$8.6 million based on an effective income tax rate of 13.4% of pre-tax income, compared to an income tax provision of \$2.3 million based on an effective income tax rate of 12.5% of pre-tax income for the six months ended September 30, 2013. The change in the effective income tax rate for the three and six months ended September 30, 2014, compared to the three and six months ended September 30, 2013, was primarily due to the mix of income and losses in the various tax jurisdictions in which the Company operates.

As of September 30 and March 31, 2014, the total amount of unrecognized tax benefits due to uncertain tax positions was \$90.9 million and \$91.0 million, respectively, of which \$88.7 million and \$86.1 million would affect the effective income tax rate if recognized.

As of September 30, 2014, the Company had \$86.4 million in non-current income taxes payable and \$0.1 million in current income taxes payable, including interest and penalties, related to our income tax liability for uncertain tax positions. As of March 31, 2014, the Company had \$93.1 million in non-current income taxes payable and \$0.3 million in current income taxes payable. Pursuant to ASU 2013-11, which became effective in the first quarter of fiscal year 2015, the Company reclassified \$9.3 million of

Table of Contents

unrecognized tax benefits previously presented as non-current income taxes payable as a reduction to non-current deferred tax assets for tax credit carryforwards.

The Company continues to recognize interest and penalties related to unrecognized tax positions in income tax expense. As of September 30 and March 31, 2014, the Company had \$5.8 million and \$5.6 million, respectively, of accrued interest and penalties related to uncertain tax positions, respectively.

Although the Company has adequately provided for uncertain tax positions, the provisions on these positions may change as revised estimates are made or the underlying matters are settled or otherwise resolved. During fiscal year 2015, the Company will continue to review its tax positions and provide for or reverse unrecognized tax benefits as issues arise. During the next 12 months, it is reasonably possible that the amount of unrecognized tax benefits could increase or decrease significantly due to changes in tax law in various jurisdictions, new tax audits and changes in the U.S. dollar as compared to foreign currencies. Excluding these factors, uncertain tax positions may decrease by as much as \$15.0 million from the lapse of the statutes of limitations in various jurisdictions during the next 12 months.

Table of Contents**Note 7 Balance Sheet Components**

The following table presents the components of certain balance sheet asset amounts as of September 30 and March 31, 2014 (in thousands):

	September 30, 2014		March 31, 2014
Accounts receivable:			
Accounts receivable	\$ 433,237	\$	338,194
Allowance for doubtful accounts	(1,762)		(1,712)
Allowance for sales returns	(19,578)		(19,472)
Allowance for cooperative marketing arrangements	(29,607)		(24,135)
Allowance for customer incentive programs	(49,003)		(41,400)
Allowance for pricing programs	(80,595)		(69,446)
	\$ 252,692	\$	182,029
Inventories:			
Raw materials	\$ 29,333	\$	24,031
Work-in-process			42
Finished goods	215,904		198,329
	\$ 245,237	\$	222,402
Other current assets:			
Income tax and value-added tax receivables	\$ 20,420	\$	18,252
Deferred tax assets	29,466		27,013
Prepaid expenses and other assets	19,283		13,892
	\$ 69,169	\$	59,157
Property, plant and equipment, net:			
Plant, buildings and improvements	\$ 70,691	\$	69,897
Equipment	136,379		134,975
Computer equipment	40,654		40,610
Software	82,238		81,179
	329,962		326,661
Less accumulated depreciation and amortization	(265,119)		(256,424)
	64,843		70,237
Construction-in-process	22,104		15,362
Land	2,802		2,792
	\$ 89,749	\$	88,391
Other assets:			
Deferred tax assets	\$ 42,325	\$	52,883
Trading investments	17,601		16,611
Other assets	7,514		4,966
	\$ 67,440	\$	74,460

Table of Contents

The following table presents the components of certain balance sheet liability amounts as of September 30 and March 31, 2014 (in thousands):

	September 30, 2014		March 31, 2014
Accrued and other current liabilities:			
Accrued personnel expenses	\$ 56,224	\$	55,165
Accrued marketing expenses	10,459		12,844
Indirect customer incentive programs	29,876		31,737
Accrued restructuring	1,987		2,121
Deferred revenue	22,015		22,529
Accrued freight and duty	8,402		6,276
Value-added taxes payable	6,632		9,354
Accrued royalties	3,113		2,653
Warranty accrual	12,910		13,905
Employee benefit plan obligation	1,215		1,100
Income taxes payable	7,499		7,701
Other current liabilities	56,259		46,587
	\$ 216,591	\$	211,972
Non-current liabilities:			
Warranty accrual	\$ 9,294	\$	10,475
Obligation for deferred compensation	17,601		16,611
Long term restructuring	4,691		5,440
Employee benefit plan obligation	36,311		37,899
Deferred rent	14,541		15,555
Deferred tax liability	2,054		2,304
Long term deferred revenue	9,959		9,350
Other non-current liabilities	1,589		1,715
	\$ 96,040	\$	99,349

Note 8 Fair Value Measurements*Fair Value Measurements*

The Company considers 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. The Company uses the following three-level fair value hierarchy to establish the priorities of the inputs used to measure fair value:

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

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

Table of Contents

The following table presents the Company's financial assets and liabilities, that were accounted for at fair value, excluding assets related to the Company's defined benefit pension plans, classified by the level within the fair value hierarchy (in thousands):

	September 30, 2014		March 31, 2014	
	Level 1	Level 2	Level 1	Level 2
Cash equivalents:				
Cash equivalents	220,565		200,641	
	\$ 220,565	\$	\$ 200,641	\$
Trading investments for deferred compensation plan:				
Money market funds	\$ 3,189	\$	\$ 3,139	\$
Mutual funds	14,412		13,472	
	\$ 17,601	\$	\$ 16,611	\$
Foreign exchange derivative assets	\$	\$ 2,690	\$	\$ 155
Foreign exchange derivative liabilities	\$	\$ 77	\$	\$ 701

There were no significant Level 3 financial assets as of September 30, 2014 and March 31, 2014.

Cash and Cash Equivalents

Cash equivalents consist of bank demand deposits and time deposits. The time deposits have original maturities of three months or less. Cash equivalents are carried at cost, which approximates fair value.

Investment Securities

The Company's investment securities portfolio consists of marketable securities (money market and mutual funds) related to a deferred compensation plan at September 30, 2014 and March 31, 2014.

The marketable securities related to the deferred compensation plan are classified as non-current assets. Since participants in the deferred compensation plan may select the mutual funds in which their compensation deferrals are invested within the confines of the Rabbi Trust, which holds the marketable securities, the Company has designated these marketable securities as trading investments, although there is no intent to actively buy and sell securities within the objective of generating profits on short-term difference in market prices. Management has classified the investments as non-current assets because final sale of the investments or realization of proceeds by plan participants is not expected within the Company's normal operating cycle of one year. The marketable securities are recorded at a fair value of \$17.6 million and \$16.6 million as of September 30 and March 31, 2014, respectively, based on quoted market prices. Quoted market prices are observable inputs that are classified as Level 1 securities. Earnings, gains and losses on trading investments are included in other income (expense), net.

Derivative Financial Instruments

Under the agreements with the respective counterparties to the Company's derivative contracts, subject to applicable requirements, the Company does not net settle transactions with a single net amount payable by one party to the other. In accordance with *ASU 2011-11*, the Company presents its derivative instruments at gross fair values in the Consolidated Balance Sheets as of September 30, 2014 and March 31, 2014.

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

Table of Contents

The following table presents the fair values of the Company's derivative instruments and their locations on its Consolidated Balance Sheets as of September 30 and March 31, 2014 (in thousands):

	Derivatives			
	Asset		Liability	
	September 30, 2014	March 31, 2014	September 30, 2014	March 31, 2014
Designed as hedging instruments:				
Cash flow hedges	\$ 2,689	\$ 4	\$	\$ 243
Not designed as hedging instruments:				
Foreign exchange contracts	1	151	77	458
	\$ 2,690	\$ 155	\$ 77	\$ 701

The following table presents the amounts of gains and losses on the Company's derivative instruments for the three and six months ended September 30, 2014 and 2013 (in thousands):

	Amount of Gain (Loss) Deferred as a Component of Accumulated Other Comprehensive Income		Three Months Ended September 30, Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income to Costs of Goods Sold		Amount of Gain (Loss) Immediately Recognized in Other Income (Expense), Net	
	2014	2013	2014	2013	2014	2013
Designed as hedging instruments:						
Cash flow hedges	\$ 3,290	\$ (1,467)	\$ (215)	\$ (94)	\$ (1)	\$ 16
Not designed as hedging instruments:						
Foreign exchange contracts					735	(477)
	\$ 3,290	\$ (1,467)	\$ (215)	\$ (94)	\$ 734	\$ (461)

	Amount of Gain (Loss) Deferred as a Component of Accumulated Other Comprehensive Income		Six Months Ended September 30, Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income to Costs of Goods Sold		Amount of Gain (Loss) Immediately Recognized in Other Income (Expense), Net	
	2014	2013	2014	2013	2014	2013
Designed as hedging instruments:						
Cash flow hedges	\$ 3,938	\$ (2,102)	\$ 185	\$ 184	\$ (56)	\$ 46
Not designed as hedging instruments:						
Foreign exchange contracts					316	908
	\$ 3,938	\$ (2,102)	\$ 185	\$ 184	\$ 260	\$ 954

Cash Flow Hedges

The Company enters into foreign exchange forward contracts to hedge against exposure to changes in foreign currency exchange rates related to its subsidiaries' forecasted inventory purchases. The Company has one entity with a euro functional currency that purchases inventory in U.S. dollars. The primary risk managed by using derivative instruments is the foreign currency exchange rate risk. The Company has designated these derivatives as cash flow hedges. The Company does not use derivative financial instruments for trading or speculative purposes. These hedging contracts mature within four months, and are denominated in the same currency as the underlying transactions. Gains and losses in the fair value of the effective portion of the hedges are deferred as a component of accumulated other comprehensive loss until the hedged inventory purchases are sold, at which time the gains or losses are reclassified to cost of goods sold. The Company assesses the effectiveness of the hedges by comparing changes in the spot rate of the currency underlying the forward contract with changes in the spot rate of the currency in which the forecasted transaction will be consummated. If the underlying transaction being hedged fails to occur or if a portion of the hedge does not generate offsetting changes in the foreign currency exposure of forecasted inventory purchases, the Company immediately recognizes the gain or loss on the associated financial instrument in other income (expense). Such gains and losses were immaterial during the three and six months ended September 30, 2014 and 2013. Cash flows from such hedges are classified as operating activities in the consolidated statements.

Table of Contents

of cash flows. The notional amounts of foreign exchange forward contracts outstanding related to forecasted inventory purchases were \$63.4 million (49.8 million) and \$51.8 million (37.6 million) at September 30, 2014 and March 31, 2014. The notional amount represents the future cash flows under contracts to purchase foreign currencies.

Other Derivatives

The Company also enters into foreign exchange forward contracts to reduce the short-term effects of foreign currency fluctuations on certain foreign currency receivables or payables. These forward contracts generally mature within three months. The Company may also enter into foreign exchange swap contracts to economically extend the terms of its foreign exchange forward contracts. The primary risk managed by using forward and swap contracts is the foreign currency exchange rate risk. The gains or losses on foreign exchange forward contracts are recognized in other income (expense), net based on the changes in fair value.

The notional amounts of foreign exchange forward contracts outstanding at September 30 and March 31, 2014 relating to foreign currency receivables or payables were \$11.4 million and \$23.2 million, respectively. Open forward contracts as of September 30, 2014 consisted of contracts in U.S. dollars to purchase Taiwanese dollars at future dates at pre-determined exchange rates. Open forward contracts as of March 31, 2014 consisted of contracts in U.S. dollars to purchase Taiwanese dollars and contracts in euros to sell British pounds at future dates at pre-determined exchange rates. The notional amounts of foreign exchange swap contracts outstanding at September 30 and March 31, 2014 were \$27.8 million and \$30.5 million, respectively. Swap contracts outstanding at September 30, 2014 consisted of contracts in Mexican pesos, Japanese yen, British pounds, and Australian dollars. Swap contracts outstanding at March 31, 2014 consisted of contracts in Mexican pesos, Japanese yen and Australian dollars.

The fair value of all foreign exchange forward contracts and foreign exchange swap contracts is determined based on observable market transactions of spot currency rates and forward rates. Cash flows from these contracts are classified as operating activities in the Consolidated Statements of Cash Flows.

Note 9 Goodwill and Other Intangible Assets

Annual Goodwill Impairment Testing

In accordance with ASC Topic 350-10 (ASC 350-10) as it relates to Goodwill and Other Intangible Assets, the Company conducts a goodwill impairment analysis annually at December 31 and as necessary if changes in facts and circumstances indicate that it is more likely than not that the fair value of the Company's reporting units may be less than its carrying amount.

FASB ASC 350-20 permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it would not be required to perform the two-step impairment test for that reporting unit.

There have been no events or circumstances during the three months ended September 30, 2014 that have required the Company to perform an interim assessment of goodwill.

Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates, operating margins, discount rates and future market conditions, among others. It is reasonably possible that changes in the judgments, assumptions and estimates that the Company used in assessing the fair value of the video conferencing reporting unit result in the goodwill to become impaired. A goodwill impairment charge would have the effect of decreasing the Company's earnings or increasing its losses in such period.

Table of Contents

The following table summarizes the activity in the Company's goodwill balance during the six months ended September 30, 2014 (in thousands):

	September 30, 2014		
	Peripherals	Video Conferencing	Total
Beginning of the period	\$ 219,415	\$ 125,595	\$ 345,010
Foreign currency impact		(1,055)	(1,055)
End of the period	\$ 219,415	\$ 124,540	\$ 343,955

Amortization expense for other intangible assets was \$2.6 million and \$5.3 million for the three months ended September 30, 2014 and 2013, respectively and \$5.4 million and \$10.5 million for the six months ended September 30, 2014 and 2013, respectively. The Company expects that amortization expense for the remaining six months of fiscal year 2015 will be \$3.0 million, and annual amortization expense for fiscal years 2016 and 2017 will be \$1.8 million and \$0.2 million respectively.

Note 10 Financing Arrangements

The Company had several uncommitted, unsecured bank lines of credit aggregating \$39.1 million as of September 30, 2014. There are no financial covenants under these lines of credit with which the Company must comply. As of September 30, 2014, the Company had outstanding bank guarantees of \$7.0 million under these lines of credit. The Company also had credit lines related to corporate credit cards totaling \$6.8 million as of September 30, 2014 and \$6.9 million as of March 31, 2014. There are no financial covenants under these credit lines.

Note 11 Commitments and Contingencies*Product Warranties*

All of the Company's peripherals products are covered by warranty to be free from defects in material and workmanship for periods ranging from one year to five years. At the time of sale, the Company accrues a warranty liability for estimated costs to provide products, parts or services to repair or replace products in satisfaction of the warranty obligation. The Company's estimate of costs to fulfill its warranty obligations is based on historical experience and expectations of future conditions. When the Company experiences changes in warranty claim activity or costs associated with fulfilling those claims, the warranty liability is adjusted accordingly.

Changes in the Company's warranty liability for the three and six months ended September 30, 2014 and 2013 were as follows (in thousands):

Three Months Ended September 30,		Six Months Ended September 30,	
2014	2013	2014	2013

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

Beginning of the period	\$	23,420	\$	23,550	\$	24,380	\$	21,442
Provision		2,020		3,664		4,226		7,190
Settlements		(3,236)		(4,193)		(6,402)		(7,938)
Adjustment (1)								2,327
End of the period	\$	22,204	\$	23,021	\$	22,204	\$	23,021

(1) During the six month period September 30, 2013, the warranty liability allocated to the Company's - Remotes product category was reclassified from liabilities held for sale.

Purchase Commitments

Commitments for inventory purchases are made in the normal course of business to original design manufacturers, contract manufacturers and other suppliers and are expected to be fulfilled by September 30, 2014. Operating expense commitments are for consulting services, marketing arrangements, advertising, outsourced customer services, information technology maintenance and support services, and other services. Fixed purchase commitments for capital expenditures primarily related to commitments for computer hardware and leasehold improvements. Although open purchase orders are considered enforceable and legally binding, the

Table of Contents

terms generally allow the Company the option to reschedule and adjust its requirements based on the business needs prior to delivery of goods or performance of services. As of September 30, 2014, the Company's outstanding purchase commitments had not materially changed since March 31, 2014.

Other Contingencies

The Company is subject to an ongoing formal investigation by the SEC, relating to certain issues including the accounting for Revue inventory valuation reserves that resulted in the restatement described in the Fiscal 2014 Form 10-K, revision to the Company's financial statements concerning warranty accruals and amortization of intangible assets presented in the Company's Form 10-K/A, filed on August 7, 2013, and the Company's transactions with a distributor for Fiscal Year 2007 through Fiscal Year 2009. The Company is cooperating with the SEC in its ongoing investigation. The Company has entered into an agreement with the SEC to extend the statute of limitations. The Company cannot predict the outcome of the investigation at this time and any potential fines or penalties, if any, that may arise from the investigation are currently not estimable.

Guarantees

Logitech Europe S.A. guaranteed payments of a third-party contract manufacturer's purchase obligations. As of September 30, 2014, the maximum amount of this guarantee was \$3.5 million, of which \$2.7 million of guaranteed purchase obligations were outstanding.

Indemnifications

The Company indemnifies certain of its suppliers and customers for losses arising from matters such as intellectual property disputes 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. As of September 30, 2014, no amounts have been accrued for these indemnification provisions. The Company does not believe, based on historical experience and information currently available, that it is probable that any material amounts will be required to be paid under its indemnification arrangements.

The Company also indemnifies its current and former directors and certain of its current and former officers. Certain costs incurred for providing such indemnification may be recoverable under various insurance policies. The Company is unable to reasonably estimate the maximum amount that could be payable under these arrangements because these exposures are not limited, the obligations are conditional in nature and the facts and circumstances involved in any situation that might arise are variable.

Legal Proceedings

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

From time to time the Company is involved in claims and legal proceedings that arise in the ordinary course of its business. The Company is currently subject to several such claims and a small number of legal proceedings. The Company believes that these matters lack merit and intends to vigorously defend against them. Based on currently available information, the Company does not believe that resolution of pending matters will have a material adverse effect on its financial condition, cash flows or results of operations. However, litigation is subject to inherent uncertainties, and there can be no assurances that the Company's defenses will be successful or that any such lawsuit or claim would not have a material adverse impact on the Company's business, financial condition, cash flows and results of operations in a particular period. Any claims or proceedings against the Company, whether meritorious or not, can have an adverse impact because of defense costs, diversion of management and operational resources, negative publicity and other factors. Any failure to obtain necessary license or other rights, or litigation arising out of intellectual property claims, could adversely affect the Company's business.

Table of Contents**Note 12 Shareholders Equity**

In March 2014, the Company's Board of Directors approved the 2014 share buyback program, which authorizes the Company to use up to \$250.0 million to purchase its own shares. The Company's share buyback program is expected to remain in effect for a period of three years. Shares may be repurchased from time to time on the open market with consideration given to Logitech's stock price, market conditions and other factors.

There were no share repurchases during the three and six months ended September 30, 2014 and 2013. During the six months ended September 30, 2014, the Company was not current with its periodic reports required to be filed with the SEC and therefore lost its ability to buy back shares. The Company will regain its ability, once it is current with its SEC filings.

Accumulated Other Comprehensive Income (Loss)

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

	Accumulated Other Comprehensive Income (Loss)			
	Cumulative Translation Adjustment	Defined Benefit Plan (1)	Deferred Hedging Gains (Losses)	Total
March 31, 2014	\$ (70,999)	\$ (14,288)	\$ (515)	\$ (85,802)
Other comprehensive income (loss)	(3,651)	1,168	3,938	1,455
September 30, 2014	\$ (74,650)	\$ (13,120)	\$ 3,423	\$ (84,347)

(1) Net of tax of \$192 as of both September 30, 2014 and March 31, 2014.

Note 13 Segment Information

The Company has two reporting segments, peripherals and video conferencing, based on product markets and internal organizational structure. The peripherals segment encompasses the design, manufacturing and marketing of peripherals for PCs, tablets and other digital platforms. The video conferencing segment encompasses the design, manufacturing and marketing of Lifesize video conferencing products, infrastructure and services for the enterprise, public sector and other business markets. The Company's reporting segments do not record revenue on sales between segments as such sales are not material.

Operating performance measures for the peripherals segment and the video conferencing segment are reported separately to Logitech's Chief Executive Officer (CEO), who is considered to be the Company's Chief Operating Decision Maker (CODM). The CEO periodically reviews information such as net sales and operating income (loss) for each operating segment to make business decisions. These operating performance measures do not include share-based compensation expense and amortization of intangible assets. Share-based compensation expense and

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

amortization of intangible assets are presented in the following financial information by operating segment as other income (expense), net. Assets by operating segment are not presented since the Company does not present such data to the CODM.

Table of Contents

Net sales and operating income (loss) for the Company's operating segments for the three and six months ended September 30, 2014 and 2013 were as follows (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
Net sales:				
Peripherals	\$ 501,857	\$ 501,550	\$ 958,303	\$ 949,906
Video conferencing	28,454	29,593	54,211	59,767
	\$ 530,311	\$ 531,143	\$ 1,012,514	\$ 1,009,673
Segment operating income (loss):				
Peripherals (1)	\$ 50,587	\$ 39,725	\$ 84,154	\$ 52,978
Video conferencing (1)	171	(12,973)	(965)	(16,341)
	50,758	26,752	83,189	36,637
Other income (expense):				
Share-based compensation	(6,061)	(4,109)	(12,999)	(8,499)
Amortization of intangibles	(2,576)	(5,254)	(5,358)	(10,518)
Interest income, net	355	183	613	160
Other income (expense), net	(885)	62	(1,083)	279
Income before income taxes	\$ 41,591	\$ 17,634	\$ 64,362	\$ 18,059

(1) Peripherals operating results include \$0.5 million restructuring credit during the three months ended September 30, 2013, and \$1.8 million of restructuring charges during the six months ended September 30, 2013. Video conferencing operating results include \$6.0 million restructuring credit during the three months ended September 30, 2013, and \$6.0 million of restructuring charges during the six months ended September 30, 2013.

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

Table of Contents

Net sales by product family, excluding intercompany transactions, for the three and six months ended September 30, 2014 and 2013 were as follows (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013 (1)	2014	2013 (1)
Peripherals:				
PC Gaming	\$ 47,506	\$ 43,260	\$ 94,382	\$ 83,473
Tablet & Other Accessories	28,158	34,695	59,874	73,254
Mobile Speakers	48,538	19,967	77,367	33,834
Growth	124,202	97,922	231,623	190,561
Pointing Devices	127,693	130,656	240,735	245,307
PC Keyboards & Desktops	105,718	105,260	211,241	203,273
Audio-PC & Wearables	58,677	70,523	108,303	126,061
Video	37,563	36,645	72,139	67,585
Remotes	18,776	13,327	31,108	27,901
Profit Maximization	348,427	356,411	663,526	670,127
Other	834	9,691	2,127	17,179
Non-Strategic	834	9,691	2,127	17,179
Retail	473,463	464,024	897,276	877,867
OEM	28,394	37,526	61,027	72,039
	501,857	501,550	958,303	949,906
Video conferencing	28,454	29,593	54,211	59,767
	\$ 530,311	\$ 531,143	\$ 1,012,514	\$ 1,009,673

(1) Certain products within the retail product families presented in prior years have been reclassified to conform to the current year presentation.

Net sales to unaffiliated customers by geographic region (based on the customers location) for the three and six months ended September 30, 2014 and 2013 were as follows (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
Americas	\$ 226,091	\$ 202,381	\$ 437,622	\$ 403,440
EMEA	189,571	202,524	343,271	357,747
Asia Pacific	114,649	126,238	231,621	248,486
Total net sales	\$ 530,311	\$ 531,143	\$ 1,012,514	\$ 1,009,673

Sales are attributed to countries on the basis of the customers locations. The United States represented 36% and 34% of the Company's total consolidated net sales for the quarters ended September 30, 2014 and 2013, respectively. No other single country represented more than 10% of the Company's total consolidated net sales during those periods. Revenues from sales to customers in Switzerland, the Company's home domicile, represented 2% and 2% of the Company's total consolidated net sales for the three and six months ended September 30, 2014 and 2013, respectively. One customer group of the Company's peripheral operating segment represented 17% and 14% of sales for the quarters ended September 30, 2014 and 2013, respectively. The United States represented 36% and 35% of the Company's total consolidated net sales for the six months ended September 30, 2014 and 2013, respectively. No other single country represented more than 10% of the Company's total

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

consolidated net sales during those periods. One customer group of the Company's peripherals reporting segment represented 16% and 14% for the six months ended September 30, 2014 and

Table of Contents

2013, respectively. No other customer makes up more than 10% of revenue for both the three and six months ended September 30, 2014 and 2013.

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

	September 30, 2014		March 31, 2014
Americas	\$ 47,686	\$	45,166
EMEA	4,318		5,154
Asia Pacific	37,745		38,071
	\$ 89,749	\$	88,391

Long-lived assets in the United States and China were \$47.4 million and \$32.1 million at September 30, 2014 and \$44.9 million and \$31.9 million at March 31, 2014. No other countries represented more than 10% of the Company's total consolidated long-lived assets at September 30 and March 31, 2014. Long-lived assets in Switzerland, the Company's home domicile, were \$1.6 million and \$1.6 million at September 30 and March 31, 2014.

Note 14 Subsequent Event

On November 12, 2014, the Board approved, subject to approval by the Company's shareholders and other Swiss statutory requirements, a dividend of CHF 0.2625 per share. Based on the shares outstanding as of September 30, 2014, net of treasury shares, the aggregate amount of the dividend would be approximately CHF 42.9 million.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with the interim unaudited Consolidated Financial Statements and related notes.

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. These forward-looking statements include, among other things, statements regarding our business strategy, the impact of investment prioritization decisions, product offerings, sales and marketing initiatives, addressing execution challenges, trends in consumer demand affecting our products and markets, trends in the composition of our customer base, our current or future revenue and revenue mix by product, among our lower- and higher-margin products and by geographic region, our expectations regarding the potential growth opportunities for our products in mature and emerging markets and the enterprise market, our expectations regarding trends in global economic conditions and consumer demand for PCs and mobile devices, tablets, gaming, audio, video and video conferencing, digital home digital music and other computer devices and the interoperability of our products with such third party platforms, our expectations regarding the convergence of markets for computing devices and consumer electronics, our competitive position and the effect of pricing, product, marketing and other initiatives by us and our competitors, our expectations regarding competition from well-established consumer electronics companies in existing and new markets; the impact of our restructuring plan on future costs, expenses and financial performance and the timing thereof, our estimates of future charges related to our restructuring plan, our expectations regarding the recoverability of our goodwill, goodwill impairment charge estimates and the potential for future impairment charges, the impact of our current and proposed product divestitures, changes in our planned divestitures, and the timing thereof, significant fluctuations in currency exchange rates, the impact of new product introductions and product innovation on future performance or anticipated costs and expenses and the timing thereof, cash flows, the sufficiency of our cash and cash equivalents, cash generated and available borrowings (including the availability of our uncommitted lines of credit) to fund future cash requirements, our expectations regarding future sales compared to actual sales, our expectations regarding share repurchases and share cancellations, our expectations regarding our future working capital requirements and our anticipated capital expenditures needed to support our product development and expanded operations, our expectations regarding our future tax benefits and the adequacy of our provisions for uncertain tax positions, our expectations regarding our potential indemnification obligations, and the outcome of pending or future legal proceedings and tax audits, remediation of our material weaknesses, our belief that our disclosure controls and procedures will become effective at the reasonable assurance level, the results of any inquiry of the SEC and/or potential litigation related to the restatement of our consolidated financial statements, and Logitech's ability to achieve and sustain renewed growth, profitability and future success. 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 similar language. These forward-looking statements involve risks and uncertainties that could cause our actual performance to differ materially from that anticipated in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section titled "Risk Factors" in Part II, Item 1A of this quarterly report on Form 10-Q. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. 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.

Overview of Our Company

Logitech is a world leader in products that connect people to the digital experiences they care about. Spanning multiple computing, communication and entertainment platforms, we develop and market innovative hardware and software products that enable or enhance digital navigation, music and video entertainment, gaming, social networking and audio and video communication over the Internet. We have two reporting segments: peripherals and video conferencing.

Our peripherals segment encompasses the design, manufacturing and marketing of peripherals for PCs, tablets and other digital platforms. Our products for home and business PCs include mice, trackballs, keyboards, interactive gaming controllers, multimedia speakers, headsets and

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

webcams. Our tablet accessory products include keyboards, keyboard cases and covers, and smartphone accessories. Our Internet communications products include webcams, conference cams and headsets. Our digital music products include wireless speakers, earphones, and custom in-ear monitors. Our gaming products include mice, keyboards, headsets and gaming controllers. For home entertainment and home control systems, we offer the Harmony line of advanced remote controls. Since fiscal year 2013, we have been exiting other non-strategic products, such as speaker docks and headphones, and continue to evaluate non-strategic products as part of our ongoing efforts to strengthen our overall portfolio.

Within our peripherals segment, we classify our retail product categories as growth, profit maximization, and non-strategic. Our growth product categories are: PC Gaming, Tablet & Other Accessories, and Mobile Speakers. Our profit maximization categories are: Pointing Devices, PC Keyboards & Desktops, Audio-PC & Wearables, Video, and Remotes.

Table of Contents

Our brand, portfolio management, product development and engineering teams in our peripherals segment are responsible for product strategy, technological innovation, product design and development and to bring our products to market.

Our global marketing organization is responsible for developing and building the Logitech brand, consumer insights, public relations, social media and digital marketing. Our regional retail sales and marketing activities are organized into three geographic areas: Americas (North and South America), EMEA (Europe, Middle East and Africa) and Asia Pacific (including, among other countries, China, Taiwan, Japan and Australia).

We sell our peripherals products to a network of retailers (direct sales to retailers, as well as indirect sales through distributors) and OEMs. Our worldwide retail network includes wholesale distributors, consumer electronics retailers, mass merchandisers, specialty electronics, computers and telecommunications stores, value-added resellers and online merchants. Sales of our retail peripherals were 89% and 87% of our net sales for the six months ended September 30, 2014 and 2013. The large majority of our revenues have historically been derived from sales of our peripherals products for use by consumers. Our OEM customers include several of the world's largest PC manufacturers. Sales to OEM customers were 6% and 7% of our net sales for the six months ended September 30, 2014 and 2013.

Our video conferencing segment encompasses the design, manufacturing and marketing of Lifesize branded video conferencing products, infrastructure and services for the enterprise, public sector and other small to medium business markets. Video conferencing products include scalable high-definition, or HD, video communication endpoints, HD video conferencing systems with integrated monitors, video bridges, a cloud based video conferencing solution and other infrastructure software and hardware to support large-scale video deployments and services to support these products. The video conferencing segment maintains a separate marketing and sales organization, which sells Lifesize products and services worldwide. Video conferencing product development and product management organizations are separate, but coordinated with our peripherals business, particularly our Consumer Computing Platform group. We sell our video conferencing products and services to distributors, value-added resellers, OEMs and, occasionally, direct enterprise customers. Sales of Lifesize products were 5% and 6% of our net sales in the six months ended September 30, 2014 and 2013.

We seek to fulfill 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. As access to digital information has expanded, we have extended our focus to mobile devices, the digital home, and the enterprise as access points to the Internet and the digital world. All of these platforms require interfaces that are customized according to how the devices are used. We believe that continued investment in product research and development is critical to creating the innovation required to strengthen our competitive advantage and to drive future sales growth. We are committed to identifying and meeting current and future consumer trends with new and improved product technologies, partnering with others where our strengths are complementary, as well as leveraging the value of the Logitech and Lifesize brands from a competitive, channel partner and consumer experience perspective.

We believe innovation, design, and product quality are important to gaining market acceptance and maintaining market leadership.

We have been expanding the categories of products we sell and entering new markets, such as the markets for mobile device accessories. 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 new 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.

The peripherals and video conferencing industries are intensely competitive. The peripherals industry is characterized by platform evolution, short product life cycles, continual performance enhancements, rapid adoption of technological and product advancements by competitors in our retail markets 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, including brands owned by some retail customers known as house brands, in response to declining consumer demand in both mature retail and OEM markets. We may also encounter more competition if any of our competitors in one or more categories decide to enter other categories in which we currently operate.

From time to time, we may seek to partner with, or acquire when appropriate, companies that have products, personnel, and technologies that complement our strategic direction. We continually review our product offerings and our strategic direction in light

Table of Contents

of our profitability targets, competitive conditions, changing consumer trends and the evolving nature of the interface between the consumer and the digital world.

Critical Accounting Estimates

The preparation of financial statements and related disclosures in conformity with U.S. GAAP (Generally Accepted Accounting Principles in the United States of America) requires us to make judgments, estimates and assumptions that affect reported amounts of assets, liabilities, net sales and expenses, and the disclosure of contingent assets and liabilities.

We consider an accounting estimate critical if it: (i) requires management to make judgments and estimates about matters that are inherently uncertain; and (ii) is important to an understanding of our financial condition and operating results.

We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of current events and actions that may impact us in the future, actual results could differ from those estimates. Management has discussed the development, selection and disclosure of these critical accounting estimates with the Audit Committee of the Board of Directors.

There have been no new or material changes to the critical accounting policies and estimates discussed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2014 that are of significance, or potential significance to the Company.

Revision of Previously Issued Consolidated Financial Statements

As disclosed in the Company's Annual Report on Form 10-K for the year ended March 31, 2014 and in the audited consolidated financial statements contained therein, the Company has restated and revised its financial statements for the fiscal years ended March 31, 2012 and 2013, respectively. The impact of the adjustments also immaterially impact the financial statements for the first three quarters of the fiscal year ended March 31, 2014 as previously included in the Company's quarterly reports on Form 10-Q for Fiscal 2014. The financial statements for three and six months ended September 30, 2013 included in this Form 10-Q are revised as described below for those adjustments and should be read in conjunction with Item 8, Financial Statements and Supplementary Data disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2014, filed with the SEC on November 13, 2014.

The adjustments included in these financial statements for the three and six months ended September 30, 2013 primarily related to a correction to revenue that was previously recorded as an out-of-period adjustment and is now being reported in the correct period, capitalization of property, plant and equipment which was previously incorrectly expensed, other misstatements, and the tax impact of these adjustments.

Summary of Financial Results

Our total net sales for the six months ended September 30, 2014 slightly increased compared with the six months ended September 30, 2013, due to an increase in retail sales, offset by declines in OEM and video conferencing sales.

Retail sales and units sold during the six months ended September 30, 2014 increased 2% compared with the six months ended September 30, 2013. We experienced increase in sales of 9% in the Americas, decreases of 3% in the EMEA region and 2% in the Asia Pacific regions.

If foreign currency exchange rates had been the same in the six months ended September 30, 2014 and 2013, our constant dollar retail sales would have been an increase in sales of 2% for total retail sales, an increase of 10% in the Americas, a decrease of 5% in the EMEA regions, and a decrease of 1% in the Asia Pacific.

OEM net sales decreased 15% and units sold decreased 24% in the six months ended September 30, 2014 compared with the preceding fiscal year. The decline was primarily due to overall weaker market conditions which led to sales declines from a few OEM customers.

Sales of video conferencing products, which were 5% and 6% of total net sales in the six months ended September 30, 2014 and 2013, decreased by 9% in the six months ended September 30, 2014, compared with the six months ended September 30, 2013. Lifesize is in the process of transitioning its product portfolio to the recently announced Lifesize Cloud, a software-as-a-service (SaaS) offering that provides an affordable, simple and scalable video conferencing solution with little to no need for IT involvement. The

Table of Contents

decline in sales reflects the combination of this short-term portfolio transition and weak market conditions for video conferencing endpoints.

Our gross margin for the six months ended September 30, 2014 improved to 38.2% compared with 34.9% for the six months ended September 30, 2013. The improvement in gross margin for the six months ended September 30, 2014 compared with the same period of the prior fiscal year primarily resulted from the combination of cost reductions in our Profit Maximization category, increased scale on Growth category products, offset in part by an increase in incentive spending

Operating expenses for the six months ended September 30, 2014 were 31.8% of net sales, compared with 33.1% in the same period of the prior fiscal year. The decrease in total operating expenses as a percentage of net sales for the six months ended September 30, 2014 compared to prior period were primarily due to savings from prior year's restructuring actions and the ongoing rationalization of infrastructure. Operating expenses for the six months ended September 30, 2014, also included expenses related to the Audit Committee's investigation, which were \$17.0 million.

Net income for the six months ended September 30, 2014 was \$55.8 million, compared with net income of \$15.8 million in the six months ended September 30, 2013.

Trends in Our Business

Our sales of PC peripherals for use by consumers in the Americas and Europe have historically made up the large majority of our revenues. In the last several years, the PC market has changed dramatically and there continues to be weakness in the global market for new PCs. This weakness had a negative impact on our net sales in all of our PC-related categories. We believe that this weakness reflects the growing popularity of tablets and smartphones as mobile computing devices.

We believe our future growth will be determined by our ability to rapidly create innovative products across multiple digital platforms, especially accessories for mobility-related products, including tablets, smartphones, PC Gaming and digital music devices to offset the decline in our PC peripherals. The following discussion represents key trends specific to each of our two operating segments: peripherals and video conferencing.

Trends Specific to our Peripherals Segment

PC Peripherals: Although the installed base of PC users is large, consumer demand for new PCs has declined in recent years, and we believe it will continue to decline in future years. As a consequence, consumer demand for PC peripherals is slowing, or in some cases declining. As the quality of PC-embedded webcams improves along with the increasing popularity of tablets and smartphones with embedded webcams, we expect future sales of our PC-connected webcams will continue to be weak (or continue to decline on a year over year basis).

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

Enterprise Market. We are continuing our efforts to create and sell products and services to enterprises. For example, we have introduced the Logitech ConferenceCam CC3000e video conference solution designed for small to medium conference rooms. Growing our enterprise peripherals business will continue to require investment in selected business-specific products, targeted product marketing, and sales channel development.

Tablets and Other Accessories. The increasing popularity of smaller, mobile computing devices, such as tablets with touch interfaces, has created new markets and usage models for peripherals and accessories. We have started offering products to enhance the use of mobile devices. During fiscal year 2014, we continued to expand and leverage our success in this category through the introductions of keyboard folios for the iPad and iPad mini, and keyboard covers and folios for the iPad Air. During this time, we also introduced keyboard folios for the Samsung Galaxy tablet as well as the Wired Keyboard for the iPad, designed primarily for use in the classroom.

Mobile Speakers. We believe that digital music, the seamless consumption of digital audio content on mobile devices, presents a growth opportunity for us. Many consumers listen to music as a popular entertainment activity, fueled by the growth in smartphones, tablets, music services and Internet radio. We believe we have a solid foundation of audio speaker solutions to satisfy consumers' needs for music consumption, in the digital music speaker space. We continue to invest in the UE brand and introduce innovative new products in this category such as UE BOOM, a wireless speaker that offers 360-degree stereo sound.

OEM Business. Sales of our OEM mice and keyboards have historically made up the bulk of our OEM sales. In recent years, there has been a dramatic shift away from desktop PCs and there continues to be weakness in the global market for PCs, which has

Table of Contents

adversely affected our sales of OEM mice and keyboards, all of which are sold with name-brand desktop PCs. We expect this trend to continue and for OEM sales to comprise a smaller percentage of our total sales in the future.

Trends in Non-Strategic Peripherals Product Categories. During the quarter ended December 31, 2012, we identified a number of product categories that no longer fit with our strategic direction at that time. We will continue to evaluate our product offerings and will exit those which no longer support our strategic direction.

Trends Specific to our Video Conferencing Segment

The trend among businesses and institutions to use video conferencing offers a long-term growth opportunity for us. However, the overall video conferencing industry has experienced a slowdown in recent quarters. In addition, there has been an increase in the competitive environment. We believe the growth in our video conferencing segment depends in part on our ability to increase sales to enterprises with existing installed bases of equipment supplied by our competitors and to enterprises that may purchase such competitor equipment in the future. We believe the ability of our Lifesize products to interoperate with the equipment of other telecommunications, video conferencing or telepresence equipment suppliers to be a key factor in purchasing decisions by current or prospective Lifesize customers. In addition, Lifesize has broadened its product portfolio to include infrastructure, cloud services and other offerings which require different approaches to developing customer solutions. We are also seeking to offer Lifesize products designed to enhance the use of mobile devices in video conferencing applications.

Results of Operations*Net Sales*

Net sales by channel for the three and six months ended September 30, 2014 and 2013 were as follows (in thousands):

	Three Months Ended September 30,			Six Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
Retail	\$ 473,463	\$ 464,024	2%	\$ 897,276	\$ 877,867	2%
OEM	28,394	37,526	(24)	61,027	72,039	(15)
Video conferencing	28,454	29,593	(4)	54,211	59,767	(9)
Total net sales	\$ 530,311	\$ 531,143	(0)	\$ 1,012,514	\$ 1,009,673	0

Retail:

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

Our net retail sales in both the three and six months ended September 30, 2014 increased by 2% with the same period of the prior fiscal year, as the sales increases in the Americas were offset in part by a decrease in both the EMEA and Asia Pacific regions. Our retail average selling price increased by 2% and 1% during the three and six months ended September 30, 2014. Products priced below \$40 represented approximately 48% and 49% of retail sales in the three and six months ended September 30, 2014, compared with 49% and 51% of total retail sales in the three and six months ended September 30, 2013. Sales of products priced above \$100 represented 18% and 16% of retail sales in the three and six months ended September 30, 2014, compared with 13% and 14% of total retail sales for both the three and six months ended September 30, 2013.

OEM:

OEM net sales decreased 24% and 15% and units sold decreased 35% and 24% in the three and six months ended September 30, 2014 compared with the preceding fiscal year. The decline was primarily due to overall weaker market conditions for pointing devices that were only partially offset by growth in Keyboards & Desktops.

Table of Contents**Video Conferencing:**

Video conferencing net sales decreased 4% and 9% during the three and six months ended September 30, 2014, compared with the same period of the prior fiscal year. Lifesize is in the process of transitioning its product portfolio to the recently announced Lifesize Cloud, a software-as-a-service (SaaS) offering that provides an affordable, simple and scalable video conferencing solution with little to no need for IT involvement. The decline in sales reflects the combination of this short-term portfolio transition and weak market conditions for video conferencing endpoints.

Retail Sales by Region

The following table presents the change in retail sales by for the three and six months ended September 30, 2014 compared with the three and six months ended September 30, 2013.

	Three Months Ended September 30, 2014 Change in Sales	Six Months Ended September 30, 2014 Change in Sales
Americas	10%	9%
EMEA	(5)	(3)
Asia Pacific	(1)	(2)

Americas

The Americas region experienced a 10% increase and a 9% increase in retail sales during the three and six months ended September 30, 2014, compared with the same period of the prior fiscal year. The sales increase was achieved in all categories except our non-strategic Other, Audio-PC & Wearables, and Pointing Devices. This increase was led by triple digit growth in Mobile Speakers from UE BOOM and PC Gaming products. Video decreased in the three months ended September 30, 2014 compared with the same period of the prior fiscal year but increased during the six months ended September 30, 2014 compared with the same period of the prior fiscal year, driven by the growth in business webcams and UC ConferenceCams.

EMEA

Retail sales in the EMEA region experienced a 5% decrease and a 3% decrease during the three and six months ended September 30, 2014, compared with the same period of the prior fiscal year. The sales decrease was primarily due to lower demand for Tablet & Other Accessories, Audio-PC & Wearables, Pointing Devices and decline in non-strategic Other. Sales of Mobile Speakers for the first six months of fiscal 2015 doubled and we achieved growth in Video driven by UC ConferenceCams and growth in PC Keyboards & Desktops.

Asia Pacific

Asia Pacific region retail sales decreased by 1% and 2% during the three and six months ended September 30, 2014, compared with the same period of the prior fiscal year. We had triple digit growth in our Mobile Speakers category. These increases were offset in part by weakness in our Tablet & Other Accessories, Audio-PC & Wearables, PC Gaming, PC Keyboards & Desktops and decline in non-strategic Other.

Table of Contents*Net Retail Sales by Product Category*

Net retail sales by product category during the three and six months ended September 30, 2014 and 2013 were as follows (in thousands):

	Three Months Ended September 30,			Six Months Ended September 30,		
	2014	2013 (1)	Change	2014	2013 (1)	Change
Peripherals:						
PC Gaming	\$ 47,506	\$ 43,260	10%	\$ 94,382	\$ 83,473	13%
Tablet & Other Accessories	28,158	34,695	(19)	59,874	73,254	(18)
Mobile Speakers	48,538	19,967	143	77,367	33,834	129
Growth	124,202	97,922	27	231,623	190,561	22
Pointing Devices	127,693	130,656	(2)	240,735	245,307	(2)
PC Keyboards & Desktops	105,718	105,260	0	211,241	203,273	4
Audio-PC & Wearables	58,677	70,523	(17)	108,303	126,061	(14)
Video	37,563	36,645	3	72,139	67,585	7
Remotes	18,776	13,327	41	31,108	27,901	11
Profit Maximization	348,427	356,411	(2)	663,526	670,127	(1)
Other	834	9,691	(91)	2,127	17,179	(88)
Non-Strategic	834	9,691	(91)	2,127	17,179	(88)
Retail	473,463	464,024	2	897,276	877,867	2
OEM	28,394	37,526	(24)	61,027	72,039	(15)
	501,857	501,550	0	958,303	949,906	1
Video conferencing	28,454	29,593	(4)	54,211	59,767	(9)
	\$ 530,311	\$ 531,143	(0)	\$ 1,012,514	\$ 1,009,673	0

(1) Certain products within the retail product families presented in prior years have been reclassified to conform to the current year presentation.

Growth Categories:*PC Gaming*

Our retail PC Gaming category comprises PC Gaming mice, keyboards, headsets, gamepads and steering wheels.

Retail sales of PC Gaming increased 10% and units sold increased 11%, in the three months ended September 30, 2014 compared to the three months ended September 30, 2013. The growth in the category was experienced in mice and headsets. The growth in mice sales was primarily driven by the G502 Tunable Gaming Mouse. New products made up 19% of total PC Gaming revenue for the three months ended September 30, 2014. Sales of our PC Gaming products grew strongly in both the Americas and EMEA, reflecting an improved product portfolio that positions us well for continued growth during the remainder of the year.

Retail sales of PC Gaming increased 13% and units sold increased 18%, in the six months ended September 30, 2014 compared to the six months ended September 30, 2013. New products made up 17% of total PC Gaming revenue for the six months ended September 30, 2014.

Tablet & Other Accessories

Our retail Tablet & Other Accessories consists of keyboards for tablets and covers for tablets and smartphones as well as other accessories for mobile devices.

Retail sales of Tablet & Other Accessories decreased 19% and units sold increased 15% in the three months ended September 30, 2014, compared with the same period of the prior fiscal year. This decrease in sales is due to weakened demand for the Ultrathin Tablet Keyboard Covers for iPad Air and iPad Mini. The decline in sales reflects a weak market for iPad Tablets. New products made up 69% of total Tablet & Other Accessories revenue for the three months ended September 30, 2014.

Table of Contents

Retail sales of Tablet & Other Accessories decreased 18% and units sold increased 14% in the six months ended September 30, 2014, compared with the same period of the prior fiscal year. New products made up 74% of total Tablet & Other Accessories revenue for the six months ended September 30, 2014.

Mobile Speakers

Our retail Mobile Speakers category is made up entirely of wireless speakers.

Retail sales and units sold of Mobile Speakers increased 143% and 170% respectively for the three month period ended September 30, 2014, compared with the same period of the prior fiscal year. The increase in sales of our wireless speakers for smartphones and tablets was driven primarily by a strong demand for the UE BOOM, which was our best-selling product in the quarter across all product categories. Mobile Speaker sales increased significantly across our three regions due to great products and expanded distribution, with sales in the Americas nearly tripling.

Retail sales and units sold of Mobile Speakers increased 129% and 141% respectively for the six month period ended September 30, 2014, compared with the same period of the prior fiscal year.

Profit Maximization:

Pointing Devices

Our retail Pointing Devices category comprises PC and Mac-related mice, touchpads and presenters.

Retail sales of Pointing Devices decreased 2% while retail units sold decreased 1% in the three months ended September 30, 2014, compared to the three month period ended September 30, 2013. Sales declined at the high end of the category, with growth in the mid-range. Sales of cordless mice decreased 1%, while units sold increased 5% while corded mice sales decreased 8%, and units sold decreased 13%.

Retail sales of Pointing Devices decreased 2% while retail units sold increased 1% in the six months ended September 30, 2014, compared to the six month period ended September 30, 2013. Sales declined at the high end, with growth in the mid-range. Sales of all cordless mice decreased 3%, while units sold increased 3% while corded mice sales decreased 1%, while units sold decreased 4% .

PC Keyboards and Desktops

Our retail PC Keyboard & Desktop category comprises PC keyboards and keyboard/mice combo products.

Retail sales of PC Keyboards & Desktops remained flat and units sold increased 2% in the three months ended September 30, 2014, compared with the same period of the prior fiscal year. The sales increase was driven by corded and cordless combo products offset by declines in living room keyboards. Sales of corded and cordless combos increased 26% and 6%, respectively and units increased 26% and 4%, respectively. Sales of corded and cordless keyboards decreased 4% and decreased 13%, respectively and units decreased 5% and decreased 14%, respectively during the three months ended September 30, 2014, compared with the same period in the prior fiscal year. Living room keyboards sales decreased 24% and units decreased 18%.

Retail sales of PC Keyboards & Desktops and units sold increased 4% in the six months ended September 30, 2014, compared with the same period of the prior fiscal year. The sales increase was driven by mid-range and low-end corded and cordless combo products. Sales of corded and cordless combos increased 31% and 5%, respectively and units increased 25% and 3%, respectively. Sales of corded and cordless keyboards increased 2% and decreased 12%, respectively and units remained flat and decreased 13%, respectively.

Audio-PC & Wearables

Our retail Audio-PC & Wearables category comprises PC speakers, PC headsets and in-ear earphones.

Table of Contents

Audio-PC & Wearables sales decreased 17% and units sold decreased 14%, in the three months ended September 30, 2014, compared with the same period of the prior fiscal year. The decrease was primarily due to decreases in PC speaker retail sales. These decreases reflect both a weakness in the overall market for new PCs and a market shift toward mobile audio devices. Retail sales of our headset products decreased 4% and units decreased 13%. As we have significantly reduced our wearables product portfolio, wearables products have declined significantly and only make up 2% of the category sales.

Audio-PC & Wearables sales decreased 14% and units sold decreased 11%, in the six months ended September 30, 2014, compared with the same period of the prior fiscal year. The decrease was primarily due to decreases in PC speaker retail sales. These decreases reflect both a weakness in the overall market for new PCs and a market shift toward mobile audio devices. Retail sales of our headset products decreased 4% and units sold decreased 8%. With a much streamlined offering of wearable products sales have declined significantly and only make up 4% of the category sales.

Video

Our retail Video category comprises retail webcams, business webcams, and Unified Communications ConferenceCams.

Retail Video sales increased by 3% and units sold decreased by 17% in the three months ended September 30, 2014, compared with the same period in the prior fiscal year. The sales growth in the Video category, which was achieved across EMEA and Asia Pacific, was driven by our video collaboration offerings, such as the ConferenceCam CC3000E targeted at small and midsize conference rooms, as well as growth in business webcams.

Retail Video sales increased by 7% and units sold decreased by 17% in the six months ended September 30, 2014, compared with the same period in the prior fiscal year. The sales growth in the Video category, which was achieved across all regions, was driven by our video collaboration offerings, such as the Conference Cam CC3000E targeted at small and midsize conference rooms, as well as growth in business webcams. The sales increase was primarily from the Logitech Conference Cam CC3000.

Remotes

Our retail Remotes category comprises our Harmony branded remotes.

Remote retail sales increased 41% and units sold increased 56% in the three months ended September 30, 2014, compared with the same period of the prior fiscal year. Sales growth was driven by new Harmony Living Home products including Harmony Ultimate Home.

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

Remote retail sales increased 11% and units sold increased 33% in the six months ended September 30, 2014, compared with the same period of the prior fiscal year. Sales growth was driven by new Harmony Living Home products including Harmony Ultimate Home and the Harmony Ultimate One.

Non Strategic

This category comprises a variety of products that we currently intend to transition out of, or have already transitioned out of, because they are no longer strategic to our business. Products currently included in this category include TV Camera, Digital Video Security, TV and home speakers, Google TV products, and Keyboard/ Desktop accessories.

Non-strategic retail sales decreased by 91% and 68% and units sold decreased by 88% and 66% during the three and six months ended September 30, 2014, compared with same period in the prior fiscal year.

OEM

OEM sales and units sold decreased by 24% and 35% during the three months ended, and decreased 15% and 24% during the six months ended September 30, 2014, compared with the same period of the prior fiscal year. This decrease was largely attributable the weaker market conditions for sales of new desktop PCs.

Table of Contents*Video Conferencing*

Video conferencing net sales decreased 4% and 9% during the three and six months ended September 30, 2014, compared with the same period of the prior fiscal year. Lifesize is in the process of transitioning its product portfolio to the recently announced Lifesize Cloud, a software-as-a-service (SaaS) offering that provides an affordable, simple and scalable video conferencing solution with little to no need for IT involvement. The decline in sales reflects the combination of this short-term portfolio transition and weak market conditions for video conferencing endpoints.

Gross Profit

Gross profit for the three and six months ended September 30, 2014 and 2013 was as follows (in thousands):

	Three Months Ended			Six Months Ended		
	2014	September 30, 2013	Change	2014	September 30, 2013	Change
Net sales	\$ 530,311	\$ 531,143	(0)%	\$ 1,012,514	\$ 1,009,673	0%
Cost of goods sold	325,533	348,181	(7)	625,984	657,449	(5)
Gross profit	\$ 204,778	\$ 182,962	12	\$ 386,530	\$ 352,224	10
Gross margin	38.6%	34.4%		38.2%	34.9%	

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, outside processing costs, write-down of inventories and amortization of intangible assets. Gross profit for the three and six months ended September 30, 2013 included \$5.2 million write-off of discontinued products included in cost of goods sold in the consolidated statements of operations resulting from the restructuring of our video conferencing reporting segment.

The improvement in gross margin for both the three and six months ended September 30, 2014 compared with the same periods of the prior fiscal year primarily resulted from the combination of a significant improvement in our Profit Maximization category, driven by product cost reductions, improved scale for our growth categories and prior year write off of \$5.2 million for discontinued products resulting from the restructuring of our Video Conferencing reporting segment.

Table of Contents**Operating Expenses**

Operating expenses for the three and six months ended September 30, 2014 and 2013 were as follows (in thousands):

	Three Months Ended September 30,			Six Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
Marketing and selling	\$ 95,862	\$ 93,451	3%	\$ 186,908	\$ 194,544	(4)%
% of net sales	18.1%	17.6%		18.5%	19.3%	
Research and development	32,325	37,485	(14)	63,641	74,012	(14)
% of net sales	6.1%	7.1%		6.3%	7.3%	
General and administrative	34,470	29,172	18	71,149	58,249	22
% of net sales	6.5%	5.5%		7.0%	5.8%	
Restructuring charges, net		5,465	(100)		7,799	(100)
% of net sales	0.0%	1.0%		0.0%	0.8%	
Total operating expenses	\$ 162,657	\$ 165,573	(2)	\$ 321,698	\$ 334,604	(4)
% of net sales	30.7%	31.2%		31.8%	33.1%	

The decrease in total operating expenses for both the three and six months ended September 30, 2014, as a percentage of net sales, compared to the three and six months ended September 30, 2013, was primarily due to continued cost control initiatives.

Marketing and Selling

Marketing and selling expense consists of personnel and related overhead costs, corporate and product marketing, promotions, advertising, trade shows, customer and technical support and facilities costs.

During the three months ended September 30, 2014, marketing and selling expenses increased 3%, compared to the three months ended September 30, 2013. The increase was primarily due to a \$2.0 million increase in the product marketing campaign costs as well as other marketing related costs. During the six months ended September 30, 2014, marketing and selling expenses decreased 4%, compared to the six months ended September 30, 2013. The decrease was primarily due to \$7 million from cost control initiatives and decrease in spending for new product launches in Music and Gaming.

Research and Development

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

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

During the three months ended September 30, 2014, research and development expense decreased 14%, compared to the three months ended September 30, 2013. The decrease was primarily due to \$2.5 million lower personnel-related expenses from the reduction in worldwide workforce resulting from restructuring plans, a \$1.5 million prior period write-off of in pre-production gaming components, and a \$1.0 million reduced spending for product development. During the six months ended September 30, 2014, research and development expense decreased 14%, compared to the six months ended September 30, 2013. The decrease was primarily due to \$4.3 million lower personnel-related expenses from the reduction in worldwide workforce resulting from our recent restructuring plans in 2013.

General and Administrative

General and administrative expense consists primarily of personnel and related overhead and facilities costs for the finance, information systems, executive, human resources and legal functions.

Table of Contents

During the three months ended September 30, 2014, general and administrative expense increased 18%, compared to the three months ended September 30, 2013. The increase was primarily due to an \$8.0 million increase in our legal and accounting expense in connection with the Audit Committee's investigation, partially offset by a \$2.9 million decrease in personnel-related expenses. Total expenses related to the Audit Committee's investigation were \$8.0 million and \$17.0 million for the three and six months ended September 30, 2014, respectively. During the six months ended September 30, 2014, general and administrative expense increased 22%, compared to the six months ended September 30, 2013. The increase was driven by a \$16.8 million increase in our legal and consulting expense primarily due to the Audit Committee investigation. This increase was partially offset by realized savings of \$3.7 million from facility cost as a result of the consolidation of some of our facilities located in North America.

Restructuring Charges

During the fourth quarter of fiscal year 2013, Logitech implemented a restructuring plan to align the organization to its strategic priorities of increasing focus on mobility products, improving profitability in PC-related products and enhancing global operational efficiencies. Restructuring charges under this plan primarily consisted of severance and other one-time termination benefits. Charges and other costs related to the workforce reduction are presented as restructuring charges in the consolidated statements of operations. During the three months ended September 30, 2013, restructuring charges under this plan included \$4.6 million in termination benefits to affected employees and \$0.9 million in lease exit costs.

The Company substantially completed the restructuring in the fourth quarter of fiscal year 2014, and did not incur any material charges during the first six months of fiscal 2015.

Termination benefits were calculated based on regional benefit practices and local statutory requirements. Lease exit costs primarily relate to costs associated with the closure of existing facilities. Other charges primarily consist of legal, consulting and other costs related to employee terminations.

The following table summarizes restructuring-related activities during the first two quarters of fiscal years 2013 and 2014 (in thousands):

	Termination Benefits	Restructuring Lease Exit Costs	Total
March 31, 2013	\$ 13,383	\$ 75	\$ 13,458
Charges	2,004	330	2,334
Cash payments	(8,422)		(8,422)
Foreign exchange impact	(170)		(170)
June 30, 2013	6,795	405	7,200
Charges	4,562	903	5,465
Cash payments	(6,535)	(564)	(7,099)
September 30, 2013	\$ 4,822	\$ 744	\$ 5,566
March 31, 2014	\$ 142	7,419	7,561
Cash payments	(56)	\$ (407)	\$ (463)
June 30, 2014	86	7,012	7,098

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

Cash payments				(420)		(420)
September 30, 2014	\$	86	\$	6,592	\$	6,678

Table of Contents*Interest Income, Net*

Interest income and expense for the three and six months ended September 30, 2014 and 2013 were as follows (in thousands):

	Three Months Ended September 30,			Six Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
Interest income	\$ 355	\$ 495	(28)%	\$ 616	\$ 918	(33)%
Interest expense		\$ (312)	(100)	(3)	(758)	(100)
	\$ 355	\$ 183	94	\$ 613	\$ 160	283

Interest income was lower in the three and six months ended September 30, 2014, compared with the three and six months ended September 30, 2013, primarily due to the mix of cash balances held by country during the three and six months ended September 30, 2014 compared to the prior period.

Interest expense was lower in the three and six months ended September 30, 2014, compared with the three and six months ended September 30, 2013, primarily due to commitment fees and non-recurring fees related to our \$250 million Senior Revolving Credit Facility entered into in December 2011 that was in place during the three and six months ended September 30, 2013. In December 2013, given the significant improvement in our financial performance and outlook, we chose to terminate this Credit Facility.

Table of Contents**Other Income (Expense), Net**

Other income and expense for the three and six months ended September 30, 2014 and 2013 were as follows (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
Investment income related to deferred compensation plan	\$ 385	\$ (121)	\$ 649	\$ 243
Impairment of investments	(105)		(105)	(370)
Foreign currency exchange gain, net	(975)	(77)	(1,504)	414
Other	(190)	260	(123)	(8)
	\$ (885)	\$ 62	\$ (1,083)	\$ 279

Investment income for three and six months ended September 30, 2014 and 2013 represents earnings, gains, and losses on trading investments related to a deferred compensation plan offered by one of our subsidiaries.

During the three months ended September 30, 2014 we had a \$0.1 million investment impairment resulting in the write-down of an investment in a privately held company. The \$0.4 million investment impairment in the three months ended September 30, 2013 resulted from the write-down of an investment in a privately held company.

The foreign currency exchange losses were \$1.0 million and \$1.5 million during the three and six months ended September 30, 2014. Foreign currency exchange gains or losses relate to balances denominated in currencies other than the functional currency of a particular subsidiary, to the sale of currencies, and to gains or losses recognized on foreign exchange forward contracts. We do not speculate in currency positions, but we are alert to opportunities to maximize foreign exchange gains.

Provision for Income Taxes

The provision for and (benefit from) income taxes and effective tax rates for the three and six months ended September 30, 2014 and 2013 were as follows (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
Provision for income tax	\$ 5,501	\$ 3,058	\$ 8,596	\$ 2,257
Effective income tax rate	13.2%	17.3%	13.4%	12.5%

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

The change in the effective income tax rate for the three and six months ended September 30, 2014 compared with the three and six months ended September 30, 2013 is primarily due to the mix of income and losses in the various tax jurisdictions in which we operate.

As of September 30 and March 31, 2014, the total amount of unrecognized tax benefits due to uncertain tax positions was \$90.9 million and \$91.0 million, respectively, of which \$88.7 million and \$86.1 million, respectively, would affect the effective income tax rate if recognized.

As of September 30, 2014, we had \$86.4 million in non-current income taxes payable and \$0.1 million in current income taxes payable, including interest and penalties, related to our income tax liability for uncertain tax positions. As of March 31, 2014, we had \$93.1 million in non-current income taxes payable and \$0.3 million in current income taxes payable. Pursuant to ASU 2013-11 which became effective in the first quarter of fiscal year 2015, we reclassified \$9.3 million of unrecognized tax benefits previously presented as non-current income taxes payable to a reduction in non-current deferred tax assets for tax credit carryforwards.

We continue to recognize interest and penalties related to unrecognized tax positions in income tax expense. As of September 30 and March 31, 2014, we had \$5.8 million and \$5.6 million of accrued interest and penalties related to uncertain tax positions, respectively

Table of Contents**Liquidity and Capital Resources***Cash Balances, Available Borrowings, and Capital Resources*

As of September 30, 2014, we had cash and cash equivalents of \$500.2 million, compared with \$469.4 million at March 31, 2014. Our cash and cash equivalents consist of bank demand deposits and short-term time deposits of which 61% is held by our Swiss-based entities, 26% is held by our subsidiaries in Hong Kong and Germany, and 13% is held by various other entities. We do not expect to incur any material adverse tax impact or be significantly inhibited by any country in which we do business from the repatriation of funds to Switzerland, our home domicile.

As of September 30, 2014, our working capital was \$550.6 million compared with working capital of \$478.2 million at March 31, 2014. The increase in working capital over the prior period was primarily due to higher cash, accounts receivable and inventory balances at September 30, 2014.

During the six months ended September 30, 2014, we generated \$60.7 million from operating activities. Our main sources of operating cash flows were net income after adding non-cash expenses of depreciation, amortization and share-based compensation expense, and from increases in accounts payable. These sources of operating cash flows were partially offset by increases in accounts receivables and inventories. Net cash used in investing activities was \$27.2 million, primarily from \$25.0 million of investments in leasehold improvements, computer hardware and software, tooling and equipment. Net cash generated from financing activities was \$0.3 million.

We had several uncommitted, unsecured bank lines of credit aggregating \$39.1 million as of September 30, 2014. There are no financial covenants under these lines of credit with which we must comply. As of September 30, 2014, we had outstanding bank guarantees of \$7.0 million under these lines of credit. We also had credit lines related to corporate credit cards totaling \$6.8 million as of September 30, 2014. There are no financial covenants under these credit lines.

We have financed our operating and capital requirements primarily through cash flow from operations and, to a much lesser extent, from capital markets and bank borrowings. Our liquidity for the next 12 months and our longer-term capital resource requirements are provided from three sources: cash flow generated from operations, cash and cash equivalents on hand, and borrowings, as needed. We believe that, based on the trend of our historical cash flow generation, and our projections of future operations and reduced expenses, our available cash balances will provide sufficient liquidity to fund our operations for at least the next 12 months.

The following table summarizes our Consolidated Statements of Cash Flows (in thousands):

		Six Months Ended September 30,		
	2014		2013	
Net cash provided by operating activities	\$	60,704	\$	16,309

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

Net cash used in investing activities	(27,199)	(25,380)
Net cash used in financing activities	(302)	(30,441)
Effect of exchange rate changes on cash and cash equivalents	(2,393)	484
Net increase (decrease) in cash and cash equivalents	\$ 30,810	\$ (39,028)

Table of Contents***Cash Flow from Operating Activities***

The following table presents selected financial information and statistics as of September 30, 2014 and 2013 (dollars in thousands):

	2014	As of September 30,	2013
Accounts receivable, net	\$ 252,692	\$	257,515
Inventories	245,237		293,100
Working capital	550,601		392,470
Days sales in accounts receivable (DSO)(1)	43days		44days
Inventory turnover (ITO)(2)	5.3x		4.8x

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

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

During the six months ended September 30, 2014, we generated net cash of \$60.7 million for operating activities, compared to \$16.3 million for the same period in the prior fiscal year. The primary drivers of the increase in net cash generated from operating cash flows include an increase in net income of \$40.0 million for the six months ended September 30, 2014 from the six months ended September 30, 2013.

DSO remained consistent for the three months ended September 30, 2014 compared to the six months ended September 30, 2013. Typical payment terms require customers to pay for product sales generally within 30 to 60 days. However, terms may vary by customer type, by country and by selling season. Extended payment terms are sometimes offered to a limited number of customers during the second and third fiscal quarters. We do not modify payment terms on existing receivables, but may offer discounts for early payment.

Inventory turnover during the three months ended September 30, 2014 increased, compared with the three months ended September 30, 2013 due to our better management of inventories.

Cash Flow from Investing Activities

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

The following table presents information on our cash flows from investing activities during the six months ended September 30, 2014 and 2013 (in thousands):

	Six Months Ended September 30,	
	2014	2013
Purchases of property, plant and equipment	\$ (24,964)	\$ (25,186)
Investment in privately held companies	(2,550)	
Acquisitions, net of cash acquired		(650)
Purchase of trading investments	(2,230)	(6,146)
Proceeds from sales of trading investments	2,545	6,602
Net cash used in investing activities	\$ (27,199)	\$ (25,380)

Our expenditures for property, plant and equipment during the six months ended September 30, 2014 and 2013 were primarily expenditures for leasehold improvements, computer hardware and software, tooling and equipment.

During the six months ended September 30, 2014, we made strategic investments of \$2.6 million in privately held companies. During the six months ended September 30, 2013, we made a \$0.7 million strategic investment.

Table of Contents

The purchases and sales of trading investments in the three months ended September 30, 2014 and 2013 represent mutual fund activity directed by participants in a deferred compensation plan offered by one of our subsidiaries. The mutual funds are held by a Rabbi Trust.

Cash Flow from Financing Activities

The following table presents information on our cash flows from financing activities during the six months ended September 30, 2014 and 2013 (in thousands):

	Six Months Ended September 30,	
	2014	2013
Payment of cash dividends	\$	\$ (36,123)
Contingent cash payment of acquisition		(100)
Repurchase of ESPP awards		(1,078)
Proceeds from sales of shares upon exercise of options and purchase rights		1,533
Tax withholdings related to net share settlements of restricted stock units		(1,323)
Excess tax benefits from share-based compensation		666
Net cash used in financing activities	\$	\$ (302)

For both the six months ended September 30, 2014 and 2013 no share repurchases were made.

Proceeds from the sale of shares upon exercise of options and purchase rights pursuant our stock plans during the six months ended September 30, 2014 and 2013 were \$1.5 million and \$6.1 million, respectively. The payment of tax withholdings related to net share settlements of RSUs (restricted stock units) required during the six months ended September 30, 2014 and 2013 was \$1.3 million and \$0.5 million, respectively. During six months ended September 30, 2013, we paid a cash dividend of CHF 33.7 million (U.S. dollar amount of \$36.1 million) out of retained earnings.

Cash Outlook

Our principal sources of liquidity are our cash and cash equivalents, cash flow generated from operations and, to a much lesser extent, capital markets and borrowings. Our future working capital requirements and capital expenditures may increase to support investment in product innovations and growth opportunities, or to acquire or invest in complementary businesses, products, services, and technologies.

In March 2014, our Board of Directors approved a new share buyback program, which authorizes us to invest up to \$250.0 million to purchase our own shares. Our share buyback program provides us with the opportunity to make opportunistic repurchases during periods of favorable market conditions and is expected to remain in effect for a period of three years. Shares may be repurchased from time to time on the open market with consideration given to Logitech's stock price, market conditions and other factors. The Company was not current on its SEC filings and lost its ability to buy back shares. The company will regain its ability, once it is current on its SEC filings.

During the second quarter of fiscal year 2014, we implemented a restructuring plan solely affecting our video conferencing operating segment to align our organization to our strategic priorities of increasing focus on a tighter range of products, expanding cloud-based video conferencing services and improving profitability.

During fiscal year 2014, we paid a cash dividend of CHF 33.7 million (U.S. dollar amount of \$36.1 million) out of retained earnings. On November 12, 2014, the Board approved, subject to approval by the Company's shareholders and other Swiss statutory requirements, a dividend of CHF 0.2625 per share. Based on the shares outstanding as of September 30, 2014, net of treasury shares, the aggregate amount of the dividend would be approximately CHF 42.9 million. We plan to issue an annual dividend on a recurring basis. If we do not generate sufficient operating cash flows to support our operations and future planned cash requirements, our operations could be harmed and our access to credit facilities could be restricted or eliminated. However, we believe that the trend of our historical cash flow generation, our projections of future operations and reduced expenses and our available cash balances will provide sufficient liquidity to fund our operations for at least the next 12 months.

Table of Contents

Although we believe that we can meet our liquidity needs, if we fail to meet our operating forecast or market conditions negatively affect our cash flows or ability to fund growth opportunities, we may be required to seek additional funding. If we seek additional funding, adequate funds may not be available on favorable terms, or at all. If adequate funds are not available on acceptable terms, or at all, we may be unable to adequately fund our business plans and it could have a negative effect on our business, operating cash flows and financial condition.

Operating Leases

We lease facilities under operating leases, certain of which require it to pay property taxes, insurance and maintenance costs. Operating leases for facilities are generally renewable at our option and usually include escalation clauses linked to inflation. The remaining terms on our non-cancelable operating leases expire in various years through 2028. Our asset retirement obligations on these leases as of September 30, 2014 were not material.

Purchase Commitments

As of September 30, 2014, we have fixed purchase commitments for inventory purchases made in the normal course of business to original design manufacturers, contract manufacturers and other suppliers, the majority of which are expected to be fulfilled during the third quarter of fiscal year 2015. We also had commitments for consulting services, marketing arrangements, advertising, outsourced customer services, information technology maintenance and support services, and other services. Fixed purchase commitments for capital expenditures and primarily relate to commitments for computer hardware and leasehold improvements. We expect to continue making capital expenditures in the future to support product development activities and ongoing and expanded operations. Although open purchase commitments are considered enforceable and legally binding, the terms generally allow us the option to reschedule and adjust our requirements based on business needs prior to delivery of goods or performance of services. As of September 30, 2014, the Company's outstanding purchase commitments had not materially changed since March 31, 2014.

Obligation for Deferred Compensation

At September 30, 2014, we had \$17.6 million in liabilities related to a deferred compensation plan offered by one of our subsidiaries. For more information, please refer to our Annual Report on Form 10-K for the fiscal year ended March 31, 2014.

Pension and Post-Employment Obligations

At September 30, 2014, we had \$36.3 million in liabilities related to our defined benefit pension plans and non-retirement post-employment benefit obligations, of which \$1.2 million is payable in the next 12 months. For more information, please refer to our Annual Report on Form 10-K for the fiscal year ended March 31, 2014.

Other Contractual Obligations and Commitments

For further detail about our contractual obligations and commitments, please refer to our Annual Report on Form 10-K for the fiscal year ended March 31, 2014.

Off-Balance Sheet Arrangements

We have not entered into any transactions with unconsolidated entities whereby we have financial guarantees, subordinated retained interests, derivative instruments or other contingent arrangements that expose us to material continuing risks, contingent liabilities, or any other obligation under a variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to us.

Other Contingencies

We are subject to an ongoing formal investigation by the SEC, relating to certain issues including the accounting for Revue inventory valuation reserves that resulted in the restatement, described in the Fiscal 2014 Form 10-K, revision to our financial statements concerning warranty accruals and amortization of intangible assets presented in our Form 10-K/A, filed on August 7, 2013, and our transactions with a distributor for Fiscal Year 2007 through Fiscal Year 2009. We are cooperating with the SEC in its ongoing investigation. We have entered into an agreement with the SEC to extend the statute of limitations. We cannot predict the outcome of

Table of Contents

the investigation at this time and any potential fines or penalties, if any, that may arise from the investigation are currently not estimable.

Guarantees

Logitech Europe S.A. guaranteed payments of a third-party contract manufacturer's purchase obligations. As of September 30, 2014, the maximum amount of this guarantee was \$3.5 million, of which \$2.7 million of guaranteed purchase obligations were outstanding.

Indemnifications

We indemnify certain of our suppliers and customers for losses arising from matters such as intellectual property disputes 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. As of September 30, 2014, no amounts have been accrued for indemnification provisions. We do not believe, based on historical experience and information currently available, that it is probable that any material amounts will be required to be paid under our indemnification arrangements.

We also indemnify our current and former directors and certain of our current and former officers. Certain costs incurred for providing such indemnification may be recoverable under various insurance policies. We are unable to reasonably estimate the maximum amount that could be payable under these arrangements because these exposures are not capped, the obligations are conditional in nature, and the facts and circumstances involved in any situation that might arise are variable.

Legal Proceedings

From time to time we are involved in claims and legal proceedings that arise in the ordinary course of its business. We are currently subject to several such claims and a small number of legal proceedings. We believe that these matters lack merit and we intend to vigorously defend against them. Based on currently available information, we do not believe that resolution of pending matters will have a material adverse effect on our financial condition, cash flows or results of operations. However, litigation is subject to inherent uncertainties, and there can be no assurances that our defenses will be successful or that any such lawsuit or claim would not have a material adverse impact on our business, financial condition, cash flows and results of operations in a particular period. Any claims or proceedings against us, whether meritorious or not, can have an adverse impact because of defense costs, diversion of management and operational resources, negative publicity and other factors. Any failure to obtain necessary license or other rights, or litigation arising out of intellectual property claims, could adversely affect our business.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments. As a global concern, we face exposure to adverse movements in foreign currency exchange rates and interest rates. These exposures may change over time as business practices evolve and could have a material adverse impact on our financial results.

Foreign Currency Exchange Rates

We are exposed to foreign currency exchange rate risk as we transact business in multiple foreign currencies, including exposure related to anticipated sales, anticipated purchases and assets and liabilities denominated in currencies other than the U.S. dollar. Logitech transacts business in over 30 currencies worldwide, of which the most significant to operations are the euro, Chinese Renminbi, Australian dollar, Taiwanese dollar, British pound, Canadian dollar, Japanese yen and Mexican peso. The functional currency of our operations is primarily the U.S. Dollar. To a lesser extent, certain operations use the Swiss Franc, or the local currency of the country as their functional currencies. Accordingly, unrealized foreign currency gains or losses resulting from the translation of net assets or liabilities denominated in foreign currencies to the U.S. dollar are accumulated in the cumulative translation adjustment component of accumulated other comprehensive loss in shareholders' equity.

Table of Contents

The table below provides information about our underlying transactions that are sensitive to foreign exchange rate changes, primarily assets and liabilities denominated in currencies other than the base currency, where the net exposure is greater than \$0.5 million as of September 30, 2014. The table also presents the U.S. dollar impact on earnings of a 10% appreciation and a 10% depreciation of the base currency as compared with the transaction currency (in thousands):

Base Currency	Transaction Currency	Net Exposed Long (Short) Currency Position	FX Gain (Loss) From 10% Appreciation of Base Currency	FX Gain (Loss) From 10% Depreciation of Base Currency
U.S. Dollar	Australian Dollar	10,842	(986)	1,205
U.S. Dollar	Mexican Peso	10,079	(916)	1,120
U.S. Dollar	Japanese Yen	7,739	(704)	860
U.S. Dollar	Indian Rupee	2,074	(189)	230
U.S. Dollar	Swiss Franc	625	(57)	69
U.S. Dollar	Korean Won	(764)	69	(85)
U.S. Dollar	Singapore Dollar	(5,810)	528	(646)
U.S. Dollar	Chinese Renminbi	(13,924)	1,266	(1,547)
U.S. Dollar	Taiwanese Dollar	(18,424)	1,675	(2,047)
Euro	British Pound	12,423	(1,129)	1,380
Euro	Russian Ruble	624	(57)	69
Euro	Polish zloty	537	(49)	60
Euro	Turkish Lira	501	(46)	56
Euro	Hungarian forint	(504)	\$ 46	\$ (56)
Euro	Swedish Krona	(1,480)	135	(164)
British Pound	Swiss Franc	681	(62)	76
		\$ 5,219	\$ (476)	\$ 580

Long currency positions represent net assets being held in the transaction currency while short currency positions represent net liabilities being held in the transaction currency.

Our principal manufacturing operations are located in China, with much of our component and raw material costs transacted in CNY. As of September 30, 2014, net liabilities held in CNY totaled \$13.9 million.

Derivatives

The Company enters into foreign exchange forward contracts to hedge against exposure to changes in foreign currency exchange rates related to its subsidiaries' forecasted inventory purchases. The Company has one entity with a euro functional currency that purchases inventory in U.S. dollars. The primary risk managed by using derivative instruments is the foreign currency exchange rate risk. The Company has designated these derivatives as cash flow hedges. The Company does not use derivative financial instruments for trading or speculative purposes. These hedging contracts mature within four months, and are denominated in the same currency as the underlying transactions. Gains and losses in the fair value of the effective portion of the hedges are deferred as a component of accumulated other comprehensive loss until the hedged inventory purchases are sold, at which time the gains or losses are reclassified to cost of goods sold. The Company assesses the effectiveness of the hedges by comparing changes in the spot rate of the currency underlying the forward contract with changes in the spot rate of the currency in which the

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

forecasted transaction will be consummated. If the underlying transaction being hedged fails to occur or if a portion of the hedge does not generate offsetting changes in the foreign currency exposure of forecasted inventory purchases, the Company immediately recognizes the gain or loss on the associated financial instrument in other income (expense), net. Such gains and losses were not material during the six months ended September 30, 2014 and 2013. Cash flows from such hedges are classified as operating activities in the Consolidated Statements of Cash Flows. As of September 30, 2014 and March 31, 2014, the notional amounts of foreign exchange forward contracts outstanding related to forecasted inventory purchases were \$63.4 million (49.8 million), and \$51.8 million (37.6 million), respectively. Deferred realized gains of \$0.7 million are recorded in accumulated other comprehensive loss as of September 30, 2014, and are expected to be reclassified to cost of goods sold when the related inventory is sold. Deferred unrealized gains of \$2.7 million related to open cash flow hedges are recorded in accumulated other comprehensive income as of September 30, 2014 and these forward contracts will be revalued in future periods until the related inventory is sold, at which time the resulting gains or losses will be reclassified to cost of goods sold.

Table of Contents

We also enter into foreign exchange forward contracts to reduce the short-term effects of foreign currency fluctuations on certain foreign currency receivables or payables. These forward contracts generally mature within three months. We may also enter into foreign exchange swap contracts to economically extend the terms of its foreign exchange forward contracts. The primary risk managed by using forward and swap contracts is the foreign currency exchange rate risk. The gains or losses on foreign exchange forward contracts are recognized in earnings based on the changes in fair value. Cash flows from these contracts are classified as operating activities in the consolidated statements of cash flows.

The notional amounts of foreign exchange forward contracts outstanding at September 30 and March 31, 2014 relating to foreign currency receivables or payables were \$11.4 million and \$23.2 million. Open forward contracts as of September 30, 2014 consisted of contracts in U.S. dollars to purchase Taiwanese dollars at future dates at pre-determined exchange rates. Open forward contracts as of March 31, 2014 consisted of contracts in U.S. dollars to purchase Taiwanese dollars and contracts in Euros to sell British pounds at future dates at pre-determined exchange rates. The notional amounts of foreign exchange swap contracts outstanding at September 30 and March 31, 2014 were \$27.8 million and \$30.5 million. Swap contracts outstanding at September 30, 2014 consisted of contracts in Mexican pesos, Japanese yen, British pounds, and Australian dollars. Swap contracts outstanding at March 31, 2014 consisted of contracts in Mexican pesos, Japanese yen and Australian dollars.

Interest Rates

Changes in interest rates could impact our future interest income on our cash equivalents and investment securities. We prepared sensitivity analyses of our interest rate exposures to assess the impact of hypothetical changes in interest rates. Based on the results of these analyses, a 100 basis point decrease or increase in interest rates from the September 30, 2014 and September 30, 2013 period end rates would not have a material effect on our results of operations or cash flows.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, Logitech carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Principal Financial and Accounting Officer, of the effectiveness of our disclosure controls and procedures, (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934, as amended, (the Exchange Act)). Disclosure controls and procedures are controls and other procedures designed to reasonably assure that information required to be disclosed in our reports filed or submitted under the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures are also designed to reasonably assure that this information is accumulated and communicated to our management, including the Chief Executive Officer and the Principal Financial and Accounting Officer, to allow timely decisions regarding required disclosure.

Based on that evaluation, Logitech's Chief Executive Officer and Principal Financial and Accounting Officer have concluded that, as of September 30, 2014, our disclosure controls and procedures were not effective as a result of the material weaknesses that existed in our internal control over financial reporting described below.

Notwithstanding the material weaknesses discussed below, our Chief Executive Officer and Principal Financial and Accounting Officer have concluded that the consolidated financial statements included in this report fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

Table of Contents

Material Weaknesses in Internal Control over Financial Reporting

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. Management identified the following material weaknesses as of March 31, 2014 that continued to exist as of September 30, 2014:

We did not maintain an effective control environment as former finance management exercised bad judgment and failed to provide effective oversight, which resulted in ineffective information and communication, whereby certain of the Company's finance personnel did not adequately document and communicate accounting issues across the organization, including to our independent registered public accounting firm. Additionally, there was an insufficient complement of personnel with appropriate accounting knowledge, experience and competence, resulting in incorrect conclusions in the application of generally accepted accounting principles.

The above material weaknesses contributed to the following material weaknesses:

The Company did not design and maintain effective controls related to developing an appropriate methodology to accrue the costs of product warranties given to end customers, including an on-going review of the assumptions within the methodology to determine the completeness and accuracy of the warranty accrual. While this material weakness did not result in any material misstatement of our historical financial statements, it did result in adjustments to our cost of goods sold and warranty accrual accounts in the first quarter of fiscal 2014 and revisions to the Company's consolidated financial statements for fiscal 2013, 2012 and 2011, and interim periods in fiscal 2013 and 2012. Such revisions were disclosed in the Company's Form 10-K/A filed on August 7, 2013;

The Company did not design and maintain effective controls to consider all relevant information and document the underlying assumptions in our assessment of the valuation of finished goods, work in process and components inventory, including non-cancelable orders for such inventory, related to our now discontinued Revue product. This material weakness resulted in an incorrect application of generally accepted accounting principles that resulted in a material misstatement of inventory, cost of goods sold and supplier liability accrual accounts and a restatement of the Company's consolidated financial statements for fiscal 2012 and 2011 and the first quarter of fiscal 2012;

The Company did not design and maintain effective controls over the review of supporting information to determine the completeness and accuracy of the consolidated statement of cash flows, the consolidated statement of comprehensive income (loss) and disclosures in the notes to the consolidated financial statements. While this material weakness did not result in any material misstatement of our historical financial statements, it did result in audit adjustments to the consolidated statement of cash flows, the consolidated statement of comprehensive income (loss) and disclosures in the notes to the Company's fiscal 2013 consolidated financial statements and similar revisions to our interim consolidated financial statements for the first three interim periods in fiscal 2013, as applicable to the interim consolidated financial statements.

Additionally, these material weaknesses could result in further misstatements of the account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

Management's Plan to Remediate the Material Weaknesses

In September 2013, the Company hired a new Principal Financial and Accounting Officer who has implemented and continues to implement changes in our internal control over financial reporting to address these material weaknesses, including those identified in our recently completed independent investigation. Our Board of Directors has full confidence in its current management under the leadership of the Chief Executive Officer and Principal Financial and Accounting Officer and we take the integrity of our financial statements seriously. We continue to evaluate the effectiveness of our remediation efforts, including demonstrating that the new or improved controls operate effectively for a reasonable period of time and will continue to make additional changes, if appropriate. If not remediated, these material weaknesses could result in further material misstatements to our financial statements. The following changes to our internal control over financial reporting have been implemented or will be implemented as soon as practicable:

- Provide training in order to enhance the level of communication and understanding of internal controls with key individuals that provide critical information used in financial accounting and reporting on matters relating to business and operations, which impact financial reporting;
- Identify skills gaps within the global finance and accounting organization and recruit resources with appropriate experience and technical expertise to fill gaps, including in the area of SEC reporting and technical accounting.
- Implement a more comprehensive process for review of the financial statements;
- Implement a policy requiring formal documentation of the conclusions and basis for conclusions for all significant accounting positions and financial reporting issues, by finance and accounting personnel with sufficient technical competence, including review and approval by the appropriate level of management;

Table of Contents

- Implement a revised and documented methodology and related internal controls over the accrual of warranty costs, including an on-going review of the assumptions within the methodology, the capture of all relevant costs, relating to product warranties given to end customers and appropriate review of the accrual each quarter;
- Clarify existing policy and enhance procedures over inventory valuation, including lower of cost or market (LCM) and excess and obsolete reserve calculations, determining that all relevant information is considered, including future demand forecasts, and that conclusions reached are subject to a comprehensive review as well as ongoing evaluation;
- Implement new controls and improve existing controls over financial reporting, including controls with respect to disclosures in the notes to the consolidated financial statements, and the preparation, review, and approval of the consolidated statement of cash flows and consolidated statement of comprehensive income (loss).

Status as of March 31, 2014

During the period ended March 31, 2014, we implemented the following changes to our internal control over financial reporting:

- Established a Finance and Accounting leadership team, including a new Principal Financial and Accounting Officer, a new Vice President of Internal Audit, a new Assistant Corporate Controller (the latter two who joined in the fourth quarter of fiscal year 2014) subsequently promoted to Corporate Controller, and a new Senior Director of Finance Operations, to strengthen oversight of the team and improve the design, implementation, execution and supervision of internal controls within the organization. Hired experienced additional technical resources in the area of Corporate Controllershship Group, SEC Reporting, Financial Planning and Analysis, Operations Finance, and Regional Controllershship Group;
- Leveraged the services of consulting firms, until we could hire resources with the required skills to strengthen our internal controls, documentation and communication in the SEC reporting process.
- Hired subject matter experts in the area of Operations Finance to design and oversee improved information and communication processes and other internal controls relating to warranty accruals and inventory reserves;
- Implemented a new methodology for identifying and accruing costs relating to product warranty, including documenting and evaluating the assumptions used and determining appropriate supervision and review each quarter;
- Starting in the fourth quarter of fiscal year 2014, implemented a process to enhance the nature and extent of review of Forms 10-Q and 10-K by a team lead by the new Assistant Controller, a more robust process for disclosure committee meetings, and a final review of these filings with the Principal Financial and Accounting Officer. The Principal Financial and Accounting Officer and the Assistant Controller in turn report the results of this process to the Financial Close, Disclosure and Audit Committees in formal quarterly meetings;
- Provided training to key individuals that provide critical information used in financial accounting and reporting to reinforce pre-established and new controls to improve our ability to detect potential misstatements in our internally prepared reports, analysis and financial records.

Fiscal 2015 Current Status

Further to the above measures, during the period April to September 2014, we have taken further measures to strengthen the processes and controls relating to financial reporting. These measures include:

- Under our new Chief Executive Officer and Principal Financial and Accounting Officer, establishing communications and new processes and controls that allows frequent open communication with key internal stakeholders, our advisors, and our independent registered public accounting firm, on key business and operational matters impacting financial reporting;
- Enhancing the Company's representation letter control. The Company had a representation letter control, wherein detailed questionnaires containing over 60 questions are sent to over 50 senior level employees of the Company. The feedback received is reviewed by the Controllershship Group and appropriate actions are initiated, as a normal process. Effective in the first quarter of fiscal year 2015, the detailed questionnaires and a listing of the responses received and resolution of the issues identified are reviewed by the Controller, and are being shared with our independent registered public accounting firm in order to further enhance communication; and
- Strengthening our inventory valuation control through increased standardization and consideration of all relevant inputs including aging, historical sales data, product life cycles and market acceptance.

Post June 2014, we have further strengthened the technical capabilities of the global finance and accounting organization by hiring a Director of Reporting and Global Accounting, Senior Manager Revenue and Manager External Reporting;

Our management believes the foregoing efforts will effectively remediate the material weaknesses after these controls have operated effectively for a reasonable period of time. As we continue to evaluate and work to improve our internal control over

Table of Contents

financial reporting, management may determine to take additional measures to address the material weaknesses or determine to modify the remediation plan described above.

Changes in Internal Control over Financial Reporting

The changes in the Company's internal control over financial reporting during the three months ended September 30, 2014, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, are discussed above in Management's Plan to Remediate the Material Weaknesses.

Limitations on the Effectiveness of Controls

The Company's management, including the Chief Executive Officer and Principal Financial and Accounting Officer, does not expect that the Company's disclosure controls and procedures or internal control over financial reporting will prevent all error and all fraud. Internal control over financial reporting, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives will be met. Because of the inherent limitations in internal control over financial reporting, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time we are involved in claims and legal proceedings that arise in the ordinary course of our business. We are currently subject to several such claims and a small number of legal proceedings. We believe that these matters lack merit and we intend to vigorously defend against them. Based on currently available information, we do not believe that resolution of pending matters will have a material adverse effect on our financial condition, cash flows or results of operations. However, litigation is subject to inherent uncertainties, and there can be no assurances that our defenses will be successful or that any such lawsuit or claim would not have a material adverse impact on our business, financial condition, cash flows and results of operations in a particular period. Any claims or proceedings against us, whether meritorious or not, can have an adverse impact because of defense costs, diversion of management and operational resources, negative publicity and other factors. Any failure to obtain necessary license or other rights, or litigation arising out of intellectual property claims, could adversely affect our business.

ITEM 1A. RISK FACTORS

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, fluctuating user demand, the uncertainty of current and future global economic conditions, 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.
- Our sales are impacted by consumer demand and current and future global economic conditions, and can therefore fluctuate abruptly and significantly during periods of uncertain economic conditions or geographic distress, as well as from shifts in distributor inventory practices and consumer buying patterns.

Table of Contents

- 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.
- Since the beginning of fiscal year 2013, we have attempted to simplify our organization, to reduce operating costs through expense reduction and global workforce reductions, to reduce the complexity of our product portfolio, and to better align costs with our current business as we attempt to expand from PC accessories to growth opportunities in accessories for mobile devices and digital music. We may not achieve the cost savings or other anticipated benefits from these efforts, and such efforts may cause our operating results to fluctuate from quarter to quarter, making our results difficult to predict.
- 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, over short periods of time and during periods of weakness in consumer spending, our ability to change local currency prices to offset the impact of currency fluctuations is limited.

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 innovate and develop new products in a timely and cost-effective manner for our new and existing product categories, our business and operating results could be adversely affected.

The peripherals industry is characterized by short product life cycles, frequent new product introductions, rapidly changing technology, dynamic consumer demand and evolving industry standards. As a result, we must continually innovate in our new and existing product categories, introduce new products and technologies, and enhance existing products in order to remain competitive.

The success of our product portfolio depends on several factors, including our ability to:

- Identify new features, functionality and opportunities;
- Anticipate technology, market trends and consumer preferences;
- Develop innovative, high-quality, and reliable new products and enhancements in a cost-effective and timely manner;

- Distinguish our products from those of our competitors; and
- Offer our products at prices and on terms that are attractive to our customers and consumers.

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 differentiate our products through distinctive, technologically advanced features, designs, and services that are appealing to our customers and consumers, as well as continue to build and strengthen our brand recognition and our access to distribution channels, our business could be adversely affected.

The development of new products and services is very difficult and requires high levels of innovation. The development process is also lengthy and costly. There are significant initial expenditures for research and development, tooling, manufacturing processes, inventory and marketing, and we may not be able to recover those investments. If we fail to accurately anticipate technological trends or our users' needs or preferences, are unable to complete the development of products and services in a cost-effective and timely fashion or are unable to appropriately increase production to fulfill customer demand, we will be unable to successfully introduce new products and services into the market or compete with other providers. Even if we complete the development of our new products and services in a cost-effective and timely manner, they may be not competitive with products developed by others, they may not achieve acceptance in the market at anticipated levels or at all, they may not be profitable or, even if they are profitable, they may not achieve margins as high as our expectations or as high as the margins we have achieved historically.

As we introduce new or enhanced products, integrate new technology into new or existing products, or reduce the overall number of products offered, we face risks including, among other things, disruption in customers' ordering patterns, excessive levels of new and existing product inventories, revenue deterioration in our existing product lines, insufficient supplies of new products to meet

Table of Contents

customers demand, possible product and technology defects, and a potentially different sales and support environment. Premature announcements or leaks of new products, features or technologies may exacerbate some of these risks by reducing the effectiveness of our product launches, reducing sales volumes of current products due to anticipated future products, making it more difficult to compete, shortening the period of differentiation based on our product innovation, straining relationships with our partners or increasing market expectations for the results of our new products before we have had an opportunity to demonstrate the market viability of the products. Our failure to manage the transition to new products or the integration of new technology into new or existing products could adversely affect our business, results of operations, operating cash flows and financial condition.

We believe sales of our PC peripherals will continue to decline, and that our future growth will depend on our product growth categories, and if we do not successfully execute on our growth opportunities, if our growth opportunities are more limited than we expect or if our sales of PC peripherals are less than we expect, our operating results could be adversely affected.

We have historically targeted peripherals for the PC platform. Consumer demand for PCs, especially in our traditional, mature markets such as North America, Western and Nordic Europe, Japan and Australia, has been declining and we expect it to continue to decline in the future. As a result, consumer demand for PC peripherals in many of our markets is slowing and in some cases declining. We expect this trend to continue. For example, we experienced weak consumer demand for many of our PC peripherals in each quarter of fiscal years 2013 and 2014, which adversely affected our financial performance.

From time to time, our channel partners have also reduced their inventory levels for PC peripherals as the PC market has continued to decline. In our OEM channel, the decline of desktop PCs has adversely impacted our sales of OEM mice, which have historically made up the bulk of our OEM sales. Our OEM sales accounted for 6%, 7% and 8% of total revenues in the fiscal years 2014, 2013 and 2012, respectively.

In addition, our sales of PC peripherals might be less than we expect due to a decline in business or economic conditions in one or more of the countries or regions, a greater decline than we expect in demand for our products, our inability to successfully execute our sales and marketing plans, or for other reasons. Global economic concerns, such as the varying pace of global economic recovery, the impact of sovereign debt issues in Europe and conflicts with either local or global financial implications in places such as the Ukraine, create unpredictability and add risk to our future outlook.

As a result, we are focusing more of our personnel, financial resources, and management attention on product innovations and growth opportunities, on products for PC Gaming, on products for tablets and mobile devices, on products for the consumption of digital music, and on other potential growth opportunities. Our investments may not result in the growth we expect, or when we expect it, for a variety of reasons including those described below.

PC Gaming. We are building a diverse business that features a variety of gaming peripherals. The rapidly evolving and changing market and increasing competition increase the risk that we will not get the correct investment profile in place and our business and results of operations could be adversely affected.

Tablets & Other Mobile Devices. The increasing popularity of smaller, mobile computing devices such as tablets with touch interfaces is rapidly changing the consumer computing market. In our retail channels, tablets and other mobile devices are sold by retailers without peripherals. We

believe this creates opportunities to sell products to consumers to help make their devices more productive and comfortable. However, consumer acceptance and demand for peripherals for use within significant portions of the markets for tablets and other mobile devices is still uncertain. Also, while this product category has been a growth opportunity for us during fiscal years 2013 and 2014, we are facing increasing competition and the potential for growth in tablets and other mobile devices to slow or reverse as the market saturates and new technologies and products are introduced. Until recently, our tablet peripherals have been focused on iPad devices, and that segment of the market has declined in recent quarters. While we have introduced tablet peripherals for certain Android tablets, that segment is more fragmented and may similarly not continue its growth trend. We also may not be as successful in competing in that segment to generate sales, margin or growth. Moreover, the increasing popularity of tablets and other mobile devices have decreased consumer demand for our PC peripherals, which has adversely affected our sales of these products. If we do not successfully innovate and market products designed for tablets and other mobile devices, if our distributor or retailer customers do not choose to carry or market such peripherals, or if general consumer demand for peripherals for use with these devices does not increase, our business and results of operations could be adversely affected.

Mobile Speakers. We are focused on products for the consumption of digital music as a future sales growth area. This remains a new market for us, and we still face a steep learning curve. Competition in the mobile speaker category is intense, and we expect it to increase. If we are not able to introduce differentiated product and marketing strategies to separate ourselves from competitors, our mobile speaker efforts will not be successful, and our business and results of operations could be adversely affected.

Table of Contents

Each of these growth categories is subject to rapidly changing and evolving technologies and may be replaced by new technology concepts or platforms. If we do not develop innovative and reliable peripherals and enhancements in a cost-effective and timely manner that are attractive to consumers in these markets, if we are otherwise unsuccessful entering and competing in these growth categories, if the growth categories in which we invest our limited resources do not emerge as the opportunities or do not produce the growth or profitability we expect, or when we expect it, or if we do not correctly anticipate changes and evolutions in technology and platforms, our business and results of operations could be adversely affected.

If we do not compete effectively, demand for our products could decline and our business and operating results could be adversely affected.

The peripherals and video conferencing industries are intensely competitive.

The peripherals industry is characterized by short product life cycles, continual performance enhancements, and rapid adoption of technological and product advancements by competitors in our retail markets, 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, including brands owned by retail customers known as house brands, in both the retail and OEM markets. In addition, our competitors may offer customers terms and conditions that 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.

The video conferencing industry is characterized by continual performance enhancements and large, well-financed competitors. There is increased participation in the video conferencing market by new entrants delivering cloud-based video conferencing services joining established companies such as Cisco Systems, Polycom and Avaya, and as a result, competition has increased over the last few years and we expect competition in the industry to further intensify. In addition, there are an increasing number of PC-based multi-person video conferencing applications, such as Microsoft's Lync and Skype, which could compete at the lower end of the video conferencing market with our Lifesize products and services or could provide other competitors with lower barriers of entry into the video conferencing market.

In recent years, we have expanded the categories of products we sell, and entered new markets. We remain alert to opportunities in new categories and markets. 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, Apple, Cisco, Sony Corporation, Polycom and others, have greater financial, technical, sales, marketing and other resources than we have.

Microsoft, Apple and Google are leading producers of operating systems, hardware and applications with which our mice, keyboards and other peripherals are designed to operate. In addition, Microsoft, Apple and Google each 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, Apple and Google each may be able to improve the functionality of its own peripherals, if any, or may choose to show preference to our other competitors in improving the functionality of their peripherals, to correspond with ongoing enhancements to its operating systems, hardware and software applications before we are able to make such improvements. This ability could provide Microsoft, Apple, Google or other competitors with significant lead-time advantages. In addition, Microsoft, Apple, Google or other competitors 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.

Growth Categories

PC Gaming. Competitors for our PC Gaming peripheral products include Razer USA Ltd., SteelSeries, A4TECH, Turtle Beach and Mad Catz Interactive.

Tablet & Other Accessories. We primarily manufacture tablet keyboards and other accessories for Apple products, such as iPad and iPhone, and Android products. Competitors in the tablet keyboard market are Zagg, Kensington, Belkin, Targus and other less-established brands. Although we are the one of the market leaders in the tablet keyboard market, and as we continue to expand our product portfolio to other tablet and mobile device products, we expect the competition will increase. Microsoft already has introduced tablets that come with keyboards. Other large tablet and mobile device manufacturers, such as Apple and Samsung, could start to offer tablet keyboards and other accessories along with their tablet and other mobile device products. If such manufacturers of

Table of Contents

tablets and other mobile devices compete with us in the Tablet and Other Accessories category without substantially growing the peripherals market, it could adversely affect our ability to succeed in this important growth category.

Mobile Speakers. Our competitors for Bluetooth wireless speakers include Bose, JBL, Jawbone, and Beats Electronics, each of which have higher consumer recognition and retailer shelf space than we do. Apple's recent acquisition of Beats Electronics may now impact the Company's access to shelf space in Apple retail stores and adversely impact the Company's ability to succeed in this important growth category.

Profit Maximization Categories

Pointing Devices and PC Keyboards & Desktops. Microsoft Corporation is our main competitor in our mice, keyboard and desktop product lines. We also experience competition and pricing pressure for corded and cordless mice and desktops from less-established brands, including house brands, which we believe have impacted our market share in some sales geographies and which could potentially impact our market share.

Audio PC & Wearables. In the PC speaker business, our competitors include Bose, Cyber Acoustics, Altec Lansing LLC and Creative Labs, Inc. In the PC headset business, our main competitors include Plantronics and Altec Lansing. In earphones competitors include Skull Candy, Sennheiser, Sony, and others.

Video. Our primary competitor for PC webcams is Microsoft, with various other manufacturers taking smaller market share. The worldwide market for consumer PC webcams has been declining, and as a result, fewer competitors have entered the market.

Remotes. Our primary competitors for remotes include Philips, Universal Remote Control, Inc., General Electric, RCA and Sony. We expect that the technological innovation in smartphone and tablet devices, as well as subscriber service specific remotes such as Direct TV, will likely result in increased competition.

Video Conferencing

In video conferencing, we primarily compete with Cisco Systems, Polycom and Avaya as well as new cloud-based entrants such as Bluejeans Networks and Zoom.us. In addition, PC-based multi-person video conferencing applications, such as Microsoft's Lync and Skype, which could compete at the lower-end of the video conferencing market with our Lifesize products and services, or could provide other competitors with lower barriers of entry into the video conferencing market.

Our business depends in part on access to third-party platforms or technologies, and if the access is withdrawn, denied, or is not available on terms acceptable to us, or if the platforms or technologies change without notice to us, our business and operating results could be adversely affected.

Our peripherals business has historically been built largely around the PC platform, which over time became relatively open, and its inputs and operating system standardized. With the growth of mobile, tablet, gaming and other computer devices, the number of platforms has grown, and with it the complexity and increased need for us to have business and contractual relationships with the platform owners in order to produce products compatible with these platforms. Our product portfolio includes current and future products designed for use with third-party platforms or software, such as the Apple iPad, iPod and iPhone and Android phones and tablets. Our business in these categories relies on our access to the platforms of third parties, some of whom are our competitors. Platform owners that are competitors have a competitive advantage in designing products for their platforms and may produce peripherals or other products that work better, or are perceived to work better, than our products in connection with those platforms. As we expand the number of platforms and software applications with which our products are compatible, we may not be successful in launching products for those platforms or software applications, we may not be successful in establishing strong relationships with the new platform or software owners, or we may negatively impact our ability to develop and produce high-quality products on a timely basis for those platforms and software applications or we may otherwise adversely affect our relationships with existing platform or software owners.

Our access to third-party platforms may require paying a royalty, which lowers our product margins, or may otherwise be on terms that are not acceptable to us. In addition, the third-party platforms or technologies used to interact with our product portfolio can be delayed in production or can change without prior notice to us, which can result in our having excess inventory or lower margins.

If we are unable to access third-party platforms or technologies, or if our access is withdrawn, denied, or is not available on terms acceptable to us, or if the platforms or technologies are delayed or change without notice to us, our business and operating results could be adversely affected.

Table of Contents

If we do not accurately forecast market demand for our products, our business and operating results could be adversely affected.

We use our forecasts of product demand to make decisions regarding investments of our resources and production levels of our products. Although we receive forecasts from our customers, many are not obligated to purchase the forecasted demand. Also, actual sales volumes for individual products in our retail distribution channel can be volatile due to changes in consumer preferences and other reasons. In addition, our retail products have short product life cycles, so a failure to accurately predict high demand for a product can result in lost sales that we may not recover in subsequent periods, or higher product costs if we meet demand by paying higher costs for materials, production and delivery. We could also frustrate our customers and lose shelf space. Our failure to predict low demand for a product can result in excess inventory, lower cash flows and lower margins if we are required to reduce product prices in order to reduce inventories.

Over the past few years, we have expanded the types of products we sell, and the geographic markets in which we sell them. The changes in our product portfolio and the expansion of our sales markets have increased the difficulty of accurately forecasting product demand.

We have experienced large differences between our forecasts and actual demand for our products. We expect other differences between forecasts and actual demand to arise in the future. If we do not accurately predict product demand, our business and operating results could be adversely affected.

Our success largely depends on our ability to hire, retain, integrate and motivate sufficient numbers of qualified personnel, including senior management. Our strategy and our ability to innovate, design and produce new products, sell products, maintain operating margins and control expenses depend on key personnel that may be difficult to replace.

Our success depends on our ability to attract and retain highly skilled personnel, including senior management and international personnel. From time to time, we experience turnover in some of our senior management positions.

We compensate our employees through a combination of salary, bonuses, benefits and equity compensation. Recruiting and retaining skilled personnel, including software and hardware engineers, is highly competitive. If we fail to provide competitive compensation to our employees, it will be difficult to retain, hire and integrate qualified employees and contractors, and we may not be able to maintain and expand our business. If we do not retain our senior managers or other key employees for any reason, we risk losing institutional knowledge, experience, expertise and other benefits of continuity as well as the ability to attract and retain other key employees. In addition, we must carefully balance the size of our employee base with our current infrastructure, management resources and anticipated operating cash flows. If we are unable to manage the size of our employee base, particularly engineers, we may fail to develop and introduce new products successfully and in a cost-effective and timely manner. If our revenue growth or employee levels vary significantly, our operating cash flows and financial condition could be adversely affected. Volatility or lack of positive performance in our stock price, including declines in our stock prices in the past year, may also affect our ability to retain key employees, many of whom have been granted equity incentives. Logitech's practice has been to provide equity incentives to its employees, but the number of shares available for equity grants is limited. We may find it difficult to provide competitive equity incentives, and our ability to hire, retain and motivate key personnel may suffer.

Recently and in past years, we have initiated reductions in our workforce to align our employee base with our anticipated revenue base or with our areas of focus. We have also experienced turnover in our workforce. These reductions and turnover have resulted in reallocations of duties,

which could result in employee uncertainty and discontent. Reductions in our workforce could make it difficult to attract, motivate and retain employees, which could adversely affect our business.

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 or that are initiated by us to drive sales that lower our margins, then our overall gross margin will be less than we project.

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

Table of Contents

sales geographies, or to lower margin products within product lines, our overall gross margins and our profitability may be adversely affected.

As we expand into accessories for tablets and other mobile devices, and digital music, our products in those categories may have lower gross margins than in our traditional product categories. Consumer demand in these product categories, based on style, color and other factors, tends to be less predictable and tends to vary more across geographic markets. As a result, we may face higher up-front investments and inventory costs associated with attempting to anticipate consumer preferences. If we are unable to offset these potentially lower margins by enhancing the margins in our more traditional product categories, our profitability may be adversely affected.

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.

As we continue our efforts to lower our costs and improve our operating leverage as part of our turnaround, we may or may not fully realize our goals.

Our turnaround strategy over the past couple years has been based in part on simplifying the organization, reducing operating costs through global workforce reductions and a reduction in the complexity of our product portfolio, with the goal of better aligning costs with our current business and with our decreasing revenues. We restructured our business in fiscal years 2013 and 2014, and we may continue to restructure in fiscal year 2015 as we divest or discontinue non-strategic product categories. In addition, we are continuing the rationalization of our infrastructure and marketing activities and our efforts to reduce operating expenses as well as expenses within our infrastructure and indirect procurement.

Our ability to achieve the desired and anticipated cost savings and other benefits from these simplification, cost-cutting and restructuring activities, and within our desired and expected timeframes, are subject to many estimates and assumptions, and the actual savings and timing for those savings may vary materially based on factors such as local labor regulations, negotiations with third parties, and operational requirements. These estimates and assumptions are also subject to significant economic, competitive and other uncertainties, some of which are beyond our control. There can be no assurance that we will fully realize the desired and anticipated benefits from these activities. To the extent that we are unable to improve our financial performance, further restructuring measures may be required in the future. Furthermore, we are expecting to be able to use the anticipated cost savings from these activities to fund and support our current growth opportunities and incremental investments for future growth. If the cost-savings do not materialize as anticipated, or within our expected timeframes, our ability to invest in growth may be limited and our business and operating results may be adversely affected.

As part of the restructuring plans, we conducted intensive reviews of our product portfolio in fiscal years 2013 and 2014 and attempted to reduce the assortment of similar products at similar price points within each product category, which we believe has generated confusion for the consumer. While we are constantly replacing products and are dependent on the success of our new products, this product line simplification effort was substantial, making us even more dependent on the success of the new products that we are introducing.

As we focus on growth opportunities, we are divesting or discontinuing non-strategic product categories and pursuing strategic acquisitions and investments, which could have an adverse impact on our business if they are unsuccessful.

During the third quarter of fiscal year 2013, the declining trends in our PC peripherals accelerated, and we made a strategic decision to divest or discontinue certain non-strategic product categories and products. We continually refined this strategy and updated our non-strategic product categories and products. If we are unable to effect sales on favorable terms or if realignment is more costly or distracting than we expect or has a negative effect on our organization, employees and retention, then our business and operating results may be adversely affected. In addition, discontinuing products with service components may cause us to continue to incur expenses to maintain services within the product life cycle or to adversely affect our customer and consumer relationships and brand. In addition, discontinuing product categories, even categories that we consider non-strategic, reduces the size and diversification of our business and causes us to be more dependent on a smaller number of product categories.

As we attempt to grow our business in strategic product categories and emerging market geographies, we will consider growth through acquisition or investment. We will evaluate acquisition opportunities that could provide us with additional product or service offerings or with additional industry expertise, assets and capabilities. Acquisitions could result in difficulties integrating acquired operations, products, technology, internal controls, personnel and management teams and result in the diversion of capital and management's attention away from other business issues and opportunities. If we fail to successfully integrate acquisitions, our business could be harmed. Moreover, our acquisitions may not be successful in achieving our desired strategic objectives, which

Table of Contents

would also cause our business to suffer. Acquisitions can also lead to large non-cash charges that can have an adverse effect on our results of operations as a result of write-offs for items such as future impairments of intangible assets and goodwill or the recording of stock-based compensation. Several of our past acquisitions have not been successful and have led to impairment charges, including a \$214.5 million non-cash goodwill impairment charge in fiscal year 2013 related to our video conferencing reporting unit. In addition, from time to time we make strategic venture investments in other companies that provide products and services that are complementary to ours. If these investments are unsuccessful, this could have an adverse impact on our results of operations, operating cash flows and financial condition.

We rely on third parties to sell and distribute our products, and we rely on their information to manage our business. Disruption of our relationship with these channel partners, changes in their business practices, their failure to provide timely and accurate information or conflicts among our channels of distribution could adversely affect our business, results of operations, operating cash flows and financial condition.

Our sales channel partners, the distributors and retailers who distribute and sell our products, also sell products offered by our competitors and, in the case of retailer house brands, may also be our competitors. If product competitors offer our sales channel partners more favorable terms, have more products available to meet their needs, or utilize the leverage of broader product lines sold through the channel, or if our retailer channel partners show preference for their own house brands, our sales channel partners may de-emphasize or decline to carry our products. In addition, certain of our sales channel partners could decide to de-emphasize the product categories that we offer in exchange for other product categories that they believe provide them with higher returns. If we are unable to maintain successful relationships with these sales channel partners or to maintain our distribution channels, our business will suffer.

As we expand into accessories for tablets and other mobile devices and digital music, we will have to build relationships with new channel partners and adapt to new distribution and marketing models. Entrenched and more experienced competitors will make these transitions difficult. If we are unable to build successful distribution channels or successfully market our products in these new product categories, we may not be able to take advantage of the growth opportunities, and our business and our ability to effect a turnaround in our declining revenues could be adversely affected.

The impact of economic conditions, evolving consumer preferences, and purchasing patterns on our distribution partners, or competition between our sales channels, could result in sales channel disruption. For example, if sales at large retail stores are displaced as a result of bankruptcy, competition from Internet sales channels or otherwise, our product sales could be adversely affected. Any loss of a major partner or distribution channel or other channel disruption could make us more dependent on alternate channels, increase pricing and promotional pressures from other partners and distribution channels, increase our marketing costs, or adversely impact buying and inventory patterns, payment terms or other contractual terms.

We use retail sell-through data, which represents sales of our products by our retailer customers to consumers, and by our distributor customers to their customers, along with other metrics, to assess consumer demand for our products. Sell-through data is subject to limitations due to collection methods and the third-party nature of the data and thus may not be an accurate indicator of actual consumer demand for our products. In addition, the customers supplying sell-through data vary by geographic region and from period to period, but typically represent a majority of our retail sales. If we do not receive this information on a timely and accurate basis, or if we do not properly interpret this information, our results of operations and financial condition may be adversely affected.

Our principal manufacturing operations and third-party contract manufacturers are located in China and Southeast Asia, which exposes us to risks associated with doing business in that geographic area.

We produce approximately half of our products at facilities we own in China. The majority of our other production is performed by third-party contract manufacturers, including other design manufacturers, in China.

Our manufacturing operations in China could be adversely affected by changes in the interpretation and enforcement of legal standards, by strains on China's available labor pool, changes in labor costs and other employment dynamics, high turnover among Chinese employees, communications, trade, and other infrastructures, by natural disasters, by conflicts or disagreements between China and Taiwan or China and the United States, by labor unrest, and by other trade customs and practices that are dissimilar to those in the United States and Europe. Interpretation and enforcement of China's laws and regulations continue to evolve and we expect differences in interpretation and enforcement to continue in the foreseeable future.

Our manufacturing operations at third-party contractors could be adversely affected by contractual disagreements, by labor unrest, by natural disasters, by strains on local communications, trade, and other infrastructures, by competition for the available labor pool or manufacturing capacity, by increasing labor and other costs, and by other trade customs and practices that are dissimilar to those in the United States and Europe.

Table of Contents

Further, we may be exposed to fluctuations in the value of the local currency in the countries in which manufacturing occurs. Future appreciation of these local currencies could increase our component and other raw material costs. In addition, our labor costs could continue to rise as wage rates increase and the available labor pool declines. These conditions could adversely affect our gross margins and financial results.

We purchase key components and products from a limited number of sources, and our business and operating results could be adversely affected if supply were delayed or constrained or if there were shortages of required components.

We purchase certain products and key components from a limited number of sources. If the supply of these products or key components, such as micro-controllers, optical sensors and Lifesize hardware products, were to be delayed or constrained, or if one or more of our single-source suppliers goes out of business as a result of adverse global economic conditions or natural disasters, we might be unable to find a new supplier on acceptable terms, or at all, and our product shipments to our customers could be delayed, which could adversely affect our business, financial condition and operating results.

Lead times for materials, components and products ordered by us or by our contract manufacturers can vary significantly and depend on factors such as contract terms, demand for a component, and supplier capacity. From time to time, we have experienced component shortages and extended lead times on semiconductors, such as micro-controllers and optical sensors, and base metals used in our products. Shortages or interruptions in the supply of components or subcontracted products, or our inability to procure these components or products from alternate sources at acceptable prices in a timely manner, could delay shipment of our products or increase our production costs, which could adversely affect our business and operating results.

New conflict minerals regulations are causing us to incur additional expenses and could limit the supply and increase the cost of certain metals used in manufacturing our products.

As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC adopted disclosure requirements regarding the use of certain minerals, known as conflict minerals, which are mined from the Democratic Republic of Congo and adjoining countries, as well as procedures regarding a manufacturer's efforts to identify and prevent the sourcing of such minerals and metals produced from those minerals. Additional reporting obligations are being considered by the European Union. The implementation of the existing U.S. requirements and any additional requirements in Europe could affect sourcing at competitive prices and availability in sufficient quantities of certain minerals used in the manufacture of our products. The number of suppliers who provide conflict-free minerals may be limited, and the implementation of these requirements may decrease the number of suppliers capable of supplying our needs for certain metals. In addition, there may be material costs associated with complying with the disclosure requirements, such as costs related to the due diligence process of determining the source of certain minerals used in our products, as well as costs of possible changes to products, processes, or sources of supply as a consequence of such verification activities. As our supply chain is complex and we use contract manufacturers for some of our products, we may not be able to sufficiently verify the origins of the relevant minerals used in our products through the due diligence procedures that we implement, which may adversely affect our reputation. We may also encounter challenges to satisfy those customers who require that all of the components of our products be certified as conflict-free, which could, if we are unable to satisfy their requirements or pass through any increased costs associated with meeting their requirements place us at a competitive disadvantage, adversely affect our business and operating results, or both. We filed our report for the calendar year 2013 with the SEC on May 30, 2014.

If we do not successfully coordinate the worldwide manufacturing and distribution of our products, we could lose sales.

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

Our business requires us to coordinate the manufacture and distribution of our products over much of the world. We rely on third parties to manufacture many of our products, manage centralized distribution centers, and transport our products. If we do not successfully coordinate the timely manufacturing and distribution of our products, we may have insufficient supply of products to meet customer demand, we could lose sales, we may experience a build-up in inventory, or we may incur additional costs.

A significant portion of our quarterly retail orders and product deliveries generally occur in the last weeks of the fiscal quarter. This places pressure on our supply chain and could adversely affect our revenues and profitability if we are unable to successfully fulfill customer orders in the quarter.

Table of Contents

We conduct operations in a number of countries, and have invested significantly in growing our sales and marketing activities in China, and the effect of business, legal and political risks associated with international operations could adversely affect us.

We conduct operations in a number of countries, and have invested significantly in growing our personnel and sales and marketing activities in China and, to a lesser extent, other emerging markets. We may also increase our investments to grow sales in other emerging markets, such as Latin America and Eastern Europe. There are risks inherent in doing business in international markets, including:

- Difficulties in staffing and managing international operations;
- Compliance with laws and regulations, including environmental, tax and anti-corruption laws, which vary from country to country and over time, increasing the costs of compliance and potential risks of non-compliance;
- Varying laws, regulations and other legal protections, uncertain and varying enforcement of those laws and regulations, dependence on local authorities, and the importance of local networks and relationships;
- Exposure to political and financial instability, especially with the uncertainty associated with the ongoing sovereign debt crisis in certain Euro zone countries, which may lead to currency exchange losses and collection difficulties or other losses;
- Lack of infrastructure or services necessary or appropriate to support our products and services;
- Exposure to fluctuations in the value of local currencies;
- Difficulties and increased costs in establishing sales and distribution channels in unfamiliar markets, with their own market characteristics and competition, including entrenched local competition;
- Weak protection of our intellectual property rights;
- Higher credit risks;

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

- Changes in VAT (value-added tax) or VAT reimbursement;
- Imposition of currency exchange controls;
- Import or export restrictions that could affect some of our products, including those with encryption technology;
- Delays from customs brokers or government agencies; and
- A broad range of customs, consumer trends, and more.

Any of these risks could adversely affect our business, financial condition and operating results.

Our sales in China have increased substantially in the last three fiscal years, and continued sales growth in China is an important part of our expectations for our business. As a result, if Chinese economic, political or business conditions deteriorate, or if one or more of the risks described above materializes in China, our overall business and results of operations will be adversely affected.

As a Swiss, dual-listed company operating in many markets and jurisdictions and expanding into new growth categories, we are subject to risks associated with new, existing and potential future laws and regulations.

Based on our current business model and as we expand into new markets and product categories, we must comply with a wide variety of laws, standards and other requirements governing, among other things, health and safety, hazardous materials usage, product-related energy consumption, packaging, recycling and environmental matters. Our products may be required to obtain regulatory approvals and satisfy other regulatory concerns in the various jurisdictions where they are manufactured, sold or both. These requirements create procurement and design challenges, which, among other things, require us to incur additional costs identifying suppliers and contract manufacturers who can provide or obtain compliant materials, parts and end products. Failure to comply with such requirements can subject us to liability, additional costs, and reputational harm and, in severe cases, force us to recall products or prevent us from selling our products in certain jurisdictions.

As a Swiss company with shares listed on both the SIX Swiss Exchange and the Nasdaq Global Select Market, we are also subject to both Swiss and United States corporate governance and securities laws and regulations. In addition to the extra costs and regulatory burdens of our dual regulatory obligations, the two regulatory regimes may not always be compatible and may impose disclosure obligations or operating restrictions on our business to which our competitors and other companies are not subject. For example, on January 1, 2014, subject to certain transitional provisions, the Swiss Federal Council Ordinance Against Excessive

Table of Contents

Compensation at Public Companies (the Ordinance) became effective in connection with the Minder initiative approved by Swiss voters during 2013. The Ordinance, among other things, (a) requires a binding shareholder say on pay vote with respect to the compensation of members of our executive management and Board of Directors, (b) generally prohibits the making of severance, advance, transaction premiums and similar payments to members of our executive management and Board of Directors, (c) imposes other restrictive compensation practices, and (d) requires the amendment of our articles of incorporation to specify various compensation-related matters. In addition, during 2013, Swiss voters considered an initiative to limit pay for a chief executive officer to a multiple of no more than twelve times the salary of the lowest-paid employee. Although voters rejected that initiative, it did receive substantial voter support. The Ordinance, potential future initiatives relating to corporate governance or executive compensation, and Swiss voter sentiment in favor of such regulations may increase our non-operating costs and adversely affect our ability to attract and retain executive management and members of our Board of Directors.

As a result of changes in tax laws, treaties, rulings, regulations or agreements, or their interpretation, of Switzerland or any other country in which we operate, the loss of a major tax dispute or a successful challenge to our operating structure, intercompany pricing policies or the taxable presence of our key subsidiaries in certain countries, or other factors, our effective income tax rates may increase in the future, which could adversely affect our net income and cash flows.

We operate in multiple jurisdictions and our profits are taxed pursuant to the tax laws of these jurisdictions. Our effective income tax rate may be affected by changes in or interpretations of tax laws, treaties, rulings, regulations or agreements in any given jurisdiction, utilization of net operating loss and tax credit carryforwards, changes in geographical allocation of income and expense, and changes in management's assessment of matters such as the realizability of deferred tax assets. In the past, we have experienced fluctuations in our effective income tax rate. Our effective income tax rate in a given fiscal year reflects a variety of factors that may not be present in the succeeding fiscal year or years. There is no assurance that our effective income tax rate will not change in future periods.

We are incorporated in the Canton of Vaud in Switzerland and our effective income tax rate benefits from a longstanding ruling from the Canton of Vaud. The tax rules in Switzerland could change in response to certain guidance and demands from both the European Union and the Organisation for Economic Co-operation and Development that could have an adverse effect on our tax ruling and effective income tax rate. Switzerland's implementation of any material change in tax laws or policies or its adoption of new interpretations of existing tax laws and rulings, or changes in our tax ruling from the Canton of Vaud, could result in a higher effective income tax rate on our worldwide earnings and such change could adversely affect our net income.

We file Swiss and foreign tax returns. We are frequently subject to tax audits, examinations and assessments in various jurisdictions. If any tax authority successfully challenges our operational structure, intercompany pricing policies or the taxable presence of our key subsidiaries in certain countries, if the terms of certain income tax treaties are interpreted in a manner that is adverse to our structure, or if we lose a material tax dispute in any country, our effective income tax rate could increase. A material assessment by a governing tax authority could adversely affect our profitability. If our effective income tax rate increases in future periods, our net income and cash flows could be adversely affected.

Claims by others that we infringe their proprietary technology could adversely affect our business.

We have been expanding the categories of products we sell, and entering new markets, such as entering the market for enterprise video conferencing and introducing products for tablets, other mobile devices and digital music. We expect to continue to enter new categories and markets. As we do so, we face an increased risk that claims alleging we infringe the patent or other intellectual property rights of others, regardless of the merit of the claims, may increase in number and significance. Infringement claims against us may also increase as the functionality of video, voice, data and conferencing products begin to overlap. This risk is heightened by the increase in lawsuits brought by

holders of patents that do not have an operating business or are attempting to license broad patent portfolios and by the increasing attempts by companies in the technology industries to enjoin their competitors from selling products that they claim infringe their intellectual property rights. Intellectual property lawsuits are subject to inherent uncertainties due to the complexity of the technical issues involved, and we cannot be certain that we will be successful in defending ourselves against intellectual property claims. A successful claimant could secure a judgment that requires us to pay substantial damages or prevents us from distributing certain products or performing certain services. We might also be required to seek a license for the use of such intellectual property, which may not be available on commercially acceptable terms or at all. Alternatively, we may be required to develop non-infringing technology, which could require significant effort and expense and may ultimately not be successful. Any claims or proceedings against us, whether meritorious or not, could be time consuming, result in costly litigation or the diversion of significant operational resources, or require us to enter into royalty or licensing agreements, any of which could materially and adversely affect our business and results of operations.

Table of Contents

We may be unable to protect our proprietary rights. Unauthorized use of our technology may result in the development of products that compete with our products.

Our future success depends in part on our proprietary technology, technical know-how and other intellectual property. We rely on a combination of patent, trade secret, copyright, trademark and other intellectual property laws, and confidentiality procedures and contractual provisions such as nondisclosure terms and licenses, to protect our intellectual property.

We hold various United States patents and pending applications, together with corresponding patents and pending applications from other countries. It is possible that any patent owned by us will be invalidated, deemed unenforceable, circumvented or challenged, that the patent rights granted will not provide competitive advantages to us, or that any of our pending or future patent applications will not be granted. In addition, other intellectual property laws or our confidentiality procedures and contractual provisions may not adequately protect our intellectual property. Also, others may independently develop similar technology, duplicate our products, or design around our patents or other intellectual property rights. Unauthorized parties have copied and may in the future attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Any of these events could adversely affect our business, financial condition and operating results.

Product quality issues could adversely affect our reputation and could impact our operating results.

The market for our products is characterized by rapidly changing technology and evolving industry standards. To remain competitive, we must continually introduce new products and technologies. The products that we sell could contain defects in design or manufacture. Defects could also occur in the products or components that are supplied to us. There can be no assurance we will be able to detect and remedy all defects in the hardware and software we sell. Failure to do so could result in product recalls, product redesign efforts, lost revenue, loss of reputation, and significant warranty and other expenses to remedy.

We have identified material weaknesses in our internal control over financial reporting over several periods which resulted in material misstatements and which could, if not remediated, result in further material misstatements in our financial statements and adversely affect investor confidence in our financial reports.

As disclosed in Item 4 of this report, we identified material weaknesses in our internal control over financial reporting. Certain of these material weaknesses were identified during the independent investigation by our Audit Committee in fiscal year 2015 and a review of related accounting matters that resulted in late filings of our Annual Report on Form 10-K for Fiscal Year 2014, this report and our Quarterly Report on Form 10-Q for the first quarter of fiscal year 2015 and a restatement of our financial results for fiscal years 2011 and 2012 and the first quarter of fiscal year 2012. This also follows the identification of material weaknesses in our internal control over financial reporting in our Annual Report on Form 10-K for the fiscal year ended March 31, 2013, as amended on Form 10-K/A which are still unremediated, and the identification of significant deficiencies in our internal control over financial reporting. A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a result of these material weaknesses, our management concluded that our internal control over financial reporting was not effective as of March 31, 2014 and September 30, 2014, based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – An Integrated Framework (1992). We are actively engaged in implementing a remediation plan designed to address these material weaknesses. If our remediation measures are insufficient to address these material weaknesses, or if additional material weaknesses in our internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results again. In addition to potentially adversely affecting investors' confidence, the restatement of our consolidated financial

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

statements could lead to potential litigation against us, which, whether meritorious or not, could be time consuming, costly or divert significant operational resources, any of which could adversely affect our business and results of our operations.

In addition, in May 2013, COSO issued a new version of its internal control framework, which will be deemed by COSO to supersede the 1992 version of the framework as of December 15, 2014. We are developing our plan for transition to application of the 2013 edition of the framework to our assessment of our internal control over financial reporting. During the course of the transition to the new framework and its application to our assessment of our internal control over financial reporting, we may determine that other deficiencies exist in our internal controls, that may rise to the level of material weaknesses. Such an occurrence, or a failure to effectively remedy such a deficiency, could adversely affect investor confidence in the accuracy and timeliness of our financial reports.

Table of Contents

The collection, storage, transmission, use and distribution of user data could give rise to liabilities and additional costs of operation as a result of laws and governmental regulation.

In connection with certain of our products, we collect data related to our consumers. This information is increasingly subject to legislation and regulations in numerous jurisdictions around the world, and especially in Europe. Government actions are typically intended to protect the privacy and security of personal information and its collection, storage, transmission, use and distribution in or from the governing jurisdiction. In addition, because various jurisdictions have different laws and regulations concerning the use, storage and transmission of such information, we may face requirements that pose compliance challenges in existing markets as well as new international markets that we seek to enter. Such laws and regulations, and the variation between jurisdictions, could subject us to costs, liabilities or negative publicity that could adversely affect our business.

We are upgrading our worldwide business application suite, and difficulties, distraction or disruptions may interrupt our normal operations and adversely affect our business and operating results.

During fiscal years 2014 and 2015, we have been devoting and plan to continue to devote significant resources to the upgrade of our worldwide business application suite to Oracle's version R12. Oracle has already begun to discontinue its support for our current business application suite, version 11i. As a result of that discontinued support or our upgrade or both, we may experience difficulties with our systems, management distraction, and significant business disruptions. Difficulties with our systems may interrupt our normal operations, including our enterprise resource planning, forecasting, demand planning, supply planning, intercompany processes, promotion management, internal financial controls, pricing, and our ability to provide quotes, process orders, ship products, provide services and support to our customers and consumers, bill and track our customers, fulfill contractual obligations, and otherwise run and track our business. In addition, we may need to expend significant attention, time and resources to correct problems or find alternative sources for performing these functions. Any such difficulty or disruption may adversely affect our business and operating results.

Goodwill impairment charges could have an adverse effect on the results of our operations.

Goodwill associated with a number of previous acquisitions could result in impairment charges. The slowdown in the overall video conferencing industry together with the competitive environment in fiscal year 2013 resulted in a \$214.5 million non-cash goodwill impairment charge in fiscal year 2013, which substantially impacted our operating results. As we attempt to effect a turnaround of our business, including developing the profitability of our Lifesize video conferencing segment and divesting or discontinuing product categories or products that we previously acquired, we will need to continue to evaluate the carrying value of our goodwill. Additional impairment charges could adversely affect our results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Share Repurchases

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Table of Contents

ITEM 6. EXHIBITS

Exhibit Index

Exhibit No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer.*
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document

* This exhibit is furnished herewith, but not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that we explicitly incorporate it by reference.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

LOGITECH INTERNATIONAL S.A.

/s/ Bracken P. Darrell
Bracken P. Darrell
President and
Chief Executive Officer

/s/ Vincent Pilette
Vincent Pilette
Chief Financial Officer

November 26, 2014