

LOGITECH INTERNATIONAL SA

Form 10-Q

July 24, 2015

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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 June 30, 2015

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.  
7700 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.

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Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes   
No

As of July 13, 2015, there were 164,436,377 shares of the Registrant's share capital outstanding.

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

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## PART I — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

LOGITECH INTERNATIONAL S.A.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (In thousands, except per share amounts)  
 (unaudited)

	Three Months Ended	
	June 30,	
	2015	2014
Net sales	\$470,320	\$482,203
Cost of goods sold	298,591	300,450
Gross profit	171,729	181,753
Operating expenses:		
Marketing and selling	87,427	91,045
Research and development	33,833	31,316
General and administrative	30,504	36,680
Restructuring charges, net	12,995	—
Total operating expenses	164,759	159,041
Operating income	6,970	22,712
Interest income, net	264	258
Other expense, net	(1,121)	) (198
Income before income taxes	6,113	22,772
Provision for (benefit from) income taxes	(1,324)	) 3,096
Net income	\$7,437	\$19,676
Net income per share:		
Basic	\$0.05	\$0.12
Diluted	\$0.04	\$0.12
Shares used to compute net income per share :		
Basic	164,431	163,012
Diluted	166,895	165,833

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

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LOGITECH INTERNATIONAL S.A.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (In thousands)  
 (unaudited)

	Three Months Ended	
	June 30,	
	2015	2014
Net income	\$7,437	\$19,676
Other comprehensive income (loss):		
Currency translation gain, net of taxes	2,618	201
Defined benefit pension plans:		
Net gain (loss) and prior service costs, net of taxes	(1,130	) 139
Amortization included in operating expenses	416	113
Hedging gain (loss):		
Deferred hedging gain (loss), net of taxes	(2,262	) 248
Reclassification of hedging loss (gain) included in cost of goods sold	(2,460	) 400
Other comprehensive income (loss):	(2,818	) 1,101
Total comprehensive income	\$4,619	\$20,777

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

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LOGITECH INTERNATIONAL S.A.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In thousands, except per share amounts)

	June 30, 2015 (unaudited)	March 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$492,228	\$537,038
Accounts receivable, net	221,580	179,823
Inventories	327,507	270,730
Other current assets	73,310	64,429
Total current assets	1,114,625	1,052,020
Non-current assets:		
Property, plant and equipment, net	101,669	91,593
Goodwill	218,251	218,213
Other intangible assets	1,164	1,866
Other assets	62,338	62,988
Total assets	\$1,498,047	\$1,426,680
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$340,330	\$299,995
Accrued and other current liabilities	213,971	194,912
Total current liabilities	554,301	494,907
Non-current liabilities:		
Income taxes payable	74,831	72,107
Other non-current liabilities	102,497	101,532
Total liabilities	731,629	668,546
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Registered shares, CHF 0.25 par value:	30,148	30,148
Issued and authorized shares — 173,106 at June 30, 2015 and March 31, 2015	—	—
Conditionally authorized shares — 50,000 at June 30, 2015 and March 31, 2015	—	—
Additional paid-in capital	4,304	—
Less shares in treasury, at cost — 8,676 at June 30, 2015 and 8,625 at March 31, 2015	(89,590 )	(88,951 )
Retained earnings	937,611	930,174
Accumulated other comprehensive loss	(116,055 )	(113,237 )
Total shareholders' equity	766,418	758,134
Total liabilities and shareholders' equity	\$1,498,047	\$1,426,680

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

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LOGITECH INTERNATIONAL S.A.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In thousands)  
 (unaudited)

	Three Months Ended	
	June 30,	
	2015	2014
Operating activities:		
Net income	\$7,437	\$19,676
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	10,516	9,951
Amortization of other intangible assets	732	2,782
Share-based compensation expense	6,749	6,938
Impairment of investment	103	—
Loss (gain) on disposal of property, plant and equipment	—	22
Excess tax benefits from share-based compensation	(665)	) (381)
Deferred income taxes	(6,732)	) (1,832)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	(41,208)	) (36,663)
Inventories	(54,164)	) (18,463)
Other assets	(2,383)	) (2,063)
Accounts payable	34,541	40,775
Accrued and other liabilities	19,475	7,016
Net cash provided by (used in) operating activities	(25,599)	) 27,758
Investing activities:		
Purchases of property, plant and equipment	(15,290)	) (11,243)
Investment in privately held companies	(240)	) (1,050)
Purchase of trading investments	(903)	) (454)
Proceeds from sales of trading investments	840	506
Net cash used in investing activities	(15,593)	) (12,241)
Financing activities:		
Contingent consideration related to prior acquisition	—	(100)
Purchases of treasury shares	(8,814)	) —
Proceeds from sales of shares upon exercise of options	4,066	574
Tax withholdings related to net share settlements of restricted stock units	(1,296)	) (695)
Excess tax benefits from share-based compensation	665	381
Net cash provided by (used in) financing activities	(5,379)	) 160
Effect of exchange rate changes on cash and cash equivalents	1,761	(108)
Net increase (decrease) in cash and cash equivalents	(44,810)	) 15,569
Cash and cash equivalents, beginning of the period	537,038	469,412
Cash and cash equivalents, end of the period	\$492,228	\$484,981
Non-cash investing activities:		
Property, plant and equipment purchased during the period and included in period end liability accounts	\$10,358	\$5,459

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





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## LOGITECH INTERNATIONAL S.A.

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands)

(unaudited)

	Registered Shares		Additional		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount	Paid-in Capital	Treasury Shares			
March 31, 2014	173,106	\$30,148	\$—	10,206	\$(116,510)	\$976,292	\$ (85,802 ) \$ 804,128
Total comprehensive income	—	—	—	—	19,676	1,101	20,777
Tax effects from share-based awards	—	—	861	—	—	—	861
Sales of shares upon exercise of options	—	—	(399 )	(53 )	973	—	574
Issuance of shares upon vesting of restricted stock units	—	—	(3,109 )	(131 )	2,414	—	(695 )
Share-based compensation expense	—	—	7,063	—	—	—	7,063
June 30, 2014	173,106	\$30,148	\$4,416	10,022	\$(113,123)	\$995,968	\$ (84,701 ) \$ 832,708

	Registered Shares		Additional		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount	Paid-in Capital	Treasury Shares			
March 31, 2015	173,106	\$30,148	\$—	8,625	\$(88,951)	\$930,174	\$ (113,237 ) \$ 758,134
Total comprehensive income (loss)	—	—	—	—	7,437	(2,818 )	4,619
Tax effects from share-based awards	—	—	2,948	—	—	—	2,948
Sales of shares upon exercise of options	—	—	(1,651 )	(369 )	5,717	—	4,066
Issuance of shares upon vesting of restricted stock units	—	—	(3,754 )	(157 )	2,458	—	(1,296 )
Share-based compensation expense	—	—	6,761	—	—	—	6,761
Purchases of treasury shares	—	—	—	577	(8,814 )	—	(8,814 )
June 30, 2015	173,106	\$30,148	\$4,304	8,676	\$(89,590)	\$937,611	\$ (116,055 ) \$ 766,418

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

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LOGITECH INTERNATIONAL S.A.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

Note 1 — Summary of Significant Accounting Policies

Basis of Presentation

The condensed consolidated interim financial statements include the accounts of Logitech and its subsidiaries. All intercompany balances and transactions have been eliminated. The condensed 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, 2015, included in its Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on June 5, 2015. In the opinion of management, these condensed consolidated financial statements include all adjustments, consisting of only normal, recurring adjustments, necessary for a fair statement of the results for the periods presented. Operating results for the three months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2016, or any future periods.

Fiscal Year

The Company’s fiscal year ends on March 31. Interim quarter ends on last Friday of each quarter. For purposes of presentation, the Company has indicated its quarterly periods as ending on the quarter end.

Changes in Significant Accounting Policies

There have been no substantial changes in the Company’s significant accounting policies during the three months ended June 30, 2015 compared with the significant accounting policies described in its Annual Report on Form 10-K for the fiscal year ended March 31, 2015.

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 at the date of the condensed consolidated financial statements. Examples of significant estimates and assumptions made by management involve the fair value of goodwill, warranty liabilities, accruals for discretionary customer programs, sales return reserves, allowance for doubtful accounts, inventory valuation, uncertain tax positions, and valuation allowances for deferred tax assets. 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. 2014-9, "Revenue from Contracts with Customers (Topic 606)," ("ASU 2014-9"). ASU 2014-9 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. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies

disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. As currently issued, the new standard is effective beginning in the first quarter of fiscal year 2019; early adoption is prohibited. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. The Company has not yet selected a transition method nor has it determined the impact of the new standard on its condensed consolidated financial statements.

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## Note 2 — 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	
	June 30,	
	2015	2014
Net income	\$7,437	\$19,676
Shares used in net income per share computation:		
Weighted average shares outstanding - basic	164,431	163,012
Effect of potentially dilutive equivalent shares	2,464	2,821
Weighted average shares outstanding - diluted	166,895	165,833
Net income per share:		
Basic	\$0.05	\$0.12
Diluted	\$0.04	\$0.12

Share equivalents attributable to outstanding stock options and restricted stock units (RSUs) of 7.3 million and 9.9 million for the three months ended June 30, 2015 and 2014, respectively, were anti-dilutive and excluded from the calculation of diluted net income per share.

## Note 3 — Employee Benefit Plans

## Employee Share Purchase Plans and Stock Incentive Plans

As of June 30, 2015, 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).

The following table summarizes the share-based compensation expense and related tax benefit recognized for the three months ended June 30, 2015 and 2014 (in thousands):

	Three Months Ended	
	June 30,	
	2015	2014
Cost of goods sold	\$605	\$538
Marketing and selling	2,118	2,556
Research and development	787	844
General and administrative	3,232	3,000
Restructuring	7	—
Total share-based compensation expense	6,749	6,938
Income tax benefit	(1,337	) (1,184
Total share-based compensation expense, net of income tax	\$5,412	\$5,754

During the three months ended June 30, 2015 and 2014, the Company capitalized \$0.5 million of stock-based compensation expenses as inventory, 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 \$2.9 million and \$2.0 million for the three months ended June 30, 2015 and 2014, respectively, was primarily related to service costs.

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Note 4 — 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 before taxes and the provision for (benefit from) income taxes are generated outside of Switzerland.

The income tax benefit for the three months ended June 30, 2015 was \$1.3 million based on an effective income tax rate of (21.7)% of pre-tax income, compared to an income tax provision of \$3.1 million based on an effective income tax rate of 13.6% of pre-tax income for the three months ended June 30, 2014. The change in the effective income tax rate for the three months ended June 30, 2015, compared to the three months ended June 30, 2014 is primarily due to the mix of income and losses in the various tax jurisdictions in which the Company operates. There was a discrete tax benefit of \$2.2 million and \$0.8 million in the three months ended June 30, 2015 and 2014, respectively, resulting from the preferential income tax rate reduction pursuant to the High and New Technology Enterprise Program in China.

As of June 30 and March 31, 2015, the total amount of unrecognized tax benefits due to uncertain tax positions was \$79.2 million and \$79.0 million, respectively, all of which would affect the effective income tax rate if recognized.

The Company had \$74.8 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 June 30, 2015, compared to \$72.1 million in non-current income taxes payable and \$0.1 million in current income taxes payable as of March 31, 2015.

The Company recognizes interest and penalties related to unrecognized tax positions in income tax expense. As of June 30 and March 31, 2015, the Company had \$4.6 million and \$4.9 million 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 2016, 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 other currencies. Excluding these factors, uncertain tax positions may decrease by as much as \$17.0 million from the lapse of the statutes of limitations in various jurisdictions during the next 12 months.

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## Note 5— Balance Sheet Components

The following table presents the components of certain balance sheet asset amounts as of June 30 and March 31, 2015 (in thousands):

	June 30, 2015	March 31, 2015
Accounts receivable, net:		
Accounts receivable	\$436,724	\$344,455
Allowance for doubtful accounts	(1,247	) (1,093 )
Allowance for sales returns	(20,146	) (17,901 )
Allowance for cooperative marketing arrangements	(39,127	) (25,700 )
Allowance for customer incentive programs	(67,461	) (48,497 )
Allowance for pricing programs	(87,163	) (71,441 )
	\$221,580	\$179,823
Inventories:		
Raw materials	\$50,199	\$36,376
Finished goods	277,308	234,354
	\$327,507	\$270,730
Other current assets:		
Income tax and value-added tax receivables	\$19,548	\$19,403
Deferred tax assets	36,601	27,790
Prepaid expenses and other assets	17,161	17,236
	\$73,310	\$64,429
Property, plant and equipment, net:		
Property, plant and equipment	364,638	349,235
Less accumulated depreciation and amortization	(262,969	) (257,642 )
	\$101,669	\$91,593
Other assets:		
Deferred tax assets	\$38,534	\$39,310
Trading investments for deferred compensation plan	17,350	17,237
Other assets	6,454	6,441
	\$62,338	\$62,988



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The following table presents the components of certain balance sheet liability amounts as of June 30 and March 31, 2015 (in thousands):

	June 30, 2015	March 31, 2015
Accrued and other current liabilities:		
Accrued personnel expenses	\$52,188	\$50,015
Indirect customer incentive programs	22,467	19,730
Accrued restructuring	8,341	966
Deferred revenue	24,850	24,987
Warranty accrual	12,335	12,630
Employee benefit plan obligation	1,478	1,232
Income taxes payable	2,535	5,794
Other current liabilities	89,777	79,558
	\$213,971	\$194,912
Non-current liabilities:		
Warranty accrual	\$8,949	\$9,080
Obligation for deferred compensation plan	17,350	17,237
Long term restructuring	71	73
Employee benefit plan obligation	52,821	51,181
Deferred rent	11,163	11,519
Deferred tax liability	1,885	1,936
Long term deferred revenue	8,794	9,109
Other non-current liabilities	1,464	1,397
	\$102,497	\$101,532

## Note 6— 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 utilizes 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.

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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):

	June 30, 2015		March 31, 2015	
	Level 1	Level 2	Level 1	Level 2
Cash equivalents:				
Cash equivalents	\$217,225	\$—	\$264,647	\$—
	\$217,225	—	\$264,647	\$—
Trading investments for deferred compensation plan:				
Money market funds	\$2,906	—	\$2,936	\$—
Mutual funds	14,444	—	14,301	—
	\$17,350	—	\$17,237	\$—
Foreign exchange derivative assets	\$—	\$63	\$—	\$2,080
Foreign exchange derivative liabilities	\$—	\$912	\$—	\$75

There were no material Level 3 financial assets as of June 30, 2015 or March 31, 2015.

## Investment Securities

The marketable securities for the Company's deferred compensation plan are recorded at a fair value of \$17.4 million and \$17.2 million as of June 30, 2015 and March 31, 2015, respectively, based on quoted market prices. Quoted market prices are observable inputs that are classified as Level 1 within the fair value hierarchy. Unrealized trading gains / (losses) related to trading securities for the three months ended June 30, 2015 and 2014 were not significant and are included in other expense, net.

## Derivative Financial Instruments

Under certain agreements with the respective counterparties to the Company's derivative contracts, subject to applicable requirements, the Company is allowed to net settle transactions of the same type with a single net amount payable by one party to the other. However, the Company presents its derivative assets and derivative liabilities on a gross basis on the Condensed Consolidated Balance Sheets as of June 30, 2015 and March 31, 2015.

The following table presents the fair values of the Company's derivative instruments and their accounting line presentation on its Condensed Consolidated Balance Sheets as of June 30, 2015 and March 31, 2015 (in thousands):

	Derivatives			
	Asset		Liability	
	June 30, 2015	March 31, 2015	June 30, 2015	March 31, 2015
Designated as hedging instruments:				
Cash flow hedges	\$63	\$2,080	\$847	\$—
Not designated as hedging instruments:				
Currency exchange contracts	—	—	65	75
	\$63	\$2,080	\$912	\$75

The following table presents the amounts of gains and losses on the Company's derivative instruments and their locations on its condensed consolidated statements of operations and condensed consolidated statements of comprehensive income for the three months ended June 30, 2015 and 2014 (in thousands):



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	Three Months Ended June 30, Amount of Gain (Loss) Deferred as a Component of Accumulated Other Comprehensive Loss After Reclassification to Costs of Goods Sold		Amount of Loss (Gain) Reclassified from Accumulated Other Comprehensive Loss to Costs of Goods Sold		Amount of Gain (Loss) Immediately Recognized in Other Expense, Net	
	2015	2014	2015	2014	2015	2014
Designated as hedging instruments:						
Cash flow hedges	\$(4,722 )	\$648	\$(2,460 )	\$400	\$68	\$(55 )
Not designated as hedging instruments:						
Currency exchange contracts	—	—	—	—	(34 )	(419 )
	\$(4,722 )	\$648	\$(2,460 )	\$400	\$34	\$(474 )

## Cash Flow Hedges

The Company enters into currency exchange forward contracts to hedge against exposure to changes in 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 currency exchange rate risk. The Company has designated these derivatives as cash flow hedges. 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 currency exposure of forecasted inventory purchases, the Company immediately recognizes the gain or loss on the associated financial instrument in other expense, net. Such gains and losses were not material during the three months ended June 30, 2015 and 2014. Cash flows from such hedges are classified as operating activities in the condensed consolidated statements of cash flows. The notional amounts of currency exchange forward contracts outstanding related to forecasted inventory purchases were \$79.7 million and \$43.5 million at June 30, 2015 and March 31, 2015. The Company estimates that \$0.8 million of net loss related to its cash flow hedges included in accumulated other comprehensive loss as of June 30, 2015 will be reclassified into earnings within the next 12 months.

## Other Derivatives

The Company also enters into currency exchange forward and swap contracts to reduce the short-term effects of currency exchange rate fluctuations on certain foreign currency receivables or payables. These contracts generally mature within one month. The primary risk managed by using forward and swap contracts is the currency exchange rate risk. The gains or losses on currency exchange contracts are recognized in other expense, net based on the changes in fair value.

The notional amounts of currency exchange forward and swap contracts outstanding as of June 30 and March 31, 2015 relating to foreign currency receivables or payables were \$52.0 million and \$61.7 million, respectively. Open forward and swap contracts outstanding at June 30, 2015 and March 31, 2015 consisted of contracts in Mexican Pesos,

Japanese Yen, British Pounds, Taiwanese Dollars and Australian Dollars to be settled at future dates at pre-determined exchange rates.

The fair value of all currency exchange forward and 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 Condensed Consolidated Statements of Cash Flows.

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## Note 7 — Goodwill and Other Intangible Assets

In accordance with ASC Topic 350-10 (“ASC 350-10”), 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. There have been no events or circumstances during the three months ended June 30, 2015 that have required the Company to perform an interim assessment of goodwill.

As of June 30, 2015 and March 31, 2015, all of the Company's goodwill is related to the Peripheral reporting unit. The following table summarizes the activity in the Company’s goodwill balance during the three months ended June 30, 2015 (in thousands):

As of March 31, 2015	\$218,213
Currency impact	38
As of June 30, 2015	\$218,251

## Other Intangible Assets

Amortization expense for other intangible assets was \$0.7 million and \$2.8 million for the three months ended June 30, 2015 and 2014, respectively. The Company expects that amortization expense for the remaining nine months of fiscal year 2016 will be \$1.0 million, and annual amortization expense for fiscal year 2017 will be \$0.2 million.

## Note 8— Financing Arrangements

The Company had several uncommitted, unsecured bank lines of credit aggregating \$34.6 million as of June 30, 2015. There are no financial covenants under these lines of credit with which the Company must comply. As of June 30, 2015, the Company had outstanding bank guarantees of \$14.3 million under these lines of credit. There was no borrowing outstanding under the line of credit as of June 30, 2015 or March 31, 2015.

## Note 9 — 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 three months ended June 30, 2015 and 2014 were as follows (in thousands):

	Three Months Ended	
	June 30, 2015	2014
Beginning of the period	\$21,710	\$24,380
Provision	2,142	2,206
Settlements	(2,568	) (3,166
End of the period	\$21,284	\$23,420



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### Other Contingencies

The Company is subject to an ongoing formal investigation by the Enforcement Division of the U.S. Securities and Exchange Commission ("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 consolidated financial statements concerning warranty accruals and amortization of intangible assets presented in the Company's Amended Annual Report on 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 has entered into an agreement with the Enforcement Staff to extend the statute of limitations. The Company is cooperating with the investigation and, after discussions with the Enforcement Staff, the Company recently made an offer of settlement to resolve the matter, which is subject to approval by the SEC. The proposed settlement would be entered into by the Company without admitting or denying the SEC's findings and would resolve alleged violations of certain provisions of the Securities Exchange Act of 1934 and related rules, including the anti-fraud provisions. Under the terms of the proposed settlement, the Company would pay \$7.5 million in a civil penalty and agree not to commit or cause any violations of certain provisions of the Securities Exchange Act of 1934 and related rules. There is no assurance that the proposal will be approved by the SEC. In accordance with U.S. GAAP, the Company has made a corresponding accrual in its financial statements.

### Guarantees

Logitech Europe S.A. guaranteed payments of third-party contract manufacturers' purchase obligations. As of June 30, 2015, the maximum amount of this guarantee was \$3.8 million, of which \$1.6 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 June 30, 2015, 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

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 or 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.

Note 10— 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. During the three

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months ended June 30, 2015, 0.6 million shares were repurchased for \$8.8 million. There were no share repurchases during the three months ended June 30, 2014.

## 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 (1)	Defined Benefit Plan (1)	Deferred Hedging Gains (Losses)	Total
March 31, 2015	\$(90,224 )	\$(26,964 )	\$3,951	\$(113,237 )
Other comprehensive income (loss)	2,618	(714 )	(4,722 )	(2,818 )
June 30, 2015	\$(87,606 )	\$(27,678 )	\$(771 )	\$(116,055 )

(1) Tax effect was not significant as of June 30 or March 31, 2015.

## Note 11 — 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 offers 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 Company's reporting segments do not record revenue on sales between segments.

Operating performance measures for the peripherals segment and the video conferencing segment are reported separately to the Company'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 restructuring charges, net, share-based compensation expense and amortization of intangible assets. Restructuring charges, net, share-based compensation expense and 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.

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Net sales and operating income (loss) for the Company's operating segments for the three months ended June 30, 2015 and 2014 were as follows (in thousands):

	Three Months Ended June 30,	
	2015	2014
Net sales:		
Peripherals	\$447,686	\$456,446
Video conferencing	22,634	25,757
	\$470,320	\$482,203
Segment operating income (loss):		
Peripherals	\$31,847	\$33,567
Video conferencing	(4,401)	(1,135)
	27,446	32,432
Other income (expense):		
Restructuring charges, net	(12,995)	—
Share-based compensation	(6,749)	(6,938)
Amortization of intangibles	(732)	(2,782)
Interest income, net	264	258
Other expense, net	(1,121)	(198)
Income before income taxes	\$6,113	\$22,772

Restructuring charges for Peripherals and Video conferencing segments were \$11.5 million and \$1.5 million, respectively, for the three months ended June 30, 2015. There was no restructuring charge in the three months ended June 30, 2014.

Net sales by product categories and sales channels, excluding intercompany transactions, for the three months ended June 30, 2015 and 2014 were as follows (in thousands):

	Three Months Ended June 30,	
	2015	2014
Peripherals:		
Mobile Speakers	\$40,544	\$28,830
Gaming	43,670	46,876
Video Collaboration	21,176	15,225
Tablet & Other Accessories	18,809	31,716
Growth	124,199	122,647
Pointing Devices	116,985	113,042
Keyboards & Combos	105,829	105,489
Audio-PC & Wearables	45,699	48,548
PC Webcams	21,681	20,463
Home Control	10,254	12,332
Profit Maximization	300,448	299,874
Retail Strategic Sales	424,647	422,521
Non-Strategic	741	1,293
Retail	425,388	423,814
OEM	22,298	32,632
	447,686	456,446
Video conferencing	22,634	25,757
	\$470,320	\$482,203

Certain products within the retail product families presented in prior period have been reclassified to conform to the current period's presentation.

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Net sales to unaffiliated customers by geographic region (based on the customers' location) for the three months ended June 30, 2015 and 2014 were as follows (in thousands):

	Three Months Ended	
	June 30,	
	2015	2014
Americas	\$226,687	\$211,531
EMEA	127,366	153,700
Asia Pacific	116,267	116,972
Total net sales	\$470,320	\$482,203

Sales are attributed to countries on the basis of the customers' locations. The United States represented 40% and 37% of the Company's total consolidated net sales for the three months ended June 30, 2015 and 2014, 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 months ended June 30, 2015 and 2014, respectively. One customer group of the Company's peripheral operating segment represented 14% and 15% of sales for the three months ended June 30, 2015 and 2014, respectively.

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

	June 30,	March 31,
	2015	2015
Americas	\$48,353	\$48,527
EMEA	3,435	3,584
Asia Pacific	49,881	39,482
	\$101,669	\$91,593

Long-lived assets in the United States and China were \$48.2 million and \$44.9 million as of June 30, 2015, respectively, and \$48.3 million and \$34.0 million at March 31, 2015, respectively. No other countries represented more than 10% of the Company's total consolidated long-lived assets as of June 30 or March 31, 2015. Long-lived assets in Switzerland, the Company's home domicile, were \$1.4 million and \$1.5 million at June 30 and March 31, 2015, respectively.

## Note 12 — Restructuring

### Restructuring Charges

During the first quarter of fiscal year 2016, the Company implemented a restructuring plan to exit the OEM business, reorganize Lifesize to sharpen its focus on its Cloud-based offering, and streamline the Company's overall cost structure through product, overhead and infrastructure cost reductions with a targeted resource realignment. Restructuring charges incurred during the three months ended June 30, 2015 under this plan primarily consisted of severance and other ongoing and one-time termination benefits. Charges and other costs related to the workforce reduction and structure realignment are presented as restructuring charges in the Condensed Consolidated Statements of Operations. The Company expects to incur approximately \$15 million to \$20 million under this restructuring plan, and expects to substantially complete this restructuring within the next 12 months.

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The following tables summarize restructuring related activities during the three months ended June 30, 2015:

	Restructuring Termination Benefits	Lease Exit Costs	Other	Total
Accrual balance at March 31, 2015	\$—	\$1,039	\$—	\$1,039
Charges	12,794	—	201	12,995
Cash payments	(4,675	) (796	) (151	) (5,622
Accrual balance at June 30, 2015	\$8,119	\$243	\$50	\$8,412

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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 Condensed 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, strategic investment, 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 economic conditions in international markets, including China, Russia and Ukraine, our expectations regarding trends in global economic conditions and consumer demand for PCs and mobile devices, tablets, gaming, audio, video and video conferencing, pointing devices, wearables, remotes and other accessories and 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 expectations regarding the growth of cloud-based services, our expected reduction in size of our product portfolio and dependence on new products, our competitive position and the effect of pricing, product, marketing and other initiatives by us and our competitors, the potential that our new products will overlap with our current products, our expectations regarding competition from well-established consumer electronics companies in existing and new markets; 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 and commodity prices, 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, dividend payments 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 are 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, our expectations regarding the impact of new accounting pronouncements on our operating results, and our 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. 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, audio and video communication over the Internet and home-entertainment control. 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. Within our peripherals segment, we classify our retail product categories as growth, profit maximization, and non-strategic. Our growth product categories are: Mobile Speakers, Gaming, Video



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Collaboration and Tablet & Other Accessories. Our profit maximization categories are: Pointing Devices, Keyboards & Combos, Audio-PC & Wearables, PC Webcams, and Home Control.

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 design organization is responsible for developing and building the Logitech brand, consumer insights 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 including direct sales to retailers and indirect sales through distributors. 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 90% and 88% of our net sales for the three months ended June 30, 2015 and 2014, respectively. 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 5% and 7% of our net sales for the three months ended June 30, 2015 and 2014, respectively. In April 2015, we announced our intent to exit the OEM business. We plan to exit our OEM business by the end of December 2015.

Our video conferencing segment encompasses the Cloud-based video conferencing solution, 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, 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. In April 2015, we started reorganizing Lifesize with the goal of de-emphasizing Lifesize's legacy offerings more quickly to enable maximum traction with Lifesize Cloud. We plan to shrink our Lifesize business to grow the cloud opportunity faster. We sell our video conferencing products and services to distributors, value-added resellers, OEMs and, occasionally, direct enterprise customers. Sales of video conferencing products were 5% and 5% of our net sales in the three months ended June 30, 2015 and 2014.

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

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 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

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assumptions that affect reported amounts of assets, liabilities, net sales and expenses, and the disclosure of contingent assets and liabilities.

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, 2015 that are of significance, or potential significance to the Company.

### Summary of Financial Results

Our total net sales for the three months ended June 30, 2015 decreased by 2% compared with the three months ended June 30, 2014, due to declines in OEM and video conferencing sales.

Total retail sales remained flat and units sold increased 2% during the three months ended June 30, 2015, compared with the three months ended June 30, 2014. We experienced an increase in sales of 9% in the Americas region, an increase in sales of 5% in the Asia Pacific region, and a decrease in sales of 15% in the EMEA region.

OEM net sales decreased 32% in the three months ended June 30, 2015 compared with the preceding fiscal year. The decline was expected as we announced our plan to exit OEM business in April 2015.

Sales of video conferencing products in the three months ended June 30, 2015 decreased 12% compared with three months ended June 30, 2014. Lifesize is in the process of transitioning its product portfolio to the Lifesize Cloud, a software-as-a-service (SaaS) offering launched in fiscal year 2015. While sales of the Cloud offering are growing rapidly, they are not yet large enough to offset the combination of the short-term portfolio transition and soft market conditions for video conferencing infrastructure.

Our gross margin for the three months ended June 30, 2015 decreased to 36.5% from 37.7% for the three months ended June 30, 2014. The decrease in gross margin primarily reflects the unfavorable currency headwind during the three months ended June 30, 2015.

Operating expenses for the three months ended June 30, 2015 were 35.0% of net sales, compared with 33.0% in the same period of the prior fiscal year. The increase was primarily in restructuring charges announced in April 2015, partially offset by the savings from marketing and general and administration expenses.

Net income for the three months ended June 30, 2015 was \$7.4 million, compared with net income of \$19.7 million in the three months ended June 30, 2014.

Given our global sales presence and the reporting of our financial results in U.S. Dollars, our financial results for the first quarter of fiscal year 2016 were affected by significant shifts in currency exchange rates compared with the first quarter of fiscal year 2015. See "Results of Operations" beginning on page 26 for information on the effect of currency exchange results on our net sales. If the U.S. Dollar remains at its current strong levels in comparison to other currencies, this will affect our results of operations in future periods as well.

### Trends in Our Business

Our sales of PC peripherals for use by consumers in 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 significant 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 with the exception of PC Gaming.

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 and smartphones,

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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

**Mobile Speakers:** The mobile speaker market grew throughout fiscal year 2015 and the first quarter of fiscal year 2016 driven by growing consumption of music through mobile devices such as smartphones and tablets. This market growth, together with our investments in the UE brand, our introduction of new products and our ability to gain market share during fiscal year 2015 and the first quarter of fiscal year 2016, have driven our growth in Mobile Speakers.

**PC Peripherals (Pointing Devices, Keyboards & Combos, PC Webcams, Gaming and Audio PC & Wearables):** 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. Our PC speakers sales are expected to decline as consumers migrate towards mobile speaker solutions such as UE Boom. The PC Gaming platform continues to show strong growth as online gaming and multi-platform experiences gain greater popularity and gaming content becomes increasingly more demanding. We believe Logitech is well positioned to benefit from the PC Gaming market growth.

**Enterprise Market:** We are continuing our efforts to create and sell products and services to enterprises, with our Video Collaboration products. For example, we have introduced the Logitech ConferenceCam CC3000e and Conference Cam Connect video collaboration products. 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:** Smaller mobile computing devices, such as tablets with touch interfaces, have created new markets and usage models for peripherals and accessories. We offer a number of products to enhance the use of mobile devices, including keyboard folios for the iPad and iPad mini, and keyboard covers and folios for the iPad Air. We have also introduced keyboard folios for the Samsung Galaxy tablet. We have seen the market decline through fiscal year 2015 with continued declines in the first quarter of fiscal year 2016 for the iPad platform, which has impacted the sales of our tablet peripherals.

**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 adversely affected our sales of OEM mice and keyboards, all of which are sold with name-brand desktop PCs. As announced, we plan to exit the OEM business by the end of December 2015 as we see limited opportunities for profitable growth.

**Trends in Non-Strategic Peripherals Product Categories:** We continue to evaluate our product offerings and exit those which no longer support our strategic direction.

### Trends Specific to our Video Conferencing Segment

The overall video conferencing industry has experienced a slowdown in recent quarters. In addition, there has been an increase in the competitive environment. Lifesize is in the process of transitioning its product portfolio to Lifesize Cloud. While sales of this software-as-a-service offering are growing rapidly, they are not yet large enough to offset the combination of the short-term portfolio transition and soft market conditions for video conferencing infrastructure. Looking at this growth opportunity, recently, in April 2015, we decided to reorganize Lifesize with the goal of de-emphasizing Lifesize's legacy offerings more quickly to enable maximum traction with Lifesize Cloud. We plan to shrink our legacy Lifesize business to grow the Cloud opportunity faster. We believe the growth in our video conferencing segment depends in part on our ability to increase sales of our new Cloud offering and to create a smooth transition from our legacy infrastructure business.



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## Non-GAAP Measures

We refer to our net sales excluding the impact of currency exchange rate fluctuations as "constant dollar" sales. Constant dollar sales is a non-GAAP financial measure, which is information derived from consolidated financial information but not presented in our financial statements prepared in accordance with U.S. GAAP. Our management uses these non-GAAP measures in its financial and operational decision-making, and believes these non-GAAP measures, when considered in conjunction with the corresponding GAAP measures, facilitate a better understanding of changes in net sales. Percentage of constant dollar sales growth is calculated by translating prior period sales in each local currency at the current period's average exchange rate for that currency and comparing that to current period sales.

## Results of Operations

## Net Sales

Net sales by channel for the three months ended June 30, 2015 and 2014 were as follows (in thousands):

	Three Months Ended			Change	
	June 30,		2014		
	2015	2014			
Retail	\$425,388	\$423,814	—		%
OEM	22,298	32,632	(32)		)%
Video conferencing	22,634	25,757	(12)		)%
Total net sales	\$470,320	\$482,203	(2)		)%

## Retail:

Our net retail sales in the three months ended June 30, 2015 remained flat compared with the same period of the prior fiscal year. Sales increases in the Americas and Asia Pacific regions were offset by a decrease in the EMEA region during the three months ended June 30, 2015. If currency exchange rates had been constant in the three months ended June 30, 2015 and 2014, our constant dollar retail sales would have increased by 7%.

## OEM:

OEM net sales decreased 32% in the three months ended June 30, 2015, compared with the same period of the preceding fiscal year. Given our heightened focus on our growing Retail Strategic business, we plan to exit the OEM business. If currency exchange rates had been constant in the three months ended June 30, 2015 and 2014, our constant dollar OEM net sales would have decreased by 31%.

## Video Conferencing:

Video conferencing net sales decreased 12% during the three months ended June 30, 2015, compared with the same period of the prior fiscal year. If currency exchange rates had been constant in the three months ended June 30, 2015 and 2014, our constant dollar video conferencing net sales would have decreased 12%. 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 information technology (IT) involvement. While sales of the Cloud offering are growing rapidly, they are not yet large enough to offset the combination of the short-term portfolio transition and soft market conditions for video conferencing infrastructure. The global restructuring plan we announced in April 2015 also covers Lifesize business to align our refocus on Lifesize Cloud offering and transition from Lifesize legacy business.





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## Retail Sales by Region

The following table presents the change in retail sales by for the three months ended June 30, 2015, compared to the three months ended June 30, 2014:

	Three Months Ended June 30, 2015 Change in Sales	
Americas	9	%
EMEA	(15	)
Asia Pacific	5	

## Americas:

The Americas region increased by 9% in retail sales during the three months ended June 30, 2015, compared with the same period of the prior fiscal year. If currency exchange rates had been constant in the three months ended June 30, 2015 and 2014, our constant dollar retail sales would have increased by 10% in the Americas. We have achieved sales increases in all strategic categories except Gaming, Home Control, and Tablets & Other Accessories. This increase was led by over 60% growth in Mobile Speakers and Video Collaboration.

## EMEA:

Retail sales in the EMEA region decreased 15% during the three months ended June 30, 2015, compared with the same period of the prior fiscal year. If currency exchange rates had been constant in the three months ended June 30, 2015 and 2014, our constant dollar retail sales would have increased by 1% in the EMEA.

## Asia Pacific:

Asia Pacific region retail sales increased by 5% during the three months ended June 30, 2015, compared with the same period of the prior fiscal year. If currency exchange rates had been constant in the three months ended June 30, 2015 and 2014, our constant dollar retail sales in the Asia Pacific region would have increased by 10%. We had growth in Video Collaboration Gaming, Keyboards & Combos, and PC Webcams during the three months ended June 30, 2015. These increases were offset in part by weakness in our Tablet & Other accessories, Pointing Devices, and Audio-PC Wearables categories.

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## Net Sales by Product Category

Net sales by product category for the three months ended June 30, 2015 and 2014 were as follows (in thousands):

	Three Months Ended		Change	
	June 30, 2015	2014		
Peripherals:				
Mobile Speakers	\$40,544	\$28,830	41	%
Gaming	43,670	46,876	(7)	)
Video Collaboration	21,176	15,225	39	
Tablet & Other Accessories	18,809	31,716	(41)	)
Growth	124,199	122,647	1	
Pointing Devices	116,985	113,042	3	
Keyboards & Combos	105,829	105,489	—	
Audio-PC & Wearables	45,699	48,548	(6)	)
PC Webcams	21,681	20,463	6	
Home Control	10,254	12,332	(17)	)
Profit Maximization	300,448	299,874	—	
Retail Strategic Sales	424,647	422,521	1	
Non-Strategic	741	1,293	(43)	)
Retail	425,388	423,814	—	
OEM	22,298	32,632	(32)	)
	447,686	456,446	(2)	)
Video conferencing	22,634	25,757	(12)	)
	\$470,320	\$482,203	(2)	)

Certain products within the retail product families presented in prior period have been reclassified to conform to the current period's presentation.

## Retail Strategic Sales

During the three months ended June 30, 2015, Retail Strategic sales increased 1% compared to the same period of fiscal year 2014. If currency exchange rates had been constant for the three months ended June 30, 2015 and 2014, our constant dollar retail strategic sales would have increased 7%.

## Retail Strategic - Growth Categories:

During the three months ended June 30, 2015, Retail Strategic sales - Growth categories increased 1% compared to the same period of fiscal year 2014. If currency exchange rates had been constant for the three months ended June 30, 2015 and 2014, our constant dollar Retail Strategic sales - Growth categories would have increased 9%.

## Mobile Speakers

Our retail Mobile Speakers category products are portable Bluetooth wireless speakers.

Retail sales and units sold of Mobile Speakers increased 41% and 23%, respectively, for the three month period ended June 30, 2015, compared with the same period of the prior fiscal year. Mobile Speaker sales increased significantly due to the introduction of the UE Megaboom.

## Gaming

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

Retail sales of Gaming decreased 7% and units sold decreased 3% in the three months ended June 30, 2015 compared to the three months ended June 30, 2014. Gaming Steering Wheels sales decreased by 39% primarily

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due to phasing out of old models in preparation for the launch of new wheels in the coming months, partially offset by a Gaming Keyboard sales increase of 13%, with our new product G910 Orion Spark Mechanical Keyboard making a strong contribution. Sales of our Gaming products declined in the Americas and EMEA regions, offset by growth in the APAC region.

### Video Collaboration

Our retail Video Collaboration category primarily includes video products and certain headset products that can connect small and medium sized user groups.

Retail sales of Video Collaboration increased 39% and units sold increased 74% in the three months ended June 30, 2015, compared to the three months ended June 30, 2014. The sales increased significantly with the introduction of the Conference Cam Connect and strong sales of the C930 Webcam.

### 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 41% and units sold decreased 21% in the three months ended June 30, 2015, compared with the same period of the prior fiscal year. The reduction in sales reflects the combination of a declining market for iPad shipments as well as phasing out end-of-life products as we phase in our new products.

### Retail Strategic - Profit Maximization Categories:

During the three months ended June 30, 2015, Retail Strategic sales - Profit Maximization categories remained flat compared to the same period of fiscal year 2014. If currency exchange rates had been constant for the three months ended June 30, 2015 and 2014, our constant dollar Retail Strategic sales - Profit Maximization categories would have increased 7%.

### Pointing Devices

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

Retail sales of Pointing Devices increased 3% while retail units sold increased 1% in the three months ended June 30, 2015, compared to the three month period ended June 30, 2014. Sales increased at the high end with the introduction of the MX Master Wireless Mouse. Sales of cordless mice increased 9% and units sold increasing 7%.

### Keyboards and Combos

Our retail Keyboards & Combos category comprises PC keyboards and keyboard/mice combo products.

Retail sales of Keyboards & Combos remained flat and units sold increased 7% in the three months ended June 30, 2015, compared with the same period of the prior fiscal year. We achieved double digit sales growth in the Americas and APAC regions, offset by declines in the EMEA region. The sales increase was driven by cordless keyboards and cordless combo products, offset by a decline in living room keyboards.

### Audio-PC & Wearables

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

Audio-PC & Wearables sales decreased 6% and units sold decreased 5% in the three months ended June 30, 2015, compared with the same period of the prior fiscal year. The decrease was primarily due to decreases in PC speaker retail sales, reflecting a category in structural decline as music consumption migrates to mobile platforms. This migration benefits products in our Mobile Speakers category such as our UE Bluetooth mobile speaker. Retail sales of our headsets products decreased 5%.

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PC Webcams

Our retail PC Webcams category comprises retail webcams for consumer applications.

Retail PC Webcams sales increased 6% and units sold increased 1% in the three months ended June 30, 2015, compared with the same period in the prior fiscal year. The increase was mainly driven by sales of the Logitech HD Pro Webcam C920.

Home Control

Our retail Home Control category comprises our Harmony branded products.

Home Control retail sales decreased 17% and units sold decreased 2% in the three months ended June 30, 2015, compared with the same period of the prior fiscal year. The sales decline was primarily driven by declines in high end remote controls.

Non-Strategic

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

Non-strategic retail sales decreased 43% and units sold decreased 31% during the three months ended June 30, 2015, compared with the same period in the prior fiscal year.

OEM

OEM sales decreased 32% and units sold decreased 22% during the three months ended June 30, 2015, compared with the same period of the prior fiscal year. As announced in April 2015, we plan to exit the OEM business by the end of December 2015 as we see limited opportunities for profitable growth.

Video Conferencing

Video conferencing net sales decreased 12% during the three months ended June 30, 2015, compared with the same period of the prior fiscal year. The decrease in net sales was due to a decrease in legacy business, offset by an increase in our Cloud offering. 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. While sales of the Cloud offering are growing rapidly, they are not yet large enough to offset the combination of the short-term portfolio transition and soft market conditions for video conferencing infrastructure. We recently decided to reorganize Lifesize with the goal of de-emphasizing Lifesize's legacy offerings more quickly to enable maximum traction with Lifesize Cloud. We plan to shrink our Lifesize business to grow the Cloud opportunity faster.

Gross Profit

Gross profit for three months ended June 30, 2015 and 2014 was as follows (in thousands):

Three Months Ended		
June 30,		
2015	2014	Change

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Net sales	\$470,320	\$482,203	(2	)%
Cost of goods sold	298,591	300,450	(1	)
Gross profit	\$171,729	\$181,753	(6	)
Gross margin	36.5	%	37.7	%

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

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distribution costs, warranty costs, customer support, outside processing costs, write-down of inventories and amortization of intangible assets.

The decrease in gross margin for the three months ended June 30, 2015 compared with the same period of the prior fiscal year was primarily driven by the unfavorable currency impact, partially offset by margin improvement from product cost improvement and favorable products mix.

## Operating Expenses

Operating expenses for the three months ended June 30, 2015 and 2014 were as follows (in thousands):

	Three Months Ended			
	June 30,			
	2015	2014		Change
Marketing and selling	\$87,427	\$91,045	(4	)%
% of net sales	18.6	% 18.9	%	
Research and development	33,833	31,316	8	
% of net sales	7.2	% 6.5	%	
General and administrative	30,504	36,680	(17	)
% of net sales	6.5	% 7.6	%	
Restructuring charges (credits), net	12,995	—	NM	
% of net sales	2.8	% —	%	
Total operating expenses	\$164,759	\$159,041	4	
% of net sales	35.0	% 33.0	%	

NM=Not Meaningful.

## Marketing and Selling

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

During the three months ended June 30, 2015, marketing and selling expenses decreased 4%, compared to the three months ended June 30, 2014. The decrease was primarily due to a \$2.6 million savings from personnel related costs primarily for Lifesize restructuring and \$2.0 million decrease in the amortization of Lifesize intangible assets, offset by \$1.0 million increase in spend for Music and Gaming product categories.

## Research and Development

Research and development expenses consist of personnel and related overhead, 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 June 30, 2015, research and development expenses increased 8%, compared to the three months ended June 30, 2014. The increase was primarily due to a \$1.5 million investment increase in Seeds development (new business opportunities).

## General and Administrative



General and administrative expenses consist primarily of personnel and related overhead and facilities costs for the finance, information systems, executive, people & culture and legal functions.

During the three months ended June 30, 2015, general and administrative expenses decreased 17%, compared to the three months ended June 30, 2014. The decrease was primarily due to an \$8.5 million reduction related to the prior year's independent Audit committee investigation and related expenses and a \$1.5 million reduction in IT, legal and finance spend, partially offset by a \$3.5 million additional accrual for our proposed settlement with the SEC (see Other Contingencies for more details).

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## Restructuring Charges

During the first quarter of fiscal year 2016, we implemented a restructuring plan to exit the OEM business, reorganize Lifesize to sharpen our focus on its Cloud-based offering, and streamline our overall cost structure through product, overhead and infrastructure cost reductions with a targeted resource realignment. Restructuring charges incurred during the three months ended June 30, 2015 under this plan primarily consisted of severance and other ongoing and one-time termination benefits. Charges and other costs related to the workforce reduction and structure realignment are presented as restructuring charges in the Condensed Consolidated Statements of Operations. We expect to incur approximately \$15 million to \$20 million under this restructuring plan, and expect to substantially complete this restructuring within the next 12 months. We expect this restructuring will save personnel-related costs and other overhead costs and we expect to use the savings from the restructuring to offset currency headwinds and to invest in future growth.

The following table summarizes restructuring related activities during three months ended June 30, 2015.

	Restructuring			
	Termination Benefits	Lease Exit Costs	Other	Total
Accrual balance at March 31, 2015	\$—	\$1,039	—	\$1,039
Charges	12,794	—	201	12,995
Cash payments	(4,675	) (796	) \$(151	) (5,622
Accrual balance at June 30, 2015	8,119	243	50	8,412

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.

## Other Expense, Net

Other income and expense for the three months ended June 30, 2015 and 2014 were as follows (in thousands):

	Three Months Ended		
	June 30, 2015	2014	Change
Investment income related to deferred compensation plan	\$100	\$264	\$(164
Currency exchange losses	(1,275	) (528	) (747
Others	54	66	(12
	\$(1,121	) \$(198	) \$(923

The currency exchange losses were \$1.3 million and \$0.5 million during the three months ended June 30, 2015 and 2014, respectively. Currency exchange 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 currency exchange forward contracts.

## Provision for Income Taxes

The provision for (benefit from) income taxes and effective tax rates for the three months ended June 30, 2015 and 2014 were as follows (in thousands):

Three Months Ended  
June 30,

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	2015		2014	
Provision for (benefit from) income tax	\$(1,324	)	\$3,096	
Effective income tax rate	(21.7	)%	13.6	%

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The change in the effective income tax rate for the three months ended June 30, 2015 compared with the three months ended June 30, 2014 is primarily due to the mix of income and losses in the various tax jurisdictions in which we operate. There was a discrete tax benefit of \$2.2 million and \$0.8 million in the three months ended June 30, 2015 and 2014, respectively, resulting from the preferential income tax rate reduction pursuant to the High and New Technology Enterprise Program in China.

As of June 30 and March 31, 2015, the total amount of unrecognized tax benefits due to uncertain tax positions was \$79.2 million and \$79.0 million, respectively, all of which would affect the effective income tax rate if recognized.

## Liquidity and Capital Resources

## Cash Balances, Available Borrowings, and Capital Resources

As of June 30, 2015, we had cash and cash equivalents of \$492.2 million, compared with \$537.0 million at March 31, 2015. Our cash and cash equivalents consist of bank demand deposits and short-term time deposits of which 62% is held by our subsidiaries in Switzerland, 17% is held by our subsidiaries in the United Kingdom, 13% is held by our subsidiaries in Hong Kong and China, and 8% is held by subsidiaries in various other countries. 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 June 30, 2015, our working capital was \$560.3 million compared with working capital of \$557.1 million at March 31, 2015. Higher accounts receivable and inventory balances increased working capital, offset by lower cash and cash equivalents, and higher accounts payable and accrued liabilities.

During the three months ended June 30, 2015, we used \$25.6 million cash in operating activities. Our main cash outflows of operating cash resulted from increases in accounts receivable and inventories, partially offset by increases in accounts payable and accrued liabilities. Net cash used in investing activities was \$15.6 million, primarily from \$15.3 million of capital expenditure in computer hardware and software, tooling and equipment. Net cash used in financing activities was \$5.4 million, primarily related to share repurchases of \$8.8 million and tax withholdings related to net share settlements of restricted stock units (RSUs) of \$1.3 million, offset by \$4.1 million proceeds from sales of shares upon exercise of options.

We had several uncommitted, unsecured bank lines of credit aggregating \$34.6 million as of June 30, 2015. There are no financial covenants under these lines of credit with which we must comply. As of June 30, 2015, we had outstanding bank guarantees of \$14.3 million under these lines of credit.

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

	Three Months Ended	
	June 30,	
	2015	2014
Net cash provided by (used in) operating activities	\$(25,599	) \$27,758
Net cash used in investing activities	(15,593	) (12,241
Net cash provided by (used in) financing activities	(5,379	) 160
Effect of exchange rate changes on cash and cash equivalents	1,761	(108
Net increase (decrease) in cash and cash equivalents	\$(44,810	) \$15,569

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## Cash Flow from Operating Activities

The following table presents selected financial information and statistics as of June 30, 2015 and 2014 (dollars in thousands):

	As of June 30	
	2015	2014
Accounts receivable, net	\$221,580	\$219,022
Inventories	327,507	240,357
Working capital	560,324	509,207
Days sales in accounts receivable (“DSO”) (Days) (1)	42	41
Inventory turnover (“ITO”) (x)(2)	3.6	5.0

(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 three months ended June 30, 2015, we used cash of \$25.6 million in operating activities, compared to cash provided by operating activities of \$27.8 million for the same period in the prior fiscal year. The primary drivers of the decrease in net cash generated from operating cash flows include and inventory change of \$36 million and a decrease in net income of \$12 million, for the three months ended June 30, 2015 from the three months ended June 30, 2014.

Inventory turnover during the three months ended June 30, 2015 decreased, compared with the three months ended June 30, 2014. The increase in inventory was primarily due to several new product introductions planned for the remainder of fiscal year 2016, transition from ODM to in-house production, adjusting our inventory strategy to emphasize sea shipments rather than air delivery since the fourth quarter of fiscal year 2015, and lingering effects of the port strike on the west coast of the United States. If we are not successful in launching and phasing in our new products in the remainder of fiscal year 2016, or we are not able to sell the new products at the prices planned, it could have a material impact on our gross profit margin, operating results including operating cash flow and inventory turnover in the future.

## Cash Flow from Investing Activities

The following table presents information on our cash flows from investing activities during the three months ended June 30, 2015 and 2014 (in thousands):

	Three Months Ended	
	June 30,	
	2015	2014
Purchases of property, plant and equipment	\$(15,290)	\$(11,243)
Investment in privately held companies	(240)	(1,050)
Purchase of trading investments	(903)	(454)
Proceeds from sales of trading investments	840	506
Net cash used in investing activities	\$(15,593)	\$(12,241)

Our expenditures for property, plant and equipment during the three months ended June 30, 2015 and 2014 were primarily for computer hardware and software, tooling, equipment and leasehold improvements. The increase in purchases of property, plant and equipment during the three months ended June 30, 2015 is mainly arising from the

building of production lines to accommodate the in-house manufacturing of our certain products compared with purchase from third party in prior period to align our goal of cost saving.

The purchases and sales of trading investments in the three months ended June 30, 2015 and 2014 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.

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## Cash Flow from Financing Activities

The following table presents information on our cash flows from financing activities during the three months ended June 30, 2015 and 2014 (in thousands):

	Three Months Ended	
	June 30,	
	2015	2014
Contingent consideration related to prior acquisition	—	(100
Purchases of treasury shares	(8,814	) —
Proceeds from sales of shares upon exercise of options	4,066	574
Tax withholdings related to net share settlements of restricted stock units	(1,296	) (695
Excess tax benefits from share-based compensation	665	381
Net cash provided by (used in) financing activities	\$(5,379	) \$160

During three months ended June 30, 2015, 0.6 million shares were repurchased for \$8.8 million. There were no share repurchases during the three months ended June 30, 2014.

Proceeds from the sale of shares upon exercise of options and purchase rights pursuant to our stock plans during the three months ended June 30, 2015 and 2014 were \$4.1 million and \$0.6 million, respectively. The payment of required tax withholdings related to net share settlements of RSUs during the three months ended June 30, 2015 and 2014 was \$1.3 million and \$0.7 million, respectively.

## 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 2015, we announced a plan to pay \$250 million in cumulative dividends for fiscal year 2015 through fiscal year 2017. The Board of Directors plans to request shareholder approval of the Swiss Franc equivalent of an \$85 million dividend for fiscal year 2015 at our next annual general meeting. Based on an exchange rate of 1CHF=USD1.0283 and the number of shares outstanding as of March 31, 2015, this represents approximately CHF 0.5025 per share, compared to dividend of CHF 0.26 per share for the previous fiscal year. During fiscal year 2015, we paid a cash dividend of CHF 43.1 million (U.S. Dollar amount of \$43.8 million) out of retained earnings.

In March 2014, our Board of Directors approved a new share buyback program, which authorizes us to purchase up to \$250.0 million of 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 through block trades or otherwise. Purchases may be started or stopped at any time without prior notice depending on market conditions and other factors. During three months ended June 30, 2015, 0.6 million shares were repurchased for \$8.8 million. There were no share repurchases during the three months ended June 30, 2014.

During the first quarter of fiscal year 2016, we announced that we are committing to pursue a restructuring, including exiting the OEM business, reorganizing Lifesize to sharpen its focus on its Cloud-based offering, and streamlining the Company's overall cost structure through product, overhead and infrastructure cost reductions with a targeted resource realignment. The Company expects to incur approximately \$15 million to \$20 million under this restructuring plan,

and expects to substantially complete this restructuring within the next 12 months. We expect this restructuring will save personnel-related costs and other overhead costs and we expect to use the savings from the restructuring to offset currency headwinds and to invest in future growth.

During the fourth quarter of fiscal year 2013, we 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.



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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.

### Operating Leases

We lease facilities under operating leases, certain of which require us 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 2030. Our asset retirement obligations on these leases as of June 30, 2015 were not material.

### Purchase Commitments

As of June 30, 2015, we had 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 within the next 12 months. Fixed purchase commitments for capital expenditures primarily relate to commitments for computer hardware, leasehold improvements, and tooling for new and existing products. 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 to reschedule or adjust our requirements based on business needs prior to delivery of goods or performance of services.

### 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, 2015.

### 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 Enforcement Division of the U.S. Securities and Exchange Commission (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 consolidated financial statements concerning warranty accruals and amortization of intangible assets presented in our Amended Annual Report on Form 10-K/A, filed on August 7, 2013, and our transactions with a distributor for Fiscal Year 2007 through Fiscal Year 2009. We have entered into an agreement with the Enforcement Staff to extend the statute of limitations. We are cooperating with the investigation and, after discussions with the Enforcement Staff, we recently made an offer of settlement to resolve the matter, which is subject to approval by the SEC. The proposed settlement would be entered into by us without admitting or denying the SEC's findings and would resolve alleged violations of certain provisions of the Securities Exchange Act of 1934 and related rules, including the anti-fraud provisions. Under the terms of the proposed settlement, we would pay \$7.5 million in a civil penalty and agree not to commit or cause any violations of certain provisions of the Securities Exchange Act of 1934 and related rules. There is no assurance that the proposal

will be approved by the SEC. In accordance with U.S. GAAP, we have made a corresponding accrual in our financial statements.

#### Guarantees

Logitech Europe S.A. guaranteed payments of third-party contract manufacturers' purchase obligations. As of June 30, 2015, the maximum amount of this guarantee was \$3.8 million, of which \$1.6 million of guaranteed purchase obligations were outstanding.

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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 June 30, 2015, 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 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.

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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 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.

Currency Exchange Rates

We report our results in U.S. Dollars. Changes in currency exchange rates compared to the U.S. Dollar can have a material impact on our results when the financial statements of our non-U.S. subsidiaries are translated into U.S. Dollars. The functional currency of our operations is primarily the U.S. Dollar. Certain operations use the Swiss Franc, or the local currency of the country as their functional currencies. Accordingly, unrealized currency gains or losses resulting from the translation of net assets or liabilities denominated in other currencies to the U.S. Dollar are accumulated in the cumulative translation adjustment component of other comprehensive income (loss) in shareholders' equity.

We are exposed to currency exchange rate risk as we transact business in multiple currencies, including exposure related to anticipated sales, anticipated purchases and assets and liabilities denominated in currencies other than the U.S. Dollar. We transact 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.

We report our results in U.S. Dollars. Changes in currency exchange rates compared to the U.S. Dollar can have a material impact on our results when the financial statements of our non-U.S. subsidiaries are translated into U.S. Dollars. For example, for the three months ended June 30, 2015, approximately 42% of our sales were in non-U.S. denominated currencies, with 20% of our sales denominated in Euro. The mix of our operating expenses by currency is significantly different from the mix of our sales, with a larger portion denominated in U.S. Dollar and less denominated in Euro and other currencies. As a result, a strengthening U.S. Dollar has an adverse impact on our operating results. The average exchange rate for the U.S. Dollar for the three months ended June 30, 2015 has strengthened against most of the currencies for the same period in the prior fiscal year, which adversely impacted our actual results for the three months ended June 30, 2015, including our net sales, net income, cash flows from operations and our growth rates year over year.

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If the U.S. Dollar remains at its current strong levels in comparison to other currencies, this will affect our results of operations in future periods as well. The table below provides information about our underlying transactions that are sensitive to currency 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 June 30, 2015. 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	Mexican Peso	\$14,678	\$(1,334	) \$1,631	
U.S. Dollar	Japanese Yen	14,071	(1,279	) 1,563	
U.S. Dollar	Australian Dollar	8,512	(774	) 946	
U.S. Dollar	Canadian Dollar	6,683	(608	) 743	
U.S. Dollar	Indian Rupee	2,006	(182	) 223	
U.S. Dollar	Korean Won	(639	) 58	(71	)
U.S. Dollar	Swiss Franc	(1,671	) 152	(186	)
U.S. Dollar	Singapore Dollar	(6,032	) 548	(670	)
U.S. Dollar	Taiwanese Dollar	(15,478	) 1,407	(1,720	)
U.S. Dollar	Chinese Renminbi	(19,764	) 1,797	(2,196	)
Euro	Swiss Franc	18,420	(1,675	) 2,047	
Euro	U.S. Dollar	15,669	(1,424	) 1,741	
Euro	British Pound	8,116	(738	) 902	
Euro	Turkish Lira	1,108	(101	) 123	
Euro	Polish Zloty	583	(53	) 65	
Euro	Swedish Krona	(1,288	) 117	(143	)
Swiss Franc	British Pound	(874	) 79	(97	)
		\$44,100	\$(4,010	) \$4,901	

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 Chinese Renminbi ("CNY"). As of June 30, 2015, net liabilities held in CNY totaled 19.8 million.

## Derivatives

We enter into currency exchange forward contracts to hedge against exposure to changes in currency exchange rates related to our 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 currency exchange rate risk. We have designated these derivatives as cash flow hedges. 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. We assess 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 currency exposure of forecasted inventory purchases, we immediately recognize the gain or loss on the associated financial instrument in other expense, net. Such gains and losses were not material during the three months ended June 30, 2015 or 2014. Cash flows from such hedges are classified as operating activities in the Condensed Consolidated Statements of Cash Flows. As of June 30, 2015 and March 31, 2015, the notional amounts of currency exchange forward contracts outstanding related to forecasted inventory purchases were \$79.7 million, and \$43.5 million, respectively. Deferred realized gains of \$0.1 million were recorded in accumulated other comprehensive loss as of June 30, 2015, and are

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expected to be reclassified to cost of goods sold when the related inventory is sold. Deferred unrealized losses of \$0.9 million related to open cash flow hedges were recorded in accumulated other comprehensive income as of June 30, 2015 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.

We also enter into currency exchange forward and swap contracts to reduce the short-term effects of currency exchange rate fluctuations on certain foreign currency receivables or payables. These contracts generally mature with one month. The primary risk managed by using forward and swap contracts is the currency exchange rate risk. The gains or losses on these currency exchange contracts are recognized in other expense, net based on the changes in fair value.

The notional amounts of currency exchange contracts outstanding as of June 30 and March 31, 2015 relating to foreign currency receivables or payables were \$52.0 million and \$61.7 million, respectively. The contracts outstanding at June 30, 2015 and March 31, 2015 consisted of contracts in Mexican Pesos, Japanese Yen, British Pounds, Taiwanese Dollars 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 June 30, 2015 and June 30, 2014 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

Logitech's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q, have concluded that, as of such date, our disclosure controls and procedures are effective at the reasonable assurance level.

### Definition of Disclosure Controls

Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in the Company's reports filed 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 SEC's rules and forms. Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. The Company's Disclosure Controls include components of its internal control over financial reporting, which consists of control processes designed to provide reasonable assurance regarding the reliability of its financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the United States. To the extent that components of the Company's internal control over financial reporting are included within its Disclosure Controls, they are included in the scope of the Company's annual controls evaluation.

### Limitations on the Effectiveness of Controls

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that the Company's Disclosure Controls or internal control over financial reporting will prevent all error and all fraud.

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, 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



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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.

### Changes in Internal Control over Financial Reporting

During the three months ended June 30, 2015, the implementation of the Oracle R12 enterprise resource planning ("ERP") system to support our billing, revenue, and purchase process has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. The implementation of the Oracle R12 ERP system resulted primarily in changes to reports, interfaces and IT dependent controls. The implementation of the other systems resulted in changes to the revenue process regarding sub-processes of billing and revenue recognition and purchase process. Therefore, we have modified the design and documentation of internal control processes and procedures relating to the new systems to enhance existing internal controls. The system changes were undertaken as a business initiative to integrate systems between us and our subsidiaries and improve and enhance our internal control over financial reporting, and were not undertaken in response to any actual or perceived deficiencies in our internal control over financial reporting.

Except for the above, there have been no changes in the Company's internal control over financial reporting during the fiscal quarter ended June 30, 2015, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## 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.

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•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.

•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, during periods of weakness in consumer spending or given high levels of competition in many product categories, 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

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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 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 2015 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 approximately 6% of total revenues in each of fiscal years 2015, 2014 and 2013. We plan to exit the OEM business by the end of December 2015.

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, the impact of low oil prices on Russia and conflicts with either local or global financial implications in places such as Russia and 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 gaming, on products for tablets and mobile devices, on products for the consumption of digital music, on products for video collaboration, 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.

**Mobile Speakers.** We are focused on products for the consumption of digital music as a future sales growth area. 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.

**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 do not allocate our resources in line with the market and our business and results of operations could be adversely affected.

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Video Collaboration. While we view the small and medium sized user groups' opportunity to be large and relatively unaddressed, this is a new and evolving market segment that we are developing. If the market opportunity proves to exist, we expect increasing competition from the strong competitors in the video conferencing market as well as potential new entrants. In addition, as this category develops, our video collaboration products may overlap with and reduce the sales of our existing video conferencing products.

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 for tablet and mobile devices peripherals is still uncertain. Also, while this product category grew significantly during fiscal years 2014 and 2013 and we still view it as a growth category, shipments of iPad devices declined significantly throughout fiscal year 2015 and continued to decline in fiscal year 2016. While we have introduced tablet peripherals for certain Android tablets, that segment of the market is currently much smaller than the market for iPad peripherals, 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 has 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 tablet and mobile devices peripherals for use with these devices does not increase, our business and results of operations could be adversely affected.

In addition to our current growth opportunities, our future growth may be reliant on our ability to identify and develop potential new growth opportunities. This process is inherently risky and will result in investments in time and resources for which we do not achieve any return or value.

Each of these growth categories is subject to rapidly changing and evolving technologies and may be replaced by new technology concepts or platforms. Some of these growth categories are also dependent on rapidly changing and evolving consumer preferences with respect to design and features that require calculated risk-taking and fast responsiveness. 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. The industry is also shifting from traditional, hardware-oriented video conferencing solutions to Cloud-based video conferencing solutions, a transition that we are in the process of making as we reorganize our Lifesize business. As a result, 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. This has caused competition to increase 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



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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 peripherals, if any, or may choose to show preference to our competitors' 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.

### Retail Strategic - Growth Categories

**Mobile Speakers.** Our competitors for Bluetooth wireless speakers include Bose, JBL, Hammon Kardon, and Beats Electronics. Bose is our largest competitor. Apple's acquisition of Beats Electronics may impact our access to shelf space in Apple retail stores and adversely impact our ability to succeed in this important growth category.

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

**Video Collaboration.** Our competitors for Video Collaboration products include Cisco Systems, Inc., Polycom, Inc., and Avaya, Inc.

**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. 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 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 growth category.

### Retail Strategic - Profit Maximization Categories

Pointing Devices and Keyboards & Combos. 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, Phillips 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.

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PC Webcams. 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.

Home Control. 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 Comcast and 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 Blue Jeans Networks and Zoom.us. In addition, PC-based multi-person video conferencing applications, such as Microsoft's Lync, Google Hangouts for Business 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.

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.

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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.

In addition, during fiscal year 2016 we are increasing the percentage of our peripheral products that we manufacture in our own facilities. This increases the inventory that we purchase and maintain to support such manufacturing. We are also adjusting our inventory strategy to emphasize sea shipments rather than air delivery, which will cause us to build and ship products to our distribution centers earlier and will also result in increases in inventory. These operational shifts increase the risk that we have excess or obsolete inventory if we do not accurately forecast 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 business strategy, 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, 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

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

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, inventory costs associated with attempting to anticipate consumer preferences, and increased inventory write-offs. 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 2015 and 2014, and we expect to restructure in fiscal year 2016 as we divest or discontinue non-strategic product categories, exit our OEM business and reorganize our Lifesize reporting unit. In addition, we are continuing the rationalization of our G&A, infrastructure and indirect procurement to reduce operating expenses.

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 reduced the size of our product portfolio and the assortment of similar products at similar price points within each product category over the past several fiscal years. While we are constantly replacing products and are dependent on the success of our new products, this product portfolio simplification has made 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, if unsuccessful, could have an adverse impact on our business.

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 continue to review our product portfolio and update our non-strategic product categories and products. At the beginning of fiscal year 2016, we announced that we plan to exit the OEM business. 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. Discontinuing products with service components may also 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.



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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 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 \$122.7 million and \$214.5 million non-cash goodwill impairment charge in fiscal years 2015 and 2013, respectively, 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, changes in distribution partners, practices or models 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 new product categories and markets in pursuit of growth, we will have to build relationships with new channel partners and adapt to new distribution and marketing models. These new partners, practices and models may require significant management attention and operational resources and may affect our accounting, including revenue recognition, gross margins, and the ability to make comparisons from period to period. 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 business 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 direct 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.

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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 peripheral products at facilities we own in China, and we plan to increase that percentage to approximately 60 percent of our peripheral products during fiscal year 2016. 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.

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 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, and optical sensors, 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

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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 2014 with the SEC on May 29, 2015.

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

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.

By locating our manufacturing in China and Southeast Asia, we are reliant on third parties to get our products to distributors around the world. Transportation costs, fuel costs, labor unrest, natural disasters and other adverse effects on our ability, timing and cost of delivering products can increase our inventory, decrease our margins, adversely affect our relationships with distributors and other customers and otherwise adversely affect our results of operations and financial condition.

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.

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;

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- 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.

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.

Our financial performance is subject to risks associated with fluctuations in currency exchange rates.

A significant portion of our business is conducted in currencies other than the U.S. Dollars. Therefore, we face exposure to movements in currency exchange rates.

Our primary exposure to movements in currency exchange rates relates to non-U.S. Dollar denominated sales and operating expenses worldwide. For fiscal year 2015, approximately 44% of our revenue was in non-U.S. denominated currencies. Weakening of currencies relative to the U.S. Dollar adversely affects the U.S. Dollar value of our non-U.S. Dollar-denominated sales and earnings. If we raise international pricing to compensate, it could potentially reduce demand for our products, adversely affecting our sales and potentially having an adverse impact on our market share. Margins on sales of our products in non-U.S. Dollar denominated countries and on sales of products that include components obtained from suppliers in non-U.S. Dollar denominated countries could be adversely affected by currency exchange rate fluctuations. In some circumstances, for competitive or other reasons, we may decide not to raise local prices to fully offset the U.S. Dollar's strengthening, which would adversely affect the U.S. Dollar value of our non-U.S. Dollar-denominated sales and earnings. Competitive conditions in the markets in which we operate may also limit our ability to increase prices in the event of fluctuations in currency exchange rates. Conversely, strengthening of currency rates may also increase our product component costs and other expenses denominated in those currencies, adversely affecting operating results. We further note that a larger portion of our sales than of our expenses are denominated in non-U.S. denominated currencies.

We use derivative instruments to hedge certain exposures to fluctuations in currency exchange rates. The use of such hedging activities may not offset any, or more than a portion, of the adverse financial effects of unfavorable movements in currency exchange rates over the limited time the hedges are in place and do not protect us from long term shifts in currency exchange rates.

As a result, fluctuations in currency exchange rates could adversely affect our business, operating results and financial condition. Moreover, these exposures may change over time.

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.



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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 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 that our articles of incorporation 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 are expected to change in response to certain guidance and demands from both the European Union and the Organization for Economic Co-operation and Development and 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

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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.

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.

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, governmental regulation and risks of security breaches.

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. The collection of user data heightens the risk of security breaches related to our IT systems and the systems of third-party data storage and other service and IT providers. Such laws and

regulations, and the variation between jurisdictions, as well as additional security measures and risk, 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 devoted significant resources to the upgrade of our worldwide business application suite to Oracle's version R12. We recently implemented that upgrade and will be reviewing the success of that implementation through fiscal year 2016 and into fiscal year 2017. As we transition to the new business

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application suite, we may experience difficulties with our systems, management distraction, lack of visibility into our business operations and results, 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. For example, the transition has resulted in delays in processing customer claims for claims accruals. 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.

In previous periods, we identified material weaknesses in our internal control over financial reporting and, if we are unable to satisfy regulatory requirements relating to internal controls or if our internal control over financial reporting is not effective, our business and stock price could be adversely affected.

In connection with Section 404 of the Sarbanes-Oxley Act, we have identified in the past and may, from time-to-time in the future, identify issues with our internal controls and deficiencies 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 and our Quarterly Reports on Form 10-Q for the first and second quarters 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, and the identification in previous periods of significant deficiencies in our internal controls 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, 2013 and March 31 2014, based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control-An Integrated Framework (1992). While we believe that we have remediated these material weaknesses, if we find that our remediation efforts were not effective or if additional material weaknesses or significant deficiencies in our internal controls 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, we could be subject to litigation which, whether meritorious or not, could be time consuming, costly or divert significant operational resources, we could lose investor confidence in the accuracy and completeness of our financial reports, and our reputation, business, results of operations and stock price could be adversely affected.

In addition, in May 2013, COSO issued a new version of its internal control framework, which has been 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.

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. We recorded an additional impairment charge of goodwill of \$122.7 million related to our video conferencing

reporting unit in fiscal year 2015, reducing the goodwill of our video conferencing reporting unit to zero, which substantially impacted our operating results again. As we attempt to effect a turnaround of our business, 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

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## Share Repurchases

In fiscal year 2016, the following approved share buyback program was in place:

Share Buyback Program	Shares	Approved Amounts
March 2014	17,311	\$250,000

The following table presents certain information related to purchases made by Logitech of its equity securities under the share buyback program above (in thousands, except per share amounts):

During the three months ended	Total Number of Shares Repurchased	Weighted Average Price Paid Per Share		Remaining Amount that May Yet Be Repurchased under the Program
		CHF	USD	
Month 1 April 1, 2015 to April 24, 2015	—	—	—	\$248,337
Month 2 April 25, 2015 to May 22, 2015	512	—	15.24	240,526
Month 3 May 23, 2015 to June 26, 2015	65	—	15.44	239,523
Total	577	—	15.27	239,523

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5. OTHER INFORMATION

None.

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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.



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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.

July 24, 2015

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

July 24, 2015

/s/ Vincent Pilette  
Vincent Pilette  
Chief Financial Officer