

LOGITECH INTERNATIONAL SA

Form 10-Q

November 14, 2014

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2014**

**Or**

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

**For the Transition Period from                      to**

**Commission File Number: 0-29174**

# LOGITECH INTERNATIONAL S.A.

(Exact name of registrant as specified in its charter)

**Canton of Vaud, Switzerland**  
(State or other jurisdiction  
of incorporation or organization)

**None**  
(I.R.S. Employer  
Identification No.)

**Logitech International S.A.**

**Apples, Switzerland**

**c/o Logitech Inc.**

**7600 Gateway Boulevard**

**Newark, California 94560**

(Address of principal executive offices and zip code)

**(510) 795-8500**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

Accelerated filer ☐  
Smaller reporting company ☐

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

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

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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.

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

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**PART I FINANCIAL INFORMATION**

**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

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**LOGITECH INTERNATIONAL S.A.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share amounts)

(unaudited)

|                                               | Three Months Ended<br>June 30, |            |
|-----------------------------------------------|--------------------------------|------------|
|                                               | 2014                           | 2013       |
| Net sales                                     | \$ 482,203                     | \$ 478,530 |
| Cost of goods sold                            | 300,450                        | 309,268    |
| Gross profit                                  | 181,753                        | 169,262    |
| Operating expenses:                           |                                |            |
| Marketing and selling                         | 91,045                         | 101,093    |
| Research and development                      | 31,316                         | 36,527     |
| General and administrative                    | 36,680                         | 29,077     |
| Restructuring charges, net                    |                                | 2,334      |
| Total operating expenses                      | 159,041                        | 169,031    |
| Operating income                              | 22,712                         | 231        |
| Interest income (expense), net                | 258                            | (23)       |
| Other income (expense), net                   | (198)                          | 217        |
| Income before income taxes                    | 22,772                         | 425        |
| Provision for (benefit from) income taxes     | 3,096                          | (801)      |
| Net income                                    | \$ 19,676                      | \$ 1,226   |
| Net income per share:                         |                                |            |
| Basic                                         | \$ 0.12                        | \$ 0.01    |
| Diluted                                       | \$ 0.12                        | \$ 0.01    |
| Shares used to compute net income per share : |                                |            |
| Basic                                         | 163,012                        | 159,298    |
| Diluted                                       | 165,833                        | 160,281    |

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

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**LOGITECH INTERNATIONAL S.A.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(In thousands)**

**(unaudited)**

|                                                                 | <b>Three Months Ended<br/>June 30,</b> |             |
|-----------------------------------------------------------------|----------------------------------------|-------------|
|                                                                 | <b>2014</b>                            | <b>2013</b> |
| Net income                                                      | \$ 19,676                              | \$ 1,226    |
| Other comprehensive income:                                     |                                        |             |
| Foreign currency translation gain                               | 201                                    | 699         |
| Defined benefit pension plans:                                  |                                        |             |
| Net gain and prior service costs, net of taxes                  | 139                                    | 565         |
| Amortization included in operating expenses                     | 113                                    | 1,085       |
| Hedging gain (loss):                                            |                                        |             |
| Unrealized hedging gain (loss)                                  | 248                                    | (913)       |
| Reclassification of hedging gain included in cost of goods sold | 400                                    | 278         |
| Other comprehensive income:                                     | 1,101                                  | 1,714       |
| Total comprehensive income                                      | \$ 20,777                              | \$ 2,940    |

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

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

|                                                                                       | June 30,<br>2014 | March 31,<br>2014 |
|---------------------------------------------------------------------------------------|------------------|-------------------|
| <b>Assets</b>                                                                         |                  |                   |
| Current assets:                                                                       |                  |                   |
| Cash and cash equivalents                                                             | \$ 484,981       | \$ 469,412        |
| Accounts receivable, net                                                              | 219,022          | 182,029           |
| Inventories                                                                           | 240,357          | 222,402           |
| Other current assets                                                                  | 63,418           | 59,157            |
| Total current assets                                                                  | 1,007,778        | 933,000           |
| Non-current assets:                                                                   |                  |                   |
| Property, plant and equipment, net                                                    | 89,966           | 88,391            |
| Goodwill                                                                              | 344,842          | 345,010           |
| Other intangible assets                                                               | 7,724            | 10,529            |
| Other assets                                                                          | 65,167           | 74,460            |
| Total assets                                                                          | \$ 1,515,477     | \$ 1,451,390      |
| <b>Liabilities and Shareholders' Equity</b>                                           |                  |                   |
| Current liabilities:                                                                  |                  |                   |
| Accounts payable                                                                      | \$ 285,484       | \$ 242,815        |
| Accrued and other current liabilities                                                 | 213,087          | 211,972           |
| Total current liabilities                                                             | 498,571          | 454,787           |
| Non-current liabilities:                                                              |                  |                   |
| Income taxes payable                                                                  | 84,282           | 93,126            |
| Other non-current liabilities                                                         | 99,916           | 99,349            |
| Total liabilities                                                                     | 682,769          | 647,262           |
| Commitments and contingencies (note 11)                                               |                  |                   |
| Shareholders' equity:                                                                 |                  |                   |
| Registered shares, CHF 0.25 par value:                                                | 30,148           | 30,148            |
| Issued and authorized shares 173,106 at June 30, 2014 and March 31, 2014              |                  |                   |
| Conditionally authorized shares 50,000 at June 30, 2014 and March 31, 2014            |                  |                   |
| Additional paid-in capital                                                            | 4,416            |                   |
| Less shares in treasury, at cost 10,022 at June 30, 2014 and 10,206 at March 31, 2014 | (113,123)        | (116,510)         |
| Retained earnings                                                                     | 995,968          | 976,292           |
| Accumulated other comprehensive loss                                                  | (84,701)         | (85,802)          |
| Total shareholders' equity                                                            | 832,708          | 804,128           |
| Total liabilities and shareholders' equity                                            | \$ 1,515,477     | \$ 1,451,390      |

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





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**LOGITECH INTERNATIONAL S.A.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(unaudited)

|                                                                                                         | <b>Three Months Ended<br/>June 30,</b> |             |
|---------------------------------------------------------------------------------------------------------|----------------------------------------|-------------|
|                                                                                                         | <b>2014</b>                            | <b>2013</b> |
| <b>Operating activities:</b>                                                                            |                                        |             |
| Net income                                                                                              | \$ 19,676                              | \$ 1,226    |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities:             |                                        |             |
| Depreciation                                                                                            | 9,951                                  | 11,131      |
| Amortization of other intangible assets                                                                 | 2,782                                  | 5,264       |
| Share-based compensation expense                                                                        | 6,938                                  | 4,390       |
| Impairment of investments                                                                               |                                        | 370         |
| Loss on disposal of property, plant and equipment                                                       | 22                                     | 2,311       |
| Excess tax benefits from share-based compensation                                                       | (381)                                  |             |
| Deferred income taxes                                                                                   | (1,832)                                | (3,416)     |
| Changes in operating assets and liabilities, net of acquisitions:                                       |                                        |             |
| Accounts receivable, net                                                                                | (36,663)                               | (39,505)    |
| Inventories                                                                                             | (18,463)                               | (28,286)    |
| Other assets                                                                                            | (2,063)                                | (1,770)     |
| Accounts payable                                                                                        | 40,775                                 | 32,970      |
| Accrued and other liabilities                                                                           | 7,016                                  | 15,156      |
| Net cash provided by (used in) operating activities                                                     | 27,758                                 | (159)       |
| <b>Investing activities:</b>                                                                            |                                        |             |
| Purchases of property, plant and equipment                                                              | (11,243)                               | (14,356)    |
| Investments in privately held companies                                                                 | (1,050)                                |             |
| Acquisitions, net of cash acquired                                                                      |                                        | (650)       |
| Purchase of trading investments                                                                         | (454)                                  | (4,406)     |
| Proceeds from sales of trading investments                                                              | 506                                    | 4,748       |
| Net cash used in investing activities                                                                   | (12,241)                               | (14,664)    |
| <b>Financing activities:</b>                                                                            |                                        |             |
| Contingent consideration related to prior acquisition                                                   | (100)                                  |             |
| Proceeds from sales of shares upon exercise of options and purchase rights                              | 574                                    | 12          |
| Tax withholdings related to net share settlements of restricted stock units                             | (695)                                  | (215)       |
| Excess tax benefits from share-based compensation                                                       | 381                                    |             |
| Net cash provided by (used in) financing activities                                                     | 160                                    | (203)       |
| Effect of exchange rate changes on cash and cash equivalents                                            | (108)                                  | 59          |
| Net increase (decrease) in cash and cash equivalents                                                    | 15,569                                 | (14,967)    |
| Cash and cash equivalents, beginning of the period                                                      | 469,412                                | 333,824     |
| Cash and cash equivalents, end of the period                                                            | \$ 484,981                             | \$ 318,857  |
| <b>Non-cash investing activities:</b>                                                                   |                                        |             |
| Property, plant and equipment purchased during the period and included in period end liability accounts | \$ 5,459                               | \$ 1,422    |

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

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## LOGITECH INTERNATIONAL S.A.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands)

(unaudited)

|                                                              | Registered Shares | Amount    | Additional Paid-in Capital | Treasury Shares | Amount       | Retained Earnings | Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
|--------------------------------------------------------------|-------------------|-----------|----------------------------|-----------------|--------------|-------------------|--------------------------------------|----------------------------|
| <b>March 31, 2013</b>                                        | 173,106           | \$ 30,148 |                            | 13,855          | \$ (179,990) | \$ 966,924        | \$ (95,129)                          | \$ 721,953                 |
| Total comprehensive income                                   |                   |           |                            |                 |              | 1,226             | 1,714                                | 2,940                      |
| Tax effects from share-based awards                          |                   |           | (463)                      |                 |              |                   |                                      | (463)                      |
| Sales of shares upon exercise of options and purchase rights |                   |           | (78)                       | (5)             | 90           |                   |                                      | 12                         |
| Issuance of shares upon vesting of restricted stock units    |                   |           | (1,245)                    | (61)            | 1,028        |                   |                                      | (217)                      |
| Share-based compensation expense                             |                   |           | 4,402                      |                 |              |                   |                                      | 4,402                      |
| <b>June 30, 2013</b>                                         | 173,106           | \$ 30,148 | \$ 2,616                   | 13,789          | \$ (178,872) | \$ 968,150        | \$ (93,415)                          | \$ 728,627                 |
| <b>March 31, 2014</b>                                        | 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 and purchase rights |                   |           | (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                      |
| <b>June 30, 2014</b>                                         | 173,106           | \$ 30,148 | \$ 4,416                   | 10,022          | \$ (113,123) | \$ 995,968        | \$ (84,701)                          | \$ 832,708                 |

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

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**LOGITECH INTERNATIONAL S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**Note 1 The Company**

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

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

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

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

**Note 2 Revision of Previously-Issued Financial Statements**

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

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

Table of Contents*Consolidated Statement of Operations.*

The following table presents the impact of the correcting adjustments on the Company's previously-reported consolidated statement of operations for the three months ended June 30, 2013, (in thousands, except per share amounts):

|                                              | Three months ended June 30, 2013 |               |            |
|----------------------------------------------|----------------------------------|---------------|------------|
|                                              | As Reported                      | Adjustments * | As Revised |
| Net sales                                    | \$ 477,924                       | \$ 606        | \$ 478,530 |
| Cost of goods sold                           | 309,569                          | (301)         | 309,268    |
| Gross profit                                 | 168,355                          | 907           | 169,262    |
| Operating expenses:                          |                                  |               |            |
| Marketing and selling                        | 100,635                          | 458           | 101,093    |
| Research and development                     | 36,191                           | 336           | 36,527     |
| General and administrative                   | 29,148                           | (71)          | 29,077     |
| Restructuring charges                        | 2,334                            |               | 2,334      |
| Total operating expenses                     | 168,308                          | 723           | 169,031    |
| Operating income                             | 47                               | 184           | 231        |
| Interest expense                             | (23)                             |               | (23)       |
| Other income                                 | 217                              |               | 217        |
| Income before income taxes                   | 241                              | 184           | 425        |
| Benefit from income taxes                    | (802)                            | 1             | (801)      |
| Net income                                   | \$ 1,043                         | \$ 183        | \$ 1,226   |
| Net income per share:                        |                                  |               |            |
| Basic                                        | \$ 0.01                          | \$            | \$ 0.01    |
| Diluted                                      | \$ 0.01                          | \$            | \$ 0.01    |
| Shares used to compute net income per share: |                                  |               |            |
| Basic                                        | 159,298                          |               | 159,298    |
| Diluted                                      | 160,281                          |               | 160,281    |

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

Table of Contents*Consolidated Statement of Comprehensive Income*

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

|                                                        | As Reported | Three Months Ended<br>June 30, 2013<br>Adjustments * | As Revised |
|--------------------------------------------------------|-------------|------------------------------------------------------|------------|
| Net income                                             | \$ 1,043    | \$ 183                                               | \$ 1,226   |
| Other comprehensive income (loss):                     |             |                                                      |            |
| Foreign currency translation gain                      | 101         | 598                                                  | 699        |
| Defined benefit pension plans:                         |             |                                                      |            |
| Net (loss) gain and prior service costs, net of taxes  | (196)       | 761                                                  | 565        |
| Reclass of amortization included in operating expenses | 306         | 779                                                  | 1,085      |
| Hedging gain (loss):                                   |             |                                                      |            |
| Unrealized hedging loss                                | (913)       |                                                      | (913)      |
| Reclass of hedging gain included in cost of goods sold | 278         |                                                      | 278        |
| Other comprehensive income (loss):                     | (424)       | 2,138                                                | 1,714      |
| Total comprehensive income                             | \$ 619      | \$ 2,321                                             | \$ 2,940   |

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



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## Consolidated Statement of Cash Flows

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

|                                                                                                         | Three months ended June 30, 2013 |               |            |
|---------------------------------------------------------------------------------------------------------|----------------------------------|---------------|------------|
|                                                                                                         | As Reported                      | Adjustments * | As Revised |
| Cash flows from operating activities:                                                                   |                                  |               |            |
| Net income                                                                                              | \$ 1,043                         | \$ 183        | \$ 1,226   |
| Adjustments to reconcile net income to net cash provided by operating activities:                       |                                  |               |            |
| Depreciation                                                                                            | 10,139                           | 992           | 11,131     |
| Amortization of other intangible assets                                                                 | 5,264                            |               | 5,264      |
| Share-based compensation expense                                                                        | 4,390                            |               | 4,390      |
| Impairment of investments                                                                               | 370                              |               | 370        |
| Loss on disposal of property, plant and equipment                                                       | 2,311                            |               | 2,311      |
| Deferred income taxes and other                                                                         | (3,416)                          |               | (3,416)    |
| Changes in assets and liabilities, net of acquisitions:                                                 |                                  |               |            |
| Accounts receivable                                                                                     | (38,899)                         | (606)         | (39,505)   |
| Inventories                                                                                             | (28,052)                         | (234)         | (28,286)   |
| Other assets                                                                                            | (1,770)                          |               | (1,770)    |
| Accounts payable                                                                                        | 33,580                           | (610)         | 32,970     |
| Accrued and other liabilities                                                                           | 13,733                           | 1,423         | 15,156     |
| Net cash used in operating activities                                                                   | (1,307)                          | 1,148         | (159)      |
| Cash flows from investing activities:                                                                   |                                  |               |            |
| Purchases of property, plant and equipment                                                              | (13,208)                         | (1,148)       | (14,356)   |
| Acquisitions, net of cash acquired                                                                      | (650)                            |               | (650)      |
| Purchases of trading investments                                                                        | (4,406)                          |               | (4,406)    |
| Proceeds from sales of trading investments                                                              | 4,748                            |               | 4,748      |
| Net cash used in investing activities                                                                   | (13,516)                         | (1,148)       | (14,664)   |
| Cash flows from financing activities:                                                                   |                                  |               |            |
| Proceeds from sales of shares upon exercise of options and purchase rights                              | 12                               |               | 12         |
| Tax withholdings related to net share settlements of restricted stock units                             | (215)                            |               | (215)      |
| Net cash used in financing activities                                                                   | (203)                            |               | (203)      |
| Effect of exchange rate changes on cash and cash equivalents                                            | 59                               |               | 59         |
| Net decrease in cash and cash equivalents                                                               | (14,967)                         |               | (14,967)   |
| Cash and cash equivalents at beginning of period                                                        | 333,824                          |               | 333,824    |
| Cash and cash equivalents at end of period                                                              | \$ 318,857                       | \$            | \$ 318,857 |
| Non-cash investing activities:                                                                          |                                  |               |            |
| Property, plant and equipment purchased during the period and included in period end liability accounts | \$ 1,422                         |               | \$ 1,422   |

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

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**Note 3 Summary of Significant Accounting Policies**

***Basis of Presentation***

The consolidated interim financial statements include the accounts of Logitech and its subsidiaries. All intercompany balances and transactions have been eliminated. The consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ( GAAP ) for interim financial information and therefore do not include all the information required by GAAP for complete financial statements. They should be read in conjunction with the Company's audited consolidated financial statements for the fiscal year ended March 31, 2014, included in its Annual Report on Form 10-K filed with the Securities and Exchange Commission ( SEC ) on November 13, 2014. In the opinion of management, these consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results for the periods presented. Operating results for the three months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2015, or any future periods.

***Fiscal Year***

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

***Changes in Significant Accounting Policies***

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

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make judgments, estimates and assumptions that affect reported amounts of assets, liabilities, net sales and expenses, and the disclosure of contingent assets and liabilities. Examples of significant estimates and assumptions made by management involve the fair value of goodwill, accruals for customer programs, inventory valuation, valuation allowances for deferred tax assets and warranty accruals. Although these estimates are based on management's best knowledge of current events and actions that may impact the Company in the future, actual results could differ from those estimates.

***Recent Accounting Pronouncements***

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

Table of Contents**Note 4 Net Income per Share**

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

|                                                         | <b>Three Months Ended<br/>June 30,</b> |             |
|---------------------------------------------------------|----------------------------------------|-------------|
|                                                         | <b>2014</b>                            | <b>2013</b> |
| <b>Net income</b>                                       | \$ 19,676                              | \$ 1,226    |
| <b>Shares used in net income per share computation:</b> |                                        |             |
| Weighted average shares outstanding - basic             | 163,012                                | 159,298     |
| Effect of potentially dilutive equivalent shares        | 2,821                                  | 983         |
| Weighted average shares outstanding - diluted           | 165,833                                | 160,281     |
| <b>Net income per share:</b>                            |                                        |             |
| Basic                                                   | \$ 0.12                                | \$ 0.01     |
| Diluted                                                 | \$ 0.12                                | \$ 0.01     |

As of June 30, 2014 and 2013, 9,947,880 and 19,455,154 share equivalents attributable to outstanding stock options, RSUs, and ESPP were excluded from the calculation of diluted net income per share because to do so would have been anti-dilutive for the periods indicated.

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

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

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

|                          | <b>Three Months Ended<br/>June 30,</b> |             |
|--------------------------|----------------------------------------|-------------|
|                          | <b>2014</b>                            | <b>2013</b> |
| Cost of goods sold       | \$ 538                                 | \$ 577      |
| Marketing and selling    | 2,556                                  | 1,906       |
| Research and development | 844                                    | 1,094       |

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|                                                           |          |          |
|-----------------------------------------------------------|----------|----------|
| General and administrative                                | 3,000    | 813      |
| Total share-based compensation expense                    | 6,938    | 4,390    |
| Income tax benefit                                        | (1,184)  | (875)    |
| Total share-based compensation expense, net of income tax | \$ 5,754 | \$ 3,515 |

During the three months ended June 30, 2014 and 2013, the Company capitalized \$0.5 million and \$0.4 million, respectively, of stock-based compensation expenses as inventory.

## *Defined Contribution Plans*

Certain of the Company's subsidiaries have defined contribution employee benefit plans covering all or a portion of their employees. Contributions to these plans are discretionary for certain plans and are based on specified or statutory requirements for others. The charges to expense for these plans for the three months ended June 30, 2014 and 2013 were \$1.6 million and \$1.7 million, respectively.

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***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 \$2.0 million and \$3.0 million for the three months ended June 30, 2014 and 2013, respectively, was primarily related to service costs.

**Note 6 Income Taxes**

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

The income tax provision for the three months ended June 30, 2014 was \$3.1 million based on an effective income tax rate of 13.6% of pre-tax income, compared to an income tax benefit of \$0.8 million based on an effective income tax rate of (188.5%) of pre-tax income for the three months ended June 30, 2013. The change in the effective income tax rate for the three months ended June 30, 2014, compared to the three months ended June 30, 2013, was primarily due to the mix of income and losses in the various tax jurisdictions in which the Company operates.

As of June 30 and March 31, 2014, the total amount of unrecognized tax benefits due to uncertain tax positions was \$91.8 million and \$91.0 million, respectively, of which \$86.8 million and \$86.1 million, respectively, would affect the effective income tax rate if recognized.

As of June 30, 2014, the Company had \$84.3 million in non-current income taxes payable and \$0.3 million in current income taxes payable, including interest and penalties, related to our income tax liability for uncertain tax positions. As of March 31, 2014, the Company had \$93.1 million in non-current income taxes payable and \$0.3 million in current income taxes payable.

During the quarter ended June 30, 2014, the Company adopted ASU No. 2013-11 *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. ASU No. 2013-11 requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose. In that case, the unrecognized tax benefit should be presented in the financial statements as a liability instead and should not be netted with the deferred tax asset. This accounting standard became effective for the Company on April 1, 2014 and was applied prospectively to unrecognized tax benefits that existed as of the effective date. Upon adoption of this guidance, the Company netted \$9.8 million of unrecognized tax benefits previously presented as non-current income taxes payable as a reduction to non-current deferred tax assets for tax credit carryforwards.

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The Company continues to recognize interest and penalties related to unrecognized tax positions in income tax expense. As of June 30 and March 31, 2014, the Company had \$5.7 million and \$5.6 million, respectively, of accrued interest and penalties related to uncertain tax positions, respectively.

The Company files Swiss and foreign tax returns. For all these tax returns, the Company is generally not subject to tax examinations for years prior to fiscal year 2001. The Company is under examination and has received assessment notices in other tax jurisdictions. At this time, the Company is not able to estimate the potential impact that these examinations may have on its income tax expense. If the examinations are resolved unfavorably, there is a possibility they may have a material negative impact on the Company's results of operations.

Although the Company has adequately provided for uncertain tax positions, the provisions on these positions may change as revised estimates are made or the underlying matters are settled or otherwise resolved. During fiscal year 2015, the Company will continue to review its tax positions and provide for or reverse unrecognized tax benefits as issues arise. During the next 12 months, it is reasonably possible that the amount of unrecognized tax benefits could increase or decrease significantly due to changes in tax law in various jurisdictions, new tax audits and changes in the U.S. dollar as compared to foreign currencies. Excluding these factors, uncertain tax positions may decrease by as much as \$15.0 million to \$17.3 million primarily from the lapse of the statutes of limitations in various jurisdictions during the next 12 months.

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

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

|                                                  | June 30,<br>2014 | March 31,<br>2014 |
|--------------------------------------------------|------------------|-------------------|
| Accounts receivable:                             |                  |                   |
| Accounts receivable                              | \$ 387,502       | \$ 338,194        |
| Allowance for doubtful accounts                  | (1,657)          | (1,712)           |
| Allowance for sales returns                      | (17,301)         | (19,472)          |
| Allowance for cooperative marketing arrangements | (31,928)         | (24,135)          |
| Allowance for customer incentive programs        | (45,116)         | (41,400)          |
| Allowance for pricing programs                   | (72,478)         | (69,446)          |
|                                                  | \$ 219,022       | \$ 182,029        |
| Inventories:                                     |                  |                   |
| Raw materials                                    | \$ 22,194        | \$ 24,031         |
| Work-in-process                                  | 31               | 42                |
| Finished goods                                   | 218,132          | 198,329           |
|                                                  | \$ 240,357       | \$ 222,402        |
| Other current assets:                            |                  |                   |
| Income tax and value-added tax receivables       | \$ 16,908        | \$ 18,252         |
| Deferred tax assets                              | 29,410           | 27,013            |
| Prepaid expenses and other assets                | 17,100           | 13,892            |
|                                                  | \$ 63,418        | \$ 59,157         |
| Property, plant and equipment, net:              |                  |                   |
| Plant, buildings and improvements                | \$ 71,039        | \$ 69,897         |
| Equipment                                        | 138,396          | 134,975           |
| Computer equipment                               | 40,182           | 40,610            |
| Software                                         | 81,210           | 81,179            |
|                                                  | 330,827          | 326,661           |
| Less accumulated depreciation and amortization   | (263,116)        | (256,424)         |
|                                                  | 67,711           | 70,237            |
| Construction-in-process                          | 19,430           | 15,362            |
| Land                                             | 2,825            | 2,792             |
|                                                  | \$ 89,966        | \$ 88,391         |
| Other assets:                                    |                  |                   |
| Deferred tax assets                              | \$ 41,648        | \$ 52,883         |
| Trading investments                              | 17,559           | 16,611            |
| Other assets                                     | 5,960            | 4,966             |
|                                                  | \$ 65,167        | \$ 74,460         |



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

|                                               | June 30,<br>2014 | March 31,<br>2014 |
|-----------------------------------------------|------------------|-------------------|
| <b>Accrued and other current liabilities:</b> |                  |                   |
| Accrued personnel expenses                    | \$ 55,386        | \$ 55,165         |
| Accrued marketing expenses                    | 13,456           | 12,844            |
| Indirect customer incentive programs          | 30,592           | 31,737            |
| Accrued restructuring                         | 2,033            | 2,121             |
| Deferred revenue                              | 21,500           | 22,529            |
| Accrued freight and duty                      | 6,845            | 6,276             |
| Value-added taxes payable                     | 7,289            | 9,354             |
| Accrued royalties                             | 2,266            | 2,653             |
| Warranty accrual                              | 13,338           | 13,905            |
| Employee benefit plan obligation              | 1,129            | 1,100             |
| Income taxes payable                          | 5,556            | 7,701             |
| Other current liabilities                     | 53,697           | 46,587            |
|                                               | \$ 213,087       | \$ 211,972        |
| <b>Non-current liabilities:</b>               |                  |                   |
| Warranty accrual                              | \$ 10,082        | \$ 10,475         |
| Obligation for deferred compensation          | 17,559           | 16,611            |
| Long term restructuring                       | 5,065            | 5,440             |
| Employee benefit plan obligation              | 37,859           | 37,899            |
| Deferred rent                                 | 15,239           | 15,555            |
| Deferred tax liability                        | 2,174            | 2,304             |
| Long term deferred revenue                    | 10,211           | 9,350             |
| Other non-current liabilities                 | 1,727            | 1,715             |
|                                               | \$ 99,916        | \$ 99,349         |

**Note 8 Fair Value Measurements*****Fair Value Measurements***

The Company considers fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The Company uses the following three-level fair value hierarchy to establish the priorities of the inputs used to measure fair value:

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

observable or can be corroborated by observable market data.

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

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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, 2014 |         | March 31, 2014 |         |
|-----------------------------------------------------|---------------|---------|----------------|---------|
|                                                     | Level 1       | Level 2 | Level 1        | Level 2 |
| Cash equivalents:                                   |               |         |                |         |
| Cash equivalents                                    | 194,962       |         | 200,641        |         |
|                                                     | \$ 194,962    | \$      | \$ 200,641     | \$      |
| Trading investments for deferred compensation plan: |               |         |                |         |
| Money market funds                                  | \$ 3,237      | \$      | \$ 3,139       | \$      |
| Mutual funds                                        | 14,322        |         | 13,472         |         |
|                                                     | \$ 17,559     | \$      | \$ 16,611      | \$      |
| Foreign exchange derivative assets                  | \$            | \$ 179  | \$             | \$ 155  |
| Foreign exchange derivative liabilities             | \$            | \$ 287  | \$             | \$ 701  |

There were no significant Level 3 financial assets during the three months ended June 30, 2014 and March 31, 2014.

***Cash and Cash Equivalents***

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

***Investment Securities***

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

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

**Derivative Financial Instruments**

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

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

|                                      | Derivatives      |                   |                  |                   |
|--------------------------------------|------------------|-------------------|------------------|-------------------|
|                                      | Asset            |                   | Liability        |                   |
|                                      | June 30,<br>2014 | March 31,<br>2014 | June 30,<br>2014 | March 31,<br>2014 |
| Designed as hedging instruments:     |                  |                   |                  |                   |
| Cash flow hedges                     | \$ 40            | \$ 4              | \$ 3             | \$ 243            |
| Not designed as hedging instruments: |                  |                   |                  |                   |
| Foreign exchange contracts           | 139              | 151               | 284              | 458               |
|                                      | \$ 179           | \$ 155            | \$ 287           | \$ 701            |

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

|                                      | Amount of                  |          | Three Months Ended            |        | Amount of Gain (Loss)         |          |
|--------------------------------------|----------------------------|----------|-------------------------------|--------|-------------------------------|----------|
|                                      | Gain (Loss) Deferred as a  |          | June 30,                      |        | Immediately Recognized in     |          |
|                                      | Component of Accumulated   |          | Amount of Loss                |        | Other Income (Expense), Net   |          |
|                                      | Other Comprehensive Income |          | Reclassified from Accumulated |        | Other Comprehensive Income to |          |
|                                      |                            |          | Costs of Goods Sold           |        |                               |          |
|                                      | 2014                       | 2013     | 2014                          | 2013   | 2014                          | 2013     |
| Designed as hedging instruments:     |                            |          |                               |        |                               |          |
| Cash flow hedges                     | \$ 648                     | \$ (635) | \$ 400                        | \$ 278 | \$ (55)                       | \$ 30    |
| Not designed as hedging instruments: |                            |          |                               |        |                               |          |
| Foreign exchange contracts           |                            |          |                               |        | (419)                         | 1,385    |
|                                      | \$ 648                     | \$ (635) | \$ 400                        | \$ 278 | \$ (474)                      | \$ 1,415 |

**Cash Flow Hedges**

The Company enters into foreign exchange forward contracts to hedge against exposure to changes in foreign currency exchange rates related to its subsidiaries' forecasted inventory purchases. The Company has one entity with a euro functional currency that purchases inventory in U.S. dollars. The primary risk managed by using derivative instruments is the foreign currency exchange rate risk. The Company has designated these derivatives as cash flow hedges. The Company does not use derivative financial instruments for trading or speculative purposes. These hedging contracts mature within four months, and are denominated in the same currency as the underlying transactions. Gains and losses in the fair value of the effective portion of the hedges are deferred as a component of accumulated other comprehensive loss until the hedged inventory purchases are sold, at which time the gains or losses are reclassified to cost of goods sold. The Company assesses the effectiveness of the hedges by comparing changes in the spot rate of the currency underlying the forward contract with changes in the spot rate of the currency in which the forecasted transaction will be consummated. If the underlying transaction being hedged fails to occur or if a portion of the hedge does not generate offsetting changes in the foreign currency exposure of forecasted inventory purchases, the Company immediately recognizes the gain or loss on the associated financial instrument in other income (expense), net. Such gains and losses were immaterial during the three months ended June 30, 2014 and 2013. Cash flows from such hedges are classified as operating activities in the consolidated statements of cash flows. The notional amounts of foreign exchange forward contracts outstanding related to forecasted inventory purchases were \$57.9 million ( 42.5 million) and \$51.8 million ( 37.6 million) at June 30, 2014 and March 31, 2014. The notional amount represents the future cash flows under contracts to purchase foreign currencies.

**Other Derivatives**

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

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The notional amounts of foreign exchange forward contracts outstanding at June 30, 2014 and March 31, 2014 relating to foreign currency receivables or payables were \$16.9 million and \$23.2 million. Open forward contracts as of June 30, 2014 consisted of contracts in U.S. dollars to purchase Taiwanese dollars and contracts in euros to sell British pounds at future dates at pre-determined exchange rates. Open forward contracts as of March 31, 2014 consisted of contracts in U.S. dollars to purchase Taiwanese Dollars and contracts in euros to sell British pounds at future dates at pre-determined exchange rates. The notional amounts of foreign exchange swap contracts outstanding at June 30, 2014 and March 31, 2014 were \$26.9 million and \$30.5 million. Swap contracts outstanding at June 30, 2014 consisted of contracts in Mexican pesos, Japanese yen and Australian dollars. Swap contracts outstanding at March 31, 2014 consisted of contracts in Mexican pesos, Japanese yen and Australian dollars.

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

Table of Contents**Note 9 Goodwill and Other Intangible Assets*****Annual Goodwill Impairment Testing***

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

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

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

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

The following table summarizes the activity in the Company's goodwill balance during the three month ended June 30, 2014 (in thousands):

|                         |                    |    | <b>June 30, 2014</b>      |    |              |
|-------------------------|--------------------|----|---------------------------|----|--------------|
|                         | <b>Peripherals</b> |    | <b>Video Conferencing</b> |    | <b>Total</b> |
| Beginning of the period | \$ 219,415         | \$ | 125,595                   | \$ | 345,010      |
| Foreign currency impact |                    |    | (168)                     |    | (168)        |
| End of the period       | \$ 219,415         | \$ | 125,427                   | \$ | 344,842      |

For the three months ended June 30, 2014 and 2013, amortization expense for other intangible assets was \$2.8 million and \$5.3 million, respectively. The Company expects that amortization expense for the remaining nine months of fiscal year 2015 will be \$5.6 million, and annual amortization expense for fiscal years 2016 and 2017 will be \$1.9 million and \$0.2 million, respectively.

**Note 10 Financing Arrangements**

The Company had several uncommitted, unsecured bank letters of credit aggregating \$40 million as of June 30, 2014. There are no financial covenants under these letters of credit with which the Company must comply. As of June 30, 2014, the Company had outstanding bank guarantees of \$8.3 million under these letters of credit. The Company also had credit lines related to corporate credit cards totaling \$6.9 million as of June 30, 2014. There are no financial covenants under these credit lines.

**Note 11 Commitments and Contingencies**

***Product Warranties***

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



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

|                         | <b>Three Months Ended</b> |         |             |         |
|-------------------------|---------------------------|---------|-------------|---------|
|                         | <b>June 30,</b>           |         |             |         |
|                         | <b>2014</b>               |         | <b>2013</b> |         |
| Beginning of the period | \$                        | 24,380  | \$          | 21,442  |
| Provision               |                           | 2,206   |             | 3,526   |
| Settlements             |                           | (3,166) |             | (3,745) |
| Adjustment (1)          |                           |         |             | 2,327   |
| End of the period       | \$                        | 23,420  | \$          | 23,550  |

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

***Purchase Commitments***

Commitments for inventory purchases are made in the normal course of business to original design manufacturers, contract manufacturers and other suppliers and are expected to be fulfilled by September 30, 2014. Operating expense commitments are for consulting services, marketing arrangements, advertising, outsourced customer services, information technology maintenance and support services, and other services. Fixed purchase commitments for capital expenditures primarily related to commitments for computer hardware and leasehold improvements. Although open purchase orders are considered enforceable and legally binding, the terms generally allow the Company the option to reschedule and adjust its requirements based on the business needs prior to delivery of goods or performance of services. As of June 30, 2014, the Company's outstanding purchase commitments had not materially changed since March 31, 2014.

***Other Contingencies***

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

***Guarantees***

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Logitech International S.A., the parent holding company, has issued several parent guarantees on behalf of its subsidiaries. The maximum potential future payment under the guarantee arrangements is limited to \$80.0 million. As of June 30, 2014, there were no purchase obligations outstanding for which the parent holding company was required to guarantee payment.

Logitech Europe S.A., a subsidiary of the parent holding company, has guaranteed the purchase obligations of another Logitech subsidiary under a guarantee agreement. This guarantee does not specify a maximum amount. As of June 30, 2014, the amount of purchase obligations outstanding under this guarantee was immaterial. In addition, Logitech Europe S.A. also guaranteed payments of a third-party contract manufacturer's purchase obligations. As of June 30, 2014, the maximum amount of this guarantee was \$3.5 million, of which \$2.3 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, 2014, no amounts have been

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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 and results of operations in a particular period. Any claims or proceedings against the Company, whether meritorious or not, can have an adverse impact because of defense costs, diversion of management and operational resources, negative publicity and other factors. Any failure to obtain necessary license or other rights, or litigation arising out of intellectual property claims, could adversely affect the Company's business.

**Note 12 Shareholders' Equity**

In March 2014, the Company's Board of Directors approved a new 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, through block trades or otherwise. Purchases may be started or stopped at any time without prior notice depending on market conditions and other factors.

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

***Accumulated Other Comprehensive Loss***

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

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|                            | Cumulative<br>Translation<br>Adjustment | Accumulated<br>Defined<br>Benefit<br>Plan (1) | Other Comprehensive Loss<br>Deferred<br>Hedging<br>Gains (Losses) | Total       |
|----------------------------|-----------------------------------------|-----------------------------------------------|-------------------------------------------------------------------|-------------|
| March 31, 2014             | \$ (70,999)                             | \$ (14,288)                                   | \$ (515)                                                          | \$ (85,802) |
| Other comprehensive income | 201                                     | 252                                           | 648                                                               | 1,101       |
| June 30, 2014              | \$ (70,798)                             | \$ (14,036)                                   | \$ 133                                                            | \$ (84,701) |

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

Table of Contents**Note 13 Segment Information**

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

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

Net sales and operating income (loss) for the Company's operating segments were as follows (in thousands):

|                                         | <b>Three Months Ended<br/>June 30,</b> |             |
|-----------------------------------------|----------------------------------------|-------------|
|                                         | <b>2014</b>                            | <b>2013</b> |
| <b>Net sales:</b>                       |                                        |             |
| Peripherals                             | \$ 456,446                             | \$ 448,355  |
| Video conferencing                      | 25,757                                 | 30,175      |
|                                         | \$ 482,203                             | \$ 478,530  |
| <b>Segment operating income (loss):</b> |                                        |             |
| Peripherals (1)                         | \$ 33,567                              | \$ 13,253   |
| Video conferencing (1)                  | (1,135)                                | (3,368)     |
|                                         | 32,432                                 | 9,885       |
| <b>Other income (expense):</b>          |                                        |             |
| Share-based compensation                | (6,938)                                | (4,390)     |
| Amortization of intangibles             | (2,782)                                | (5,264)     |
| Interest income (expense), net          | 258                                    | (23)        |
| Other income (expense), net             | (198)                                  | 217         |
| Income before income taxes              | \$ 22,772                              | \$ 425      |

(1) Peripherals operating results include \$0 million and \$2.3 million of restructuring charges during the three months ended June 30, 2014 and 2013, respectively. Video conferencing operating results include \$0 million and \$0 million of restructuring charges during the three months ended June 30, 2014 and 2013, respectively.



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Net sales by product family, excluding intercompany transactions, were as follows (in thousands):

|                             | Three Months Ended<br>June 30, |            |
|-----------------------------|--------------------------------|------------|
|                             | 2014                           | 2013 (1)   |
| <b>Peripherals:</b>         |                                |            |
| PC Gaming                   | \$ 46,876                      | \$ 40,213  |
| Tablet & Other Accessories  | 31,716                         | 38,559     |
| Mobile Speakers             | 28,830                         | 13,867     |
| <b>Growth:</b>              | 107,422                        | 92,639     |
| Pointing Devices            | 113,042                        | 114,651    |
| PC Keyboards & Desktops     | 105,523                        | 98,013     |
| Audio-PC & Wearables        | 49,626                         | 55,538     |
| Video                       | 34,576                         | 30,940     |
| Remotes                     | 12,332                         | 14,574     |
| <b>Profit Maximization:</b> | 315,099                        | 313,716    |
| Other                       | 1,293                          | 7,487      |
| <b>Non-Strategic:</b>       | 1,293                          | 7,487      |
| <b>OEM</b>                  | 32,632                         | 34,513     |
|                             | 456,446                        | 448,355    |
| <b>Video conferencing</b>   | 25,757                         | 30,175     |
|                             | \$ 482,203                     | \$ 478,530 |

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

Net sales to unaffiliated customers by geographic region (based on the customers' location) were as follows (in thousands):

|              | Three Months Ended<br>June 30, |            |
|--------------|--------------------------------|------------|
|              | 2014                           | 2013       |
| Americas     | \$ 211,531                     | \$ 201,059 |
| EMEA         | 153,700                        | 155,223    |
| Asia Pacific | 116,972                        | 122,248    |
|              | \$ 482,203                     | \$ 478,530 |

Sales are attributed to countries on the basis of the customers' locations. The United States represented 37% and 36% of the Company's total consolidated net sales for the three months ended June 30, 2014 and 2013, respectively. China represented 11% of the Company's total consolidated net sales for the three months ended June 30, 2013. 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 1% of the Company's total consolidated net sales for the three months ended June 30, 2014 and 2013, respectively. One customer group of the Company's peripheral operating segment represented 15% and 13% of sales for the three months ended June 30, 2014 and 2013, respectively. No other customers represented greater than 10% of sales for the three months ended June 30, 2014 and 2013.





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

|              | June 30,<br>2014 | March 31,<br>2014 |
|--------------|------------------|-------------------|
| Americas     | \$ 47,343        | \$ 45,166         |
| EMEA         | 4,753            | 5,154             |
| Asia Pacific | 37,870           | 38,071            |
|              | \$ 89,966        | \$ 88,391         |

Long-lived assets in the United States and China were \$47.1 million and \$32.0 million, respectively at June 30, 2014 and \$44.9 million and \$31.9 million, respectively at March 31, 2014. No other countries represented more than 10% of the Company's total consolidated long-lived assets at June 30, 2014 and March 31, 2014. Long-lived assets in Switzerland, the Company's home domicile, were \$1.7 million and \$1.6 million at June 30, 2014 and March 31, 2014, respectively.

**Note 14 Subsequent Events**

The Company was not current with its periodic reports required to be filed with the SEC and was therefore unable to issue any shares under its Registration Statements on Form S-8 after July 31, 2014. Given the proximity of the unavailability of those registration statements and the end of the current ESPP offering period, also on July 31, 2014, the Compensation Committee authorized the termination of the current ESPP offering period and a one-time payment to each participant in an amount equal to the fifteen percent (15%) discount at which shares would otherwise have been repurchased pursuant to the current period of the ESPPs. This one-time payment, totaling \$1.1 million was accounted for as a repurchase of equity awards that reduced additional paid in capital, resulting in no additional compensation cost. Given the unavailability of the Company's Registration Statements on Form S-8, no new ESPP offering periods were initiated during the three months ended September 30, 2014.

On November 12, 2014, the Board approved, subject to approval by the Company's shareholders and other Swiss statutory requirements, a dividend of CHF 0.2625 per share.

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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 Consolidated Financial Statements and related notes.*

*This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. These forward-looking statements include, among other things, statements regarding our business strategy, the impact of investment prioritization decisions, product offerings, sales and marketing initiatives, addressing execution challenges, trends in consumer demand affecting our products and markets, trends in the composition of our customer base, our current or future revenue and revenue mix by product, among our lower- and higher-margin products and by geographic region, our expectations regarding the potential growth opportunities for our products in mature and emerging markets and the enterprise market, our expectations regarding trends in global economic conditions and consumer demand for PCs and mobile devices, tablets, gaming, audio, video and video conferencing, digital home digital music and other computer devices and the interoperability of our products with such third party platforms, our expectations regarding the convergence of markets for computing devices and consumer electronics, our competitive position and the effect of pricing, product, marketing and other initiatives by us and our competitors, our expectations regarding competition from well-established consumer electronics companies in existing and new markets; the impact of our restructuring plan on future costs, expenses and financial performance and the timing thereof, our estimates of future charges related to our restructuring plan, our expectations regarding the recoverability of our goodwill, goodwill impairment charge estimates and the potential for future impairment charges, the impact of our current and proposed product divestitures, changes in our planned divestitures, and the timing thereof, significant fluctuations in currency exchange rates, the impact of new product introductions and product innovation on future performance or anticipated costs and expenses and the timing thereof, cash flows, the sufficiency of our cash and cash equivalents, cash generated and available borrowings (including the availability of our uncommitted lines of credit) to fund future cash requirements, our expectations regarding future sales compared to actual sales, our expectations regarding share repurchases and share cancellations, our expectations regarding our future working capital requirements and our anticipated capital expenditures needed to support our product development and expanded operations, our expectations regarding our future tax benefits and the adequacy of our provisions for uncertain tax positions, our expectations regarding our potential indemnification obligations, and the outcome of pending or future legal proceedings and tax audits, remediation of our material weaknesses, our belief that our disclosure controls and procedures will become effective at the reasonable assurance level, the results of any inquiry of the SEC and/or potential litigation related to the restatement of our consolidated financial statements, and Logitech's ability to achieve and sustain renewed growth, profitability and future success. Forward-looking statements also include, among others, those statements including the words anticipate, believe, could, estimate, expect, forecast, intend, may, plan, project, predict, should, will, and similar language. These forward-looking statements involve risks and uncertainties that could cause our actual performance to differ materially from that anticipated in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section titled "Risk Factors" in Part II, Item 1A of this quarterly report on Form 10-Q. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.*

**Overview of Our Company**

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

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

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webcams. Our tablet accessory products include keyboards, keyboard cases and covers, and smartphone accessories. Our Internet communications products include webcams, conference cams and headsets. Our digital music products include wireless speakers, earphones, and custom in-ear monitors. Our gaming products include mice, keyboards, headsets and gaming controllers. For home entertainment and home control systems, we offer the Harmony line of advanced remote controls. Since

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fiscal year 2013, we have been exiting other non-strategic products, such as speaker docks and headphones, and continue to evaluate non-strategic products as part of our ongoing efforts to strengthen our overall portfolio.

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

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

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

We sell our peripherals products to a network of retailers (direct sales to retailers, as well as indirect sales through distributors) and OEMs. Our worldwide retail network includes wholesale distributors, consumer electronics retailers, mass merchandisers, specialty electronics, computers and telecommunications stores, value-added resellers and online merchants. Sales of our retail peripherals were 88% and 86% of our net sales for the three months ended June 30, 2014 and 2013. The large majority of our revenues have historically been derived from sales of our peripherals products for use by consumers. Our OEM customers include several of the world's largest PC manufacturers. Sales to OEM customers were 7% of our net sales for the three months ended June 30, 2014 and 2013.

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

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

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

We have been expanding the categories of products we sell and entering new markets, such as the markets for mobile device accessories. As we do so, we are confronting new competitors, many of which have more experience in the categories or markets and have greater marketing resources and brand name recognition than we have. In addition, because of the continuing convergence of the markets for computing devices and consumer electronics, we expect greater competition in the future from well-established consumer electronics companies in our new categories as well as future ones we might enter. Many of these companies have greater financial, technical, sales, marketing and other resources than we have.

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

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

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

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

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

**Revision of Previously Issued Financial Statements**

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

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

**Summary of Financial Results**

Our total net sales for the three months ended June 30, 2014 increased 1% compared with the three months ended June 30, 2013, due to an increase in retail sales, offset by declines in OEM and video conferencing sales.

Retail sales during the three months ended June 30, 2014 increased 2% and retail units sold increased 4% compared with the three months ended June 30, 2013. We experienced increases of 8% in the Americas and a decrease of 3% in the Asia Pacific regions, and a decrease of 1% in the EMEA region.

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OEM net sales decreased 5% and units sold decreased 12% in the three months ended June 30, 2014 compared with the preceding fiscal year. The decline was primarily due to overall weaker market conditions for pointing devices that were only partially offset by growth in Keyboards & Desktops.

Sales of video conferencing products, which were 5% and 6% of total net sales in the three months ended June 30, 2014 and 2013, decreased by 15% in the three months ended June 30, 2014, compared with the three months ended June 30, 2013.

Lifesize is in the process of transitioning its product portfolio to the recently announced Lifesize Cloud, a software-as-a-service (SaaS) offering that provides an affordable, simple and scalable video conferencing solution with little to no need for IT involvement. The decline in sales reflects the combination of this short-term portfolio transition and weak market conditions for video conferencing endpoints.

Our gross margin for the three months ended June 30, 2014 improved to 37.7% compared with 35.4% for the three months ended June 30, 2013. The improvement in gross margin for the three months ended June 30, 2014 compared with the same period of the prior fiscal year primarily resulted from the combination of cost reductions in our Profit Maximization category, scale on some Growth category products, offset in part by an increase in incentive spending.

Operating expenses for the three months ended June 30, 2014 were 33.0% of net sales, compared with 35.3% in the same period of the prior fiscal year. The decrease in total operating expenses as a percentage of net sales for the three months ended June 30, 2014 compared to prior period were primarily due to savings from prior year's restructuring actions and the ongoing rationalization of infrastructure.

Net income for the three months ended June 30, 2014 was \$19.7 compared with net income of \$1.2 million in the three months ended June 30, 2013.

**Trends in Our Business**

Our sales of PC peripherals for use by consumers in the Americas and Europe have historically made up the large majority of our revenues. In the last several years, the PC market has changed dramatically and there continues to be 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. We believe that this weakness reflects the growing popularity of tablets and smartphones as mobile computing devices.

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



*Trends Specific to our Peripherals Segment*

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

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

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

*Mobile Speakers.* We believe that digital music, the seamless consumption of digital audio content on mobile devices, presents a growth opportunity for us. Many consumers listen to music as a popular entertainment activity, fueled by the growth in smartphones,

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tablets, music services and Internet radio. We believe we have a solid foundation of audio speaker solutions to satisfy consumers' needs for music consumption, in the digital music speaker space. We continue to invest in the UE brand and introduce innovative new products in this category such as UE BOOM, a wireless speaker that offers 360-degree stereo sound.

*OEM Business.* Sales of our OEM mice and keyboards have historically made up the bulk of our OEM sales. In recent years, there has been a dramatic shift away from desktop PCs and there continues to be weakness in the global market for PCs, which has adversely affected our sales of OEM mice and keyboards, all of which are sold with name-brand desktop PCs. We expect this trend to continue and for OEM sales to comprise a smaller percentage of our total sales in the future.

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

***Trends Specific to our Video Conferencing Segment***

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

**Results of Operations**

***Net Sales***

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

|                    |    | <b>Three Months Ended<br/>June 30,</b> |    |             |               |
|--------------------|----|----------------------------------------|----|-------------|---------------|
|                    |    | <b>2014</b>                            |    | <b>2013</b> | <b>Change</b> |
| Retail             | \$ | 423,814                                | \$ | 413,842     | 2%            |
| OEM                |    | 32,632                                 |    | 34,513      | (5)           |
| Video conferencing |    | 25,757                                 |    | 30,175      | (15)          |

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|                 |    |         |    |         |   |
|-----------------|----|---------|----|---------|---|
| Total net sales | \$ | 482,203 | \$ | 478,530 | 1 |
|-----------------|----|---------|----|---------|---|

### **Retail:**

Our net retail sales in the three months ended June 30, 2014 increased by 2%, compared with the same period of the prior fiscal year, as the sales increases in the Americas were offset by a decrease in Asia Pacific and EMEA regions. The EMEA region decreased by 1% and Asia Pacific decreased 3%. Our overall average selling price decreased by 2% during this period. Products priced below \$40 represented approximately 51% of retail sales in the three months ended June 30, 2014 and 2013, while products priced above \$100 represented 15% and 14% of retail sales during these same periods.

### **OEM:**

OEM net sales decreased 5% and units sold decreased 12% in the three months ended June 30, 2014 compared with the preceding fiscal year. The decline was primarily due to overall weaker market conditions for pointing devices that were only partially offset by growth in Keyboards & Desktops.

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**Lifesize:**

Video conferencing net sales decreased 15% during the three months ended June 30, 2014, compared with the same period of the prior fiscal year.

Lifesize is in the process of transitioning its product portfolio to the recently announced Lifesize Cloud, a software-as-a-service (SaaS) offering that provides an affordable, simple and scalable video conferencing solution with little to no need for IT involvement. The decline in sales reflects the combination of this short-term portfolio transition and weak market conditions for video conferencing endpoints.

***Retail Sales by Region***

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

|              | Three Months Ended<br>June 30, 2014<br>Change in Sales |
|--------------|--------------------------------------------------------|
| Americas     | 8%                                                     |
| EMEA         | (1)                                                    |
| Asia Pacific | (3)                                                    |

**Americas**

The Americas region experienced an 8% increase in retail sales during the three months ended June 30, 2014, compared with the same period of the prior fiscal year. The sales increase was achieved in all categories except our non-strategic Other, Remotes and Pointing Devices. This increase was led by strong performance in Mobile Speakers from UE BOOM and PC Gaming products. Retail sell-through in the Americas region increased 9% in the three months ended June 30, 2014 compared with the same period of the prior fiscal year.

**EMEA**

Retail sales in the EMEA region experienced a 1% decrease during the three months ended June 30, 2014, compared with the same period of the prior fiscal year. Sales of Mobile Speakers were particularly strong in the quarter and we achieved double-digit growth in Video due to the success of our Video conferencing products and PC Keyboards & Desktops.

*Asia Pacific*

Asia Pacific region retail sales decreased by 3% during the three months ended June 30, 2014, compared with the same period of the prior fiscal year. We had strong sales growth in our Mobile Speakers. These increases were offset in part by weakness in our Tablet & Other Accessories, and decline in non-strategic Other.

Table of Contents*Net Retail Sales by Product Category*

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

|                             | Three Months Ended<br>June 30, |            |      |
|-----------------------------|--------------------------------|------------|------|
|                             | 2014                           | 2013 (1)   |      |
| <b>Peripherals:</b>         |                                |            |      |
| PC Gaming                   | \$ 46,876                      | \$ 40,213  | 17%  |
| Tablet & Other Accessories  | 31,716                         | 38,559     | -18% |
| Mobile Speakers             | 28,830                         | 13,867     | 108% |
| <b>Growth:</b>              | 107,422                        | 92,639     |      |
| Pointing Devices            | 113,042                        | 114,651    | -1%  |
| PC Keyboards & Desktops     | 105,523                        | 98,013     | 8%   |
| Audio-PC & Wearables        | 49,626                         | 55,538     | -11% |
| Video                       | 34,576                         | 30,940     | 12%  |
| Remotes                     | 12,332                         | 14,574     | -15% |
| <b>Profit Maximization:</b> | 315,099                        | 313,716    |      |
| Other                       | 1,293                          | 7,487      | -83% |
| <b>Non-Strategic:</b>       | 1,293                          | 7,487      | -83% |
| <b>OEM</b>                  | 32,632                         | 34,513     | -5%  |
|                             | 456,446                        | 448,355    |      |
| <b>Video conferencing</b>   | 25,757                         | 30,175     | -15% |
|                             | \$ 482,203                     | \$ 478,530 |      |

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

**Growth Categories:***PC Gaming*

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

Retail sales of PC Gaming increased 17% and units sold increased 26%, in the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The growth in the category was experienced in mice, steering wheels, headsets and gamepads. The growth in mice sales was primarily driven by the G502 Tunable Gaming Mouse. Strong sales of our G27 Racing Wheel, which supports both the PC and Playstation 3 platforms, led to the overall growth in steering wheels. New products made up 18% of total PC Gaming revenue for the three months ended June 30, 2014.

***Tablet & Other Accessories***

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

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Retail sales of Tablet & Other Accessories decreased 18% and units sold increased 12% in the three months ended June 2014, compared with the same period of the prior fiscal year. This decrease in sales is due to weakened demand for the Ultrathin Tablet Keyboard Covers for iPad Air and iPad Mini. The decline in sales reflects the combination of a weak market for iPad shipments as well as inventory balancing actions taken across our supply chain to better align with the fast changing dynamics in the tablet market. New products made up 98% of total Tablet & Other Accessories revenue for the three months ended June 30, 2014.

***Mobile Speakers***

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

Retail sales and units sold of Mobile Speakers increased 108% and 105%, respectively, for the three month period ended June 30, 2014, compared with the same period of the prior fiscal year. The increase in sales of our wireless speakers for smartphones and tablets was driven by a strong demand primarily for the UE BOOM, which was our best-selling product in the quarter across all product categories. Our top revenue-generating wireless speaker products during the three months ended June 30, 2014 included the UE BOOM and the UE Mini BOOM. Mobile Speaker sales increased significantly across our three regions due to strong demand and an expanded retail placement.

**Profit Maximization:**

***Pointing Devices***

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

Retail sales of Pointing Devices decreased 1% while retail units sold increased 4% in the three months ended June 30, 2014, compared to the three month period ended June 30, 2013. Sales were down slightly at the low-end and mid-range of the category, with growth at the high-end. Unit shipments increased across all price ranges. Sales of all cordless mice decreased 4%, while units sold increased 1% in the three months ended June 30, 2014, compared with the same period of the prior fiscal year. Corded mice sales increased 7%, while units sold increased 7% in the three months ended June 30, 2014, compared with the same period of the prior fiscal year.

***PC Keyboards and Desktops***

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



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Retail sales of PC Keyboards & Desktops increased 8% and units sold increased 7% in the three months ended June 30, 2014, compared with the same period of the prior fiscal year. Sales increase was driven by corded and cordless combo products and living room keyboards. Growth was achieved across all price bands, with double-digit improvement in the high-end. Sales of corded and cordless combos increased 37% and 4%, respectively, and increased 24% and 3%, respectively, in units sold during the three months ended June 30, 2014, compared with the same period in the prior fiscal year. Sales of corded and cordless keyboards increased 10% and decreased 12%, respectively, and increased 6% and decreased 12%, respectively, in units sold during the three months ended June 30, 2014, compared with the same period in the prior fiscal year.

### *Audio-PC & Wearables*

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

Audio-PC & Wearables sales decreased 11% and units sold decreased 7%, in the three months ended June 30, 2014, compared with the same period of the prior fiscal year. The decrease was primarily due to decreases in PC speaker retail sales. These decreases reflect both a weakness in the overall market for new PCs and a market shift toward mobile audio devices. Retail sales of our Wearables products decreased 28% and units sold decreased 85%, as we reduce our product offerings.

### *Video*

Our retail Video category comprises retail webcams and Unified Communications webcams.

Retail Video sales increased by 12% and units sold decreased by 17% in the three months ended June 30, 2014, compared with the same period in the prior fiscal year. The sales growth in the Video category, which was achieved across all regions, was driven by

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our video collaboration offerings targeted at small and midsize conference rooms. The sales increase was primarily from the Logitech Conference Cam CC3000.

***Remotes***

Our retail Remotes category comprises our Harmony remotes. Remote retail sales decreased 15% and units sold increased 11% in the three months ended June 30, 2014, compared with the same period of the prior fiscal year. The decline in sales was experienced in all regions.

***Non Strategic***

This category comprises a variety of products that we currently intend to transition out of, or have already transitioned out of, because they are no longer strategic to our business. Products currently included in this category include TV camera, Digital Video Security, Google TV products, and Keyboard and Desktop accessories. Non-strategic retail sales decreased by 83% and units sold decreased by 63% during the three months ended June 30, 2014, compared with same period in the prior fiscal year.

***OEM***

OEM sales and units sold decreased by 5% and 12% during the three months ended June 30, 2014, compared with the same period of the prior fiscal year. This decrease was largely attributable to the weaker market conditions for sales of new desktop PCs. This decrease was only partially offset by growth in Keyboards and Desktops.

***Video Conferencing***

Video conferencing net sales decreased 15% during the three months ended June 30, 2014, compared with the same period of the prior fiscal year. This decrease reflects a combination of weak market conditions for endpoints and the transition towards the recently announced Lifesize Cloud, a software-as-a-service (SaaS) offering.

***Gross Profit***

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

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| Three Months Ended |            |    |         |        |
|--------------------|------------|----|---------|--------|
| June 30,           |            |    |         |        |
|                    | 2014       |    | 2013    | Change |
| Net sales          | \$ 482,203 | \$ | 478,530 | 1%     |
| Cost of goods sold | 300,450    |    | 309,268 | (3)    |
| Gross profit       | \$ 181,753 | \$ | 169,262 | 7      |
| Gross margin       | 37.7%      |    | 35.4%   |        |

Gross profit consists of net sales, less cost of goods sold, which includes materials, direct labor and related overhead costs, costs of manufacturing facilities, costs of purchasing components from outside suppliers, distribution costs, outside processing costs, write-down of inventories and amortization of intangible assets.

The improvement in gross margin for the three months ended June 30, 2014 compared with the same period of the prior fiscal year primarily resulted from the combination of a significant improvement in our Profit Maximization category, driven by product cost reductions, and margin improvements in our growth category driven by increased scale.

Table of Contents***Operating Expenses***

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

|                            | <b>Three Months Ended</b> |                          |               |
|----------------------------|---------------------------|--------------------------|---------------|
|                            | <b>2014</b>               | <b>June 30,<br/>2013</b> | <b>Change</b> |
| Marketing and selling      | \$ 91,045                 | \$ 101,093               | (10)%         |
| % of net sales             | 18.9%                     | 21.1%                    |               |
| Research and development   | 31,316                    | 36,527                   | (14)          |
| % of net sales             | 6.5%                      | 7.6%                     |               |
| General and administrative | 36,680                    | 29,077                   | 26            |
| % of net sales             | 7.6%                      | 6.1%                     |               |
| Restructuring charges, net |                           | 2,334                    | (100)         |
| % of net sales             | 0.0%                      | 0.5%                     |               |
| Total operating expenses   | \$ 159,041                | \$ 169,031               | (6)           |
| % of net sales             | 33.0%                     | 35.4%                    |               |

The decrease in total operating expenses as a percentage of net sales for the three months ended June 30, 2014 compared to prior period were primarily due to savings from prior year's restructuring actions and the ongoing rationalization of infrastructure and marketing activities.

***Marketing and Selling***

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

Marketing and selling expense decreased 10% during the three months ended June 30, 2014, compared with the same period of the prior fiscal year due to \$7.4 million of savings from cost control initiatives surrounding outsourcing expenses and a decrease in spending on new product launches in mobile speakers and PC Gaming, lower personnel-related expenses of \$0.7 million and a reduction of infrastructure expenses of \$1.9 million.

***Research and Development***

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

Although we continued to make investments in product development, we experienced a 14% decrease in research and development expense during the three months ended June 30, 2014, compared with the same period of the prior fiscal year, primarily from prior year Digital Home launch activity which reduced external third-party expenses by \$1.2 million, a decrease in personnel-related expenses of \$3.2 million due to the reduction in worldwide workforce resulting from our restructuring plans and a reduction of infrastructure expenses of approximately \$0.8 million.

Table of Contents**General and Administrative**

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

General and administrative expense increased 26% in the three months ended June 30, 2014, compared with the three months ended June 30, 2013, primarily from the increase in legal and consulting expenses of \$9.0 million related to the independent Audit committee investigation, personnel-related expenses including share-based compensation expense of \$2.2 million, partially offset by realized savings of \$2.2 million in infrastructure expenses from the consolidation of some of our facilities located in North America.

**Restructuring Charges**

During the fourth quarter of fiscal year 2013, Logitech implemented a restructuring plan to align the organization to its strategic priorities of increasing focus on mobility products, improving profitability in PC-related products and enhancing global operational efficiencies.

Restructuring charges under this plan primarily consisted of severance and other one-time termination benefits. Charges and other costs related to the workforce reduction are presented as restructuring charges in the consolidated statements of operations. During the three months ended June 30, 2013, restructuring charges under this plan included \$2.0 million in termination benefits to affected employees and \$0.3 million in lease exit costs.

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

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

The following table summarizes restructuring-related activities during the three months ended June 30, 2014 and 2013 (in thousands):

|                         | Termination<br>Benefits | Restructuring<br>Lease Exit<br>Costs | Total     |
|-------------------------|-------------------------|--------------------------------------|-----------|
| March 31, 2013          | \$ 13,383               | \$ 75                                | \$ 13,458 |
| Charges                 | 2,004                   | 330                                  | 2,334     |
| Cash payments           | (8,422)                 |                                      | (8,422)   |
| Foreign exchange impact | (170)                   |                                      | (170)     |
| June 30, 2013           | \$ 6,795                | \$ 405                               | \$ 7,200  |

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|                |    |      |    |       |    |       |
|----------------|----|------|----|-------|----|-------|
| March 31, 2014 | \$ | 142  | \$ | 7,419 | \$ | 7,561 |
| Cash payments  |    | (56) |    | (407) |    | (463) |
| June 30, 2014  | \$ | 86   | \$ | 7,012 | \$ | 7,098 |

*Interest Income (Expense), Net*

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

|                  |    | Three Months Ended<br>June 30, |         |        |  |
|------------------|----|--------------------------------|---------|--------|--|
|                  |    | 2014                           | 2013    | Change |  |
| Interest income  | \$ | 261                            | \$ 422  | (38)%  |  |
| Interest expense |    | (3)                            | (445)   | (99)   |  |
|                  | \$ | 258                            | \$ (23) |        |  |

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

Interest expense was lower in the three months ended June 30, 2014, compared with the three months ended June 30, 2013, primarily due to commitment fees and non-recurring fees related to our \$250.0 million Senior Revolving Credit Facility entered into in December 2011 that was in place during the three months ended June 30, 2013. In December 2013, given the significant improvement in our financial performance and outlook, we chose to terminate this Credit Facility.

## Other Income (Expense), Net

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

|                                                         | Three Months Ended<br>June 30, |        |        |
|---------------------------------------------------------|--------------------------------|--------|--------|
|                                                         | 2014                           | 2013   | Change |
| Investment income related to deferred compensation plan | \$ 264                         | \$ 364 | (27)%  |
| Impairment of investments                               |                                | (370)  | (100)  |
| Foreign currency exchange gain (loss), net              | (528)                          | 491    | (208)  |
| Other                                                   | 66                             | (268)  | (125)  |
|                                                         | \$ (198)                       | \$ 217 | (191)  |

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

There was no investment impairment during the three months ended June 30, 2014. The \$0.4 million investment impairment in the three months ended June 30, 2013 resulted from the write-down of an investment in a privately-held company.

The foreign currency exchange loss of \$0.5 million during the three months ended June 30, 2014 was due to the weakening of the U.S. dollar relative to other currencies.

Foreign currency exchange gains or losses relate to balances denominated in currencies other than the functional currency of a particular subsidiary, to the sale of currencies, and to gains or losses recognized on foreign exchange forward contracts. We do not speculate in currency positions, but we are alert to opportunities to maximize foreign exchange gains.

## Provision for Income Taxes



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

|                                           | <b>Three Months Ended June 30,</b> |             |
|-------------------------------------------|------------------------------------|-------------|
|                                           | <b>2014</b>                        | <b>2013</b> |
| Provision for (benefit from) income taxes | \$ 3,096                           | \$ (801)    |
| Effective income tax rate                 | 13.6%                              | (188.5)%    |

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

As of June 30, 2014 and March 31, 2014, the total amount of unrecognized tax benefits due to uncertain tax positions was \$91.8 million and \$91.0 million, respectively, of which \$86.8 million and \$86.1 million, respectively, would affect the effective income tax rate if recognized.

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As of June 30, 2014, we had \$84.3 million in non-current income taxes payable and \$0.3 million in current income taxes payable, including interest and penalties, related to our income tax liability for uncertain tax positions. As of March 31, 2014, we had \$93.1 million in non-current income taxes payable and \$0.3 million in current income taxes payable.

During the quarter ended June 30, 2014, we adopted ASU No. 2013-11 *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. ASU No. 2013-11 requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose. In that case, the unrecognized tax benefit should be presented in the financial statements as a liability instead and should not be netted with the deferred tax asset. This accounting standard became effective for us on April 1, 2014 and was applied prospectively to unrecognized tax benefits that existed as of the effective date. Upon adoption of this guidance, we netted \$9.8 million of unrecognized tax benefits previously presented as non-current income taxes payable as a reduction to non-current deferred tax assets for tax credit carryforwards.

We continue to recognize interest and penalties related to unrecognized tax positions in income tax expense. As of June 30 and March 31, 2014, we had \$5.7 million and \$5.6 million of accrued interest and penalties related to uncertain tax positions, respectively.

We file Swiss and foreign tax returns. For all these tax returns, we are generally not subject to tax examinations for years prior to fiscal year 2001. We are under examination and have received assessment notices in foreign tax jurisdictions. At this time, we are not able to estimate the potential impact that these examinations may have on income tax expense. If the examinations are resolved unfavorably, there is a possibility they may have a material negative impact on our results of operations.

**Liquidity and Capital Resources**

***Cash Balances, Available Borrowings, and Capital Resources***

As of June 30, 2014, we had cash and cash equivalents of \$485.0 million, compared with \$469.4 million at March 31, 2014. Our cash and cash equivalents consist of bank demand deposits and short-term time deposits of which 68% is held by our Swiss-based entities and 13% is held by our subsidiaries in Hong Kong and China. 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, 2014, our working capital was \$509.2 million compared with working capital of \$478.2 million at March 31, 2014. The increase in working capital over the prior period was primarily due to higher cash, accounts receivable and inventory balances at June 30, 2014.

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During the three months ended June 30, 2014, we generated net cash of \$27.8 million from operating activities. Our main sources of operating cash flows were net income of \$19.7 after adding non-cash expenses of depreciation, amortization and share-based compensation expense, and from increases in accounts payables and accrued liabilities. These sources of operating cash flows were partially offset by increases in accounts receivables and inventories. Net cash used in investing activities was \$12.2 million, primarily from \$11.2 million of investments in leasehold improvements, computer hardware and software, tooling and equipment. Net cash generated from financing activities was \$0.2 million.

The Company had several uncommitted, unsecured bank letters of credit aggregating \$40 million as of June 30, 2014. There are no financial covenants under these letters of credit with which the Company must comply. As of June 30, 2014, the Company had outstanding bank guarantees of \$8.3 million under these letters of credit. The Company also had credit lines related to corporate credit cards totaling \$6.9 million as of June 30, 2014. There are no financial covenants under these corporate credit card lines of credit.

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

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

|                                                              | Three Months Ended<br>June 30, |             |
|--------------------------------------------------------------|--------------------------------|-------------|
|                                                              | 2014                           | 2013        |
| Net cash provided by (used in) operating activities          | \$ 27,758                      | \$ (159)    |
| Net cash used in investing activities                        | (12,241)                       | (14,664)    |
| Net cash provided by (used in) financing activities          | 160                            | (203)       |
| Effect of exchange rate changes on cash and cash equivalents | (108)                          | 59          |
| Net increase (decrease) in cash and cash equivalents         | \$ 15,569                      | \$ (14,967) |

## Cash Flow from Operating Activities

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

|                                              | Three Months Ended<br>June 30, |            |
|----------------------------------------------|--------------------------------|------------|
|                                              | 2014                           | 2013       |
| Accounts receivable, net                     | \$ 219,022                     | \$ 218,599 |
| Inventories                                  | 240,357                        | 296,246    |
| Working capital                              | 509,207                        | 397,208    |
| Days sales in accounts receivable ( DSO )(1) | 41 days                        | 41 days    |
| Inventory turnover ( ITO )(2)                | 5.0x                           | 4.2x       |

(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, 2014, we generated net cash of \$27.8 million for operating activities, compared with net cash used of \$0.2 million for the same period in the prior fiscal year. The primary drivers of the increase in net cash generated from operating cash flows include an increase in net income of \$18.5 million in the three months ended June 30, 2014 from the three months ended June 30, 2013, a \$9.4 million decrease in inventories, a \$8 million increase in accounts payable, which was offset by a decrease in accrued liabilities of \$8 million.

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

Inventory turnover between the three months ended June 30, 2014 and 2013 increased due to higher net inventory balance and lower annualized cost of goods sold between the two periods.

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

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

|                                            | <b>Three Months Ended<br/>June 30,</b> |             |
|--------------------------------------------|----------------------------------------|-------------|
|                                            | <b>2014</b>                            | <b>2013</b> |
| Purchases of property, plant and equipment | (11,243)                               | (14,356)    |
| Investments in privately held companies    | (1,050)                                |             |
| Acquisitions, net of cash acquired         |                                        | (650)       |
| Purchase of trading investments            | (454)                                  | (4,406)     |
| Proceeds from sales of trading investments | 506                                    | 4,748       |
|                                            | (12,241)                               | (14,664)    |

Our expenditures for property, plant and equipment during the three months ended June 30, 2014 and 2013 were expenditures for leasehold improvements, computer hardware and software, tooling and equipment. During the three months ended June 30, 2014, purchases of property, plant and equipment decreased, compared with three months ended June 30, 2013, primarily due to leasehold improvements related to our Silicon Valley campus during the first quarter of fiscal 2014, partially offset by increased investment in tooling and computer software during the three months ended June 30, 2014.

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

***Cash Flow from Financing Activities***

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

|                                                                             | <b>Three Months Ended<br/>June 30,</b> |             |
|-----------------------------------------------------------------------------|----------------------------------------|-------------|
|                                                                             | <b>2014</b>                            | <b>2013</b> |
| Contingent cash payment for acquisition                                     | (100)                                  |             |
| Proceeds from sales of shares upon exercise of options and purchase rights  | 574                                    | 12          |
| Tax withholdings related to net share settlements of restricted stock units | (695)                                  | (215)       |
| Excess tax benefits from share-based compensation                           | 381                                    |             |
|                                                                             | 160                                    | (203)       |

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

Proceeds from the sale of shares upon exercise of options and purchase rights pursuant our stock plans during the three months ended June 30, 2014 and 2013 were \$0.6 million and an immaterial amount, respectively. The payment of tax withholdings related to net share settlements of RSUs (restricted stock units) required during the three months ended June 30, 2014 and 2013 was \$0.7 million and \$0.2 million, respectively.

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***Cash Outlook***

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

In March 2014, our Board of Directors approved a new share buyback program, which authorizes us to invest up to \$250.0 million to purchase our own shares. Our share buyback program provides us with the opportunity to make opportunistic repurchases during periods of favorable market conditions and is expected to remain in effect for a period of three years. Shares may be repurchased from time to time on the open market, through block trades or otherwise. Purchases may be started or stopped at any time without prior notice depending on market conditions and other factors. The Company was not current on its SEC filings and lost its ability to buy back shares. The company will regain its ability, once it is current on its SEC filings.

We file Swiss and foreign tax returns. For all these tax returns, we are generally not subject to tax examinations for years prior to fiscal year 2001. We are under examination and have received assessment notices in foreign tax jurisdictions. At this time, we are not able to estimate the potential impact that these examinations may have on income tax expense. If the examinations are resolved unfavorably, there is a possibility they may have a material negative impact on our results of operations.

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

For over ten years, we have generated annual positive cash flows from our operating activities, including cash from operations of \$27.8 million during the three months ended June 30, 2014.

During fiscal year 2014, we paid a cash dividend of CHF 33.7 million (U.S. dollar amount of \$36.1 million) out of retained earnings. We plan to issue an annual dividend on a recurring basis. If we do not generate sufficient operating cash flows to support our operations and future planned cash requirements, our operations could be harmed and our access to credit facilities could be restricted or eliminated. However, we believe that the trend of our historical cash flow generation, our projections of future operations and reduced expenses and our available cash balances will provide sufficient liquidity to fund our operations for at least the next 12 months.

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

***Operating Leases***



We lease facilities under operating leases, certain of which require it to pay property taxes, insurance and maintenance costs. Operating leases for facilities are generally renewable at our option and usually include escalation clauses linked to inflation. The remaining terms on our non-cancelable operating leases expire in various years through 2030. Our asset retirement obligations on these leases as of June 30, 2014 were not material.

***Purchase Commitments***

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

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***Obligation for Deferred Compensation***

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

***Pension and Post-Employment Obligations***

At June 30, 2014, we had \$39.0 million in liabilities related to our defined benefit pension plans and non-retirement post-employment benefit obligations, of which \$1.1 million is payable in the next 12 months. For more information, please refer to our Annual Report on Form 10-K for the fiscal year ended March 31, 2014.

***Other Contractual Obligations and Commitments***

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

***Off-Balance Sheet Arrangements***

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

***Other Contingencies***

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

***Guarantees***

Logitech International S.A., the parent holding company, has issued several parent guarantees on behalf of its subsidiaries. The maximum potential future payment under the guarantee arrangements is limited to \$80.0 million. As of June 30, 2014, there were no purchase obligations outstanding for which the parent holding company was required to guarantee payment.

Logitech Europe S.A., a subsidiary of the parent holding company, has guaranteed the purchase obligations of another Logitech subsidiary under a guarantee agreement. This guarantee does not specify a maximum amount. As of June 30, 2014, the amount of purchase obligations outstanding under this guarantee was immaterial. In addition, Logitech Europe S.A. also guaranteed payments of a third-party contract manufacturer's purchase obligations. As of June 30, 2014, the maximum amount of this guarantee was \$3.5 million, of which \$2.3 million of guaranteed purchase obligations were outstanding.

### ***Indemnifications***

We indemnify certain of our suppliers and customers for losses arising from matters such as intellectual property disputes and product safety defects, subject to certain restrictions. The scope of these indemnities varies, but in some instances, includes indemnification for damages and expenses, including reasonable attorneys' fees. As of June 30, 2014, no amounts have been accrued for indemnification provisions. We do not believe, based on historical experience and information currently available, that it is probable that any material amounts will be required to be paid under our indemnification arrangements.

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

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***Legal Proceedings***

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

[Table of Contents](#)**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK****Market Risk**

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

***Foreign Currency Exchange Rates***

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

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

| Base Currency | Currency | Transaction<br>Currency | Net Exposed<br>Long (Short)<br>Currency<br>Position | June 30, 2014                                   |              |
|---------------|----------|-------------------------|-----------------------------------------------------|-------------------------------------------------|--------------|
|               |          |                         |                                                     | Foreign Exchange                                |              |
|               |          |                         |                                                     | Gain (Loss) from 10% Change<br>in Base Currency |              |
|               |          |                         |                                                     | Appreciation                                    | Depreciation |
| U.S. Dollar   |          | Australian Dollar       | 10,444                                              | \$ (949)                                        | \$ 1,160     |
| U.S. Dollar   |          | Japanese Yen            | 10,936                                              | (994)                                           | 1,215        |
| U.S. Dollar   |          | Mexican Peso            | 8,066                                               | (733)                                           | 896          |
| U.S. Dollar   |          | Indian Rupee            | 2,352                                               | (214)                                           | 261          |
| U.S. Dollar   |          | Swiss Franc             | 1,775                                               | (161)                                           | 197          |
| U.S. Dollar   |          | Korean Won              | (545)                                               | 50                                              | (61)         |
| U.S. Dollar   |          | Chinese Renminbi        | (10,798)                                            | 982                                             | (1,200)      |
| U.S. Dollar   |          | Singapore dollar        | (5,650)                                             | 514                                             | (628)        |
| U.S. Dollar   |          | Canadian dollar         | (2,767)                                             | 252                                             | (307)        |
| U.S. Dollar   |          | Taiwanese dollar        | (17,485)                                            | 1,590                                           | (1,943)      |
| Euro          |          | British Pound           | 8,293                                               | (754)                                           | 921          |
| Euro          |          | Hungarian Forint        | (533)                                               | 48                                              | (59)         |

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|      |                |         |          |        |
|------|----------------|---------|----------|--------|
| Euro | Swedish Krona  | (1,221) | 111      | (136)  |
| Euro | Russian Rouble | 532     | (48)     | 59     |
|      | \$             | 3,399   | \$ (306) | \$ 375 |

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

Our principal manufacturing operations are located in China, with much of our component and raw material costs transacted in CNY. As of June 30, 2014, net liabilities held in CNY totaled \$10.8 million.

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### *Derivatives*

The Company enters into foreign exchange forward contracts to hedge against exposure to changes in foreign currency exchange rates related to its subsidiaries' forecasted inventory purchases. The Company has one entity with a euro functional currency that purchases inventory in U.S. dollars. The primary risk managed by using derivative instruments is the foreign currency exchange rate risk. The Company has designated these derivatives as cash flow hedges. The Company does not use derivative financial instruments for trading or speculative purposes. These hedging contracts mature within four months, and are denominated in the same currency as the underlying transactions. Gains and losses in the fair value of the effective portion of the hedges are deferred as a component of accumulated other comprehensive loss until the hedged inventory purchases are sold, at which time the gains or losses are reclassified to cost of goods sold. The Company assesses the effectiveness of the hedges by comparing changes in the spot rate of the currency underlying the forward contract with changes in the spot rate of the currency in which the forecasted transaction will be consummated. If the underlying transaction being hedged fails to occur or if a portion of the hedge does not generate offsetting changes in the foreign currency exposure of forecasted inventory purchases, the Company immediately recognizes the gain or loss on the associated financial instrument in other income (expense), net. Such gains and losses were not material during the three months ended June 30, 2014 and 2013. Cash flows from such hedges are classified as operating activities in the Consolidated Statements of Cash Flows. As of June 30, 2014 and March 31, 2014, the notional amounts of foreign exchange forward contracts outstanding related to forecasted inventory purchases were \$57.9 million ( 42.5 million), and \$51.8 million ( 37.6 million), respectively. Deferred realized gains of \$0.1 million are recorded in accumulated other comprehensive income as of June 30, 2014, and are expected to be reclassified to cost of goods sold when the related inventory is sold. Deferred unrealized gains of \$0.1 million related to open cash flow hedges are recorded in accumulated other comprehensive loss as of June 30, 2014 and these forward contracts will be revalued in future periods until the related inventory is sold, at which time the resulting gains or losses will be reclassified to cost of goods sold.

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

As of June 30, 2014, the notional amounts of foreign exchange forward contracts outstanding relating to foreign currency receivables or payables were \$16.9 million. As of June 30, 2014, open forward contracts consisted of contracts in U.S. dollars to purchase Taiwanese dollars and contract in Euros to sell British pounds. As of June 30, 2014, the notional amount of foreign exchange swap contracts outstanding was \$26.9 million. As of June 30, 2014, swap contracts outstanding consisted of contracts in Mexican pesos, Japanese yen and Australian dollars. As of June 30, 2014, unrealized net loss on the contracts outstanding was \$0.1 million.

If the U.S. dollar had appreciated by 10% at June 30, 2014 compared with the foreign currencies in which we have forward or swap contracts, an unrealized gain of \$6.3 million in our forward foreign exchange contract portfolio would have occurred. If the U.S. dollar had depreciated by 10% compared with the foreign currencies in which we have forward or swap contracts, a \$7.7 million unrealized loss in our forward foreign exchange contract portfolio would have occurred.

### *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, 2014 and June 30, 2013 period end rates would not have a material effect on our results of operations or cash flows.

#### **ITEM 4. CONTROLS AND PROCEDURES**

##### ***Disclosure Controls and Procedures***

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



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

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

***Material Weaknesses in Internal Control over Financial Reporting***

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

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

The above material weaknesses contributed to the following material weaknesses:

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

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

The Company did not design and maintain effective controls over the review of supporting information to determine the completeness and accuracy of the consolidated statement of cash flows, the consolidated statement of comprehensive income (loss) and disclosures in the notes to

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

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

***Management's Plan to Remediate the Material Weaknesses***

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

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- Provide training in order to enhance the level of communication and understanding of internal controls with key individuals that provide critical information used in financial accounting and reporting on matters relating to business and operations, which impact financial reporting;
- Identify skills gaps within the global finance and accounting organization and recruit resources with appropriate experience and technical expertise to fill gaps, including in the area of SEC reporting and technical accounting.
- Implement a more comprehensive process for review of the financial statements;
- Implement a policy requiring formal documentation of the conclusions and basis for conclusions for all significant accounting positions and financial reporting issues, by finance and accounting personnel with sufficient technical competence, including review and approval by the appropriate level of management;
- Implement a revised and documented methodology and related internal controls over the accrual of warranty costs, including an on-going review of the assumptions within the methodology, the capture of all relevant costs, relating to product warranties given to end customers and appropriate review of the accrual each quarter;
- Clarify existing policy and enhance procedures over inventory valuation, including lower of cost or market (LCM) and excess and obsolete reserve calculations, determining that all relevant information is considered, including future demand forecasts, and that conclusions reached are subject to a comprehensive review as well as ongoing evaluation;
- Implement new controls and improve existing controls over financial reporting, including controls with respect to disclosures in the notes to the consolidated financial statements, and the preparation, review, and approval of the consolidated statement of cash flows and consolidated statement of comprehensive income (loss).

Status as of March 31, 2014

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

- Established a Finance and Accounting leadership team, including a new Principal Financial and Accounting Officer, a new Vice President of Internal Audit, a new Assistant Corporate Controller (the latter two who joined in the fourth quarter of fiscal year 2014) subsequently promoted to Corporate Controller, and a new Senior Director of Finance Operations, to strengthen oversight of the team and improve the design, implementation, execution and supervision of internal controls within the organization. Hired experienced additional technical resources in the area of Corporate Controllershship Group, SEC Reporting, Financial Planning and Analysis, Operations Finance, and Regional Controllershship Group;
- Leveraged the services of consulting firms, until we could hire resources with the required skills to strengthen our internal controls, documentation and communication in the SEC reporting process.
- Hired subject matter experts in the area of Operations Finance to design and oversee improved information and communication processes and other internal controls relating to warranty accruals and inventory reserves;
- Implemented a new methodology for identifying and accruing costs relating to product warranty, including documenting and evaluating the assumptions used and determining appropriate supervision and review each quarter;

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- Starting in the fourth quarter of fiscal year 2014, implemented a process to enhance the nature and extent of review of Forms 10-Q and 10-K by a team lead by the new Assistant Controller, a more robust process for disclosure committee meetings, and a final review of these filings with the Principal Financial and Accounting Officer. The Principal Financial and Accounting Officer and the Assistant Controller in turn report the results of this process to the Financial Close, Disclosure and Audit Committees in formal quarterly meetings;
- Provided training to key individuals that provide critical information used in financial accounting and reporting to reinforce pre-established and new controls to improve our ability to detect potential misstatements in our internally prepared reports, analysis and financial records.

### *Fiscal 2015 Current Status*

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

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

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

Our management believes the foregoing efforts will effectively remediate the material weaknesses after these controls have operated effectively for a reasonable period of time. As we continue to evaluate and work to improve our internal control over financial reporting, management may determine to take additional measures to address the material weaknesses or determine to modify the remediation plan described above.

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***Changes in Internal Control over Financial Reporting***

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

***Limitations on the Effectiveness of Controls***

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

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

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

**ITEM 1A. RISK FACTORS**

*Our operating results are difficult to predict and fluctuations in results may cause volatility in the price of our shares.*

Our revenues and profitability are difficult to predict due to the nature of the markets in which we compete, fluctuating user demand, the uncertainty of current and future global economic conditions, and for many other reasons, including the following:

- Our operating results are highly dependent on the volume and timing of orders received during the quarter, which are difficult to forecast. Customers generally order on an as-needed basis and we typically do not obtain firm, long-term purchase commitments from our customers. As a result, our revenues in any quarter depend primarily on orders booked and shipped in that quarter.
- A significant portion of our quarterly retail sales typically occurs in the last weeks of each quarter, further increasing the difficulty in predicting quarterly revenues and profitability.
- Our sales are impacted by consumer demand and current and future global economic conditions, and can therefore fluctuate abruptly and significantly during periods of uncertain economic conditions or geographic distress, as well as from shifts in distributor inventory practices and consumer buying patterns.
- 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.

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- Since the beginning of fiscal year 2013, we have attempted to simplify our organization, to reduce operating costs through expense reduction and global workforce reductions, to reduce the complexity of our product portfolio, and to better align costs with our current business as we attempt to expand from PC accessories to growth opportunities in accessories for mobile devices and digital music. We may not achieve the cost savings or other anticipated benefits from these efforts, and such efforts may cause our operating results to fluctuate from quarter to quarter, making our results difficult to predict.

- Fluctuations in currency exchange rates can impact our revenues, expenses and profitability because we report our financial statements in U.S. Dollars, whereas a significant portion of our revenues and expenses are in other currencies. We attempt to adjust product prices over time to offset the impact of currency movements. However, over short periods of time and during periods of weakness in consumer spending, our ability to change local currency prices to offset the impact of currency fluctuations is limited.

Because our operating results are difficult to predict, our results may be below the expectations of financial analysts and investors, which could cause the price of our shares to decline.

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

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

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

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

- Offer our products at prices and on terms that are attractive to our customers and consumers.

If we do not execute on these factors successfully, products that we introduce or technologies or standards that we adopt may not gain widespread commercial acceptance, and our business and operating results could suffer. In addition, if we do not continue to differentiate our products through distinctive, technologically advanced features, designs, and services that are appealing to our customers and consumers, as well as continue to build and strengthen our brand recognition and our access to distribution channels, our business could be adversely affected.

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

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



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increasing market expectations for the results of our new products before we have had an opportunity to demonstrate the market viability of the products. Our failure to manage the transition to new products or the integration of new technology into new or existing products could adversely affect our business, results of operations, operating cash flows and financial condition.

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

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

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

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

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

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

***Tablets & Other Mobile Devices.*** The increasing popularity of smaller, mobile computing devices such as tablets with touch interfaces is rapidly changing the consumer computing market. In our retail channels, tablets and other mobile devices are sold by retailers without peripherals. We believe this creates opportunities to sell products to consumers to help make their devices more productive and comfortable. However, consumer acceptance and demand for peripherals for use within significant portions of the markets for tablets and other mobile devices is still uncertain. Also, while this product category has been a growth opportunity for us during fiscal years 2013 and 2014, we are facing increasing competition and the potential for growth in tablets and other mobile devices to slow or reverse as the market saturates and new technologies and products are

introduced. Until recently, our tablet peripherals have been focused on iPad devices, and that segment of the market has declined in recent quarters. While we have introduced tablet peripherals for certain Android tablets, that segment is more fragmented and may similarly not continue its growth trend. We also may not be as successful in competing in that segment to generate sales, margin or growth. Moreover, the increasing popularity of tablets and other mobile devices have decreased consumer demand for our PC peripherals, which has adversely affected our sales of these products. If we do not successfully innovate and market products designed for tablets and other mobile devices, if our distributor or retailer customers do not choose to carry or market such peripherals, or if general consumer demand for peripherals for use with these devices does not increase, our business and results of operations could be adversely affected.

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

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

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growth or profitability we expect, or when we expect it, or if we do not correctly anticipate changes and evolutions in technology and platforms, our business and results of operations could be adversely affected.

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

The peripherals and video conferencing industries are intensely competitive.

The peripherals industry is characterized by short product life cycles, continual performance enhancements, and rapid adoption of technological and product advancements by competitors in our retail markets, and price sensitivity in the OEM market. We experience aggressive price competition and other promotional activities from our primary competitors and from less-established brands, including brands owned by retail customers known as house brands, in both the retail and OEM markets. In addition, our competitors may offer customers terms and conditions that may be more favorable than our terms and conditions and may require us to take actions to increase our customer incentive programs, which could impact our revenues and operating margins.

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

In recent years, we have expanded the categories of products we sell, and entered new markets. We remain alert to opportunities in new categories and markets. As we do so, we are confronting new competitors, many of which have more experience in the categories or markets and have greater marketing resources and brand name recognition than we have. In addition, because of the continuing convergence of the markets for computing devices and consumer electronics, we expect greater competition in the future from well-established consumer electronics companies in our developing categories as well as in future categories we might enter. Many of these companies, such as Microsoft, Apple, Cisco, Sony Corporation, Polycom and others, have greater financial, technical, sales, marketing and other resources than we have.

Microsoft, Apple and Google are leading producers of operating systems, hardware and applications with which our mice, keyboards and other peripherals are designed to operate. In addition, Microsoft, Apple and Google each has significantly greater financial, technical, sales, marketing and other resources than Logitech, as well as greater name recognition and a larger customer base. As a result, Microsoft, Apple and Google each may be able to improve the functionality of its own peripherals, if any, or may choose to show preference to our other competitors in improving the functionality of their peripherals, to correspond with ongoing enhancements to its operating systems, hardware and software applications before we are able to make such improvements. This ability could provide Microsoft, Apple, Google or other competitors with significant lead-time advantages. In addition, Microsoft, Apple, Google or other competitors may be able to offer pricing advantages on bundled hardware and software products that we may not be able to offer, and may be financially positioned to exert significant downward pressure on product prices and upward pressure on promotional incentives in order to gain market share.

**Growth Categories**

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

*Tablet & Other Accessories.* We primarily manufacture tablet keyboards and other accessories for Apple products, such as iPad and iPhone, and Android products. Competitors in the tablet keyboard market are Zagg, Kensington, Belkin, Targus and other less-established brands. Although we are the one of the market leaders in the tablet keyboard market, and as we continue to expand our product portfolio to other tablet and mobile device products, we expect the competition will increase. Microsoft already has introduced tablets that come with keyboards. Other large tablet and mobile device manufacturers, such as Apple and Samsung, could start to offer tablet keyboards and other accessories along with their tablet and other mobile device products. If such manufacturers of tablets and other mobile devices compete with us in the Tablet and Other Accessories category without substantially growing the peripherals market, it could adversely affect our ability to succeed in this important growth category.

*Mobile Speakers.* Our competitors for Bluetooth wireless speakers include Bose, JBL, Jawbone, and Beats Electronics, each of which have higher consumer recognition and retailer shelf space than we do. Apple's recent acquisition of Beats Electronics may now

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impact the Company's access to shelf space in Apple retail stores and adversely impact the Company's ability to succeed in this important growth category.

**Profit Maximization Categories**

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

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

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

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

**Video Conferencing**

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

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

Our peripherals business has historically been built largely around the PC platform, which over time became relatively open, and its inputs and operating system standardized. With the growth of mobile, tablet, gaming and other computer devices, the number of platforms has grown, and with it the complexity and increased need for us to have business and contractual relationships with the platform owners in order to produce

products compatible with these platforms. Our product portfolio includes current and future products designed for use with third-party platforms or software, such as the Apple iPad, iPod and iPhone and Android phones and tablets. Our business in these categories relies on our access to the platforms of third parties, some of whom are our competitors. Platform owners that are competitors have a competitive advantage in designing products for their platforms and may produce peripherals or other products that work better, or are perceived to work better, than our products in connection with those platforms. As we expand the number of platforms and software applications with which our products are compatible, we may not be successful in launching products for those platforms or software applications, we may not be successful in establishing strong relationships with the new platform or software owners, or we may negatively impact our ability to develop and produce high-quality products on a timely basis for those platforms and software applications or we may otherwise adversely affect our relationships with existing platform or software owners.

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

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

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

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

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

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

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

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

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

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

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

***Our gross margins can vary significantly depending on multiple factors, which can result in unanticipated fluctuations in our operating results.***

Our gross margins can vary due to consumer demand, competition, product life cycle, new product introductions, unit volumes, commodity and supply chain costs, geographic sales mix, foreign currency exchange rates, and the complexity and functionality of new product innovations. In particular, if we are not able to introduce new products in a timely manner at the product cost we expect, or if consumer demand for our products is less than we anticipate, or if there are product pricing, marketing and other initiatives by our competitors to which we need to react or that are initiated by us to drive sales that lower our margins, then our overall gross margin will be less than we project.

In addition, our gross margins may vary significantly by product line, sales geography and customer type, as well as within product lines. When the mix of products sold shifts from higher margin product lines to lower margin product lines, to lower margin sales geographies, or to lower margin products within product lines, our overall gross margins and our profitability may be adversely affected.



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

The impact of these factors on gross margins can create unanticipated fluctuations in our operating results, which may cause volatility in the price of our shares.

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

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

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

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

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

During the third quarter of fiscal year 2013, the declining trends in our PC peripherals accelerated, and we made a strategic decision to divest or discontinue certain non-strategic product categories and products. We continually refined this strategy and updated our non-strategic product

categories and products. If we are unable to effect sales on favorable terms or if realignment is more costly or distracting than we expect or has a negative effect on our organization, employees and retention, then our business and operating results may be adversely affected. In addition, discontinuing products with service components may cause us to continue to incur expenses to maintain services within the product life cycle or to adversely affect our customer and consumer relationships and brand. In addition, discontinuing product categories, even categories that we consider non-strategic, reduces the size and diversification of our business and causes us to be more dependent on a smaller number of product categories.

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

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stock-based compensation. Several of our past acquisitions have not been successful and have led to impairment charges, including a \$214.5 million non-cash goodwill impairment charge in fiscal year 2013 related to our video conferencing reporting unit. In addition, from time to time we make strategic venture investments in other companies that provide products and services that are complementary to ours. If these investments are unsuccessful, this could have an adverse impact on our results of operations, operating cash flows and financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

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

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

***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

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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;
- Changes in VAT (value-added tax) or VAT reimbursement;

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

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

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

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

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



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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 the amendment of our articles of incorporation to specify various compensation-related matters. In addition, during 2013, Swiss voters considered an initiative to limit pay for a chief executive officer to a multiple of no more than twelve times the salary of the lowest-paid employee. Although voters rejected that initiative, it did receive substantial voter support. The Ordinance, potential future initiatives relating to corporate governance or executive compensation, and Swiss voter sentiment in favor of such regulations may increase our non-operating costs and adversely affect our ability to attract and retain executive management and members of our Board of Directors.

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

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

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

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

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

We have been expanding the categories of products we sell, and entering new markets, such as entering the market for enterprise video conferencing and introducing products for tablets, other mobile devices and digital music. We expect to continue to enter new categories and markets. As we do so, we face an increased risk that claims alleging we infringe the patent or other intellectual property rights of others, regardless of the merit of the claims, may increase in number and significance. Infringement claims against us may also increase as the functionality of video, voice, data and conferencing products begin to overlap. This risk is heightened by the increase in lawsuits brought by holders of patents that do not have an operating business or are attempting to license broad patent portfolios and by the increasing attempts by companies in the technology industries to enjoin their competitors from selling products that they claim infringe their intellectual property rights. Intellectual property lawsuits are subject to inherent uncertainties due to the complexity of the technical issues involved, and we cannot be certain that we will be successful in defending ourselves against intellectual property claims. A successful claimant could secure a judgment that requires us to pay substantial damages or prevents us from distributing certain products or performing certain services. We might also be required to seek a license for the use of such intellectual property, which may not be available on commercially acceptable terms or at all. Alternatively, we may be required to

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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.

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

As disclosed in Item 4 of this report, we identified material weaknesses in our internal control over financial reporting. Certain of these material weaknesses were identified during the independent investigation by our Audit Committee in fiscal year 2015 and a review of related accounting matters that resulted in late filings of our Annual Report on Form 10-K for Fiscal Year 2014, this report and our Quarterly Report on Form 10-Q for the second quarter of fiscal year 2015 and a restatement of our financial results for fiscal years 2011 and 2012 and the first quarter of fiscal year 2012. This also follows the identification of material weaknesses in our internal control over financial reporting in our Annual Report on Form 10-K for the fiscal year ended March 31, 2013, as amended on Form 10-K/A which are still unremediated, and the identification of significant deficiencies in our internal control over financial reporting. A material weakness is defined as a deficiency, or combination of

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deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a result of these material weaknesses, our management concluded that our internal control over financial reporting was not effective as of March 31, 2014 and June 30, 2014, based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) in Internal Control An Integrated Framework (1992). We are actively engaged in implementing a remediation plan designed to address these material weaknesses. If our remediation measures are insufficient to address these material weaknesses, or if additional material weaknesses in our internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results again. In addition to potentially adversely affecting investors' confidence, the restatement of our consolidated financial statements could lead to potential litigation against us, which, whether meritorious or not, could be time consuming, costly or divert significant operational resources, any of which could adversely affect our business and results of our operations.

In addition, in May 2013, COSO issued a new version of its internal control framework, which will be deemed by COSO to supersede the 1992 version of the framework as of December 15, 2014. We are developing our plan for transition to application of the 2013 edition of the framework to our assessment of our internal control over financial reporting. During the course of the transition to the new framework and its application to our assessment of our internal control over financial reporting, we may determine that other

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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.

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

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

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

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

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

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

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

**Share Repurchases**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Table of Contents**ITEM 6. EXHIBITS****Exhibit Index**

| <b>Exhibit No.</b> | <b>Description</b>                                                                   |
|--------------------|--------------------------------------------------------------------------------------|
| 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                                           |

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\* 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.

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

/s/ Vincent Pilette  
Vincent Pilette  
Chief Financial Officer

November 14, 2014