

LOGITECH INTERNATIONAL SA

Form 10-Q

February 06, 2017

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2016

Or

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-29174

LOGITECH INTERNATIONAL S.A.

(Exact name of registrant as specified in its charter)

Canton of Vaud, Switzerland      None  
(State or other jurisdiction      (I.R.S. Employer  
of incorporation or organization) Identification No.)

Logitech International S.A.

Apples, Switzerland

c/o Logitech Inc.

7700 Gateway Boulevard

Newark, California 94560

(Address of principal executive offices and zip code)

(510) 795-8500

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

1

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Table of Contents

Large accelerated filer  Accelerated filer

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

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

As of January 9, 2017, there were 161,721,924 shares of the Registrant's share capital outstanding.

Table of Contents

## TABLE OF CONTENTS

	Page
Part I	FINANCIAL INFORMATION
<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u> 4
	<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended December 31, 2016 and 2015</u> 4
	<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended December 31, 2016 and 2015</u> 5
	<u>Condensed Consolidated Balance Sheets as of December 31, 2016 and March 31, 2016</u> 6
	<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended December 31, 2016 and 2015</u> 7
	<u>Condensed Consolidated Statements of Changes in Shareholders' Equity for the Nine Months Ended December 31, 2016 and 2015</u> 9
	<u>Notes to the Condensed Consolidated Financial Statements</u> 10
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 29
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 47
<u>Item 4.</u>	<u>Controls and Procedures</u> 50
Part II	OTHER INFORMATION
<u>Item 1.</u>	<u>Legal Proceedings</u> 50
<u>Item 1A.</u>	<u>Risk Factors</u> 51
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 66
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u> 66
<u>Item 4.</u>	<u>Mine Safety Disclosures</u> 66
<u>Item 5.</u>	<u>Other Information</u> 66
<u>Item 6.</u>	<u>Exhibit Index</u> 66
	<u>Signatures</u>
	Exhibits

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

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

The Company's fiscal year ends on March 31. Interim quarters are generally thirteen-week periods, each ending on a Friday of each quarter. The third quarter of fiscal year 2017 ended on December 30, 2016. The same quarter in the prior fiscal year ended on December 25, 2015. For purposes of presentation, the Company has indicated its quarterly periods as ending on the last day of the calendar quarter.

Table of Contents

## PART I — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

## LOGITECH INTERNATIONAL S.A.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2016	2015	2016	2015
Net sales	\$666,707	\$621,079	\$1,710,875	\$1,587,259
Cost of goods sold	418,015	412,582	1,083,908	1,048,312
Amortization of intangible assets and purchase accounting effect on inventory	1,929	—	4,705	—
Gross profit	246,763	208,497	622,262	538,947
Operating expenses:				
Marketing and selling	102,036	87,295	279,700	241,924
Research and development	32,284	29,161	96,867	85,889
General and administrative	24,631	24,080	75,587	77,966
Amortization of intangible assets and acquisition-related costs	1,494	112	4,535	447
Change in fair value of contingent consideration for business acquisition	(9,925)	) —	(9,925)	) —
Restructuring charges (credits), net	(33)	) (666)	) (44)	) 14,018
Total operating expenses	150,487	139,982	446,720	420,244
Operating income	96,276	68,515	175,542	118,703
Interest income, net	202	105	263	549
Other income (expense), net	2,634	862	943	(894)
Income before income taxes	99,112	69,482	176,748	118,358
Provision for income taxes	1,647	1,442	10,297	7,006
Net income from continuing operations	97,465	68,040	166,451	111,352
Loss from discontinued operations, net of taxes	—	(2,954)	) —	(20,732)
Net income	\$97,465	\$65,086	\$166,451	\$90,620
Net income (loss) per share - basic:				
Continuing operations	\$0.60	\$0.42	\$1.03	\$0.68
Discontinued operations	—	(0.02)	) —	(0.13)
Net income per share - basic	\$0.60	\$0.40	\$1.03	\$0.55
Net income (loss) per share - diluted:				
Continuing operations	\$0.59	\$0.41	\$1.01	\$0.67
Discontinued operations	—	(0.02)	) —	(0.12)
Net income per share - diluted	\$0.59	\$0.39	\$1.01	\$0.55
Weighted average shares used to compute net income (loss) per share:				
Basic	161,977	162,669	162,070	163,521
Diluted	165,901	165,168	165,211	165,951

Cash dividend per share	\$—	\$—	\$0.57	\$0.53
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The accompanying notes are an integral part of these condensed consolidated financial statements.

4

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Table of Contents

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2016	2015	2016	2015
Net income	\$97,465	\$65,086	\$166,451	\$90,620
Other comprehensive income (loss):				
Currency translation loss, net of taxes	(7,968 )	(3,098 )	(7,714 )	(488 )
Defined benefit pension plans:				
Net gain and prior service costs, net of taxes	1,193	283	1,520	475
Amortization included in operating expenses	424	400	1,289	1,233
Hedging gain (loss):				
Deferred hedging gain (loss), net of taxes	2,497	(62 )	4,026	(1,236 )
Reclassification of hedging loss (gain) included in cost of goods sold	(463 )	45	432	(2,443 )
Other comprehensive loss:	(4,317 )	(2,432 )	(447 )	(2,459 )
Total comprehensive income	\$93,148	\$62,654	\$166,004	\$88,161

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

Table of Contents

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

	December 31, 2016	March 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$513,578	\$519,195
Accounts receivable, net	277,677	142,778
Inventories	250,286	228,786
Other current assets	43,339	35,488
Total current assets	1,084,880	926,247
Non-current assets:		
Property, plant and equipment, net	84,194	92,860
Goodwill	249,721	218,224
Other intangible assets, net	50,313	—
Other assets	85,728	86,816
Total assets	\$1,554,836	\$1,324,147
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$358,196	\$241,166
Accrued and other current liabilities	247,963	173,764
Total current liabilities	606,159	414,930
Non-current liabilities:		
Income taxes payable	55,573	59,734
Other non-current liabilities	91,709	89,535
Total liabilities	753,441	564,199
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Registered shares, CHF 0.25 par value:	30,148	30,148
Issued and authorized shares —173,106 at December 31 and March 31, 2016		
Conditionally authorized shares — 50,000 at December 31 and March 31, 2016		
Additional paid-in capital	16,336	6,616
Less shares in treasury, at cost — 11,298 at December 31, 2016 and 10,697 at March 31, 2016	(167,342 )	(128,407 )
Retained earnings	1,034,685	963,576
Accumulated other comprehensive loss	(112,432 )	(111,985 )
Total shareholders' equity	801,395	759,948
Total liabilities and shareholders' equity	\$1,554,836	\$1,324,147

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



Table of Contents

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

	Nine Months Ended December 31,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 166,451	\$ 90,620
Non-cash items included in net income:		
Depreciation	32,479	36,884
Amortization of intangible assets	6,618	1,536
Loss (gain) on equity-method investment	(547 )	176
Share-based compensation expense	26,354	19,875
Excess tax benefits from share-based compensation	(6,357 )	(2,089 )
Deferred income taxes	(473 )	2,914
Change in fair value of contingent consideration for business acquisition	(9,925 )	—
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	(139,414 )	(115,814 )
Inventories	(15,194 )	18,066
Other assets	(6,346 )	(9,329 )
Accounts payable	109,095	68,763
Accrued and other liabilities	71,549	39,244
Net cash provided by operating activities	234,290	150,846
Cash flows from investing activities:		
Purchases of property, plant and equipment	(23,372 )	(50,443 )
Investment in privately held companies	(640 )	(2,099 )
Acquisitions, net of cash acquired	(66,987 )	—
Release of restricted cash	715	—
Purchases of trading investments	(5,868 )	(4,395 )
Proceeds from sales of trading investments	5,912	4,668
Net cash used in investing activities	(90,240 )	(52,269 )
Cash flows from financing activities:		
Payment of cash dividends	(93,093 )	(85,915 )
Purchases of treasury shares	(63,764 )	(48,802 )
Proceeds from sales of shares upon exercise of options and purchase rights	20,355	12,562
Tax withholdings related to net share settlements of restricted stock units	(13,054 )	(5,357 )
Excess tax benefits from share-based compensation	6,357	2,089
Net cash used in financing activities	(143,199 )	(125,423 )
Effect of exchange rate changes on cash and cash equivalents	(6,468 )	(1,205 )
Net decrease in cash and cash equivalents	(5,617 )	(28,051 )
Cash and cash equivalents, beginning of the period	519,195	537,038
Cash and cash equivalents, end of the period	\$ 513,578	\$ 508,987

Table of Contents

Supplementary Cash Flow Disclosures:

Non-cash investing activities:

Property, plant and equipment purchased during the period and included in period end liability accounts	\$4,044	\$3,417
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The following amounts reflected in the statements of cash flows are included in discontinued operations:

Depreciation	\$—	\$2,207
Amortization of other intangible assets	\$—	\$1,089
Share-based compensation expense	\$—	\$584
Purchases of property, plant and equipment	\$—	\$1,431
Cash and cash equivalents, beginning of the period	\$—	\$3,659
Cash and cash equivalents, end of the period	\$—	\$3,905

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

Table of Contents

## LOGITECH INTERNATIONAL S.A.

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands)

(unaudited)

	Registered Shares		Additional Paid-in Capital	Treasury Shares		Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount		Shares	Amount			
March 31, 2015	173,106	\$30,148	\$—	8,625	\$(88,951)	\$930,174	\$(113,237)	\$758,134
Total comprehensive income	—	—	—	—	—	90,620	(2,459)	88,161
Tax effects from share-based awards	—	—	(1,749)	—	—	—	—	(1,749)
Sales of shares upon exercise of options and purchase rights	—	—	(2,327)	(1,147)	14,889	—	—	12,562
Issuance of shares upon vesting of restricted stock units	—	—	(13,484)	(802)	8,127	—	—	(5,357)
Share-based compensation expense	—	—	19,912	—	—	—	—	19,912
Purchase of treasury shares	—	—	—	3,502	(48,802)	—	—	(48,802)
Cash dividends	—	—	—	—	—	(85,915)	—	(85,915)
December 31, 2015	173,106	\$30,148	\$2,352	10,178	\$(114,737)	\$934,879	\$(115,696)	\$736,946

	Registered Shares		Additional Paid-in Capital	Treasury Shares		Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount		Shares	Amount			
March 31, 2016	173,106	\$30,148	\$6,616	10,697	\$(128,407)	\$963,576	\$(111,985)	\$759,948
Total comprehensive income	—	—	—	—	—	166,451	(447)	166,004
Tax effects from share-based awards	—	—	(1,463)	—	—	—	—	(1,463)
Sales of shares upon exercise of options and purchase rights	—	—	6,435	(1,524)	13,920	—	—	20,355
Issuance of shares upon vesting of restricted stock units	—	—	(21,714)	(1,196)	10,909	(2,249)	—	(13,054)
Share-based compensation expense	—	—	26,462	—	—	—	—	26,462
Purchases of treasury shares	—	—	—	3,321	(63,764)	—	—	(63,764)
Cash dividends	—	—	—	—	—	(93,093)	—	(93,093)
December 31, 2016	173,106	\$30,148	\$16,336	11,298	\$(167,342)	\$1,034,685	\$(112,432)	\$801,395

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



Table of Contents

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

Note 1 — The Company and Summary of Significant Accounting Policies and Estimates

The Company

Logitech International S.A, together with its consolidated subsidiaries, ("Logitech" or the "Company") designs, manufactures and markets products that allow people to connect through music, gaming, video, computing, and other digital platforms.

The Company sells its products to a broad network of domestic and international customers, including direct sales to retailers and indirect sales through distributors.

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 and Africa ("EMEA"), and Asia Pacific. Shares of Logitech International S.A. are listed on both the SIX Swiss Exchange under the trading symbol LOGN and the Nasdaq Global Select Market under the trading symbol LOGI.

Basis of Presentation

The condensed consolidated interim financial statements include the accounts of Logitech and its subsidiaries. All intercompany balances and transactions have been eliminated. The condensed consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and therefore do not include all the information required by GAAP for complete financial statements. They should be read in conjunction with the Company's audited consolidated financial statements for the fiscal year ended March 31, 2016, included in its Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on May 23, 2016.

In the opinion of management, these condensed consolidated financial statements include all adjustments, consisting of only normal and recurring adjustments, necessary and in all material aspects, for a fair statement of the results of operations, comprehensive income, financial position, cash flows and changes in shareholders' equity for the periods presented. Operating results for the three and nine months ended December 31, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2017, or any future periods.

Reclassification

Certain amounts from the comparative period in the accompanying unaudited condensed consolidated financial statements have been reclassified to conform to the condensed consolidated financial statement presentation as of and for the three and nine months ended December 31, 2016.

Changes in Significant Accounting Policies

There have been no substantial changes in the Company's significant accounting policies during the nine months ended December 31, 2016 compared with the significant accounting policies described in its Annual Report on Form 10-K for the fiscal year ended March 31, 2016.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make judgments, estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Examples of significant estimates and assumptions made by management involve the fair value of goodwill, intangible assets acquired from business acquisitions, warranty liabilities, accruals for discretionary customer programs, sales return reserves, allowance for doubtful accounts, inventory valuation, restructuring charges, contingent consideration from business acquisitions and periodical reassessment of its fair value, share-

## Table of Contents

based compensation expense, uncertain tax positions, and valuation allowances for deferred tax assets. Although these estimates are based on management's best knowledge of current events and actions that may impact the Company in the future, actual results could differ materially from those estimates.

### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 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. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 was originally to be effective for the Company on April 1, 2017. In July 2015, the FASB affirmed a one-year deferral of the effective date of the new revenue standard. The new standard will become effective for the Company on April 1, 2018. Early application is permitted but not before the original effective date of annual periods beginning after December 15, 2016. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. Subsequently, the FASB has issued the following standards related to ASU 2014-09: ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations" ("ASU 2016-08"); ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing" ("ASU 2016-10"); and ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients" ("ASU 2016-12"). The Company must adopt ASU 2016-08, ASU 2016-10 and ASU 2016-12 with ASU 2014-09 (collectively, the "new revenue standards"). The Company has not yet selected a transition method and is in process of assessing all potential impacts of the new standard. The new revenue standard will be adopted effective April 1, 2018.

In July 2015, the FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory (Topic 330)" ("ASU 2015-11"). Topic 330, Inventory, currently requires an entity to measure inventory at the lower of cost or market, with market value represented by replacement cost, net realizable value or net realizable value less a normal profit margin. The amendments in ASU 2015-11 require an entity to measure inventory at the lower of cost or net realizable value. ASU 2015-11 is effective in the first quarter of fiscal year 2018 for the Company, with early adoption permitted. The Company does not expect to early adopt this guidance and does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01 "Financial Instruments- Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)". The guidance is effective in the first quarter of fiscal year 2018 for the Company, with early adoption permitted. The Company does not expect to early adopt this guidance and does not believe that the adoption of this guidance will have a material impact on its condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 "Leases (Topic 842)" ("ASU 2016-02"), which requires the recognition of lease assets and lease liabilities arising from operating leases in the statement of financial position. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is evaluating the full effect that ASU 2016-02 will have on its condensed consolidated financial statements and will adopt the standard effective April 1, 2019.

In March 2016, the FASB issued ASU 2016-09 "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). The amendment simplifies several aspects of the accounting for share-based payments, including immediate recognition of all excess tax benefits and deficiencies in the income statement, changing the threshold to qualify for equity classification up to the employees' maximum statutory tax rates, allowing an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur, and clarifying the classification on the statement of cash flows for the excess tax benefit and employee taxes paid when an employer withholds shares for tax-withholding purposes. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted in any interim or annual period. The Company will adopt this standard effective April 1, 2017 and is in the process of evaluating the effect that ASU 2016-09 will have on its condensed consolidated financial statements.



Table of Contents

In August 2016, the FASB issued ASU 2016-15 "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"), which gives guidance and reduces diversity in practice with respect to certain types of cash flows. The Company has early adopted this guidance during the second quarter of fiscal year 2017 and the adoption did not impact its condensed consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16 "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory" ("ASU 2016-16"), which eliminates the deferral of income tax effects of intra-entity asset transfers until the transferred asset is sold to an unrelated party or recovered through use. ASU 2016-16, however, does not apply to intra-entity transfer of inventory. The guidance is effective for annual periods beginning after December 15, 2017 and interim reporting periods within those annual periods. Early adoption is permitted but only in the first interim period of a fiscal year. The cumulative effect of change on equity upon adoption is to be quantified under the modified retrospective approach and recorded as of the beginning of the period of adoption. The Company is evaluating the full effect that ASU 2016-16 will have on its condensed consolidated financial statements and will adopt the standard effective April 1, 2018.

In December 2016, the FASB issued ASU 2016-18 "Statement of Cash Flows (Topic 230): Restricted Cash" ("ASU 2016-18"), which requires that a statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The standard is effective for annual periods beginning after December 15, 2017 and interim reporting periods within those annual periods, with early adoption permitted. The adoption of this standard should be applied using a retrospective transition method to each period presented. The Company does not expect the adoption of ASU 2016-18 will have a material impact on its condensed consolidated financial statements and is evaluating the timing of adoption of this standard.

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment (Topic 330)" ("ASU 2017-04"), which removes Step 2 from the goodwill impairment test. The standard will be effective for the Company for annual or any interim goodwill impairments in fiscal year beginning December 15, 2019, with early adoption permitted. The Company does not expect the adoption of ASU 2017-14 will have an impact on its condensed consolidated financial statements and is evaluating the timing of adoption of this standard.

Note 2 — Discontinued operations

During the third quarter of fiscal year 2016, the Company's Board of Directors approved a plan to divest the Lifesize video conferencing business. Subsequently, on December 28, 2015 in the fourth quarter of fiscal year 2016, the Company and Lifesize, Inc. ("Lifesize"), a wholly owned subsidiary of the Company which held the assets of the Company's video conferencing reportable segment, entered into a stock purchase agreement (the "Stock Purchase Agreement") with entities affiliated with three venture capital firms - Redpoint Ventures, Sutter Hill Ventures and Meritech Capital Partners (the "Venture Investors"). Pursuant to the terms of the Stock Purchase Agreement, the Company sold 2.5 million shares of Series B Preferred Stock of Lifesize to the Venture Investors for cash proceeds of \$2.5 million and retained 12 million non-voting shares of Series A Preferred Stock of Lifesize. The shares of Series A Preferred Stock of Lifesize retained by the Company represent 37.5% of the total shares outstanding immediately after the closing of the transactions (the "Closing"). Lifesize also issued 17.5 million shares of Series B Preferred Stock to the Venture Investors for cash proceeds of \$17.5 million. The shares of Series B Preferred Stock held by the Venture Investors represent 62.5% of the total shares outstanding immediately after the Closing. In addition, Lifesize reserved 8 million shares of common stock for issuance pursuant to a stock plan to be adopted by Lifesize following the Closing, none of which are issued or outstanding at the Closing. The divestiture of the Lifesize video conferencing business was effective on December 28, 2015. The Stock Purchase Agreement contains representations, warranties and covenants of the parties and includes certain indemnification obligations of the Company to the Venture Investors.

See “Note 12 - Commitments and Contingencies” to the condensed consolidated financial statements for more information. The Stock Purchase Agreement also contains certain post-closing working capital adjustments. The Company substantially completed its transition services for Lifesize during the third quarter of fiscal year 2017.

The Company has classified the results of its Lifesize video conferencing business as discontinued operations in its condensed consolidated statements of operations for all periods presented since the disposition of the Lifesize video conferencing business represents a strategic shift that has a major effect on the Company's operations and financial results. The retained Series A Preferred Stock gives the Company no voting rights or any other significant

Table of Contents

influence over the disposed Lifesize video conferencing business, and therefore is accounted for as a cost method investment which is initially recognized at fair value of \$5.6 million at the date of disposition of the Lifesize video conferencing business.

Discontinued operations include results of the Lifesize video conferencing business. Discontinued operations also include other costs incurred by Logitech to effect the divestiture of the Lifesize video conferencing business. These costs include transaction charges, advisory and consulting fees and restructuring cost related to the Lifesize video conferencing business.

The following table presents financial results of the video conferencing segment classified as total discontinued operations for the three and nine months ended December 31, 2015 (in thousands):

	Three Months Ended December 31, 2015	Nine Months Ended December 31, 2015
Net sales	\$21,553	\$65,554
Cost of goods sold	8,240	24,951
Gross profit	13,313	40,603
Operating expenses:		
Marketing and selling	8,877	31,550
Research and development	4,924	16,592
General and administrative	1,836	5,308
Restructuring charges, net	1,064	8,070
Total operating expenses	16,701	61,520
Operating loss from discontinued operations	(3,388 )	(20,917 )
Interest and other expense, net	(47 )	(180 )
Loss from discontinued operations before income taxes	(3,435 )	(21,097 )
Benefit from income taxes	(481 )	(365 )
Net loss from discontinued operations	\$(2,954 )	\$(20,732 )

## Note 3 — Business Acquisitions

## Jaybird Acquisition

On April 20, 2016 (the "Acquisition Date"), the Company acquired all of the equity interest of JayBird, LLC ("Jaybird"), a Utah limited liability company that develops Bluetooth earbuds, activity trackers, and accessories for sports and active lifestyles, for a purchase price of \$54.2 million in cash, including a working capital adjustment and payment of a line-of-credit on behalf of Jaybird, with an additional earn-out of up to \$45.0 million based on the achievement of certain net revenue growth targets over approximately a two year period (the "Jaybird Acquisition"). If the net revenue growth targets are met, the Company will pay a maximum of \$25.0 million and \$20.0 million in fiscal years 2018 and 2019, respectively. The Jaybird Acquisition is expected to accelerate the Company's entry into the wireless wearables space.

The Jaybird transaction meets the definition of a business and is accounted for using the acquisition method. The fair value of consideration transferred for the Jaybird Acquisition consists of the following (in thousands):

Purchase price	\$54,242
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Fair value of contingent consideration (earn-out)	18,000
Fair value of total consideration transferred	\$72,242

The fair value of the earn-out payments at the Acquisition Date was determined by providing risk-adjusted earnings projections using a Monte Carlo Simulation, which includes inputs that are not observable in the market,

13

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Table of Contents

and therefore representing a Level 3 measurement. The fair value of this earn-out is discussed further in "Note 8 - Fair Value Measurements" to the condensed consolidated financial statements.

The following table summarizes the preliminary allocation of the total consideration transferred to the estimated fair values of the assets acquired and liabilities assumed at the Acquisition Date (in thousands):

	Estimated Fair Value
Cash and cash equivalents	\$255
Accounts receivable	272
Inventories	10,214
Other current assets	611
Property, plant, and equipment	1,165
Intangible assets	50,280
Other assets	27
Total identifiable assets acquired	62,824
Accounts payable	(10,513 )
Accrued liabilities	(1,227 )
Other current liabilities	(5,226 )
Other long-term liabilities	(283 )
Net identifiable assets acquired	\$45,575
Goodwill	26,667
Net assets acquired	\$72,242

Goodwill is primarily attributable to opportunities and economies of scale from combining the operations and technologies of Logitech and Jaybird. Goodwill is expected to be deductible for tax purposes.

Inventory is estimated at net realizable value, which uses the estimated selling prices, less the cost of disposal and a reasonable profit allowance for the selling efforts. Upon sales of the inventory, the difference between the fair value of the inventories and the amount recognized by the acquiree immediately before the acquisition date, which is \$0.7 million, is recognized in "amortization of intangibles assets and purchase accounting effect on inventory" in the condensed consolidated statements of operations.

The Company included Jaybird's estimated fair value of assets acquired and liabilities assumed in its condensed consolidated balance sheets beginning April 20, 2016. The results of operations for Jaybird have been included in the Company's condensed consolidated statements of operations from the Acquisition Date.

The following table sets forth the components of identifiable intangible assets acquired at their estimated fair values and their estimated useful lives as of the Acquisition Date (Dollars in thousands):

	Preliminary Fair Value	Estimated Useful Life (years)
Developed technology	\$ 18,450	4
In-process research & development ("IPR&D")	2,550	Not Applicable
Customer relationships	19,900	8
Trade name	9,380	6
Total intangible assets acquired	\$ 50,280	

Except for IPR&D, intangible assets acquired as a result of the Jaybird Acquisition are being amortized over their estimated useful lives using the straight-line method of amortization. Amortization of acquired developed technology

of \$1.2 million and \$3.2 million, respectively, during the three and nine months ended December 31, 2016 is included in "Amortization of intangible assets and purchase accounting effect of inventory" in the gross profit of the condensed consolidated statements of operations. Amortization of the intangible assets of customer relationship and trade name of \$1.0 million and \$2.8 million, respectively, during the three and nine months ended

## Table of Contents

December 31, 2016 is included in "amortization of intangible assets and acquisition-related costs" in the operating expense of the condensed consolidated statements of operations.

Developed technology relates to existing bluetooth wireless sports earbuds. The economic useful life was determined based on the technology cycle related to developed technology of existing products, as well as the cash flows anticipated over the forecasted periods.

Customer relationships represent the fair value of future projected revenue that will be derived from sales of products to existing customers of Jaybird. The economic useful life was determined based on historical customer turnover rates and the industry benchmarks.

Trade name relates to the "Jaybird" trade name. The economic useful life was determined based on the expected life of the trade name and the cash flows anticipated over the forecasted periods.

The value of developed technology and trade names was estimated using the relief-from-royalty method, an income approach (Level 3), which estimates the cost savings that accrue to the owner of the intangible assets that would otherwise be payable as royalties or license fees on revenues earned through the use of the asset. A royalty rate is applied to the projected revenues associated with the intangible assets to determine the amount of savings, which is then discounted to determine the fair value. The developed technology and trade names were valued using royalty rates of 10% and 2.5%, respectively, and both were discounted at a rate of 16%.

The value of customer relationships was estimated using the excess earnings method, an income approach (Level 3), which converts projected revenues and costs into cash flows. To reflect the fact that certain other assets contribute to the cash flows generated, the returns for these contributory assets were removed to arrive at estimated cash flows solely attributable to the customer relationships, which was discounted at a rate of 16%.

The IPR&D is accounted for as an indefinite-lived intangible asset and is not amortized until completion or abandonment of the associated research and development efforts. If the research and development efforts are completed, the IPR&D intangible asset will be amortized over the estimated useful life to be determined as of the date the efforts are completed. IPR&D is tested for impairment annually or periodically if an indicator of impairment exists during the period until completion. The IPR&D related to the X3 earbuds was released during the third quarter of fiscal year 2017 and will be amortized over its estimated useful life of five years.

The Company believes the preliminary value of purchased intangible assets recorded above represent the fair values of, and approximate the amounts a market participant would pay for, these intangible assets as of the Acquisition Date.

### Saitek Acquisition

On September 15, 2016, the Company completed the acquisition of the Saitek product line for a total cash consideration of approximately \$13.0 million (the "Saitek Acquisition"). Out of the total consideration, \$6.7 million was attributed to intangible assets, \$4.9 million was attributed to goodwill, and \$1.4 million was attributed to net tangible assets acquired. The Saitek Acquisition is expected to enhance the breadth and depth of the Company's product offerings and expand the Company's engineering capabilities in simulation products. The amount of goodwill generated from the Saitek Acquisition is deductible for tax purposes and is not material.

The Company incurred acquisition-related costs for both the Jaybird Acquisition and the Saitek Acquisition of approximately \$0.2 million and \$1.5 million, in aggregate, for the three and nine months ended December 31, 2016, respectively. The acquisition-related costs are included in "amortization of intangible assets and acquisition-related

costs" in the operating expense of the condensed consolidated statements of operations.

For the three and nine months ended December 31, 2016, Jaybird and Saitek contributed a total of \$17.4 million and \$47.3 million of net sales, respectively.

Pro forma results of operations for both the Jaybird Acquisition and the Saitek Acquisition have not been presented because they are not material to the condensed consolidated statements of operations individually or in aggregate.



Table of Contents

The fair value of identifiable intangible assets acquired was based on estimates and assumptions made by management at the time of the acquisitions. As additional information becomes available, such as finalization of the estimated fair value of the assets acquired and liabilities assumed and the fair value of contingent consideration, the Company may revise its preliminary purchase price allocations during the remainder of the measurement periods (which will not exceed 12 months from the acquisition dates). Any such revisions or changes may be material as we finalize the fair values of the tangible and intangible assets acquired and liabilities assumed.

## Note 4 — Net Income Per Share

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

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Net Income (loss):				
Continuing operations	\$97,465	\$68,040	\$166,451	\$111,352
Discontinued operations	—	(2,954 )	—	(20,732 )
Net income	\$97,465	\$65,086	\$166,451	\$90,620
Shares used in net income (loss) per share computation:				
Weighted average shares outstanding - basic	161,977	162,669	162,070	163,521
Effect of potentially dilutive equivalent shares	3,924	2,499	3,141	2,430
Weighted average shares outstanding - diluted	165,901	165,168	165,211	165,951
Net income (loss) per share - basic:				
Continuing operations	\$0.60	\$0.42	\$1.03	\$0.68
Discontinued operations	—	(0.02 )	—	(0.13 )
Net income per share - basic	\$0.60	\$0.40	\$1.03	\$0.55
Net income (loss) per share - diluted:				
Continuing operations	\$0.59	\$0.41	\$1.01	\$0.67
Discontinued operations	—	(0.02 )	—	(0.12 )
Net income per share - diluted	\$0.59	\$0.39	\$1.01	\$0.55

Share equivalents attributable to outstanding stock options and restricted stock units ("RSUs") of 1.7 million and 6.3 million for the three months ended December 31, 2016 and 2015, respectively, and 2.8 million and 6.6 million for the nine months ended December 31, 2016 and 2015, respectively, were anti-dilutive and excluded from the calculation of diluted net income per share.

Table of Contents

## Note 5 — Employee Benefit Plans

## Employee Share Purchase Plans and Stock Incentive Plans

As of December 31, 2016, the Company offers the 2006 ESPP (2006 Employee Share Purchase Plan (Non-U.S.)), the 1996 ESPP (1996 Employee Share Purchase Plan (U.S.)), the 2006 Plan (2006 Stock Incentive Plan) and the 2012 Plan (2012 Stock Inducement Equity Plan).

The following table summarizes the share-based compensation expense and related tax benefit recognized for the three and nine months ended December 31, 2016 and 2015, excluding balances classified as discontinued operations (in thousands):

	Three Months		Nine Months	
	Ended		Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Cost of goods sold	\$617	\$464	\$1,930	\$1,648
Marketing and selling	4,006	2,484	10,687	6,545
Research and development	1,176	846	3,007	2,174
General and administrative	3,588	2,668	10,730	8,917
Restructuring	—	—	—	7
Total share-based compensation expense	9,387	6,462	26,354	19,291
Income tax benefit	(2,391 )	(1,446 )	(6,092 )	(2,479 )
Total share-based compensation expense, net of income tax	\$6,996	\$5,016	\$20,262	\$16,812

As of December 31, 2016 and 2015, the Company capitalized \$0.6 million and \$0.5 million of stock-based compensation expenses as inventory, respectively.

## Defined Benefit Plans

Certain of the Company's subsidiaries sponsor defined benefit pension plans or non-retirement post-employment benefits covering substantially all of their employees. Benefits are provided based on employees' years of service and earnings, or in accordance with applicable employee benefit regulations. The Company's practice is to fund amounts sufficient to meet the requirements set forth in the applicable employee benefit and tax regulations. The cost recorded of \$2.8 million and \$2.8 million for the three months ended December 31, 2016 and 2015, respectively, and \$8.4 million and \$8.6 million for the nine months ended December 31, 2016 and 2015, 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 before taxes and the provision for (benefit from) income taxes are generated outside of Switzerland.

The income tax provision for the three months ended December 31, 2016 was \$1.6 million based on an effective income tax rate of 1.7% of pre-tax income, compared to an income tax provision of \$1.4 million based on an effective income tax rate of 2.1% of pre-tax income for the three months ended December 31, 2015. The income tax provision for the nine months ended December 31, 2016 was \$10.3 million based on an effective income tax rate of 5.8% of pre-tax income, compared to an income tax provision of \$7.0 million based on an effective income tax rate of 5.9% for the nine months ended December 31, 2015.

The change in the effective income tax rate for the three and nine months ended December 31, 2016, compared to the three and nine months ended December 31, 2015, is due to the mix of income and losses in the various tax jurisdictions in which the Company operates. In the three months ended December 31, 2016 and December 31, 2015, there was a discrete tax benefit of \$9.4 million and \$8.4 million, respectively, from the reversal of uncertain tax positions from the expiration of statutes of limitations. In the nine months ended December 31, 2015, there was an additional discrete tax benefit of \$2.2 million from the preferential income tax rate reduction pursuant to the High and New Technology Enterprise Program in China.

Table of Contents

As of December 31 and March 31, 2016, the total amount of unrecognized tax benefits due to uncertain tax positions was \$66.6 million and \$69.9 million, respectively, all of which would affect the effective income tax rate if recognized.

The Company had \$55.6 million in non-current income taxes payable and \$1.5 million in current income taxes payable, including interest and penalties, related to its income tax liability for uncertain tax positions as of December 31, 2016 compared to \$59.7 million in non-current income taxes payable and \$0.1 million in current income taxes payable as of March 31, 2016. The Company anticipates a settlement with the tax authorities in a foreign jurisdiction in the next twelve months and reclassified \$1.4 million from non-current income taxes payable to current income taxes payable as of December 31, 2016.

The Company recognizes interest and penalties related to unrecognized tax positions in income tax expense. As of December 31 and March 31, 2016, the Company had \$3.5 million and \$3.6 million, respectively, of accrued interest and penalties related to uncertain tax positions.

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 2017, the Company will continue to review its tax positions and provide for or reverse unrecognized tax benefits as issues arise. During the next twelve months, it is reasonably possible that the amount of unrecognized tax benefits could increase or decrease significantly due to changes in tax law in various jurisdictions, new tax audits and changes in the U.S. dollar as compared to other currencies. Excluding these factors, uncertain tax positions may decrease by as much as \$12.1 million from the lapse of the statutes of limitations in various jurisdictions during the next twelve months.

Table of Contents

## Note 7— Balance Sheet Components

The following table presents the components of certain balance sheet asset amounts as of December 31 and March 31, 2016 (in thousands):

	December 31, 2016	March 31, 2016
Accounts receivable, net:		
Accounts receivable	\$528,029	\$332,553
Allowance for doubtful accounts	(597 )	(667 )
Allowance for sales returns	(22,215 )	(18,526 )
Allowance for cooperative marketing arrangements	(41,006 )	(28,157 )
Allowance for customer incentive programs	(83,141 )	(60,872 )
Allowance for pricing programs	(103,393 )	(81,553 )
	\$277,677	\$142,778
Inventories:		
Raw materials	\$28,484	\$48,489
Finished goods	221,802	180,297
	\$250,286	\$228,786
Other current assets:		
Income tax and value-added tax receivables	\$21,237	\$22,572
Prepaid expenses and other assets	22,102	12,916
	\$43,339	\$35,488
Property, plant and equipment, net:		
Property, plant and equipment at cost	\$373,097	371,212
Less: accumulated depreciation and amortization	(288,903 )	(278,352 )
	\$84,194	\$92,860
Other assets:		
Deferred tax assets	\$55,773	\$56,208
Trading investments for deferred compensation plan	14,724	14,836
Investments held in privately held companies	10,434	9,247
Other assets	4,797	6,525
	\$85,728	\$86,816

Table of Contents

The following table presents the components of certain balance sheet liability amounts as of December 31 and March 31, 2016 (in thousands):

	December 31, 2016	March 31, 2016
Accrued and other current liabilities:		
Accrued personnel expenses *	\$83,645	\$46,025
Indirect customer incentive programs	51,224	28,721
Warranty accrual	13,692	11,880
Employee benefit plan obligation	1,899	1,285
Income taxes payable	7,163	1,553
Contingent consideration for business acquisition - current portion	1,688	—
Other current liabilities	88,652	84,300
	\$247,963	\$173,764
Non-current liabilities:		
Warranty accrual	\$8,429	\$8,500
Obligation for deferred compensation plan	14,724	14,836
Employee benefit plan obligation	50,843	53,909
Deferred rent	8,323	9,424
Deferred tax liability	1,665	1,665
Contingent consideration for business acquisition - non-current portion	6,387	—
Other non-current liabilities	1,338	1,201
	\$91,709	\$89,535

\* The increase in accrued personnel expenses as of December 31, 2016 compared with March 31, 2016 was primarily due to change in the payment frequency of our cash bonus plan from semi-annual to annual, and a strong performance for the first nine months of fiscal year 2017.

## 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 utilizes the following three-level fair value hierarchy to establish the priorities of the inputs used to measure fair value:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than quoted market prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.



Table of Contents

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

	December 31, 2016			March 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Assets:</b>						
Cash equivalents	\$340,964	\$ —	\$ —	—\$10,000	\$ —	\$ —
<b>Trading investments for deferred compensation plan:</b>						
Money market funds	\$3,024	\$ —	\$ —	—\$3,467	\$ —	\$ —
Mutual funds	11,700	—	—	11,369	—	—
Total of trading investments for deferred compensation plan	\$14,724	\$ —	\$ —	—\$14,836	\$ —	\$ —
Currency exchange derivative assets	\$ —	\$ 825	\$ —	—\$ —	\$ 10	\$ —
<b>Liabilities:</b>						
Acquisition-related contingent consideration	\$ —	\$ —	8,075	\$ —	\$ —	\$ —
Currency exchange derivative liabilities	\$ —	\$ 69	\$ —	—\$ —	\$ 1,132	\$ —

The following table summarizes the change in fair value of the Company's contingent consideration balance during the three and nine months ended December 31, 2016 and 2015 (in thousands):

	Three Months Ended		Nine Months Ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Beginning of the period	\$18,000	\$ —	\$ —	\$ —
Fair value of contingent consideration upon acquisition	—	—	18,000	—
Change in fair value of contingent consideration	(9,925 )	—	(9,925 )	—
End of the period	\$8,075	\$ —	—\$8,075	\$ —

**Investment Securities**

The marketable securities for the Company's deferred compensation plan are recorded at a fair value of \$14.7 million and \$14.8 million, respectively, as of December 31, 2016 and March 31, 2016, based on quoted market prices. Quoted market prices are observable inputs that are classified as Level 1 within the fair value hierarchy. Unrealized trading gains / (losses) related to trading securities for the three or nine months ended December 31, 2016 and 2015 were not material and are included in "other income (expense), net" in the Company's condensed consolidated statements of operations.

**Acquisition-related contingent consideration**

The acquisition-related contingent consideration liability arising from the Jaybird Acquisition (see "Note 3 - Business Acquisitions" to the condensed consolidated financial statements for more information) represents the future potential earn-out payments of up to \$45 million based on the achievement of certain net revenue targets over approximately a two year period. If the net revenue targets are met, the Company will pay a maximum of \$25 million and \$20 million in fiscal years 2018 and 2019, respectively. The fair value of the earn-out as of the Acquisition Date was \$18 million, which was determined by using a Monte Carlo Simulation that includes significant unobservable inputs such as a risk-adjusted discount rate of 16% and projected net sales of Jaybird over the earn-out period. The fair value is remeasured at each reporting period at the estimated fair value based on the inputs on the date of remeasurement, with



the change in fair value recognized as "change in fair value of contingent consideration for business acquisition" in the operating expense section in the condensed consolidated statements

21

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Table of Contents

of operations. Projected net sales are based on our internal projections, including analysis of the target markets. The fair value of the contingent consideration was decreased to \$8.1 million as of December 31, 2016. The change in fair value of contingent consideration results primarily from Jaybird's lower-than-expected net sales during the three months ended December 31, 2016 and revised projected net sales in the remaining earn-out period, primarily driven by supply constraints, an evolving product portfolio and changes in the competitive target market.

Although these estimates are based on management's best knowledge of current events, the estimates could change significantly from period to period. Any changes to the significant unobservable inputs used, including change in the forecast of net sales for the earn-out periods, may result in change in the fair value of contingent consideration, and could have a material impact on future results of operations. Actual payment of contingent consideration in the future could be different from the current estimated fair value of the contingent consideration.

## Assets Measured at Fair Value on a Nonrecurring Basis

The Company's non-marketable cost method investments, and non-financial assets, such as goodwill, intangible assets and property, plant and equipment, are recorded at fair value only upon initial recognition or if an impairment is recognized. There were no impairments of long-lived assets during the three and nine months ended December 31, 2016 or 2015.

Non-marketable cost method investments. These investments are classified as Level 3 due to the absence of quoted market prices, the inherent lack of liquidity, and the fact that inputs used to measure fair value are unobservable and require management's judgment. When certain events or circumstances indicate that impairment may exist, the Company revalues the investments using various assumptions, including the financial metrics and ratios of comparable public companies.

The primary investment included in non-marketable investments is the Company's investment in Series A Preferred Stock of Lifesize recorded at the fair value of \$5.6 million on the date of the Lifesize divestiture.

The aggregate recorded amount of cost method investments included in other assets as of December 31, 2016 and March 31, 2016 was \$7.4 million.

## Note 9 - Derivative Financial Instruments

Under certain agreements with the respective counterparties to the Company's derivative contracts, subject to applicable requirements, the Company is allowed to net settle transactions of the same type with a single net amount payable by one party to the other. However, the Company presents its derivative assets and derivative liabilities on a gross basis on the condensed consolidated balance sheets as of December 31, 2016 and March 31, 2016.

The fair values of the Company's derivative instruments not designated as hedging instruments were not material as of December 31, 2016 or March 31, 2016. The following table presents the fair values of the Company's derivative instruments designated as hedging instruments on a gross basis in other current assets or accrued and other current liabilities on its condensed consolidated balance sheets as of December 31, 2016 and March 31, 2016 (in thousands):

	Derivatives		
	Asset		Liability
	December 31, 2016	March 31, 2016	December 31, 2016
Cash flow hedges	\$825	\$ 10	\$-\$1,038



Table of Contents

The amount of gain (loss) recognized on derivatives not designated as hedging instruments were not material in all periods presented herein. The following table presents the amounts of gains (losses) on the Company's derivative instruments designated as hedging instruments and their locations on its condensed consolidated statements of operations and condensed consolidated statements of comprehensive income for the three and nine months ended December 31, 2016 and 2015 (in thousands):

	Three Months Ended December 31, Amount of Gain (Loss) Deferred as a Component of			
	2016		2015	
	2016	2015	2016	2015
Cash flow hedges	\$2,034	\$(17)	\$ (463	) \$ 45
	Amount of Loss (Gain) Reclassified from Accumulated Other Comprehensive Loss to Costs of Goods Sold			
	Loss After Reclassification to Costs of Goods Sold			
	2016	2015	2016	2015
	\$4,458	\$(3,679)	\$ 432	\$ (2,443

## Cash Flow Hedges

The Company enters into currency exchange forward contracts to hedge against exposure to changes in currency exchange rates related to its subsidiaries' forecasted inventory purchases. The Company has one entity with a Euro functional currency that purchases inventory in U.S. Dollars. The primary risk managed by using derivative instruments is the currency exchange rate risk. However, there can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in currency exchange rates. The Company has designated these derivatives as cash flow hedges. These hedging contracts mature within four months, and are denominated in the same currency as the underlying transactions. Gains and losses in the fair value of the effective portion of the hedges

are deferred as a component of accumulated other comprehensive loss until the hedged inventory purchases are sold, at which time the gains or losses are reclassified to cost of goods sold. The Company assesses the effectiveness of the hedges by comparing changes in the spot rate of the currency underlying the forward contract with changes in the spot rate of the currency in which the forecasted transaction will be consummated. If the underlying transaction being hedged fails to occur or if a portion of the hedge does not generate offsetting changes in the currency exposure of forecasted inventory purchases, the Company immediately recognizes the gain or loss on the associated financial instrument in other income (expense), net. Such gains and losses were not material during the three and nine months ended December 31, 2016 and 2015. Cash flows from such hedges are classified as operating activities in the condensed consolidated statements of cash flows. The notional amounts of currency exchange forward contracts outstanding related to forecasted inventory purchases were \$55.7 million and \$39.8 million at December 31, 2016 and March 31, 2016, respectively. The Company estimates that \$2.7 million of net gains related to its cash flow hedges included in accumulated other comprehensive loss as of December 31, 2016 will be reclassified into earnings within the next 12 months.

#### Other Derivatives

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

Table of Contents

The notional amounts of currency exchange forward and swap contracts outstanding as of December 31 and March 31, 2016 relating to foreign currency receivables or payables were \$86.6 million and \$63.7 million, respectively. Open forward and swap contracts outstanding as of December 31, 2016 and March 31, 2016 consisted of contracts in Mexican Pesos, Japanese Yen, British Pounds, Taiwanese Dollars, Canadian Dollars and Australian Dollars to be settled at future dates at pre-determined exchange rates.

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

## Note 10 — Goodwill

The Company performed its annual impairment analysis of the goodwill as of December 31, 2016 by performing a qualitative assessment and concluded that it was more likely than not that the fair value of its peripherals reporting unit, the only reportable segment of the Company, exceeded its carrying amount. In assessing the qualitative factors, the Company considered the impact of these key factors: change in industry and competitive environment, growth in market capitalization to \$4.0 billion as of December 31, 2016 from \$2.5 billion a year ago, and budgeted-to-actual revenue performance from the last twelve months.

The following table summarizes the activities in the Company's goodwill balance during the nine months ended December 31, 2016 (in thousands):

As of March 31, 2016	\$218,224
Business acquisitions (See Note 3)	31,553
Currency impact	(56 )
As of December 31, 2016	\$249,721

## Note 11 — Financing Arrangements

The Company had several uncommitted, unsecured bank lines of credit aggregating \$43.2 million as of December 31, 2016. There are no financial covenants under these lines of credit with which the Company must comply. As of December 31, 2016, the Company had outstanding bank guarantees of \$18.3 million under these lines of credit. There was no borrowing outstanding under these lines of credit as of December 31, 2016 or March 31, 2016.

## Note 12 — Commitments and Contingencies

## Product Warranties

All of the Company's peripherals products sold are covered by warranty to be free from defects in material and workmanship. For products launched prior to April 1, 2014, the standard warranty period was up to five years. Starting from April 1, 2014, the standard warranty for all new products launched was changed to two years from date of purchase for European Countries and generally one year from date of purchase for all other countries. 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.



Table of Contents

Changes in the Company's warranty liability for the three and nine months ended December 31, 2016 and 2015 were as follows (in thousands):

	Three Months		Nine Months	
	Ended		Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Beginning of the period	\$21,612	\$20,399	\$20,380	\$21,710
Assumed from business acquisition		—	1,963	—
Provision	4,521	2,023	10,861	5,815
Settlements	(3,550 )	(2,763 )	(10,430 )	(8,008 )
Currency impact	(462 )	(153 )	(653 )	(11 )
End of the period	\$22,121	\$19,506	\$22,121	\$19,506

## Other Contingencies

In April 2016, the Company entered into a settlement with the SEC related to the accounting for Revue inventory valuation reserves that resulted in the restatement described in the Fiscal Year 2014 Annual Report on Form 10-K, revision to its consolidated financial statements concerning warranty accruals and amortization of intangible assets presented in its Amended Annual Report on Form 10-K/A, filed on August 7, 2013, and its transactions with a distributor for Fiscal Year 2007 through Fiscal Year 2009. The Company entered into the settlement without admitting or denying the findings of the SEC's investigation and paid a civil penalty of \$7.5 million in April 2016.

## Guarantees

Logitech Europe S.A. guaranteed payments of certain third-party contract manufacturers' purchase obligations. As of December 31, 2016, the maximum amount of this guarantee was \$3.8 million, of which \$1.7 million of guaranteed purchase obligations were outstanding.

## Indemnifications

The Company indemnifies certain of its suppliers and customers for losses arising from matters such as intellectual property disputes and product safety defects, subject to certain restrictions. The scope of these indemnities varies, but in some instances, includes indemnification for damages and expenses, including reasonable attorneys' fees. As of December 31, 2016, no amounts have been accrued for these indemnification provisions. The Company does not believe, based on historical experience and information currently available, that it is probable that any material amounts will be required to be paid under its indemnification arrangements.

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

The stock purchase agreement entered on December 28, 2015 in connection with the investment by three venture capital firms in Lifesize, Inc. contains representations, warranties and covenants of Logitech and Lifesize, Inc. to the Investors. Logitech has agreed, subject to certain limitations, to indemnify the Investors and certain persons related to the Investors for certain losses resulting from breaches of or inaccuracies in such representations, warranties and covenants as well as certain other obligations, including third-party expenses, restructuring costs and pre-closing tax obligations of Lifesize.





Table of Contents

## Legal Proceedings

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

## Note 13 — Shareholders' Equity

## Share Repurchase Program

In March 2014, the Company's Board of Directors approved the 2014 share buyback program, which authorizes the Company to use up to \$250.0 million to purchase its own shares. The Company's share buyback program is expected to remain in effect for a period of three years. Shares may be repurchased from time to time on the open market, through block trades or trading plan or otherwise. Opportunistic share repurchases may be started or stopped at any time without prior notice depending on market conditions and other factors. During the three months ended December 31, 2016, 0.9 million shares were repurchased for \$20.9 million. There were no share repurchases during the three months ended December 31, 2015. During the nine months ended December 31, 2016 and 2015, 3.3 million and 3.5 million shares were repurchased for \$63.8 million and \$48.8 million, respectively.

## Cash Dividend on Shares of Common Stock

During the nine months ended December 31, 2016, the Company declared and paid cash dividends of CHF 0.56 (USD equivalent of \$0.57) per common share, totaling \$93.1 million on the Company's outstanding common stock. During the nine months ended December 31, 2015, the Company declared and paid cash dividends of CHF 0.51 (USD equivalent of \$0.53) per common share, totaling \$85.9 million on the Company's outstanding common stock.

Any future dividends will be subject to the approval of the Company's shareholders.

## Accumulated Other Comprehensive Loss

On total company basis, the components of accumulated other comprehensive income (loss) were as follows (in thousands):

	Accumulated Other Comprehensive Income (Loss)			
	Cumulative Translation Adjustment (1)	Defined Benefit Plan (1)	Deferred Hedging Gains (Losses)	Total
March 31, 2016	\$ (84,038 )	\$ (26,171 )	\$ (1,776 )	\$ (111,985 )
Other comprehensive income	(7,714 )	2,809	4,458	(447 )
December 31, 2016	\$ (91,752 )	\$ (23,362 )	\$ 2,682	\$ (112,432 )

(1) Tax effect was not significant as of December 31 or March 31, 2016.

Note 14 — Segment Information

The Company has determined that it operates in a single operating segment that encompasses the design, manufacturing and marketing of peripherals for PCs, tablets and other digital platforms. Operating performance measures are provided directly to the Company's Chief Executive Officer ("CEO"), who is considered to be the

26

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Table of Contents

Company's Chief Operating Decision Maker ("CODM"). The CEO periodically reviews information such as net sales and operating income (loss) to make business decisions. These operating performance measures do not include restructuring charges (credits), net, share-based compensation expense, amortization of intangible assets, charges from the purchase accounting effect on inventory, acquisition-related costs, investigation and related expenses, or change in fair value of acquisition-related contingent consideration.

Net sales by product categories and sales channels, excluding intercompany transactions, for the three and nine months ended December 31, 2016 and 2015 were as follows (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2016	2015	2016	2015
Mobile Speakers	\$106,578	\$85,081	\$261,046	\$206,175
Audio-PC & Wearables	67,225	57,300	186,058	149,341
Gaming	107,181	77,706	242,874	189,000
Video Collaboration	35,807	26,216	88,298	67,460
Home Control	26,942	25,684	49,916	48,548
Pointing Devices	142,166	139,711	382,249	381,364
Keyboards & Combos	125,289	116,531	359,824	324,458
Tablet & Other Accessories	24,852	35,873	59,351	73,222
PC Webcams	30,503	29,648	80,072	74,689
Other <sup>(1)</sup>	164	817	1,187	1,961
Total net retail sales	666,707	594,567	1,710,875	1,516,218
OEM	—	26,512	—	71,041
Total net sales	\$666,707	\$621,079	\$1,710,875	\$1,587,259

(1) Other category includes products that the Company currently intends to transition out of, or has already transitioned out of, because they are no longer strategic to the Company's business.

Net sales to unaffiliated customers by geographic region (based on the customers' location) for the three and nine months ended December 31, 2016 and 2015 were as follows (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2016	2015	2016	2015
Americas	\$290,724	\$279,286	\$753,179	\$719,735
EMEA	233,251	205,827	576,809	494,592
Asia Pacific	142,732	135,966	380,887	372,932
Total net sales	\$666,707	\$621,079	\$1,710,875	\$1,587,259

Sales are attributed to countries on the basis of the customers' locations.

The United States and Germany each represented more than 10% of the Company's total consolidated net sales from continuing operations for the three and nine months ended December 31, 2016. The United States represented more than 10% of the Company's total consolidated net sales from continuing operations for the three and nine months ended December 31, 2015.

Switzerland, the Company's home domicile, represented 2% of the Company's total consolidated net sales from continuing operations for all the periods presented herein.

Two customer groups of the Company each represented more than 10% of total consolidated sales from continuing operations for all the periods presented herein.

27

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Table of Contents

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

	December March	
	31,	31,
	2016	2016
Americas	\$ 37,959	\$40,221
EMEA	3,358	3,194
Asia Pacific	42,877	49,445
Total	\$ 84,194	\$92,860

Long-lived assets in the United States and China were \$37.8 million and \$36.5 million, respectively, as of December 31, 2016, and \$40.0 million and \$44.5 million, respectively, as of March 31, 2016. No other countries represented more than 10% of the Company's total consolidated long-lived assets as of December 31 or March 31, 2016. Long-lived assets in Switzerland, the Company's home domicile, were \$1.8 million and \$1.7 million as of December 31 and March 31, 2016, respectively.

## Note 15 — Restructuring

During the first quarter of fiscal year 2016, the Company implemented a restructuring plan to exit the OEM business, reorganize Lifesize to sharpen its focus on its cloud-based offering, and streamline the Company's overall cost structure through product, overhead and infrastructure cost reductions with a targeted resource realignment. Charges and other costs related to the workforce reduction and structure realignment are presented as restructuring charges in the condensed consolidated statements of operations. On a total company basis, including the Lifesize video conferencing business as reported in discontinued operations, the Company has incurred approximately \$25.5 million under this restructuring plan, including approximately \$24.4 million for cash severance and other personnel costs. The Company substantially completed this restructuring plan by the fourth quarter of fiscal year 2016.

The following table summarizes restructuring related activities during the three and nine months ended December 31, 2016:

	Restructuring		
	Termination	Lease	Total
	Benefits	Exit	
		Costs	
Accrual balance at March 31, 2016	\$6,275	\$125	\$6,400
Credits, net	(85 )	—	(85 )
Cash payments	(1,908 )	(125 )	(2,033 )
Accrual balance at June 30, 2016	\$4,282	\$—	\$4,282
Charges	74	—	74
Cash payments	(1,473 )	—	(1,473 )
Accrual balance at September 30, 2016	\$2,883	\$—	\$2,883
Credits, net	(33 )	—	(33 )
Cash payments	(1,200 )	—	(1,200 )
Accrual balance at December 31, 2016	\$1,650	\$—	\$1,650



Table of Contents

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

You should read the following discussion in conjunction with the interim unaudited condensed consolidated financial statements and related notes.

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. These forward-looking statements include, among other things, statements regarding our strategy for growth, future revenues, earnings, cash flow, uses of cash and other measures of financial performance, and market position, our business strategy, the impact of investment prioritization decisions, product offerings, sales and marketing initiatives, strategic investments, 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, our new product introductions and by geographic region, our expectations regarding the potential growth opportunities for our products in mature and emerging markets and the enterprise market, our expectations regarding economic conditions in international markets, including China, Russia and Ukraine, our expectations regarding trends in global economic conditions and consumer demand for PCs and mobile devices, tablets, gaming, audio, pointing devices, wearables, remotes and other accessories and computer devices and the interoperability of our products with such third party platforms, our expectations regarding the convergence of markets for computing devices and consumer electronics, our expectations regarding the growth of cloud-based services, our expected reduction in size of our product portfolio and dependence on new products, our competitive position and the effect of pricing, product, marketing and other initiatives by us and our competitors, the potential that our new products will overlap with our current products, our expectations regarding competition from well-established consumer electronics companies in existing and new markets, our expectations regarding the recoverability of our goodwill, goodwill impairment charge estimates and the potential for future impairment charges, the impact of our current and proposed product divestitures, changes in our planned divestitures, and the timing thereof, significant fluctuations in currency exchange rates and commodity prices, the impact of new product introductions and product innovation on future performance or anticipated costs and expenses and the timing thereof, cash flows, the sufficiency of our cash and cash equivalents, cash generated and available borrowings (including the availability of our uncommitted lines of credit) to fund future cash requirements, our expectations regarding future sales compared to actual sales, our expectations regarding share repurchases, dividend payments and share cancellations, our expectations regarding our future working capital requirements and our anticipated capital expenditures needed to support our product development and expanded operations, our expectations regarding our future tax benefits and the adequacy of our provisions for uncertain tax positions, our expectations regarding our potential indemnification obligations, and the outcome of pending or future legal proceedings and tax audits, our belief that our disclosure controls and procedures are effective at the reasonable assurance level, our expectations regarding the impact of new accounting pronouncements on our operating results, and our ability to achieve and sustain renewed growth, profitability and future success. Forward-looking statements also include, among others, those statements including the words "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "may," "plan," "predict," "seek", "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 designing products that have an every day place in people's lives, connecting them to the digital experiences they care about. Over 30 years ago we started connecting people through computers, and now we are designing products that bring people together through music, gaming, video and computing.

## Table of Contents

We design, manufacture and market products that allow people to connect through music, gaming, video, computing, and other digital platforms. Our products participate in five large markets that all have growth potential:

**Music:** This market is comprised of both wired and wireless devices that capitalize on the rapid growth of streaming music. Products in this category include mobile speakers, audio-PC & wearables, and headsets connecting to all music services used on both PCs and mobile devices.

**Gaming:** The Gaming market includes products designed for PCs and gaming consoles as well as devices designed to deliver new gaming experiences such as virtual and augmented reality. The rapid rise of eSports, and the promise of new implementations in virtual and augmented reality present growth opportunities in this market. Our products in Gaming include mice and keyboards, headsets, gamepads, steering wheels, and flight and space simulation game controller products.

**Video Collaboration:** Video Collaboration is focused on delivering solutions that enable real-time video, audio and content sharing capability to businesses and individuals. With the rapid adoption of cloud-based solutions that can lower the cost of adoption, our devices and solutions enable the rapid deployment of these cloud-based services through our platform agnostic, easy-to-use end points and peripherals.

**Smart Home:** The connected home is a market in its early stages of formation and growth. The push to realize the vision of the Internet-of-Things is delivering more and more connected devices that populate our homes, from the more traditionally connected devices like set-top boxes and digital entertainment devices to things like appliances, lighting, door locks and thermostats. We have a foundation for growth in this market through the entertainment control capabilities in our Harmony products.

**Creativity & Productivity:** This market is defined by products that enhance the users' experiences associated with computing platforms. With ever increasing connectivity globally and the consistent growth in time spent by people on these computing platforms, we believe there are meaningful growth opportunities for our products. Our continued innovation in navigation, input and content creation on these platforms can drive growth in this market despite the secular decline of new PC sales. Pointing Devices, Keyboards & Combos, Tablet & Other Accessories, and PC Webcams comprise our product categories that address this market.

We sell our products to a broad network of domestic and international customers, including direct sales to retailers and e-tailers and indirect sales through distributors. Our worldwide retail network includes consumer electronics distributors, retailers, mass merchandisers, specialty electronics stores, computer and telecommunications stores, value-added resellers and online merchants.

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 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, as well as leveraging the value of the Logitech brand from a competitive, channel partner, and consumer experience perspective.

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

From time to time, we may seek to partner with, or acquire when appropriate, companies that have products, personnel, and technologies that complement our strategic direction. We continually review our product offerings and our strategic direction in light of our profitability targets, competitive conditions, changing consumer trends and the evolving nature of the interface between the consumer and the digital world.

In fiscal years prior to fiscal year 2016, we had two segments: Peripherals, including retail and OEM products; and Lifesize Video Conferencing. During fiscal year 2016, we divested the Lifesize Video Conferencing segment, and exited the OEM business. Our financial results treat the Lifesize segment as discontinued operations for all the periods presented in this Quarterly Report on Form 10-Q. Unless indicated otherwise, the information included in

## Table of Contents

Item 2 relates to our continuing operations and historical financial information has been recast to conform to this presentation within our condensed consolidated financial statements.

On April 20, 2016, we acquired Jaybird for a purchase price of \$54.2 million, including a working capital adjustment and payment of a line-of-credit on behalf of Jaybird, along with an additional earn-out of up to \$45 million based on achievement of growth targets over two years (the "Jaybird Acquisition"). Jaybird is a leader in wireless audio wearables for sports and active lifestyles, and the acquisition of Jaybird expands our long-term growth potential in our Music market.

On September 15, 2016, we completed the acquisition of the Saitek product line for a total consideration of approximately \$13.0 million (the "Saitek Acquisition"). Out of the total consideration, \$6.7 million was attributed to intangible assets, \$4.9 million was attributed to goodwill, and \$1.4 million was attributed to net tangible assets acquired. The Saitek Acquisition is expected to enhance the breadth and depth of our product offerings and expand our engineering capabilities in simulation products.

### Summary of Financial Results

Our net sales for the three and nine months ended December 31, 2016 increased 7% and 8% compared to the three and nine months ended December 31, 2015, respectively, due to stronger retail sales, partially offset by our exit of the OEM business in the quarter ended December 31, 2015. The results of operations for Jaybird and Saitek have been included in our condensed consolidated statements of operations from the acquisition date. For the three and nine months ended December 31, 2016, Jaybird and Saitek contributed a total of \$17.4 million and \$47.3 million of net sales, respectively.

Our retail sales for the three months ended December 31, 2016 increased 12% compared to the three months ended December 31, 2015. Retail sales increased 7%, 18% and 14% in the Americas ("AMR"), EMEA and Asia Pacific, respectively. Our retail sales for the nine months ended December 31, 2016 increased 13% compared to the nine months ended December 31, 2015. Retail sales increased 8%, 21% and 11% in AMR, EMEA and Asia Pacific, respectively.

Our gross margin for the three months ended December 31, 2016 increased to 37.0% from 33.6% for the three months ended December 31, 2015. Our gross margin for the nine months ended December 31, 2016 increased to 36.4% from 34.0% for the nine months ended December 31, 2015. The increases in gross margin for both periods were primarily driven by product cost reductions as well as greater supply chain efficiencies, partially offset by an increase of promotions, and amortization of intangible assets and purchase accounting effect on inventory from business acquisitions.

Operating expenses for the three months ended December 31, 2016 were 22.6% of net sales, compared to 22.5% in the same period of the prior fiscal year. Operating expenses for the nine months ended December 31, 2016 were 26.1% of net sales, compared to 26.5% in the same period of the prior fiscal year. Net operating expense increased in both periods, primarily driven by higher personnel-related costs due to increased headcount, business acquisitions completed during the first nine months of fiscal year 2017, a higher variable compensation linked to strong performance in the first nine months of the fiscal year, and amortization of intangibles from the business acquisitions, partially offset by a gain from change in fair value of contingent consideration from the Jaybird Acquisition. The increase of operating expenses for the nine months ended December 31, 2016 was also offset by a decrease in restructuring charges as we substantially completed our restructuring plan in the fourth quarter of fiscal year 2016.

Net income from continuing operations for the three and nine months ended December 31, 2016 was \$97.5 million and \$166.5 million, respectively, compared to \$68.0 million and \$111.4 million for the three and nine months ended

December 31, 2015, respectively.

Given our global sales presence and the reporting of our financial results in U.S. Dollars, our financial results could be affected by shifts in currency exchange rates. See “Results of Operations” for information on the effect of currency exchange results on our net sales. If the U.S. Dollar becomes stronger in comparison to other currencies, it will also affect our results of operations in future periods.

31

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## Table of Contents

### Trends in Our Business

Our strategy focuses on five large multi-category markets, including Music, Gaming, Video Collaboration, Home and Creativity & Productivity. We see opportunities to deliver growth in all these markets.

We believe our future growth will be determined by our ability to rapidly create innovative products across multiple digital platforms, including gaming, digital music devices, video and computing. The following discussion represents key trends specific to our market opportunities.

#### Trends Specific to Our Five Market Opportunities

**Music:** The music market grew during the first nine months of fiscal year 2017, driven by growing consumption of music through mobile devices such as smartphones and tablets. This market growth, together with our investments in the UE brand, our introduction of new products, acquisitions of new portfolios and our ability to gain market share, has driven our growth in this market.

**Gaming:** The PC Gaming platform continues to show strong growth as online gaming and multi-platform experiences gain greater popularity and gaming content becomes increasingly more demanding. We believe Logitech is well positioned to benefit from the gaming market growth as well as acquisitions of new portfolios.

**Video Collaboration:** We continue to focus our efforts on creating and selling innovative products, including Video Collaboration products, to accommodate the increasing demand from medium-sized meeting rooms to small-sized rooms such as huddle rooms. During fiscal year 2016, we launched Logitech Group, a transformation in team collaboration that provides high-quality HD video conferencing for groups of up to 20 people and works with the video conferencing applications already in use. We will continue to invest in selected business specific products, targeted product marketing and sales channel development.

**Smart Home:** This market increased in fiscal year 2016 and has continued growing in fiscal year 2017. In October 2016, we introduced a new Amazon Alexa skill that enables voice control of the living room entertainment experience using a Logitech Harmony Hub with Alexa-enabled devices such as the Amazon Echo or Echo Dot. Through Harmony, Alexa can turn on/off and control a TV and AV system. We have also seen early success with the professional installer channel through the recent introduction of the Harmony Pro. We will continue to explore other innovative experiences for the Smart Home.

**Creativity & Productivity:** Although new PC shipments continue to decline, the installed base of PC users is large. We believe that innovative PC peripherals, such as our mice and keyboards, can renew the PC usage experience, providing growth opportunities. Smaller mobile computing devices, such as tablets with touch interfaces, have created new markets and usage models for peripherals and accessories. We offer a number of products to enhance the use of mobile devices, including keyboard folios for the iPad and iPad mini, and keyboard covers and folios for the iPad Air. However, we have seen the market decline for the iPad platform, which has impacted the sales of our tablet accessories.

#### Business Seasonality, Product Introductions and Acquisitions

We have historically experienced higher net sales in our third fiscal quarter ending December 31, compared to other fiscal quarters in our fiscal year, due in part to seasonal holiday demand. Additionally, new product introductions and acquisitions may significantly impact net sales and revenue growth rates, product costs, gross profit margin, and operating expenses. Product introductions can also impact our net sales to our distribution channels as these channels are filled with new product inventory following a product introduction, and often channel inventory of an earlier model product declines as the next related major product launch approaches. Net sales can also be affected when consumers and distributors anticipate a product introduction. However, neither historical seasonal patterns nor historical patterns of product introductions should be considered reliable indicators of our future pattern of product introductions, future net sales or financial performance.



## Table of Contents

### 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, goodwill and intangible assets from business acquisitions, net sales and expenses, contingent consideration, 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.

Accounting for business combinations requires us to make significant estimates and assumptions, especially at the acquisition date with respect to tangible and intangible assets acquired and liabilities assumed and pre-acquisition contingencies. We use our best estimates and assumptions to accurately assign fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date.

Examples of critical estimates in valuing certain intangible assets and goodwill we have acquired include but are not limited to:

- royalty rate range and forecasted revenue growth rate assumptions;
- assumptions regarding the estimated useful life of the acquired intangibles;
- discount rates.

Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results.

The economic useful life of the developed technology from the business acquisitions was determined based on the technology cycle related to developed technology of existing products, as well as the cash flows over the forecasted periods.

The economic useful life of the customer relationships from the business acquisitions was determined based on historical customer turnover rates and the industry benchmarks.

The economic useful life of the trade names from the business acquisitions was determined based on the expected life of the trade names and the cash flows anticipated over the forecasted periods.

The fair value of acquisition-related contingent consideration liability arising from the Jaybird Acquisition (see "Note 3 - Business Acquisitions" and "Note 8 - Fair Value Measurements" to the condensed consolidated financial statements for more information) is determined by using a Monte Carlo Simulation that includes significant unobservable inputs such as a risk-adjusted discount rate and projected net sales of Jaybird over the earn-out period, and it is remeasured at each reporting period based on the inputs on the date of remeasurement. Projected net sales are based on our internal projections, including analysis of the target markets. The fair value of the contingent consideration was decreased to \$8.1 million as of December 31, 2016. The change in fair value of contingent



consideration results primarily from Jaybird's lower-than-expected net sales during the three months ended December 31, 2016 and revised projected net sales in the remaining earn-out period, primarily driven by supply constraints, an evolving product portfolio and changes in the competitive target market. Although these estimates are based on management's best knowledge of current events, the estimates could change significantly from period to period. Any changes to the significant unobservable inputs used, including change in the forecast of net sales for the earn-out periods, may result in change in the fair value of contingent consideration, and could have a material impact on future results of operations. Actual payment of contingent consideration in the future could be different from the current estimated fair value of the contingent consideration.

Table of Contents

There have been no other 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, 2016 that are of significance, or potential significance, to the Company.

## Adoption of New Accounting Guidance

In August 2016, the FASB issued ASU 2016-15 "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments", which gives guidance and reduces diversity in practice with respect to certain types of cash flows. We have early adopted this guidance during the second quarter of fiscal year 2017 and the adoption did not impact our condensed consolidated financial statements.

## Impact of Constant Currency

We refer to our net sales growth rates excluding the impact of currency exchange rate fluctuations as "constant dollar" sales growth rates. Percentage of constant dollar sales growth is calculated by translating prior period sales in each local currency at the current period's average exchange rate for that currency and comparing that to current period sales.

## Results of Operations

## Net Sales

Net sales by channel for the three and nine months ended December 31, 2016 and 2015 were as follows (Dollars in thousands):

	Three Months Ended			Nine Months Ended		
	December 31,		Change	December 31,		Change
	2016	2015		2016	2015	
Retail	\$666,707	\$594,567	12 %	\$1,710,875	\$1,516,218	13 %
OEM	—	26,512	(100)	—	71,041	(100)
Total net sales	\$666,707	\$621,079	7	\$1,710,875	\$1,587,259	8

## Retail:

Our net retail sales in the three and nine months ended December 31, 2016 increased 12% and 13%, respectively, compared to the same periods of the prior fiscal year. Sales increased across all three regions during the three and nine months ended December 31, 2016. If currency exchange rates had been constant in the three and nine months ended December 31, 2016 and 2015, our constant dollar retail sales growth rates would have been 13% for both periods. The growths for both periods include the net sales resulting from the Jaybird Acquisition completed in the first quarter of fiscal year 2017 and the Saitek Acquisition completed in the second quarter of fiscal year 2017 (see Note 3 - "Business Acquisitions" to the condensed consolidated financial statements).

## OEM:

The year-over-year decline in our OEM sales was due to our exit from the OEM business in December 2015. As a result, there was no OEM revenue during the three and nine months ended December 31, 2016.

## Sales Denominated in Other Currencies

Although our financial results are reported in U.S. Dollars, a portion of our sales was generated in currencies other than the U.S. Dollar, such as the Euro, Chinese Renminbi, Japanese Yen, Canadian Dollar, Taiwan New Dollar, British Pound and Australian Dollar. For example, during the three months ended December 31, 2016, 51% of our net sales were denominated in currencies other than the U.S. Dollar.



Table of Contents

## Retail Sales by Region

The following table presents the change in retail sales by region for the three and nine months ended December 31, 2016, compared to the three and nine months ended December 31, 2015:

	Three Months Ended		Nine Months Ended	
	December 31, 2016		December 31, 2016	
	Change in Sales		Change in Sales	
Americas	7	%	8	%
EMEA	18		21	
Asia Pacific	14		11	

## Americas:

Retail sales in the Americas region increased 7% and 8%, respectively, during the three and nine months ended December 31, 2016, compared to the same periods of the prior fiscal year. If currency exchange rates had been constant in the three and nine months ended December 31, 2016 and 2015, our constant dollar retail sales growth rates would have been 8% and 9%, respectively, in the Americas. The growths were driven by Audio PC & Wearables, Mobile Speakers and Gaming, partially offset by declines in sales for Pointing Devices and Tablet & Other Accessories.

## EMEA:

Retail sales in the EMEA region increased 18% and 21%, respectively, during the three and nine months ended December 31, 2016, compared to the same periods of the prior fiscal year. If currency exchange rates had been constant in the three and nine months ended December 31, 2016 and 2015, our constant dollar retail sales growth rates would have been 20% and 22%, respectively. The growth in the periods was driven by several of our product categories, with strength in Mobile Speakers, Keyboards & Combos, Pointing Devices, Video Collaboration and Gaming.

## Asia Pacific:

Retail sales in the Asia Pacific region increased 14% and 11%, respectively, during the three and nine months ended December 31, 2016, compared to the same periods of the prior fiscal year. If currency exchange rates had been constant in the three and nine months ended December 31, 2016 and 2015, our constant dollar retail sales growth rates would have been 13% and 11%, respectively. The growth in the periods was primarily driven by sales increases in Gaming.

## Net Retail Sales by Product Categories

Net retail sales by product category for the three and nine months ended December 31, 2016 and 2015 were as follows (Dollars in thousands):

	Three Months Ended			Nine Months Ended		
	December 31,		Change	December 31,		Change
	2016	2015		2016	2015	
Mobile Speakers	\$106,578	\$85,081	25	\$261,046	\$206,175	27
Audio-PC & Wearables	67,225	57,300	17	186,058	149,341	25
Gaming	107,181	77,706	38	242,874	189,000	29

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Video Collaboration	35,807	26,216	37	88,298	67,460	31
Home Control	26,942	25,684	5	49,916	48,548	3
Pointing Devices	142,166	139,711	2	382,249	381,364	—
Keyboards & Combos	125,289	116,531	8	359,824	324,458	11
Tablet & Other Accessories	24,852	35,873	(31 )	59,351	73,222	(19 )
PC Webcams	30,503	29,648	3	80,072	74,689	7
Other <sup>(1)</sup>	164	817	(80 )	1,187	1,961	(39 )
Total net retail sales	\$666,707	\$594,567	12	\$1,710,875	\$1,516,218	13

35

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## Table of Contents

(1) Other category includes products out of which we currently intend to transition, or out of which we have already transitioned, because they are no longer strategic to our business.

Net Retail Sales by Product Categories

Music market:

Mobile Speakers

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

Retail sales of Mobile Speakers increased 25% and 27%, respectively, for the three and nine months ended December 31, 2016, compared to the same periods of the prior fiscal year. Mobile Speaker sales increased for both periods primarily due to the introduction of the UE Boom 2 in the second quarter of fiscal year 2016 as well as the continued success of the UE Megaboom.

Audio-PC & Wearables

Our retail Audio-PC & Wearables category comprises PC speakers, PC headsets and Jaybird earbuds.

Audio-PC & Wearables sales increased 17% and 25%, respectively, for the three and nine months ended December 31, 2016, compared to the same periods of the prior fiscal year. The increase for the three months ended December 31, 2016 was primarily driven by the introduction of the Jaybird X3 Sport Bluetooth earbuds in the third quarter of fiscal year 2017 and the Jaybird Freedom F5 earbuds resulting from the Jaybird Acquisition in the first quarter of fiscal year 2017 (see Note 3 - "Business Acquisitions" to the condensed consolidated financial statements). The increase for the nine months ended December 31, 2016 was primarily driven by the Jaybird Freedom F5 earbuds and the Jaybird X2 and X3 Sport Bluetooth earbuds.

Gaming market:

Gaming

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

Gaming retail sales increased 38% and 29%, respectively, for the three and nine months ended December 31, 2016, compared to the same periods of the prior fiscal year. The significant increases for both periods were primarily driven by the continued success of our G502 Proteus Spectrum gaming mouse and new product introductions of the G900 Chaos Spectrum gaming mouse and the G910 Orion Spark gaming keyboard in the first half of fiscal year 2017.

Video Collaboration market:

Video Collaboration

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

Retail sales of Video Collaboration increased 37% and 31%, respectively, in the three and nine months ended December 31, 2016, compared to the same periods of the prior fiscal year. The increases in both periods were primarily due to the introduction of the Logitech Group conference camera in the fourth quarter of fiscal year 2016.

Smart Home market:

Home Control

Our retail Home Control category comprises our Harmony branded products.

36

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Table of Contents

Home Control retail sales increased 5% and 3%, respectively, during the three and nine months ended December 31, 2016, compared to the same periods of the prior fiscal year.

Creativity & Productivity Market:

Pointing Devices

Our retail Pointing Devices category comprises mice, touchpads and presenters.

Retail sales of Pointing Devices increased 2% and remained flat, respectively, during the three and nine months ended December 31, 2016, compared to the same periods of the prior fiscal year.

Keyboards & Combos

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

Retail sales of Keyboards & Combos increased 8% and 11%, respectively, in the three and nine months ended December 31, 2016, compared to the same periods of the prior fiscal year. The sales increase for the three months ended December 31, 2016 was primarily driven by continued sales of our MK235 Combo launched in the fourth quarter of fiscal year 2016. The sales increase for the nine months ended December 31, 2016 was primarily driven by the strong sales of our wireless keyboard K400 plus, in addition to the new product launch of our MK235 Combo in the fourth quarter of fiscal year 2016.

Tablet & Other Accessories

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

Retail sales of Tablet & Other Accessories decreased 31% and 19%, respectively, in the three and nine months ended December 31, 2016, compared to the same periods of the prior fiscal year. The sales decrease for both periods reflect the declining market for iPad shipments, partially offset by the new product introduction of the Create Tablet Keyboard Case for the iPad Pro launched in September of fiscal year 2016.

PC Webcams

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

Retail PC Webcams sales increased 3% and 7%, respectively, in the three and nine months ended December 31, 2016, compared to the same periods of the prior fiscal year. The increase in the three months ended December 31, 2016 was primarily driven by the introduction of our C922 Pro Stream Webcam. The increase in the nine months ended December 31, 2016 was primarily driven by strong sales of our HD Pro Webcam C920, in addition to the introduction of the C922 Pro Stream Webcam.



Table of Contents

## Gross Profit

Gross profit for the three and nine months ended December 31, 2016 and 2015 was as follows (Dollars in thousands):

	Three Months Ended			Nine Months Ended		
	December 31,			December 31,		
	2016	2015	Change	2016	2015	Change
Net sales	\$666,707	\$621,079	7 %	\$1,710,875	\$1,587,259	8 %
Cost of goods sold	418,015	412,582	1	1,083,908	1,048,312	3
Amortization of intangible assets and purchase accounting effect on inventory	1,929	—	NM	4,705	—	NM
Gross profit	\$246,763	\$208,497	18	\$622,262	\$538,947	15
Gross margin	37.0 %	33.6 %		36.4 %	34.0 %	

NM=Not Meaningful.

Gross profit consists of net sales, less cost of goods sold (which includes materials, direct labor and related overhead costs, costs of manufacturing facilities, royalties, costs of purchasing components from outside suppliers, distribution costs, warranty costs, customer support, outside processing costs and write-down of inventories) and less amortization of certain intangible assets and purchase accounting effect on inventory. Purchase accounting effect on inventory was \$0.5 million and \$1.2 million for the three and nine months ended December 31, 2016, respectively. Amortization of intangible assets from developed technology was \$1.5 million and \$3.5 million, respectively, for the three and nine months ended December 31, 2016 as a result of the business acquisitions.

Gross margin increased by 340 basis points and 240 basis points, respectively, for the three and nine months ended December 31, 2016, compared to the same period of the prior fiscal year. The increases in gross margin for both periods were primarily driven by product cost reductions as well as greater supply chain efficiencies, partially offset by an increase of promotions, and amortization of intangible assets and purchase accounting effect on inventory from business acquisitions.

Table of Contents

## Operating Expenses

Operating expenses for the three and nine months ended December 31, 2016 and 2015 were as follows (Dollars in thousands):

	Three Months Ended December 31,			Nine Months Ended December 31,		
	2016	2015	Change	2016	2015	Change
Marketing and selling	\$102,036	\$87,295	17 %	\$279,700	\$241,924	16 %
% of net sales	15.3	% 14.1	%	16.3	% 15.2	%
Research and development	32,284	29,161	11	96,867	85,889	13
% of net sales	4.8	% 4.7	%	5.7	% 5.4	%
General and administrative	24,631	24,080	2	75,587	77,966	(3 )
% of net sales	3.7	% 3.9	%	4.4	% 4.9	%
Amortization of intangible assets and acquisition-related costs	1,494	112	1,234	4,535	447	915
% of net sales	0.2	% —	%	0.3	% —	%
Change in fair value of contingent consideration for business acquisition	(9,925 )	—	NM	(9,925 )	—	NM
% of net sales	(1.5 )	% —	%	(0.6 )	% —	%
Restructuring charges (credits), net	(33 )	(666 )	(95 )	(44 )	14,018	(100)
% of net sales	—	% (0.1 )	%	—	% 0.9	%
Total operating expenses	\$150,487	\$139,982	8	\$446,720	\$420,244	6
% of net sales	22.6	% 22.5	%	26.1	% 26.5	%

NM=Not Meaningful.

## Marketing and Selling

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

During the three months ended December 31, 2016, marketing and selling expenses increased 17%, compared to the same period of the prior fiscal year. During the nine months ended December 31, 2016, marketing and selling expenses increased 16%, compared to the same period of the prior fiscal year. The increases for both periods were primarily driven by higher personnel-related costs due to increased headcount during the last twelve months to expand our marketing team to support the advertising and marketing efforts for our products, the increased headcount and amortization of intangible assets resulting from the Jaybird Acquisition and Saitek Acquisition, as well as increased variable compensation linked to stronger performance during the first nine months of fiscal year 2017.

## Research and Development

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

During the three and nine months ended December 31, 2016, research and development expenses increased 11% and 13%, respectively, compared to the same periods in the prior fiscal year. The increases for both periods were primarily driven by higher personnel-related costs to support the launch of new products, increased headcount from business acquisitions, and increased variable compensation linked to stronger performance during the first nine months of fiscal

year 2017.

39

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Table of Contents

## General and Administrative

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

During the three months ended December 31, 2016, general and administrative expenses increased 2%, compared to the same period in the prior fiscal year. The increase was primarily driven by higher variable compensation linked to stronger performance during the first nine months of fiscal year 2017, partially offset by decreased information technology costs.

During the nine months ended December 31, 2016, general and administrative expenses decreased 3%, compared to the same period in the prior fiscal year. The decrease was primarily due to a \$3.5 million reduction related to the prior year's accrual for our settlement with the SEC (see "Note 12 - Commitments and Contingencies" to the condensed consolidated financial statements for more details) and a decrease in information technology costs, partially offset by an increase in variable compensation linked to stronger performance during the first nine months of fiscal year 2017.

## Amortization of Intangibles and Acquisition-Related Costs

Amortization of intangibles and acquisition-related costs during the three and nine months ended December 31, 2016 and 2015 were as follows (in thousands):

	Three Months Ended December 31, 2016		Nine Months Ended December 31, 2015	
Amortization of intangible assets	\$1,279	\$112	\$3,074	\$447
Acquisition-related costs	215	—	1,461	—
Total	\$1,494	\$112	\$4,535	\$447

Amortization of intangible assets consists of amortization of acquired intangible assets including customer relationships and trade names. Acquisition-related costs include legal expense, due diligence costs, and other professional costs incurred for business acquisitions.

## Change in Fair Value of Contingent Consideration for Business Acquisition

The change in fair value of contingent consideration is primarily due to lower-than-expected net sales of Jaybird products during the three months ended December 31, 2016, and revised projected net sales of Jaybird products during the remaining earn-out period, primarily driven by supply constraints, an evolving product portfolio and changes in the competitive target market (see Note 8 – Fair Value Measurement). Although these estimates are based on management's best knowledge of current events, the estimates could change significantly from period to period. Any changes to the significant unobservable inputs used, including change in the forecast of net sales of the earn-out periods, may result in change in the fair value of contingent consideration, and could have a material impact on future results of operations. Actual payment of contingent consideration in the future could be different from the current estimated fair value of the contingent consideration.



Table of Contents

## Restructuring Charges

The following table summarizes restructuring-related activities during the three and nine months ended December 31, 2016 (in thousands):

	Restructuring Termination Benefits	Lease Exit Costs	Total
Accrual balance at March 31, 2016	\$6,275	\$125	\$6,400
Credits, net	(85 )	—	(85 )
Cash payments	(1,908 )	(125 )	(2,033 )
Accrual balance at June 30, 2016	\$4,282	\$—	\$4,282
Charges	74	—	74
Cash payments	(1,473 )	—	(1,473 )
Accrual balance at September 30, 2016	\$2,883	\$—	\$2,883
Credits, net	(33 )	—	(33 )
Cash payments	(1,200 )	—	(1,200 )
Accrual balance at December 31, 2016	\$1,650	\$—	\$1,650

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 Income (Expense), Net

Other income (expense), net for the three and nine months ended December 31, 2016 and 2015 was as follows (in thousands):

	Three Months Ended December 31, 2016		Nine Months Ended December 31, 2015	
Investment gain (loss) related to deferred compensation plan	\$76	\$348	\$672	\$(278)
Currency exchange gain (loss), net	2,174	442	(75 )	(690 )
Other	384	72	346	74
	\$2,634	\$862	\$943	\$(894)

Currency exchange gains or losses relate to balances denominated in currencies other than the functional currency in our subsidiaries, as well as to the sale of currencies, and to gains or losses recognized on currency exchange forward contracts. We do not speculate in currency positions, but we are alert to opportunities to maximize currency exchange gains and minimize currency exchange losses.

## Provision for Income Taxes

The provision for income taxes and effective tax rates for the three and nine months ended December 31, 2016 and 2015 were as follows (Dollars in thousands):

	Three Months Ended	Nine Months Ended December 31,
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	December 31,				
	2016	2015	2016	2015	
Provision for income taxes	\$1,647	\$1,442	\$10,297	\$7,006	
Effective income tax rate	1.7	% 2.1	% 5.8	% 5.9	%

The change in the effective income tax rate for the three and nine months ended December 31, 2016, compared to the three and nine months ended December 31, 2015, is due to the mix of income and losses in the various tax jurisdictions in which we operate. In the three months ended December 31, 2016 and December 31,

Table of Contents

2015, there was a discrete tax benefit of \$9.4 million and \$8.4 million, respectively, from the reversal of uncertain tax positions from the expiration of statutes of limitations. In the nine months ended December 31, 2015, there was an additional discrete tax benefit of \$2.2 million from the preferential income tax rate reduction pursuant to the High and New Technology Enterprise Program in China.

As of December 31 and March 31, 2016, the total amount of unrecognized tax benefits due to uncertain tax positions was \$66.6 million and \$69.9 million, respectively, all of which would affect the effective income tax rate if recognized.

## Liquidity and Capital Resources

## Cash Balances, Available Borrowings, and Capital Resources

As of December 31, 2016, we had cash and cash equivalents of \$513.6 million, compared to \$519.2 million as of March 31, 2016. Our cash and cash equivalents consist of bank demand deposits and short-term time deposits, of which 58% is held in Switzerland, 15% is held in Germany, 12% is held in Hong Kong and China, 6% is held in the United Kingdom, and 9% is held in the United States and various other countries. We do not expect to incur any material adverse tax impact, except for what has been recognized, or be significantly inhibited by any country in which we do business from the repatriation of funds to Switzerland, our home domicile.

As of December 31, 2016, our working capital was \$478.7 million, compared to \$511.3 million as of March 31, 2016. The decrease was primarily due to higher accounts payable and accrued and other current liabilities, partially offset by higher accounts receivable and net inventory balances because of seasonality.

During the nine months ended December 31, 2016, we generated \$234.3 million in cash from operating activities. Our main cash inflows came from net income and increases in accounts payable and accrued liabilities, partially offset by increases in accounts receivable and inventories. Net cash used in investing activities was \$90.2 million, primarily due to \$67.0 million of purchase price (net of cash acquired) for the business acquisitions (see "Note 3 - Business Acquisitions" to the condensed consolidated financial statements), including a working capital adjustment and payment of a line-of-credit on behalf of Jaybird, and \$23.4 million of capital expenditures in computer hardware and software, tooling and equipment. Net cash used in financing activities was \$143.2 million, primarily related to our dividend payment of \$93.1 million, share repurchases of \$63.8 million and tax withholdings related to net share settlements of restricted stock units ("RSUs") of \$13.1 million, partially offset by \$20.4 million of proceeds from sales of shares upon exercise of options and purchase rights.

We had several uncommitted, unsecured bank lines of credit aggregating \$43.2 million as of December 31, 2016. We have not drawn down on these lines of credit as of December 31, 2016. There are no financial covenants under these lines of credit with which we must comply. As of December 31, 2016, we had outstanding bank guarantees of \$18.3 million under these lines of credit.

The following table summarizes our condensed consolidated statements of cash flows on a total company basis (in thousands):

	Nine Months Ended December 31,	
	2016	2015
Net cash provided by operating activities	\$234,290	\$150,846
Net cash used in investing activities	(90,240 )	(52,269 )
Net cash used in financing activities	(143,199 )	(125,423 )
Effect of exchange rate changes on cash and cash equivalents	(6,468 )	(1,205 )



Net decrease in cash and cash equivalents	\$ (5,617 )	\$ (28,051 )
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42

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Table of Contents

The following amounts reflected in the table above are from discontinued operations:

Depreciation	\$-2,207
Amortization of other intangible assets	\$-1,089
Share-based compensation expense	\$-584
Purchases of property, plant and equipment	\$-1,431
Cash and cash equivalents, beginning of the period	\$-3,659
Cash and cash equivalents, end of the period	\$-3,905

## Cash Flow from Operating Activities

The following table presents selected financial information and statistics as of December 31, 2016 and 2015 (Dollars in thousands):

	Three Months Ended	
	December 31, 2016	2015
Accounts receivable, net	\$277,677	\$284,089
Inventories	\$250,286	\$239,962
Days sales in accounts receivable (“DSO”) (Days) (1)	37	41
Inventory turnover (“ITO”) (x)(2)	6.7	6.9

(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).

Days sales in accounts receivable decreased from 41 days for the three months ended December 31, 2015 to 37 days for the three months ended December 31, 2016, primarily due to improvements in the efficiency and effectiveness of collection efforts.

Inventory turnover for the three months ended December 31, 2016 was slightly lower compared to the same period of the prior fiscal year. The increase in inventories compared with December 31, 2015 was primarily driven by the Jaybird Acquisition and Saitek Acquisition that occurred in the nine months ended December 31, 2016, partially offset by our continuing efforts in demand planning and production planning. If we are not successful in launching and phasing in our new products, including products from acquisitions, during the current fiscal year, or we are not able to sell these products at the prices planned, it could have a material impact on our revenue, gross profit margin, operating income, operating cash flow, and inventory turnover in the future.

## Cash Flow from Investing Activities

The following table presents information on our cash flows from investing activities during the nine months ended December 31, 2016 and 2015 (in thousands):

	Nine Months Ended	
	December 31, 2016	2015
Purchases of property, plant and equipment	\$(23,372)	\$(50,443)
Investment in privately held companies	(640 )	(2,099 )

Acquisitions, net of cash acquired	(66,987 )	—
Release of restricted cash	715	—
Purchases of trading investments	(5,868 )	(4,395 )
Proceeds from sales of trading investments	5,912	4,668
Net cash used in investing activities	\$(90,240)	\$(52,269)

Table of Contents

Our expenditures for property, plant and equipment during the nine months ended December 31, 2016 and 2015 were primarily for computer hardware and software, tooling, equipment and leasehold improvements. The decrease in purchases of property, plant and equipment mainly arose from the building of production lines during the nine months ended December 31, 2015, to accommodate our in-house manufacturing of certain products, compared with purchase from third parties, to align with our cost-saving goal.

Our payments for the acquisitions, net of cash acquired, during the nine months ended December 31, 2016, were for the Jaybird Acquisition and the Saitek Acquisition during the period (refer to "Note 3 - Business Acquisitions" to the condensed consolidated financial statements).

The purchases and sales of trading investments in the nine months ended December 31, 2016 and 2015 represented mutual fund and money market fund activities directed by participants in a deferred compensation plan offered by one of our subsidiaries. The mutual funds and money market funds are held in a Rabbi trust.

## Cash Flow from Financing Activities

The following table presents information on our cash flows from financing activities during the nine months ended December 31, 2016 and 2015 on a total company basis (in thousands):

	Nine Months Ended December 31,	
	2016	2015
Payment of cash dividends	\$(93,093 )	\$(85,915 )
Purchases of treasury shares	(63,764 )	(48,802 )
Proceeds from sales of shares upon exercise of options and purchase rights	20,355	12,562
Tax withholdings related to net share settlements of restricted stock units	(13,054 )	(5,357 )
Excess tax benefits from share-based compensation	6,357	2,089
Net cash used in financing activities	\$(143,199)	\$(125,423)

During the nine months ended December 31, 2016, we declared and paid cash dividends of approximately CHF 0.56 (USD equivalent of approximately \$0.57) per common share, totaling approximately \$93.1 million in U.S. Dollars, out of retained earnings. During the nine months ended December 31, 2015, we declared and paid cash dividends of approximately CHF 0.51 (USD equivalent of approximately \$0.53) per common share, totaling approximately \$85.9 million in U.S. Dollars, out of retained earnings.

During the nine months ended December 31, 2016 and 2015, 3.3 million and 3.5 million shares were repurchased for \$63.8 million and \$48.8 million, respectively.

During the nine months ended December 31, 2016 and 2015, \$13.1 million and \$5.4 million, respectively, were paid for tax withholding related to the vesting for RSUs.

## Cash Outlook

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

In March 2015, we announced a plan to pay \$250 million in cumulative dividends for fiscal year 2015 through fiscal year 2017. During the second quarter of fiscal year 2017, we paid a cash dividend of approximately CHF 90.2 million

(USD equivalent of approximately \$93.1 million) out of retained earnings. During fiscal year 2016, we paid a cash dividend of approximately CHF 83.1 million (USD equivalent of approximately \$85.9 million) out of retained earnings.

In March 2014, our Board of Directors approved a new share buyback program, which authorizes us to purchase up to \$250.0 million of our own shares. Although we enter into trading plans for systematic repurchases (e.g. 10b5-1 trading plans) from time to time, 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

## Table of Contents

period of three years. Shares may be repurchased from time to time on the open market through block trades or otherwise. Opportunistic share repurchases may be started or stopped at any time without prior notice depending on market conditions and other factors. As of December 31, 2016, the remaining amount that may be repurchased under the program is \$114.6 million.

As noted in "Note 3 - Business Acquisitions" to our condensed consolidated financial statements, we acquired all of the equity interest of Jaybird for a purchase price of \$54.2 million, including a working capital adjustment and payment of a line-of-credit on behalf of Jaybird, with an additional earn-out of up to \$45 million based on the achievement of certain net revenue growth targets over two years starting July 2016. If the net revenue growth targets are met, the Company will pay a maximum of \$25 million and \$20 million in fiscal years 2018 and 2019, respectively.

On September 15, 2016, the Company completed the acquisition of the Saitek product line for total consideration of approximately \$13.0 million.

We have changed the payment frequency of our employee performance bonus plan from semi-annual payment to annual payment. The full year bonus for fiscal year 2017 is expected to be made in the first quarter of fiscal year 2018, and the operating cash flow for that period could be negative as a result.

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 could be restricted or eliminated. However, we believe that the trend of our historical cash flow generation, our projections of future operations and reduced expenses and our available cash balances will provide sufficient liquidity to fund our operations for at least the next 12 months.

### Operating Leases Obligation

We lease facilities under operating leases, certain of which require us to pay property taxes, insurance and maintenance costs. Operating leases for facilities are generally renewable at our option and usually include escalation clauses linked to inflation. The remaining terms on our non-cancelable operating leases expire in various years through 2030. Our asset retirement obligations on these leases as of December 31, 2016 were not material.

### Purchase Commitments

As of December 31, 2016, we had fixed purchase commitments for inventory purchases made in the normal course of business to original design manufacturers, contract manufacturers and other suppliers, the majority of which are expected to be fulfilled within the next 12 months. Fixed purchase commitments for capital expenditures primarily relate to commitments for tooling for new and existing products, computer hardware, leasehold and 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 to reschedule or adjust our requirements based on business needs prior to delivery of goods or performance of services.

### Other Contractual Obligations and Commitments

For further detail about our contractual obligations and commitments, please refer to our Annual Report on Form 10-K for the fiscal year ended March 31, 2016.

### 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.

#### Settlement

In April 2016, we entered into a settlement with the SEC related to the accounting for Revue inventory valuation reserves that resulted in the restatement described in the Fiscal Year 2014 Annual Report on Form 10-K,

45

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## Table of Contents

revision to our consolidated financial statements concerning warranty accruals and amortization of intangible assets presented in our Amended Annual Report on Form 10-K/A, filed on August 7, 2013, and our transactions with a distributor for fiscal year 2007 through fiscal year 2009. We entered into the settlement without admitting or denying the findings of the SEC's investigation and paid a civil penalty of \$7.5 million. This amount was paid in April 2016.

### Guarantees

Logitech Europe S.A., one of our wholly owned subsidiaries, guaranteed payments of third-party contract manufacturers' purchase obligations. As of December 31, 2016, the maximum amount of this guarantee was \$3.8 million, of which \$1.7 million of guaranteed purchase obligations were outstanding.

### Indemnifications

We indemnify certain of our suppliers and customers for losses arising from matters such as intellectual property disputes and product safety defects, subject to certain restrictions. The scope of these indemnities varies, but in some instances includes indemnification for damages and expenses, including reasonable attorneys' fees. As of December 31, 2016, 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.

The stock purchase agreement that we entered into in connection with the investment by three venture capital firms in Lifesize contains representations, warranties and covenants of Logitech and Lifesize to the Investors. Subject to certain limitations, we have agreed to indemnify the Investors and certain persons related to the Investors for certain losses resulting from breaches of or inaccuracies in such representations, warranties and covenants as well as certain other obligations, including third party expenses, restructuring costs and pre-closing tax obligations of Lifesize.

### 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.



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 currency exchange rates and interest rates. These exposures may change over time as business practices evolve and could have a material adverse impact on our financial results.

Currency Exchange Rates

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

We are exposed to currency exchange rate risk as we transact business in multiple currencies, including exposure related to anticipated sales, anticipated purchases and assets and liabilities denominated in currencies other than the U.S. Dollar. We transact business in over 30 currencies worldwide, of which the most significant to operations are the Euro, Chinese Renminbi, Australian Dollar, Taiwanese Dollar, British Pound, Canadian Dollar, Japanese Yen and Mexican Peso. For example, for the three months ended December 31, 2016, approximately 51% of our sales were in non-U.S. denominated currencies, with 29% of our sales denominated in Euro. The mix of our operating expenses by currency is significantly different from the mix of our sales, with a larger portion denominated in U.S. Dollar and less denominated in Euro and other currencies. A strengthening U.S. Dollar has more unfavorable impact on our sales than the favorable impact on our operating expense, resulting in an adverse impact on our operating results.

Table of Contents

If the U.S. Dollar remains at its current strong levels in comparison to other currencies, this will affect our results of operations in future periods as well. The table below provides information about our underlying transactions that are sensitive to currency exchange rate changes, primarily assets and liabilities denominated in currencies other than the base currency, where the net exposure is greater than \$0.5 million as of December 31, 2016. The table also presents the U.S. Dollar impact on earnings of a 10% appreciation and a 10% depreciation of the base currency as compared with the transaction currency (in thousands):

Base Currency	Transaction Currency	Net Exposed Long (Short) Currency Position	FX Gain (Loss) From 10% Appreciation of Base Currency	FX Gain (Loss) From 10% Depreciation of Base Currency
U.S. Dollar	Mexican Peso	\$15,377	\$ (1,398 )	\$ 1,709
U.S. Dollar	Canadian Dollar	14,041	(1,276 )	1,560
U.S. Dollar	Australian Dollar	11,112	(1,010 )	1,235
U.S. Dollar	Japanese Yen	2,278	(207 )	253
U.S. Dollar	Russian Ruble	577	(52 )	64
U.S. Dollar	Hong Kong Dollar	(504 )	46	(56 )
U.S. Dollar	Korean Wan	(970 )	88	(108 )
U.S. Dollar	Swiss Franc	(4,555 )	414	(506 )
U.S. Dollar	Singapore Dollar	(8,732 )	794	(970 )
U.S. Dollar	Taiwanese Dollar	(14,282 )	1,298	(1,587 )
U.S. Dollar	Chinese Renminbi	(26,430 )	2,403	(2,937 )
Swiss Franc	British Pound	(1,354 )	123	(150 )
Euro	British Pound	2,578	(234 )	286
Euro	Turkish Lira	2,194	(199 )	244
Euro	U.S. Dollar	1,038	(94 )	115
Euro	Croatian Kuna	797	(72 )	89
Euro	Arab Emirates Dirham	(516 )	47	(57 )
Euro	Polish Zloty	(705 )	64	(78 )
Euro	Swedish Krona	(1,968 )	179	(219 )
		\$(10,024)	\$ 914	\$ (1,113 )

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

Our principal manufacturing operations are located in China, with much of our component and raw material costs transacted in Chinese Renminbi ("CNY"). As of December 31, 2016, net liabilities held in CNY totaled \$26.4 million.

## Derivatives

We enter into currency exchange forward contracts to hedge against exposure to changes in currency exchange rates related to our subsidiaries' forecasted inventory purchases. The Company has one entity with a Euro functional currency that purchases inventory in U.S. Dollars. The primary risk managed by using derivative instruments is the currency exchange rate risk. We have designated these derivatives as cash flow hedges. These hedging contracts mature within four months, and are denominated in the same currency as the underlying transactions. Gains and losses in the fair value of the effective portion of the hedges are deferred as a component of accumulated other comprehensive loss until the hedged inventory purchases are sold, at which time the gains or losses are reclassified to cost of goods sold. We assess the effectiveness of the hedges by comparing changes in the spot rate of the currency

underlying the forward contract with changes in the spot rate of the currency in which the forecasted transaction will be consummated. If the underlying transaction being hedged fails to occur or if a portion of the hedge does not generate offsetting changes in the currency exposure of forecasted inventory purchases, we immediately recognize the gain or loss on the associated financial instrument in other income (expense), net. Such gains and losses were not material during the three or nine months ended December 31, 2016 or 2015. Cash flows from such hedges are classified as operating activities in the condensed consolidated

Table of Contents

statements of cash flows. As of December 31, 2016 and March 31, 2016, the notional amounts of currency exchange forward contracts outstanding related to forecasted inventory purchases were \$55.7 million and \$39.8 million, respectively. Deferred realized gains of \$1.9 million were recorded in accumulated other comprehensive loss as of December 31, 2016, and are expected to be reclassified to cost of goods sold when the related inventory is sold. Deferred unrealized gains of 0.8 million related to open cash flow hedges were recorded in accumulated other comprehensive loss as of December 31, 2016, and these forward contracts will be revalued in future periods until the related inventory is sold, at which time the resulting gains or losses will be reclassified to cost of goods sold.

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

The notional amounts of currency exchange contracts outstanding as of December 31, 2016 and March 31, 2016 relating to foreign currency receivables or payables were \$86.6 million and \$63.7 million, respectively. The contracts outstanding at December 31, 2016 and March 31, 2016 consisted of contracts in Mexican Pesos, Japanese Yen, British Pounds, Taiwanese Dollars, Canadian Dollars and Australian Dollars to be settled at future dates at pre-determined exchange rates.

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 December 31, 2016 and December 31, 2015 period end rates would not have a material effect on our results of operations or cash flows.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Definition of Disclosure Controls

Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in the Company's reports filed under the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. The Company's Disclosure Controls include components of its internal control over financial reporting, which consists of control processes designed to provide reasonable assurance regarding the reliability of its financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the United States. To the extent that components of the Company's internal control over financial reporting are included within its Disclosure Controls, they are included in the scope of the Company's annual controls evaluation.

Limitations on the Effectiveness of Controls

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that the Company's Disclosure Controls or internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the fiscal quarter ended December 31, 2016, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

Table of Contents

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 and political 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.
- We engage in acquisitions and divestitures, and such activity varies from period to period. Such variance may affect our growth, our previous outlook and expectations, and comparisons of our operating results and financial statements between periods.
- In the first quarter of fiscal year 2016 we had substantially completed the implementation of our turnaround strategy that began in fiscal year 2013. As part of our turnaround strategy, 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 and other products for music, gaming, video collaboration, digital home, mobile devices and other product categories. We may not achieve the cost savings or other anticipated benefits from these efforts, and such efforts may cause our operating results to fluctuate from quarter to quarter, making our results difficult to predict.
- Fluctuations in currency exchange rates can impact our revenues, expenses and profitability because we report our financial statements in U.S. Dollars, whereas a significant portion of our revenues and expenses are in other currencies. We attempt to adjust product prices over time to offset the impact of currency movements. However, over short periods of time, during periods of weakness in consumer spending or given high levels of competition in many product categories, our ability to change local currency prices to offset the impact of currency fluctuations is limited.

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

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

Our product categories are 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

51

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## Table of Contents

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 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 PCs will continue to decline, and that our future growth will depend on our diversified product growth opportunities beyond the PC, 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 and we expect this trend may continue.

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

## Table of Contents

to successfully execute our sales and marketing plans, or for other reasons. Global economic concerns, such as the varying pace of global economic recovery, the impact of sovereign debt issues in Europe, the impact of low oil prices on Russia and conflicts with either local or global financial implications in places such as Russia and Ukraine, and economy slowdown in China, create unpredictability and add risk to our future outlook.

As a result, we are focusing more of our attention, which may include the personnel, financial resources, and management attention on product innovations and growth opportunities, including products for the consumption of digital music, products for gaming, products for video collaboration, products for the digital home, 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.

**Music.** We are focused on products for the consumption of digital music as a sales growth area. Competition in the mobile speaker and headphone categories 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 and headphone efforts will not be successful, and our business and results of operations could be adversely affected.

**Gaming.** We are building a diverse business that features a variety of gaming peripherals. The rapidly evolving and changing market and increasing competition increase the risk that we do not allocate our resources in line with the market and our business and results of operations could be adversely affected.

**Video Collaboration.** While we view the small and medium sized user groups' opportunity to be large and relatively unaddressed, this is a new and evolving market segment that we are developing. If the market opportunity proves to exist, we expect increasing competition from the large competitors in the video conferencing market as well as potential new entrants.

**Home.** While we are a leader in programmable, performance remote controls for home entertainment, the smart home market is still in its early stages and it is not yet clear when the category will produce dynamic growth or which products will succeed and be able to take advantage of market growth or to help define and grow the market. Despite its early stages, the smart home market already is experiencing increasing competition from strong competitors.

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

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

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

The peripherals industry is intensely competitive. Most of our product categories are characterized by large, well-financed competitors, short product life cycles, continual performance enhancements, and rapid adoption of

technological and product advancements by competitors in our retail markets. 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 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.

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

## Table of Contents

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, Google, Cisco, Sony Corporation, Polycom, Samsung 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 products 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 products, if any, or may choose to show preference to our competitors' products, 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.

### Music

**Mobile Speakers.** Our competitors for Bluetooth wireless speakers include Bose, JBL, Harmon Kardon, and Beats Electronics. Bose is our largest competitor. Apple's ownership of Beats Electronics may impact our access to shelf space in Apple retail stores and adversely impact our ability to succeed in this important growth market. Personal assistance and other devices that offer music, such as Amazon's Echo, may also compete with our products. Amazon is also a significant distributor for our products.

**Audio-PC & Wearables.** In the PC speakers category, our competitors include Bose, Cyber Acoustics, Phillips and Creative Labs, Inc. In the PC headset business, our main competitors include Plantronics and Altec Lansing. In-ear headphones competitors include Skull Candy, Sennheiser, Sony, Beats, and others.

### Gaming

Competitors for our Gaming products include Razer USA Ltd., SteelSeries, and Turtle Beach.

### Video Collaboration

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

### Home

**Remotes.** Direct competitors in the remote control market include pro-installer-focused Universal Remote Control Inc., and new "DIY" entrants from Savant Systems and Ray Enterprises. Indirect competition exists in the form of low-end "replacement remotes" such as Sony, RCA, GE, pure app-based solutions for smartphones and other mobile devices such as Peel, as well as device and/or subscriber-specific solutions from TV makers such as Samsung and Vizio and multisystem operators, or MSOs, such as Comcast and DirecTV.

**Home Control.** Competition in the home control market exists in form of home automation platforms such as Smart Things (owned by Samsung), Amazon with their Echo product, Nest (owned by Google), Wink and many other startups. Many of these products and brands are partners with Logitech as well via integrations with Harmony

remotes.

Creativity & Productivity

Pointing Devices. Microsoft Corporation is our main competitor. We also experience competition and pricing pressure from less-established brands, including house brands, which we believe have impacted our market share in some sales geographies.

54

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## Table of Contents

**Keyboards & Combo.** Microsoft Corporation and Apple Inc. are our main competitors in our keyboard and combo product lines. We also experience competition and pricing pressure for keyboard and combos from less-established brands, including house brands.

**Tablet & Other Accessories.** Competitors in the tablet case market include Apple, Otter, Speck and a large number of small brands. Competitors in the tablet keyboard market are Apple, Zagg, Kensington, Belkin, Targus and other less-established brands. Although we are one of the leaders in the tablet keyboard market and continue to bring innovative offerings to the market, we expect the competition will increase.

**PC Webcams.** Our primary competitors for PC webcams are Microsoft and Hewlett Packard 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.

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

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

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

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

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

We use our forecasts of product demand to make decisions regarding investments of our resources and production levels of our products. Although we receive forecasts from our customers, many are not obligated to purchase the forecasted demand. Also, actual sales volumes for individual products in our retail distribution channel can be volatile due to changes in consumer preferences and other reasons. In addition, our 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.

If our sales channel partners have excess inventory of our products or decide to decrease their inventories for any reason, they may decrease the amount of products they acquire in subsequent periods, causing disruption in our business and adversely affecting our forecasts and sales.



## Table of Contents

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

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

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

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

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

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

Recently and in past years, we have initiated reductions in our workforce to align our employee base with our business strategy, our anticipated revenue base or with our areas of focus. We have also experienced turnover in our workforce. These reductions and turnover have resulted in reallocations of duties, which could result in employee uncertainty and discontent. Reductions in our workforce could make it difficult to attract, motivate and retain employees, which could adversely affect our business.

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

Our gross margins can vary due to consumer demand, competition, product life cycle, new product introductions, unit volumes, commodity and supply chain costs, geographic sales mix, currency exchange rates, and the complexity and

functionality of new product innovations. In particular, if we are not able to introduce new products in a timely manner at the product cost we expect, or if consumer demand for our products is less than we anticipate, or if there are product pricing, marketing and other initiatives by our competitors to which we need to react or that are initiated by us to drive sales that lower our margins, then our overall gross margin will be less than we project.

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

Table of Contents

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

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

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

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

Our turnaround strategy over the past three 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. We restructured our business in fiscal years 2014 through 2016, and we may continue to divest or discontinue non-strategic product categories. During the third quarter of fiscal year 2016, we divested our Lifesize video conferencing business and completed our exit from the OEM business. In addition, we are continuing the rationalization of our general and administrative expense, infrastructure and indirect procurement to reduce operating expenses.

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

As part of the restructuring plans, we reduced the size of our product portfolio and the assortment of similar products at similar price points within each product category over the past several fiscal years. While we are constantly replacing products and are dependent on the success of our new products, this product portfolio simplification has made us even more dependent on the success of the new products that we are introducing.

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

We continue to review our product portfolio and update our non-strategic product categories and products. During the third quarter of fiscal year 2016, we divested our Lifesize video conferencing business and completed our exit from the OEM business. If we are unable to effect sales on favorable terms or if realignment is more costly or distracting than we expect or has a negative effect on our organization, employees and retention, then our business and operating results may be adversely affected. Discontinuing products with service components may also cause us to continue to

incur expenses to maintain services within the product life cycle or to adversely affect our customer and consumer relationships and brand. Divestitures may also involve warranties, indemnification or covenants that could restrict our business or result in litigation, additional expenses or liabilities. 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

Table of Contents

with additional product or service offerings or with additional industry expertise, assets and capabilities. For example, we recently acquired Jaybird to expand into the wireless audio wearables market, and acquired Saitek to expand into the gaming flight simulation and farm simulation market. 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. Acquisitions could also result in the assumption of known and unknown liabilities, dilutive issuances of our equity securities, the incurrence of debt, disputes over earn-outs or other litigation, and adverse effects on relationships with our and our target's employees, customers and suppliers. Moreover, our acquisitions may not be successful in achieving our desired strategic, product, financial or other objectives or expectations, which would also cause our business to suffer. Acquisitions can also lead to large non-cash charges that can have an adverse effect on our results of operations as a result of write-offs for items such as future impairments of intangible assets and goodwill or the recording of stock-based compensation. Several of our past acquisitions have not been successful and have led to impairment charges, including \$122.7 million and \$214.5 million non-cash goodwill impairment charges in fiscal years 2015 and 2013, respectively, related to our Lifesize video conferencing business which is reported in discontinued operations. Acquisitions and divestitures may also cause our operating results to fluctuate and make it difficult for investors to compare operating results and financial statements between periods. In addition, from time to time we make strategic venture investments in other companies that provide products and services that are complementary to ours. If these investments are unsuccessful, this could have an adverse impact on our results of operations, operating cash flows and financial condition.

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

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

As we expand into new product categories and markets in pursuit of growth, we will have to build relationships with new channel partners and adapt to new distribution and marketing models. These new partners, practices and models may require significant management attention and operational resources and may affect our accounting, including revenue recognition, gross margins, and the ability to make comparisons from period to period. Entrenched and more experienced competitors will make these transitions difficult. If we are unable to build successful distribution channels or successfully market our products in these new product categories, we may not be able to take advantage of the growth opportunities, and our business and our ability to effect a turnaround in our business could be adversely affected.

We reserve for cooperative marketing arrangements, direct and indirect customer incentive programs and pricing programs with our sales channel partners. These reserves are based on judgments and estimates, using historical experience rates, inventory levels in distribution, current trends and other factors. There could be significant differences between the actual costs of such arrangements and programs and our estimates.

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.

Table of Contents

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

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

We produce approximately half of our products at facilities we own in China, and we are under progress to increase that percentage in the near future. The majority of our other production is performed by third-party contract manufacturers, including other design manufacturers, in China and Malaysia.

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

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

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

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

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

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

costs, which could adversely affect our business and operating results.

Conflict minerals regulations are causing us to incur additional expenses, could limit the supply and increase the cost of certain metals used in manufacturing our products and could adversely affect the distribution and sales of 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



Table of Contents

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 2015 with the SEC on May 31, 2016.

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

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

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

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

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

We conduct operations in a number of countries, and have invested significantly in growing our personnel and sales and marketing activities in China and, to a lesser extent, other emerging markets. We may also increase our investments to grow sales in other emerging markets, such as Latin America, Eastern Europe, the Middle East and Africa. 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, import/export 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 and the stability of the European Union, which may lead to reduced sales, currency exchange losses and collection difficulties or other losses;

Table of Contents

• Political and economic uncertainty around the world, including uncertainty resulting from the recent presidential and congressional elections, change of administration in the U.S. and the United Kingdom's referendum in June 2016;

• Import or export restrictions or licensing requirements that could affect some of our products, including those with encryption technology;

• Trade protection measures, custom duties, tariffs, import or export duties, and other trade barriers, restrictions and regulations;

• 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;

• Delays from customs brokers or government agencies; and

• A broad range of customs, consumer trends, and more.

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

Sales growth in key markets, including China, is an important part of our expectations for our business. As a result, if economic, political or business conditions deteriorate in these markets, or if one or more of the risks described above materializes in these markets, our overall business and results of operations will be adversely affected.

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

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

Our primary exposure to movements in currency exchange rates relates to non-U.S. Dollar denominated sales and operating expenses worldwide. For fiscal year 2016, approximately 48% of our revenue was in non-U.S. denominated currencies. Weakening of currencies relative to the U.S. Dollar adversely affects the U.S. Dollar value of our non-U.S. Dollar-denominated sales and earnings. If we raise international pricing to compensate, it could potentially reduce demand for our products, adversely affecting our sales and potentially having an adverse impact on our market share. Margins on sales of our products in non-U.S. Dollar denominated countries and on sales of products that include components obtained from suppliers in non-U.S. Dollar denominated countries could be adversely affected by currency exchange rate fluctuations. In some circumstances, for competitive or other reasons, we may decide not to raise local prices to fully offset the U.S. Dollar's strengthening, which would adversely affect the U.S. Dollar value of our non-U.S. Dollar-denominated sales and earnings. Competitive conditions in the markets in which we operate may

also limit our ability to increase prices in the event of fluctuations in currency exchange rates. Conversely, strengthening of currency rates may also increase our product component costs and other expenses denominated in those currencies, adversely affecting operating results. We further note that a larger portion of our sales than of our expenses are denominated in non-U.S. denominated currencies.

We use derivative instruments to hedge certain exposures to fluctuations in currency exchange rates. The use of such hedging activities may not offset any, or more than a portion, of the adverse financial effects of unfavorable

## Table of Contents

movements in currency exchange rates over the limited time the hedges are in place and do not protect us from long term shifts in currency exchange rates.

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

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

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

As a Swiss company with shares listed on both the SIX Swiss Exchange and the Nasdaq Global Select Market, we are also subject to both Swiss and United States corporate governance and securities laws and regulations. In addition to the extra costs and regulatory burdens of our dual regulatory obligations, the two regulatory regimes may not always be compatible and may impose disclosure obligations, operating restrictions or tax effects on our business to which our competitors and other companies are not subject. For example, on January 1, 2014, subject to certain transitional provisions, the Swiss Federal Council Ordinance Against Excessive Compensation at Public Companies (the “Ordinance”) became effective in connection with the Minder initiative approved by Swiss voters during 2013. The Ordinance, among other things, (a) requires a binding shareholder “say on pay” vote with respect to the compensation of members of our executive management and Board of Directors, (b) generally prohibits the making of severance, advance, transaction premiums and similar payments to members of our executive management and Board of Directors, (c) imposes other restrictive compensation practices, and (d) requires that our articles of incorporation specify various compensation-related matters. In addition, during 2013, Swiss voters considered an initiative to limit pay for a chief executive officer to a multiple of no more than twelve times the salary of the lowest-paid employee. Although voters rejected that initiative, it did receive substantial voter support. The Ordinance, potential future initiatives relating to corporate governance or executive compensation, and Swiss voter sentiment in favor of such regulations may increase our non-operating costs and adversely affect our ability to attract and retain executive management and members of our Board of Directors.

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

We operate in multiple jurisdictions and our profits are taxed pursuant to the tax laws of these jurisdictions. Our effective income tax rate may be affected by changes in or interpretations of tax laws, treaties, rulings, regulations or agreements in any given jurisdiction, utilization of net operating loss and tax credit carryforwards, changes in geographical allocation of income and expense, and changes in management’s assessment of matters such as the realizability of deferred tax assets. In the past, we have experienced fluctuations in our effective income tax rate. Our effective income tax rate in a given fiscal year reflects a variety of factors that may not be present in the succeeding

fiscal year or years. There is no assurance that our effective income tax rate will not change in future periods.

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

Table of Contents

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, such as entering new markets and introducing products for tablets, other mobile devices, digital music, and video collaboration. We expect to continue to enter new categories and markets. As we do so, we face an increased risk that claims alleging we infringe the patent or other intellectual property rights of others, regardless of the merit of the claims, may increase in number and significance. Infringement claims against us may also increase as the functionality of video, voice, data and conferencing products begin to overlap. This risk is heightened by the increase in lawsuits brought by holders of patents that do not have an operating business or are attempting to license broad patent portfolios and by the increasing attempts by companies in the technology industries to enjoin their competitors from selling products that they claim infringe their intellectual property rights. Intellectual property lawsuits are subject to inherent uncertainties due to the complexity of the technical issues involved, and we cannot be certain that we will be successful in defending ourselves against intellectual property claims. A successful claimant could secure a judgment that requires us to pay substantial damages or prevents us from distributing certain products or performing certain services. We might also be required to seek a license for the use of such intellectual property, which may not be available on commercially acceptable terms or at all. Alternatively, we may be required to develop non-infringing technology, which could require significant effort and expense and may ultimately not be successful. Any claims or proceedings against us, whether meritorious or not, could be time consuming, result in costly litigation or the diversion of significant operational resources, or require us to enter into royalty or licensing agreements, any of which could materially and adversely affect our business and results of operations.

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.



## Table of Contents

Significant disruptions in, or breaches in security of, our websites or information technology systems could adversely affect our business.

As a consumer electronics company, our websites are an important presentation of our company, identity and brands and an important means of interaction with and source of information for consumers of our products. We also rely on our centralized information technology systems for product-related information and to store intellectual property, forecast our business, maintain financial records, manage operations and inventory, and operate other critical functions. We allocate significant resources to maintain our information technology systems and deploy network security, data encryption, training and other measures to protect against unauthorized access or misuse. Nevertheless, our websites and information technology systems are susceptible to damage, disruptions or shutdowns due to power outages, hardware failures, structural or operational failures, computer viruses, attacks by computer hackers, other data security issues, telecommunication failures, user error, malfeasance, catastrophes, system or software upgrades, integration or migration, or other foreseeable and unforeseen events. Breaches or disruptions of our websites or information technology systems, breaches of confidential information, data corruption or other data security issues could adversely affect our brands, reputation, relationships with customers or business partners, or consumer or investor perception of our company, business or products or result in disruptions of our operations, loss of intellectual property or our customers' or our business partners' data, reduced value of our investments in our brands, design, research and development or engineering, or costs to address regulatory inquiries or actions or private litigation, to respond to customers or partners or to rebuild or restore our websites or information technology systems.

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

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

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

During fiscal years 2014 and 2015, we devoted significant resources to the upgrade of our worldwide business application suite to Oracle's version R12. We implemented that upgrade in fiscal year 2016 and will continue to review the success of that implementation during fiscal year 2017. As a result of our transition to the new business application suite, we may experience difficulties with our systems, management distraction, lack of visibility into our business operations and results, and significant business disruptions. Difficulties with our systems may interrupt our normal operations, including our enterprise resource planning, forecasting, demand planning, supply planning, intercompany processes, promotion management, internal financial controls, pricing, and our ability to provide quotes, process orders, ship products, provide services and support to our customers and consumers, bill and track our customers, fulfill contractual obligations, and otherwise run and track our business. For example, the transition has resulted in delays in processing customer claims for claims accruals. In addition, we may need to expend significant attention, time and resources to correct problems or find alternative sources for performing these functions. Any such difficulty or disruption may adversely affect our business and operating results.



Table of Contents

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 results of discontinued operations. We recorded an additional impairment charge of goodwill of \$122.7 million related to our Lifesize video conferencing discontinued operations in fiscal year 2015, reducing its goodwill to zero, which substantially impacted results of discontinued operations again. If we divest or discontinue product categories or products that we previously acquired, or if the value of those parts of our business become impaired, we may need to evaluate the carrying value of our goodwill. Additional impairment charges could adversely affect our results of operations.

Table of Contents

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

## Share Repurchases

In fiscal year 2017, the following approved share buyback program was in place:

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

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

During the three months ended	Total Number of Shares Repurchased	Weighted Average Price Paid Per Share		Remaining Amount that May Yet Be Repurchased under the Program
		CHF	USD	
Month 1				
October 1, 2016 to October 28, 2016	318	22.11	—	\$ 128,319
Month 2				
October 29, 2016 to November 25, 2016	254	24.29	—	122,085
Month 3				
November 26, 2016 to December 30, 2016	308	24.74	—	114,604
Total	880	23.66	—	\$ 114,604

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

## ITEM 4. MINE SAFETY DISCLOSURES

None.

## ITEM 5. OTHER INFORMATION

None.

Table of Contents

ITEM 6. EXHIBITS

Exhibit Index

Exhibit No. Description

31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer.*
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document

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

Table of Contents

SIGNATURES

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

LOGITECH INTERNATIONAL S.A.

February 6,  
2017 /s/ Bracken Darrell

Bracken Darrell  
President and  
Chief Executive Officer

February 6,  
2017 /s/ Vincent Pilette

Vincent Pilette  
Chief Financial Officer