

LOGITECH INTERNATIONAL SA

Form 10-Q

February 06, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended 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.

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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.

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

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

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.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

LOGITECH INTERNATIONAL S.A.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Three Months Ended 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.

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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.

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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.

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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

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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.

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LOGITECH INTERNATIONAL S.A.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands)

(unaudited)

	Registered Shares		Additional	Treasury Shares		Retained	Accumulated	Total
	Shares	Amount	Paid-in Capital	Shares	Amount	Earnings	Other Comprehensive Loss	Shareholders' Equity
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	Treasury Shares		Retained	Accumulated	Total
	Shares	Amount	Paid-in Capital	Shares	Amount	Earnings	Other Comprehensive Loss	Shareholders' Equity
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.

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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-

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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.

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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

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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,

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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

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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.

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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.

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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.

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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.

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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

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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.

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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
Assets:						
Cash equivalents	\$340,964	\$ —	\$ —	—\$10,000	\$ —	\$ —
Trading investments for deferred compensation plan:						
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	\$ —
Liabilities:						
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

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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
Cash flow hedges	\$825	\$10
		\$-\$1,038

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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.

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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.

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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.

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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

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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 ⁽¹⁾	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.

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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 Exit	Total
	Benefits	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

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

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. These forward-looking statements include, among other things, statements regarding our 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.

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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

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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.

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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.

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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.

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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.

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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 ⁽¹⁾	164	817	(80)	1,187	1,961	(39)
Total net retail sales	\$666,707	\$594,567	12	\$1,710,875	\$1,516,218	13

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(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.

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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.

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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.

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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.

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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.

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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,

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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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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)

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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

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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,

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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.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

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

Currency Exchange Rates

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

We are exposed to currency exchange rate risk as we transact business in multiple currencies, including exposure related to anticipated sales, anticipated purchases and assets and liabilities denominated in currencies other than the U.S. Dollar. We transact business in over 30 currencies worldwide, of which the most significant to operations are the Euro, Chinese Renminbi, Australian Dollar, Taiwanese Dollar, British Pound, Canadian Dollar, Japanese Yen and Mexican Peso. 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.

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If the U.S. Dollar remains at its current strong levels in comparison to other currencies, this will affect our results of operations in future periods as well. The table below provides information about our underlying transactions that are sensitive to currency exchange rate changes, primarily assets and liabilities denominated in currencies other than the base currency, where the net exposure is greater than \$0.5 million as of 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			