

LOGITECH INTERNATIONAL SA

Form 10-Q

November 07, 2011

[Table of Contents](#)

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

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

**For the quarter ended September 30, 2011**

**or**

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

**For the Transition Period from            to**

**Commission File Number: 0-29174**

# LOGITECH INTERNATIONAL S.A.

(Exact name of registrant as specified in its charter)

**Canton of Vaud, Switzerland**

**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.**

**6505 Kaiser Drive**

**Fremont, California 94555**

(Address of principal executive offices and zip code)

**(510) 795-8500**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

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

Smaller reporting company ☐

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

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

As of November 2, 2011, there were 172,912,488 shares of the Registrant's share capital outstanding.

---

Table of Contents

TABLE OF CONTENTS

	Page
<b>Part I</b>	
<b><u>FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u>	3
<u>Consolidated Financial Statements (Unaudited)</u>	
<u>Item 2.</u>	28
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Item 3.</u>	49
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	
<u>Item 4.</u>	52
<u>Controls and Procedures</u>	
<b>Part II</b>	53
<b><u>OTHER INFORMATION</u></b>	
<u>Item 1.</u>	53
<u>Legal Proceedings</u>	
<u>Item 1A.</u>	53
<u>Risk Factors</u>	
<u>Item 2.</u>	61
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
<u>Item 6.</u>	63
<u>Exhibit Index</u>	
<u>Signatures</u>	64
<u>Exhibits</u>	

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

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

Table of Contents

**PART I FINANCIAL INFORMATION**

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

	<b>Page</b>
<b>Financial Statement Description</b>	
• <u>Consolidated Statements of Operations for the three and six months ended September 30, 2011 and 2010</u>	4
• <u>Consolidated Balance Sheets as of September 30, 2011 and March 31, 2011</u>	5
• <u>Consolidated Statements of Cash Flows for the three and six months ended September 30, 2011 and 2010</u>	6
• <u>Consolidated Statements of Changes in Shareholders' Equity for the three and six months ended September 30, 2011 and 2010</u>	7
• <u>Notes to Consolidated Financial Statements</u>	8

[Table of Contents](#)

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

(In thousands, except per share amounts)

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
	(Unaudited)			
Net sales	\$ 589,204	\$ 581,884	\$ 1,069,645	\$ 1,061,214
Cost of goods sold	390,783	364,950	745,617	675,251
Gross profit	198,421	216,934	324,028	385,963
Operating expenses:				
Marketing and selling	107,446	97,412	207,239	188,889
Research and development	39,491	40,927	79,472	79,316
General and administrative	27,989	27,420	58,854	54,780
Total operating expenses	174,926	165,759	345,565	322,985
Operating income (loss)	23,495	51,175	(21,537)	62,978
Interest income, net	601	635	1,291	1,156
Other income (expense), net	(1,763)	(1,794)	3,428	2
Income (loss) before income taxes	22,333	50,016	(16,818)	64,136
Provision for (benefit from) income taxes	4,888	8,856	(4,657)	3,454
Net income (loss)	\$ 17,445	\$ 41,160	\$ (12,161)	\$ 60,682
Net income (loss) per share:				
Basic	\$ 0.10	\$ 0.23	\$ (0.07)	\$ 0.34
Diluted	\$ 0.10	\$ 0.23	\$ (0.07)	\$ 0.34
Shares used to compute net income (loss) per share:				
Basic	176,878	176,359	178,111	175,921
Diluted	177,277	177,958	178,111	177,588

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

Table of Contents

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

	September 30, 2011 (Unaudited)	March 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 379,450	\$ 477,931
Accounts receivable	294,691	258,294
Inventories	325,053	280,814
Other current assets	85,004	59,347
Total current assets	1,084,198	1,076,386
Property, plant and equipment	78,416	84,160
Goodwill	560,343	547,184
Other intangible assets	66,693	74,616
Other assets	74,053	79,210
Total assets	\$ 1,863,703	\$ 1,861,556
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 342,070	\$ 298,160
Accrued liabilities	187,017	172,560
Total current liabilities	529,087	470,720
Other liabilities	185,277	185,835
Total liabilities	714,364	656,555
Commitments and contingencies		
Shareholders' equity:		
Shares, par value CHF 0.25 - 191,606 issued and authorized and 50,000 conditionally authorized at September 30, 2011 and March 31, 2011	33,370	33,370
Additional paid-in capital		
Less shares in treasury at cost, 18,711 shares at September 30, 2011 and 12,433 shares at March 31, 2011	(300,341)	(264,019)
Retained earnings	1,491,328	1,514,168
Accumulated other comprehensive loss	(75,018)	(78,518)
Total shareholders' equity	1,149,339	1,205,001
Total liabilities and shareholders' equity	\$ 1,863,703	\$ 1,861,556

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

Table of Contents

**LOGITECH INTERNATIONAL S.A.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In thousands)**

	<b>Six months ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(Unaudited)</b>	
Cash flows from operating activities:		
Net income (loss)	\$ (12,161)	\$ 60,682
Non-cash items included in net income (loss):		
Depreciation	24,593	23,343
Amortization of other intangible assets	13,556	14,027
Inventory valuation adjustment	34,074	
Share-based compensation expense	16,453	16,720
Gain on disposal of property and plant	(4,904)	(838)
Excess tax benefits from share-based compensation	(30)	(676)
Loss on cash surrender value of life insurance policies		169
Deferred income taxes and other	(8,554)	1,995
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(36,517)	(99,615)
Inventories	(59,589)	(129,497)
Other assets	(6,886)	(5,511)
Accounts payable	45,088	110,775
Accrued liabilities	(3,489)	13,316
Net cash provided by operating activities	1,634	4,890
Cash flows from investing activities:		
Purchases of property, plant and equipment	(20,921)	(25,419)
Acquisitions, net of cash acquired	(18,814)	(7,300)
Proceeds from sale of property and plant	4,904	2,688
Purchases of trading investments	(4,536)	
Proceeds from sales of trading investments	4,522	
Net cash used in investing activities	(34,845)	(30,031)
Cash flows from financing activities:		
Purchases of treasury shares	(73,134)	
Proceeds from sale of shares upon exercise of options and purchase rights	9,764	16,570
Tax withholdings related to net share settlements of restricted stock units	(185)	(223)
Excess tax benefits from share-based compensation	30	676
Net cash provided by (used in) financing activities	(63,525)	17,023
Effect of exchange rate changes on cash and cash equivalents	(1,745)	(4,147)
Net decrease in cash and cash equivalents	(98,481)	(12,265)
Cash and cash equivalents at beginning of period	477,931	319,944
Cash and cash equivalents at end of period	\$ 379,450	\$ 307,679

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



Table of Contents

## LOGITECH INTERNATIONAL S.A.

## 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	
March 31, 2010	191,606	\$ 33,370	\$ 14,880	16,435	\$ (382,512)	\$ 1,406,618	\$ (72,641)	\$ 999,715
Net income						60,682		60,682
Cumulative translation adjustment							7,164	7,164
Pension liability adjustment							(556)	(556)
Net deferred hedging loss							(10,026)	(10,026)
Total comprehensive income								57,264
Tax provision for exercise of stock options			(189)					(189)
Shares issued for director services			(116)	(12)	307			191
Sale of shares upon exercise of options and purchase rights			(26,020)	(1,568)	42,590			16,570
Issuance of shares upon vesting of restricted stock units			(1,760)	(56)	1,537			(223)
Share-based compensation expense			16,753					16,753
September 30, 2010	191,606	\$ 33,370	\$ 3,548	14,799	\$ (338,078)	\$ 1,467,300	\$ (76,059)	\$ 1,090,081
March 31, 2011	191,606	\$ 33,370		12,433	\$ (264,019)	\$ 1,514,168	\$ (78,518)	\$ 1,205,001
Net loss						(12,161)		(12,161)
Cumulative translation adjustment							(4,824)	(4,824)
Pension liability adjustment							423	423
Net deferred hedging gain							7,901	7,901
Total comprehensive income								(8,661)
Purchase of treasury shares				7,609	(73,134)			(73,134)
Tax benefit from exercise of stock options			9					9
Shares issued for director services			(643)	(33)	844			201
Sale of shares upon exercise of options and purchase rights			(13,390)	(1,220)	33,850	(10,679)		9,781
Issuance of shares upon vesting of restricted stock units			(2,303)	(78)	2,118			(185)
Share-based compensation expense			16,327					16,327
September 30, 2011	191,606	\$ 33,370	\$	18,711	\$ (300,341)	\$ 1,491,328	\$ (75,018)	\$ 1,149,339

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

Table of Contents

**LOGITECH INTERNATIONAL S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1 The Company**

Logitech is a world leader in products that connect people to the digital experiences they care about. Spanning multiple computing, communications and entertainment platforms, we develop and market innovative hardware and software products that enable or enhance digital navigation, music and video entertainment, gaming, social networking, audio and video communication over the Internet, video security and home-entertainment control. Our products for home and business PCs (personal computers) include mice, trackballs, keyboards, interactive gaming controllers, multimedia speakers, headsets, webcams, and lapdesks. Our tablet accessories include keyboards, keyboard cases, earphones, wireless speakers and speaker stands. Our Internet communications products include webcams, headsets, video communications services, and digital video security systems for a home or small business. Our digital music products include speakers, earphones, and custom in-ear monitors. For home entertainment systems, we offer the Harmony line of advanced remote controls, Squeezebox wireless music solutions and, in the United States, a line of Logitech products for the Google TV platform. For gaming consoles, we offer a range of gaming controllers and microphones, as well as other accessories. Our LifeSize division offers scalable HD (high-definition) video communications endpoints, HD video conferencing systems with integrated monitors, video bridges and other infrastructure software and hardware to support large scale video deployments, and services to support these products.

We sell our peripheral products to a network of distributors and resellers and to OEMs (original equipment manufacturers). We sell our LifeSize products and services to distributors, value-added resellers, OEMs, and, occasionally, direct enterprise customers. The large majority of our revenues have historically been derived from sales of our peripheral products for use by consumers.

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

**Note 2 Summary of Significant Accounting Policies**

***Basis of Presentation***

The consolidated financial statements include the accounts of Logitech and its subsidiaries. All intercompany balances and transactions have been eliminated. The consolidated financial statements are presented in accordance with U.S. GAAP (accounting principles generally accepted in the United States of America) for interim financial information and therefore do not include all the information required by U.S. 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, 2011 included in its Annual Report on Form 10-K.

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

Certain prior year financial statement amounts have been reclassified to conform to the current year presentation with no impact on previously reported net income.

In the opinion of management, these consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results for the periods

Table of Contents

presented. Operating results for the three and six months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending March 31, 2012 or any future periods.

***Fiscal Year***

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

***Changes in Significant Accounting Policies***

There have been no changes in our significant accounting policies during the three and six months ended September 30, 2011 compared with the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended March 31, 2011.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make judgments, estimates and assumptions that affect reported amounts of assets, liabilities, net sales and expenses, and the disclosure of contingent assets and liabilities. Although these estimates are based on management's best knowledge of current events and actions that may impact the Company in the future, actual results could differ from those estimates.

***Recent Accounting Pronouncements***

In May 2011, the FASB (Financial Accounting Standards Board) issued ASU (Accounting Standards Update) 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 provides a consistent definition of fair value and ensures that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 also changes certain fair value measurement principles and enhances the disclosure requirements particularly for level 3 fair value measurements. ASU 2011-04 is effective during interim and annual periods beginning after December 15, 2011. The Company will adopt ASU 2011-04 in the fourth quarter of fiscal year 2012. The Company is evaluating the impact of adopting ASU 2011-04.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income*. ASU 2011-05 requires disclosure of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. ASU 2011-05 is effective for

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

fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company will adopt ASU 2011-05 in the first quarter of fiscal year 2013. The adoption of this standard will impact only the presentation format of the consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, *Intangibles - Goodwill and Other (Topic 350)*. ASU 2011-08 provides entities the option to first assess qualitatively whether it is necessary to perform the two-step goodwill impairment test. If an entity concludes, as a result of its qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative two-step goodwill impairment test is required. An entity may elect to bypass the qualitative assessment and proceed to perform the first step of the two-step goodwill impairment test. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company will adopt ASU 2011-08 in the first quarter of fiscal year 2013. The adoption of this standard is not expected to have a material impact on the consolidated financial statements and footnote disclosures.

Table of Contents**Note 3 Net Income (Loss) per Share**

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

	<b>Three months ended September 30,</b>		<b>Six months ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Net income (loss)	\$ 17,445	\$ 41,160	\$ (12,161)	\$ 60,682
Weighted average shares - basic	176,878	176,359	178,111	175,921
Effect of potentially dilutive share equivalents	399	1,599		1,667
Weighted average shares - diluted	177,277	177,958	178,111	177,588
Net income (loss) per share - basic	\$ 0.10	\$ 0.23	\$ (0.07)	\$ 0.34
Net income (loss) per share - diluted	\$ 0.10	\$ 0.23	\$ (0.07)	\$ 0.34

Employee equity share options, non-vested shares and similar share-based compensation awards granted by the Company are treated as potential shares in computing diluted net income or loss per share. Diluted shares outstanding include the dilutive effect of in-the-money share-based awards which is calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount that the employee must pay for exercising share-based awards, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax impact that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares.

Share equivalents attributable to outstanding stock options and RSUs (restricted stock units) of 17,054,444 and 13,195,403 for the three months ended September 30, 2011 and 2010, and 17,601,198 and 13,738,650 for the six months ended September 30, 2011 and 2010 were excluded from the calculation of diluted net income (loss) per share because the combined exercise price, average unamortized fair value and assumed tax benefits upon the exercise of options and the vesting of RSUs were greater than the average market price of the Company's shares, and therefore their inclusion would have been anti-dilutive. For the six months ended September 30, 2011, potentially dilutive share equivalents were excluded from the computation of diluted net loss per share because their inclusion in calculating a net loss per share would have been anti-dilutive.

**Note 4 Employee Benefit Plans***Employee Share Purchase Plans and Stock Incentive Plans*

As of September 30, 2011, the Company offers the 2006 ESPP (2006 Employee Share Purchase Plan (Non-U.S.)), the 1996 ESPP (1996 Employee Share Purchase Plan (U.S.)) and the 2006 Stock Incentive Plan. Shares issued to employees as a result of purchases or exercises under these plans are generally issued from shares held in treasury.





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

## Table of Contents

The following table summarizes the share-based compensation expense and related tax benefit recognized for the three and six months ended September 30, 2011 and 2010 (in thousands):

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
Cost of goods sold	\$ 950	\$ 919	\$ 2,110	\$ 1,910
Share-based compensation expense included in gross profit	950	919	2,110	1,910
Operating expenses:				
Marketing and selling	3,448	3,091	6,965	6,168
Research and development	1,754	1,776	3,562	3,552
General and administrative	586	2,472	3,816	5,090
Share-based compensation expense included in operating expenses	5,788	7,339	14,343	14,810
Total share-based compensation expense	6,738	8,258	16,453	16,720
Income tax benefit	(2,276)	(2,442)	(4,665)	(4,337)
Share-based compensation expense, net of income tax	\$ 4,462	\$ 5,816	\$ 11,788	\$ 12,383

As of September 30, 2011 and 2010, \$0.9 million and \$0.9 million of share-based compensation cost was capitalized to inventory. The following table summarizes total share-based compensation cost not yet recognized and the number of months over which such cost is expected to be recognized, on a weighted-average basis by type of grant (in thousands, except number of months):

	September 30, 2011	
	Compensation Cost Not Yet Recognized	Months of Future Recognition
Non-vested stock options	\$ 14,926	22
Time-based RSUs	25,931	36
Performance-based RSUs	10,289	27
Total compensation cost not yet recognized	\$ 51,146	

A summary of the Company's stock option activity for the three and six months ended September 30, 2011 and 2010 is as follows (in thousands, except per share data; exercise prices are weighted averages):

	Three Months Ended September 30,				Six Months Ended September 30,			
	2011		2010		2011		2010	
	Number	Exercise Price	Number	Exercise Price	Number	Exercise Price	Number	Exercise Price
Options outstanding, beginning of period	15,639	\$ 20	19,239	\$ 18	16,312	\$ 19	20,037	\$ 18
Granted		\$ 68		\$ 15		\$ 254		\$ 15

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

Exercised	(211)	\$	8	(475)	\$	9	(285)	\$	8	(1,008)	\$	9
Cancelled or expired	(940)	\$	18	(290)	\$	22	(1,539)	\$	20	(741)	\$	22
Options outstanding, end of period	14,488	\$	20	18,542	\$	18	14,488	\$	20	18,542	\$	18
Options exercisable, end of period	10,807	\$	20	11,571	\$	18	10,807	\$	20	11,571	\$	18

The total pretax intrinsic value of options exercised during the three months ended September 30, 2011 and 2010 was \$0.4 million and \$3.2 million and the tax benefit realized for the tax deduction from options exercised during those periods was \$0.1 million and \$1.1 million. The total pretax intrinsic value of options exercised during the six months ended September 30, 2011 and 2010 was \$0.7 million and \$6.7 million and the tax benefit realized for the tax deduction from options exercised during those periods was \$0.2 million and \$1.9 million. The total fair value of options vested as of September 30, 2011 and 2010 was \$72.4 million and \$72.9 million.

The fair value of employee stock options granted and shares purchased under the Company's employee purchase plans was estimated using the Black-Scholes-Merton option-pricing valuation model

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

## Table of Contents

applying the following assumptions and values. There were no stock options granted in the three and six months ended September 30, 2011.

	Three Months Ended September 30,				Six Months Ended September 30,			
	2011	2010	2011	2010	2011	2010	2011	2010
	Purchase Plans		Stock Options		Purchase Plans		Stock Options	
Dividend yield	0%	0%	n/a	0%	0%	0%	n/a	0%
Expected life	6 months	6 months	n/a	4.0 years	6 months	6 months	n/a	4.0 years
Expected volatility	40%	36%	n/a	48%	40%	36%	n/a	48%
Risk-free interest rate	0.17%	0.17%	n/a	1.16%	0.17%	0.17%	n/a	1.63%

The dividend yield assumption is based on the Company's history and future expectations of dividend payouts. The Company has not paid dividends since 1996. The expected option life represents the weighted-average period the stock options or purchase offerings are expected to remain outstanding. The expected life is based on historical settlement rates, which the Company believes are most representative of future exercise and post-vesting termination behaviors. Expected share price volatility is based on historical volatility using daily prices over the term of the options or purchase offerings. The Company considers historical share price volatility as most representative of future volatility. The risk-free interest rate assumptions are based upon the implied yield of U.S. Treasury zero-coupon issues appropriate for the term of the Company's stock options or purchase offerings.

The Company estimates option forfeitures at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and records share-based compensation expense only for those awards that are expected to vest.

The following table presents the weighted average grant-date fair values of options granted and the expected forfeiture rates. There were no stock options granted in the three and six months ended September 30, 2011.

	Three Months Ended September 30,				Six Months Ended September 30,			
	2011	2010	2011	2010	2011	2010	2011	2010
	Purchase Plans		Stock Options		Purchase Plans		Stock Options	
Weighted average grant-date fair value of options granted	\$ 3.20	\$ 3.96	n/a	\$ 5.92	\$ 3.20	\$ 3.96	n/a	\$ 5.85
Expected forfeitures	0%	0%	n/a	9%	0%	0%	n/a	9%

A summary of the Company's time- and performance-based RSU activity for the three and six months ended September 30, 2011 and 2010 is as follows (in thousands, except per share values; grant-date fair values are weighted averages):

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

	Three Months Ended September 30,				Six Months Ended September 30,			
	2011	2010	2011	2010	2011	2010	2011	2010
	Number	Grant Date Fair Value	Number	Grant Date Fair Value	Number	Grant Date Fair Value	Number	Grant Date Fair Value
RSUs outstanding, beginning of period	2,879	\$ 20	430	\$ 18	2,370	\$ 21	514	\$ 17
Granted	419	\$ 9	75	\$ 16	1,133	\$ 12	75	\$ 16
Vested	(66)	\$ 16	(41)	\$ 16	(116)	\$ 15	(119)	\$ 14
Cancelled or expired	(533)	\$ 20	(85)	\$ 28	(688)	\$ 20	(91)	\$ 27
RSUs outstanding, end of period	2,699	\$ 18	379	\$ 15	2,699	\$ 18	379	\$ 15

Table of Contents

The total fair value of RSUs vested during the three months ended September 30, 2011 and 2010 was \$1.3 million and \$0.7 million. The tax benefit realized for the tax deduction from RSUs vested during the three months ended September 30, 2011 was \$0.01 million. The tax benefit realized for the three months ended September 30, 2010 was immaterial. The total fair value of RSUs vested during the six months ended September 30, 2011 and 2010 was \$1.7 million and \$1.6 million and the tax benefit realized for the tax deduction from RSUs vested during these periods was \$0.2 million and \$0.2 million.

The Company determines the fair value of time-based RSUs based on the share market price on the date of grant. The fair value of performance-based RSUs is estimated using the Monte-Carlo simulation method applying the following assumptions:

	<b>FY 2012 Grants</b>	<b>FY 2011 Grants</b>	<b>FY 2010 Grants</b>	<b>FY 2009 Grants</b>
Dividend yield	0%	0%	0%	0%
Expected life	3 years	3 years	2 years	2 years
Expected volatility	51%	51%	58%	41%
Risk-free interest rate	1.35%	0.81%	1.11%	1.82%

The dividend yield assumption is based on the Company's history and future expectations of dividend payouts. The expected life of the performance-based RSUs is the service period at the end of which the RSUs will vest if the performance conditions are satisfied. The volatility assumption is based on the actual volatility of Logitech's daily closing share price over a look-back period equal to the years of expected life. The risk free interest rate is derived from the yield on U.S. Treasury Bonds for a term of the same number of years as the expected life.

***Defined Contribution Plans***

Certain of the Company's subsidiaries have defined contribution employee benefit plans covering all or a portion of their employees. Contributions to these plans are discretionary for certain plans and are based on specified or statutory requirements for others. The charges to expense for these plans for the three months ended September 30, 2011 and 2010 were \$2.4 million and \$2.0 million. During the six months ended September 30, 2011 and 2010, the charges to expense for these plans was \$5.5 million and \$3.9 million.

***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.



## Table of Contents

The net periodic benefit cost for defined benefit pension plans and non-retirement post-employment benefit obligations for the three and six months ended September 30, 2011 and 2010 was as follows (in thousands):

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
Service cost	\$ 1,937	\$ 1,081	\$ 3,232	\$ 2,100
Interest cost	632	425	1,137	827
Expected return on plan assets	(235)	(444)	(653)	(859)
Amortization of net transition obligation and prior service cost	39	36	79	73
Recognized net actuarial loss	359	92	459	179
Net periodic benefit cost	\$ 2,732	\$ 1,190	\$ 4,254	\$ 2,320

## Note 5 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 income taxes are generated outside of Switzerland.

The income tax provision for the three months ended September 30, 2011 and 2010 was \$4.9 million and \$8.9 million based on effective income tax rates of 21.9% and 17.7% of pre-tax income. For the six months ended September 30, 2011, the income tax benefit was \$4.7 million based on an effective income tax rate of 27.7% of pre-tax loss. For the six months ended September 30, 2010, the income tax provision was \$3.5 million based on an effective income tax rate of 5.4% of pre-tax income. The change in the effective income tax rate for the three months ended September 30, 2011 compared with the three months ended September 30, 2010 is primarily due to the mix of income and losses in the various tax jurisdictions in which the Company operates. The change in the effective income tax rate for the six months ended September 30, 2011 compared with the six months ended September 30, 2010 is primarily due to discrete tax benefits of \$7.2 million in the six months ended September 30, 2010 from the closure of income tax audits in certain jurisdictions.

Current deferred tax assets increased from \$27.0 million as of March 31, 2011 to \$42.9 million as of September 30, 2011. The increase is primarily due to the tax benefit from operating losses generated in the six month period ended September 30, 2011.

As of September 30 and March 31, 2011, the total amount of unrecognized tax benefits and related accrued interest and penalties due to uncertain tax positions was \$136.9 million and \$138.1 million, of which \$116.6 million and \$118.2 million would affect the effective income tax rate if recognized. The decline in the income tax liability associated with uncertain tax benefits in the six-month period is primarily due to the expiration of statutes of limitations, offset by the impact of foreign currency exchange rates and the accrual of interest expense.

The Company continues to recognize interest and penalties related to unrecognized tax positions in income tax expense. As of September 30, 2011, accrued interest and penalties related to uncertain tax positions increased to \$8.3 million from \$8.0 million as of March 31, 2011.

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

The Company files Swiss and foreign tax returns. For all these tax returns, the Company is generally not subject to tax examinations for years prior to 1999. The U.S. Internal Revenue Service has completed its field examinations of tax returns for the Company's U.S. subsidiary for fiscal years 2006 and 2007, and has issued NOPAs (notices of proposed adjustment) related to international tax issues for those years. The Company disagrees with the NOPAs and is contesting through the administrative process for the U.S. Internal Revenue Service claims regarding 2006 and 2007. The Company believes the outcome of this examination is not expected to have a material adverse effect on our consolidated operating results.



Table of Contents

In addition, the U.S. Internal Revenue Service is in the process of examining the Company's U.S. subsidiary for fiscal years 2008 and 2009. The Company is also under examination in other tax jurisdictions. At this time it is not possible to estimate the potential impact that these examinations may have on income tax expense. If the examinations are resolved unfavorably, there is a possibility they may have a material impact on our results of operations.

Although the Company has adequately provided for uncertain tax positions, the provisions on these positions may change as revised estimates are made or the underlying matters are settled or otherwise resolved. Although the timing of the resolution or closure on audits is highly uncertain, the Company does not believe it is reasonably possible that the unrecognized tax benefits would materially change in the next twelve months.

Table of Contents**Note 6 Balance Sheet Components**

The following table provides the components of certain balance sheet asset amounts as of September 30 and March 31, 2011 (in thousands):

	September 30, 2011		March 31, 2011	
Accounts receivable:				
Accounts receivable	\$	464,989	\$	435,331
Allowance for doubtful accounts		(3,726)		(4,086)
Allowance for returns		(26,328)		(29,666)
Cooperative marketing arrangements		(27,249)		(28,669)
Customer incentive programs		(48,352)		(52,358)
Pricing programs		(64,643)		(62,258)
	\$	294,691	\$	258,294
Inventories:				
Raw materials	\$	46,312	\$	37,126
Work-in-process		117		3
Finished goods		278,624		243,685
	\$	325,053	\$	280,814
Other current assets:				
Tax and VAT refund receivables	\$	19,792	\$	17,810
Deferred taxes		42,919		27,018
Prepaid expenses and other		22,293		14,519
	\$	85,004	\$	59,347
Property, plant and equipment:				
Plant, buildings and improvements	\$	54,266	\$	52,681
Equipment		145,872		137,248
Computer equipment		63,187		60,344
Computer software		81,966		85,338
		345,291		335,611
Less: accumulated depreciation		(276,019)		(260,283)
		69,272		75,328
Construction-in-progress		6,359		5,974
Land		2,785		2,858
	\$	78,416	\$	84,160
Other assets:				
Deferred taxes	\$	52,436	\$	55,897
Trading investments		13,167		13,113
Deposits and other		8,450		10,200
	\$	74,053	\$	79,210

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

## Table of Contents

The following table provides the components of certain balance sheet liability amounts as of September 30 and March 31, 2011 (in thousands):

	September 30, 2011	March 31, 2011
Accrued liabilities:		
Accrued personnel expenses	\$ 47,244	\$ 50,552
Accrued marketing expenses	35,825	32,599
Deferred revenue	18,210	15,859
Accrued freight and duty	11,769	12,497
Accrued royalties	6,131	5,144
Warranty accrual	4,832	4,970
Non-retirement post-employment benefit obligations	4,190	3,563
Income taxes payable - current	4,074	2,569
Other accrued liabilities	54,742	44,807
	\$ 187,017	\$ 172,560
Long-term liabilities:		
Income taxes payable - non-current	\$ 130,892	\$ 131,968
Obligation for deferred compensation	13,256	13,076
Defined benefit pension plan liability	26,404	26,645
Other long-term liabilities	14,725	14,146
	\$ 185,277	\$ 185,835

Inventories are stated at the lower of cost or market. Inventory as of September 30, 2011 includes an adjustment of \$19.5 million to reflect the lower of cost or market on our inventory of Logitech Revue and related peripherals on hand. Other accrued liabilities include \$5.3 million to reflect the lower of cost or market adjustment on inventory purchase commitments for Logitech Revue and related peripherals. In the three months ended June 30, 2011, a valuation adjustment of \$34.1 million was charged to cost of goods sold, as the result of management's decision in early July 2011 to reduce the future retail price of Logitech Revue from \$249 to \$99. The decrease in the adjustment from June 30 to September 30, 2011 resulted from sales of Logitech Revue which occurred in the three months ended September 30, 2011.

The following table presents the changes in the allowance for doubtful accounts during the three and six months ended September 30, 2011 and 2010 (in thousands):

	2011	September 30, 2010
Allowance for doubtful accounts, March 31	\$ (4,086)	\$ (5,870)
Bad debt expense	401	(422)
Write-offs net of recoveries	(351)	597
Allowance for doubtful accounts, June 30	\$ (4,036)	\$ (5,695)
Bad debt expense	(355)	140
Write-offs net of recoveries	665	1,621
Allowance for doubtful accounts, September 30	\$ (3,726)	\$ (3,934)

## **Note 7 Financial Instruments**

### *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

## Table of Contents

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.

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

	September 30, 2011			March 31, 2011		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 379,450	\$	\$	\$ 477,931	\$	\$
Trading investments	13,167			13,113		
Available-for-sale securities			1,695			1,695
Foreign exchange derivative assets	5,799			566		
Total assets at fair value	\$ 398,416	\$	\$ 1,695	\$ 491,610	\$	\$ 1,695
Foreign exchange derivative liabilities	\$ 897	\$	\$	\$ 1,881	\$	\$
Total liabilities at fair value	\$ 897	\$	\$	\$ 1,881	\$	\$

### Cash and Cash Equivalents

Cash and cash equivalents consist of bank demand deposits and time deposits. The time deposits have original maturities of less than 33 days. Cash and cash equivalents are carried at cost, which approximates fair value.

### Investment Securities

The Company's investment securities portfolio consists of marketable securities related to a deferred compensation plan and auction rate securities collateralized by residential and commercial mortgages.

The marketable securities are classified as non-current trading investments and do not have maturity dates. These securities are recorded at a fair value of \$13.2 million and \$13.1 million at September 30 and March 31, 2011, based on quoted market prices. Quoted market prices are observable inputs that are classified as Level 1 within the fair value hierarchy. Earnings, gains and losses on trading investments are included in other income (expense), net, and primarily relate to trading securities held at September 30, 2011.

The auction rate securities are classified as non-current available-for-sale investments and have maturity dates in excess of 10 years. Interest rates on these securities were intended to reset through an auction every 28 days, however auctions for these securities have failed since August 2007. Four of the securities with par value of \$32.2 million and estimated fair value of \$0.9 million have experienced events of default and have declared acceleration. The Company does not expect to realize the proceeds, if any, from the auction rate securities until a future auction of these securities is successful or a buyer is found outside of the auction process. The auction rate securities have a par value and original cost of \$47.5 million, and are recorded at an estimated fair value of \$1.7 million at September 30 and March 31, 2011. The estimated fair value was determined by estimating future cash flows through time according to each security's terms, including periodic consideration of overcollateralization and interest coverage tests, and

# Table of Contents

incorporating estimates of default rate, loss severity, prepayment, and delinquency assumptions when available, for the underlying assets in the securities based on representative indices and various research reports. The estimated coupon and principal payments were discounted at the rate of return required by investors, based on the characteristics of each security as calculated from the indices. Such valuation methods fall within Level 3 of the fair value hierarchy. Declines in fair value of the auction rate securities are deemed other-than-temporary and are included in other income (expense), net. Increases in fair value are considered temporary and are included in accumulated other comprehensive loss.

## Derivative Financial Instruments

The following table presents the fair values of the Company's derivative instruments and their locations on the Balance Sheet as of September 30 and March 31, 2011 (in thousands):

		Asset Derivatives		Liability Derivatives	
		Fair Value		Fair Value	
		September 30,	March 31,	September 30,	March 31,
		2011	2011	2011	2011
Location				Location	
Derivatives designated as hedging instruments:					
Cash Flow Hedges	Other assets	\$ 5,089	\$	Other liabilities	\$ 1,763
		5,089			1,763
Derivatives not designated as hedging instruments:					
Foreign Exchange Forward Contracts	Other assets		486	Other liabilities	211
Foreign Exchange Swap Contracts	Other assets	710	80	Other liabilities	686
		710	566		118
		\$ 5,799	\$ 566		\$ 897
					\$ 1,881

The following table presents the amounts of gains and losses on the Company's derivative instruments for the three months ended September 30, 2011 and their locations on its Financial Statements (in thousands):

	Net amount of gain (loss) deferred as a component of accumulated other comprehensive loss	Location of gain (loss) reclassified from accumulated other comprehensive loss into income	Amount of gain (loss) reclassified from accumulated other comprehensive loss into income	Location of gain (loss) recognized in income immediately	Amount of gain (loss) recognized in income immediately
Derivatives designated as hedging instruments:					
Cash Flow Hedges	\$ 7,219	Cost of goods sold	\$ 1,539	Other income/expense	\$ (161)
	7,219		1,539		(161)

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

Foreign Exchange Forward Contracts			Other income/expense	246
Foreign Exchange Swap Contracts			Other income/expense	(403)
				(157)
	\$	7,219	\$	1,539
			\$	(318)

The following table presents the amounts of gains and losses on the Company's derivative instruments for the six months ended September 30, 2011 and their locations on its Financial Statements (in thousands):

	Net amount of gain (loss) deferred as a component of accumulated other comprehensive loss	Location of gain (loss) reclassified from accumulated other comprehensive loss into income	Amount of gain (loss) reclassified from accumulated other comprehensive loss into income	Location of gain (loss) recognized in income immediately	Amount of gain (loss) recognized in income immediately
Derivatives designated as hedging instruments:					
Cash Flow Hedges	\$ 7,901	Cost of goods sold	\$ 4,017	Other income/expense	\$ (258)
	7,901		4,017		(258)
Derivatives not designated as hedging instruments:					
Foreign Exchange Forward Contracts				Other income/expense	194
Foreign Exchange Swap Contracts				Other income/expense	(620)
					(426)
	\$ 7,901		\$ 4,017		\$ (684)



Table of Contents

***Cash Flow Hedges***

The Company enters into foreign exchange forward contracts to hedge against exposure to changes in foreign currency exchange rates related to its subsidiaries' forecasted inventory purchases. The primary risk managed by using derivative instruments is the foreign currency exchange rate risk. The Company has designated these derivatives as cash flow hedges. Logitech does not use derivative financial instruments for trading or speculative purposes. These hedging contracts generally mature within four months, and are denominated in the same currency as the underlying transactions. Gains and losses in the fair value of the effective portion of the hedges are deferred as a component of accumulated other comprehensive loss until the hedged inventory purchases are sold, at which time the gains or losses are reclassified to cost of goods sold. The Company assesses the effectiveness of the hedges by comparing changes in the spot rate of the currency underlying the forward contract with changes in the spot rate of the currency in which the forecasted transaction will be consummated. If the underlying transaction being hedged fails to occur or if a portion of the hedge does not generate offsetting changes in the foreign currency exposure of forecasted inventory purchases, the Company immediately recognizes the gain or loss on the associated financial instrument in other income (expense). Such gains or losses were immaterial during the three and six months ended September 30, 2011 and 2010. Cash flows from such hedges are classified as operating activities in the consolidated statements of cash flows. The notional amounts of foreign exchange forward contracts outstanding related to forecasted inventory purchases at September 30, 2011 and 2010 were \$77.4 million ( \$7.3 million) and \$98.7 million ( \$1.9 million). The notional amount represents the future cash flows under contracts to purchase foreign currencies.

***Other Derivatives***

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

The notional amounts of foreign exchange forward contracts outstanding at September 30, 2011 and 2010 relating to foreign currency receivables or payables were \$22.3 million and \$14.3 million. Open forward contracts as of September 30, 2011 consisted of contracts in euros to purchase or sell British pounds and contracts in Australian dollars to purchase U.S. dollars at future dates at pre-determined exchange rates. The notional amounts of foreign exchange swap contracts outstanding at September 30, 2011 and 2010 were \$25.6 million and \$26.6 million. Swap contracts outstanding at September 30, 2011 consisted of contracts in Taiwanese dollar Non Deliverable Forwards, Mexican pesos, Japanese yen and Canadian dollars.

The fair value of all our foreign exchange forward contracts and foreign exchange swap contracts is determined based on quoted foreign exchange forward rates. Quoted foreign exchange forward rates are observable inputs that are classified as Level 1 within the fair value hierarchy.

Table of Contents**Note 8 Goodwill and Other Intangible Assets**

The following table summarizes the activity in the Company's goodwill account during the six months ended September 30, 2011 (in thousands):

	<b>September 30, 2011</b>	
Goodwill, March 31, 2011	\$	547,184
Additions		14,068
Reductions		(909)
Goodwill, September 30, 2011	\$	560,343

Our acquisition of Mirial S.r.l. on July 18, 2011 added \$14.1 million to goodwill. The impact of foreign exchange rates reduced goodwill by \$0.9 million. Mirial's business will be fully integrated into the Company's LifeSize division, and discrete financial information for Mirial will not be maintained. Accordingly, the acquired goodwill related to Mirial will be evaluated for impairment at the video conferencing reporting unit level.

The Company performs its annual goodwill impairment test during its fiscal fourth quarter, or more frequently, if certain events or circumstances warrant. The recoverability of goodwill is measured at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired, and a second test is performed to measure the amount of impairment loss. The Company's reporting units consist of peripherals and video conferencing.

Between our annual goodwill impairment tests, the Company monitors potential triggering events to determine when an evaluation of goodwill for impairment should be performed. During the quarter ended September 30, 2011 and after the quarter-end, the Company experienced volatility in its stock price and market capitalization. During this period, the Company's market capitalization was greater than its net book value. In September, 2011, management reduced the Company's projected fiscal year 2012 consolidated operating results, based on the current economic environment in mature western markets and the Company's current product offerings. As the Company's consolidated operating results are projected to be profitable for fiscal year 2012, management determined there were no triggering events requiring the review of goodwill for impairment as of September 30, 2011. Management continues to evaluate and monitor all key factors impacting the carrying value of the Company's recorded goodwill, as well as other long-lived assets. Further adverse changes in the Company's expected operating results, market capitalization, business climate, or other negative events could result in a non-cash impairment charge in the future.

The Company's acquired other intangible assets subject to amortization were as follows (in thousands):

	<b>September 30, 2011</b>			<b>March 31, 2011</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Trademark/tradename	\$ 32,113	\$ (24,699)	\$ 7,414	\$ 31,907	\$ (23,290)	\$ 8,617
Technology	91,998	(54,443)	37,555	88,068	(45,686)	42,382
Customer contracts	40,035	(18,311)	21,724	38,537	(14,920)	23,617
	\$ 164,146	\$ (97,453)	\$ 66,693	\$ 158,512	\$ (83,896)	\$ 74,616

During the six months ended September 30, 2011, changes in the gross carrying value of other intangible assets related primarily to our acquisition of Mirial.

For the three months ended September 30, 2011 and 2010, amortization expense for other intangible assets was \$6.9 million and \$7.1 million. For the six months ended September 30, 2011 and 2010, amortization expense for other intangible assets was \$13.6 million and \$14.0 million. The Company expects that amortization expense for the six-month period ending March 31, 2012 will be \$13.3 million, and annual amortization expense for fiscal years 2013, 2014 and 2015 will be \$24.4 million, \$18.2 million, and \$9.1 million, and \$1.7 million thereafter.

Table of Contents**Note 9 Financing Arrangements**

The Company had several uncommitted, unsecured bank lines of credit aggregating \$148.4 million at September 30, 2011. There are no financial covenants under these lines of credit with which the Company must comply. At September 30, 2011, the Company had no outstanding borrowings under these lines of credit.

**Note 10 Commitments and Contingencies***Operating Leases*

The Company leases facilities under operating leases, certain of which require it to pay property taxes, insurance and maintenance costs. Operating leases for facilities are generally renewable at the Company's option and usually include escalation clauses linked to inflation. Total future minimum annual rentals under non-cancelable operating leases at September 30, 2011 amounted to \$97.9 million. The increase in future minimum annual rentals as of September 30, 2011 compared with March 31, 2011 was due to approximately \$35 million related to new facilities for our Americas operations in Northern California, and approximately \$13 million for an expansion of our LifeSize headquarters in Austin, Texas.

In connection with its leased facilities, the Company has recognized a liability for asset retirement obligations representing the present value of estimated remediation costs to be incurred at lease expiration. The following table describes changes to the Company's asset retirement obligation liability for the three and six months ended September 30, 2011 and 2010 (in thousands):

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
Asset retirement obligations, beginning of period	\$ 1,670	\$ 1,285	\$ 1,636	\$ 1,374
Liabilities incurred	38	121	38	166
Liabilities settled	(9)	(4)	(26)	(121)
Accretion expense	20	17	39	33
Foreign currency translation	(40)	53	(8)	20
Asset retirement obligations, end of period	\$ 1,679	\$ 1,472	\$ 1,679	\$ 1,472

*Product Warranties*

Certain of the Company's products are covered by warranty to be free from defects in material and workmanship for periods ranging from one year to five years. At the time of sale, the Company accrues a warranty liability for estimated costs to provide products, parts or services to repair or replace products in satisfaction of the warranty obligation. The Company's estimate of costs to fulfill its warranty obligations is based

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

on historical experience and expectations of future conditions. When the Company experiences changes in warranty claim activity or costs associated with fulfilling those claims, the warranty liability is adjusted accordingly. Changes in the Company's warranty liability for the three and six months ended September 30, 2011 and 2010 were as follows (in thousands):

	Three months ended September 30,			Six months ended September 30,				
	2011		2010	2011		2010		
Warranty liability, beginning of period	\$	4,633	\$	3,745	\$	4,970	\$	3,002
Provision for warranties issued during the period		4,991		4,748		9,412		10,077
Settlements made during the period		(4,792)		(4,615)		(9,550)		(9,201)
Warranty liability, end of period	\$	4,832	\$	3,878	\$	4,832	\$	3,878

Table of Contents***Purchase Commitments***

At September 30, 2011, the Company had the following outstanding purchase commitments:

	<b>September 30, 2011</b>	
Inventory purchases	\$	132,590
Operating expenses		58,290
Capital expenditures		13,894
Total purchase commitments	\$	204,774

Commitments for inventory purchases are made in the normal course of business to original design manufacturers, contract manufacturers and other suppliers and are expected to be fulfilled by December 2011. Operating expense commitments are for consulting services, marketing arrangements, advertising, outsourced customer services, information technology maintenance and support services, and other services. Fixed purchase commitments for capital expenditures primarily related to commitments for tooling, computer hardware and leasehold improvements. Although open purchase orders are considered enforceable and legally binding, the terms generally allow the Company the option to reschedule and adjust its requirements based on the business needs prior to delivery of goods or performance of services.

***Guarantees***

Logitech International S.A., the parent holding company, has guaranteed payment of the purchase obligations of various subsidiaries from certain component suppliers. These guarantees generally have an unlimited term. The maximum potential future payment under the guarantee arrangements is limited to \$30.0 million. At September 30, 2011, there were no purchase obligations outstanding for which the parent holding company was required to guarantee payment.

Logitech Europe S.A., a subsidiary of the parent holding company, has guaranteed the purchase obligations of another Logitech subsidiary and third-party contract manufacturers under three guarantee agreements. Two of these guarantees do not specify a maximum amount. The third guarantee is limited to \$7.0 million. As of September 30, 2011, \$5.4 million of guaranteed purchase obligations were outstanding under these guarantees.

Logitech International S.A. and Logitech Europe S.A. have guaranteed certain contingent liabilities of various subsidiaries related to transactions occurring in the normal course of business. The maximum amount of the guarantees was \$83.8 million as of September 30, 2011. As of September 30, 2011, \$15.5 million of guaranteed liabilities were subject to these guarantees.

***Indemnifications***

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

Logitech indemnifies some of its suppliers and customers for losses arising from matters such as intellectual property rights 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. No amounts have been accrued for indemnification provisions at September 30, 2011. The Company does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under its indemnification arrangements.

### *Legal Proceedings*

On May 23, 2011, a class action complaint was filed against Logitech and certain of its officers. This action was filed in the United States District Court for the Southern District of New York on behalf of individuals who purchased Logitech shares between October 28, 2010 and April 1, 2011. The action was transferred to the United States District Court for the Northern District of California on July 28, 2011. The complaint relates to Logitech's disclosure on March 31, 2011 that its results for fiscal year 2011 would fall below expectations and seeks unspecified monetary damages and other relief against the defendants.

## Table of Contents

On July 15, 2011, a complaint was filed against Logitech and two of its subsidiaries in the United States District Court for the Central District of California by Universal Electronics, Inc. (UEI). The complaint alleges that Logitech's Harmony remotes, Logitech Revue for Google TV and other products for the digital home infringe one or more of the seventeen UEI patents asserted in the action, and seeks unspecified monetary damages and other relief against the defendants.

In addition, the Company is involved in a number of lawsuits and claims relating to commercial matters that arise in the normal course of business.

The Company believes these lawsuits and claims are without merit and intends to vigorously defend against them. However, there can be no assurances that its defenses will be successful, or that any judgment or settlement in any of these lawsuits would not have a material adverse impact on the Company's business, financial condition, cash flows and results of operations. The Company's accruals for lawsuits and claims as of September 30, 2011 were not material.

## Note 11 Shareholders' Equity

### Share Repurchases

During the three and six months ended September 30, 2011 and 2010, the Company had the following approved share buyback program in place (in thousands):

Date of Announcement	Approved Buyback Amount	Expiration Date	Completion Date	Amount Remaining
September 2008	\$ 250,000	August 2013		\$ 177,030

During the three and six months ended September 30, 2011 and 2010, the Company repurchased shares under this program as follows (in thousands):

Date of Announcement	Three months ended September 30, 2011				Six months ended September 30, 2011			
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
September 2008	7,609	\$ 73,134		\$	7,609	\$ 73,134		\$
	7,609	\$ 73,134		\$	7,609	\$ 73,134		\$

### Accumulated Other Comprehensive Loss



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

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

	September 30, 2011	March 31, 2011
Cumulative translation adjustment	\$ (63,465)	\$ (58,641)
Pension liability adjustments, net of tax of \$759 and \$759	(17,650)	(18,073)
Unrealized gain on investments	1,168	1,168
Net deferred hedging gains (losses)	4,929	(2,972)
	\$ (75,018)	\$ (78,518)

Table of Contents**Note 12 Segment Information**

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

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
Retail - Pointing Devices	\$ 148,386	\$ 153,870	\$ 280,448	\$ 285,716
Retail - Keyboards & Desktops	109,325	94,507	203,921	169,788
Retail - Audio	130,815	119,965	212,379	215,611
Retail - Video	57,422	68,794	107,267	115,850
Retail - Gaming	29,152	21,207	52,545	36,658
Retail - Digital Home	26,635	31,378	39,951	59,964
OEM	50,261	60,850	99,439	119,186
Peripherals	551,996	550,571	995,950	1,002,773
Video Conferencing	37,208	31,313	73,695	58,441
Total net sales	\$ 589,204	\$ 581,884	\$ 1,069,645	\$ 1,061,214

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

Operating performance measures for the peripherals segment and the video conferencing segment are reported separately to Logitech's acting Chief Executive Officer, who is considered to be the Company's chief operating decision maker. These operating performance measures do not include share-based compensation expense, amortization of intangible assets, and assets by operating segment. Share-based compensation expense and amortization of intangible assets are presented in the following financial information by operating segment as all other. Long-lived assets are presented by geographic region. Net sales, operating income and depreciation and amortization for the Company's operating segments were as follows (in thousands):

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
Net sales by operating segment				
Peripherals	\$ 551,996	\$ 550,571	\$ 995,950	\$ 1,002,773
Video Conferencing	37,208	31,313	73,695	58,441
Total net sales	\$ 589,204	\$ 581,884	\$ 1,069,645	\$ 1,061,214
Operating income (loss) by segment				
Peripherals	\$ 38,632	\$ 66,461	\$ 11,753	\$ 95,011
Video Conferencing	(1,473)	88	(3,281)	(1,286)
All other	(13,664)	(15,374)	(30,009)	(30,747)
Total operating income (loss)	\$ 23,495	\$ 51,175	\$ (21,537)	\$ 62,978

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

Depreciation and amortization by  
segment

Peripherals	\$	13,197	\$	12,866	\$	28,214	\$	27,136
Video Conferencing		5,150		5,255		9,935		10,234
Total depreciation and amortization	\$	18,347	\$	18,121	\$	38,149	\$	37,370

## Table of Contents

Geographic net sales information in the table below is based on the location of the selling entity. Long-lived assets, primarily fixed assets, are reported below based on the location of the asset.

Net sales to unaffiliated customers by geographic region were as follows (in thousands):

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
Americas	\$ 232,823	\$ 240,099	\$ 458,811	\$ 462,067
EMEA	220,384	227,266	351,267	381,895
Asia Pacific	135,997	114,519	259,567	217,252
Total net sales	\$ 589,204	\$ 581,884	\$ 1,069,645	\$ 1,061,214

Sales are attributed to countries on the basis of the customers' locations. The United States represented 33% of the Company's total consolidated net sales for the three months ended September 30, 2011. No other single country represented more than 10% of the Company's total consolidated net sales for the three months ended September 30, 2011. For the six months ended September 30, 2011, the United States represented 36% and China represented 10% of the Company's total consolidated net sales. The United States represented 34% and 36% of the Company's total consolidated net sales for the three and six months ended September 30, 2010. Net sales to customers in other individual countries did not represent more than 10%, by country, of total consolidated net sales in the three and six months ended September 30, 2011 and 2010.

One customer group represented 13% of net sales in the three months ended September 30, 2011 and 2010, and 12% and 13% of net sales in the six months ended September 30, 2011 and 2010.

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

	September 30, 2011	March 31, 2011
Americas	\$ 31,835	\$ 34,587
EMEA	9,172	9,774
Asia Pacific	42,667	45,272
Total long-lived assets	\$ 83,674	\$ 89,633

Long-lived assets in China and the United States each represented more than 10% of the Company's total consolidated long-lived assets at September 30 and March 31, 2011.

Table of Contents**Note 13 Acquisitions**

On July 18, 2011, the Company acquired all of the outstanding shares of Mirial S.r.l. con socio unico, a Milan-based privately-held provider of personal and mobile video conferencing solutions, for a total consideration of \$18.8 million ( 13.0 million), net of cash acquired of \$1.4 million ( 1.0 million). In addition, Logitech incurred \$0.4 million in transaction costs, which are included in operating expenses. Mirial will be integrated into the LifeSize division, and we expect that its technology will be used to enhance video connection capabilities on a variety of mobile devices and networks.

The acquisition has been accounted for using the purchase method of accounting. Accordingly, the total consideration was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. Fair values were determined by Company management based on information available at the date of acquisition. The results of operations of Mirial were included in Logitech's consolidated financial statements from the date of acquisition, and were not material to the Company's reported results.

The allocation of total consideration to the assets acquired and liabilities assumed based on the estimated fair value of Mirial were as follows (in thousands):

	July 18, 2011	Estimated Life
Tangible assets acquired	\$ 3,332	
Intangible assets acquired		
Existing technology	4,200	5 years
Customer relationships and other	1,600	3 years
Trademark/trade name	200	4 years
Goodwill	14,068	
	23,400	
Liabilities assumed	(1,358)	
Deferred tax liability, net	(1,821)	
Total consideration	\$ 20,221	

The existing technology of Mirial relates to the software and architecture which provides the ability to engage in high quality video conferencing on mobile phones, tablets and personal computers. The value of the technology was determined based on the present value of estimated expected future cash flows attributable to the technology. Customer relationships and other relates to the ability to sell existing, in-process, and future versions of the technology to Mirial's existing customer base, valued based on projected discounted cash flows generated from customers in place. The intangible assets acquired are amortized on a straight-line basis over their estimated useful lives. The goodwill associated with the acquisition is not subject to amortization and is not expected to be deductible for income tax purposes.

On July 6, 2010, Logitech acquired substantially all of the assets and employees of Paradial AS, a Norwegian company providing firewall and NAT (network address translation) traversal solutions for video communications. The acquisition will allow the Company to closely integrate firewall and NAT traversal across its video communications product portfolio, enabling end-to-end HD video calling over highly protected networks. The acquisition has been treated as an acquisition of a business and has been accounted for using the purchase method of accounting. The total consideration paid of \$7.3 million was allocated based on estimated fair values to \$7.0 million of identifiable intangible assets and \$0.1 million of assumed liabilities, with the remaining balance allocated to goodwill. The intangible assets acquired are amortized on a straight-line basis over their estimated useful lives of 5 years. The goodwill associated with the acquisition is not subject to amortization and is not expected

to be deductible for income tax purposes.

Table of Contents

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

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

*This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. These forward-looking statements include, among other things, statements regarding our business strategy, investment priorities, product plans, goals of targeted pricing actions, trends in consumer demand affecting our products and markets, our current or future revenue mix, our competitive position, and the impact of new product introductions and product innovation on future performance or anticipated costs and expenses. Forward-looking statements also include, among others, those statements including the words anticipate, believe, could, estimate, expect, forecast, intend, may, plan, project, predict, should, will, and similar language. These forward-looking statements involve risks and uncertainties that could cause our actual performance to differ materially from that anticipated in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section titled Risk Factors in Part II, Item 1A of this quarterly report on Form 10-Q. You should carefully review the risks described in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q or Current Reports on Form 8-K that we file in fiscal year 2012 and our fiscal year 2011 Form 10-K, which was filed on May 27, 2011, which discuss our business in greater detail. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.*

**Overview of Our Company**

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

Our peripherals segment encompasses the design, manufacturing and marketing of peripherals for PCs (personal computers), tablets and other digital platforms. Our products for home and business PCs include mice, trackballs, keyboards, interactive gaming controllers, multimedia speakers, headsets, webcams, and lapdesks. Our tablet accessories include keyboards, keyboard cases, earphones, wireless speakers and speaker stands. Our Internet communications products include webcams, headsets, video communications services, and digital video security systems for a home or small business. Our digital music products include speakers, earphones, and custom in-ear monitors. For home entertainment systems, we offer the Harmony line of advanced remote controls, Squeezebox wireless music solutions and, in the United States, a line of Logitech products for the Google TV platform. For gaming consoles, we offer a range of gaming controllers and microphones, as well as other accessories.

Our peripherals research and product management teams are organized along product lines, and are responsible for product strategy, industrial design and development, and technological innovation. Our global marketing and sales organization helps define product opportunities and bring our products to market, and is responsible for building the Logitech brand and consumer awareness of our products. This organization is comprised of retail and OEM (original equipment manufacturer) sales and marketing groups. Our retail sales and marketing activities are organized into three geographic regions: Americas (including North and South America), EMEA (Europe-Middle East-Africa), and Asia Pacific (including, among other countries, China, Taiwan, Japan, India and Australia). In addition, we recently established an organization focused on

developing and selling products for enterprise markets, including peripherals for



Table of Contents

unified communications applications. This group combines product management and sales personnel for enterprise products, including our OEM sales team, into one organization.

We sell our peripheral products to a network of distributors and resellers and to OEMs. Our worldwide retail network includes wholesale distributors, consumer electronics retailers, mass merchandisers, specialty electronics stores, computer and telecommunications stores, value-added resellers and online merchants. Sales of peripherals to our retail channels were 84% of our net sales for the six months ended September 30, 2011 and 85% of our net sales for the fiscal year ended March 31, 2011. The large majority of our revenues have historically been derived from sales of our peripheral products for use by consumers. Our OEM customers include the majority of the world's largest PC manufacturers. Sales to OEM customers were 9% of our net sales for the six months ended September 30, 2011 and the fiscal year ended March 31, 2011.

Our video conferencing segment encompasses the design, manufacturing and marketing of LifeSize video conferencing products, infrastructure and services for the enterprise, public sector, and other business markets. LifeSize products include scalable HD (high-definition) video communication endpoints, HD video conferencing systems with integrated monitors, video bridges and other infrastructure software and hardware to support large scale video deployments, and services to support these products. The LifeSize division maintains a separate marketing and sales organization, which sells LifeSize products and services worldwide. LifeSize product development and product management organizations are separate, but coordinated with our peripherals business, particularly our webcam and video communications groups. We sell our LifeSize products and services to distributors, value-added resellers, OEMs, and, occasionally, direct enterprise customers. Sales of LifeSize products were 6% of our net sales for the fiscal year ended March 31, 2011 and 7% of our net sales for the six months ended September 30, 2011.

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

We are developing new categories of products, such as tablet accessories, expanding in emerging retail markets, such as China, Russia and Latin America, and entering new product arenas, such as hosted video conferencing as a service, and peripherals and services for UC (unified communications). As we do so, we are confronting new competitors, many of which have more experience in the categories or markets and have greater marketing resources and brand name recognition than we have. In addition, because of the continuing convergence of the markets for computing devices and consumer electronics, we expect greater competition in the future from well-established consumer electronics companies in our new categories as well as future ones we might enter. Many of these companies have greater financial, technical, sales, marketing and other resources than we have.

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

competitors in one or more categories decide to enter other categories in which we currently operate.

## Table of Contents

As we address the current and future market challenges we face, we plan to continue to align our resources and prioritize our investments so that we may develop promising new opportunities and seek to optimize profitability on our current product portfolio. We plan to increase our investments in emerging geographic markets and new categories, including tablet peripherals, video communications, business-to-business, digital home products, and UC. Although we primarily broaden our product lines organically, we also seek to partner with or acquire, when appropriate, companies that have products, personnel, and technologies that complement our strategic direction.

We continually evaluate our product offerings and our strategic direction in light of changing consumer trends and the evolving nature of the interface between the consumer and the digital world.

## **Summary of Financial Results**

Our total net sales for the six months ended September 30, 2011 of \$1.1 billion were approximately the same as the total net sales for the six months ended September 30, 2010. Retail sales increased 1% and units sold increased 2%, while OEM sales and units decreased 17% and 14%. Retail sales in our Asia Pacific regions increased 25% in the six months ended September 30, 2011 compared with 2010, while weak demand in our EMEA region decreased retail sales by 6% , and inventory management actions by our direct channel partners decreased retail sales in our Americas region by 2%. If foreign currency exchange rates had been the same in six months ended September 30, 2011 and 2010, the percentage changes in our constant dollar total net sales would have been an increase of 21% in Asia Pacific, a decrease of 1% in the Americas, and a decrease of 14% in EMEA.

Gaming was our best-performing retail product category during the six months ended September 30, 2011, with sales increasing 43% over the same period in 2010 based on strong sales of our steering wheels. Retail sales of keyboards and desktops increased 20%, driven by cordless keyboards and our initial launch of iPad specific keyboard products. Our weakest performing product category in the six months ended September 30, 2011 was Digital Home, as sales of our Harmony remotes declined 44%, with sales falling significantly in EMEA and the Americas.

Our gross margin for the six months ended September 30, 2011 was 30.3% compared with 36.4% in the six months ended September 30, 2010. The decline in gross margin was primarily due to a \$34.1 million valuation adjustment during the quarter ended June 30, 2011, reflecting the lower of cost or market on our inventory of Logitech Revue and related peripherals on hand and at our suppliers, and a shift in product mix to lower-margin retail products, offset by increase LifeSize sales and the positive effect of foreign currency translation. Operating expenses increased 7% in the six months ended September 30, 2011, due to investments in our LifeSize division, B2B (business to business) and China sales and marketing, and the impact of foreign currency exchange rates. Net loss for the six months ended September 30, 2011 was \$12.2 million, compared with net income of \$60.7 million for the six months ended September 30, 2010.

## **Trends in Our Business**

Our sales of PC peripherals for use by consumers in the Americas and Europe have historically made up the large majority of our revenues. The increasing popularity of smaller, mobile computing devices such as tablets and smartphones with touch interfaces and the declining popularity of desktop PCs has rapidly changed the market and usage models for PC peripherals. Consumer demand for PCs is slowing in our traditional, mature markets such as North America, Western and Nordic Europe, Japan, Australia, and New Zealand, and we believe sales of our PC

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

peripherals in mature markets will decline in fiscal year 2012 and potentially beyond. In response, we intend to increasingly differentiate our approach to PC peripheral categories and markets. We also believe our future sales growth will be significantly impacted by our ability to innovate in our core peripherals business, grow sales in emerging markets, to increase our sales of products for enterprises, to grow our LifeSize video conferencing division, and to develop sales and

Table of Contents

innovations for our emerging product categories, such as our products for tablets, digital music, and the digital home.

We believe there are continued growth opportunities for our PC peripherals outside the more mature markets of the Americas and Europe. We are investing significantly in growing the number of our sales, marketing and administrative personnel in China. We are also expanding our presence and our sales in Russia, India and Latin America. We believe these markets offer high potential for us, but growing and conducting business in these markets will continue to require significant investment and management focus, and our return on investment is not certain due to, among other things, the challenges presented by potentially entrenched local competition, higher credit risks, and cultural differences that affect consumer trends in ways which may be substantially different from our current major markets.

We also believe there are opportunities to sell products to consumers to help make their tablets and other mobile devices more productive and comfortable. We launched our iPad specific keyboard products during the quarter ended June 30, 2011, which contributed to the sales growth in our keyboards and desktops product family in the three and six months ended September 30, 2011. This new tablet accessories product line includes the Keyboard Case for iPad2 and the Tablet Keyboard for iPad, with additional products planned for launch in future quarters. However, consumer acceptance and demand for peripherals for use with tablets and other mobile computing devices is still unproven.

We are focusing more of our efforts on creating and selling products and services to enterprises, including for use in UC. We believe the preferences of employees increasingly drive companies' choices in the information technologies they deploy to their employee base, and that this consumerization of information technology has made the business market open to embracing consumer technology and design. While our LifeSize division has extensive experience in developing and selling products for enterprises, we are still in the early stages of our B2B efforts for our peripherals and related services, and growing our enterprise business will continue to require investment in product marketing and sales channel development.

Our LifeSize video conferencing segment represented 7% of our net sales for the six months ended September 30, 2011 and 6% of our net sales for the fiscal year ended March 31, 2011. On July 18, 2011, Logitech acquired Mirial S.r.l., an Italian company that is a leading provider of personal and mobile video conferencing solutions. Mirial will be integrated into the LifeSize division, and we expect that its technology will be used to enhance video connection capabilities on a variety of mobile devices and networks. While we expect sales from the LifeSize division to continue to grow faster than our overall sales, we also expect the division will require significant continuing investments in product development and sales and marketing to stimulate and support future growth.

Sales of video products represented 12% of our total retail sales in the six months ended September 30, 2011 and 13% of our total retail sales in the year ended March 31, 2011. Logitech's video products category consists primarily of webcams, with a smaller, growing line-up of Logitech Alert video security systems. The long-term growth potential for webcams is unclear, as the embedded webcam experience appears to be sufficient to meet the needs of many retail consumers as the quality of embedded webcams improves.

In the digital home, we invested significantly in developing and marketing our Logitech Revue and related peripherals for the Google TV platform in the United States. As a result of poor initial sales of these products, we reduced the retail price of Logitech Revue from \$249 to \$99 in the quarter ended September 30, 2011. This action resulted in a \$34.1 million valuation adjustment to cost of goods sold in the three months ended June 30, 2011. We expect our inventory of Logitech Revue products will be fully depleted in the quarter ended December 31, 2011. We do not plan to build a successor to Logitech Revue. However, we plan to take advantage of future peripheral opportunities around the Google TV platform as such opportunities arise.



Table of Contents

Sales of our OEM mice and keyboards have historically made up the bulk of our OEM sales. OEM sales accounted for 9% of total revenues during the six months ended September 30, 2011 and the fiscal year ended March 31, 2011. In recent years, the shift away from desktop PCs adversely affected our sales of OEM mice and keyboards, which are sold with name-brand desktop PCs. We expect this trend to continue and for OEM sales to comprise a smaller percentage of our total revenues in the future.

Our balance sheet includes goodwill of \$239.6 million related to various past acquisitions which are part of our peripherals reporting unit, and \$320.7 million related to our video conferencing reporting unit. We evaluate goodwill for impairment at the reporting unit level annually during our fiscal fourth quarter, and whenever events or changes in circumstances indicate that the carrying amount may exceed the fair value of the reporting unit. Events or changes in circumstances which might indicate potential impairment in goodwill include, among other key factors described in our Form 10-K, volatility in stock price, a sustained decline in market capitalization relative to net book value, and lower than projected revenue, market growth, or operating results. Based on the impairment analysis performed in fiscal year 2011, the fair value of each of our reporting units exceeded the carrying value of the reporting unit by more than 50% of the carrying value. During the quarter ended September 30, 2011 and after the quarter-end, we experienced volatility in our stock price and market capitalization. During this period, the Company's market capitalization was greater than its net book value. In September 2011, we reduced our projected fiscal year 2012 consolidated operating results, based on the current economic environment in mature western markets and the Company's current product offerings. As our consolidated operating results are projected to be profitable for fiscal year 2012, management determined there were no triggering events requiring the review of goodwill for impairment as of September 30, 2011. Management continues to evaluate and monitor all key factors impacting the carrying value of our recorded goodwill, as well as other long lived assets. Further adverse changes in the Company's expected operating results, market capitalization, business climate, or other negative events could result in a non-cash impairment charge in the future.

We continue to evaluate potential acquisitions to enhance the breadth and depth of our expertise in engineering and other functional areas, our technologies and our product offerings.

Most of our revenue comes from sales to our retail channels, which resell to consumers, retailers and distributors. As a result, our customers demand for our products depends in substantial part on trends in consumer confidence and consumer spending, as well as the levels of inventory which our customers, and their customers, choose to maintain. We use sell-through data, which represents sales of our products by our retailer customers to consumers, and by our distributor customers to their customers, along with other metrics to indicate consumer demand for our products. Sell through data is subject to limitations due to collection methods and the third party nature of the data and thus may not be an entirely accurate indicator of actual consumer demand for our products. In addition, the customers supplying sell through data vary by geographic region and from period to period, but typically represent a majority of our retail sales.

We also use a metric of channel inventory, which are estimates of the inventory levels of our products held by or in-transit to our retailer and distributor customers, to indicate aggregate supply of our customers to meet demand by their customers and the potential for future sales by our customers. Channel inventory includes data compiled by Logitech from data supplied by our customers, as well as our estimates of inventory in-transit to our customers. The customers supplying this data vary by geographic region and from period to period, but typically represent a majority of our retail sales. Channel inventory data is subject to limitations and possible error sources, and may not be an entirely accurate indicator of actual customer channel inventory. The data supplied by our customers may not be indicative of inventory held by our customers as a whole. Reliability of the data depends on the accuracy and timeliness of the information supplied to us by our customers, and the processes by which they collect their data, which are largely outside of our control. The data is generally based on POS (Point of Sale) electronic data, the availability and accuracy of which varies by geographic region. Where POS data is not available, the data is collected primarily through manual processes, which are subject to typical human errors, including errors in data entry, transmission or interpretation. In addition, our interpretation of the data, and our estimates of in-transit inventory may be subject to errors in assumptions, calculations or other unintentional errors.





Table of Contents

Although our financial results are reported in U.S. dollars, approximately 41% of our sales for the six months ended September 30, 2011 were made in currencies other than the U.S. dollar, such as the euro, Chinese renminbi and Japanese yen. Our product costs are primarily in U.S. dollars and Chinese renminbi. Our operating expenses are incurred in U.S. dollars, Chinese renminbi, Swiss francs, euros and, to a lesser extent, 29 other currencies. To the extent that the U.S. dollar significantly increases or decreases in value relative to the currencies in which our sales and operating expenses are denominated, the reported dollar amounts of our sales and expenses may decrease or increase.

Our gross margins vary with the mix of products sold, competitive activity, product life cycle, new product introductions, unit volumes, commodity and supply chain costs, foreign currency exchange rate fluctuations, geographic sales mix, and the complexity and functionality of new product introductions. Changes in consumer demand for our products affect the need for us to undertake promotional efforts, such as cooperative marketing arrangements, customer incentive programs or other pricing programs, which also alter our product gross margins.

Logitech is incorporated in Switzerland but operates in various countries with differing tax laws and rates. A portion of our income before taxes and the provision for income taxes are generated outside of Switzerland. Therefore, our effective income tax rate depends on the amount of profits generated in each of the various tax jurisdictions in which we operate. For the six months ended September 30, 2011, the income tax benefit was \$4.7 million based on an effective income tax rate of 27.7% of pre-tax loss. For the six months ended September 30, 2010, the income tax provision was \$3.5 million based on an effective income tax rate of 5.4% of pre-tax income. The change in the effective income tax rate for the six months ended September 30, 2011 compared with the six months ended September 30, 2010 was primarily due to the mix of income and losses in the various tax jurisdictions in which the Company operates, and a discrete tax benefit of \$7.2 million in the six months ended September 30, 2010 from the closure of income tax audits in certain jurisdictions.

**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 the Company to make judgments, estimates and assumptions that affect reported amounts of assets, liabilities, net sales and expenses, and the disclosure of contingent assets and liabilities.

We consider an accounting estimate critical if it: (i) requires management to make judgments and estimates about matters that are inherently uncertain; and (ii) is important to an understanding of Logitech's 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 the Company in the future, actual results could differ from those estimates. Management has discussed the development, selection and disclosure of these critical accounting estimates with the Audit Committee of the Board of Directors.

There have been no significant changes during the six months ended September 30, 2011 to the nature of the critical accounting estimates disclosed in the Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended March 31, 2011.

***Recent Accounting Pronouncements***

In May 2011, the FASB (Financial Accounting Standards Board) issued ASU (Accounting Standards Update) 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 provides a consistent definition of fair value and ensures that the fair value measurement and disclosure requirements are similar

Table of Contents

between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 also changes certain fair value measurement principles and enhances the disclosure requirements particularly for level 3 fair value measurements. ASU 2011-04 is effective during interim and annual periods beginning after December 15, 2011. The Company will adopt ASU 2011-04 in the fourth quarter of fiscal year 2012. The Company is evaluating the impact of adopting ASU 2011-04, but currently believes there will be no significant impact on its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income*. ASU 2011-05 requires disclosure of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company will adopt ASU 2011-05 in the first quarter of fiscal year 2013. The adoption of this standard will impact only the presentation format of the consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, *Intangibles - Goodwill and Other (Topic 350)*. ASU 2011-08 provides entities the option to first assess qualitatively whether it is necessary to perform the two-step goodwill impairment test. If an entity concludes, as a result of its qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative two-step goodwill impairment test is required. An entity may elect to bypass the qualitative assessment and proceed to perform the first step of the two-step goodwill impairment test. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company will adopt ASU 2011-08 in the first quarter of fiscal year 2013. The adoption of this standard is not expected to have a material impact on the consolidated financial statements and footnote disclosures.

**Results of Operations***Net Sales*

Net sales by channel for the three and six months ended September 30, 2011 and 2010 were as follows (in thousands):

	Three months ended September 30,			Change %	Six months ended September 30,			Change %
	2011	2010			2011	2010		
Retail	\$ 501,735	\$ 489,721		2%	\$ 896,511	\$ 883,587		1%
OEM	50,261	60,850		(17)%	99,439	119,186		(17)%
LifeSize	37,208	31,313		19%	73,695	58,441		26%
Total net sales	\$ 589,204	\$ 581,884		1%	\$ 1,069,645	\$ 1,061,214		1%

Our total net sales were approximately the same in the three and six months ended September 30, 2011 as in the three and six months ended September 30, 2010. For the fiscal quarter, growth in Asia Pacific retail sales and sales of the LifeSize division were offset by essentially flat retail sales in the EMEA region, declines in the Americas region retail sales, and declines in OEM sales in both EMEA and the Americas. For the six month period ended September 30, 2011, the increases in Asia Pacific region retail sales and LifeSize division sales were offset by declines in retail and OEM sales in both EMEA and the Americas, compared with the six month period ended September 30, 2010.



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

## Table of Contents

The following table presents the approximate percentage of the Company's total net sales that were denominated in currencies other than the U.S. dollar in the three and six months ended September 30, 2011 and 2010:

	<b>Three months ended September 30,</b>		<b>Six months ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Currencies other than USD	44%	43%	41%	41%

If foreign currency exchange rates had been the same in three and six months ended September 30, 2011 and 2010, the percentage change in our constant dollar net sales would have been:

	<b>Three months ended September 30, 2011</b>	<b>Six months ended September 30, 2011</b>
Retail	(1)%	(3)%
OEM	(18)%	(17)%
LifeSize	19%	26%
Total net sales	(2)%	(3)%

Retail units sold increased 2% in both the three and six months ended September 30, 2011 compared with the three and six months ended September 30, 2010. Our overall retail average selling price was unchanged in the three months ended September 30, 2011 compared with 2010, and decreased 5% in the six months ended September 30, 2011 compared with 2010. Sales of our retail products priced above \$100 represented approximately 15% and 16% of total retail sales in the three and six months ended September 30, 2011, compared with approximately 17% and 16% in the three and six months ended September 30, 2010. Products priced below \$40 represented approximately 54% and 55% of retail sales in the three and six months ended September 30, 2011 compared with 57% and 59% in the three and six months ended September 30, 2010.

Units sold to OEM customers declined 6% and 14% during the three and six months ended September 30, 2011 compared with the same periods in the prior fiscal year, primarily due to decreased sales of microphones for console singing games, which declined 98% and 96% in the three and six months ended September 30, 2011 compared with 2010. Console microphone sales are opportunistic and continue to be subject to significant variation from quarter-to-quarter and year-to-year. Sales of OEM keyboards and desktops increased 6% and 12% in dollars during the three and six months ended September 30, 2011 compared with the prior year, with units sold up 17% and 8% during those periods. Sales of mice to our OEM customers increased 2% in the three month period, and units sold grew 7% compared with the prior year period. For the six months ended September 30, 2011, sales of OEM mice decreased 5%, with units sold down 7%.

LifeSize net sales represent sales of video conferencing units and related software and services. Sales increased 19% and 26% in the three and six months ended September 30, 2011 compared with the three and six months ended September 30, 2010. We experienced strong demand during the first fiscal quarter and the first six weeks of the second fiscal quarter, but concerns about potentially deteriorating economic conditions lengthened the sales cycle in both the U.S. and Europe during the last half of the second fiscal quarter.

We refer to our net sales excluding the impact of foreign currency exchange rates as constant dollar sales. Constant dollar sales are a non-GAAP financial measure, which is information derived from consolidated financial information but not presented in our financial statements prepared in accordance with U.S. GAAP. Our management uses these non-GAAP measures in its financial and operational decision-making, and believes

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

these non-GAAP measures, when considered in conjunction with the corresponding GAAP measures, facilitate a better understanding of changes in net sales. Constant dollar sales are calculated by translating prior period sales in each local currency at the current period's average exchange rate for that currency.

# Table of Contents

## Retail Sales by Region

The following table presents the changes in retail units sold, retail sales and constant dollar retail sales by region for the three and six months ended September 30, 2011 compared with the three and six months ended September 30, 2010.

	Three months ended September 30, 2011			Six months ended September 30, 2011		
	Change in Retail Units Sold	Change in Retail Sales	Change in Constant Dollar Retail Sales	Change in Retail Units Sold	Change in Retail Sales	Change in Constant Dollar Retail Sales
EMEA	(3)%	(1)%	(7)%	(7)%	(6)%	(14)%
Americas	(6)%	(3)%	(2)%	(3)%	(2)%	(1)%
Asia Pacific	21%	22%	18%	26%	25%	21%
Total retail sales	2%	2%	(1)%	2%	1%	(3)%

Retail sales in the EMEA region have declined over the three and six months ended September 30, 2011, due to weak demand for our products across much of Western Europe, particularly in the mature markets of Southern Europe such as Italy and Spain, where the economic environment was particularly challenging. We achieved strong growth in the three and six month periods in emerging markets, particularly in Russia. In addition, the strengthening of the U.S. dollar partially offset the constant dollar sales decline. In the three months ended September 30, 2011, sales growth in the audio and gaming product families and in keyboards and desktops was offset by sales decreases in the video, digital home and pointing devices product families. The largest retail sales declines in the six month period occurred in the digital home product family, partially offset by a substantial increase in the sale of gaming products. Management believes that full implementation of the necessary operational changes related to the EMEA-specific pricing and channel management issues we experienced in the fourth quarter of fiscal year 2011 will continue through the next one or two quarters of fiscal year 2012. Retail sell-through improved 6% in the three months and 4% in the six months ended September 30, 2011 compared with the same periods in the prior fiscal year.

Management believes that sales in the Americas region in the three months ended September 30, 2011 were negatively impacted by our channel partners' more cautious approach to inventory management, which reflects their overall concerns about uncertain economic conditions. Increased sales of keyboards and desktops, digital home products, audio products and gaming products were more than offset by sales declines in video and pointing devices in the three months ended September 30, 2011 compared with 2010. For the six months ended September 30, 2011, sales of keyboards and desktops and of gaming products increased, but all other product lines declined in sales. Retail sell-through in the Americas region increased 14% during both the three and six months ended September 30, 2011 compared with the prior year.

Asia Pacific region's retail sales grew during the three and six months ended September 30, 2011 compared with 2010, driven primarily by sales in China, which increased 57% in the three month period and 71% in the six month period compared with the prior year. All product lines except digital home grew in the three and six months ended September 30, 2011 compared with 2010. Retail sell-through during the quarter increased 25% from the prior year, in line with the sales growth. During the six month period, retail sell-through grew 23% over the same period in the prior year.

## Table of Contents

### Net Retail Sales by Product Family

Net retail sales by product family during the three and six months ended September 30, 2011 and 2010 were as follows (in thousands):

	Three months ended September 30,				Six months ended September 30,		
	2011	2010	Change %		2011	2010	Change %
Retail - Pointing Devices	\$ 148,386	\$ 153,870	(4)%	\$ 280,448	\$ 285,716	(2)%	
Retail - Keyboards & Desktops	109,325	94,507	16%	203,921	169,788	20%	
Retail - Audio	130,815	119,965	9%	212,379	215,611	(1)%	
Retail - Video	57,422	68,794	(17)%	107,267	115,850	(7)%	
Retail - Gaming	29,152	21,207	37%	52,545	36,658	43%	
Retail - Digital Home	26,635	31,378	(15)%	39,951	59,964	(33)%	
Total net retail sales	\$ 501,735	\$ 489,721	2%	\$ 896,511	\$ 883,587	1%	

Logitech's Pointing Devices product family includes our mice, trackballs and other pointing devices. Keyboards and desktops (mouse and keyboard combined) include cordless and corded keyboards and desktops, and keyboards and keyboard cases for tablets. Audio includes speakers and headset products for the PC, the home, the tablet and other mobile entertainment platforms, and wireless music systems. Our video product family is comprised of PC webcams and Alert video security systems. Gaming includes console and PC gaming peripherals. The Digital Home product family combines our advanced Harmony Remote controls and Logitech Revue with related peripherals. Net sales reflect accruals for product returns, cooperative marketing arrangements, customer incentive programs and pricing programs.

### Retail Pointing Devices

Retail unit sales of pointing devices increased 1% in the three months and 5% in the six months ended September 30, 2011 compared with the same periods in 2010. Dollar sales of cordless mice decreased 2% in the three month period and increased 3% in the six month period compared with 2010, while units grew 9% and 16% in the same periods. The growth differential between dollar and unit sales reflects sales increases in the low- and mid-range of the product line, but sales declines of 29% and 10% in high-end cordless mice for the three and six months ended September 30, 2011, indicating the lack of a compelling up-sell proposition in the category. Traditionally, our cordless mouse portfolio has featured at least one well-differentiated, richly innovative offering on the high end, a product gap we plan to fill in the coming quarters. Dollar sales of cordless mice were strong in the Asia Pacific region and particularly in China, in both the three and six month periods, but declined in EMEA and the Americas. Unit sales of cordless mice grew in all three regions during the six months ended September 30, 2011 compared with 2010, and declined only in the Americas during the three month period. Sales of corded mice decreased 11% and 14% in the three and six months ended September 30, 2011 compared with the prior fiscal year, with dollar sales generally declining in all regions for both periods. Unit sales of corded mice declined in the EMEA and Americas regions in the three and six months ended September 30, 2011, and grew in the Asia Pacific region in both periods.

### Retail Keyboards and Desktops



Retail unit sales of keyboards and desktops increased 5% and 9% during the three and six months ended September 30, 2011 compared with 2010. Sales of cordless keyboards more than doubled in dollars and units in both the three month and six month periods compared with the prior year, led by the Wireless Solar Keyboard K750 and the Wireless Keyboard K360. All regions achieved strong sales growth in cordless keyboards. Sales of cordless desktops increased 4% and 3% in dollars during the three and six months ended September 30, 2011 compared with 2010. We launched our iPad specific keyboard products during the quarter ended June 30, 2011, which contributed to the sales growth in the three and six month periods. This new tablet accessories product line includes the Keyboard Case for iPad2 and the Tablet Keyboard for iPad, with additional products planned for launch in future quarters. Corded keyboards and desktops sales declined 19% and 9% in dollars during the three and six months ended September 30, 2011 compared with the same periods in the prior fiscal year.

Table of Contents

***Retail Audio***

Retail audio unit sales grew 7% in the three months, and decreased 3% in the six months ended September 30, 2011 compared with the same period in the prior year. In the three month period, dollar sales increased in all three regions, with the strongest growth in the EMEA region. In the six month period, sales growth in the Asia Pacific region was offset by declines in EMEA and the Americas. PC speaker sales increased 16% and 3% in dollars and 11% and 3% in units in the three months and six months ended September 30, 2011 compared with 2010. Sales of our digital music speakers increased 1% in dollars and 16% in units in the three months ended September 30, 2011 compared with the prior year. In the six month period, digital music speaker sales decreased 5% in dollars and 1% in units compared with 2010. Our Ultimate Ears line of products contributed to the growth in audio during the fiscal quarter and the six month period.

***Retail Video***

Retail unit sales in the Video category decreased 12% in the three months and 11% in the six months ended September 30, 2011 compared with 2010. Strong sales in the Asia Pacific region in both the quarter and six months were more than offset by declines in EMEA and the Americas. Sales of the Logitech Alert line of digital video security systems increased 4% in the three month period ended September 30, 2011, and more than tripled in the six month period compared with 2010. Logitech Alert was launched in August, 2010. Webcam sales declined 17% and 13% in dollars and 12% and 11% in units in the three and six months ended September 30, 2011 compared with the same periods in 2010. The long-term growth potential for webcams is unclear, as the embedded webcam experience appears to be sufficient to meet the needs of many retail consumers. We plan to enhance our product line-up by enabling experiences that cannot be easily achieved with an embedded webcam.

***Retail Gaming***

Retail unit sales of our gaming peripherals decreased 2% and 4% in the three and six months ended September 30, 2011 compared with the same period in 2010, while dollar sales grew 37% and 43% in those periods. All regions achieved sales growth in gaming peripherals in both the three and six month periods, particularly in Asia Pacific where dollar sales doubled in both the three and six months. The world-wide dollar sales growth in gaming peripherals was driven by our steering wheels for PC and console games. Steering wheels have higher selling prices than our other gaming products, which is the main factor in the variation between sales growth and unit decline in the gaming category. PC gaming sales increased 42% in dollars and 1% in units in the three months ended September 30, 2011 compared with 2010. In the six month period, PC gaming sales increased 46% in dollars and decreased 1% in units. Console gaming sales increased 19% and 39% in dollars and decreased 27% and 21% in units in the three and six months ended September 30, 2011 compared with 2010.

***Retail Digital Home***

Retail unit sales in our digital home category, which includes Harmony remotes, Logitech Revue, and our Google TV peripherals, increased 31% during the quarter ended September 30, 2011 and decreased 17% in the six months ended September 30, 2011 compared with the same periods in the prior fiscal year. Sales of Harmony remotes decreased 40% and 44% in the three and six month periods, with sales falling significantly in both the Americas and EMEA. Unit sales of Harmony remotes increased 4% in the fiscal quarter and decreased 29% in the six months ended September 30, 2011 compared with the same periods in 2010. The differential between dollar sales and unit sales was due to a significant shift to lower price points, particularly in the three month period, when sales in the low end of the category increased by 61%. The

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

Harmony One, launched in January 2008, was the highest seller during the six months ended September 30, 2011. In order to address the decline in Harmony sales and the trend to lower-price products during the last few quarters, management intends to strengthen the product line-up in the upcoming quarters. As part of this effort, we introduced the Logitech Harmony Link in September 2011, which is a small WiFi device that transforms an iPad, iPhone or Android Smartphone into a full-featured remote control. Sales of Logitech Revue and related peripherals partly offset the sales decline in Harmony remotes during the three and six months ended September 30, 2011 compared with 2010.

# Table of Contents

## Gross Profit

Gross profit for the three and six months ended September 30, 2011 and 2010 was as follows (in thousands):

	Three months ended September 30,				Six months ended September 30,		
	2011	2010	Change %		2011	2010	Change %
Net sales	\$ 589,204	\$ 581,884	1%	\$	1,069,645	\$ 1,061,214	1%
Cost of goods sold	390,783	364,950	7%		745,617	675,251	10%
Gross profit	\$ 198,421	\$ 216,934	(9)%	\$	324,028	\$ 385,963	(16)%
Gross margin	33.7%	37.3%	(10)%		30.3%	36.4%	(17)%

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

The decline in gross margin for the three months ended September 30, 2011 compared with 2010 was primarily the result of product mix, partially offset by the increase in LifeSize sales and a positive effect from foreign currency translation.

Gross margin declined in the six months ended September 30, 2011 compared with the prior year primarily due to the \$34.1 million valuation adjustment to cost of goods sold during the quarter ended June 30, 2011, reflecting the lower of cost or market on our inventory of Logitech Revue and related peripherals on hand and at our suppliers. A shift in product mix to lower-margin retail products also contributed to the lower margin. These negative impacts were partially offset by increased LifeSize sales and the positive effect of foreign currency translation.

## Operating Expenses

Operating expenses for the three and six months ended September 30, 2011 and 2010 were as follows (in thousands):

	Three months ended September 30,				Six months ended September 30,		
	2011	2010	Change %		2011	2010	Change %
Marketing and selling	\$ 107,446	\$ 97,412	10%	\$	207,239	\$ 188,889	10%
% of net sales	18%	17%			19%	18%	
Research and development	39,491	40,927	(4)%		79,472	79,316	0%
% of net sales	7%	7%			7%	7%	
	27,989	27,420	2%		58,854	54,780	7%

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

## General and administrative

% of net sales		5%		5%		6%		5%	
Total operating expenses	\$	174,926	\$	165,759	6%	\$	345,565	\$	322,985 7%

Over three-quarters of the increase in total operating expenses in the three months ended September 30, 2011, and nearly two-thirds of the increase in the six months ended September 30, 2011 compared with the same periods in the prior fiscal year were due to investments in the growth of our LifeSize division.

We refer to our operating expenses excluding the impact of foreign currency exchange rates as constant dollar operating expenses. Constant dollar operating expenses are a non-GAAP financial measure, which is information derived from consolidated financial information but not presented in our financial statements prepared in accordance with U.S. GAAP. Our management uses these non-GAAP measures in its financial and operational decision-making, and believes these non-GAAP measures, when considered in conjunction with the corresponding GAAP measures, facilitate a better understanding of changes in

Table of Contents

operating expenses. Constant dollar operating expenses are calculated by translating prior period operating expenses in each local currency at the current period's average exchange rate for that currency.

***Marketing and Selling***

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

Marketing and selling expenses increased 10% in the three and six months ended September 30, 2011 compared with the same periods in the prior fiscal year primarily due to additional sales and marketing headcount for LifeSize, B2B, China and EMEA. Bonus reductions and decreases in travel and entertainment expense more than offset a slight increase in stock compensation costs due to the use of RSUs (restricted stock units) instead of stock options. Settlement of a customer bankruptcy suit also increased expenses in the six months ended September 30, 2011 compared with 2010.

The impact of foreign currency exchange rates also caused marketing and selling expenses to increase. If foreign currency exchange rates had been the same in the three months ended September 30, 2011 and 2010, the percentage increase in constant dollar marketing and selling expense would have been 6% instead of 10%. If foreign currency exchange rates had been the same in the six months ended September 30, 2011 and 2010, the percentage increase in constant dollar marketing and selling expense would have been 5% instead of 10%.

***Research and Development***

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

The changes in research and development expense for the three and six months ended September 30, 2011 compared with 2010 were primarily due to personnel additions in our LifeSize division and B2B products, offset by reductions in bonus expense. Research and development expense for our peripherals division declined more than the change in retail peripherals sales.

The impact of foreign currency exchange rates also caused research and development expenses to increase. If foreign currency exchange rates had been the same in the three months ended September 30, 2011 and 2010, the percentage decrease in constant dollar research and development expense would have been 7% instead of 4%. If foreign currency exchange rates had been the same in the six months ended September 30, 2011 and 2010, the percentage change in constant dollar research and development expense would have been a decrease of 4% instead of 0%.

***General and Administrative***

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

General and administrative expense increased due to higher personnel-related expenses, severance expense related to the former Chief Executive Officer, recruiting fees and increased litigation expenses. These increases were offset by lower stock compensation due to the Chief Executive Officer's departure, decreases in bonus expense and lower travel and entertainment expense.

The impact of foreign currency exchange rates also caused general and administrative expenses to increase. If foreign currency exchange rates had been the same in the three months ended September 30, 2011 and 2010, the percentage change in constant dollar general and administrative expense would have been a decrease of 3% instead of an increase of 2%. If foreign currency exchange rates had been the same in the six months ended September 30, 2011 and 2010, the percentage increase in constant dollar general and administrative expense would have been 2% instead of 7%.

Table of Contents
**Interest Income, Net**

Interest income and expense for the three and six months ended September 30, 2011 and 2010 were as follows (in thousands):

	Three months ended September 30,				Six months ended September 30,		
	2011	2010	Change %		2011	2010	Change %
Interest income	\$ 601	\$ 650	(8)%	\$ 1,291	\$ 1,173	10%	
Interest expense		(15)	100%		(17)	100%	
Interest income, net	\$ 601	\$ 635	(5)%	\$ 1,291	\$ 1,156	12%	

The changes in interest income for the three and six months ended September 30, 2011 compared with the same period in the prior fiscal year resulted from lower invested balances, partially offset by higher interest rates.

**Other Income, Net**

Other income and expense for the three and six months ended September 30, 2011 and 2010 were as follows (in thousands):

	Three months ended September 30,				Six months ended September 30,		
	2011	2010	Change %		2011	2010	Change %
Foreign currency exchange losses, net	\$ (1,053)	\$ (1,421)	(26)%	\$ (713)	\$ (1,061)	(33)%	
Gain on sale of property and plant			0%	4,904	838	485%	
Investment loss related to deferred compensation plan	(716)	(611)	17%	(528)	(176)	200%	
Other, net	6	238	(97)%	(235)	401	(159)%	
Other income (expense), net	\$ (1,763)	\$ (1,794)	(2)%	\$ 3,428	\$ 2	171300%	

Foreign currency exchange gains or losses relate to balances denominated in currencies other than the functional currency of a particular subsidiary, to the sale of currencies, and to gains or losses recognized on foreign exchange forward contracts. The decline in foreign currency exchange losses in the three and six months ended September 30, 2011 compared with 2010 resulted primarily from lower losses on foreign exchange swap contracts.

The gain on sale of building for the six months ended September 30, 2011 relates to the sale of an unused manufacturing facility in China. The gain on sale of building in the same period in 2010 relates to the sale of our building in Romanel, Switzerland.



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

Investment income for the three and six months ended September 30, 2011 represents earnings and realized and unrealized losses on trading investments related to a deferred compensation plan offered by one of our subsidiaries. Investment income for the three and six months ended September 30, 2010 represents changes in the cash surrender value of Company-owned life insurance contracts, related to the same management deferred compensation plan. In December 2010, the Company surrendered the life insurance contracts for cash, and invested the proceeds in a portfolio of mutual funds, which are classified as trading investments.

Table of Contents***Provision for Income Taxes***

The provision for income taxes and effective tax rates for the three and six months ended September 30, 2011 and 2010 were as follows (in thousands):

	Three months ended September 30,				Six months ended September 30,			
	2011	2010	Change		2011	2010	Change	
Provision for (benefit from) income taxes	\$ 4,888	\$ 8,856	(45)%	\$ (4,657)	\$ 3,454	(235)%		
Effective income tax rate	21.9%	17.7%		27.7%	5.4%			

The provision for income taxes consists of income and withholding taxes. Logitech operates in multiple jurisdictions and its profits are taxed pursuant to the tax laws of these jurisdictions. The Company's effective income tax rate may be affected by changes in or interpretations of tax laws in any given jurisdiction, utilization of net operating loss and tax credit carryforwards, changes in geographical mix of income and expense, and changes in management's assessment of matters such as the ability to realize deferred tax assets.

The change in the effective income tax rate for the three months ended September 30, 2011 compared with the three months ended September 30, 2010 is primarily due to the mix of income and losses in the various tax jurisdictions in which the Company operates. The change in the effective income tax rate for the six months ended September 30, 2011 compared with the six months ended September 30, 2010 is primarily due discrete tax benefits of \$7.2 million in the six months ended September 30, 2010 from the closure of income tax audits in certain jurisdictions.

Current deferred tax assets increased from \$27.0 million as of March 31, 2011 to \$42.9 million as of September 30, 2011. The increase is primarily due to the tax benefit from operating losses generated in the six month period ended September 30, 2011.

As of September 30 and March 31, 2011, the total amount of unrecognized tax benefits and related accrued interest and penalties due to uncertain tax positions was \$136.9 million and \$138.1 million, of which \$116.6 million and \$118.2 million would affect the effective income tax rate if recognized. The decline in the income tax liability associated with uncertain tax benefits is primarily due to the expiration of statutes of limitations, offset by the impact of foreign currency exchange rates and the accrual of interest expense.

The Company continues to recognize interest and penalties related to unrecognized tax positions in income tax expense. As of September 30, 2011, accrued interest and penalties related to uncertain tax positions increased to \$8.3 million from \$8.0 million as of March 31, 2011.

The Company files Swiss and foreign tax returns. For all these tax returns, the Company is generally not subject to tax examinations for years prior to 1999. The U.S. Internal Revenue Service has completed its field examinations of tax returns for the Company's U.S. subsidiary for fiscal years 2006 and 2007, and has issued NOPAs (notices of proposed adjustment) related to international tax issues for those years. The Company

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

disagrees with the NOPAs and is contesting through the administrative process for the U.S. Internal Revenue Service claims regarding 2006 and 2007. The Company believes the outcome of this examination is not expected to have a material adverse effect on the consolidated operating results.

In addition, the U.S. Internal Revenue Service is in the process of examining the Company's U.S. subsidiary for fiscal years 2008 and 2009. The Company is also under examination in other tax jurisdictions. At this time it is not possible to estimate the potential impact that these examinations may have on income tax expense. If the examinations are resolved unfavorably, there is a possibility they may have a material impact on our results of operations.

Although the Company has adequately provided for uncertain tax positions, the provisions on these positions may change as revised estimates are made or the underlying matters are settled or otherwise resolved. Although the timing of the resolution or closure on audits is highly uncertain, the Company does

Table of Contents

not believe it is reasonably possible that the unrecognized tax benefits would materially change in the next twelve months.

**Liquidity and Capital Resources**

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

At September 30, 2011, our working capital was \$555.1 million, compared with \$450.4 million at September 30, 2010. The increase in working capital over the prior year was due to higher cash balances and lower current liabilities.

During the six months ended September 30, 2011, operating activities provided net cash of \$1.6 million. Our largest sources of operating cash flows were net income after adding non-cash expenses of depreciation, amortization, inventory valuation adjustment and share-based compensation expense, and increased accounts payable balances compared with March 31, 2011. These sources of operating cash flows were offset by increases in accounts receivable and inventory compared with March 31, 2011. Net cash used in investing activities was \$34.8 million. We invested \$20.9 million in capital expenditures for tooling, computer hardware and software, equipment, and leasehold improvements, which was partially offset by proceeds of \$4.9 million from the sale of one of our buildings in the three months ended June 30, 2011. We also acquired Mirial S.r.l. for a total consideration of \$18.8 million net of cash acquired of \$1.4 million. Net cash used by financing activities was \$63.5 million. We repurchased \$73.1 million of shares under our share buyback program, which was partially offset by proceeds of \$9.8 million from employee stock purchases and the exercise of stock options.

At September 30, 2011, we had cash and cash equivalents of \$379.5 million, comprised of bank demand deposits and short-term time deposits. Cash and cash equivalents are carried at cost, which is equivalent to fair value.

The Company has credit lines with several European and Asian banks totaling \$148.4 million as of September 30, 2011. As is common for businesses in European and Asian countries, these credit lines are uncommitted and unsecured. Despite the lack of formal commitments from the banks, we believe that these lines of credit will continue to be made available because of our long-standing relationships with these banks and our current financial condition. At September 30, 2011, there were no outstanding borrowings under these lines of credit. There are no financial covenants under these facilities.

The Company has historically financed its operating and capital requirements primarily through cash flow from operations and, to a lesser extent, from capital markets and bank borrowings. Our normal liquidity for the next 12 months and our longer-term capital resource requirements are provided from three sources: cash flow generated from operations, cash and cash equivalents on hand, and borrowings, as needed, under our credit facilities.

***Cash Flow from Operating Activities***

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

The following table presents selected financial information and statistics as of September 30, 2011 and 2010 (dollars in thousands):

	2011	September 30,	2010
Accounts receivable, net	\$	294,691	\$ 304,998
Inventories		325,053	343,021
Working capital		555,111	450,420
Days sales in accounts receivable (DSO) (1)		45 days	47 days
Inventory turnover (ITO) (2)		4.8x	4.3x
Net cash provided by operating activities	\$	1,634	\$ 4,890

---

(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).

## Table of Contents

Net cash provided by operating activities was \$1.6 million for the six months ended September 30, 2011 compared with \$4.9 million for the same period in the prior year. The decline in operating cash flows was primarily due to the net loss of \$12.2 million in the six months ended September 30, 2011 compared with net income of \$60.7 million in the six months ended September 30, 2010 and a decrease in accrued liabilities, offset by the \$34.1 million inventory valuation adjustment and a lower increase in accounts receivable in the six months ended September 30, 2011 compared with the increase during the six months ended September 30, 2010.

DSO for the quarter was two days lower than the same period in the prior year, due to lower receivables as of September 30, 2011 and higher sales in the three months ended September 30, 2011. Typical payment terms require customers to pay for product sales generally within 30 to 60 days. However, terms may vary by customer type, by country and by selling season. Extended payment terms are sometimes offered to a limited number of customers during the second and third fiscal quarters. The Company does not modify payment terms on existing receivables, but may offer discounts for early payment.

Inventory turns for the six months ended September 30, 2011 were higher than the same period in the prior year, due to lower inventory as of September 30, 2011 and higher sales in the three months ended September 30, 2011.

## Cash Flow from Investing Activities

Cash flows from investing activities during the six months ended September 30, 2011 and 2010 were as follows (in thousands):

	Six months ended September 30,	
	2011	2010
Purchases of property, plant and equipment	\$ (20,921)	\$ (25,419)
Acquisitions, net of cash acquired	(18,814)	(7,300)
Proceeds from sale of property and plant	4,904	2,688
Purchases of trading investments	(4,536)	
Proceeds from sales of trading investments	4,522	
Net cash used in investing activities	\$ (34,845)	\$ (30,031)

Our capital expenditures during the six months ended September 30, 2011 and 2010 were principally for normal expenditures for tooling, computer hardware and software, equipment, and leasehold improvements.

In the six months ended September 30, 2011, the Company acquired Mirial S.r.l. for a total consideration of \$18.8 million ( 13.0 million), net of cash acquired of \$1.4 million ( 1.0 million).

Proceeds from the sale of property, plant and equipment were related to the sale of an unused manufacturing facility in China in the three months ended June 30, 2011 and the sale of our building in Romanel, Switzerland in the three months ended June 30, 2010.



## Table of Contents

The purchases and sales of trading investments in the six months ended September 30, 2011 represent mutual fund activity directed by participants in a deferred compensation plan offered by one of the Company's subsidiaries. The mutual funds are held by a Rabbi Trust. In the six months ended September 30, 2010, the deferred compensation plan was invested in life insurance contracts.

## Cash Flow from Financing Activities

The following table presents information on our cash flows from financing activities during the six months ended September 30, 2011 and 2010 (in thousands):

	2011	Six months ended September 30,	2010
Purchases of treasury shares	\$	(73,134)	\$
Proceeds from sale of shares upon exercise of options and purchase rights		9,764	16,570
Tax withholdings related to net share settlements of restricted stock units		(185)	(223)
Excess tax benefits from share-based compensation		30	676
Net cash provided by (used in) financing activities	\$	(63,525)	\$ 17,023

	2011	Six months ended September 30,	2010
Number of shares repurchased		7,609	
Value of shares repurchased	\$	(73,134)	\$
Average price per share	\$	(9.61)	n/a

During the six months ended September 30, 2011, we repurchased 7.6 million shares for \$73.1 million under the Company's September 2008 buyback program. No share repurchases were made in the six months ended September 30, 2010.

Cash of \$9.8 million and \$16.6 million was provided during the six months ended September 30, 2011 and 2010 by the sale of shares upon exercise of options and purchase rights pursuant to the Company's stock plans. The payment of tax withholdings related to net share settlements of RSUs (restricted stock units) required the \$0.2 million in cash in the six month periods ended September 30, 2011 and 2010. Tax benefits recognized on the exercise of share-based payment awards provided less than \$0.1 million and \$0.7 million in the six months ended September 30, 2011 and 2010.

## Cash Outlook



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

Our principal sources of liquidity are our cash and cash equivalents, cash flow generated from operations and, to a lesser extent, capital markets and borrowings under our bank lines of credit. Over the past several years, we have generated positive cash flow from our operating activities, including cash from operations of \$156.6 million in fiscal year 2011. In the six months ended September 30, 2011, although our operating cash flows have been negatively affected by a decrease in demand for our products and by uncertainty regarding future global economic conditions, the levels of our cash and cash equivalents and our working capital remain strong. Our future working capital requirements and capital expenditures may increase to support investment in product innovations and growth opportunities, to repurchase our stock, or to acquire or invest in complementary businesses, products, services, and technologies. Additional financing may not be available at all or on terms favorable to us.

In September 2008, our Board of Directors approved a new share buyback program, which authorizes the Company to invest up to \$250 million to purchase its own shares. As of September 30, 2011, the approved amount remaining under the September 2008 program was \$177.0 million.

Table of Contents

In connection with the acquisition of LifeSize Communications, Inc. in December 2009, Logitech agreed to establish a cash retention and incentive plan for certain LifeSize employees, linked to the achievement of LifeSize performance targets. The duration of the plan's performance period is two years, from January 1, 2010 to December 31, 2011. The total available cash incentive is \$9.0 million over the two year performance period. Approximately \$7.9 million is accrued as of September 30, 2011.

On October 12, 2010, the legislature of the U.S. state of California enacted a fiscal budget bill which extended the suspension of net operating losses for tax years beginning on or after January 1, 2008 through January 1, 2012. The legislation also affects the methodology used by corporate taxpayers to apportion income to California and modifies the large corporate underpayment penalty effective for our fiscal years ending March 31, 2011 and 2012. Although the Company has significant operations in California, we believe these changes will not have a material impact on our results of operations, cash flows or financial condition.

During the second quarter of fiscal year 2012, the U.S. Internal Revenue Service completed its field examinations of tax returns for the Company's U.S. subsidiary for fiscal years 2006 and 2007, and issued NOPAs (notices of proposed adjustment) related to international tax issues for those years. The Company disagrees with the NOPAs and is contesting through the administrative process for the U.S. Internal Revenue Service claims regarding 2006 and 2007.

In addition, the U.S. Internal Revenue Service is in the process of examining the Company's U.S. subsidiary for fiscal years 2008 and 2009. The Company is also under examination in other tax jurisdictions. As of September 30, 2011, we are not able to estimate the potential impact that these examinations may have on income tax expense. If the examinations are resolved unfavorably, there is a possibility they may have a material impact on our results of operations.

Other contractual obligations and commitments of the Company which require cash are described in the following sections.

Based upon our available cash balances and credit lines, and the trend of our historical cash flow generation, we believe we have sufficient liquidity to fund operations for at least the next 12 months.

**Contractual Obligations and Commitments**

As of September 30, 2011, the Company's outstanding contractual obligations and commitments included: (i) facilities leased under operating lease commitments, (ii) purchase commitments and obligations, (iii) long-term liabilities for income taxes payable, and (iv) defined benefit pension plan and non-retirement post-employment benefit obligations. The following summarizes our contractual obligations and commitments at September 30, 2011 (in thousands):

	<b>September 30, 2011</b>	
Operating leases	\$	97,897
Purchase commitments - inventory		132,590

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

Purchase obligations - operating expenses	58,290
Purchase obligations - capital expenditures	13,894
Income taxes payable - non-current	130,892
Obligation for management deferred compensation	13,256
Pension and post-employment obligations	30,594
Other long-term liabilities	14,725
Total contractual obligations and commitments	\$ 492,138

Table of Contents

***Operating Leases***

The Company leases facilities under operating leases, certain of which require it to pay property taxes, insurance and maintenance costs. Operating leases for facilities are generally renewable at the Company's option and usually include escalation clauses linked to inflation. The remaining terms on our non-cancelable operating leases expire in various years through 2028. Our asset retirement obligations on these leases as of September 30, 2011 were \$1.7 million.

The increase in operating lease commitments to \$97.9 million as of September 30, 2011 compared with \$72.6 million as of March 31, 2011 was due to approximately \$35 million related to new facilities for our Americas operations in Northern California, and approximately \$13 million for an expansion of our LifeSize headquarters in Austin, Texas.

***Purchase Commitments***

At September 30, 2011, we have fixed purchase commitments of \$132.6 million for inventory purchases made in the normal course of business to original design manufacturers, contract manufacturers and other suppliers, which are expected to be fulfilled by December 31, 2011. We also had commitments of \$58.3 million for consulting services, marketing arrangements, advertising, outsourced customer services, information technology maintenance and support services, and other services. Fixed purchase commitments for capital expenditures amounted to \$13.9 million at September 30, 2011, and primarily relate to commitments for tooling, computer hardware and leasehold improvements. We expect to continue making capital expenditures in the future to support product development activities and ongoing and expanded operations. Although open purchase commitments are considered enforceable and legally binding, the terms generally allow us the option to reschedule and adjust our requirements based on business needs prior to delivery of goods or performance of services.

***Income Taxes Payable***

At September 30, 2011, we had \$130.9 million in non-current income taxes payable, including interest and penalties, related to our income tax liability for recognized uncertain tax positions, compared with \$132.0 million in non-current income taxes payable as of March 31, 2011.

The Company files Swiss and foreign tax returns. For all these tax returns, the Company is generally not subject to tax examinations for years prior to 1999. The U.S. Internal Revenue Service has completed its field examinations of tax returns for the Company's U.S. subsidiary for fiscal years 2006 and 2007, and has issued NOPAs (notices of proposed adjustment) related to international tax issues for those years. The Company disagrees with the NOPAs and is contesting through the administrative process for the U.S. Internal Revenue Service claims regarding 2006 and 2007. The Company believes the outcome of this examination is not expected to have a material adverse effect on our consolidated operating results.

In addition, the U.S. Internal Revenue Service is in the process of examining the Company's U.S. subsidiary for fiscal years 2008 and 2009. The Company is also under examination in other tax jurisdictions. At this time it is not possible to estimate the potential impact that these examinations may have on income tax expense. If the examinations are resolved unfavorably, there is a possibility they may have a material

impact on our results of operations.

Although the Company has adequately provided for uncertain tax positions, the provisions on these positions may change as revised estimates are made or the underlying matters are settled or otherwise resolved. Although the timing of the resolution or closure on audits is highly uncertain, the Company does not believe it is reasonably possible that the unrecognized tax benefits would materially change in the next twelve months.

Table of Contents

***Obligation for Deferred Compensation***

At September 30, 2011, we had \$13.3 million in liabilities related to a deferred compensation plan offered by one of the Company's subsidiaries. For more information, please refer to our Annual Report on Form 10-K for the fiscal year ended March 31, 2011.

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

At September 30, 2011, we had \$30.6 million in non-current liabilities related to our defined benefit pension plans and non-retirement post-employment benefit obligations. See Note 4 – Employee Benefit Plans for more information.

***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, 2011.

***Off-Balance Sheet Arrangements***

The Company has 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 the Company.

***Guarantees***

Logitech International S.A., the parent holding company, has guaranteed payment of the purchase obligations of various subsidiaries from certain component suppliers. These guarantees generally have an unlimited term. The maximum potential future payment under the guarantee arrangements is limited to \$30.0 million. At September 30, 2011, there were no purchase obligations outstanding for which the parent holding company was required to guarantee payment.

Logitech Europe S.A., a subsidiary of the parent holding company, has guaranteed the purchase obligations of another Logitech subsidiary and third-party contract manufacturers under three guarantee agreements. Two of these guarantees do not specify a maximum amount. The third guarantee is limited to \$7.0 million. As of September 30, 2011, \$5.4 million of guaranteed purchase obligations were outstanding under these

guarantees.

Logitech International S.A. and Logitech Europe S.A. have guaranteed certain contingent liabilities of various subsidiaries related to transactions occurring in the normal course of business. The maximum amount of the guarantees was \$83.8 million as of September 30, 2011. As of September 30, 2011, \$15.5 million of guaranteed liabilities were subject to these guarantees.

***Indemnifications***

Logitech indemnifies some of its suppliers and customers for losses arising from matters such as intellectual property rights and 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. In addition, we have entered into indemnification agreements with our officers and directors, and the bylaws of our subsidiaries contain similar indemnification obligations to our agents. No amounts have been accrued for indemnification provisions as of September 30, 2011. We do not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these indemnification arrangements.

Table of Contents

***Legal Proceedings***

On May 23, 2011, a class action complaint was filed against Logitech and certain of its officers. This action was filed in the United States District Court for the Southern District of New York on behalf of individuals who purchased Logitech shares between October 28, 2010 and April 1, 2011. The action was transferred to the United States District Court for the Northern District of California on July 28, 2011. The complaint relates to Logitech's disclosure on March 31, 2011 that its results for fiscal year 2011 would fall below expectations and seeks unspecified monetary damages and other relief against the defendants.

On July 15, 2011, a complaint was filed against Logitech and two of its subsidiaries in the United States District Court for the Central District of California by Universal Electronics, Inc. (UEI). The complaint alleges that Logitech's Harmony remotes, Logitech Revue for Google TV and other products for the digital home infringe one or more of the seventeen UEI patents asserted in the action, and seeks unspecified monetary damages and other relief against the defendants.

In addition, the Company is involved in a number of lawsuits and claims relating to commercial matters that arise in the normal course of business.

The Company believes these lawsuits and claims are without merit and intends to vigorously defend against them. However, there can be no assurances that its defenses will be successful, or that any judgment or settlement in any of these lawsuits would not have a material adverse impact on the Company's business, financial condition, cash flows and results of operations. The Company's accruals for lawsuits and claims as of September 30, 2011 were not material.

**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, the Company faces exposure to adverse movements in foreign currency exchange rates and interest rates. These exposures may change over time as business practices evolve and could have a material adverse impact on the Company's financial results.

***Foreign Currency Exchange Rates***

The Company is exposed to foreign currency exchange rate risk as it transacts business in multiple foreign currencies, including exposure related to anticipated sales, anticipated purchases and assets and liabilities denominated in currencies other than the U.S. dollar. Logitech transacts business in over 30 currencies worldwide, of which the most significant to operations are the CNY (Chinese renminbi), Taiwanese dollar,



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

Australian dollar, euro, British pound, Mexican peso and Japanese yen. The functional currency of the Company's operations is primarily the U.S. dollar. To a lesser extent, certain operations use the euro, CNY, Swiss franc or the local currency of the country as their functional currencies. Accordingly, unrealized foreign currency gains or losses resulting from the translation of net assets or liabilities denominated in foreign currencies to the U.S. dollar are accumulated in the cumulative translation adjustment component of other comprehensive income in shareholders' equity.

The table below provides information about the Company's underlying transactions that are sensitive to foreign exchange rate changes, primarily assets and liabilities denominated in currencies other than the functional currency, where the net exposure is greater than \$0.5 million at September 30, 2011.

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

## Table of Contents

The table also presents the U.S. dollar impact on earnings of a 10% appreciation and a 10% depreciation of the functional currency as compared with the transaction currency (in thousands):

Functional Currency	Transaction Currency		Net Exposed Long (Short) Currency Position	FX Gain (Loss) From 10% Appreciation of Functional Currency	FX Gain (Loss) From 10% Depreciation of Functional Currency
U.S. dollar	Chinese renminbi	\$	68,473	\$ (6,225)	\$ 7,608
Taiwanese dollar	U.S. dollar		15,568	(1,415)	1,730
U.S. dollar	Australian dollar		14,159	(1,287)	1,573
Euro	British pound		11,559	(1,051)	1,284
Mexican peso	U.S. dollar		(7,650)	695	(850)
Japanese yen	U.S. dollar		(4,534)	412	(504)
U.S. dollar	Canadian dollar		1,903	(173)	211
U.S. dollar	Swiss franc		(1,652)	150	(184)
Euro	Swedish krona		(1,519)	138	(169)
U.S. dollar	Euro		(1,370)	125	(152)
Euro	Russian rouble		1,248	(113)	139
Euro	Swiss franc		(726)	66	(81)
		\$	95,459	\$ (8,678)	\$ 10,605

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

The Company's principal manufacturing operations are located in China, with much of its component and raw material costs transacted in CNY. However, the functional currency of its Chinese operating subsidiary is the U.S. dollar as its sales and trade receivables are transacted in U.S. dollars. To hedge against any potential significant appreciation of the CNY, the Company maintains a portion of its cash investments in CNY-denominated accounts. At September 30, 2011, net assets held in CNY totaled \$68.5 million. The Company continues to evaluate the level of net assets held in CNY relative to component and raw material purchases and interest rates on cash equivalents.

The Company enters into foreign exchange forward contracts to hedge against exposure to changes in foreign currency exchange rates related to its subsidiaries' forecasted inventory purchases. The primary risk managed by using derivative instruments is the foreign currency exchange rate risk. The Company has designated these derivatives as cash flow hedges. Logitech does not use derivative financial instruments for trading or speculative purposes. These hedging contracts generally mature within four months, and are denominated in the same currency as the underlying transactions. Gains and losses in the fair value of the effective portion of the hedges are deferred as a component of accumulated other comprehensive loss until the hedged inventory purchases are sold, at which time the gains or losses are reclassified to cost of goods sold. The Company assesses the effectiveness of the hedges by comparing changes in the spot rate of the currency underlying the forward contract with changes in the spot rate of the currency in which the forecasted transaction will be consummated. If the underlying transaction being hedged fails to occur or if a portion of the hedge does not generate offsetting changes in the foreign currency exposure of forecasted inventory purchases, the Company immediately recognizes the gain or loss on the associated financial instrument in other income (expense). As of September 30, 2011, the notional amounts of foreign exchange forward contracts outstanding related to forecasted inventory purchases were \$77.4 million ( \$7.3 million). Deferred realized losses of \$0.2 million related to closed cash flow hedges are recorded in accumulated other comprehensive loss at September 30, 2011, and are expected to be reclassified to cost of goods sold when the related inventory is sold. Deferred unrealized gains of \$5.1 million related to open cash flow hedges are also recorded in accumulated other comprehensive loss at September 30, 2011, and these forward contracts will be revalued in future periods until the related inventory is sold, at which time the resulting gains or losses will be reclassified to cost of goods sold.

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

Table of Contents

The notional amounts of foreign exchange forward contracts outstanding at September 30, 2011 relating to foreign currency receivables or payables were \$22.3 million. Open forward contracts as of September 30, 2011 consisted of contracts in euros to purchase or sell British pounds at future dates at predetermined exchange rates. The notional amounts of foreign exchange swap contracts outstanding at September 30, 2011 were \$25.6 million. Swap contracts outstanding at September 30, 2011 consisted of contracts in Taiwanese dollar Non Deliverable Forwards, Mexican pesos, Japanese yen and Canadian dollars. Unrealized net losses on the contracts outstanding at September 30, 2011 were \$0.2 million.

If the U.S. dollar had appreciated by 10% at September 30, 2011 compared with the foreign currencies in which we have forward or swap contracts, an unrealized gain of \$13.4 million in our forward foreign exchange contract portfolio would have occurred. If the U.S. dollar had depreciated by 10% compared with the foreign currencies in which we have forward or swap contracts, a \$3.7 million unrealized loss in our forward foreign exchange contract portfolio would have occurred.

***Interest Rates***

Changes in interest rates could impact the Company's anticipated interest income on its cash equivalents and investment securities. The Company prepared sensitivity analyses of its interest rate exposures to assess the impact of hypothetical changes in interest rates. Based on the results of these analyses, a 100 basis point decrease or increase in interest rates from the September 30, 2011 period end rates would not have a material effect on the Company's results of operations or cash flows.

Table of Contents

**ITEM 4. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures*

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

Disclosure controls are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, such as this Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls are also designed to reasonably assure that this information is accumulated and communicated to our management, including the Acting Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

*Changes in Internal Control over Financial Reporting*

There have been no changes in the Company's internal control over financial reporting during the fiscal quarter ended September 30, 2011, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

On May 23, 2011, a class action complaint was filed against Logitech and certain of its officers. This action was filed in the United States District Court for the Southern District of New York on behalf of individuals who purchased Logitech shares between October 28, 2010 and April 1, 2011. The action was transferred to the United States District Court for the Northern District of California on July 28, 2011. The complaint relates to Logitech's disclosure on March 31, 2011 that its results for fiscal year 2011 would fall below expectations and seeks unspecified monetary damages and other relief against the defendants.

On July 15, 2011, a complaint was filed against Logitech and two of its subsidiaries in the United States District Court for the Central District of California by Universal Electronics, Inc. (UEI). The complaint alleges that Logitech's Harmony remotes, Logitech Revue for Google TV and other products for the digital home infringe one or more of the seventeen UEI patents asserted in the action, and seeks unspecified monetary damages and other relief against the defendants.

In addition, the Company is involved in a number of lawsuits and claims relating to commercial matters that arise in the normal course of business.

The Company believes these lawsuits and claims are without merit and intends to vigorously defend against them. However, there can be no assurances that its defenses will be successful, or that any judgment or settlement in any of these lawsuits would not have a material adverse impact on the Company's business, financial condition, cash flows and results of operations. The Company's accruals for lawsuits and claims as of September 30, 2011 were not material.

**ITEM 1A. RISK FACTORS**

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

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

- Our operating results are highly dependent on the volume and timing of orders received during the quarter, which are difficult to forecast. Customers generally order on an as-needed basis and we typically do not obtain firm, long-term purchase commitments from our customers. As a result, our revenues in any quarter depend primarily on orders booked and shipped in that quarter.

- A significant portion of our quarterly retail sales typically occurs in the last weeks of each quarter, further increasing the difficulty in predicting quarterly revenues and profitability.
- Our sales are impacted by end-user consumer demand and current and future global economic conditions, and can therefore fluctuate abruptly and significantly during periods of uncertain economic conditions or geographic distress, as well as from shifts in consumer buying patterns.
- We must incur a large portion of our costs in advance of sales orders, because we must plan research and production, order components, buy tooling equipment, and enter into development, sales and marketing, and other operating commitments prior to obtaining firm commitments from our customers. This makes it difficult for us to rapidly adjust our costs during the quarter in response to a revenue shortfall, which could adversely affect our operating results.

Table of Contents

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

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

***We believe sales of our PC peripherals in our mature markets will decline, and that our future growth will depend on our emerging product categories and sales in emerging market geographies, and if we do not successfully execute on our growth opportunities, or if our sales in mature markets are less than we expect, we will not experience the sales and revenue growth we experienced in the past.***

We have historically targeted peripherals for the PC platform. Consumer demand for PCs is decelerating in our traditional, mature markets such as North America, Western and Nordic Europe, Japan, Australia, and New Zealand, and we believe sales of our PC peripherals in mature markets will decline in fiscal year 2012 and potentially beyond. As a result, we intend to focus more of our personnel and financial resources on product innovations and on growth opportunities in emerging markets, in products for tablets and mobile devices, on our LifeSize division, and other potential growth opportunities. Our investments may not result in the growth we expect, or when we expect it, for a variety of reasons including those described below.

***Emerging Markets.*** We believe that the world's emerging markets, such as China, India, Russia and Brazil, will be the high growth markets of the future for PCs and for our peripherals product lines. We are currently allocating significant resources to our sales, marketing and administrative personnel in China and, to a lesser extent, other emerging markets. We anticipate that emerging markets will include potentially high growth opportunities, offset by potential entrenched local competition, higher credit risks, and cultural differences that affect consumer trends in ways which may be substantially different from our current major markets. If we do not develop innovative and reliable peripherals and enhancements in a cost-effective and timely manner which are attractive to consumers in these markets, if consumer demand for PCs and our peripherals in emerging markets does not increase as much as we expect, or if we invest resources in products or geographic areas which do not produce the growth or profitability we expect, or when we expect it, our business and results of operations could be significantly harmed.

***Tablets, Smartphones and Other Mobile Devices.*** The increasing popularity of smaller, mobile computing devices such as tablets and smartphones with touch interfaces is rapidly changing the consumer PC market. In our retail channels, tablets and smartphones are sold by retailers without peripherals. We believe this creates opportunities to sell products to consumers to help make their devices more productive and comfortable. However, consumer acceptance and demand for peripherals for use with tablets and other mobile computing devices is still uncertain. The increasing popularity of tablets and smart phones might decrease consumer demand for our PC peripherals, which would negatively affect our sales of these products. If we do not successfully innovate and market products designed for tablets and smart phones, if our distributor customers do not choose to carry or market such peripherals, or if general consumer demand for peripherals for use with these devices does not increase, our business and results of operations could be significantly harmed.

***LifeSize.*** Competition in the video conferencing industry is intense, with large, well-financed competitors, and we expect the number of competitors and the intensity of competition to increase. Although we have maintained the LifeSize enterprise sales organization, Logitech has little experience with selling to enterprise accounts, or in marketing to large enterprises. Additionally, as customers complete video conferencing installations, they may require greater levels of service and support than we have provided in the past. Demand for these types of services and support may increase in the future. There can





Table of Contents

be no assurance that we can provide products, services and support to effectively compete for these market opportunities. Further, provision of greater levels of services and support by us may result in a delay in the timing of revenue recognition. We anticipate that the growth of our LifeSize division will continue to require significant continuing investments in product development and sales and marketing to stimulate and support future growth. If our future investments do not produce the growth that we anticipate, or when we anticipate it, our business and results of operations could be significantly harmed.

*Digital Music.* We have recently increased our focus on products for the consumption of digital music as a future sales growth area. We intend to increase our product development and marketing investment in digital music. However, our over 10 years of audio product development and marketing efforts have focused primarily on products for the PC platform, and on sound quality. Our past experience is not necessarily transferable to the consumption of music through mobile devices such as tablets and smartphones, where we believe consumers put a greater emphasis on features such as convenience and brand. In addition, competition in the digital music consumption category is intense, and we expect it to increase. If we are not able to identify product development, marketing, and organizational skill gaps, resolve them, and introduce differentiated product and marketing strategies to separate ourselves from competitors, our digital music efforts will not be successful, and our business and results of operations could be harmed.

In addition, our sales in our mature markets in North America, Western and Nordic Europe, Japan, Australia, and New Zealand might be less than we expect, due to a decline in business or economic conditions in one or more of the countries or regions, a greater decline than we expect in demand for our products, our inability to successfully execute our sales and marketing plans, or for other reasons. In the fourth quarter of fiscal year 2011, we experienced weak consumer demand for our products across much of Western Europe which, combined with our lack of successful execution of EMEA-specific pricing and channel management programs, negatively impacted our financial performance in EMEA in that quarter. We also experienced weak consumer demand in much of Western Europe in the first quarter of fiscal year 2012, which negatively impacted our financial performance in that quarter. If consumer demand for our products in EMEA or our other sales regions worsens, or our operational changes in EMEA do not result in the EMEA sales improvement that we expect, or when we expect it, our sales and operating results will be negatively impacted.

In our OEM channel, the slower growth of desktop PCs has adversely affected our sales of OEM mice, which have historically made up the bulk of our OEM sales. Our OEM sales accounted for 9% of total revenues in the six months ended September 30, 2011 and the fiscal year ended March 31, 2011. If the desktop PC market continues to experience slower growth or decline, and if we do not successfully diversify our OEM business, our OEM revenues could be adversely affected.

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

The peripherals and video conferencing industries are intensely competitive.

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

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

The video conferencing industry is characterized by continual performance enhancements and large, well-financed competitors. There is heightened interest in the video conferencing market by companies such as Cisco Systems, Inc. and Hewlett-Packard Company, and as a result, we expect competition in the

Table of Contents

industry to further intensify. In addition, there are an increasing number of PC-based multi-person video conferencing applications, such as those offered by Skype, which could compete at the lower end of the video conferencing market with our LifeSize products and services.

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

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

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

*Audio.* Competitors in audio devices vary by product line. In the PC, mobile entertainment and communication platform speaker business, competitors include Plantronics, Inc., Altec Lansing LLC, Creative Labs, Inc. and Bose Corporation. In the PC headset and microphone business, our main competitors include Plantronics and Altec Lansing. Our Squeezebox network-based audio systems for digital music compete with systems from several small competitors as well as larger established consumer electronics companies, like Sony and Royal Philips Electronics NV.

*Video.* Our competitors for PC Web cameras include Microsoft, Creative Labs, Philips, and Hewlett-Packard. We are encountering aggressive pricing practices and promotions on a worldwide basis, which have negatively impacted our revenues and margins. The worldwide market for PC webcams has been very competitive, and as a result, pricing practices and promotions by our competitors have become more aggressive.

*Gaming.* Competitors for our interactive entertainment products include Intec, Razer USA Ltd., Performance Designed Products, LLC (Pelican Accessories), Mad Catz Interactive, Inc., and its Saitek brand. Our controllers for PlayStation also compete against controllers offered by Sony.

*Digital Home.* Our competitors for remotes include, among others, Philips, Universal Remote Control, Inc., Universal Electronics Inc., RCA and Sony. We expect that the growth in recent years in consumer demand for peripheral devices for home entertainment systems will likely result in increased competition.

*Video Conferencing.* Our primary competitors in the enterprise video conferencing market are Cisco's Tandberg subsidiary, Polycom, Inc., Radvision Ltd., Sony and Vidyo, Inc. Some of these companies have longer experience and a larger customer installed base than LifeSize. Cisco has substantially greater financial, sales and marketing, and engineering resources than we do. In addition, Microsoft's recent acquisition of Skype Limited has the potential to give Microsoft a large user base for future competitive

Table of Contents

video chat and video-conferencing products, along with integration potential across Microsoft's product portfolio. There are also a number of smaller competitors which compete with LifeSize, along with Polycom and Cisco, for new accounts, OEM relationships, and installations.

The growth of our LifeSize division depends in part on our ability to increase sales to enterprises with installed bases of Cisco and Tandberg equipment, and to enterprises that may purchase their equipment in the future. Cisco is a leading producer of networking, switching and other telecommunications infrastructure products and end-points, such as phones, that are frequently used within enterprises. We believe the ability of our LifeSize products to interoperate with Cisco and Tandberg equipment, and with the equipment of other telecommunications, video conferencing or telepresence equipment suppliers, to be a key factor in purchasing decisions by current or prospective LifeSize customers. Cisco and Tandberg may be able to improve the functionality of their own video conferencing equipment to correspond with ongoing enhancements to Cisco's networking, switching and other telecommunications equipment before we are able to make such improvements, or may restrict the interoperability of their products with ours. This could significantly harm the sales of our LifeSize division. If LifeSize sales declined substantially, the goodwill associated with the acquisition of the division might be determined to be impaired, resulting in a write-down. As a result of such sales decline or goodwill impairment, the growth of our LifeSize division, and the growth of Logitech as a whole, could be significantly harmed.

If we do not compete effectively, demand for our products could decline, our gross margin could decrease, we could lose market share and our revenues could decline.

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

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

Over the past few years, we have expanded the number and types of products we sell, and the geographic markets in which we sell them, and we will endeavor to further expand our product portfolio and sales reach. The growth of our product portfolio and our sales markets has increased the difficulty of accurately forecasting product demand.

We have experienced large differences between our forecasts and actual demand for our products. For example, our expectations for our EMEA region in the fourth quarter of fiscal year 2011 were substantially higher than the actual demand we experienced. We expect other differences between forecasts and actual demand to arise in the future. If we do not accurately predict product demand, our business and operating results could be adversely affected.

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

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

Table of Contents

margin will be less than we project. For example, in the three months ended June 30, 2011, we decided to lower the retail price of Logitech Revue from \$249 to \$99 in the second quarter of fiscal year 2012, as the Google TV platform had not met widespread U.S. consumer acceptance and sales of Logitech Revue were significantly below our expectations. As a result, we recorded a \$34.1 million valuation adjustment during the quarter to cost of goods sold, reflecting the lower of cost or market on our inventory of Logitech Revue and related peripherals on hand and at our suppliers.

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

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

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

Our peripherals business has historically been built largely around the PC platform, which over time became relatively open, and its inputs and operating systems standardized. With the growth of mobile, tablet, gaming and other computer devices, the number of platforms has grown, and with it the complexity and increased need for us to have business and contractual relationships with the platform owners in order to produce products compatible with these platforms. Our product portfolio includes current and future products designed for use with third-party platforms or software, such as the Apple iPad, iPod and iPhone, Google TV, Android phones, Sony PlayStation, and Nintendo Wii. Our business in these categories relies on our access to the platforms of third parties, which can be withdrawn, denied or not be available on terms acceptable to us.

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

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

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

We produce approximately half of our products at facilities we own in China. The majority of our other production is performed by third-party contract manufacturers in China. We also utilize third-party contract manufacturers in Malaysia and India.



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

Our manufacturing operations at third-party contractors could be severely impacted by contractual disagreements, by labor unrest, by natural disasters, by strains on local communications, trade, and other

Table of Contents

infrastructures, by competition for the available labor pool or manufacturing capacity, and by other trade customs and practices that are dissimilar to those in the United States and Europe.

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

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

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

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

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

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

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

***We conduct operations in a number of countries, and are investing significantly in growing our sales and marketing activities in China, and the effect of business, legal and political risks associated with international operations could significantly harm us.***

We conduct operations in a number of countries, and are investing significantly in growing our sales and marketing activities in China. We may also increase our investments to grow sales in other emerging markets. There are risks inherent in doing business in international markets, including:

- difficulties in staffing and managing international operations;
- compliance with laws and regulations, including environmental and tax laws, which vary from country to country and over time, increasing the costs of compliance and potential risks of non-compliance;

Table of Contents

- exposure to political and financial instability, leading to currency exchange losses and collection difficulties or other losses;
- exposure to fluctuations in the value of local currencies;
- difficulties and increased costs in establishing sales and distribution channels in unfamiliar markets, with their own market characteristics and competition;
- changes in VAT (value-added tax) or VAT reimbursement;
- imposition of currency exchange controls; and
- delays from customs brokers or government agencies.

Any of these risks could significantly harm our business, financial condition and operating results.

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

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

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

We hold various United States patents and pending applications, together with corresponding patents and pending applications from other countries. It is possible that any patent owned by us will be invalidated, deemed unenforceable, circumvented or challenged, that the patent rights granted will not provide competitive advantages to us, or that any of our pending or future patent applications will not be granted. In addition, other intellectual property laws or our confidentiality procedures and contractual provisions may not adequately protect our intellectual property. Also, others may independently develop similar technology, duplicate our products, or design around our patents or other intellectual

property rights. Unauthorized parties have copied and may in the future attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Any of these events could significantly harm our business, financial condition and operating results.

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

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

Table of Contents

successful. Any claims or proceedings against us, whether meritorious or not, could be time consuming, result in costly litigation or the diversion of significant operational resources, or require us to enter into royalty or licensing agreements, any of which could materially and adversely affect our business and results of operations.

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

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

*Our effective income tax rates may increase in the future, which could adversely affect our net income (loss).*

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

During the second quarter of fiscal year 2012, the U.S. Internal Revenue Service completed its field examinations of tax returns for the Company's U.S. subsidiary for fiscal years 2006 and 2007, and issued NOPAs (notices of proposed adjustment) related to international tax issues for those years. The Company disagrees with the NOPAs and is contesting through the administrative process for the U.S. Internal Revenue Service claims regarding 2006 and 2007. In addition, the U.S. Internal Revenue Service is in the process of examining the Company's U.S. subsidiary for fiscal years 2008 and 2009. We are currently also subject to ongoing audits in other tax jurisdictions. A material assessment by a governing tax authority could adversely affect our profitability.

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

### **Share Repurchases**

The following table presents certain information related to purchases made by Logitech of its equity securities during the six months ended September 30, 2011 (in thousands, except per share amounts):

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

Period	Total Number of Shares Purchased as Part of Publicly Announced Program		Average Price Paid Per Share in USD                      in CHF				Approximate Dollar Value of Shares That May Yet Be Purchased Under Program
April 2011							\$ 250,000
May 2011							\$ 250,000
June 2011							\$ 250,000
July 2011							\$ 250,000
August 2011	7,329	\$	9.54	CHF	7.62	\$	180,061
September 2011	280	\$	10.83	CHF	8.61	\$	177,030
Total	7,609						

Table of Contents

During the six months ended September 30, 2011, the following approved share buyback program was in place (in thousands):

<b>Date of Announcement</b>	<b>Approved Buyback Amount</b>	<b>Expiration Date</b>	<b>Completion Date</b>	<b>Amount Remaining</b>
September 2008	\$ 250,000	August 2013		\$ 177,030

**ITEM 4. [Removed and Reserved].**

**ITEM 5. OTHER INFORMATION**

None.



Table of Contents

**ITEM 6. EXHIBITS**

**Exhibit Index**

<b>Exhibit No.</b>	<b>Description</b>
10.1 *	1996 Employee Share Purchase Plan (U.S.), as amended
10.2 *	2006 Employee Share Purchase Plan (Non-U.S.), as amended
10.3 *	Board Compensation for Sept 2011 through Sept 2012
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer. **
101.INS ***	XBRL Instance Document
101.SCH ***	XBRL Taxonomy Extension Schema Document
101.CAL ***	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB ***	XBRL Taxonomy Extension Label Linkbase Document
101.PRE ***	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF ***	XBRL Taxonomy Definition Linkbase Document

---

\* Indicates management compensatory plan, contract or arrangement.

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

\*\*\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections. We are deemed to have complied with the reporting obligation relating to the submission of interactive data files in these exhibits and are not subject to liability under the anti-fraud provisions of the Securities Act of 1933 or any other liability provision as long as we make a good faith attempt to comply with the submission requirements and promptly amend the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements.



Table of Contents

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

LOGITECH INTERNATIONAL S.A.

/s/ Guerrino De Luca  
Guerrino De Luca  
Chairman, Acting President and  
Chief Executive Officer

/s/ Erik K. Bardman  
Erik K. Bardman  
Senior Vice President, Finance  
and Chief Financial Officer

November 7, 2011