

LOGITECH INTERNATIONAL SA

Form 10-Q

October 25, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

Or

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

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

Commission File Number: 0-29174

LOGITECH INTERNATIONAL S.A.

(Exact name of registrant as specified in its charter)

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

Logitech International S.A.

EPFL - Quartier de l'Innovation

Daniel Borel Innovation Center

1015 Lausanne, Switzerland

c/o Logitech Inc.

7700 Gateway Boulevard

Newark, California 94560

(Address of principal executive offices and zip code)

(510) 795-8500

(Registrant's telephone number, including area code)

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

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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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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|   |  |   |   |  |
|---|--|---|---|--|
| Large accelerated filer<br><input type="checkbox"/> | Accelerated filer <input type="checkbox"/> | Non-accelerated filer <input type="checkbox"/><br>(Do not check if a<br>smaller reporting<br>company) | Smaller reporting<br>company <input type="checkbox"/> | Emerging<br>Growth<br>Company <input type="checkbox"/> |
|---|--|---|---|--|

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 10, 2018, there were 165,670,205 shares of the Registrant's share capital outstanding.

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## Exhibits

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

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

The Company's fiscal year ends on March 31. Interim quarters are generally thirteen-week periods, each ending on a Friday of each quarter. The second quarter of fiscal year 2019 ended on September 28, 2018. The same quarter in the prior fiscal year ended on September 29, 2017. For purposes of presentation, the Company has indicated its quarterly periods ending on the last day of the calendar quarter.

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## PART I — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

## LOGITECH INTERNATIONAL S.A.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

|   | Three Months Ended |           | Six Months Ended |             |
|---|--------------------|-----------|------------------|-------------|
|   | September 30,      |           | September 30,    |             |
|   | 2018               | 2017      | 2018             | 2017        |
| Net sales   | \$691,146          | \$632,470 | \$1,299,626      | \$1,162,416 |
| Cost of goods sold  | 432,063            | 402,722   | 814,234          | 737,496     |
| Amortization of intangible assets and purchase accounting effect on inventory | 2,966              | 2,011     | 5,338            | 3,515       |
| Gross profit  | 256,117            | 227,737   | 480,054          | 421,405     |
| Operating expenses:   |                    |           |                  |             |
| Marketing and selling   | 121,801            | 107,386   | 236,385          | 209,764     |
| Research and development  | 39,542             | 36,647    | 78,529           | 71,746      |
| General and administrative  | 25,206             | 25,266    | 50,679           | 50,675      |
| Amortization of intangible assets and acquisition-related costs               | 4,317              | 2,491     | 6,838            | 3,881       |
| Change in fair value of contingent consideration for business acquisition     | —                  | (2,930)   | —                | (4,908)     |
| Restructuring charges (credits), net  | 119                | (61)      | 10,040           | (116)       |
| Total operating expenses  | 190,985            | 168,799   | 382,471          | 331,042     |
| Operating income  | 65,132             | 58,938    | 97,583           | 90,363      |
| Interest income   | 1,858              | 1,048     | 4,227            | 2,223       |
| Other income (expense), net   | 3,389              | 459       | 1,818            | (570)       |
| Income before income taxes  | 70,379             | 60,445    | 103,628          | 92,016      |
| Provision for (benefit from) income taxes                                     | 6,203              | 4,087     | 986              | (1,349)     |
| Net income  | \$64,176           | \$56,358  | \$102,642        | \$93,365    |
| Net income per share:   |                    |           |                  |             |
| Basic   | \$0.39             | \$0.34    | \$0.62           | \$0.57      |
| Diluted   | \$0.38             | \$0.33    | \$0.61           | \$0.55      |
| Weighted average shares used to compute net income per share:                 |                    |           |                  |             |
| Basic   | 165,630            | 164,120   | 165,474          | 163,765     |
| Diluted   | 169,234            | 169,078   | 168,996          | 168,710     |
| Cash dividend per share   | \$0.69             | \$0.63    | \$0.69           | \$0.63      |

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

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## LOGITECH INTERNATIONAL S.A.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(unaudited)

|   | Three Months<br>Ended<br>September 30, |          | Six Months Ended<br>September 30, |          |
|---|--|----------|-----------------------------------|----------|
|   | 2018                                   | 2017     | 2018                              | 2017     |
| Net income  | \$64,176                               | \$56,358 | \$102,642                         | \$93,365 |
| Other comprehensive income (loss):                              |  |          |                                   |          |
| Currency translation gain (loss), net of taxes                  | (2,863 )                               | 2,185    | (7,826 )                          | 3,641    |
| Defined benefit pension plans:                                  |  |          |                                   |          |
| Net gain and prior service costs, net of taxes                  | 192                                    | 532      | 98                                | 380      |
| Amortization included in other income (expense), net            | (69 )                                  | 52       | (139 )                            | 102      |
| Hedging gain (loss):  |  |          |                                   |          |
| Deferred hedging gain (loss), net of taxes                      | 298                                    | (2,140 ) | 485                               | (5,349 ) |
| Reclassification of hedging loss included in cost of goods sold | 218                                    | 2,596    | 3,069                             | 3,129    |
| Other comprehensive income (loss)                               | (2,224 )                               | 3,225    | (4,313 )                          | 1,903    |
| Total comprehensive income                                      | \$61,952                               | \$59,583 | \$98,329                          | \$95,268 |

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

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

|  | September<br>30, 2018 | March 31,<br>2018 |
|--|-----------------------|-------------------|
| Assets   |                       |                   |
| Current assets:  |                       |                   |
| Cash and cash equivalents  | \$424,950             | \$641,947         |
| Accounts receivable, net   | 459,689               | 214,885           |
| Inventories  | 358,774               | 259,906           |
| Other current assets   | 70,412                | 56,362            |
| Total current assets   | 1,313,825             | 1,173,100         |
| Non-current assets:  |                       |                   |
| Property, plant and equipment, net   | 83,731                | 86,304            |
| Goodwill   | 346,548               | 275,451           |
| Other intangible assets, net   | 130,538               | 87,547            |
| Other assets   | 131,565               | 120,755           |
| Total assets   | \$2,006,207           | \$1,743,157       |
| Liabilities and Shareholders' Equity   |                       |                   |
| Current liabilities:   |                       |                   |
| Accounts payable   | \$440,564             | \$293,988         |
| Accrued and other current liabilities  | 434,615               | 281,732           |
| Total current liabilities  | 875,179               | 575,720           |
| Non-current liabilities:   |                       |                   |
| Income taxes payable   | 34,456                | 34,956            |
| Other non-current liabilities  | 84,408                | 81,924            |
| Total liabilities  | 994,043               | 692,600           |
| Commitments and contingencies (Note 11)  |                       |                   |
| Shareholders' equity:  |                       |                   |
| Registered shares, CHF 0.25 par value:   | 30,148                | 30,148            |
| Issued shares — 173,106 at September 30 and March 31, 2018   |                       |                   |
| Additional shares that may be issued out of conditional capitals — 50,000 at September 30 and March 31, 2018             |                       |                   |
| Additional shares that may be issued out of authorized capital — 34,621 at September 30, 2018 and none at March 31, 2018 |                       |                   |
| Additional paid-in capital   | 33,160                | 47,234            |
| Shares in treasury, at cost — 7,384 at September 30, 2018 and 8,527 at March 31, 2018                                    | (163,481 )            | (165,686 )        |
| Retained earnings  | 1,210,105             | 1,232,316         |
| Accumulated other comprehensive loss   | (97,768 )             | (93,455 )         |
| Total shareholders' equity   | 1,012,164             | 1,050,557         |
| Total liabilities and shareholders' equity   | \$2,006,207           | \$1,743,157       |

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

|   | Six Months Ended |            |
|---|------------------|------------|
|   | September 30,    |            |
|   | 2018             | 2017       |
| Cash flows from operating activities:   |                  |            |
| Net income  | \$ 102,642       | \$ 93,365  |
| Adjustments to reconcile net income to net cash provided by operating activities:                       |                  |            |
| Depreciation  | 21,895           | 19,368     |
| Amortization of intangible assets   | 10,341           | 6,238      |
| Gain on investments in privately held companies   | (382 )           | (436 )     |
| Share-based compensation expense  | 25,308           | 21,683     |
| Deferred income taxes   | (9,815 )         | (11,933 )  |
| Change in fair value of contingent consideration for business acquisition                               | —                | (4,908 )   |
| Other   | 75               | 12         |
| Changes in assets and liabilities, net of acquisitions:   |                  |            |
| Accounts receivable, net  | (133,475 )       | (91,718 )  |
| Inventories   | (84,401 )        | (58,078 )  |
| Other assets  | (11,056 )        | (8,490 )   |
| Accounts payable  | 138,186          | 110,136    |
| Accrued and other liabilities   | 37,902           | (7,739 )   |
| Net cash provided by operating activities   | 97,220           | 67,500     |
| Cash flows from investing activities:   |                  |            |
| Purchases of property, plant and equipment  | (18,368 )        | (17,188 )  |
| Investment in privately held companies  | (506 )           | (520 )     |
| Acquisitions, net of cash acquired  | (133,908 )       | (85,000 )  |
| Proceeds from return of investment in privately held companies  | —                | 237        |
| Purchases of short-term investments   | (1,505 )         | (6,789 )   |
| Purchases of trading investments  | (3,722 )         | (999 )     |
| Proceeds from sales of trading investments  | 4,194            | 1,057      |
| Net cash used in investing activities   | (153,815 )       | (109,202 ) |
| Cash flows from financing activities:   |                  |            |
| Payment of cash dividends   | (113,971 )       | (104,248 ) |
| Purchases of registered shares  | (19,901 )        | (10,682 )  |
| Proceeds from exercises of stock options  | 10,007           | 30,000     |
| Tax withholdings related to net share settlements of restricted stock units                             | (27,380 )        | (23,706 )  |
| Net cash used in financing activities   | (151,245 )       | (108,636 ) |
| Effect of exchange rate changes on cash and cash equivalents  | (9,157 )         | 1,653      |
| Net decrease in cash and cash equivalents   | (216,997 )       | (148,685 ) |
| Cash and cash equivalents, beginning of the period  | 641,947          | 547,533    |
| Cash and cash equivalents, end of the period  | \$ 424,950       | \$ 398,848 |
| Supplementary Cash Flow Disclosures:  |                  |            |
| Non-cash investing activities:  |                  |            |
| Property, plant and equipment purchased during the period and included in period end liability accounts | \$ 4,267         | \$ 6,219   |

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





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## LOGITECH INTERNATIONAL S.A.

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands)

(unaudited)

|   | Registered Shares |          | Additional<br>Paid-in<br>Capital | Treasury Shares |             | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>Shareholders'<br>Equity |
|---|-------------------|----------|----------------------------------|-----------------|-------------|----------------------|---|----------------------------------|
|   | Shares            | Amount   |                                  | Shares          | Amount      |                      |   |                                  |
| March 31, 2017  | 173,106           | \$30,148 | \$26,596                         | 10,727          | \$(174,037) | \$1,074,110          | \$ (100,706 )                                 | \$ 856,111                       |
| Cumulative effect of adoption of new accounting standard          | —                 | —        | 3,293                            | —               | —           | 53,912               | —   | 57,205                           |
| Total comprehensive income  | —                 | —        | —                                | —               | —           | 93,365               | 1,903   | 95,268                           |
| Purchases of registered shares                                    | —                 | —        | —                                | 307             | (10,682 )   | —                    | —   | (10,682 )                        |
| Sales of shares upon exercise of stock options                    | —                 | —        | 15,628                           | (1,084 )        | 14,372      | —                    | —   | 30,000                           |
| Issuance of shares upon vesting of restricted stock units         | —                 | —        | (37,464 )                        | (1,205 )        | 13,758      | —                    | —   | (23,706 )                        |
| Share-based compensation  | —                 | —        | 21,887                           | —               | —           | —                    | —   | 21,887                           |
| Cash dividends  | —                 | —        | —                                | —               | —           | (104,248 )           | —   | (104,248 )                       |
| September 30, 2017  | 173,106           | \$30,148 | \$29,940                         | 8,745           | \$(156,589) | \$1,117,139          | \$ (98,803 )                                  | \$ 921,835                       |
|   |                   |          |                                  |                 |             |                      |   |                                  |
|   | Registered Shares |          | Additional<br>Paid-in<br>Capital | Treasury Shares |             | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>Shareholders'<br>Equity |
|   | Shares            | Amount   |                                  | Shares          | Amount      |                      |   |                                  |
| March 31, 2018  | 173,106           | \$30,148 | \$47,234                         | 8,527           | \$(165,686) | \$1,232,316          | \$ (93,455 )                                  | \$ 1,050,557                     |
| Cumulative effect of adoption of new accounting standard (Note 1) | —                 | —        | —                                | —               | —           | (10,882 )            | —   | (10,882 )                        |
| Total comprehensive income  | —                 | —        | —                                | —               | —           | 102,642              | (4,313 )                                      | 98,329                           |
| Purchases of registered shares                                    | —                 | —        | —                                | 474             | (19,901 )   | —                    | —   | (19,901 )                        |
| Sales of shares upon exercise of stock options                    | —                 | —        | 5,951                            | (311 )          | 4,056       | —                    | —   | 10,007                           |
| Issuance of shares upon vesting of restricted stock units         | —                 | —        | (45,430 )                        | (1,306)         | 18,050      | —                    | —   | (27,380 )                        |
| Share-based compensation  | —                 | —        | 25,405                           | —               | —           | —                    | —   | 25,405                           |
| Cash dividends  | —                 | —        | —                                | —               | —           | (113,971 )           | —   | (113,971 )                       |
| September 30, 2018  | 173,106           | \$30,148 | \$33,160                         | 7,384           | \$(163,481) | \$1,210,105          | \$ (97,768 )                                  | \$ 1,012,164                     |

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

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

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

The Company

Logitech International S.A, together with its consolidated subsidiaries, ("Logitech" or the "Company") designs, manufactures and markets products that help connect people to digital and cloud experiences. More than 35 years ago, Logitech created products to improve experiences around the personal PC platform, and today it is a multi-brand, multi-category company designing products that enable better experiences consuming, sharing and creating any digital content such as music, gaming, video and computing, whether it is on a computer, mobile device or in the cloud. The Company sells its products to a broad network of domestic and international customers, including direct sales to retailers and e-tailers and indirect sales through distributors.

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

Business Acquisition

In August 2018, the Company acquired Blue Microphones Holding Corporation. See "Note 2 - Business Acquisition" for more information.

Basis of Presentation

The condensed consolidated interim financial statements include the accounts of Logitech and its subsidiaries. All intercompany balances and transactions have been eliminated. The condensed consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and therefore do not include all the information required by GAAP for complete financial statements. They should be read in conjunction with the Company's audited consolidated financial statements for the fiscal year ended March 31, 2018, included in its Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on May 21, 2018.

In the opinion of management, these condensed consolidated financial statements include all adjustments, consisting of only normal and recurring adjustments, necessary and in all material aspects, for a fair statement of the results of operations, comprehensive income, financial position, cash flows and changes in shareholders' equity for the periods presented. Operating results for the three and six months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2019, or any future periods.

Reclassification

Certain amounts from the comparative period in the accompanying condensed consolidated financial statements have been reclassified to conform to the condensed consolidated financial statement presentation as of and for the three and six months ended September 30, 2018.



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## Changes in Significant Accounting Policies

Other than the recent accounting pronouncements adopted and discussed below under Recent Accounting Pronouncements Adopted and Summary of Significant Accounting Policies, there have been no changes in the Company's significant accounting policies during the six months ended September 30, 2018 compared with the significant accounting policies described in its Annual Report on Form 10-K for the fiscal year ended March 31, 2018.

## Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make judgments, estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Significant estimates and assumptions made by management involve the fair value of goodwill, intangible assets acquired from business acquisitions, warranty liabilities, accruals for customer incentives, cooperative marketing, and pricing programs ("Customer Programs") and related breakage when appropriate, accrued revenue reserve from returns, allowance for doubtful accounts, inventory valuation, contingent consideration from business acquisitions and periodical reassessment of its fair value, share-based compensation expense, uncertain tax positions, and valuation allowances for deferred tax assets. Although these estimates are based on management's best knowledge of current events and actions that may impact the Company in the future, actual results could differ materially from these estimates.

## Recent Accounting Pronouncements Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09" or "Topic 606") which supersedes the revenue recognition requirements under ASC 605 ("Topic 605"), Revenue Recognition. ASU 2014-09 outlines a new, single, comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes existing revenue recognition guidance, including industry-specific guidance. Under the new guidance, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard requires reporting companies to disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. On April 1, 2018, the Company adopted the new standard and all related amendments using the modified retrospective method applied to those contracts which were not completed as of April 1, 2018. Results for reporting periods beginning after April 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with historic accounting standards under Topic 605.

As result of the adoption of the new standard, the Company recorded: a) a reduction to retained earnings as of April 1, 2018; and b) reclassifications of certain allowances for sales returns and certain other Customer Programs from accounts receivable, net to accrued and other current liabilities and other current assets.

The cumulative effect of the changes to the condensed consolidated balance sheet from the adoption of Topic 606 was as follows (in thousands):

|                          | As of<br>March<br>31, 2018 | Effect of<br>Adoption<br>of Topic<br>606 | As of<br>April 1,<br>2018 |
|--------------------------|----------------------------|--|---------------------------|
| Accounts receivable, net | \$214,885                  | \$105,768                                | \$320,653                 |

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|                                       |           |           |           |
|---------------------------------------|-----------|-----------|-----------|
| Other current assets                  | 56,362    | 6,195     | 62,557    |
| Accrued and other current liabilities | 281,732   | 122,845   | 404,577   |
| Retained earnings                     | 1,232,316 | (10,882 ) | 1,221,434 |

Net Reduction to Retained Earnings as of April 1, 2018

Under Topic 605, accruals for certain Customer Programs were recognized as a reduction of revenue at the later of when the related revenue is recognized or when the program is offered to the customer. Under Topic 606, these programs qualify as variable consideration and are recorded as a reduction of the

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transaction price at the contract inception based on the expected value method. The Company is required to estimate the accruals for these programs ahead of commitment date if customary business practice creates an implied expectation that such activities will occur in the future.

Under Topic 606, variable consideration must be estimated at the outset of the arrangement, subject to the constraint guidance to ensure that a significant revenue reversal will not occur. As a result, upon adoption of Topic 606, estimated breakage for accruals of certain Customer Programs is recognized sooner as compared to Topic 605.

**Balance Sheet Reclassifications**

Under Topic 605, the gross amount of accrued revenue reserves for sales returns of \$31.4 million, net of expected returned inventory of \$11.4 million was included within accounts receivable, net as of March 31, 2018. Expected scrap cost of \$5.2 million for such expected returned inventory was included in accrued and other current liabilities as of March 31, 2018. Subsequent to the adoption of Topic 606, such balances are presented on a gross basis as accrued revenue reserve from returns of \$31.4 million included in accrued and other current liabilities and as return assets of \$6.2 million included in other current assets.

Under Topic 605, revenue reserves for certain Customer Programs totaling \$76.7 million, which were estimated using portfolio approach based on aggregated customer level, were included within accounts receivable, net as of March 31, 2018. Subsequent to the adoption of Topic 606, such balances are presented as accrued customer marketing, pricing and incentive programs included in accrued and other current liabilities.

Certain balances of allowances for sales return and accruals for Customer Programs which were accrued based on Customer Program offers made to individual customers, met the right of offset criteria in accordance with ASC 210-20, "Balance Sheet (Topic 210)", and are still included within accounts receivable, net.

The adoption of Topic 606 did not have an impact over the total cash flows from operating, investing, or financing activities.

The following tables summarize the impacts of adopting Topic 606 on the Company's condensed consolidated statements of operations for the three and six months ended September 30, 2018 and condensed consolidated balance sheet as of September 30, 2018 (in thousands):

| Three Months Ended |               | Six Months Ended September |               |             |             |           |
|--------------------|---------------|----------------------------|---------------|-------------|-------------|-----------|
| September 30, 2018 |               | 30, 2018                   |               |             |             |           |
| As Reported        | If Reported   | As Reported                | If Reported   | Effect of   | Effect of   |           |
| Under ASC 606      | Under ASC 605 | Under ASC 606              | Under ASC 605 | Change      | Change      |           |
| Net sales          | \$691,146     | \$696,090                  | \$(4,944)     | \$1,299,626 | \$1,304,704 | \$(5,078) |

|                                       | As of September 30, 2018 |                       |                  |
|---------------------------------------|--------------------------|-----------------------|------------------|
|                                       | As Reported              | Balance Under ASC 606 | Effect of Change |
| Accounts receivable, net              | 459,689                  | 327,131               | 132,558          |
| Other current assets                  | 70,412                   | 61,092                | 9,320            |
| Accrued and other current liabilities | 434,615                  | 276,777               | 157,838          |
| Retained earnings                     | 1,210,105                | 1,226,065             | (15,960)         |



In January 2016, the FASB issued ASU 2016-01, "Financial Instruments-Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)" ("ASU 2016-01"). ASU 2016-01 requires entities to measure equity instruments at fair value and recognize any changes in fair value within the statement of operations. The Company adopted ASU 2016-01 effective April 1, 2018 on a prospective basis for its privately held strategic equity securities without readily determinable fair values. The Company elected the measurement alternative to record these investments at cost and to adjust for impairments and observable price changes with a same or similar security from the same issuer within the statement of operations. The adoption of ASU 2016-01 did not have a material impact on the Company's condensed consolidated financial statements.

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In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory" ("ASU 2016-16"), which eliminates the deferral of income tax effects of intra-entity asset transfers until the transferred asset is sold to an unrelated party or recovered through use. However, this standard does not apply to intra-entity transfer of inventory. The Company adopted this standard effective April 1, 2018 on a modified retrospective basis, and the adoption of ASU 2016-16 did not have a material impact on its condensed consolidated financial statements.

In December 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash" ("ASU 2016-18"), which requires that a statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Company adopted this standard effective April 1, 2018, utilizing the retrospective transition method to each period presented and the adoption of ASU 2016-18 did not have an impact on its condensed consolidated financial statements as the Company did not have restricted cash for either periods presented.

In January 2017, the FASB issued ASU 2017-01, "Business Combination (Topic 805): Clarifying the Definition of a Business" ("ASU 2017-01"), which changes the definition of a business to assist with evaluating when a set of transferred assets and activities is a business. The Company adopted this standard effective April 1, 2018, and the adoption of ASU 2017-01 did not have a material impact on its condensed consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, "Compensation-Retirement Benefit (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" ("ASU 2017-07"), which requires that the Company disaggregate the service cost component from the other components of net benefit cost, and also provides guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. The Company adopted this standard effective April 1, 2018 using a retrospective adoption method. Other than the revised statement of operations presentation for the periods in the current year, the adoption of ASU 2017-07 did not have an impact on the Company's condensed consolidated financial statements. The impact to the comparative period was immaterial and therefore the prior period statements of operations was not revised.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities" ("ASU 2017-12"), which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and simplifies the application of the hedge accounting guidance. The Company adopted this standard prospectively on April 1, 2018, and the adoption of ASU 2017-12 did not have a material impact on its condensed consolidated financial statements. In accordance with ASU 2017-12, the Company has started presenting the earnings impact from forward points in cost of goods sold line item, which is used to present the earnings impact of the hedged item.

Recent Accounting Pronouncements to be Adopted

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" ("ASU 2016-02" or "Topic 842"), which generally requires companies to recognize right-of-use assets and lease liabilities arising from operating and financing leases with terms longer than 12 months in the consolidated balance sheets. The Company will adopt the new guidance in the first quarter of fiscal year 2020 on a modified retrospective basis, which recognizes the cumulative effect of initially applying Topic 842 as an adjustment to retained earnings at the adoption date. Although the Company expects to record significant amounts of right-of-use assets and liabilities on its condensed consolidated balance sheets, the Company is still evaluating the full impact that ASU 2016-02 will have on its condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurements" ("ASU 2018-13"), which aims to improve the overall usefulness of disclosures to financial statement users and reduce unnecessary costs to companies when preparing fair value measurement disclosures. ASU 2018-13 is effective for annual and interim periods in fiscal years beginning after December 15, 2019. Early adoption is permitted. Retrospective adoption is required, except for certain disclosures which will be required to be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. The Company is evaluating the full effect that ASU 2018-13 will have on its condensed consolidated financial statements and the timing of adoption.

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In August 2018, the FASB issued ASU 2018-14, "Compensation - Retirement Benefits - Defined Benefits Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans" ("ASU 2018-14"), which aims to improve the overall usefulness of disclosures to financial statement users and reduce unnecessary costs to companies when preparing defined benefit plan disclosures. ASU 2018-14 is effective for annual periods in fiscal years ending after December 15, 2021. Retrospective adoption is required and early adoption is permitted. The Company is evaluating the full effect that ASU 2018-14 will have on its condensed consolidated financial statements and the timing of adoption.

In August 2018, the FASB issued ASU 2018-15, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract" ("ASU 2018-15"), which clarifies that implementation costs incurred by customers in cloud computing arrangements are deferred if they would be capitalized by customers in software licensing arrangements under the internal-use software guidance. ASU 2018-15 is effective for annual and interim periods in fiscal years beginning after December 15, 2019, with early adoption permitted. Entities have the option to apply the guidance prospectively to all implementation costs incurred after the date of adoption or retrospectively. The Company is evaluating the full effect that ASU 2018-15 will have on its condensed consolidated financial statements and the timing of adoption.

## Summary of Significant Accounting Policies

### Revenue Recognition

Revenue is recognized when a customer obtains control of promised goods or service in an amount that reflects the transaction price the Company expects to receive in exchange for those goods or services.

Substantially all revenue recognized by the Company relates to the contracts with customers to sell products that allow people to connect through music, gaming, video, computing, and other digital platforms. These products are hardware devices, which may include embedded software, and these functions together are considered as one performance obligation. Hardware devices are generally plug and play, requiring no configuration and little or no installation. Revenue is recognized at a point in time when control of the products is transferred to the customer which generally occurs upon shipment. The Company's contracts with its customers generally have a term of no more than one year. The Company applies the practical expedient of not disclosing the value of unsatisfied performance obligations for contracts with an original expected length of one year or less.

The Company also provides post-contract customer support ("PCS") for products and related software, which includes unspecified software updates and upgrades, bug fixes and maintenance. The transaction price is allocated to two performance obligations in such contracts, based on a relative standalone selling price. The transaction price allocated to PCS is recognized as revenue on a straight-line basis over the estimated term of the support, which is between one to two years, and is not material for the periods presented herein. Deferred revenue associated with remaining PCS performance obligation is not material as of September 30, 2018 and March 31, 2018.

The Company normally requires payments from customers within thirty to sixty days from invoice date. 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. The Company's contracts with customers typically do not include significant financing components as the period between the satisfaction of performance obligations and timing of payment are generally within one year.

The transaction price received by the Company from sales to its distributors, retail companies ("retailers"), and authorized resellers is calculated as selling price net of variable consideration which may include product returns, price protection, and the Company's payments for Customer Programs related to current period product revenue. The estimated impact of these programs is recorded as a reduction of sales or as an operating expense if the Company receives a distinct good or service from the customer and can reasonably estimate the fair value of that good or service received. Significant management judgment and estimates are used to determine the impact of these programs in any accounting period. Certain Customer Programs require management to estimate the percentage of those programs which will not be claimed or will not be earned by customers based on historical experience and on the specific terms and conditions of particular programs. The percentage of these customer programs that will not be claimed or earned is commonly referred to as "breakage". The Company accounts for breakage as part of variable consideration, subject to constraint, and records the estimated impact in the same

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period when revenue is recognized at the expected value considering constraints. Significant management judgments and estimates are used to determine the breakage of the programs in any accounting period.

The Company enters into cooperative marketing arrangements with many of its customers and with certain indirect partners, allowing customers to receive a credit equal to a set percentage of their purchases of the Company's products, or a fixed dollar credit for various marketing and incentive programs. The objective of these arrangements is to encourage advertising and promotional events to increase sales of the Company's products.

Customer incentive programs include consumer rebates and performance-based incentives. Consumer rebates are offered to the Company's customers and indirect partners at the Company's discretion for the primary benefit of end-users. In addition, the Company offers performance-based incentives to many of its customers and indirect partners based on predetermined performance criteria. At management's discretion, the Company also offers special pricing discounts to certain customers. Special pricing discounts are usually offered only for limited time periods or for sales of selected products to specific indirect partners.

Estimates of required accruals for cooperative marketing arrangements and customer incentive programs are determined based on negotiated terms, consideration of historical experience, forecasted incentives, anticipated volume of future purchases, and inventory levels in the channel.

The Company has agreements with certain customers that contain terms allowing price protection credits to be issued in the event of a subsequent price reduction. Management's decision to make price reductions is influenced by product life cycle stage, market acceptance of products, the competitive environment, new product introductions and other factors. Accruals for estimated expected future pricing actions are recognized at the time of sale based on analyses of historical pricing actions by customer and by product, inventories owned by and located at customers, current customer demand, current operating conditions, and other relevant customer and product information, such as stage of product life-cycle.

Product return rights vary by customer. Estimates of expected future product returns qualify as variable consideration and are recorded as a reduction of the transaction price of the contract at the time of sale based on analyses of historical return trends by customer and by product, inventories owned by and located at customers, current customer demand, current operating conditions, and other relevant customer and product information. The Company assesses the estimated returned asset value for impairment, and adjusts the value of the asset if it becomes impaired. Return trends are influenced by product life cycle status, new product introductions, market acceptance of products, sales levels, product sell-through, the type of customer, seasonality, product quality issues, competitive pressures, operational policies and procedures, and other factors. Return rates can fluctuate over time but are sufficiently predictable to allow the Company to estimate expected future product returns.

Typically, variable consideration does not need to be constrained as estimates are based on predictive historical data or future commitments that are planned and controlled by the Company. However, the Company continues to assess variable consideration estimates such that it is probable that a significant reversal of revenue will not occur.

The Company regularly evaluates the adequacy of its estimates for Customer Programs and product returns. Future market conditions and product transitions may require the Company to take action to change such programs and related estimates. When the variables used to estimate these costs change, or if actual costs differ significantly from the estimates, the Company would be required to record incremental increases or reductions to sales or operating expenses.

Sales taxes and value added taxes ("VAT") collected from customers, if applicable, which are remitted to governmental authorities are not included in revenue, and are reflected as a liability on the condensed consolidated balance sheets.

The Company has elected to exclude sales taxes from the revenue recognized from contracts with customers.

#### Shipping and Handling Costs

The Company's shipping and handling costs are included in cost of goods sold in the condensed consolidated statements of operations for all periods presented.

#### Contract Balances

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The Company records accounts receivable from contracts with customers when it has an unconditional right to consideration, as accounts receivable, net on the condensed consolidated balance sheet.

The Company records contract liabilities when cash payments are received or due in advance of performance, primarily for implied support and subscriptions. Contract liabilities are included in accrual and other current liabilities on the condensed consolidated balance sheets.

As of September 30, 2018 and for the period then ended, and as of April 1, 2018, the Company did not have any material contract liabilities balances or changes.

Contract Costs

The Company recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that otherwise would have been recognized is one year or less. These costs are included in marketing and selling expenses in the condensed consolidated statements of operations. As of September 30, 2018 and for the period then ended, and as of April 1, 2018, the Company did not have material deferred contract costs or changes.

Allowances for Doubtful Accounts

Allowances for doubtful accounts are maintained for estimated losses resulting from the Company's customers' inability to make required payments. The allowances are based on the Company's regular assessment of the financial condition of specific customers, as well as its historical experience with bad debts and customer deductions, receivables aging, current economic trends, geographic or country specific risks and the financial condition of its distribution channels.

Note 2 — Business Acquisition

Blue Microphones Acquisition

On August 21, 2018 (the "Acquisition Date"), the Company acquired all equity interests in Blue Microphones Holding Corporation ("Blue Microphones") for a total consideration of \$134.9 million in cash (the "Blue Microphones Acquisition"), which includes a working capital adjustment and repayment of debt on behalf of Blue Microphones.

Blue Microphones is a leading audio manufacturer that designs and produces microphones, headphones, recording tools, and accessories for audio professionals, musicians and consumers. The Blue Microphones Acquisition is consistent with Logitech's merger and acquisition strategy and will supplement the Company's portfolio opportunities.



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Blue Microphones meets the definition of a business, and therefore the acquisition is accounted for using the acquisition method. The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the Acquisition Date (in thousands):

|                                    | Estimated<br>Fair Value |
|------------------------------------|-------------------------|
| Cash and cash equivalents          | \$1,110                 |
| Accounts receivable                | 10,979                  |
| Inventories                        | 20,206                  |
| Other current assets               | 997                     |
| Property, plant and equipment      | 1,103                   |
| Intangible assets                  | 53,267                  |
| Total identifiable assets acquired | \$87,662                |
| Accounts payable                   | (10,322 )               |
| Accrued liabilities                | (13,316 )               |
| Other long-term liabilities        | (271 )                  |
| Net identifiable assets acquired   | \$63,753                |
| Goodwill                           | 71,116                  |
| Net assets acquired                | \$134,869               |

Goodwill related to the acquisition is primarily attributable to opportunities and economies of scale from combining the operations and technologies of Logitech and Blue Microphones and is not deductible for tax purposes.

The fair value of the inventory acquired is estimated at its net realizable value, which uses the estimated selling prices, less the cost of disposal and a reasonable profit allowance for the selling efforts. The difference between the fair value of the inventories and the amount recorded by Blue Microphones immediately before the acquisition date is \$1.8 million, which will be recognized in "amortization of intangibles assets and purchase accounting effect on inventory" in the condensed consolidated statements of operations upon the sale of the acquired inventory.

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

|                                  | Preliminary<br>Fair Value | Estimated Useful Life (years) |
|----------------------------------|---------------------------|-------------------------------|
| Developed technology             | \$ 17,967                 | 5.0                           |
| Customer relationships           | 22,800                    | 10.0                          |
| Trade name                       | 12,500                    | 7.0                           |
| Total intangible assets acquired | \$ 53,267                 | 7.6                           |

Intangible assets acquired as a result of the Blue Microphones Acquisition are being amortized over their estimated useful lives using the straight-line method of amortization, which materially approximates the distribution of the economic value of the identified intangible assets. Amortization of acquired developed technology of \$0.2 million during the three months ended September 30, 2018 is included in "amortization of intangible assets and purchase accounting effect of inventory" in the condensed consolidated statements of operations. Amortization of the acquired customer relationships and trade name of \$0.3 million during the three months ended September 30, 2018 is included in "amortization of intangible assets and acquisition-related costs" in the condensed consolidated statements of operations.

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



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

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

The fair values of developed technology and trade name were estimated using the relief-from-royalty method, an income approach (Level 3), which estimates the cost savings that accrue to the owner of the intangible assets that would otherwise be payable as royalties or license fees on revenues earned through the use of the asset. A royalty rate is applied to the projected revenues associated with the intangible assets to determine the amount of savings, which is then discounted to determine the fair value. The developed technology and trade name were valued using royalty rates of 10% and 3%, respectively, and both were discounted at a rate of 11%.

The fair value of customer relationships was estimated using the excess earnings method, an income approach (Level 3), which converts projected revenues and costs into cash flows. To reflect the fact that certain other assets contributed to the cash flows generated, the returns for these contributory assets were removed to arrive at estimated cash flows solely attributable to the customer relationships, which were discounted at a rate of 11%.

The Company believes the preliminary fair values of purchased intangible assets recorded above represents their fair values and approximates the amounts a market participant would pay for these intangible assets as of the Acquisition Date.

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

The Company incurred acquisition-related costs for the Blue Microphones Acquisition of approximately \$1.5 million for the three months ended September 30, 2018. The acquisition-related costs are included in "amortization of intangible assets and acquisition-related costs" in the condensed consolidated statements of operations.

The Company included Blue Microphones' estimated fair value of assets acquired and liabilities assumed in its condensed consolidated balance sheet beginning on the Acquisition Date. The results of operations for Blue Microphones subsequent to the Acquisition Date have been included in, but are not material to, the Company's condensed consolidated statements of operations. Pro forma results of operations for the Blue Microphones Acquisition have not been presented because they are not material to the condensed consolidated statements of operations. For the three months ended September 30, 2018, Blue Microphones, the acquisition of which was closed on August 21, 2018, contributed \$7.7 million to net sales, representing approximately 1% of the net sales of the Company for the three-month period.

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## Note 3 — Net Income Per Share

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

|  | Three Months Ended September 30, |          | Six Months Ended September 30, |          |
|--|----------------------------------|----------|--------------------------------|----------|
|  | 2018                             | 2017     | 2018                           | 2017     |
| Net income                                       | \$64,176                         | \$56,358 | \$102,642                      | \$93,365 |
| Shares used in net income per share computation: |                                  |          |                                |          |
| Weighted average shares outstanding - basic      | 165,630                          | 164,120  | 165,474                        | 163,765  |
| Effect of potentially dilutive equivalent shares | 3,604                            | 4,958    | 3,522                          | 4,945    |
| Weighted average shares outstanding - diluted    | 169,234                          | 169,078  | 168,996                        | 168,710  |
| Net income per share:                            |                                  |          |                                |          |
| Basic  | \$0.39                           | \$0.34   | \$0.62                         | \$0.57   |
| Diluted  | \$0.38                           | \$0.33   | \$0.61                         | \$0.55   |

Share equivalents attributable to outstanding stock options, restricted stock units ("RSUs") and ESPP totaling 0.8 million and 0.6 million for the three months ended September 30, 2018 and 2017, respectively, and 1.2 million and 1.2 million for the six months ended September 30, 2018 and 2017, respectively, were excluded from the calculation of diluted net income per share because the combined exercise price and average unamortized grant date fair value upon exercise of these options and ESPP or vesting of RSUs were greater than the average market price of the Company's shares during the periods presented herein, and therefore their inclusion would have been anti-dilutive.

## Note 4 — Employee Benefit Plans

## Employee Share Purchase Plans and Stock Incentive Plans

As of September 30, 2018, the Company offers the 2006 ESPP (2006 Employee Share Purchase Plan (Non-U.S.)), the 1996 ESPP (1996 Employee Share Purchase Plan (U.S.)), the 2006 Plan (2006 Stock Incentive Plan) and the 2012 Plan (2012 Stock Inducement Equity Plan), each as amended.

The following table summarizes the share-based compensation expense and total income tax benefit recognized for share-based awards for the three and six months ended September 30, 2018 and 2017 (in thousands):

|   | Three Months Ended September 30, |         | Six Months Ended September 30, |          |
|---|----------------------------------|---------|--------------------------------|----------|
|   | 2018                             | 2017    | 2018                           | 2017     |
| Cost of goods sold  | \$791                            | \$1,091 | \$1,921                        | \$1,802  |
| Marketing and selling                                     | 4,864                            | 4,343   | 10,650                         | 8,724    |
| Research and development                                  | 1,935                            | 1,633   | 3,484                          | 3,176    |
| General and administrative                                | 4,459                            | 3,911   | 9,253                          | 7,981    |
| Total share-based compensation expense                    | 12,049                           | 10,978  | 25,308                         | 21,683   |
| Income tax benefit  | (2,650)                          | (3,677) | (12,179)                       | (14,959) |
| Total share-based compensation expense, net of income tax | \$9,399                          | \$7,301 | \$13,129                       | \$6,724  |

The income tax benefit in the respective period primarily consists of tax benefit related to the share-based compensation expense for the period and direct tax benefit realized, including net excess tax benefits recognized from share-based awards vested or exercised during the period.

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As of September 30, 2018 and 2017, the balances of capitalized share-based compensation included in inventory were both \$0.8 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. The cost recorded of \$2.2 million and \$2.3 million for the three months ended September 30, 2018 and 2017, respectively, and \$4.5 million and \$4.6 million for the six months ended September 30, 2018 and 2017, respectively, was primarily related to service costs.

### 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 (benefit from) income taxes are generated outside of Switzerland.

The Company has not adjusted the net provisional charge from remeasuring deferred tax assets related to the Tax Cuts and Jobs Act (the "Tax Act") in the United States in fiscal year 2018. The Company continues to refine the estimate based on ongoing analysis and available information and interpretations through the third quarter of fiscal year 2019.

The income tax provision for the three months ended September 30, 2018 was \$6.2 million based on an effective income tax rate of 8.8% of pre-tax income, compared to an income tax provision of \$4.1 million based on an effective income tax rate of 6.8% of pre-tax income for the three months ended September 30, 2017. The income tax provision for the six months ended September 30, 2018 was \$1.0 million based on an effective income tax rate of 1.0% of pre-tax income, compared to an income tax benefit of \$1.3 million based on an effective income tax rate of (1.5)% of pre-tax income for the six months ended September 30, 2017.

The changes in the effective income tax rate for the three and six months ended September 30, 2018, compared to the three and six months ended September 30, 2017, were primarily due to the mix of income and losses in the various tax jurisdictions which the Company operates and less excess tax benefits recognized in the United States in the three and six months ended September 30, 2018. The Company recognized excess tax benefits of \$0.7 million and \$9.0 million, respectively, at 21% federal corporate income tax rate post the Tax Act in the three and six months ended September 30, 2018. In the same periods in fiscal year 2018, the Company recognized \$1.1 million and \$11.0 million of excess tax benefits, respectively, at 35% federal corporate income tax rate, after adoption of ASU 2016-09. In the three and six months ended September 30, 2018, there were discrete tax benefits of \$0.5 million and \$1.4 million, respectively, from the reversal of uncertain tax positions from the expiration of statutes of limitations. In the same periods ended September 30, 2017, the tax benefits from reversal of uncertain tax positions from the expiration of statutes of limitations were \$0.7 million and \$1.3 million, respectively.

As of September 30, 2018 and March 31, 2018, the total amount of unrecognized tax benefits due to uncertain tax positions was \$70.4 million and \$69.1 million, respectively, all of which would affect the effective income tax rate if recognized.

As of September 30, 2018 and March 31, 2018, the Company had \$34.5 million and \$35.0 million, respectively, in non-current income taxes payable including interest and penalties, related to the Company's income tax liability for uncertain tax positions.

The Company recognizes interest and penalties related to unrecognized tax positions in income tax expense. As of September 30, 2018 and March 31, 2018, the Company had \$2.5 million and \$2.3 million, respectively, of accrued interest and penalties related to uncertain tax positions.

Although the Company has adequately provided for uncertain tax positions, the provisions on these positions may change as revised estimates are made or the underlying matters are settled or otherwise resolved. During fiscal year 2019, the Company continues to review its tax positions and provide for or reverse unrecognized tax

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benefits as issues arise. During the next twelve months, it is reasonably possible that the amount of unrecognized tax benefits could increase or decrease significantly due to changes in tax law in various jurisdictions, new tax audits and changes in the U.S. dollar as compared to other currencies. Excluding these factors, uncertain tax positions may decrease by as much as \$3.3 million from the lapse of the statutes of limitations in various jurisdictions during the next twelve months.

## Note 6 — Balance Sheet Components

The following table presents the components of certain balance sheet asset amounts as of September 30 and March 31, 2018 (in thousands):

|  | September<br>30, 2018 | March 31,<br>2018 |
|--|-----------------------|-------------------|
| Accounts receivable, net:                            |                       |                   |
| Accounts receivable                                  | \$639,479             | \$482,872         |
| Allowance for doubtful accounts                      | (645 )                | (122 )            |
| Allowance for sales returns (1)                      | (5,165 )              | (25,515 )         |
| Allowance for cooperative marketing arrangements (1) | (33,879 )             | (30,389 )         |
| Allowance for customer incentive programs (1)        | (55,972 )             | (70,592 )         |
| Allowance for pricing programs (1)                   | (84,129 )             | (141,369 )        |
|  | \$459,689             | \$214,885         |
| Inventories:   |                       |                   |
| Raw materials  | \$31,756              | \$33,603          |
| Finished goods                                       | 327,018               | 226,303           |
|  | \$358,774             | \$259,906         |
| Other current assets:                                |                       |                   |
| Value-added tax receivables                          | \$34,597              | \$29,477          |
| Prepaid expenses and other assets (1)                | 35,815                | 26,885            |
|  | \$70,412              | \$56,362          |
| Property, plant and equipment, net:                  |                       |                   |
| Property, plant and equipment at cost                | \$359,335             | \$346,588         |
| Less: accumulated depreciation and amortization      | (275,604 )            | (260,284 )        |
|  | \$83,731              | \$86,304          |
| Other assets:  |                       |                   |
| Deferred tax assets                                  | \$92,833              | \$84,651          |
| Trading investments for deferred compensation plan   | 20,645                | 17,748            |
| Investments in privately held companies              | 13,283                | 12,448            |
| Other assets   | 4,804                 | 5,908             |
|  | \$131,565             | \$120,755         |



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The following table presents the components of certain balance sheet liability amounts as of September 30 and March 31, 2018 (in thousands):

|  | September<br>30, 2018 | March<br>31, 2018 |
|--|-----------------------|-------------------|
| Accrued and other current liabilities:                         |                       |                   |
| Accrued personnel expenses                                     | \$ 80,554             | \$ 82,330         |
| Accrued revenue reserve from returns (1)                       | 38,359                | —                 |
| Accrued customer marketing, pricing and incentive programs (1) | 173,992               | 71,962            |
| Warranty accrual   | 18,470                | 16,279            |
| Employee benefit plan obligation                               | 2,243                 | 1,763             |
| Income taxes payable   | 5,741                 | 4,354             |
| Other current liabilities                                      | 115,256               | 105,044           |
|  | \$ 434,615            | \$ 281,732        |
| Other non-current liabilities:                                 |                       |                   |
| Warranty accrual   | \$ 13,284             | \$ 11,294         |
| Obligation for deferred compensation plan                      | 20,645                | 17,748            |
| Employee benefit plan obligation                               | 40,857                | 42,434            |
| Deferred tax liability   | 1,980                 | 1,980             |
| Other non-current liabilities                                  | 7,642                 | 8,468             |
|  | \$ 84,408             | \$ 81,924         |

(1) Certain allowances for sales return and certain other Customer Programs were included within accounts receivable, net balance as of March 31, 2018. Upon adoption of Topic 606, such balances are presented as accrued revenue reserve from returns and accrued customer marketing, pricing and incentive programs included in accrued and other current liabilities, and as return assets included in other current assets, respectively, on the condensed consolidated balance sheet as of September 30, 2018. Refer to Note 1 to the condensed consolidated financial statements for more information.

#### Note 7 — Fair Value Measurements

##### Fair Value Measurements

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

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



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

|  | September 30, 2018 |         |         | March 31, 2018 |         |         |
|--|--------------------|---------|---------|----------------|---------|---------|
|  | Level 1            | Level 2 | Level 3 | Level 1        | Level 2 | Level 3 |
| <b>Assets:</b>   |                    |         |         |                |         |         |
| Cash equivalents   | \$304,627          | \$ —    | \$ —    | -\$492,535     | \$ —    | \$ —    |
| Trading investments for deferred compensation plan included in other assets:               |                    |         |         |                |         |         |
| Money market funds   | \$4,252            | \$ —    | \$ —    | -\$2,881       | \$ —    | \$ —    |
| Mutual funds   | 16,393             | —       | —       | 14,867         | —       | —       |
| Total of trading investments for deferred compensation plan                                | \$20,645           | \$ —    | \$ —    | -\$17,748      | \$ —    | \$ —    |
| Currency exchange derivative assets included in other current assets                       | \$ —               | \$ 244  | \$ —    | \$ —           | \$ —    | \$ —    |
| <b>Liabilities:</b>  |                    |         |         |                |         |         |
| Currency exchange derivative liabilities included in accrued and other current liabilities | \$ —               | \$ 50   | \$ —    | \$ —           | \$ 34   | \$ —    |

**Investment Securities**

The marketable securities for the Company's deferred compensation plan were recorded at a fair value of \$20.6 million and \$17.7 million, as of September 30, 2018 and March 31, 2018, respectively, based on quoted market prices. Quoted market prices are observable inputs that are classified as Level 1 within the fair value hierarchy. Unrealized trading gains (losses) related to trading securities for the three and six months ended September 30, 2018 and 2017 were not material and are included in other income (expense), net in the Company's condensed consolidated statements of operations.

**Non-marketable Investments**

The Company has certain non-marketable investments included in other assets that are accounted for under the equity method of accounting, with carrying value of \$5.8 million and \$5.1 million as of September 30, 2018 and March 31, 2018, respectively.

In addition, the Company has certain investments without readily determinable fair values due to the absence of quoted market prices, the inherent lack of liquidity, and the fact that inputs used to measure fair value are unobservable and require management's judgment. When certain events or circumstances indicate that impairment may exist, the Company revalues the investments using various assumptions, including the financial metrics and ratios of comparable public companies. The carrying value is also adjusted for observable price changes with a same or similar security from the same issuer. The amount of these investments included in other assets as of September 30, 2018 and March 31, 2018 was \$7.5 million and \$7.3 million, respectively.

**Assets Measured at Fair Value on a Nonrecurring Basis**

The Company's non-financial assets, such as intangible assets and acquisition-related property, plant and equipment, are recorded at fair value only upon initial recognition or if an impairment is recognized. There was no impairment of these assets during the three and six months ended September 30, 2018 or 2017.

Note 8 — Derivative Financial Instruments

Under certain agreements with the respective counterparties to the Company's derivative contracts, subject to applicable requirements, the Company is allowed to net settle transactions of the same type with a single net amount payable by one party to the other. However, the Company presents its derivative assets and derivative

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liabilities on a gross basis on the condensed consolidated balance sheets as of September 30, 2018 and March 31, 2018.

The fair values of the Company's derivative instruments were not material as of September 30, 2018 or March 31, 2018. The amount of gain (loss) recognized on derivatives not designated as hedging instruments was not material in all periods presented herein. The following table presents the amounts of gains (losses) on the Company's derivative instruments designated as hedging instruments and their locations on its condensed consolidated statements of operations and condensed consolidated statements of comprehensive income for the three and six months ended September 30, 2018 and 2017 (in thousands):

|                  | Three Months Ended |           |                               |          |
|------------------|--------------------|-----------|-------------------------------|----------|
|                  | September 30,      |           |                               |          |
|                  | Amount of          |           |                               |          |
|                  | Gain (Loss)        |           |                               |          |
|                  | Deferred as a      |           | Amount of Loss (Gain)         |          |
|                  | Component of       |           | Reclassified from Accumulated |          |
|                  | Accumulated        |           | Other Comprehensive Loss to   |          |
|                  | Other              |           | Costs of Goods Sold           |          |
|                  | Comprehensive      |           |                               |          |
|                  | Loss               |           |                               |          |
|                  | 2018               | 2017      | 2018                          | 2017     |
| Cash flow hedges | \$298              | \$(2,140) | \$ 218                        | \$ 2,596 |

|                  | Six Months Ended |           |                               |          |
|------------------|------------------|-----------|-------------------------------|----------|
|                  | September 30,    |           |                               |          |
|                  | Amount of        |           |                               |          |
|                  | Gain (Loss)      |           |                               |          |
|                  | Deferred as a    |           | Amount of Loss (Gain)         |          |
|                  | Component of     |           | Reclassified from Accumulated |          |
|                  | Accumulated      |           | Other Comprehensive Loss to   |          |
|                  | Other            |           | Costs of Goods Sold           |          |
|                  | Comprehensive    |           |                               |          |
|                  | Loss             |           |                               |          |
|                  | 2018             | 2017      | 2018                          | 2017     |
| Cash flow hedges | \$485            | \$(5,349) | \$ 3,069                      | \$ 3,129 |

Upon adoption of ASU 2017-12, the Company has started presenting the earnings impact from forward points in the same line item that is used to present the earnings impact of the hedged item, i.e. cost of goods sold, for hedging forecasted inventory purchases and such amount is not material for all periods presented.

### Cash Flow Hedges

The Company enters into cash flow hedge contracts to protect against exchange rate exposure of forecasted inventory purchases. These hedging contracts mature within four months. 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. Cash flows from such hedges are classified as operating activities in the condensed consolidated statements of cash flows. Hedging relationships are discontinued when hedging contract is no longer eligible for hedge accounting, or is sold, terminated or exercised, or when Company removes hedge designation for the contract. Gains and losses in the fair value of the effective portion of the discontinued hedges continue to be reported in accumulated other comprehensive loss until the

hedged inventory purchases are sold, unless it is probable that the forecasted inventory purchases will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter. In all periods presented herein, there have been no forecasted inventory purchases that were probable to not occur by the end of the originally specified time period or within an additional two-month period of time thereafter. The notional amounts of foreign currency exchange forward contracts outstanding related to forecasted inventory purchases were \$89.1 million as of September 30, 2018. As of March 31, 2018, there were no currency forward contracts outstanding related to forecasted inventory purchases. The Company had \$0.3 million of net gains related to its cash flow hedges included in accumulated other comprehensive loss as of September 30, 2018 which will be reclassified into earnings within the next 12 months.

#### Other Derivatives

The Company also enters into foreign currency exchange forward and swap contracts to reduce the short-term effects of currency exchange rate fluctuations on certain receivables or payables denominated in currencies other than the functional currencies of its subsidiaries. These contracts generally mature within one month. The primary risk managed by using forward and swap contracts is the currency exchange rate risk. The gains or losses on these contracts are recognized in other income (expense), net in the condensed consolidated statements of operations based on the changes in fair value. The notional amounts of these contracts outstanding as of September 30, 2018

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and March 31, 2018 were \$71.5 million and \$47.2 million, respectively. Open forward and swap contracts outstanding as of September 30, 2018 and March 31, 2018 consisted of contracts in Mexican Pesos, Japanese Yen, Canadian Dollars, Taiwan New Dollars and Australian Dollars to be settled at future dates at pre-determined exchange rates.

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

## Note 9 — Goodwill and Other Intangible Assets

The Company conducts its impairment analysis of goodwill annually at December 31 and as necessary, if changes in facts and circumstances indicate that it is more likely than not that the fair value of the Company's reporting units may be less than its carrying amount. There have been no events or circumstances during the six months ended September 30, 2018 that have required the Company to perform an interim assessment of goodwill.

The following table summarizes the activities in the Company's goodwill balance during the six months ended September 30, 2018 (in thousands):

|                          |           |
|--------------------------|-----------|
| As of March 31, 2018     | \$275,451 |
| Acquisition (Note 2)     | 71,116    |
| Currency translation     | (19 )     |
| As of September 30, 2018 | \$346,548 |

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

|                                  | September 30, 2018    |                          |                     | March 31, 2018        |                          |                     |
|----------------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
|                                  | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Trademark and trade names        | \$36,370              | \$ (11,199 )             | \$25,171            | \$23,870              | \$ (9,482 )              | \$14,388            |
| Developed technology             | 95,207                | (55,722 )                | 39,485              | 77,175                | (50,755 )                | 26,420              |
| Customer contracts/relationships | 82,310                | (16,428 )                | 65,882              | 59,510                | (12,771 )                | 46,739              |
| Total                            | \$213,887             | \$ (83,349 )             | \$130,538           | \$160,555             | \$ (73,008 )             | \$87,547            |

## Note 10 — Financing Arrangements

The Company had several uncommitted, unsecured bank lines of credit aggregating \$79.3 million as of September 30, 2018. There are no financial covenants under these lines of credit with which the Company must comply. As of September 30, 2018, the Company had outstanding bank guarantees of \$26.3 million under these lines of credit. There was no borrowing outstanding under these lines of credit as of September 30, 2018 or March 31, 2018.

## Note 11 — Commitments and Contingencies

## Product Warranties

All 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. The Company's warranty doesn't provide a service beyond assuring that the product complies with agreed-upon specifications and is not sold separately. The warranty the Company provides qualifies as an assurance warranty and is not treated as a separate performance obligation. The Company estimates cost of product warranties at the time the related revenue is recognized based on historical warranty claim rates, historical costs, and knowledge of specific product failures that are outside of the Company's typical experience. 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. Each quarter, the Company reevaluates estimates to assess the adequacy of recorded warranty liabilities considering the size of the installed base of



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products subject to warranty protection and adjusts the amounts as necessary. When the Company experiences changes in warranty claim activity or costs associated with fulfilling those claims, the warranty liability is adjusted accordingly. If actual product failure rates or repair costs differ from estimates, revisions to the estimated warranty liabilities would be required and could materially affect the Company's results of operations.

Changes in the Company's warranty liability for the three and six months ended September 30, 2018 and 2017 were as follows (in thousands):

|                                   | Three Months Ended |          | Six Months Ended |          |
|-----------------------------------|--------------------|----------|------------------|----------|
|                                   | September 30,      |          | September 30,    |          |
|                                   | 2018               | 2017     | 2018             | 2017     |
| Beginning of the period           | \$28,853           | \$22,056 | \$27,573         | \$21,911 |
| Assumed from business acquisition | 351                | 1,230    | 351              | 1,230    |
| Provision                         | 11,020             | 5,414    | 19,320           | 9,715    |
| Settlements                       | (8,330 )           | (4,611 ) | (14,882 )        | (9,179 ) |
| Currency translation              | (140 )             | 260      | (608 )           | 672      |
| End of the period                 | \$31,754           | \$24,349 | \$31,754         | \$24,349 |

## Guarantees

Logitech Europe S.A., one of the Company's wholly-owned subsidiaries, guaranteed payments of certain third-party contract manufacturers' purchase obligations. As of September 30, 2018, the maximum amount of this guarantee was \$3.8 million, of which \$1.5 million of guaranteed purchase obligations were outstanding.

## Indemnifications

The Company indemnifies certain of its suppliers and customers for losses arising from matters such as intellectual property disputes and product safety defects, subject to certain restrictions. The scope of these indemnities varies, but in some instances, includes indemnification for damages and expenses, including reasonable attorneys' fees. As of September 30, 2018, no amounts have been accrued for these indemnification provisions. The Company does not believe, based on historical experience and information currently available, that it is probable that any material amounts will be required to be paid under its indemnification arrangements.

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

## Legal Proceedings

From time to time the Company is involved in claims and legal proceedings that arise in the ordinary course of its business. The Company is currently subject to several such claims and a small number of legal proceedings. The Company believes that these matters lack merit and intends to vigorously defend against them. Based on currently available information, the Company does not believe that resolution of pending matters will have a material adverse effect on its financial condition, cash flows or results of operations. However, litigation is subject to inherent uncertainties, and there can be no assurances that the Company's defenses will be successful or that any such lawsuit or claim would not have a material adverse impact on the Company's business, financial condition, cash flows or results of operations in a particular period. Any claims or proceedings against the Company, whether meritorious or

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

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## Note 12 — Shareholders' Equity

## Share Repurchase Program

In March 2017, the Company's Board of Directors approved the 2017 share buyback program, which authorizes the Company to use up to \$250.0 million to purchase up to 17.3 million shares of its own shares. The Company's share buyback program is expected to remain in effect for a period of three years. Shares may be repurchased from time to time on the open market, through block trades or otherwise. Purchases may be started or stopped at any time without prior notice depending on market conditions and other factors. As of September 30, 2018, \$200.0 million is still available for repurchase under the 2017 buyback program.

## Cash Dividend on Shares of Common

During the three and six months ended September 30, 2018, the Company declared and paid cash dividends of CHF 0.67 (USD equivalent of \$0.69) per common share, totaling \$114.0 million on the Company's outstanding common stock. During the three and six months ended September 30, 2017, the Company declared and paid cash dividends of CHF 0.61 (USD equivalent of \$0.63) per common share, totaling \$104.2 million on the Company's outstanding common stock.

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

## Additional Authorized and Conditional Shares

The Company has reserved conditional capital of 25,000,000 shares for potential issuance on the exercise of rights granted under the Company's employee equity incentive plans and additional conditional capital for financing purposes, representing the issuance of up to 25,000,000 shares to cover any conversion rights under a future convertible bond issuance. During the 2018 Annual General Meeting, the shareholders of the Company authorized the Board of Directors to issue up to an additional 34,621,324 shares of the Company until September 5, 2020.

## Accumulated Other Comprehensive Income (Loss)

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

|                                   | Accumulated Other Comprehensive Income (Loss)  |                                |                                   |              |
|-----------------------------------|--|--------------------------------|-----------------------------------|--------------|
|                                   | Cumulative<br>Translation<br>Adjustment<br>(1) | Defined<br>Benefit<br>Plan (1) | Deferred<br>Hedging<br>Losses (1) | Total        |
| March 31, 2018                    | \$ (83,848 )                                   | \$ (6,398 )                    | \$ (3,209 )                       | \$ (93,455 ) |
| Other comprehensive income (loss) | (7,826 )                                       | (41 )                          | 3,554                             | (4,313 )     |
| September 30, 2018                | \$ (91,674 )                                   | \$ (6,439 )                    | \$ 345                            | \$ (97,768 ) |

(1) Tax effect was not significant as of September 30 or March 31, 2018.

## Note 13 — Segment Information

The Company has determined that it operates in a single operating segment that encompasses the design, manufacturing and marketing of peripherals for PCs, tablets and other digital platforms. Operating performance measures are provided directly to the Company's CEO, who is considered to be the Company's Chief Operating Decision Maker. The CEO periodically reviews information such as net sales and adjusted operating income (loss) to

make business decisions. These operating performance measures do not include restructuring charges (credits), net, share-based compensation expense, amortization of intangible assets, charges from the purchase accounting effect on inventory, acquisition-related costs, change in fair value of contingent consideration from business acquisition, or gain (loss) from investments in privately held companies.

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Net sales by product categories and sales channels, excluding intercompany transactions, for the three and six months ended September 30, 2018 and 2017 were as follows (in thousands):

|                            | Three Months Ended |           | Six Months Ended |             |
|----------------------------|--------------------|-----------|------------------|-------------|
|                            | September 30,      |           | September 30,    |             |
|                            | 2018               | 2017      | 2018             | 2017        |
| Pointing Devices           | \$128,337          | \$123,643 | \$256,127        | \$245,717   |
| Keyboards & Combos         | 131,872            | 119,200   | 260,094          | 235,313     |
| PC Webcams                 | 28,221             | 27,466    | 57,895           | 53,091      |
| Tablet & Other Accessories | 36,710             | 30,784    | 69,146           | 54,002      |
| Video Collaboration        | 57,176             | 46,139    | 115,968          | 81,756      |
| Mobile Speakers            | 77,100             | 90,548    | 111,427          | 153,466     |
| Audio & Wearables          | 61,560             | 62,445    | 113,714          | 112,647     |
| Gaming                     | 160,792            | 113,722   | 296,818          | 191,430     |
| Smart Home                 | 9,241              | 18,323    | 18,252           | 34,789      |
| Other (1)                  | 137                | 200       | 185              | 205         |
| Total net sales            | \$691,146          | \$632,470 | \$1,299,626      | \$1,162,416 |

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

Net sales by geographic region (based on the customers' locations) for the three and six months ended September 30, 2018 and 2017 were as follows (in thousands):

|                 | Three Months Ended |           | Six Months Ended |             |
|-----------------|--------------------|-----------|------------------|-------------|
|                 | September 30,      |           | September 30,    |             |
|                 | 2018               | 2017      | 2018             | 2017        |
| Americas        | \$283,714          | \$261,993 | \$560,642        | \$507,393   |
| EMEA            | 218,300            | 218,323   | 378,932          | 368,914     |
| Asia Pacific    | 189,132            | 152,154   | 360,052          | 286,109     |
| Total net sales | \$691,146          | \$632,470 | \$1,299,626      | \$1,162,416 |

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

The United States and Germany each represented more than 10% of the total consolidated net sales for each of the periods presented herein. China represented more than 10% of the total consolidated net sales for the three and six months ended September 30, 2018. No other countries represented 10% or more of the Company's total consolidated net sales for the periods presented herein.

Switzerland, the Company's home domicile, represented 4% and 3% of the Company's total consolidated net sales for the three and six months ended September 30, 2018, respectively, and 2% for each of the three and six months ended September 30, 2017.

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

Property, plant and equipment, net by geographic region were as follows (in thousands):

|  | September 30, 2018 | March 31, 2018 |
|--|--------------------|----------------|
|  |                    |                |

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|  |           |          |
|--|-----------|----------|
| Americas                                 | \$ 33,508 | \$35,404 |
| EMEA                                     | 4,327     | 4,690    |
| Asia Pacific                             | 45,896    | 46,210   |
| Total property, plant and equipment, net | \$ 83,731 | \$86,304 |

Property, plant and equipment, net in the United States and China were \$33.5 million and \$38.2 million, respectively, as of September 30, 2018, and \$35.3 million and \$37.9 million, respectively, as of March 31, 2018. No

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other countries represented more than 10% of the Company's total consolidated property, plant and equipment, net as of September 30, 2018 or March 31, 2018. Property, plant and equipment, net in Switzerland, the Company's home domicile, were \$1.6 million and \$1.9 million as of September 30, 2018 and March 31, 2018, respectively.

## Note 14 — Restructuring

During the first quarter of fiscal year 2019, the Company implemented a restructuring plan to streamline and realign the Company's overall organizational structure and reallocate resources to support long-term growth opportunities. In July 2018, the Company's Board of Directors approved to allow additional costs under this restructuring plan, totaling pre-tax charges of approximately \$10.0 million to \$15.0 million, of which \$10.0 million was recognized during the first half of fiscal year 2019. The total charges consisted of cash severance and other personnel costs and are presented as restructuring charges (credit), net in the condensed consolidated statements of operations, and the accrual balances are presented in accrued and other current liabilities in the condensed consolidated balance sheets. The Company expects to substantially complete this restructuring within the next six to nine months.

The following table summarizes restructuring related activities during the three and six months ended September 30, 2018 (in thousands):

|                                       | Termination<br>Benefits |
|---------------------------------------|-------------------------|
| Accrual balance at March 31, 2018     | \$ —                    |
| Charges                               | 9,921                   |
| Cash payments                         | (2,014 )                |
| Accrual balance at June 30, 2018      | 7,907                   |
| Charges                               | 119                     |
| Cash payments                         | (1,945 )                |
| Accrual balance at September 30, 2018 | \$ 6,081                |

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

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. These forward-looking statements include, among other things, statements regarding our strategy for growth, future revenues, earnings, cash flow, uses of cash and other measures of financial performance, and market position, our business strategy, the impact of investment prioritization decisions, product offerings, sales and marketing initiatives, strategic investments, addressing execution challenges, trends in consumer demand affecting our products and markets, trends in the composition of our customer base, our current or future revenue and revenue mix by product, among our lower- and higher-margin products, our new product introductions and by geographic region, our expectations regarding the potential growth opportunities for our products in mature and emerging markets and the enterprise market, our expectations regarding economic conditions in international markets, including China, Russia and Ukraine, our expectations regarding trends in global economic conditions and consumer demand for PCs and mobile devices, tablets, gaming, audio, pointing devices, wearables, remotes and other accessories and computer devices and the interoperability of our products with such third party platforms, our expectations regarding the convergence of markets for computing devices and consumer electronics, our expectations regarding the growth of cloud-based services, our expected reduction in size of our product portfolio and dependence on new products, our competitive position and the effect of pricing, product, marketing and other initiatives by us and our competitors, the potential that our new products will overlap with our current products, our expectations regarding competition from well-established consumer electronics companies in existing and new markets, potential tariffs, their effects and our ability to mitigate their effects, our expectations regarding the recoverability of our goodwill, goodwill impairment charge estimates and the potential for future impairment charges, the impact of our current and proposed product divestitures, changes in our planned divestitures, restructuring of our organizational structure and the timing thereof, our expectations regarding the success of our strategic acquisitions, including integration of acquired operations, products, technology, internal controls, personnel and management teams, significant fluctuations in currency exchange rates and commodity prices, the impact of new product introductions and product innovation on future performance or anticipated costs and expenses and the timing thereof, resolution of our North American distribution center issues, cash flows, the sufficiency of our cash and cash equivalents, cash generated and available borrowings (including the availability of our uncommitted lines of credit) to fund future cash requirements, our expectations regarding future sales compared to actual sales, our expectations regarding share repurchases, dividend payments and share cancellations, our expectations regarding our future working capital requirements and our anticipated capital expenditures needed to support our product development and expanded operations, our expectations regarding our future tax benefits, tax settlements, the adequacy of our provisions for uncertain tax positions, the impact of the Tax Cuts and Jobs Act on our overall effective income tax rate, our expectations regarding our potential indemnification obligations, and the outcome of pending or future legal proceedings and tax audits, our expectations regarding the impact of new accounting pronouncements on our operating results, and our ability to achieve and sustain renewed growth, profitability and future success. Forward-looking statements also include, among others, those statements including the words "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "may," "project," "predict," "seek", "should," "will," and similar language. These forward-looking statements involve risks and uncertainties that could cause our actual performance to differ materially from that anticipated in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section titled "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.



## Overview of Our Company

Logitech is a world leader in designing, manufacturing and marketing products that help connect people to digital and cloud experiences. More than 35 years ago, Logitech created products to improve experiences around the personal PC platform, and today it is a multi-brand, multi-category company designing products that enable better experiences consuming, sharing and creating any digital content such as music, gaming, video and computing, whether it is on a computer, mobile device or in the cloud. Logitech's brands include Logitech, Ultimate Ears, Jaybird, Blue Microphones, Logitech G and ASTRO Gaming.

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Our products participate in five large markets that all have growth opportunities: Gaming, Video Collaboration, Smart Home, Music, and Creativity & Productivity. We sell our products to a broad network of domestic and international customers, including direct sales to retailers and e-tailers, and indirect sales through distributors. Our worldwide channel network includes consumer electronics distributors, retailers, mass merchandisers, specialty stores, computer and telecommunications stores, value-added resellers and online merchants.

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

On August 21, 2018 (the "Acquisition Date"), we acquired all equity interests in Blue Microphones Holding Corporation ("Blue Microphones") for a total consideration of \$134.9 million in cash (the "Blue Microphones Acquisition"), which includes a working capital adjustment and repayment of a debt on behalf of Blue Microphones. Blue Microphones is a leading audio manufacturer that designs and produces microphones, headphones, recording tools, and accessories for audio professionals, musicians and consumers. The Blue Microphones Acquisition is consistent with Logitech's merger and acquisition strategy and will supplement the Company's portfolio opportunities. For the three months ended September 30, 2018, Blue Microphones contributed one percentage point of the net sales growth rate.

## Summary of Financial Results

Our net sales for the three and six months ended September 30, 2018 increased 9% and 12%, respectively, compared to the three and six months ended September 30, 2017, mainly due to stronger net sales in the Americas and Asia Pacific.

Our net sales for the three months ended September 30, 2018 increased 8% and 24% in the Americas and Asia Pacific, respectively, compared to the same period of the prior fiscal year. Our net sales for the three months ended September 30, 2018 in EMEA remained flat, compared to the same period of the prior fiscal year. Our net sales for the six months ended September 30, 2018 increased 10%, 3% and 26% in the Americas, EMEA and Asia Pacific, respectively, compared to the same period of the prior fiscal year.

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

Our gross margin for the three months ended September 30, 2018 increased 110 basis points to 37.1% from 36.0% for the three months ended September 30, 2017. Our gross margin benefited from a one-time tariff duty refund of approximately \$7.1 million, favorable exchange rates, cost reduction efforts and product mix, partially offset by unfavorable impact from adoption of ASC 606, increase in spending in Customer Programs to support our growth, as well as U.S. tariffs implemented in July 2018 for certain of our products imported into the United States.

Our gross margin for the six months ended September 30, 2018 increased 60 basis points to 36.9% from 36.3% for the six months ended September 30, 2017 as a result of a one-time tariff duty refund of approximately \$7.1 million, and a one-time benefit from a legal settlement with our prior distribution center supplier in the Americas, as well as favorable exchange rates and cost reduction efforts. Those benefits were partially offset by unfavorable impact from adoption of ASC 606 and increase in spending in Customer Programs.

We have various initiatives being implemented to mitigate the impact of recently implemented and announced U.S. tariffs, such as product reclassifications, tactical inventory pull-ins, supply chain or production shifts, and potential

pricing adjustments. As some of these mitigating initiatives take time to implement, there could be an adverse impact to our gross margin in the future periods as we adjust to tariffs and other trade restrictions.

Operating expenses for the three months ended September 30, 2018 were \$191.0 million, or 27.6% of net sales, compared to \$168.8 million, or 26.7% of net sales, in the same period of the prior fiscal year. Operating expenses for the six months ended September 30, 2018 were \$382.5 million, or 29.4% of net sales, compared to \$331.0 million, or 28.5% of net sales, in the same period of the prior fiscal year. The increase in operating expenses for the three months ended September 30, 2018 was primarily driven by \$8.8 million higher advertising and

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marketing expenses to support our new product introductions, \$5.2 million higher personnel-related cost due to additional headcount from business acquisition and increased performance based variable compensation, and \$3.0 million from the prior year's credit for change in fair value of contingent consideration from an acquisition. The increase in operating expenses for the six months ended September 30, 2018 was primarily driven by \$32.2 million higher personnel-related cost due to restructuring charges in the current period, increased performance based variable compensation and additional headcount from business acquisitions, \$9.6 million higher advertising and marketing expenses to support our new product introduction, and \$4.9 million from the prior year's credit for change in fair value of contingent consideration from an acquisition.

Net income for the three and six months ended September 30, 2018 was \$64.2 million and \$102.6 million, compared to \$56.4 million and \$93.4 million for the three and six months ended September 30, 2017.

## Trends in Our Business

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

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

### Trends Specific to Our Five Market Opportunities

**Gaming:** The PC gaming and console gaming platform continues to show strong growth as online gaming, multi-platform experiences, and eSports gain greater popularity and gaming content becomes increasingly more demanding. We believe Logitech is well positioned to benefit from the PC gaming market growth. With ASTRO Gaming, we are also strengthening our portfolio in adjacent categories, such as the console gaming market.

**Video Collaboration:** The near and long-term structural growth opportunities in the video collaboration market are significant. Video meetings are on the rise, and companies increasingly want lower-cost, cloud-based solutions. We are continuing our efforts to create and sell innovative products to accommodate the increasing demand from medium-sized meeting rooms to small-sized rooms such as huddle rooms. We will continue to invest in select business-specific products, targeted product marketing and sales channel development.

**Music:** The music market grew during fiscal year 2018, driven by growing consumption of music through mobile devices such as smartphones and tablets. The integration of personal voice assistants has become increasingly competitive in the speaker categories and the market for third-party, voice-enabled speakers has not yet gained traction. Moreover, the market for mobile speakers appears to be maturing with slower growth. While we continue to introduce new products for improved experiences, we're adjusting our investments to match the slower market growth outlook. With Blue Microphones, we are also strengthening our portfolio in adjacent categories, such as the microphones market.

**Smart Home:** This market grew in fiscal year 2018 due to the integration of Amazon Alexa and Google Assistant voice capabilities into our Logitech Harmony Hub that enables voice control of the living room entertainment experience when used with an Amazon Echo or Google Home device. Through Harmony, Alexa can turn on/off and control a TV and AV system. While the market so far in fiscal year 2019 has slowed due to more difficult comparisons, we continue to see various long-term opportunities in the broader smart home market. Accordingly, we will be prudent in how we deploy our resources in the near term.

**Creativity & Productivity:** New PC shipments continue to be stable and the installed base of PC users remains large. We believe that innovative PC peripherals, such as our mice and keyboards, can renew the PC usage experience, providing growth opportunities. Smaller mobile computing devices, such as tablets, have created new markets and usage models for peripherals and accessories. We offer a number of products to enhance the use of mobile devices, including keyboard folios for the iPad and iPad mini, and keyboard covers and folios for the iPad Air. In fiscal year 2018, we saw the recovery of the iPad tablet market and our Tablet & Other Accessories category has benefited from

the recovery along with our innovative products.

Business Seasonality, Product Introductions and Acquisitions

We have historically experienced higher net sales in our third fiscal quarter ending December 31, compared to other fiscal quarters in our fiscal year, due in part to seasonal holiday demand. Additionally, new product

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introductions and business acquisitions can significantly impact net sales, product costs and operating expenses. Product introductions can also impact our net sales to our distribution channels as these channels are filled with new product inventory following a product introduction, and often channel inventory of an earlier model product declines as the next related major product launch approaches. Net sales can also be affected when consumers and distributors anticipate a product introduction or changes in business circumstances. However, neither historical seasonal patterns nor historical patterns of product introductions should be considered reliable indicators of our future pattern of product introductions, future net sales or financial performance.

### Critical Accounting Estimates

The preparation of financial statements and related disclosures in conformity with GAAP requires us to make judgments, estimates and assumptions that affect reported amounts of assets, liabilities, goodwill and intangible assets from business acquisitions, contingent consideration from business acquisitions, and net sales and expenses.

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

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

Other than the recent accounting pronouncement adoptions discussed below and Summary of Significant Accounting Policies discussed in Note 1 to the condensed consolidated financial statements, there have been no substantial changes in the Company's significant accounting policies during the six months ended September 30, 2018, compared with the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018.

### Adoption of New Accounting Guidance

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09" or "Topic 606") which supersedes the revenue recognition requirements under ASC 605 ("Topic 605"), Revenue Recognition. ASU 2014-09 outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes existing revenue recognition guidance, including industry-specific guidance. Under the new guidance, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard requires reporting companies to disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. On April 1, 2018, we adopted the new standard and all related amendments using the modified retrospective method applied to those contracts which were not completed as of April 1, 2018. Results for reporting periods beginning after April 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with historic accounting standards under Topic 605.

Refer to Note 1 to the condensed consolidated financial statements for further details of the impact of adoption of Topic 606.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments-Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)" ("ASU 2016-01"). ASU 2016-01 requires entities to measure equity instruments at fair value and recognize any changes in fair value within the statement of operations. We adopted ASU 2016-01 effective April 1, 2018 on a prospective basis for our privately held strategic equity securities without readily determinable fair values. We elected the measurement alternative to record these investments at cost and to adjust for impairments and observable price changes with a same or similar security from the same issuer within the statement of operations. The adoption of ASU 2016-01 did not have a material impact on our condensed consolidated financial statements.

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In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory" ("ASU 2016-16"), which eliminates the deferral of income tax effects of intra-entity asset transfers until the transferred asset is sold to an unrelated party or recovered through use. However, this standard does not apply to intra-entity transfer of inventory. We adopted this standard effective April 1, 2018 on a modified retrospective basis, and the adoption of ASU 2016-16 did not have a material impact on our condensed consolidated financial statements.

In December 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash" ("ASU 2016-18"), which requires that a statement of cash flows explains the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. We adopted this standard effective April 1, 2018 utilizing the retrospective transition method to each period presented, and the adoption of ASU 2016-18 did not have an impact on our condensed consolidated financial statements as we did not have restricted cash for either periods presented.

In January 2017, the FASB issued ASU 2017-01, "Business Combination (Topic 805): Clarifying the Definition of a Business" ("ASU 2017-01"), which changes the definition of a business to assist with evaluating when a set of transferred assets and activities is a business. We adopted this standard effective April 1, 2018, and the adoption of ASU 2017-01 did not have a material impact on our condensed consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, "Compensation-Retirement Benefit (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" ("ASU 2017-07"), which requires that the Company disaggregate the service cost component from the other components of net benefit cost, and also provides guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. We adopted this standard effective April 1, 2018 using a retrospective adoption method. Other than the revised statement of operations presentation for the periods in the current year, the adoption of ASU 2017-07 did not have an impact on our condensed consolidated financial statements. The impact to the comparative period was immaterial and therefore prior period statements of operations was not revised.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities" ("ASU 2017-12"), which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and simplifies the application of the hedge accounting guidance. We adopted this standard effective April 1, 2018, and the adoption of ASU 2017-12 did not have a material impact on our condensed consolidated financial statements. In accordance with ASU 2017-12, we have started presenting the earnings impact from forward points in cost of goods sold line item, which is used to present the earnings impact of the hedged item.

Refer to Note 1 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for recent accounting pronouncements to be adopted.

### Impact of Constant Currency

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

Given our global sales presence and the reporting of our financial results in U.S. Dollars, our financial results could be affected by significant shifts in currency exchange rates. See "Results of Operations" for information on the effect of



currency exchange results on our net sales. If the U.S. Dollar appreciates or depreciates in comparison to other currencies in future periods, this will affect our results of operations in future periods as well.

#### Sales Denominated in Other Currencies

Although our financial results are reported in U.S. Dollars, a portion of our sales was generated in currencies other than the U.S. Dollar, such as the Euro, Chinese Renminbi, Japanese Yen, Canadian Dollar, Taiwan New Dollar, British Pound and Australian Dollar. During the three months ended September 30, 2018, 51% of our net sales were denominated in currencies other than the U.S. Dollar.

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## Results of Operations

## Net Sales

Our net sales in the three and six months ended September 30, 2018 increased 9% and 12%, respectively, compared to the same periods of the prior fiscal year. Sales increased in the Americas and Asia Pacific during the three and six months ended September 30, 2018. If currency exchange rates had been constant in the three and six months ended September 30, 2018 and 2017, our constant dollar sales growth rates would have been 10% and 11%, respectively. We grew double digits in our Gaming, Video Collaboration, Keyboards & Combos, and Tablets and Other Accessories. Sales for Mobile Speaker and Smart Home declined across the regions. The adoption of Topic 606 lowered the net sales for the three or six months ended September 30, 2018 by \$4.9 million and \$5.1 million, respectively.

## Net Sales by Region

The following table presents the change in net sales by region for the three and six months ended September 30, 2018, compared with the three and six months ended September 30, 2017:

|              | Sales Growth Rate                     |                                     | Constant Dollar Sales Growth Rate     |                                     |                                       |                                     |
|--------------|---------------------------------------|-------------------------------------|---------------------------------------|-------------------------------------|---------------------------------------|-------------------------------------|
|              | Three Months Ended September 30, 2018 | Six Months Ended September 30, 2018 | Three Months Ended September 30, 2018 | Six Months Ended September 30, 2018 | Three Months Ended September 30, 2017 | Six Months Ended September 30, 2017 |
| Americas     | 8 %                                   | 10 %                                | 9 %                                   | 11 %                                |                                       |                                     |
| EMEA         | — %                                   | 3 %                                 | 1 %                                   | 1 %                                 |                                       |                                     |
| Asia Pacific | 24 %                                  | 26 %                                | 26 %                                  | 25 %                                |                                       |                                     |

## Americas:

The increases in net sales in our Americas region for the three-month period presented above was primarily driven by growth in Gaming, Keyboards and Combos, Video Collaboration and Pointing Devices, partially offset by a decline in sales for Mobile Speakers and Smart Home. The increases in net sales in our Americas region for the six-month period presented above was primarily driven by the same categories. In addition, Tablets and Other Accessories and PC Webcams also contributed to the increase for the six-month period.

## EMEA:

The net sales in our EMEA region remained flat for the three-month period presented above. The net sales in our EMEA region increased 3% for the six-month period presented above, which was primarily driven by growth in Gaming, Tablets and Other Accessories and Video Collaboration, partially offset by a decline in sales for Mobile Speakers and Smart Home.

## Asia Pacific:

The growth in our Asia Pacific region during both periods presented above were primarily driven by growth in Gaming, Keyboards and Combos, Video Collaboration, Pointing Devices and Mobile Speakers.

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## Net Sales by Product Categories

Net sales by product category for the three and six months ended September 30, 2018 and 2017 were as follows (Dollars in thousands):

|                            | Three Months Ended |           |        | Six Months Ended |             |        |
|----------------------------|--------------------|-----------|--------|------------------|-------------|--------|
|                            | September 30,      |           |        | September 30,    |             |        |
|                            | 2018               | 2017      | Change | 2018             | 2017        | Change |
| Pointing Devices           | \$128,337          | \$123,643 | 4%     | \$256,127        | \$245,717   | 4%     |
| Keyboards & Combos         | 131,872            | 119,200   | 11     | 260,094          | 235,313     | 11     |
| PC Webcams                 | 28,221             | 27,466    | 3      | 57,895           | 53,091      | 9      |
| Tablet & Other Accessories | 36,710             | 30,784    | 19     | 69,146           | 54,002      | 28     |
| Video Collaboration        | 57,176             | 46,139    | 24     | 115,968          | 81,756      | 42     |
| Mobile Speakers            | 77,100             | 90,548    | (15)   | 111,427          | 153,466     | (27)   |
| Audio & Wearables          | 61,560             | 62,445    | (1)    | 113,714          | 112,647     | 1      |
| Gaming                     | 160,792            | 113,722   | 41     | 296,818          | 191,430     | 55     |
| Smart Home                 | 9,241              | 18,323    | (50)   | 18,252           | 34,789      | (48)   |
| Other (1)                  | 137                | 200       | (32)   | 185              | 205         | (10)   |
| Total net sales            | \$691,146          | \$632,470 | 9      | \$1,299,626      | \$1,162,416 | 12     |

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

## Net Sales by Product Categories

## Creativity &amp; Productivity Market:

## Pointing Devices

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

Net sales of Pointing Devices increased 4% in the three and six months ended September 30, 2018, respectively, compared to the same periods of the prior fiscal year. The increases for both periods were primarily driven by an increase in sales for cordless mice, such as M280 Wireless Mouse, M510 Wireless Mouse, and MX Master 2S Wireless Mouse. MX Vertical Wireless Mouse introduced in the second quarter of fiscal year 2018 also contributed to the sales increase for both periods.

## Keyboards &amp; Combos

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

Net sales of Keyboards & Combos increased 11% in the three and six months ended September 30, 2018, respectively, compared to the same periods of the prior fiscal year. The increases in both periods were primarily driven by an increase in sales of cordless keyboards and combos, mainly from the introductions of MK540 Wireless Keyboard Mouse Combo in the fourth quarter of fiscal year 2018 and MK545 Wireless Keyboard Mouse Combo in the first quarter of fiscal year 2019, and increases in sales of MK270 Wireless Combo and MK235 Wireless Combo.

## PC Webcams

Our PC Webcams category comprises PC-based webcams targeted primarily at consumers.

PC Webcams net sales increased 3% and 9% in the three and six months ended September 30, 2018, respectively, compared to the same periods of the prior fiscal year. The increases in both periods were primarily driven by increases in sales for our HD Pro Webcam C920 and 1080P Pro Stream Webcam.

#### Tablet & Other Accessories

Our Tablet & Other Accessories category primarily comprises keyboards for tablets.

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Net sales of Tablet & Other Accessories products increased 19% and 28% in the three and six months ended September 30, 2018, respectively, compared to the same periods of the prior fiscal year. The increases for both periods were primarily driven by the introductions of our education-based Rugged Combo 2 in the first quarter of fiscal year 2019, our Slim Folio keyboard cases in the second quarter of fiscal year 2019, Slim Combo keyboard cases in the third quarter of fiscal year 2018, and Crayon (a digital pencil) and POWERED (a wireless charging dock for iPhone) in the second quarter of fiscal year 2019.

Video Collaboration market:

### Video Collaboration

Our Video Collaboration category primarily includes products which combine audio and video and other products that can connect any-sized user groups.

Net sales of Video Collaboration products increased 24% and 42% in the three and six months ended September 30, 2018, respectively, compared to the same periods of the prior fiscal year. The increases for both periods were primarily driven by an increase in sales for our Meetup video conference camera, PTZ Pro 2 group camera, and high-end business webcams.

Music market:

### Mobile Speakers

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

Net sales of Mobile Speakers decreased 15% and 27% for the three and six months ended September 30, 2018, respectively, compared to the same periods of the prior fiscal year. The decreases for both periods were primarily due to a decline in sales for our Ultimate Ears Megaboom, Boom 2, and Wonderboom mobile speakers. The decreases were partially offset by sales from the introduction of our Ultimate Ears Megaboom 3 and Boom 3 mobile speakers in the second quarter of fiscal year 2019.

### Audio & Wearables

Our Audio & Wearables category comprises PC speakers, PC headsets, in-ear headphones, premium wireless audio wearables and studio-quality microphones for professionals and consumers.

Audio & Wearables net sales decreased 1% for the three months ended and increased 1% for the six months ended September 30, 2018, respectively, compared to the same periods of the prior fiscal year. The decrease for the three-month period was primarily due to a decrease in sales of PC speakers and Jaybird products, partially offset by the sales from Blue Microphones products as a result of our business acquisition (refer to Note 2 to the condensed consolidated financial statements). The increase for the six-month period was driven by a sales increase for our corded headsets, Revol Custom Fit Earbuds, and sales from Blue Microphones products, partially offset by a decrease in sales of PC speakers and Jaybird products.

Gaming market:

### Gaming

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

Gaming net sales increased 41% and 55% for the three and six months ended September 30, 2018, respectively, compared to the same periods of the prior fiscal year. The significant increases for both periods were primarily driven by the strong performance of the ASTRO console gaming headsets - which benefited from the growing gaming market, growth in eSports, expansions in new channels and regions, and expansion in product portfolios - as well as the continued success for our gaming mice and PC gaming headsets. The increases for the six-month period, and to a lesser extent for the three-month period, were also driven by the fact that the acquisition

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of ASTRO closed on August 11, 2017, in the middle of our fiscal year 2018 second quarter, resulting in a partial comparative period impact.

Smart Home market:

Smart Home

Our Smart Home category includes our Harmony line of advanced home entertainment controllers and home security cameras.

Smart Home net sales decreased 50% and 48% during the three and six months ended September 30, 2018, respectively, compared to the same periods of the prior fiscal year. The decreases for both periods were primarily due to a decline in sales for our Harmony remotes and home video products.

Gross Profit

Gross profit for the three and six months ended September 30, 2018 and 2017 was as follows (Dollars in thousands):

|              | Three Months Ended |           |        | Six Months Ended |             |        |
|--------------|--------------------|-----------|--------|------------------|-------------|--------|
|              | September 30,      |           | Change | September 30,    |             | Change |
|              | 2018               | 2017      |        | 2018             | 2017        |        |
| Net sales    | \$691,146          | \$632,470 | 9 %    | \$1,299,626      | \$1,162,416 | 12 %   |
| Gross profit | \$256,117          | \$227,737 | 12     | \$480,054        | \$421,405   | 14     |
| Gross margin | 37.1               | % 36.0    | %      | 36.9             | % 36.3      | %      |

Gross profit consists of net sales less cost of goods sold (which includes materials, direct labor and related overhead costs, costs of manufacturing facilities, royalties, costs of purchasing components from outside suppliers, distribution costs, warranty costs, customer support, shipping and handling costs, outside processing costs and write-down of inventories), amortization of intangible assets and purchase accounting effect on inventory.

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## Operating Expenses

Operating expenses for the three and six months ended September 30, 2018 and 2017 were as follows (Dollars in thousands):

|   | Three Months Ended<br>September 30, |           | Six Months Ended<br>September 30, |           |   |
|---|-------------------------------------|-----------|-----------------------------------|-----------|---|
|   | 2018                                | 2017      | 2018                              | 2017      |   |
| Marketing and selling   | \$121,801                           | \$107,386 | \$236,385                         | \$209,764 |   |
| % of net sales  | 17.6                                | % 17.0    | % 18.2                            | % 18.0    | % |
| Research and development  | 39,542                              | 36,647    | 78,529                            | 71,746    |   |
| % of net sales  | 5.7                                 | % 5.8     | % 6.0                             | % 6.2     | % |
| General and administrative  | 25,206                              | 25,266    | 50,679                            | 50,675    |   |
| % of net sales  | 3.6                                 | % 4.0     | % 3.9                             | % 4.4     | % |
| Amortization of intangible assets and acquisition-related costs           | 4,317                               | 2,491     | 6,838                             | 3,881     |   |
| % of net sales  | 0.6                                 | % 0.4     | % 0.5                             | % 0.3     | % |
| Change in fair value of contingent consideration for business acquisition | —                                   | (2,930 )  | —                                 | (4,908 )  |   |
| % of net sales  | —                                   | % (0.5 )  | % —                               | % (0.4 )  | % |
| Restructuring charges (credits), net                                      | 119                                 | (61 )     | 10,040                            | (116 )    |   |
| % of net sales  | —                                   | % —       | % 0.8                             | % —       | % |
| Total operating expenses  | \$190,985                           | \$168,799 | \$382,471                         | \$331,042 |   |
| % of net sales  | 27.6                                | % 26.7    | % 29.4                            | % 28.5    | % |

## Marketing and Selling

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

During the three and six months ended September 30, 2018, marketing and selling expenses increased \$14.4 million and \$26.6 million, respectively, compared to the same periods of the prior fiscal year. The increases were primarily driven by higher advertising and marketing expenses to support our new products, and higher personnel-related costs due to increased headcount and increased performance based variable compensation.

## Research and Development

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

During the three and six months ended September 30, 2018, research and development expenses increased \$2.9 million and \$6.8 million, respectively, compared to the same periods in the prior fiscal year. The increases were primarily driven by higher personnel-related costs due to increased headcount from business acquisitions and increased performance based variable compensation, and higher investment in new product developments.

## General and Administrative

General and administrative expenses consist primarily of personnel and related overhead, information technology, and facilities costs for the infrastructure functions such as finance, information systems, executives, human resources, and legal functions.



During the three and six months ended September 30, 2018, general and administrative expenses remained relatively flat, compared to the same periods in the prior fiscal year.

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## Amortization of Intangibles and Acquisition-Related Costs

Amortization of intangibles and acquisition-related costs during the three and six months ended September 30, 2018 and 2017 were as follows (in thousands):

|                                   | Three Months Ended September 30, 2018 |         | Six Months Ended September 30, 2017 |         |
|-----------------------------------|---------------------------------------|---------|-------------------------------------|---------|
| Amortization of intangible assets | \$2,861                               | \$1,750 | \$5,382                             | \$2,839 |
| Acquisition-related costs         | 1,456                                 | 741     | 1,456                               | 1,042   |
| Total                             | \$4,317                               | \$2,491 | \$6,838                             | \$3,881 |

Amortization of intangible assets consists of amortization of acquired intangible assets, including customer relationships and trade names. The increases in amortization of intangible assets during the three and six months ended September 30, 2018 compared with the same periods of the prior fiscal year were primarily driven by the acquisition of ASTRO in the second quarter of fiscal year 2018 and the acquisition of Blue Microphones in the second quarter of fiscal year 2019. Acquisition-related costs include legal expense, due diligence costs, and other professional costs incurred for business acquisitions.

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

There was no contingent consideration for business acquisition during the three and six months ended September 30, 2018. The decrease in fair value of contingent consideration during the three months ended September 30, 2017 was primarily due to the agreement we reached with the sellers of Jaybird LLC, the company we acquired in April 2016. During the six months ended September 30, 2017, the fair value of the contingent consideration decreased \$4.9 million due to the agreement reached with the sellers of Jaybird LLC and lower-than-expected net sales of Jaybird products, partially offset by the change in the time value of money.

## Restructuring Charges

During the first quarter of fiscal year 2019, we implemented a restructuring plan to streamline and realign our overall organizational structure and reallocate resources to support the long-term growth opportunities. In July, 2018, our Board of Directors approved to allow additional costs under this restructuring plan, totaling pre-tax charges of approximately \$10.0 million to \$15.0 million, of which \$10.0 million was recognized during the first half of fiscal year 2019. The total charges consisted of cash severance and other personnel costs and are presented as restructuring charges (credit), net in the condensed consolidated statements of operations. We expect to substantially complete this restructuring within the next six to nine months.

The following table summarizes restructuring related activities during the three and six months ended September 30, 2018 (in thousands):

|                                       | Termination Benefits |
|---------------------------------------|----------------------|
| Accrual balance at March 31, 2018     | \$ —                 |
| Charges                               | 9,921                |
| Cash payments                         | (2,014 )             |
| Accrual balance at June 30, 2018      | 7,907                |
| Charges                               | 119                  |
| Cash payments                         | (1,945 )             |
| Accrual balance at September 30, 2018 | \$ 6,081             |



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## Provision for (Benefit from) Income Taxes

The provision for (benefit from) income taxes and effective tax rates for the three and six months ended September 30, 2018 and 2017 were as follows (Dollars in thousands):

|   | Three Months Ended September 30, |         | Six Months Ended September 30, |           |
|---|----------------------------------|---------|--------------------------------|-----------|
|   | 2018                             | 2017    | 2018                           | 2017      |
| Provision for (benefit from) income taxes | \$6,203                          | \$4,087 | \$986                          | \$(1,349) |
| Effective income tax rate                 | 8.8                              | % 6.8   | % 1.0                          | % (1.5 )% |

We have not adjusted the net provisional charge from remeasuring deferred tax assets related to the Tax Act in the United States in fiscal year 2018. We continue to refine the estimate based on ongoing analysis and available information and interpretations through the third quarter of fiscal year 2019.

The changes in the effective income tax rate for the three and six months ended September 30, 2018, compared to the three and six months ended September 30, 2017, were primarily due to the mix of income and losses in the various tax jurisdictions in which we operate and less excess tax benefits recognized in the United States in the three and six months ended September 30, 2018. We recognized excess tax benefits of \$0.7 million and \$9.0 million, respectively, at 21% federal corporate income tax rate post the Tax Act in the three and six months ended September 30, 2018. In the same periods in fiscal year 2018, we recognized \$1.1 million and \$11.0 million of excess tax benefits, respectively, at 35% federal corporate income tax rate after adoption of ASU 2016-09. In the three and six months ended September 30, 2018, there were discrete tax benefits of \$0.5 million and \$1.4 million, respectively, from the reversal of uncertain tax positions from the expiration of statutes of limitations. In the same periods ended September 30, 2017, the tax benefits from reversal of uncertain tax positions from the expiration of statutes of limitations were \$0.7 million and \$1.3 million, respectively.

As of September 30, 2018 and March 31, 2018, the total amounts of unrecognized tax benefits due to uncertain tax positions were \$70.4 million and \$69.1 million, respectively, all of which would affect the effective income tax rate if recognized.

## Liquidity and Capital Resources

## Cash Balances, Available Borrowings, and Capital Resources

As of September 30, 2018, we had cash and cash equivalents of \$425.0 million, compared to \$641.9 million as of March 31, 2018. As of September 30, 2018, 62% of the cash and cash equivalents was held in Switzerland, 18% held in Hong Kong and China and 9% held in the United Kingdom. We do not expect to incur any material adverse tax impact except for what has been recognized, or be significantly inhibited by any country in which we do business from the repatriation of funds to Switzerland, our home domicile.

The decrease in cash and cash equivalents for the six months ended September 30, 2018, was primarily due to the Blue Microphones Acquisition ("Note 2 - Business Acquisition" to the condensed consolidated financial statements), payment of cash dividends, purchases of property, plant and equipment, tax withholdings related to settlements of restricted stock units and the purchases of our shares, partially offset by proceeds from exercises of stock options and purchase rights and net cash provided by operating activities.

As of September 30, 2018, our working capital was \$438.6 million, compared to \$597.4 million as of March 31, 2018. The decrease was primarily driven by higher accounts payable, higher accruals, lower cash and cash equivalents offset

by higher accounts receivable, net and inventories. Our working capital was \$445.5 million as of September 30, 2017.

We had several uncommitted, unsecured bank lines of credit aggregating \$79.3 million as of September 30, 2018. There are no financial covenants under these lines of credit with which we must comply. As of September 30, 2018, we had outstanding bank guarantees of \$26.3 million under these lines of credit.

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

|  | Six Months Ended |             |
|--|------------------|-------------|
|  | September 30,    |             |
|  | 2018             | 2017        |
| Net cash provided by operating activities                    | \$97,220         | \$67,500    |
| Net cash used in investing activities                        | (153,815 )       | (109,202 )  |
| Net cash used in financing activities                        | (151,245 )       | (108,636 )  |
| Effect of exchange rate changes on cash and cash equivalents | (9,157 )         | 1,653       |
| Net decrease in cash and cash equivalents                    | \$(216,997)      | \$(148,685) |

The following table presents selected financial information and statistics as of and for the three months ended September 30, 2018 and 2017 (Dollars in thousands):

|                          | As of September |           |
|--------------------------|-----------------|-----------|
|                          | 30,             |           |
|                          | 2018            | 2017      |
| Accounts receivable, net | \$459,689       | \$277,839 |
| Accounts payable         | \$440,564       | \$386,963 |
| Inventories              | \$358,774       | \$330,422 |

|  | Three     |      |
|--|-----------|------|
|  | Months    |      |
|  | Ended     |      |
|  | September |      |
|  | 30,       |      |
|  | 2018      | 2017 |
| Days sales in accounts receivable (“DSO”) (Days) (1) | 60        | 40   |
| Days accounts payable outstanding (“DPO”) (Days) (2) | 91        | 86   |
| Inventory turnover (“ITO”) (x)(3)                    | 4.9       | 4.9  |

(1) DSO is determined using ending accounts receivable, net as of the most recent quarter-end and net sales for the most recent quarter.

(2) DPO is determined using ending accounts payable as of the most recent quarter-end and cost of goods sold for the most recent quarter.

(3) ITO is determined using ending inventories and annualized cost of goods sold (based on the most recent quarterly cost of goods sold).

DSO for the three months ended September 30, 2018 increased by 20 days to 60 days, as compared to 40 days for the same period of the prior fiscal year. The adoption of Topic 606 negatively impacted our DSO for the three months ended September 30, 2018 by 18 days, mainly as a result of changes in the balance sheet presentation of certain reserve balances previously shown net within accounts receivable which are now presented as liabilities. The adoption of Topic 606 did not have an impact over the total cash flows from operating, investing or financing activities. Refer to Note 1 to the condensed consolidated financial statements for the details of the adoption impact of Topic 606. Timing of sales and customer payments also drove the increase in DSO.

DPO for the three months ended September 30, 2018 increased five days, compared to the same period of the prior fiscal year, primarily due to the timing of purchases and related payments.

ITO for the three months ended September 30, 2018 remained constant, compared to the same period of the prior fiscal year.

Certain of the our products are subject to the increased tariff duty effective September 24, 2018, which did not have material impact to our condensed consolidated financial statements as of September 30, 2018 and for the period then ended.

If we are not successful in launching and phasing in our new products, or market competition increases during the current fiscal year, or we are not able to sell the new products at the prices planned, it could have a material impact on our net sales, gross profit margin, operating results including operating cash flow, and inventory turnover in the future.

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During the six months ended September 30, 2018, we generated \$97.2 million cash in operating activities. Our main sources of operating cash flows were from net income after adding back non-cash expenses of depreciation, amortization, and share-based compensation expense, and from changes in operating assets and liabilities. The increases in accounts receivable, net, excluding the impact from the adoption of Topic 606 at adoption date were primarily due to higher business volumes, timing of sales and customer payments. The increases in inventories were primarily driven by increased sales expectation for the holidays in the third quarter, and higher inventory balances to support tariff impact mitigation. We strategically invested in our inventory ahead of the recent tariff implementation. The increases in accounts payable were primarily driven by the higher inventory purchases and timing of payment. The increases in accrued and current liabilities were primarily driven by higher sales reserve liability due to higher business volumes.

Net cash used in investing activities was \$153.8 million, primarily due to \$133.8 million payment of the net cash purchase price for the Blue Microphones Acquisition and \$18.4 million of purchases of property, plant and equipment.

Our expenditures for property, plant and equipment during the six months ended September 30, 2018 increased by \$1.2 million, compared to the same period of the prior fiscal year, mainly due to the higher amount of tooling purchases.

Net cash used in financing activities was \$151.2 million, primarily for the \$114.0 million payment of cash dividend, \$19.9 million in repurchases of our registered shares, and \$27.4 million tax withholdings related to net share settlements of restricted stock units, partially offset by \$10.0 million in proceeds received from exercises of stock options and purchase rights.

During the six months ended September 30, 2018, there was a \$9.2 million loss from currency exchange rate effect on cash and cash equivalents, compared to a gain of \$1.7 million during the same period of the prior fiscal year. The loss from currency exchange rate effect during the six months ended September 30, 2018 was primarily due to the weakening of the Euro, Chinese Renmibi, Brazilian Real, and Japanese Yen against the U.S. Dollar by 6%, 9%, 18% and 6%, respectively, during the period. The gain from currency translation exchange effect during the six months ended September 30, 2017 was primarily due to the strengthening of the Euro against the U.S. Dollar by 10% during the period.

## Cash Outlook

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

In fiscal year 2019, we paid a cash dividend of CHF 110.7 million (U.S. Dollar amount of \$114.0 million) out of retained earnings. In fiscal year 2018, we paid a cash dividend of CHF100.0 million (U.S. Dollar amount of \$104.2 million) out of retained earnings. Any future dividends will be subject to the approval of our shareholders.

In March 2017, our Board of Directors approved 2017 share buyback program, which authorizes us to purchase up to \$250.0 million of our outstanding shares. The new program was approved by the Swiss Takeover Board in May 2017. Although we enter into trading plans for systematic repurchases (e.g., 10b5-1 trading plans) from time to time, our share buyback program provides us with the opportunity to make repurchases during periods of favorable market conditions and is expected to remain in effect for a period of three years. Shares may be repurchased from time to time on the open market, through block trades or otherwise. Opportunistic purchases may be started or stopped at any time



without prior notice depending on market conditions and other factors. As of September 30, 2018, \$200.0 million is still available for repurchase under the 2017 share buyback program.

The annual bonus is paid in the first quarter of the following fiscal year, and the operating cash flow for that period is negatively affected as a result.

If we do not generate sufficient operating cash flows to support our operations and future planned cash requirements, our operations could be harmed and our access to credit could be restricted or eliminated. However,

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we believe that the trend of our historical cash flow generation, our projections of future operations and our available cash balances will provide sufficient liquidity to fund our operations for at least the next 12 months.

### Operating Leases Obligation

We lease facilities under operating leases, certain of which require us to pay property taxes, insurance and maintenance costs. Operating leases for facilities are generally renewable at our option and usually include escalation clauses linked to inflation. The remaining terms of our non-cancelable operating leases expire in various years through 2030.

### Purchase Commitments

As of September 30, 2018, we had non-cancelable purchase commitments for inventory purchases made in the normal course of business to original design manufacturers, contract manufacturers and other suppliers, the majority of which are expected to be fulfilled within the next 12 months. Non-cancelable purchase commitments for capital expenditures primarily relate to commitments for tooling for new and existing products, computer hardware, leasehold and improvements. We expect to continue making capital expenditures in the future to support product development activities and ongoing and expanded operations. Although open purchase commitments are considered enforceable and legally binding, the terms generally allow us to reschedule or adjust our requirements based on business needs prior to delivery of goods or performance of services.

### Other Contractual Obligations and Commitments

For further detail about our contractual obligations and commitments, refer to our Annual Report on Form 10-K for the fiscal year ended March 31, 2018.

### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

### Guarantees

Logitech Europe S.A., one of our wholly-owned subsidiaries, guaranteed payments of certain third-party contract manufacturers' purchase obligations. As of September 30, 2018, the maximum amount of this guarantee was \$3.8 million, of which \$1.5 million of guaranteed purchase obligations were outstanding.

### Indemnifications

We indemnify certain suppliers and customers for losses arising from matters such as intellectual property disputes and product safety defects, subject to certain restrictions. The scope of these indemnities varies, but in some instances includes indemnification for damages and expenses, including reasonable attorneys' fees. As of September 30, 2018, no amounts have been accrued for indemnification provisions. We do not believe, based on historical experience and information currently available, that it is probable that any material amounts will be required to be paid under our indemnification arrangements.

We also indemnify our current and former directors and certain current and former officers. Certain costs incurred for providing such indemnification may be recoverable under various insurance policies. We are unable to reasonably

estimate the maximum amount that could be payable under these arrangements because these exposures are not capped, the obligations are conditional in nature, and the facts and circumstances involved in any situation that might arise are variable.

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Legal Proceedings

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

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

Currency Exchange Rates

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

We are exposed to currency exchange rate risk as we transact business in multiple currencies, including exposure related to anticipated sales, anticipated purchases and assets and liabilities denominated in currencies other than the U.S. Dollar. We transact business in over 30 currencies worldwide, of which the most significant to operations are the Euro, Chinese Renminbi, Swiss Franc, Australian Dollar, Taiwan New Dollar, British Pound, Canadian Dollar, Japanese Yen and Mexican Peso. For the three months ended September 30, 2018, approximately 51% of our sales were in non-U.S. denominated currencies, with 24% of our sales denominated in Euro. The mix of our operating expenses by currency is significantly different from the mix of our sales, with a larger portion denominated in U.S. Dollar and less denominated in Euro and other currencies. A strengthening U.S. Dollar has more unfavorable impact on our sales compare to the favorable impact on our operating expense, resulting in an adverse impact on our operating results.

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If the U.S. Dollar becomes stronger or weaker in comparison to other currencies, this will affect our results of operations in future periods. The table below provides information about our underlying transactions that are sensitive to currency exchange rate changes, primarily assets and liabilities denominated in currencies other than the base currency, where the net exposure is greater than \$0.5 million as of September 30, 2018. The table also presents the U.S. Dollar impact on earnings of a 10% appreciation and a 10% depreciation of the base currency as compared with the transaction currency (in thousands):

| Base<br>Currency | Transaction<br>Currency | Net<br>Exposed<br>Long<br>(Short)<br>Currency<br>Position | FX Gain<br>(Loss) From<br>10%<br>Appreciation<br>of Base<br>Currency | FX Gain<br>(Loss) From<br>10%<br>Depreciation<br>of Base<br>Currency |
|------------------|-------------------------|---|--|--|
| U.S. Dollar      | Australian Dollar       | \$25,460  | \$ (2,315 )  | \$ 2,829   |
| U.S. Dollar      | Canadian Dollar         | 20,167  | (1,833 )   | 2,241  |
| U.S. Dollar      | Singapore Dollar        | (17,397 )   | 1,582  | (1,933 )   |
| U.S. Dollar      | Taiwanese Dollar        | (13,584 )   | 1,235  | (1,509 )   |
| U.S. Dollar      | Mexican Peso            | 11,067  | (1,006 )   | 1,230  |
| U.S. Dollar      | Brazilian Real          | 10,086  | (917 )   | 1,121  |
| U.S. Dollar      | Chinese Renminbi        | (7,804 )  | 709  | (867 )   |
| U.S. Dollar      | Japanese Yen            | 6,944   | (631 )   | 772  |
| U.S. Dollar      | Swiss Franc             | 2,843   | (258 )   | 316  |
| Euro             | Swedish Krona           | (2,837 )  | 258  | (315 )   |
| Euro             | Croatian Kuna           | 1,450   | (132 )   | 161  |
| Euro             | British Pound           | 1,295   | (118 )   | 144  |
| Euro             | U.S. Dollar             | 1,295   | (118 )   | 144  |
| Euro             | Russian Ruble           | (1,235 )  | 112  | (137 )   |
| U.S. Dollar      | Korean Wan              | (1,223 )  | 111  | (136 )   |
| U.S. Dollar      | Indian Rupee            | (1,087 )  | 99   | (121 )   |
| U.S. Dollar      | Russian Ruble           | 1,005   | (91 )  | 112  |
| Euro             | Norwegian Kroner        | (997 )  | 91   | (111 )   |
| Euro             | Polish Zloty            | (943 )  | 86   | (105 )   |
| Euro             | Arab Emirates Dirham    | (913 )  | 83   | (101 )   |
| U.S. Dollar      | Swedish Krona           | (833 )  | 76   | (93 )  |
| U.S. Dollar      | Norwegian Kroner        | 594   | (54 )  | 66   |
| U.S. Dollar      | Hong Kong Dollar        | (502 )  | 46   | (56 )  |

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

Our principal manufacturing operations are located in China, with much of our component and raw material costs transacted in Chinese Renminbi. As of September 30, 2018, net liabilities held in CNY totaled \$7.8 million.

## Derivatives

We enter into cash flow hedge contracts to protect against exchange rate exposure of forecasted inventory purchases. These hedging contracts mature within four months. 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. Cash flows from such hedges are classified as operating activities in the condensed consolidated statements of cash flows. As of September 30, 2018,

the notional amounts of currency exchange forward contracts outstanding related to forecasted inventory purchases were \$89.1 million. As of March 31, 2018, there were no currency forward contracts outstanding related to forecasted inventory purchases. Deferred realized and unrealized gain and loss was not material as of September 30, 2018.

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We also enter into currency exchange forward and swap contracts to reduce the short-term effects of currency exchange rate fluctuations on certain currency receivables or payables denominated in currencies other than the functional currencies of our subsidiaries. These contracts generally mature within one month. The primary risk managed by using forward and swap contracts is the currency exchange rate risk. The gains or losses on these currency exchange contracts are recognized in earnings based on the changes in fair value. Cash flows from these contracts are classified as operating activities in the condensed consolidated statements of cash flows. The notional amounts of currency exchange contracts outstanding as of September 30, 2018 and March 31, 2018 relating to foreign currency receivables or payables were \$71.5 million and \$47.2 million, respectively. Open forward and swap contracts as of September 30, 2018 and March 31, 2018 consisted of contracts in Mexican Pesos, Japanese Yen, Canadian Dollars, Taiwan New Dollars and Australian Dollars to be settled at future dates at pre-determined exchange rates.



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ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Definition of Disclosure Controls

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

Limitations on the Effectiveness of Controls

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

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the fiscal quarter ended September 30, 2018, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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proceedings against us, whether meritorious or not, can have an adverse impact because of defense costs, diversion of management and operational resources, negative publicity and other factors. Any failure to obtain necessary licenses or other rights, or litigation arising out of intellectual property claims, could adversely affect our business.

ITEM 1A. RISK FACTORS

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

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

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

A significant portion of our quarterly retail sales typically occurs in the last weeks of each quarter, further increasing the difficulty in predicting quarterly revenues and profitability.

- Our sales are impacted by consumer demand and current and future global economic and political conditions, including trade restrictions and tariffs, and can, therefore, fluctuate abruptly and significantly during periods of uncertain economic conditions or geographic distress, as well as from shifts in distributor inventory practices and consumer buying patterns.

We must incur a large portion of our costs in advance of sales orders because we must plan research and production, order components, buy tooling equipment, and enter into development, sales and marketing, and other operating commitments prior to obtaining firm commitments from our customers. This makes it difficult for us to rapidly adjust our costs during the quarter in response to a revenue shortfall, which could adversely affect our operating results.

We engage in acquisitions and divestitures, and such activity varies from period to period. Such variance may affect our growth, our previous outlook and expectations, and comparisons of our operating results and financial statements between periods.

We have attempted to simplify our organization, to reduce operating costs through expense reduction and global workforce reductions, to reduce the complexity of our product portfolio, and to better align costs with our current business as we expand from PC accessories to growth opportunities in accessories and other products for music, gaming, video collaboration, digital home, mobile devices and other product categories. We may not achieve the cost savings or other anticipated benefits from these efforts, and the success or failure of such efforts may cause our operating results to fluctuate and to be difficult to predict.

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

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

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

Our product categories are characterized by short product life cycles, intense competition, frequent new product introductions, rapidly changing technology, dynamic consumer demand and evolving industry standards. As a

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result, we must continually innovate in our new and existing product categories, introduce new products and technologies, and enhance existing products in order to remain competitive.

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

- Identify new features, functionality and opportunities;
- Anticipate technology, market trends and consumer preferences;
- Develop innovative, high-quality, and reliable new products and enhancements in a cost-effective and timely manner;
- Distinguish our products from those of our competitors; and
- Offer our products at prices and on terms that are attractive to our customers and consumers.

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

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

As we introduce new or enhanced products, integrate new technology into new or existing products, or reduce the overall number of products offered, we face risks including, among other things, disruption in customers' ordering patterns, excessive levels of new and existing product inventories, revenue deterioration in our existing product lines, insufficient supplies of new products to meet customers' demand, possible product and technology defects, and a potentially different sales and support environment. Premature announcements or leaks of new products, features or technologies may exacerbate some of these risks by reducing the effectiveness of our product launches, reducing sales volumes of current products due to anticipated future products, making it more difficult to compete, shortening the period of differentiation based on our product innovation, straining relationships with our partners or increasing market expectations for the results of our new products before we have had an opportunity to demonstrate the market viability of the products. Our failure to manage the transition to new products or the integration of new technology into new or existing products could adversely affect our business, results of operations, operating cash flows and financial condition.

We believe sales of PCs will continue to decline, and that our future growth will depend on our diversified product growth opportunities beyond the PC, and if we do not successfully execute on our growth opportunities, if our growth opportunities are more limited than we expect or if our sales of PC peripherals are less than we expect, our operating

results could be adversely affected.

We have historically targeted peripherals for the PC platform. Consumer demand for PCs, especially in our traditional, mature markets such as North America, Western and Nordic Europe, Japan and Australia, has been declining and we expect it to continue to decline in the future. As a result, consumer demand for PC peripherals in many of our markets is slowing and, in some cases, declining and we expect this trend may continue.

Our sales of PC peripherals might be less than we expect due to a decline in business or economic conditions in one or more of the countries or regions, a greater decline than we expect in demand for our products, our inability

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to successfully execute our sales and marketing plans, or for other reasons. Global economic concerns, such as the varying pace of global economic recovery, political uncertainties created by policy changes such as Brexit, tariffs and policies that inhibit trade, the impact of sovereign debt issues in Europe, the impact of oil prices on Russia and other countries, conflicts with either local or global financial implications and economic slowdown in China, create unpredictability and add risk to our future outlook.

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

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

**Video Collaboration.** While we view the small and medium sized user groups opportunity to be large and relatively unaddressed, this is a new and evolving market segment that we and our competitors are developing. If the market opportunity proves to be sustainable, we expect increased competition from established competitors in the video conferencing market as well as from new entrants who are gaining traction as the industry comes to accept new technology and new solutions.

**Music.** We are focused on products for the consumption of digital music as a sales growth area. Competition in the mobile speaker and headphone categories is intense, and we expect it to increase. Moreover, the market for mobile speakers appears to be maturing with slower growth. If we are not able to grow our existing and acquired product lines and introduce differentiated products and marketing strategies to separate our products and brands from competitors' products and brands, our mobile speaker and audio headphone efforts will not be successful, and our business and results of operations could be adversely affected.

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

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

Each of these growth categories and many of the growth opportunities that we may pursue are subject to constant and rapidly changing and evolving technologies and evolving industry standards and may be replaced by new technology concepts or platforms. Some of these growth categories and opportunities are also characterized by short product cycles, frequent new product introductions and enhancements and rapidly changing and evolving consumer preferences with respect to design and features that require calculated risk-taking and fast responsiveness and result in short opportunities to establish a market presence. In addition, some of these growth categories and opportunities are characterized by price competition, erosion of premium-priced segments and average selling prices, commoditization, and sensitivity to general economic conditions and cyclical downturns. The growth opportunities and strength and number of competitors that we face in all of our product categories means that we are at risk of new competitors coming to market with more innovative products that are more attractive to customers than ours or priced more competitively. If we do not develop innovative and reliable peripherals and enhancements in a cost-effective and

timely manner that are attractive to consumers in these markets, if we are otherwise unsuccessful entering and competing in these growth categories or responding to our many competitors and to the rapidly changing conditions in these growth categories, if the growth categories in which we invest our limited resources do not emerge as the opportunities or do not produce the growth or profitability we expect, or when we expect it, or if we do not correctly anticipate changes and evolutions in technology and platforms, our business and results of operations could be adversely affected.



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If we are not able to maintain and enhance our brands, or if our brands or reputation are damaged, our reputation, business and operating results could be adversely affected.

We have developed long-term value in our brands and have invested significantly in design and in our existing and new brands over the past several years. We believe that our design and brands have significantly contributed to the success of our business and that maintaining and enhancing our brands is very important to our future growth and success. Maintaining and enhancing our brands will require significant investments and will depend largely on our future design, products and marketing, which may not be successful and may damage our brands. Our brands and reputation are also dependent on third parties, such as suppliers, manufacturers, distributors, retailers, product reviewers and the media as well as online consumer product reviews, consumer recommendations and referrals. It can take significant time, resources and expense to overcome negative publicity, reviews or perception. Any negative effect on our brands, regardless of whether it is in our control, could adversely affect our reputation, business and results of operations.

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

The peripherals industry is intensely competitive. Most of our product categories are characterized by large, well-financed competitors with strong brand names and highly effective research and development, marketing and sales capabilities, short product life cycles, continual performance enhancements, and rapid adoption of technological and product advancements by competitors in our retail markets. Many of our competitors have broad product portfolios across several of our product categories and are able to use the strength of their brands to move into adjacent categories. Our competitors have the ability to bring new products to market quickly and at competitive prices. We experience aggressive price competition and other promotional activities from our primary competitors and from less-established brands, including brands owned by retail customers known as house brands. In addition, our competitors may offer customers terms and conditions that may be more favorable than our terms and conditions and may require us to take actions to increase our customer incentive programs, which could impact our revenues and operating margins.

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

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

order to gain market share.

### Gaming

Competitors for our Gaming products include Razer USA, Corsair, SteelSeries, Turtle Beach and Kingston, among others.

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### Video Collaboration

Our competitors for Video Collaboration products are numerous across various categories with many new entrants. Competitors include Cisco Systems, Plantronics/Polycom, AVer Information, Yamaha, Yealink, Panacast, Crestron, Lenovo, and OWLLabs, among others.

### Music

**Mobile Speakers.** Our competitors for Bluetooth wireless speakers include Bose, Harman (owned by Samsung) and Beats (owned by Apple) among others. Harman is our largest competitor. Apple's ownership of Beats may impact our access to shelf space in Apple retail stores and adversely impact our ability to succeed in this important growth market. Personal voice assistants and other devices that offer music, such as Sonos, Amazon's Echo, Google Home and Apple HomePod also compete with our products. Amazon is also a significant distributor of our products.

**Audio & Wearables.** In the PC speakers category, our competitors include Bose, Cyber Acoustics, Phillips and Creative Labs. In the PC headset business, we face numerous competitors, including Plantronics, GN Netcom, Microsoft, Cisco Systems, Sennheiser, Yealink and Streamline among others. In-ear headphones competitors include Beats, Bose, Apple, Sennheiser, and others. In the microphone business, our competitors include Audio-Technica, Shure, Samson, Rode and MXL, among others.

### Smart Home

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

Competition in the home control market also exists in form of home automation platforms such as Smart Things (owned by Samsung), Amazon with their Echo product, Google Home and Nest (owned by Alphabet), Wink and many other startups. Many of these companies also integrate their products with Logitech's smart home and Harmony remote products.

### Creativity & Productivity

**Pointing Devices.** Apple, Microsoft and HP are our main competitors worldwide. We also experience competition and pricing pressure from less-established brands, including house brands and local competitors in Asian markets such as Elecom, Buffalo, Rapoo and Xiaomi.

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

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

**PC Webcams.** Our primary competitors for PC webcams are Microsoft and HP with various other manufacturers taking smaller market share. Razer has entered the market recently, targeting gamecasters.

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

Our peripherals business has historically been built largely around the PC platform, which over time became relatively open, and its inputs and operating system standardized. With the growth of mobile, tablet, gaming and other computer devices, digital music and personal voice assistants, 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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As we expand within and into new product categories, our products in those categories may have lower gross margins than in our traditional product categories. Consumer demand in these product categories, based on style, color and other factors, tends to be less predictable and tends to vary more across geographic markets. As a result, we may face

higher up-front investments, inventory costs associated with attempting to anticipate consumer preferences, and increased inventory write-offs. If we are unable to offset these potentially lower margins by enhancing the margins in our more traditional product categories, our profitability may be adversely affected.

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



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

Our strategy over the past several years has been based in part on simplifying the organization, reducing operating costs through global workforce reductions and a reduction in the complexity of our product portfolio, with the goal of better aligning costs with our current business. We restructured our business in fiscal years 2014 through 2016, and we may continue to divest or discontinue non-strategic product categories. During the third quarter of fiscal year 2016, we divested our Lifesize video conferencing business and completed our exit from the OEM business. In fiscal year 2019, we are realigning our organizational structure and reallocating resources to support long-term growth opportunities. In addition, we are continuing the rationalization of our general and administrative expense, infrastructure and indirect procurement to reduce operating expenses.

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

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

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

We continue to review our product portfolio and update our non-strategic product categories and products. During the third quarter of fiscal year 2016, we divested our Lifesize video conferencing business and completed our exit from the OEM business. If we are unable to effect sales on favorable terms or if realignment is more costly or distracting than we expect or has a negative effect on our organization, employees and retention, then our business and operating results may be adversely affected. Discontinuing products with service components may also cause us to continue to incur expenses to maintain services within the product life cycle or to adversely affect our customer and consumer relationships and brand. Divestitures may also involve warranties, indemnification or covenants that could restrict our business or result in litigation, additional expenses or liabilities. In addition, discontinuing product categories, even categories that we consider non-strategic, reduces the size and diversification of our business and causes us to be more dependent on a smaller number of product categories.

As we attempt to grow our business in strategic product categories and emerging market geographies, we will consider growth through acquisition or investment. We will evaluate acquisition opportunities that could provide us

with additional product or service offerings or with additional industry expertise, assets and capabilities. For example, we acquired ASTRO Gaming to expand into the console gaming market, we acquired Jaybird to expand into the wireless audio wearables market, we acquired Saitek to expand into the gaming simulation and controller markets, and we acquired Blue Microphones to expand into the microphones market. Acquisitions could result in difficulties integrating acquired operations, products, technology, internal controls, personnel and management teams and result in the diversion of capital and management's attention away from other business issues and opportunities. If we fail to successfully integrate acquisitions, our business could be harmed. Acquisitions could also result in the assumption of known and unknown liabilities, dilutive issuances of our equity securities, the incurrence of debt, disputes over earn-outs or other litigation, and adverse effects on relationships with our and our target's

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employees, customers and suppliers. Moreover, our acquisitions may not be successful in achieving our desired strategy, product, financial or other objectives or expectations, which would also cause our business to suffer. Acquisitions can also lead to large non-cash charges that can have an adverse effect on our results of operations as a result of write-offs for items such as future impairments of intangible assets and goodwill or the recording of share-based compensation. Several of our past acquisitions have not been successful and have led to impairment charges, including a \$122.7 million non-cash goodwill impairment charge in fiscal year 2015 related to our Lifesize video conferencing business which is reported in discontinued operations. Acquisitions and divestitures may also cause our operating results to fluctuate and make it difficult for investors to compare operating results and financial statements between periods. In addition, from time to time we make strategic venture investments in other companies that provide products and services that are complementary to ours. If these investments are unsuccessful, this could have an adverse impact on our results of operations, operating cash flows and financial condition.

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

We primarily sell our products to a network of distributors, retailers and e-tailers (together our direct sales channel partners). We are dependent on those direct sales channel partners to distribute and sell our products to indirect sales channel partners and ultimately to consumers. The sales and business practices of all such sales channel partners, their compliance with laws and regulations, and their reputations - of which we may or may not be aware - may affect our business and our reputation.

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

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

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

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

We use sell-through data, which represents sales of our products by our direct retailer and e-tailer customers to consumers, and by our distributor customers to their customers, along with other metrics, to assess consumer demand for our products. Sell-through data is subject to limitations due to collection methods and the third-party

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nature of the data and thus may not be an accurate indicator of actual consumer demand for our products. In addition, the customers supplying sell-through data vary by geographic region and from period to period, but typically represent a majority of our retail sales. In addition, we rely on channel inventory data from our sales channel partners. If we do not receive this information on a timely and accurate basis, or if we do not properly interpret this information, our results of operations and financial condition may be adversely affected.

Our principal manufacturing operations and third-party contract manufacturers are located in China and Southeast Asia, which exposes us to risks associated with doing business in that geographic area as well as potential tariffs, adverse tax consequences and pressure to move or diversify our manufacturing locations.

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

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

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

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

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, if our manufacturers, distribution logistics providers or transport providers are not able to successfully and timely process our business or if we do not receive timely and accurate information from such providers, and especially if we expand into new product categories or our business grows in volume, we may have an insufficient supply of products to meet customer demand, we could lose sales, we may experience a build-up in inventory, we may incur additional costs, and our financial performance and reporting may be adversely affected.

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

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

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

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

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

The moral and regulatory imperatives to avoid purchasing conflict minerals are causing us to incur additional expenses, could limit the supply and increase the cost of certain metals used in manufacturing our products and could adversely affect the distribution and sales of our products.

As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC adopted disclosure requirements regarding the use of certain minerals, known as conflict minerals, which are mined from the Democratic Republic of Congo and adjoining countries, as well as procedures regarding a manufacturer's efforts to identify and prevent the sourcing of such minerals and metals produced from those minerals. Additional reporting obligations are being considered by the European Union. The implementation of the existing U.S. requirements and any additional requirements in Europe could affect sourcing at competitive prices and availability in sufficient quantities of certain minerals used in the manufacture of our products. The number of suppliers who provide conflict-free minerals may be limited, and the implementation of these requirements may decrease the number of suppliers capable of supplying our needs for certain metals. In addition, there may be material costs associated with complying with the disclosure requirements, such as costs related to the due diligence process of determining the source of certain minerals used in our products, as well as costs of possible changes to products, processes, or sources of supply as a consequence of such verification activities. As our supply chain is complex and we use contract manufacturers for some of our products, we may not be able to sufficiently verify the origins of the relevant minerals used in our products through the due diligence procedures that we implement, which may adversely affect our reputation. We may also encounter challenges to satisfy those customers who require that all of the components of our products be certified as conflict-free, which could, if we are unable to satisfy their requirements or pass through any increased costs associated with meeting their requirements place us at a competitive disadvantage, adversely affect our business and operating results, or both. We filed our report for the calendar year 2017 with the SEC on May 31, 2018.

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

We conduct operations in a number of countries and have invested significantly in growing our personnel and sales and marketing activities in China and, to a lesser extent, other emerging markets. We may also increase our investments to grow sales in other emerging markets, such as Latin America, Eastern Europe, the Middle East and Africa. There are risks inherent in doing business in international markets, including:

• Difficulties in staffing and managing international operations;

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Compliance with laws and regulations, including environmental, tax, import/export and anti-corruption laws, which vary from country to country and over time, increasing the costs of compliance and potential risks of non-compliance;

- Varying laws, regulations and other legal protections, uncertain and varying enforcement of those laws and regulations, dependence on local authorities, and the importance of local networks and relationships;



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Exposure to political and financial instability, especially with the uncertainty associated with the ongoing sovereign debt crisis in certain Euro zone countries and the stability of the European Union, which may lead to reduced sales, currency exchange losses and collection difficulties or other losses;

Political and economic uncertainty around the world, including uncertainty resulting from the recent United States presidential and congressional elections, change of administration in the United States and the United Kingdom's referendum in June 2016, and other national elections and policy shifts;

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

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

- Lack of infrastructure or services necessary or appropriate to support our products and services;

- Exposure to fluctuations in the value of local currencies;

Difficulties and increased costs in establishing sales and distribution channels in unfamiliar markets, with their own market characteristics and competition, including entrenched local competition;

- Weak protection of our intellectual property rights;

- Higher credit risks;

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

- Imposition of currency exchange controls;

- Delays from customs brokers or government agencies; and

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

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

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

Changes in trade policy in the United States and other countries, including changes in trade agreements and the imposition of tariffs and the resulting consequences, may have adverse impacts on our business, results of operations and financial condition.

The U.S. government has indicated and demonstrated its intent to alter its approach to international trade policy through the renegotiation, and potential termination, of certain existing bilateral or multi-lateral trade agreements and treaties with, and the imposition of tariffs on a wide range of products and other goods from, China, countries in EMEA and other countries. As noted previously, we have invested significantly in our manufacturing facilities in China and Southeast Asia. Given our manufacturing in those countries, and our lack of manufacturing elsewhere, policy changes in the United States or other countries, such as the tariffs already proposed, implemented and

threatened in 2018, present particular risks for us. Tariffs already announced and implemented are having an adverse effect on certain of our products, tariffs announced but not yet implemented may have an adverse effect on many of our products, and threatened tariffs could adversely affect more or all of our products. There are also risks associated with retaliatory tariffs and resulting trade wars. We cannot predict future trade policy, the terms of any renegotiated trade agreements or treaties, or tariffs and their impact on our business. A trade war could have a significant adverse effect on world trade and the world economy. To the extent that trade tariffs and other restrictions imposed by the United States or other countries increase the price of, or limit the amount of, our products or components or materials used in our products imported into the United States or other countries, or create adverse tax consequences, the cost or gross margin of our products may be adversely affected

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and the demand from our customers for products and services may be diminished. If we deem it necessary to alter all or a portion of our activities or operations in response to such policies, agreements or tariffs, our capital and operating costs may increase. Our ongoing efforts to address these risks may not be effective and may have long-term adverse effects on our operations and operating results that we may not be able to reverse. Such efforts may also take time to implement or to have effect, and may result in adverse quarterly financial results or fluctuations in our quarterly financial results. As a result, changes in international trade policy, changes in trade agreements and tariffs could adversely affect our business, results of operations and financial condition.

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

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

Our primary exposure to movements in currency exchange rates relates to non-U.S. Dollar-denominated sales and operating expenses worldwide. For the three months ended September 30, 2018, approximately 51% of our revenue was in non-U.S. denominated currencies. The weakening of currencies relative to the U.S. Dollar adversely affects the U.S. Dollar value of our non-U.S. Dollar-denominated sales and earnings. If we raise international pricing to compensate, it could potentially reduce demand for our products, adversely affecting our sales and potentially having an adverse impact on our market share. Margins on sales of our products in non-U.S. Dollar-denominated countries and on sales of products that include components obtained from suppliers in non-U.S. Dollar-denominated countries could be adversely affected by currency exchange rate fluctuations. In some circumstances, for competitive or other reasons, we may decide not to raise local prices to fully offset the U.S. Dollar's strengthening, which would adversely affect the U.S. Dollar value of our non-U.S. Dollar-denominated sales and earnings. Competitive conditions in the markets in which we operate may also limit our ability to increase prices in the event of fluctuations in currency exchange rates. Conversely, strengthening of currency rates may also increase our product component costs and other expenses denominated in those currencies, adversely affecting operating results. We further note that a larger portion of our sales than of our expenses are denominated in non-U.S. denominated currencies.

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

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

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

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

As a Swiss company with shares listed on both the SIX Swiss Exchange and the Nasdaq Global Select Market, we are also subject to both Swiss and United States corporate governance and securities laws and regulations. In addition to the extra costs and regulatory burdens of our dual regulatory obligations, the two regulatory regimes may not always be compatible and may impose disclosure obligations, operating restrictions or tax effects on our business to which our competitors and other companies are not subject. For example, on January 1, 2014, subject to certain transitional provisions, the Swiss Federal Council Ordinance Against Excessive Compensation at Public Companies (the Ordinance) became effective in connection with the Minder initiative approved by Swiss voters during 2013. The Ordinance, among other things, (a) requires a binding shareholder “say on pay” vote with respect

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to the compensation of members of our executive management and Board of Directors, (b) generally prohibits the making of severance, advance, transaction premiums and similar payments to members of our executive management and Board of Directors, (c) imposes other restrictive compensation practices, and (d) requires that our articles of incorporation specify various compensation-related matters. In addition, during 2013, Swiss voters considered an initiative to limit pay for a chief executive officer to a multiple of no more than twelve times the salary of the lowest-paid employee. Although voters rejected that initiative, it did receive substantial voter support. The Ordinance, potential future initiatives relating to corporate governance or executive compensation, and Swiss voter sentiment in favor of such regulations may increase our non-operating costs and adversely affect our ability to attract and retain executive management and members of our Board of Directors.

We prepare our consolidated financial statements in accordance with GAAP which are subject to interpretation or changes by the FASB, the SEC and other various bodies formed to promulgate and interpret appropriate accounting principles. New accounting pronouncements and changes in accounting principles have occurred in the past and are expected to occur in the future which may have a significant effect on our financial results or our compliance with regulations.

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

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

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

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

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

We have been expanding the categories of products we sell, such as entering new markets and introducing products for tablets, other mobile devices, digital music, and video collaboration. We expect to continue to enter new categories and markets. As we do so, we face an increased risk that claims alleging we infringe the patent or other intellectual property rights of others, regardless of the merit of the claims, may increase in number and significance. Infringement claims against us may also increase as the functionality of video, voice, data and conferencing products begin to overlap. This risk is heightened by the increase in lawsuits brought by holders of patents that do not have an operating business or are attempting to license broad patent portfolios and by the increasing attempts by companies in the technology industries to enjoin their competitors from selling products that

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they claim infringe their intellectual property rights. Intellectual property lawsuits are subject to inherent uncertainties due to the complexity of the technical issues involved, and we cannot be certain that we will be successful in defending ourselves against intellectual property claims. A successful claimant could secure a judgment that requires us to pay substantial damages or prevents us from distributing certain products or performing certain services. We might also be required to seek a license for the use of such intellectual property, which may not be available on commercially acceptable terms or at all. Alternatively, we may be required to develop non-infringing technology, which could require significant effort and expense and may ultimately not be successful. Any claims or proceedings against us, whether meritorious or not, could be time consuming, result in costly litigation or the diversion of significant operational resources, or require us to enter into royalty or licensing agreements, any of which could materially and adversely affect our business and results of operations.

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

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

We hold various United States patents and pending applications, together with corresponding patents and pending applications from other countries. It is possible that any patent owned by us will be invalidated, deemed unenforceable, circumvented or challenged, that the patent rights granted will not provide competitive advantages to us, or that any of our pending or future patent applications will not be granted. In addition, other intellectual property laws or our confidentiality procedures and contractual provisions may not adequately protect our intellectual property. Also, others may independently develop similar technology, duplicate our products, or design around our patents or other intellectual property rights. Unauthorized parties have copied and may in the future attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Any of these events could adversely affect our business, financial condition and operating results.

Product quality issues could adversely affect our reputation, business and 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 liability claims and litigation, product redesign efforts, lost revenue, loss of reputation, and significant warranty and other expenses to remedy.

While we maintain reserves for reasonably estimable liabilities and purchase liability insurance, our reserves may not be adequate to cover such claims and liabilities and our insurance is subject to deductibles and may not be adequate to cover such claims and liabilities. Furthermore, our contracts with distributors and retailers may contain warranty, indemnification and other provisions related to product quality issues, and claims under those provisions may adversely affect our business and operating results.

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

As a consumer electronics company, our websites are an important presentation of our company, identity and brands and an important means of interaction with and source of information for consumers of our products. We also rely on

our centralized information technology systems for product-related information and to store intellectual property, forecast our business, maintain financial records, manage operations and inventory, and operate other critical functions. We allocate significant resources to maintain our information technology systems and deploy network security, data encryption, training and other measures to protect against unauthorized access or misuse. Nevertheless, our websites and information technology systems are susceptible to damage, disruptions or shutdowns due to power outages, hardware failures, structural or operational failures, computer viruses, attacks by computer hackers, other data security issues, telecommunication failures, user error, malfeasance, catastrophes, system or software upgrades, integration or migration, or other foreseeable and unforeseen events. From time to time, we and our suppliers have identified vulnerabilities or other issues that we believe have been addressed, and we expect such issues to continue to arise. Breaches or disruptions of our websites or information technology



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systems, breaches of confidential information, data corruption or other data security issues could adversely affect our brands, reputation, relationships with customers or business partners, or consumer or investor perception of our company, business or products or result in disruptions of our operations, loss of intellectual property or our customers' or our business partners' data, reduced value of our investments in our brands, design, research and development or engineering, or costs to address regulatory inquiries or actions or private litigation, to respond to customers or partners or to rebuild or restore our websites or information technology systems.

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

In connection with certain of our products, we collect data related to our consumers. This information is increasingly subject to legislation and regulations in numerous jurisdictions around the world, and especially in Europe. For example, the European Union adopted the General Data Protection Regulation (GDPR), which is applicable to us and to all companies processing data of European Union residents, became effective in May 2018 and imposes significant fines and sanctions for violation of the Regulation. Government actions are typically intended to protect the privacy and security of personal information and its collection, storage, transmission, use and distribution in or from the governing jurisdiction. In addition, because various jurisdictions have different laws and regulations concerning the use, storage and transmission of such information, we may face requirements that pose compliance challenges in existing markets as well as new international markets that we seek to enter. The collection of user data heightens the risk of security breaches and other data security issues related to our IT systems and the systems of third-party data storage and other service and IT providers. Such laws and regulations, and the variation between jurisdictions, as well as additional security measures and risk, could subject us to costs, allocation of additional resources, liabilities or negative publicity that could adversely affect our business.

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

In connection with Section 404 of the Sarbanes-Oxley Act, we have identified in the past and may, from time-to-time in the future, identify issues with our internal controls and deficiencies in our internal control over financial reporting. The most recent material weakness was identified during the preparation of our audited financial statements for the year ended March 31, 2017, and was related to the allowances and accruals for customer incentives, cooperative marketing and pricing programs. In the past, we have identified other material weaknesses in our internal control over financial reporting, as described in our Annual Reports on Form 10-K for fiscal year 2017, certain of which resulted in late filings of and an amendment to our periodic reports and in restatements of our financial results. A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. If our remediation efforts are not effective or if additional material weaknesses or significant deficiencies in our internal controls are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results, we could be subject to litigation which, whether meritorious or not, remediation efforts could be time consuming, costly and/or divert significant operational resources, we could lose investor confidence in the accuracy and completeness of our financial reports, and our reputation, business, results of operations and stock price could be adversely affected.

We cannot ensure that our current share repurchase program will be fully utilized or that it will enhance long-term shareholder value. Share repurchases may also increase the volatility of the trading price of our shares. We similarly cannot ensure that we will continue to increase our dividend payments or to pay dividends at all. Share repurchases and dividends diminish our cash reserves.

In March 2017, our Board of Directors authorized a three-year \$250.0 million repurchase program of our registered shares. We have also paid cash dividends and increased the size of our dividend, each year since fiscal year 2013. Our share repurchase program and dividend policy may be affected by many factors, including general business and economic conditions, our financial condition and operating results, our views on potential future capital requirements, restrictions imposed in any future debt agreements, the emergence of alternative investment or acquisition opportunities, changes in our business strategy, legal requirements, changes in tax laws, and other factors. Our share repurchase program does not obligate us to repurchase all or any of the dollar value of shares authorized for repurchase. The program could also increase the volatility of the trading price of our shares. Similarly, we are not obligated to pay dividends on our registered shares. Under Swiss law, we may only pay

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dividends upon the approval of a majority of our shareholders, which is under the discretion of and generally follows a recommendation by our Board of Directors that such a dividend is in the best interests of our shareholders. There can be no assurance that our Board of Directors will continue to recommend, or that our shareholders will approve, dividend increases or any dividend at all. If we do not pay a regular dividend, we may lose the interest of investors that focus their investments on dividend-paying companies, which could create downward pressure on our share price. Any announcement of a termination or suspension of our share repurchase program or dividend may result in a decrease in our share price. The share repurchase program and payment of cash dividends could also diminish our cash reserves that may be needed for investments in our business, acquisitions or other purposes. Without dividends, the trading price of our shares must appreciate for investors to realize a gain on their investment.

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

Goodwill associated with a number of previous acquisitions could result in impairment charges. The slowdown in the overall video conferencing industry together with the competitive environment in fiscal year 2013 resulted in a \$214.5 million non-cash goodwill impairment charge in fiscal year 2013, which substantially impacted results of discontinued operations. We recorded an additional impairment charge of goodwill of \$122.7 million related to our Lifesize video conferencing discontinued operations in fiscal year 2015, reducing its goodwill to zero, which substantially impacted results of discontinued operations again. If we divest or discontinue product categories or products that we previously acquired, or if the value of those parts of our business become impaired, we may need to evaluate the carrying value of our goodwill. Additional impairment charges could adversely affect our results of operations.

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

## Share Repurchases

In fiscal year 2019, the following approved share buyback program was in place (in thousands):

| Share Buyback Program | Shares<br>Approved | Approved<br>Amounts |
|-----------------------|--------------------|---------------------|
| March 2017            | 17,311             | \$250,000           |

The following table presents certain information related to purchases made by Logitech of its equity securities under the March 2017 share buyback program above (in thousands, except per share amounts):

| During the three months ended           | Total<br>Number of<br>Shares<br>Repurchased | Weighted<br>Average Price<br>Paid Per Share |               | Remaining<br>Amount that<br>May Yet Be<br>Repurchased<br>under the<br>Program |
|---|---|---|---------------|---|
|   |   | CHF<br>(LOGN)                               | USD<br>(LOGI) |   |
| Month 1                                 |   |   |               |   |
| July 1, 2018 to July 27, 2018           | 132   | 44.58                                       | —             | \$ 203,971  |
| Month 2                                 |   |   |               |   |
| July 28, 2018 to August 31, 2018        | 18  | 45.95                                       | —             | 203,139   |
| Month 3                                 |   |   |               |   |
| September 1, 2018 to September 28, 2018 | 68  | 44.43                                       | —             | 199,989   |
| Total                                   | 218   | 44.64                                       | —             | \$ 199,989  |

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

## ITEM 4. MINE SAFETY DISCLOSURES

None.

## ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit Index

Exhibit No. Description

|         |  |
|---------|--|
| 2.1     | *** <u>Stock Purchase Agreement, dated as of July 30, 2018, by and among Blue Microphones Holding Corporation, Riverside Micro-Cap Fund II, L.P., the other stockholders of Blue Microphones Holding Corporation, the optionholders of Blue Microphones Holding Corporation, Logitech Europe S.A. and, for purposes of Section 10.11 of the Stock Purchase Agreement only, Logitech Inc.</u> |
| 10.1    | ** <u>Representative form of restricted stock unit agreement (non-employee directors) under the Logitech International S.A. 2006 Stock Incentive Plan.</u>   |
| 31.1    | <u>Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.</u>  |
| 31.2    | <u>Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.</u>  |
| 32.1    | * <u>Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer.</u>   |
| 101.INS | XBRL Instance Document   |
| 101.SCH | XBRL Taxonomy Extension Schema Document  |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document   |
| 101.DEF | XBRL Taxonomy Definition Linkbase Document   |

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

\*\* Indicates management compensatory plan, contract or arrangement.

\*\*\* Confidential treatment has been requested for certain provisions omitted from this exhibit pursuant to Rule 406 promulgated under the Securities Act of 1933, as amended. The omitted information has been filed separately with the Securities and Exchange Commission.

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SIGNATURES

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

LOGITECH INTERNATIONAL S.A.

October 25,  
2018

~~D~~/s/ Bracken Darrell  
Bracken Darrell  
President and  
Chief Executive Officer

October 25,  
2018

~~D~~/s/ Vincent Pilette  
Vincent Pilette  
Chief Financial Officer