

LOGITECH INTERNATIONAL SA

Form 10-Q

October 23, 2015

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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, 2015

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
(State or other jurisdiction
of incorporation or organization)

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

Logitech International S.A.
Apples, Switzerland
c/o Logitech Inc.
7700 Gateway Boulevard
Newark, California 94560
(Address of principal executive offices and zip code)

(510) 795-8500
(Registrant's telephone number, including area code)

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

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

Yes No

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

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Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of October 14, 2015, there were 162,381,177 shares of the Registrant's share capital outstanding.

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

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

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PART I — FINANCIAL INFORMATION

ITEM 1. 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,	
	2015	2014	2015	2014
Net sales	\$539,862	\$530,311	\$1,010,182	\$1,012,514
Cost of goods sold	353,851	325,533	652,442	625,984
Gross profit	186,011	204,778	357,740	386,530
Operating expenses:				
Marketing and selling	89,877	95,862	177,304	186,908
Research and development	34,898	32,325	68,731	63,641
General and administrative	26,851	34,470	57,355	71,149
Restructuring charges, net	8,696	—	21,691	—
Total operating expenses	160,322	162,657	325,081	321,698
Operating income	25,689	42,121	32,659	64,832
Interest income, net	192	355	456	613
Other expense, net	(780)	(885)	(1,901)	(1,083)
Income before income taxes	25,101	41,591	31,214	64,362
Provision for income taxes	7,004	5,501	5,680	8,596
Net income	\$18,097	\$36,090	\$25,534	\$55,766
Net income per share:				
Basic	\$0.11	\$0.22	\$0.16	\$0.34
Diluted	\$0.11	\$0.22	\$0.15	\$0.34
Weighted average shares used to compute net income per share :				
Basic	163,515	163,230	163,957	163,121
Diluted	165,841	166,065	166,352	165,949
Cash dividends per share	\$0.53	\$—	\$0.53	\$—

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

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

	Three Months Ended		Six Months Ended		
	September 30,		September 30,		
	2015	2014	2015	2014	
Net income	\$18,097	\$36,090	\$25,534	\$55,766	
Other comprehensive income (loss):					
Currency translation gain (loss), net of taxes	(8) (3,852) 2,610	(3,651)
Defined benefit pension plans:					
Net gain and prior service costs, net of taxes	1,322	807	192	946	
Amortization included in operating expenses	417	109	833	222	
Hedging gain (loss):					
Deferred hedging gain (loss), net of taxes	1,088	3,505	(1,174	) 3,753
Reclassification of hedging loss (gain) included in cost of goods sold	(28	) (215	) (2,488	) 185
Other comprehensive income (loss):	2,791	354	(27	) 1,455
Total comprehensive income	\$20,888	\$36,444	\$25,507	\$57,221	

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)

	September 30, 2015 (unaudited)	March 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$365,774	\$537,038
Accounts receivable, net	274,730	179,823
Inventories	328,054	270,730
Other current assets	73,504	64,429
Total current assets	1,042,062	1,052,020
Non-current assets:		
Property, plant and equipment, net	108,184	91,593
Goodwill	218,207	218,213
Other intangible assets	666	1,866
Other assets	60,656	62,988
Total assets	\$1,429,775	\$1,426,680
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$356,686	\$299,995
Accrued and other current liabilities	231,688	194,912
Total current liabilities	588,374	494,907
Non-current liabilities:		
Income taxes payable	74,374	72,107
Other non-current liabilities	98,054	101,532
Total liabilities	760,802	668,546
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Registered shares, CHF 0.25 par value:	30,148	30,148
Issued and authorized shares —173,106 at September 30 and March 31, 2015		
Conditionally authorized shares — 50,000 at September 30 and March 31, 2015		
Additional paid-in capital	1,633	—
Less shares in treasury, at cost — 10,729 at September 30, 2015 and 8,625 at March 31, 2015	(119,337)	(88,951)
Retained earnings	869,793	930,174
Accumulated other comprehensive loss	(113,264)	(113,237)
Total shareholders' equity	668,973	758,134
Total liabilities and shareholders' equity	\$1,429,775	\$1,426,680

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

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

	Six Months Ended September 30,	
	2015	2014
Operating activities:		
Net income	\$25,534	\$55,766
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	22,237	19,692
Amortization of other intangible assets	1,226	5,358
Share-based compensation expense	13,257	12,999
Impairment of investment	180	105
Gain on disposal of property, plant and equipment	—	(10)
Excess tax benefits from share-based compensation	(1,163	) (666)
Deferred income taxes	952	(2,358)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	(95,403	) (73,561)
Inventories	(55,442	) (26,984)
Other assets	(8,511	) (5,640)
Accounts payable	50,361	60,112
Accrued and other liabilities	31,910	15,891
Net cash provided by (used in) operating activities	(14,862	) 60,704
Investing activities:		
Purchases of property, plant and equipment	(31,277	) (24,964)
Investment in privately held companies	(480	) (2,550)
Purchase of trading investments	(2,649	) (2,230)
Proceeds from sales of trading investments	2,855	2,545
Net cash used in investing activities	(31,551	) (27,199)
Financing activities:		
Payment of cash dividends	(85,915) —
Contingent consideration related to prior acquisition	—	(100)
Repurchases of ESPP awards	—	(1,078)
Purchases of treasury shares	(48,802) —
Proceeds from sales of shares upon exercise of options and purchase rights	11,103	1,533
Tax withholdings related to net share settlements of restricted stock units	(3,502	) (1,323)
Excess tax benefits from share-based compensation	1,163	666
Net cash used in financing activities	(125,953	) (302)
Effect of exchange rate changes on cash and cash equivalents	1,102	(2,393)
Net increase (decrease) in cash and cash equivalents	(171,264	) 30,810
Cash and cash equivalents, beginning of the period	537,038	469,412
Cash and cash equivalents, end of the period	\$365,774	\$500,222
Non-cash investing activities:		
Property, plant and equipment purchased during the period and included in period end liability accounts	\$12,981	\$1,568

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 Paid-in Capital	Treasury Shares		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount		Shares	Amount			
March 31, 2014	173,106	\$30,148	\$—	10,206	\$(116,510)	\$976,292	\$ (85,802)	\$ 804,128
Total comprehensive income	—	—	—	—	—	55,766	1,455	57,221
Tax effects from share-based awards	—	—	825	—	—	—	—	825
Sales of shares upon exercise of options and purchase rights	—	—	(881)	(134)	2,414	—	—	1,533
Issuance of shares upon vesting of restricted stock units	—	—	(5,443)	(225)	4,120	—	—	(1,323)
Share-based compensation expense	—	—	13,055	—	—	—	—	13,055
Repurchase of ESPP awards	—	—	(1,078)	—	—	—	—	(1,078)
September 30, 2014	173,106	\$30,148	\$ 6,478	9,847	\$(109,976)	\$1,032,058	\$ (84,347)	\$ 874,361

	Registered Shares		Additional Paid-in Capital	Treasury Shares		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount		Shares	Amount			
March 31, 2015	173,106	\$30,148	\$—	8,625	\$(88,951)	\$930,174	\$ (113,237)	\$ 758,134
Total comprehensive income (loss)	—	—	—	—	—	25,534	(27)	25,507
Tax effects from share-based awards	—	—	(727)	—	—	—	—	(727)
Sales of shares upon exercise of options and purchase rights	—	—	(2,452)	(987)	13,555	—	—	11,103
Issuance of shares upon vesting of restricted stock units	—	—	(8,363)	(411)	4,861	—	—	(3,502)
Share-based compensation expense	—	—	13,175	—	—	—	—	13,175
Purchases of treasury shares	—	—	—	3,502	(48,802)	—	—	(48,802)
Cash dividends	—	—	—	—	—	(85,915)	—	(85,915)
September 30, 2015	173,106	\$30,148	\$ 1,633	10,729	\$(119,337)	\$869,793	\$ (113,264)	\$ 668,973

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 — Summary of Significant Accounting Policies

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, 2015, included in its Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on June 5, 2015. 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, financial position, comprehensive income, cash flows and changes in shareholders' equity for the periods presented. Operating results for the three and six months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2016, or any future periods.

Fiscal Year

The Company’s fiscal year ends on March 31. Interim quarter ends on last Friday of each quarter. For purposes of presentation, the Company has indicated its quarterly periods as ending on the quarter end.

Changes in Significant Accounting Policies

There have been no substantial changes in the Company’s significant accounting policies during the six months ended September 30, 2015 compared with the significant accounting policies described in its Annual Report on Form 10-K for the fiscal year ended March 31, 2015.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make judgments, estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Examples of significant estimates and assumptions made by management involve the fair value of goodwill, warranty liabilities, accruals for discretionary customer programs, sales return reserves, allowance for doubtful accounts, inventory valuation, restructuring charges, contingent liabilities, uncertain tax positions, and valuation allowances for deferred tax assets. Although these estimates are based on management’s best knowledge of current events and actions that may impact the Company in the future, actual results could differ materially from those estimates.

Recent Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2015-11, "Simplifying the Measurement of Inventory (Topic 330)", ("ASU 2015-11"). Topic 330, Inventory, currently requires an entity to measure inventory at the lower of cost or market, with market value represented by replacement cost, net realizable value or net realizable value less a normal profit margin. The amendments in ASU 2015-11 require an entity

to measure inventory at the lower of cost or net realizable value. ASU 2015-11 is effective in the first quarter of fiscal year 2018 for the Company, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-9, "Revenue from Contracts with Customers (Topic 606)," ("ASU 2014-9"). ASU 2014-9 outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to

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which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 was originally to be effective for the Company on April 1, 2017. In July 2015, the FASB affirmed a one-year deferral of the effective date of the new revenue standard. The new standard will become effective for the Company on April 1, 2018. Early application is permitted but not before the original effective date of annual periods beginning after December 15, 2016. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. The Company has not yet selected a transition method nor has it determined the impact of the new standard on its condensed consolidated financial statements.

Note 2 — 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,	
	2015	2014	2015	2014
Net income	\$ 18,097	\$ 36,090	\$ 25,534	\$ 55,766
Shares used in net income per share computation:				
Weighted average shares outstanding - basic	163,515	163,230	163,957	163,121
Effect of potentially dilutive equivalent shares	2,326	2,835	2,395	2,828
Weighted average shares outstanding - diluted	165,841	166,065	166,352	165,949
Net income per share:				
Basic	\$0.11	\$0.22	\$0.16	\$0.34
Diluted	\$0.11	\$0.22	\$0.15	\$0.34

Share equivalents attributable to outstanding stock options and restricted stock units (RSUs) of 7.8 million and 8.3 million for the three months ended September 30, 2015 and 2014, respectively, and 7.6 million and 8.1 million for the six months ended September 30, 2015 and 2014, were anti-dilutive and excluded from the calculation of diluted net income per share.

Note 3 — Employee Benefit Plans

Employee Share Purchase Plans and Stock Incentive Plans

As of September 30, 2015, the Company offers the 2006 ESPP (2006 Employee Share Purchase Plan (Non-U.S.)), the 1996 ESPP (1996 Employee Share Purchase Plan (U.S.)), the 2006 Plan (2006 Stock Incentive Plan) and the 2012 Plan (2012 Stock Inducement Equity Plan).

The following table summarizes the share-based compensation expense and related tax benefit recognized for the three and six months ended September 30, 2015 and 2014 (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2015	2014	2015	2014
Cost of goods sold	\$580	\$627	\$1,185	\$1,165
Marketing and selling	2,062	1,653	4,180	4,209
Research and development	756	552	1,543	1,396
General and administrative	3,110	3,229	6,342	6,229
Restructuring	—	—	7	—

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Total share-based compensation expense	6,508	6,061	13,257	12,999
Income tax provision (benefit)	304	(1,913)	(1,033)	(3,097)
Total share-based compensation expense, net of income tax	\$6,812	\$4,148	\$12,224	\$9,902

As of September 30, 2015 and March 31, 2015, the Company capitalized \$0.4 million and \$0.5 million of stock-based compensation expenses as inventory, respectively.

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Defined Benefit Plans

Certain of the Company's subsidiaries sponsor defined benefit pension plans or non-retirement post-employment benefits covering substantially all of their employees. Benefits are provided based on employees' years of service and earnings, or in accordance with applicable employee benefit regulations. The Company's practice is to fund amounts sufficient to meet the requirements set forth in the applicable employee benefit and tax regulations. The cost recorded of \$2.9 million and \$1.9 million for the three months ended September 30, 2015 and 2014, respectively, and \$5.8 million and \$3.9 million for the six months ended September 30, 2015 and 2014, respectively, was primarily related to service costs.

Note 4 — Income Taxes

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

The income tax provision for the three months ended September 30, 2015 was \$7.0 million based on an effective income tax rate of 27.9% of pre-tax income, compared to an income tax provision of \$5.5 million based on an effective income tax rate of 13.2% of pre-tax income for the three months ended September 30, 2014. The income tax provision for the six months ended September 30, 2015 was \$5.7 million based on an effective income tax rate of 18.2% of pre-tax income, compared to an income tax provision of \$8.6 million based on an effective income tax rate of 13.4% of pre-tax income for the six months ended September 30, 2014.

The change in the effective income tax rate for the three and six months ended September 30, 2015, compared to the three and six months ended September 30, 2014, is due to the mix of income and losses in the various tax jurisdictions in which the Company operates. In addition, in determining the annual effective tax rate of fiscal year 2016, there is no tax benefit recognized for ordinary losses related to the video conferencing business as realization of the tax benefit of the losses is not assured beyond any reasonable doubt. In the three months ended September 30, 2015, a discrete tax provision of \$1.5 million resulting from a write-off to a deferred tax asset related to stock equity awards for the video conferencing business was largely offset by a discrete tax benefit from the reversal of uncertain tax positions from the expiration of statutes of limitations. In the three months ended September 30, 2014, there was a discrete tax benefit of \$1.7 million, primarily from the reversal of uncertain tax positions resulting from the expiration of statutes of limitations and audit settlements in certain jurisdictions.

There was a discrete tax benefit of \$2.2 million and \$0.8 million in the six months ended September 30, 2015 and 2014, respectively, resulting from the preferential income tax rate reduction pursuant to the High and New Technology Enterprise Program in China.

As of September 30 and March 31, 2015, the total amount of unrecognized tax benefits due to uncertain tax positions was \$80.4 million and \$79.0 million, respectively, all of which would affect the effective income tax rate if recognized.

The Company had \$74.4 million in non-current income taxes payable and \$0.1 million in current income taxes payable, including interest and penalties, related to our income tax liability for uncertain tax positions as of September 30, 2015, compared to \$72.1 million in non-current income taxes payable and \$0.1 million in current income taxes payable as of March 31, 2015.

The Company recognizes interest and penalties related to unrecognized tax positions in income tax expense. As of September 30 and March 31, 2015, the Company had \$4.7 million and \$4.9 million of accrued interest and penalties related to uncertain tax positions, respectively.

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 2016, the Company will continue to review its tax positions and provide for or reverse unrecognized tax benefits as issues arise. During the next 12 months, it is reasonably possible that the amount of unrecognized tax benefits could increase or decrease significantly due to changes in tax law in various jurisdictions, new tax audits and changes in the U.S. dollar as compared to other currencies. Excluding these factors, uncertain tax positions

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may decrease by as much as \$17.2 million from the lapse of the statutes of limitations in various jurisdictions during the next 12 months.

Note 5— Balance Sheet Components

The following table presents the components of certain balance sheet asset amounts as of September 30 and March 31, 2015 (in thousands):

	September 30, 2015	March 31, 2015
Accounts receivable, net:		
Accounts receivable	\$492,274	\$344,455
Allowance for doubtful accounts	(1,078	) (1,093
Allowance for sales returns	(20,185	) (17,901
Allowance for cooperative marketing arrangements	(34,938	) (25,700
Allowance for customer incentive programs	(65,055	) (48,497
Allowance for pricing programs	(96,288	) (71,441
	\$274,730	\$179,823
Inventories:		
Raw materials	\$59,286	\$36,376
Finished goods	268,768	234,354
	\$328,054	\$270,730
Other current assets:		
Income tax and value-added tax receivables	\$25,662	\$19,403
Deferred tax assets	28,879	27,790
Prepaid expenses and other assets	18,963	17,236
	\$73,504	\$64,429
Property, plant and equipment, net:		
Property, plant and equipment	376,795	349,235
Less: accumulated depreciation and amortization	(268,611	) (257,642
	\$108,184	\$91,593
Other assets:		
Deferred tax assets	\$36,799	\$39,310
Trading investments for deferred compensation plan	15,577	17,237
Other assets	8,280	6,441
	\$60,656	\$62,988

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The following table presents the components of certain balance sheet liability amounts as of September 30 and March 31, 2015 (in thousands):

	September 30, 2015	March 31, 2015
Accrued and other current liabilities:		
Accrued personnel expenses	\$55,703	\$50,015
Indirect customer incentive programs	26,660	19,730
Accrued restructuring	11,661	966
Deferred revenue	24,552	24,987
Warranty accrual	12,091	12,630
Employee benefit plan obligation	1,717	1,232
Income taxes payable	4,264	5,794
Other current liabilities	95,040	79,558
	\$231,688	\$194,912
Non-current liabilities:		
Warranty accrual	\$8,308	\$9,080
Obligation for deferred compensation plan	15,577	17,237
Long term restructuring	71	73
Employee benefit plan obligation	50,195	51,181
Deferred rent	10,767	11,519
Deferred tax liability	1,823	1,936
Long term deferred revenue	9,663	9,109
Other non-current liabilities	1,650	1,397
	\$98,054	\$101,532

Note 6— 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, excluding assets related to the Company's defined benefit pension plans, classified by the level within the fair value hierarchy (in thousands):

	September 30, 2015		March 31, 2015	
	Level 1	Level 2	Level 1	Level 2
Cash equivalents:				
Cash equivalents	\$35,050	\$—	\$264,647	\$—
	\$35,050	\$—	\$264,647	\$—
Trading investments for deferred compensation plan:				
Money market funds	\$3,326	\$—	\$2,936	\$—
Mutual funds	12,251	—	14,301	—
	\$15,577	\$—	\$17,237	\$—
Foreign exchange derivative assets	\$—	\$806	\$—	\$2,080
Foreign exchange derivative liabilities	\$—	\$88	\$—	\$75

There were no material Level 3 financial assets as of September 30 or March 31, 2015.

Investment Securities

The marketable securities for the Company's deferred compensation plan are recorded at a fair value of \$15.6 million and \$17.2 million as of September 30, 2015 and March 31, 2015, 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 or six months ended September 30, 2015 and 2014 were not significant and are included in other expense, net.

Derivative Financial Instruments

Under certain agreements with the respective counterparties to the Company's derivative contracts, subject to applicable requirements, the Company is allowed to net settle transactions of the same type with a single net amount payable by one party to the other. However, the Company presents its derivative assets and derivative liabilities on a gross basis on the Condensed Consolidated Balance Sheets as of September 30, 2015 and March 31, 2015.

The fair values of the Company's derivative instruments not designated as hedging instruments were not material as of September 30, 2015 or March 31, 2015. The following table presents the fair values of the Company's derivative instruments designated as hedging instruments and their accounting line presentation on its Condensed Consolidated Balance Sheets as of September 30, 2015 and March 31, 2015 (in thousands):

	Derivatives	
	Asset	Liability
	September 30, 2015	March 31, 2015
Cash flow hedges	\$806	\$2,080

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The amount of gain (loss) recognized on derivatives not designated as hedging instruments were not material in all periods presented herein. The following table presents the amounts of gains (losses) on the Company's derivative instruments designated as hedging instruments and their locations on its condensed consolidated statements of operations and condensed consolidated statements of comprehensive income for the three and six months ended September 30, 2015 and 2014 (in thousands):

	Three Months Ended September 30, Amount of Gain (Loss)						
	Deferred as a Component of Accumulated Other Comprehensive Loss After Reclassification to Costs of Goods Sold		Amount of Loss (Gain) Reclassified from Accumulated Other Comprehensive Loss to Costs of Goods Sold		Amount of Gain (Loss) Immediately Recognized in Other Expense, Net		
	2015	2014	2015	2014	2015	2014	
Cash flow hedges	\$1,060	\$3,290	\$ (28) \$ (215) \$75	\$(1)

	Six Months Ended September 30, Amount of Gain (Loss)						
	Deferred as a Component of Accumulated Other Comprehensive Loss After Reclassification to Costs of Goods Sold		Amount of Loss (Gain) Reclassified from Accumulated Other Comprehensive Loss to Costs of Goods Sold		Amount of Gain (Loss) Immediately Recognized in Other Expense, Net		
	2015	2014	2015	2014	2015	2014	
Cash flow hedges	\$ (3,662) \$3,938	\$ (2,488) \$ 185	\$ 143	\$(56)

Cash Flow Hedges

The Company enters into currency exchange forward contracts to hedge against exposure to changes in currency exchange rates related to its subsidiaries' forecasted inventory purchases. The Company has one entity with a euro functional currency that purchases inventory in U.S. Dollars. The primary risk managed by using derivative instruments is the currency exchange rate risk. However, there can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in currency exchange rates. The Company has designated these derivatives as cash flow hedges. These hedging contracts mature within four months, and are denominated in the same currency as the underlying transactions. Gains and losses in the fair value of the effective portion of the hedges are deferred as a component of accumulated other comprehensive loss until the hedged inventory purchases are sold, at which time the gains or losses are reclassified to cost of goods sold. The Company assesses the effectiveness of the hedges by comparing changes in the spot rate of the currency underlying the forward contract with changes in the spot rate of the currency in which the forecasted transaction will be consummated. If the underlying transaction being hedged fails to occur or if a portion of the hedge does not generate offsetting changes in the currency exposure of forecasted inventory purchases, the Company immediately recognizes the gain or loss on the associated financial instrument in other expense, net. Such gains and losses were not material during the three or six months ended September 30, 2015 and 2014. Cash flows from such hedges are classified as operating activities in the condensed consolidated statements of cash flows. The notional amounts of currency exchange forward contracts outstanding related to forecasted inventory purchases were \$63.4 million and \$43.5 million at September 30, 2015 and March 31, 2015, respectively. The Company estimates that \$0.3 million of net gains related to its cash flow hedges included in

accumulated other comprehensive loss as of September 30, 2015 will be reclassified into earnings within the next 12 months.

Other Derivatives

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

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The notional amounts of currency exchange forward and swap contracts outstanding as of September 30 and March 31, 2015 relating to foreign currency receivables or payables were \$60.8 million and \$61.7 million, respectively. Open forward and swap contracts outstanding at September 30, 2015 and March 31, 2015 consisted of contracts in Mexican Pesos, Japanese Yen, British Pounds, Taiwanese Dollars and Australian Dollars to be settled at future dates at pre-determined exchange rates.

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

Note 7 — Goodwill and Other Intangible Assets

In accordance with ASC Topic 350-10 (“ASC 350-10”), the Company conducts a goodwill impairment analysis annually at December 31 and as necessary if changes in facts and circumstances indicate that it is more likely than not that the fair value of the Company’s reporting units may be less than its carrying amount. There have been no events or circumstances during the six months ended September 30, 2015 that have required the Company to perform an interim assessment of goodwill.

As of September 30, 2015 and March 31, 2015, all of the Company’s goodwill is related to the Peripheral reporting unit. The following table summarizes the activity in the Company’s goodwill balance during the six months ended September 30, 2015 (in thousands):

As of March 31, 2015	\$218,213	
Currency impact	(6)
As of September 30, 2015	\$218,207	

Other Intangible Assets

Amortization expense for other intangible assets was \$0.5 million and \$2.6 million for the three months ended September 30, 2015 and 2014, respectively, and \$1.2 million and \$5.4 million for the six months ended September 30, 2015 and 2014, respectively.

Note 8— Financing Arrangements

The Company had several uncommitted, unsecured bank lines of credit aggregating \$46.7 million as of September 30, 2015. There are no financial covenants under these lines of credit with which the Company must comply. As of September 30, 2015, the Company had outstanding bank guarantees of \$18.2 million under these lines of credit. There was no borrowing outstanding under these lines of credit as of September 30, 2015 or March 31, 2015.

Note 9 — Commitments and Contingencies

Product Warranties

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

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Changes in the Company's warranty liability for the three and six months ended September 30, 2015 and 2014 were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Beginning of the period	\$21,284	\$23,420	\$21,710	\$24,380
Provision	1,792	2,020	3,934	4,226
Settlements	(2,677	) (3,236	) (5,245	) (6,402
End of the period	\$20,399	\$22,204	\$20,399	\$22,204

Other Contingencies

The Company is subject to an ongoing formal investigation by the Enforcement Division of the U.S. Securities and Exchange Commission ("SEC"), relating to certain issues including the accounting for Revue inventory valuation reserves that resulted in the restatement described in the Fiscal 2014 Form 10-K, revision to the Company's consolidated financial statements concerning warranty accruals and amortization of intangible assets presented in the Company's Amended Annual Report on Form 10-K/A, filed on August 7, 2013, and the Company's transactions with a distributor for Fiscal Year 2007 through Fiscal Year 2009. The Company has entered into an agreement with the Enforcement Staff to extend the statute of limitations. The Company is cooperating with the investigation and, after discussions with the Enforcement Staff, the Company recently made an offer of settlement to resolve the matter, which is subject to approval by the SEC. The proposed settlement would be entered into by the Company without admitting or denying the SEC's findings and would resolve alleged violations of certain provisions of the Securities Exchange Act of 1934 and related rules, including the anti-fraud provisions. Under the terms of the proposed settlement, the Company would pay \$7.5 million in a civil penalty and agree not to commit or cause any violations of certain provisions of the Securities Exchange Act of 1934 and related rules. There is no assurance that the proposal will be approved by the SEC. In accordance with U.S. GAAP, the Company has made a corresponding accrual in its financial statements.

Guarantees

Logitech Europe S.A. guaranteed payments of certain third-party contract manufacturers' purchase obligations. As of September 30, 2015, the maximum amount of this guarantee was \$3.8 million, of which \$0.9 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, 2015, 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.

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Legal Proceedings

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

Note 10— Shareholders' Equity

Share Repurchase Program

In March 2014, the Company's Board of Directors approved the 2014 share buyback program, which authorizes the Company to use up to \$250.0 million to purchase its own shares. The Company's share buyback program is expected to remain in effect for a period of three years. Shares may be repurchased from time to time on the open market with consideration given to Logitech's stock price, market conditions and other factors. During the three and six months ended September 30, 2015, 2.9 million and 3.5 million shares were repurchased for \$40.0 million and \$48.8 million, respectively. There were no share repurchases during the three or six months ended September 30, 2014.

Cash Dividends on Shares of Common Stock

During the three and six months ended September 30, 2015, the Company declared and paid cash dividends of CHF0.51 (USD equivalent of \$0.53) per common share, totaling \$85.9 million, on the Company's outstanding common stock.

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

Accumulated Other Comprehensive Income (Loss)

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

	Accumulated Other Comprehensive Income (Loss)			
	Cumulative Translation Adjustment (1)	Defined Benefit Plan (1)	Deferred Hedging Gains (Losses)	Total
March 31, 2015	\$(90,224)	\$(26,964)	\$3,951	\$(113,237)
Other comprehensive income (loss)	2,610	1,025	(3,662)	(27)
September 30, 2015	\$(87,614)	\$(25,939)	\$289	\$(113,264)

(1) Tax effect was not significant as of September 30 or March 31, 2015.

Note 11 — Segment Information

The Company has two reporting segments, peripherals and video conferencing, based on product markets and internal organizational structure. The peripherals segment encompasses the design, manufacturing and marketing of peripherals for PCs, tablets and other digital platforms. The video conferencing segment offers scalable high-definition, or HD, video communication endpoints, HD video conferencing systems with integrated monitors, video bridges, a cloud-based video conferencing solution and other infrastructure software and hardware to support large-scale video deployments and services to support these products. The Company's reporting segments do not record revenue on sales between segments.

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Operating performance measures for the peripherals segment and the video conferencing segment are reported separately to the Company's Chief Executive Officer ("CEO"), who is considered to be the Company's Chief Operating Decision Maker ("CODM"). The CEO periodically reviews information such as net sales and operating income (loss) for each operating segment to make business decisions. These operating performance measures do not include restructuring charges, net, share-based compensation expense and amortization of intangible assets, which are presented in the following financial information by operating segment as "other income (expense)". Assets by operating segment are not presented since the Company does not present such data to the CODM.

Net sales and operating income (loss) for the Company's operating segments for the three and six months ended September 30, 2015 and 2014 were as follows (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2015	2014	2015	2014
Net sales:				
Peripherals	\$518,494	\$501,857	\$966,180	\$958,303
Video conferencing	21,368	28,454	44,002	54,211
	\$539,862	\$530,311	\$1,010,182	\$1,012,514
Segment operating income (loss):				
Peripherals	\$46,191	\$50,587	\$78,031	\$84,154
Video conferencing	(4,804	) 171	(9,205	) (965
	41,387	50,758	68,826	83,189
Other income (expense):				
Restructuring charges, net	(8,696	) —	(21,691) —
Share-based compensation	(6,508	) (6,061	) (13,250	) (12,999
Amortization of intangibles	(494	) (2,576	) (1,226	) (5,358
Interest income, net	192	355	456	613
Other expense, net	(780	) (885	) (1,901	) (1,083
Income before income taxes	\$25,101	\$41,591	\$31,214	\$64,362

Restructuring charges for Peripherals and Video conferencing segments were \$3.2 million and \$5.5 million, respectively, for the three months ended September 30, 2015. Restructuring charges for Peripherals and Video conferencing segments were \$14.7 million and \$7.0 million, respectively, for the six months ended September 30, 2015.

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Net sales by product categories and sales channels, excluding intercompany transactions, for the three and six months ended September 30, 2015 and 2014 were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Peripherals:				
Mobile Speakers	\$80,550	\$48,538	\$121,094	\$77,367
Gaming	67,624	47,506	111,294	94,382
Video Collaboration	20,059	13,808	41,235	29,033
Tablet & Other Accessories	18,549	28,158	37,358	59,874
Growth	186,782	138,010	310,981	260,656
Pointing Devices	124,668	127,693	241,653	240,735
Keyboards & Combos	102,098	105,677	207,927	211,166
Audio-PC & Wearables	46,342	57,191	92,041	105,739
PC Webcams	23,360	25,282	45,041	45,745
Home Control	12,610	18,776	22,864	31,108
Profit Maximization	309,078	334,619	609,526	634,493
Retail Strategic Sales	495,860	472,629	920,507	895,149
Non-Strategic	403	834	1,144	2,127
Retail	496,263	473,463	921,651	897,276
OEM	22,231	28,394	44,529	61,027
	518,494	501,857	966,180	958,303
Video conferencing	21,368	28,454	44,002	54,211
	\$539,862	\$530,311	\$1,010,182	\$1,012,514

Certain products within the retail product categories presented in prior periods have been reclassified to conform to the current periods' presentation.

Net sales to unaffiliated customers by geographic region (based on the customers' location) for the three and six months ended September 30, 2015 and 2014 were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Americas	\$239,742	\$226,091	\$466,429	\$437,622
EMEA	173,148	189,571	300,514	343,271
Asia Pacific	126,972	114,649	243,239	231,621
Total net sales	\$539,862	\$530,311	\$1,010,182	\$1,012,514

Sales are attributed to countries on the basis of the customers' locations. The United States represented 37% and 36% of the Company's total consolidated net sales for the three months ended September 30, 2015 and 2014, respectively. No other single country represented more than 10% of the Company's total consolidated net sales during those periods. One customer group of the Company's peripheral operating segment represented 15% and 17% of sales for the three months ended September 30, 2015 and 2014, respectively.

The United States represented 38% and 36% of the Company's total consolidated net sales for the six months ended September 30, 2015 and 2014, respectively. No other single country represented more than 10% of the Company's total consolidated net sales during those periods. One customer group of the Company's peripheral operating segment represented 14% and 16% of sales for the six months ended September 30, 2015 and 2014, respectively.

Revenues from sales to customers in Switzerland, the Company's home domicile, represented 2% of the Company's total consolidated net sales for all the periods presented herein.

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

	September 30, 2015	March 31, 2015
Americas	\$46,990	\$48,527
EMEA	2,993	3,584
Asia Pacific	58,201	39,482
	\$108,184	\$91,593

Long-lived assets in the United States and China were \$46.8 million and \$53.5 million as of September 30, 2015, respectively, and \$48.3 million and \$34.0 million at March 31, 2015, respectively. No other countries represented more than 10% of the Company's total consolidated long-lived assets as of September 30 or March 31, 2015.

Long-lived assets in Switzerland, the Company's home domicile, were \$1.3 million and \$1.5 million at September 30 and March 31, 2015, respectively.

Note 12 — Restructuring

Restructuring Charges

During the first quarter of fiscal year 2016, the Company implemented a restructuring plan to exit the OEM business, reorganize Lifesize to sharpen its focus on its cloud-based offering, and streamline the Company's overall cost structure through product, overhead and infrastructure cost reductions with a targeted resource realignment.

Restructuring charges incurred during the six months ended September 30, 2015 under this plan primarily consisted of severance and other ongoing and one-time termination benefits. Charges and other costs related to the workforce reduction and structure realignment are presented as restructuring charges in the Condensed Consolidated Statements of Operations. The Company expects to incur approximately \$22 million to \$25 million under this restructuring plan, including approximately \$20.3 million to 23.3 million for cash severance and other personnel costs, and expects to substantially complete this restructuring within the next 6 months.

The following tables summarize restructuring related activities during the three and six months ended September 30, 2015:

	Restructuring Termination Benefits	Lease Exit Costs	Other	Total
Accrual balance at March 31, 2015	\$—	\$1,039	\$—	\$1,039
Charges, net	12,794	—	201	12,995
Cash payments	(4,675	) (796	) (151	) (5,622
Accrual balance at June 30, 2015	\$8,119	\$243	\$50	\$8,412
Charges, net	8,566	38	92	8,696
Cash payments	(5,112) (122) (142) (5,376
Accrual balance at September 30, 2015	\$11,573	\$159	\$—	\$11,732

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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 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 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, video and video conferencing, pointing devices, wearables, remotes and other accessories and computer devices and the interoperability of our products with such third party platforms, our expectations regarding the convergence of markets for computing devices and consumer electronics, our expectations regarding the growth of cloud-based services, our expected reduction in size of our product portfolio and dependence on new products, our competitive position and the effect of pricing, product, marketing and other initiatives by us and our competitors, the potential that our new products will overlap with our current products, our expectations regarding competition from well-established consumer electronics companies in existing and new markets, our expectations regarding the timing of our restructuring, its impact on our financial results and its composition, our expectations regarding the recoverability of our goodwill, goodwill impairment charge estimates and the potential for future impairment charges, the impact of our current and proposed product divestitures, changes in our planned divestitures, and the timing thereof, significant fluctuations in currency exchange rates and commodity prices, the impact of new product introductions and product innovation on future performance or anticipated costs and expenses and the timing thereof, cash flows, the sufficiency of our cash and cash equivalents, cash generated and available borrowings (including the availability of our uncommitted lines of credit) to fund future cash requirements, our expectations regarding future sales compared to actual sales, our expectations regarding share repurchases, dividend payments and share cancellations, our expectations regarding our future working capital requirements and our anticipated capital expenditures needed to support our product development and expanded operations, our expectations regarding our future tax benefits and the adequacy of our provisions for uncertain tax positions, our expectations regarding our potential indemnification obligations, and the outcome of pending or future legal proceedings and tax audits, remediation of our material weaknesses, our belief that our disclosure controls and procedures are effective at the reasonable assurance level, the results of any inquiry of the SEC and/or potential litigation related to the restatement of our consolidated financial statements and potential settlement thereof, 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 "anticipat