LOGITECH INTERNATIONAL SA
Form 10-Q
January 25, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2017

Or

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

For the Transition Period from to

Commission File Number: 0-29174

LOGITECH INTERNATIONAL S.A.
(Exact name of registrant as specified in its charter)

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

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 ý No o

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 ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o	Emerging Growth Company o

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 standard s provided pursuant to Section 13(a) of the Exchange Act. o

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

As of January 12, 2018, there were 164,110,890 shares of the Registrant’s share capital outstanding.

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

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

The Company's fiscal year ends on March 31. Interim quarters are generally thirteen-week periods, each ending on a Friday of each quarter. The third quarter of fiscal year 2018 ended on December 29, 2017. The same quarter in the prior fiscal year ended on December 30, 2016. 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 December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
Net sales	$812,021	$666,707	$1,974,437	$1,710,875
Cost of goods sold	533,631	418,015	1,271,127	1,083,908
Amortization of intangible assets and purchase accounting effect on inventory	2,789	1,929	6,304	4,705
Gross profit	275,601	246,763	697,006	622,262
Operating expenses:				
Marketing and selling	116,153	102,036	325,917	279,700
Research and development	34,398	32,284	106,144	96,867
General and administrative	22,291	24,598	72,850	75,543
Amortization of intangible assets and acquisition-related costs	2,496	1,494	6,377	4,535
Change in fair value of contingent consideration for business acquisition	—	(9,925)	(4,908)	(9,925)
Total operating expenses	175,338	150,487	506,380	446,720
Operating income	100,263	96,276	190,626	175,542
Interest income	874	202	3,097	263
Other income (expense), net	(324)	2,634	(894)	943
Income before income taxes	100,813	99,112	192,829	176,748
Provision for income taxes	20,040	1,647	18,691	10,297
Net income	$80,773	$97,465	$174,138	$166,451
Net income per share:				
Basic	$0.49	$0.60	$1.06	$1.03
Diluted	$0.48	$0.59	$1.03	$1.01
Weighted average shares used to compute net income per share:				
Basic	164,248	161,977	163,924	162,070
Diluted	169,079	165,901	168,832	165,211
Cash dividend per share	$—	$—	$0.63	$0.57

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

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
Net income	$80,773	$97,465	$174,138	$166,451
Other comprehensive income (loss):				
Currency translation gain (loss), net of taxes	1,535	(7,968)	5,176	(7,714)
Defined benefit pension plans:				
Net gain and prior service costs, net of taxes	479	1,193	859	1,520
Amortization included in operating expenses	51	424	153	1,289
Hedging gain (loss):				
Deferred hedging gain (loss), net of taxes	(677)	2,497	(6,026)	4,026
Reclassification of hedging loss (gain) included in cost of goods sold	2,248	(463)	5,377	432
Other comprehensive income (loss):	3,636	(4,317)	5,539	(447)
Total comprehensive income	$84,409	$93,148	$179,677	$166,004

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

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

	December 31, 2017	March 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$564,888	$547,533
Accounts receivable, net	351,753	185,179
Inventories	278,979	253,401
Other current assets	57,530	41,732
Total current assets	1,253,150	1,027,845
Non-current assets:		
Property, plant and equipment, net	86,901	85,408
Goodwill	275,563	249,741
Other intangible assets, net	92,371	47,564
Other assets	122,839	88,119
Total assets	$1,830,824	$1,498,677
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$429,119	$274,805
Accrued and other current liabilities	278,055	232,273
Total current liabilities	707,174	507,078
Non-current liabilities:		
Income taxes payable	34,410	51,797
Other non-current liabilities	82,004	83,691
Total liabilities	823,588	642,566
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Registered shares, CHF 0.25 par value:	30,148	30,148
Issued and authorized shares — 173,106 at December 31 and March 31, 2017		
Conditionally authorized shares — 50,000 at December 31 and March 31, 2017		
Additional paid-in capital	38,902	26,596
Shares in treasury, at cost — 8,899 at December 31, 2017 and 10,727 at March 31, 2017	(164,559)	(174,037)
Retained earnings	1,197,912	1,074,110
Accumulated other comprehensive loss	(95,167)	(100,706)
Total shareholders' equity	1,007,236	856,111
Total liabilities and shareholders' equity	$1,830,824	$1,498,677

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

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

	Nine Months Ended December 31,	
	2017	2016
Cash flows from operating activities:		
Net income	$174,138	$166,451
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	30,218	32,479
Amortization of intangible assets	10,653	6,618
Gain on investments in privately held companies	(550)	(547)
Loss on disposal of property, plant and equipment	7	—
Share-based compensation expense	33,239	26,354
Deferred income taxes	6,728	(473)
Change in fair value of contingent consideration for business acquisition	(4,908)	(9,925)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable, net	(164,028)	(139,414)
Inventories	(5,692)	(15,194)
Other assets	(18,953)	(6,346)
Accounts payable	151,711	109,095
Accrued and other liabilities	43,521	71,549
Net cash provided by operating activities	256,084	240,647
Cash flows from investing activities:		
Purchases of property, plant and equipment	(27,593)	(23,372)
Investment in privately held companies	(880)	(640)
Acquisitions, net of cash acquired	(88,323)	(66,987)
Proceeds from return of investment in privately held companies	237	—
Changes in restricted cash	—	715
Purchases of short-term investments	(6,789)	—
Sales of short-term investments	6,789	—
Purchases of trading investments	(2,842)	(5,868)
Proceeds from sales of trading investments	3,209	5,912
Net cash used in investing activities	(116,192)	(90,240)
Cash flows from financing activities:		
Payment of cash dividends	(104,248)	(93,093)
Payment of contingent consideration for business acquisition	(5,000)	—
Purchases of registered shares	(20,408)	(63,764)
Proceeds from exercises of stock options and purchase rights	30,947	20,355
Tax withholdings related to net share settlements of restricted stock units	(25,505)	(13,054)
Net cash used in financing activities	(124,214)	(149,556)
Effect of exchange rate changes on cash and cash equivalents	1,677	(6,468)
Net increase (decrease) in cash and cash equivalents	17,355	(5,617)
Cash and cash equivalents, beginning of the period	547,533	519,195
Cash and cash equivalents, end of the period	$564,888	$513,578
Supplementary Cash Flow Disclosures:		
Non-cash investing activities:		
	$5,779	$4,044

Property, plant and equipment purchased during the period and included in period end liability accounts		
Unpaid purchase price for business acquisition	$1,000	$—

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

	Registered Shares		Additional Paid-in	Treasury Shares		Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Capital	Shares	Amount	Earnings	Loss	Equity
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 (Note 1)	—	—	3,293	—	—	53,912	—	57,205
Total comprehensive income	—	—	—	—	—	174,138	5,539	179,677
Purchases of registered shares	—	—	—	581	(20,408)	—	—	(20,408)
Sales of shares upon exercise of stock options and purchase rights	—	—	15,958	(1,126)	14,989	—	—	30,947
Issuance of shares upon vesting of restricted stock units	—	—	(40,402)	(1,283)	14,897	—	—	(25,505)
Share-based compensation	—	—	33,457	—	—	—	—	33,457

Cash dividends	—	—	—			(104,248)	—	(104,248)
December 31, 2017	173,106	$30,148	$38,902	8,899	$(164,559)	$1,197,912	$ (95,167)	$1,007,236

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

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

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

The Company

Logitech International S.A, together with its consolidated subsidiaries, ("Logitech" or the "Company") designs, manufactures and markets products that allow people to connect through music, gaming, video, computing, and other digital platforms.
The Company sells its products to a broad network of domestic and international customers, including direct sales to retailers and indirect sales through distributors.
Logitech was founded in Switzerland in 1981 and Logitech International S.A. has been the parent holding company of Logitech since 1988. Logitech International S.A. is a Swiss holding company with its registered office in Apples, Switzerland 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 Acquisitions

In August 2017, the Company acquired the ASTRO Gaming business. In November 2017, the Company also made a small acquisition. See "Note 2 - Business Acquisitions" 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, 2017, included in its Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on May 26, 2017.

In the opinion of management, these condensed consolidated financial statements include all adjustments, consisting of only normal and recurring adjustments, necessary and in all material aspects, for a fair statement of the results of operations, comprehensive income, financial position, cash flows and changes in shareholders' equity for the periods presented. Operating results for the three and nine months ended December 31, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2018, or any future periods.

Reclassification

Certain amounts from the comparative period in the accompanying unaudited condensed consolidated financial statements have been reclassified to conform to the condensed consolidated financial statement presentation as of and for the three and nine months ended December 31, 2017.

Changes in Significant Accounting Policies

Other than the recent accounting pronouncements adopted and discussed below, there have been no substantial changes in the Company's significant accounting policies during the nine months ended December 31, 2017 compared with the significant accounting policies described in its Annual Report on Form 10-K for the fiscal year ended March 31, 2017.

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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 programs and related breakage when appropriate, sales return reserves, 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 those estimates.

Recent Accounting Pronouncements Adopted

In July 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-11, "Simplifying the Measurement of Inventory (Topic 330)" ("ASU 2015-11"). Topic 330 previously required 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. ASU 2015-11 requires an entity to measure inventory at the lower of cost or net realizable value and is effective for fiscal years beginning after December 15, 2016. The Company adopted this standard effective April 1, 2017, which has not had a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of the accounting for share-based payments, including immediate recognition of all excess tax benefits and deficiencies in the income statement, changing the threshold to qualify for equity classification up to the employees' maximum statutory tax rates, allowing an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur, and clarifying the classification on the statement of cash flows for the excess tax benefits and employee taxes paid when an employer withholds shares for tax withholding purposes. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016. The Company adopted this standard effective April 1, 2017. Changes to the statements of cash flows related to the classification of excess tax benefits were implemented on a retroactive basis and accordingly, to conform to the current year presentation, the Company reclassified $6.4 million of excess tax benefits previously reported under financing activities to operating activities for the nine months ended December 31, 2016 on its condensed consolidated statements of cash flows. Under the new standard, the Company accounts for forfeitures as they occur. The change in accounting for forfeitures resulted in a cumulative-effect adjustment to decrease retained earnings as of March 31, 2017 by $3.3 million. The Company further recognized a cumulative-effect adjustment to increase retained earnings as of March 31, 2017 by $57.2 million upon adoption of the new guidance to account for gross excess tax benefits of $75.2 million that were previously not recognized because the related tax deduction had not reduced current income taxes, offset by a valuation allowance of $18.0 million to reduce the deferred tax assets to amounts that are more likely than not to be realized.

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment (Topic 350)" ("ASU 2017-04"), which removes Step 2 from the goodwill impairment test. ASU 2017-04 is effective for annual or any interim goodwill impairments in annual periods beginning December 15, 2019, with early adoption permitted. The Company adopted this standard effective April 1, 2017, which has not had a material impact on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting" ("ASU 2017-09"), which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 is effective for annual periods beginning after December 15, 2017, with early adoption permitted, including adoption in any interim period for which financial statements have not yet been issued. The Company adopted this standard effective April 1, 2017, which has not had a material impact on its consolidated financial statements.

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Recent Accounting Pronouncements to be Adopted

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09") which supersedes the revenue recognition requirements under Accounting Standard Codification ("ASC") 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 most current revenue recognition guidance, including industry-specific guidance. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard requires reporting companies to disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard will become effective for the Company on April 1, 2018. The Company will adopt Topic 606 utilizing the modified retrospective transition method, which recognizes the cumulative effect of initially applying Topic 606 as an adjustment to retained earnings at the adoption date. The Company continues to evaluate the impact this new standard will have on the current contracts with customers and the accruals of various sales and marketing programs the Company offers and has identified the following areas that are impacted:

Accrual for cooperative marketing arrangements and customer incentive programs: At the end of every quarter, the Company estimates accruals for cooperative marketing arrangements and customer incentive programs based on negotiated terms, consideration of historical experience, and inventory levels in the channel. Under ASC 605, these programs are 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 transaction price at the contract inception based on the expected value method. Certain of these programs will reflect such change which will lead to the recognition of the accruals sooner as compared to the guidance in ASC 605.

Breakage estimates: The Company applies a breakage rate to reduce its accruals of customer incentive, cooperative marketing, and pricing programs based on the estimated percentage of these customer programs that will not be claimed or earned. The breakage rate is applied when the Company is able to reasonably estimate the amounts that will be ultimately claimed by customers, which generally occurs up to one quarter after the program is accrued. 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, revenue will be recognized sooner as compared to the existing revenue guidance.

The Company expects to complete its analysis of Topic 606 and reasonably estimate the impact to its consolidated financial statements when its Annual Report on Form 10-K for the fiscal year ending March 31, 2018 is filed. The Company will continue to monitor additional changes, modifications, clarifications or interpretations being undertaken by the FASB, which may impact its current conclusions. It is possible that during the fourth quarter of fiscal year 2018, the Company may identify additional areas which may result in material impact on the Company’s consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments-Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)" ("ASU 2016-01"). ASU 2016-01 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, with early adoption permitted. The Company does not believe that the adoption of ASU 2016-01 will have a material impact on its consolidated financial statements and will adopt this standard effective April 1, 2018.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), which requires the recognition of lease assets and lease liabilities arising from operating leases in the statement of financial position. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those

fiscal years, with early adoption permitted. The Company is evaluating the full effect that ASU 2016-02 will have on its consolidated financial statements and will adopt this standard effective April 1, 2019.

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. ASU 2016-16 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, with early adoption permitted but only in the first interim period of an annual period. The cumulative effect of change on equity upon adoption is to be quantified under the modified retrospective approach and recorded as of the beginning of the period of adoption.

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The Company does not expect the adoption of ASU 2016-16 will have a material impact on its consolidated financial statements and will adopt this standard effective April 1, 2018.

In December 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash" ("ASU 2016-18"), which requires that a statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, with early adoption permitted. The adoption of this standard should be applied using a retrospective transition method to each period presented. The Company does not expect that the adoption of ASU 2016-18 will have a material impact on its consolidated financial statements and will adopt this standard effective April 1, 2018.

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. ASU 2017-01 is effective for annual or any interim periods in annual periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect that the adoption of ASU 2017-01 will have a material impact on its consolidated financial statements and will adopt this standard effective April 1, 2018.

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. ASU 2017-07 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, with early adoption permitted. The Company does not expect that the adoption of ASU 2017-07 will have a material impact on its consolidated financial statements and will adopt this standard effective April 1, 2018.

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. ASU 2017-12 is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. The Company does not expect that the adoption of ASU 2017-12 will have a material impact on its consolidated financial statements and will adopt this standard effective April 1, 2019.

Note 2 — Business Acquisitions

ASTRO Acquisition

On August 11, 2017 (the "Acquisition Date"), the Company acquired certain assets and liabilities constituting the ASTRO Gaming business ("ASTRO") from AG Acquisition Corporation for a purchase price of $85.0 million in cash (the "ASTRO Acquisition"). ASTRO is a leading console gaming accessory brand with a history of producing award-winning headsets for professional gamers and enthusiasts. ASTRO provides a strong growth platform in the console gaming accessories market.

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

	Estimated Fair Value
Inventories	$ 10,331
Property, plant and equipment	2,760
Intangible assets	52,520
Other assets	605
Total identifiable assets acquired	$ 66,216
Accrued liabilities	(2,982)
Net identifiable assets acquired	$ 63,234
Goodwill	21,766
Net assets acquired	$ 85,000

Goodwill related to the transaction is primarily attributable to opportunities and economies of scale from combining the operations and technologies of Logitech and ASTRO. Goodwill is expected to be 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 ASTRO immediately before the acquisition date is $0.8 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 Company included ASTRO's estimated fair value of assets acquired and liabilities assumed in its condensed consolidated balance sheets beginning on the Acquisition Date. The results of operations for ASTRO for this partial quarter have been included in, but are not material to, the Company's condensed consolidated statements of operations from the Acquisition Date. Pro forma results of operations for the ASTRO Acquisition have not been presented because they are not material to the condensed consolidated statements of operations.

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

	Fair Value	Estimated Useful Life (years)
Developed technology	$ 12,540	4.0
Customer relationships	33,100	8.0
Trade name	6,880	6.0
Total intangible assets acquired	$ 52,520	6.8

Intangible assets acquired as a result of the ASTRO Acquisition are being amortized over their estimated useful lives using the straight-line method of amortization. Amortization of acquired developed technology of $0.8 million and $1.2 million, respectively, during the three and nine months ended December 31, 2017 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 $1.3 million and $2.0 million, respectively, during the three and nine months ended December 31, 2017 is included in "amortization of intangible assets and acquisition-related costs" in the condensed consolidated statements of operations.

Developed technology relates to existing ASTRO gaming headset 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 ASTRO. The economic useful life was determined based on historical customer turnover rates and industry benchmarks.

Trade name relates to the “ASTRO” 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 2%, respectively, and both were discounted at a rate of 13%.

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 13%.

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

The Company incurred acquisition-related costs for the ASTRO Acquisition of approximately $0.3 million and $1.3 million for the three and nine months ended December 31, 2017, respectively. The acquisition-related costs are included in "amortization of intangible assets and acquisition-related costs" in the condensed consolidated statements of operations.

For the three and nine months ended December 31, 2017, ASTRO contributed $33.5 million and $36.2 million to net sales, respectively, representing approximately 4% of the net sales of the Company for the three-month period and 2% for the nine-month period.

In November 2017, the Company also made a small acquisition for a total consideration of $5.2 million, including cash acquired of $0.9 million. $1.0 million of the total consideration was retained by the Company for the purpose of ensuring the seller's representations, warranties and covenants.

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 December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
Net Income	$80,773	$97,465	$174,138	$166,451
Shares used in net income per share computation:				
Weighted average shares outstanding - basic	164,248	161,977	163,924	162,070
Effect of potentially dilutive equivalent shares	4,831	3,924	4,908	3,141
Weighted average shares outstanding - diluted	169,079	165,901	168,832	165,211

Net income per share:				
Basic	$0.49	$0.60	$1.06	$1.03
Diluted	$0.48	$0.59	$1.03	$1.01

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Share equivalents attributable to outstanding stock options and restricted stock units of 0.5 million and 1.7 million for the three months ended December 31, 2017 and 2016, respectively, and 1.1 million and 2.8 million for the nine months ended December 31, 2017 and 2016, respectively, were anti-dilutive and excluded from the calculation of diluted net income per share.

Note 4 — Employee Benefit Plans

Employee Share Purchase Plans and Stock Incentive Plans

As of December 31, 2017, 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 provision (benefit) recognized for share-based awards for the three and nine months ended December 31, 2017 and 2016 (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
Cost of goods sold	$960	$617	$2,762	$1,930
Marketing and selling	4,624	4,006	13,348	10,687
Research and development	1,621	1,176	4,797	3,007
General and administrative	4,351	3,588	12,332	10,730
Total share-based compensation expense	11,556	9,387	33,239	26,354
Income tax provision (benefit)	3,038	(2,391)	(11,921)	(6,092)
Total share-based compensation expense, net of income tax	$14,594	$6,996	$21,318	$20,262

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. The income tax benefit is reduced by income tax provision resulting from remeasurement of applicable federal deferred tax assets due to the enactment of H.R.1, also known as the "Tax Cuts and Jobs Act" ("the Tax Act") in the United States on December 22, 2017. See "Note 5 - Income Taxes" for more information.

As of December 31, 2017 and 2016, the Company capitalized $0.8 million and $0.6 million of share-based compensation expense to inventory, respectively.

Defined Benefit Plans

Certain of the Company’s subsidiaries sponsor defined benefit pension plans or non-retirement post-employment benefits covering substantially all of their employees. Benefits are provided based on employees’ years of service and earnings, or in accordance with applicable employee benefit regulations. The Company’s practice is to fund amounts sufficient to meet the requirements set forth in the applicable employee benefit and tax regulations. The cost recorded of $2.3 million and $2.8 million for the three months ended December 31, 2017 and 2016, respectively, and $6.9 million and $8.4 million for the nine months ended December 31, 2017 and 2016, 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 income tax provision for the three months ended December 31, 2017 was $20.0 million based on an effective income tax rate of 19.9% of pre-tax income, compared to an income tax provision of $1.6 million based on an effective income tax rate of 1.7% of pre-tax income for the three months ended December 31, 2016. The income

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tax provision for the nine months ended December 31, 2017 was $18.7 million based on an effective income tax rate of 9.7% of pre-tax income, compared to an income tax provision of $10.3 million based on an effective income tax rate of 5.8% for the nine months ended December 31, 2016.

On December 22, 2017, the Tax Act was signed into law in the United States. The Tax Act introduced a broad range of tax reform measures that significantly change the federal income tax regime. Among other things, the Tax Act permanently reduces the corporate income tax rate from 35% to 21% effective for tax years including or commencing on January 1, 2018, repeals corporate alternative minimum tax, limits various business deductions, modifies the maximum deduction of net operating loss with no carryback but indefinite carryforward provision and includes various international tax provisions. Many provisions in the Tax Act are generally effective in tax years beginning after December 31, 2017.

ASC 740 requires recognition of the effects of tax law changes in the period of enactment. Notwithstanding that the effective date of the Tax Act for most provisions is January 1, 2018, such effects must be recognized in December 2017 financial statements. In accordance to the new tax legislation, the Company applied a blended federal income tax rate of 31.6% to its operations in the United States effective at the beginning of the fiscal year based on a pro-rated percentage of the number of days before and after January 1, 2018. Furthermore, the Company recorded an income tax charge of $19.9 million from the estimated remeasurement of federal deferred tax assets and liabilities as of December 31, 2017 to reflect the effects of the enacted changes in tax rate and an income tax benefit of $4.1 million from assessment of valuation allowance against tax credits due to changes in tax laws. These amounts account for the change in the effective income tax rate in the three months ended December 31, 2017 compared to the same period of the prior fiscal year.

The estimated remeasurement of deferred tax assets and liabilities was based on tax rates generally at 31.6% and 21% depending on the timing of when the individual deferred tax assets and liabilities are expected to recover or settle in the future. The net provisional charge from deferred tax remeasurement and assessment of valuation allowance is based on currently available information and interpretations which are continuing to evolve. The Company continues to analyze additional information and guidance related to certain aspects of the Tax Act, such as limitations on the deductibility of executive compensation, conformity or changes by state taxing authorities in response to the Tax Act, and the final determination of the net deferred tax assets subject to the remeasurement and related impacts to the assessment of valuation allowance. The prospects of supplemental legislation or regulatory processes to address questions that arise because of the Tax Act, or evolving technical interpretations of the tax law, may cause the final impact from the Tax Act to differ from the recorded amounts. The Company continues to appropriately refine such amounts within the measurement period allowed by Staff Accounting Bulletin (“SAB”) No.118, which will be completed no later than the third quarter of fiscal year 2019.

The change in the effective income tax rate in the nine months ended December 31, 2017 compared to the same period of the prior fiscal year is primarily due to the recognition of excess tax benefits of $10.8 million after adoption of ASU 2016-09 and income tax benefit from the reversal of uncertain tax positions from the expiration of statutes of limitations are largely offset by income tax provision from the remeasurement of deferred tax assets and liabilities in the third quarter. In the three and nine months ended December 31, 2017, there was a discrete income tax benefit of $6.0 million and $7.9 million, respectively, from the reversal of uncertain tax positions from the expiration of statutes of limitations. In the same periods ended December 31, 2016, the income tax benefit from the reversal of uncertain tax positions from the expiration of statutes of limitations was $9.4 million and $11.1 million, respectively.

As of December 31 and March 31, 2017, the total amount of unrecognized tax benefits due to uncertain tax positions was $67.3 million and $63.7 million, respectively, all of which would affect the effective income tax rate if recognized.

The Company had $34.4 million in non-current income taxes payable and $0.1 million in current income taxes payable, including interest and penalties, related to its income tax liability for uncertain tax positions as of December 31, 2017, compared to $51.8 million in non-current income taxes payable and $1.5 million in current income taxes payable as of March 31, 2017. The Company applied to a settlement program and paid $1.9 million to the tax authorities in a foreign jurisdiction in the third quarter of fiscal year 2018.

The Company recognizes interest and penalties related to unrecognized tax positions in income tax expense. As of December 31 and March 31, 2017, the Company had $2.1 million and $3.0 million, respectively, of accrued interest and penalties related to uncertain tax positions.

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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 2018, the Company continues to review its tax positions and provide for or reverse unrecognized tax benefits as issues arise. During the next twelve months, it is reasonably possible that the amount of unrecognized tax benefits could increase or decrease significantly due to changes in tax law in various jurisdictions, new tax audits and changes in the U.S. dollar as compared to other currencies. Excluding these factors, uncertain tax positions may decrease by as much as $21.4 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 December 31 and March 31, 2017 (in thousands):

	December 31, 2017	March 31, 2017
Accounts receivable, net:		
Accounts receivable	$668,811	$395,754
Allowance for doubtful accounts	(233)	(607)
Allowance for sales returns	(25,008)	(18,800)
Allowance for cooperative marketing arrangements *	(44,033)	(28,022)
Allowance for customer incentive programs *	(102,974)	(60,857)
Allowance for pricing programs *	(144,810)	(102,289)
	$351,753	$185,179
Inventories:		
Raw materials	$35,752	$30,582
Finished goods	243,227	222,819
	$278,979	$253,401
Other current assets:		
Value-added tax receivables	$29,620	$23,132
Prepaid expenses and other assets	27,910	18,600
	$57,530	$41,732
Property, plant and equipment, net:		
Property, plant and equipment at cost	$362,809	$348,760
Less: accumulated depreciation and amortization	(275,908)	(263,352)
	$86,901	$85,408
Other assets:		
Deferred tax assets **	$86,518	$57,303
Trading investments for deferred compensation plan	17,998	15,043
Investments in privately held companies	11,969	10,776
Other assets	6,354	4,997
	$122,839	$88,119

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The following table presents the components of certain balance sheet liability amounts as of December 31 and March 31, 2017 (in thousands):

	December 31, 2017	March 31, 2017
Accrued and other current liabilities:		
Accrued personnel expenses	$73,124	$88,346
Indirect customer incentive programs *	69,921	36,409
Warranty accrual	15,640	13,424
Employee benefit plan obligation	2,164	1,266
Income taxes payable	4,387	6,232
Contingent consideration for business acquisition - current portion	—	2,889
Other current liabilities	112,819	83,707
	$278,055	$232,273
Other non-current liabilities:		
Warranty accrual	$10,624	$8,487
Obligation for deferred compensation plan	17,998	15,043
Employee benefit plan obligation	43,110	41,998
Deferred tax liability	1,789	1,789
Contingent consideration for business acquisition - non-current portion	—	7,019
Other non-current liabilities	8,483	9,355
	$82,004	$83,691

*The increases in the allowances for cooperative marketing arrangements, customer incentive programs, pricing programs and indirect customer incentive programs as of December 31, 2017 compared with March 31, 2017 were primarily the result of seasonality in the Company's business and increases in these marketing and promotional activities.

**The increase in deferred tax assets was primarily due to the adoption of ASU 2016-09 effective April 1, 2017, partially offset by the remeasurement of federal deferred tax assets as a result of the enactment of the Tax Act in the third quarter of fiscal year 2018. See "Note 5 - Income Taxes" 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: