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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

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.

Apples, Switzerland

c/o Logitech Inc.

7600 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 x 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 x No o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of November 1, 2012, there were 157,523,165 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.

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PART I FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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LOGITECH INTERNATIONAL S.A.

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Three months ended September 30, 2012	Three months ended September 30, 2011	Six months ended September 30, 2012	Six months ended September 30, 2011
Net sales	$ 547,693	$ 589,204	$ 1,016,297	$ 1,069,645
Cost of goods sold	351,698	390,783	676,050	745,617
Gross profit	195,995	198,421	340,247	324,028
Operating expenses:				
Marketing and selling	110,522	107,446	211,419	207,239
Research and development	38,019	39,491	76,947	79,472
General and administrative	25,980	27,989	58,460	58,854
Restructuring charges (credits), net	(2,671)		28,556	
Total operating expenses	171,850	174,926	375,382	345,565
Operating income (loss)	24,145	23,495	(35,135)	(21,537)
Interest income, net	153	601	537	1,291
Other income (expense), net	(509)	(1,763)	(668)	3,428
Income (loss) before income taxes	23,789	22,333	(35,266)	(16,818)
Provision for (benefit from) income taxes	(31,076)	4,888	(37,986)	(4,657)
Net income (loss)	$ 54,865	$ 17,445	$ 2,720	$ (12,161)
Net income (loss) per share:				
Basic	$ 0.35	$ 0.10	$ 0.02	$ (0.07)
Diluted	$ 0.35	$ 0.10	$ 0.02	$ (0.07)
Shares used to compute net income (loss) per share:				
Basic	156,736	176,878	158,723	178,111
Diluted	157,932	177,277	159,853	178,111
Cash dividend per share:	$ 0.85	$	$ 0.85	$

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

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LOGITECH INTERNATIONAL S.A.

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Six Months Ended September 30, 2012	Six Months Ended September 30, 2011
Net income (loss)	$ 54,865	$ 17,445	$ 2,720	$ (12,161)
Other comprehensive income (loss):				
Foreign currency translation	4,970	(6,154)	(1,295)	(4,824)
Defined benefit pension plan adjustments during the period:				
Foreign currency exchange rate changes	6,457	1,126	7,920	(115)
Amortization included in net income (loss):				
Transition obligation for the period	1	1	2	2
Prior service cost for the period	38	38	76	77
Net actuarial loss for the period	262	359	678	459
Pension liability adjustments, net of tax	6,758	1,524	8,676	423
Deferred hedging gain (loss)	(5,466)	8,758	(4,261)	11,918
Less reclassification adjustment for gain (loss) included in net income (loss)	(1,683)	1,539	(1,577)	4,017
Net deferred hedging gain (loss)	(3,783)	7,219	(2,684)	7,901
Reversal of unrealized gains previously recognized in accumulated other comprehensive income			(343)	
Net change in accumulated other comprehensive income (loss)	7,945	2,589	4,354	3,500
Total comprehensive income (loss)	$ 62,810	$ 20,034	$ 7,074	$ (8,661)

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

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LOGITECH INTERNATIONAL S.A.

UNADUITED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	September 30, 2012	March 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 237,033	$ 478,370
Accounts receivable, net	284,451	223,104
Inventories	321,307	297,072
Other current assets	69,016	65,990
Total current assets	911,807	1,064,536
Non-current assets:		
Property, plant and equipment, net	93,854	94,884
Goodwill	561,080	560,523
Other intangible assets, net	41,108	53,518
Other assets	84,563	83,033
Total assets	$ 1,692,412	$ 1,856,494
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 368,509	$ 301,111
Accrued liabilities	190,234	186,680
Total current liabilities	558,743	487,791
Non-current liabilities	187,372	218,462
Total liabilities	746,115	706,253
Commitments and contingencies		
Shareholders equity:		
Shares, par value CHF 0.25 - 191,606 issued and authorized and 50,000 conditionally authorized at September 30, 2012 and March 31, 2012	33,370	33,370
Additional paid-in capital		
Less shares in treasury, at cost, 34,138 at September 30, 2012 and 27,173 at March 31, 2012	(384,780)	(343,829)
Retained earnings	1,389,282	1,556,629
Accumulated other comprehensive loss	(91,575)	(95,929)
Total shareholders equity	946,297	1,150,241
Total liabilities and shareholders equity	$ 1,692,412	$ 1,856,494

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

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LOGITECH INTERNATIONAL S.A.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six months ended September 30, 2012	2011
Cash flows from operating activities:		
Net income (loss)	$ 2,720	$ (12,161)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	22,307	24,593
Amortization of other intangible assets	12,257	13,556
Inventory valuation adjustment		34,074
Share-based compensation expense	13,437	16,453
Gain on disposal of property and plant		(4,904)
Gain on sale of available-for-sale securities	(831)	
Excess tax benefits from share-based compensation	(22)	(30)
Deferred income taxes and other	(3,806)	(8,554)
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	(58,272)	(36,517)
Inventories	(30,733)	(59,589)
Other assets	(7,339)	(6,886)
Accounts payable	68,875	45,088
Accrued liabilities	(9,498)	(3,489)
Net cash provided by operating activities	9,095	1,634
Cash flows from investing activities:		
Purchases of property, plant and equipment	(30,522)	(20,921)
Acquisition, net of cash acquired		(18,814)
Investment in privately-held company	(3,970)	
Proceeds from sale of property and plant		4,904
Proceeds from sale of available-for-sale securities	917	
Purchases of trading investments for deferred compensation plan	(1,648)	(4,536)
Proceeds from sales of trading investments for deferred compensation plan	1,638	4,522
Net cash used in investing activities	(33,585)	(34,845)
Cash flows from financing activities:		
Payment of cash dividends	(133,462)	
Purchases of treasury shares	(89,955)	(73,134)
Proceeds from sale of shares upon exercise of options and purchase rights	9,008	9,764
Tax withholdings related to net share settlements of restricted stock units	(635)	(185)
Excess tax benefits from share-based compensation	22	30
Net cash used in financing activities	(215,022)	(63,525)
Effect of exchange rate changes on cash and cash equivalents	(1,825)	(1,745)
Net decrease in cash and cash equivalents	(241,337)	(98,481)
Cash and cash equivalents at beginning of period	478,370	477,931
Cash and cash equivalents at end of period	$ 237,033	$ 379,450

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

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LOGITECH INTERNATIONAL S.A.

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(In thousands)

	Registered shares		Additional paid-in	Treasury shares		Retained	Accumulated other comprehensive	
	Shares	**Amount**	**capital**	**Shares**	**Amount**	**earnings**	**loss**	**Total**
March 31, 2011	191,606	$ 33,370	$	12,433	$ (264,019)	$ 1,514,168	$ (78,518)	$ 1,205,001
Total comprehensive loss						(12,161)	3,500	(8,661)
Purchase of treasury shares				7,609	(73,134)			(73,134)
Tax benefit from exercise of stock options			9					9
Shares issued for director services			(643)	(33)	844			201
Sale of shares upon exercise of options and purchase rights			(13,390)	(1,220)	33,850	(10,679)		9,781
Issuance of shares upon vesting of restricted stock units			(2,303)	(78)	2,118			(185)
Share-based compensation expense			16,327					16,327
September 30, 2011	191,606	$ 33,370	$	18,711	$ (300,341)	$ 1,491,328	$ (75,018)	$ 1,149,339
March 31, 2012	191,606	$ 33,370	$	27,173	$ (343,829)	$ 1,556,629	$ (95,929)	$ 1,150,241
Total comprehensive income						2,720	4,354	7,074
Purchase of treasury shares				8,600	(89,955)			(89,955)
Tax benefit from exercise of stock options			(9,331)					(9,331)
Deferred tax asset adjustment related to share-based compensation expense			6,320			(6,320)		
Sale of shares upon exercise of options and purchase rights			(1,756)	(1,347)	41,058	(30,285)		9,017
Issuance of shares upon vesting of restricted stock units			(8,526)	(288)	7,946			(580)
Share-based compensation expense			13,293					13,293
Cash dividends						(133,462)		(133,462)
September 30, 2012	191,606	$ 33,370	$	34,138	$ (384,780)	$ 1,389,282	$ (91,575)	$ 946,297

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

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LOGITECH INTERNATIONAL S.A.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Basis of Presentation

The consolidated financial statements include the accounts of Logitech and its subsidiaries (Logitech or the Company). All intercompany balances and transactions have been eliminated. The consolidated financial statements are presented in accordance with U.S. GAAP (accounting principles generally accepted in the United States of America) for interim financial information and therefore do not include all the information required by U.S. GAAP for complete financial statements. They should be read in conjunction with the Company s audited consolidated financial statements for the fiscal year ended March 31, 2012 included in its Annual Report on Form 10-K.

In the quarter ended June 30, 2012, the Company recorded a reduction in deferred tax assets and a decrease to retained earnings of $6.3 million, related to vested unexercised non-qualified stock options for former employees who terminated in fiscal year 2012 and prior. The Company reviewed this accounting error utilizing SEC Staff Accounting Bulletin No. 99, *Materiality*, and SEC Staff Accounting Bulletin No. 108, *Effects of Prior Year Misstatements on Current Year Financial Statements*, and determined the impact of the error to be immaterial to any period presented.

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

In the opinion of management, these consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results for the periods presented. Operating results for the three and six months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending March 31, 2013, or any future periods.

Fiscal Year

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

Changes in Significant Accounting Policies

There have been no substantial changes in the Company s significant accounting policies during the three and six months ended September 30, 2012 compared with the significant accounting policies described in its Annual Report on Form 10-K for the fiscal year ended March 31, 2012.

Use of Estimates

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

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Note 2 Net Income (Loss) per Share

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

	Three months ended September 30, 2012	Three months ended September 30, 2011	Six months ended September 30, 2012	Six months ended September 30, 2011
Net income (loss)	$ 54,865	$ 17,445	$ 2,720	$ (12,161)
Weighted average shares - basic	156,736	176,878	158,723	178,111
Effect of potentially dilutive share equivalents	1,196	399	1,130	
Weighted average shares - diluted	157,932	177,277	159,853	178,111
Net income (loss) per share - basic	$ 0.35	$ 0.10	$ 0.02	$ (0.07)
Net income (loss) per share - diluted	$ 0.35	$ 0.10	$ 0.02	$ (0.07)

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

Share equivalents attributable to outstanding stock options and RSUs (restricted stock units) of 14,929,137 and 17,054,444 for the three months ended September 30, 2012 and 2011, and 15,127,253 and 17,601,198 for the six months ended September 30, 2012 and 2011 were excluded from the calculation of diluted net income (loss) per share because their inclusion would have been anti-dilutive.

Note 3 Employee Benefit Plans

Employee Share Purchase Plans and Stock Incentive Plans

As of September 30, 2012, 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 2012 Plan was approved by the Board of Directors in April 2012. On April 13, 2012, the Company filed Registration Statements to register 5.0 million additional shares to be issued pursuant to the 2006 ESPP, and 1.8 million shares under the 2012 Plan. On September 5, 2012, at the fiscal year 2012 Annual General Meeting of Shareholders, Logitech shareholders approved amendments to and restatement of the 2006 Stock Incentive Plan, which included the increase of 7.3 million additional shares to be issued under this plan and to prohibit the repricing of options or stock appreciation rights. On October 25, 2012, the Company filed a registration statement to register the 7.3 million additional shares under the 2006 Stock Incentive Plan. Shares issued to employees as a result of purchases or exercises under these plans are generally issued from shares held in treasury.

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The following table summarizes share-based compensation expense and related tax benefit recognized for the three and six months ended September 30, 2012 and 2011 (in thousands):

	Three months ended September 30, 2012	Three months ended September 30, 2011	Six months ended September 30, 2012	Six months ended September 30, 2011
Cost of goods sold	$ 608	$ 950	$ 1,397	$ 2,110
Share-based compensation expense included in gross profit	608	950	1,397	2,110
Operating expenses:				
Marketing and selling	2,644	3,448	4,424	6,965
Research and development	1,763	1,754	3,588	3,562
General and administrative	2,251	586	4,028	3,816
Share-based compensation expense included in operating expenses	6,658	5,788	12,040	14,343
Total share-based compensation expense	7,266	6,738	13,437	16,453
Income tax benefit	(1,671)	(2,276)	(3,047)	(4,665)
Share-based compensation expense, net of income tax	$ 5,595	$ 4,462	$ 10,390	$ 11,788

Share-based compensation expense for the three and six months ended September 30, 2012 includes a reduction of $0.6 million and $2.2 million in expense applicable to employees terminated as a result of the restructuring plan announced in April 2012. As of September 30, 2012 and 2011, $0.6 million and $0.9 million of share-based compensation cost were capitalized to inventory.

Defined Contribution Plans

Certain of the Company s subsidiaries have defined contribution employee benefit plans covering all or a portion of their employees. Contributions to these plans are discretionary for certain plans and are based on specified or statutory requirements for others. The charges to expense for these plans for the three months ended September 30, 2012 and 2011 were $1.8 million and $2.4 million and for the six months ended September 30, 2012 and 2011 were $4.6 million and $5.5 million.

Defined Benefit Plans

Certain of the Company s subsidiaries sponsor defined benefit pension plans or non-retirement post-employment benefits covering substantially all of their employees. Benefits are provided based on employees years of service and earnings, or in accordance with applicable employee benefit regulations. The Company s practice is to fund amounts sufficient to meet the requirements set forth in the applicable employee benefit and tax regulations.

During the quarter ended September 30, 2012, the Company s Swiss defined benefit pension plan was subject to re-measurement due to the number of plan participants affected by the April 2012 restructuring described in Note 13. The re-measurement resulted in the realization of $2.2 million in previously unrecognized losses which resided within accumulated other comprehensive loss and which the Company entirely recognized during the three months ended September 30, 2012.

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The net periodic benefit cost for defined benefit pension plans and non-retirement post-employment benefit obligations for the three and six months ended September 30, 2012 and 2011 were as follows (in thousands):

	Three months ended September 30, 2012	Three months ended September 30, 2011	Six months ended September 30, 2012	Six months ended September 30, 2011
Service cost	$ 1,726	$ 1,937	$ 3,601	$ 3,232
Interest cost	418	632	912	1,137
Expected return on plan assets	(525)	(235)	(618)	(653)
Amortization of net transition obligation	1	1	2	2
Amortization of net prior service cost	38	38	76	77
Recognized net actuarial loss	262	359	678	459
Settlement cost	2,254		2,254	
Net periodic benefit cost	$ 4,174	$ 2,732	$ 6,905	$ 4,254

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 income taxes are generated outside of Switzerland.

On April 25, 2012, Logitech announced a restructuring plan to simplify the Company s organization, to better align costs with its current business, and to free up resources to pursue growth opportunities. A majority of the restructuring was completed during the three months ended June 30, 2012. Remaining restructuring not completed during the three months ended September 30, 2012 will be completed in the remainder of the fiscal year. In determining the annual effective tax rate, the restructuring was treated as a discrete event as it was significantly unusual and infrequent in nature. As such, restructuring-related charges and costs were excluded from ordinary income in determining the annual effective tax rate. The tax benefit associated with the restructuring is approximately $0.2 million.

The income tax benefit for the three months ended September 30, 2012 was $31.1 million based on an effective income tax rate of 130.6% of pre-tax income. For the three months ended September 30, 2011, the income tax provision was $4.9 million based on an effective income tax rate of 21.9% of pre-tax income. For the six months ended September 30, 2012 and September 30, 2011, the income tax benefit was $38.0 million and $4.7 million based on an effective income tax rate of 107.7% and 27.7% of pre-tax loss. The change in the effective income tax rate for the three and six months ended September 30, 2012 compared with the same periods in fiscal year 2011 is primarily due to the mix of income and losses in the various tax jurisdictions in which the Company operates, and a discrete tax benefit of $32.1 million in the three months ended September 30, 2012 primarily related to the reversal of uncertain tax positions resulting from the closure of federal income tax examinations in the United States.

As of September 30 and March 31, 2012, the total amount of unrecognized tax benefits and related accrued interest and penalties due to uncertain tax positions was $107.6 million and $143.3 million, of which $93.3 million and $125.4 million would affect the effective income tax rate if recognized. The decline in unrecognized tax benefits associated with uncertain tax positions in the amount of $35.7 million is primarily due to $33.8 million from the settlement of income tax examinations in the United States with the remaining from the expiration of statutes of limitations. The Company classified the unrecognized tax benefits as non-current income taxes payable.

The Company continues to recognize interest and penalties related to unrecognized tax positions in income tax expense. As of September 30 and March 31, 2012, the Company had approximately $7.7 million and $7.5 million, respectively, of accrued interest and penalties related to uncertain tax positions.

The Company files Swiss and foreign tax returns. For all these tax returns, the Company is generally not subject to tax examinations for years prior to 2000. During fiscal year 2012, the IRS (U.S. Internal Revenue Service) completed its field examinations of tax returns for the Company s U.S. subsidiary for fiscal years 2006 and 2007, and issued NOPAs (notices of proposed adjustment) related to international tax

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issues for those years. The Company disagreed with the NOPAs and contested through the administrative process for the IRS claims regarding 2006 and 2007. On July 2, 2012, the IRS issued an RAR (Revenue Agent s Report) for fiscal years 2006 and 2007 proposing revised assessments resulting from the administrative process. Subsequent to the Company s acceptance of the RAR on July 12, 2012, the Company received the final letter from the IRS dated August 8, 2012 which effectively settled the examinations. As a result of the closure of income tax examinations for fiscal years 2006 and 2007, the Company reversed $33.8 million of unrecognized tax benefits associated with uncertain tax positions and recorded $1.7 million tax provision from the proposed revised assessments, resulting in a net tax benefit of $32.1 million.

In addition, the IRS completed its field examination of the Company s U.S. subsidiary for fiscal years 2008 and 2009 during the quarter. The Company received NOPAs related to various domestic and international tax issues on August 15, 2012. After the close of the fiscal quarter ended September 30, 2012, the Company received final letters dated October 17, 2012 which effectively settled the examinations. As a result of the closure of income tax examinations for fiscal years 2008 and 2009, the Company estimates it will reverse $9.0 million of unrecognized tax benefits associated with uncertain tax positions and record a $5.5 million tax provision from the assessments, resulting in a net estimated tax benefit of $3.5 million.

The Company is also under examination and have received assessment notices in other tax jurisdictions. At this time, the Company is not able to estimate the potential impact that these examinations may have on income tax expense. If the examinations are resolved unfavorably, there is a possibility they may have a material negative impact on the Company s consolidated operating results.

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. With the exception of the resolution of the IRS examinations, it is not possible at this time to reasonably estimate the decrease of the unrecognized tax benefits within the next twelve months.

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Note 5 Balance Sheet Components

The following table presents the components of certain balance sheet asset amounts as of September 30 and March 31, 2012 (in thousands):

		September 30, 2012		March 31, 2012
Accounts receivable, net:				
Accounts receivable	$	450,108	$	376,917
Allowance for doubtful accounts		(2,239)		(2,472)
Allowance for returns		(24,519)		(24,599)
Allowances for cooperative marketing arrangements		(27,657)		(24,109)
Allowances for customer incentive programs		(41,785)		(42,262)
Allowances for pricing programs		(69,457)		(60,371)
	$	284,451	$	223,104
Inventories:				
Raw materials	$	42,682	$	38,613
Work-in-process		49		73
Finished goods		278,576		258,386
	$	321,307	$	297,072
Other current assets:				
Tax and value-added tax refund receivables	$	16,765	$	19,360
Deferred taxes		31,252		25,587
Prepaid expenses and other		20,999		21,043
	$	69,016	$	65,990
Property, plant and equipment, net:				
Plant, buildings and improvements	$	67,595	$	48,555
Equipment		158,149		148,059
Computer equipment		43,539		40,353
Computer software		75,969		75,758
		345,252		312,725
Less: accumulated depreciation		(262,887)		(249,657)
		82,365		63,068
Construction-in-progress		8,629		28,968
Land		2,860		2,848
	$	93,854	$	94,884
Other assets:				
Deferred taxes	$	58,884	$	61,358
Trading investments		14,805		14,301
Deposits and other		10,874		7,374
	$	84,563	$	83,033

In the three months ended June 30, 2011, an inventory valuation adjustment of $34.1 million was charged to cost of goods sold, as the result of management s decision in early July 2011 to reduce the retail price of Logitech Revue. The reduction in construction-in-progress balance from March 31, 2012 to September 30, 2012 was from leasehold improvement costs related to the new Americas headquarters which were placed into service during this period.

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The following table presents the components of certain balance sheet liability amounts as of September 30 and March 31, 2012 (in thousands):

		September 30, 2012		March 31, 2012
Accrued liabilities:				
Accrued personnel expenses	$	44,787	$	42,809
Accrued marketing expenses		9,531		7,097
Indirect customer incentive programs		25,340		26,112
Accrued restructuring		5,786		
Deferred revenue		21,200		19,358
Accrued freight and duty		13,116		11,376
Value-added tax payable		6,213		7,140
Accrued royalties		4,161		6,243
Warranty accrual		4,243		5,184
Non-retirement post-employment benefit obligations		4,244		4,129
Income taxes payable - current		4,510		6,047
Other accrued liabilities		47,103		51,185
	$	190,234	$	186,680
Non-current liabilities:				
Income taxes payable - non-current	$	105,128	$	137,319
Obligation for deferred compensation		14,950		14,393
Defined benefit pension plan liability		33,930		39,337
Deferred rent		20,853		16,042
Other long-term liabilities		12,511		11,371
	$	187,372	$	218,462

The following table presents the changes in the allowance for doubtful accounts during the three and six months ended September 30, 2012 and 2011 (in thousands):

	Three Months Ended September 30,				Six Months Ended September 30,			
		2012		2011		2012		2011
Allowance for doubtful accounts, beginning of period	$	(2,321)	$	(4,036)	$	(2,472)	$	(4,086)
Bad debt expense		103		(355)		189		46
Write-offs, net of recoveries		(21)		665		44		314
Allowance for doubtful accounts, end of period	$	(2,239)	$	(3,726)	$	(2,239)	$	(3,726)

Note 6 Financial Instruments

Fair Value Measurements

The Company considers fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an 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.

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- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

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

	September 30, 2012			March 31, 2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 237,033	$	$	$ 478,370	$	$
Trading investments for deferred compensation plan:						
Money market funds	3,466			3,383		
Mutual funds	11,339			10,918		
Available-for-sale securities:						
Collateralized debt obligations						429
Foreign exchange derivative assets		363			658	
Total assets at fair value	$ 251,838	$ 363	$	$ 492,671	$ 658	$ 429
Foreign exchange derivative liabilities	$	$ 3,375	$	$	$ 245	$
Total liabilities at fair value	$	$ 3,375	$	$	$ 245	$

The following table presents the changes in the Company s Level 3 financial assets during the six months ended September 30, 2012 and 2011 (in thousands):

	September 30, 2012	September 30, 2011
Available-for-sale securities, beginning balance	$ 429	$ 1,695
Proceeds from sales of securities	(917)	
Realized gain on sales of securities	831	
Reversal of unrealized gains previously recognized in accumulated other comprehensive income	(343)	
Available-for-sale securities, ending balance	$	$ 1,695

Cash and Cash Equivalents

Cash and cash equivalents consist of bank demand deposits and time deposits. The time deposits have original maturities of three months or less. Cash and **c**ash equivalents are carried at cost, which approximates fair value.

Investment Securities

The Company s investment securities portfolio currently consists of marketable securities (money market and mutual funds) related to a deferred compensation plan and previously also included auction rate securities collateralized by residential and commercial mortgages.

The marketable securities related to the deferred compensation plan are classified as non-current other assets. Since participants in the deferred compensation plan may select the mutual funds in which their compensation deferrals are invested within the confines of the Rabbi Trust which holds the marketable securities, the Company has designated these marketable securities as trading investments, although there is no stated intent to actively buy and sell securities with the objective of generating profits on short-term differences in market prices. Management has classified the investments as non-current assets because final sale of the investments or realization of proceeds by plan participants is not expected within the

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Company s normal operating cycle of one year. The marketable securities are recorded at a fair value of $14.8 million and $14.3 million as of September 30 and March 31, 2012, based on quoted market prices. Quoted market prices are observable inputs that are classified as Level 1 within the fair value hierarchy. Earnings, gains and losses on trading investments are included in other income (expense), net. Unrealized trading gains of $0.5 million and $0.2 million are included in other income (expense), net for the three and six months ended September 30, 2012 and relate to trading securities held at September 30, 2012.

Derivative Financial Instruments

The following table presents the fair values of the Company s derivative instruments and their locations on its consolidated balance sheets as of September 30 and March 31, 2012 (in thousands):

	Asset Derivatives			Liability Derivatives		
		Fair Value			Fair Value	
	Location	September 30, 2012	March 31, 2012	Location	September 30, 2012	March 31, 2012
Derivatives designated as hedging instruments:						
Cash flow hedges	Other assets	$ 52	$ 250	Other liabilities	$ 3,045	$
		52	250		3,045	
Derivatives not designated as hedging instruments:						
Foreign exchange forward contracts	Other assets	311	341	Other liabilities	75	148
Foreign exchange swap contracts	Other assets		67	Other liabilities	255	97
		311	408		330	245
		$ 363	$ 658		$ 3,375	$ 245

The following table presents the amounts of gains and losses on the Company s derivative instruments for the three months ended September 30, 2012 and 2011 and their locations on its consolidated statements of operations (in thousands):

	Net amount of gain/(loss) deferred as a component of accumulated other comprehensive loss		Location of gain/(loss) reclassified from accumulated other comprehensive loss into income	Amount of gain/(loss) reclassified from accumulated other comprehensive loss into income		Location of gain/(loss) recognized in income immediately	Amount of gain/(loss) recognized in income immediately	
	2012	2011		2012	2011		2012	2011
Derivatives designated as hedging instruments:								
Cash flow hedges	$ (3,783)	$ 7,219	Cost of goods sold	$ (1,683)	$ 1,539	Other income/expense	$ 120	$ (161)
	(3,783)	7,219		(1,683)	1,539		120	(161)

Derivatives not designated as hedging instruments:							
Foreign exchange forward contracts					Other income/expense	(92)	246
Foreign exchange swap contracts					Other income/expense	(390)	(403)
						(482)	(157)
	$ (3,783)	$ 7,219	$ (1,683)	$ 1,539		$ (362)	$ (318)

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The following table presents the amounts of gains and losses on the Company s derivative instruments for the six months ended September 30, 2012 and 2011 and their locations on its consolidated statements of operations (in thousands):

	Net amount of gain/(loss) deferred as a component of accumulated other comprehensive loss 2012	2011	Location of gain/(loss) reclassified from accumulated other comprehensive loss into income	Amount of gain/(loss) reclassified from accumulated other comprehensive loss into income 2012	2011	Location of gain/(loss) recognized in income immediately	Amount of gain/(loss) recognized in income immediately 2012	2011
Derivatives designated as hedging instruments:								
Cash flow hedges	$ (2,684)	$ 7,901	Cost of goods sold	$ (1,577)	$ 4,017	Other income/expense	$ 172	$ (258)
	(2,684)	7,901		(1,577)	4,017		172	(258)
Derivatives not designated as hedging instruments:								
Foreign exchange forward contracts						Other income/expense	(837)	194
Foreign exchange swap contracts						Other income/expense	435	(620)
							(402)	(426)
	$ (2,684)	$ 7,901		$ (1,577)	$ 4,017		$ (230)	$ (684)

Cash Flow Hedges

The Company enters into foreign exchange forward contracts to hedge against exposure to changes in foreign currency exchange rates related to its subsidiaries forecasted inventory purchases. The Company has one entity with a euro functional currency that purchases inventory in U.S. dollars. The Company is currently hedging against a weaker euro relative to U.S. dollars in that entity. The primary risk managed by using derivative instruments is the foreign currency exchange rate risk. The Company has designated these derivatives as cash flow hedges. Logitech does not use derivative financial instruments for trading or speculative purposes. These hedging contracts mature within four months, and are denominated in the same currency as the underlying transactions. Gains and losses in the fair value of the effective portion of the hedges are deferred as a component of accumulated other comprehensive loss until the hedged inventory purchases are sold, at which time the gains or losses are reclassified to cost of goods sold. The Company assesses the effectiveness of the hedges by comparing changes in the spot rate of the currency underlying the forward contract with changes in the spot rate of the currency in which the forecasted transaction will be consummated. If the underlying transaction being hedged fails to occur or if a portion of the hedge does not generate offsetting changes in the foreign currency exposure of forecasted inventory purchases, the Company immediately recognizes the gain or loss on the associated financial instrument in other income (expense), net. Such gains and losses were immaterial during the three and six months ended September 30, 2012 and 2011. Cash flows from such hedges are classified as operating activities in the consolidated statements of cash flows. The notional amounts of foreign exchange forward contracts outstanding related to forecasted inventory purchases were $94.5 million (73.0 million) and $77.4 million (57.3 million) at September 30, 2012 and 2011. The notional amount represents the future cash flows under contracts to purchase foreign currencies.

Other Derivatives

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

The notional amounts of foreign exchange forward contracts outstanding at September 30, 2012 and 2011 relating to foreign currency receivables or payables were $25.6 million and $22.3 million. Open forward contracts as of September 30, 2012 consisted of contracts in euros to sell British pounds, contracts in Australian dollars to purchase U.S. dollars and contracts in Taiwanese dollars to sell U.S. dollars at future dates at pre-determined exchange rates. Open forward contracts as of September 30, 2011 consisted of contracts in euros to purchase or sell British pounds and contracts in Australian dollars to purchase U.S. dollars at future dates at pre-determined exchange rates. The notional amounts of foreign exchange swap contracts outstanding at September 30, 2012 and 2011 were $11.5 million and $25.6 million. Swap contracts outstanding at September 30, 2012 consisted of contracts in Mexican pesos and Japanese yen.

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Swap contracts outstanding at September 30, 2011 consisted of contracts in Taiwanese dollar Non-Deliverable Forwards, Mexican pesos, Japanese yen and Canadian dollars.

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

Financial Instruments Measured at Fair Value on a Nonrecurring Basis

During the second quarter of fiscal year 2013, the Company invested $4.0 million in a privately-held company in exchange for convertible preferred stock. The Company accounts for this investment under the cost method of accounting since it has less than a 20% ownership interest and it lacks the ability to exercise significant influence over the operating and financial policies of the investee. The Company will periodically assess the investment for other-than-temporary impairment. If it determines that an other-than-temporary impairment has occurred, it will write down this investment to its fair value. The Company will estimate fair value of this investment considering all available information such as pricing in recent rounds of financing, current cash positions, earnings and cash flow forecasts, recent operational performance and any other readily available market data.

Note 7   Goodwill and Other Intangible Assets

The Company evaluates the goodwill of each reporting unit for impairment at least annually as of December 31, or more frequently if events or circumstances warrant. The Company s reporting units consist of peripherals and video conferencing. On April 25, 2012, the Company announced a restructuring plan as described in Note 13, and as a result, management performed a test during the first quarter of fiscal year 2013 to evaluate the recoverability of goodwill after implementation of the restructuring. The Company measures the recoverability of goodwill at the reporting unit level by comparing the reporting unit s carrying amount, including goodwill, to the estimated fair value of the reporting unit. The fair value is estimated using a discounted cash flow model, which considers estimates of projected future operating results and cash flows, discounted at an estimated after-tax weighted-average cost of capital. In addition, market-based valuation techniques are used to test the reasonableness of the value indicated by the discounted cash flow model. In the market-based valuation technique, the implied premium of the aggregate fair value over the market capitalization is considered attributable to an acquisition control premium, which is the price in excess of a stock s market price that investors would typically pay to gain control of an entity. The discounted cash flow model and the market-based valuation techniques require the exercise of significant judgment, including assumptions about appropriate discount rates, long-term growth rates for purposes of determining a terminal value at the end of the discrete forecast period, economic expectations, timing of expected future cash flows, and expectations of returns on equity that will be achieved. Such assumptions are subject to change as a result of changing economic and competitive conditions. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired, and a second test is performed to measure the amount of impairment loss by allocating the reporting unit s fair value to its assets and liabilities other than goodwill, comparing the resulting implied fair value of goodwill with its carrying amount, and recording an impairment charge for the difference. The goodwill impairment evaluation performed by management as of June 30, 2012 indicated that the fair value of its peripherals reporting unit exceeded the carrying value of the reporting unit by more than 70% of the carrying value, and the fair value of its video conferencing reporting unit exceeded the carrying value of the reporting unit by more than 100% of the carrying value.

Our acquisition of Mirial S.r.l. on July 18, 2011 added $14.1 million to goodwill during the second quarter of fiscal year 2012. Mirial s business has been fully integrated into the Company s video conferencing reporting unit, and discrete financial information for Mirial is not maintained. Accordingly, the acquired goodwill related to Mirial is evaluated for impairment at the video conferencing reporting unit level.

As of September 30, 2012, the carrying value of goodwill attributable to the peripherals and video conferencing reporting units was $221.9 million and $339.2 million.

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In connection with the restructuring, management also reviewed long-lived assets, such as property and equipment, and intangible assets, for recoverability by comparing the projected undiscounted net cash flows associated with those assets to their carrying values. No impairment of long-lived assets was required as a result of the review during the first quarter of fiscal year 2013.

Management continues to evaluate and monitor all key factors impacting the carrying value of the Company s recorded goodwill and long-lived assets. Further adverse changes in the Company s actual or expected operating results, market capitalization, business climate, economic factors or other negative events that may be outside the control of management could result in a material non-cash impairment charge in the future.

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

	September 30, 2012			March 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademark/tradename	$ 32,075	$ (27,474)	$ 4,601	$ 32,104	$ (26,095)	$ 6,009
Technology	91,831	(69,882)	21,949	91,954	(62,548)	29,406
Customer contracts	40,131	(25,573)	14,558	39,926	(21,823)	18,103
	$ 164,037	$ (122,929)	$ 41,108	$ 163,984	$ (110,466)	$ 53,518

Amortization expense for other intangible assets was $6.0 million and $6.9 million for the three months ended September 30, 2012 and 2011 and $12.2 million and $13.6 million for the six months ended September 30, 2012 and 2011. The Company expects that amortization expense for the remaining six months of fiscal year 2013 will be $12.1 million, and annual amortization expense for fiscal years 2014, 2015 and 2016 will be $18.2 million, $9.1 million, and $1.2 million, and $0.5 million thereafter.

Note 8 Financing Arrangements

In December 2011, the Company entered into a Senior Revolving Credit Facility Agreement with a group of primarily Swiss banks that provides for a revolving multicurrency unsecured credit facility in an amount of up to $250.0 million. The Company may, upon notice to the lenders and subject to certain requirements, arrange with existing or new lenders to provide up to an aggregate of $150.0 million in additional commitments, for a total of $400.0 million of unsecured revolving credit. The credit facility may be used for working capital, general corporate purposes, and acquisitions. There were no outstanding borrowings under the credit facility at September 30, 2012.

The credit facility matures on October 31, 2016. The Company may prepay the loans under the credit facility in whole or in part at any time without premium or penalty. Borrowings under the credit facility will accrue interest at a per annum rate based on LIBOR (London Interbank Offered Rate), or EURIBOR (Euro Interbank Offered Rate) in the case of loans denominated in euros, plus a variable margin determined quarterly based on the ratio of senior debt-to-earnings before interest, taxes, depreciation and amortization for the preceding four-quarter period, plus, if applicable, an additional rate per annum intended to compensate the lenders for the cost of compliance with regulatory reserve requirements and other banking regulations. The Company also pays a quarterly commitment fee of 40% of the applicable margin on the available commitment. In connection with entering into the credit facility, the Company incurred non-recurring fees totaling $1.5 million, which are amortized on a straight-line basis over the term of the credit facility.

The facility agreement contains representations, covenants, including threshold financial covenants, and events of default customary in Swiss credit markets. Affirmative covenants include covenants regarding reporting requirements, maintenance of insurance, maintenance of properties and compliance with applicable laws and regulations, and financial covenants that require the maintenance of net senior debt, interest cover and adjusted equity ratios determined in accordance with the terms of the facility. Negative covenants limit the ability of the Company and its subsidiaries, among other things, to grant liens,

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make investments, incur debt, make restricted payments, enter into a merger or acquisition, or sell, transfer or dispose of assets, in each case subject to certain exceptions. As of September 30, 2012, the Company was not in compliance with the adjusted equity ratio of this facility. This situation resulted from the Company s $133.5 million cash dividend payment to its shareholders on September 18, 2012. The Company believes that this is only a short-term situation. Until the Company is in compliance with the covenants, this facility may not be available for its use.

This facility stipulates that, upon an uncured event of default under the facility, the lenders may declare all or a portion of the outstanding obligations payable by the Company to be immediately due and payable, terminate their commitments and exercise other rights and remedies provided for under the facility. The events of default under the facility include, among other things, payment defaults, covenant defaults, inaccuracy of representations and warranties, cross defaults with certain other indebtedness, bankruptcy and insolvency events and events that have a material adverse effect (as defined in the facility). Upon a change of control of the Company, lenders whose commitments aggregate more than two-thirds of the total commitments under the facility may terminate the commitments and declare all outstanding obligations to be due and payable.

The Company had several uncommitted, unsecured bank lines of credit aggregating $76.2 million at September 30, 2012. There are no financial covenants or cross default provisions under these lines of credit with which the Company must comply. At September 30, 2012, the Company had no outstanding borrowings under these lines of credit. The Company also had available credit lines related to corporate credit cards totaling $29.9 million as of September 30, 2012. The outstanding borrowings under these credit lines are recorded in other current liabilities. There are no financial covenants or cross default provisions under these credit lines.

Note 9 Commitments and Contingencies

Operating Leases

The Company leases facilities under operating leases, certain of which require it to pay property taxes, insurance and maintenance costs. Operating leases for facilities are generally renewable at the Company s option and usually include escalation clauses linked to inflation. Future minimum annual rentals under non-cancelable operating leases at September 30, 2012 amounted to $104.3 million. In the six months ended September 30, 2012, the Company recognized additional rent expense of $3.4 million, representing the fair value of future rent obligations on its former Americas headquarters, which are no longer used by the Company.

In connection with its leased facilities, the Company has recognized a liability for asset retirement obligations representing the present value of estimated remediation costs to be incurred at lease expiration. The following table describes changes to the Company s asset retirement obligation liability for the three and six months ended September 30, 2012 and 2011 (in thousands):

	Three months ended September 30,		Six months ended September 30,	
	2012	2011	2012	2011
Asset retirement obligations, beginning of period	$ 2,001	$ 1,670	$ 1,918	$ 1,636

Liabilities incurred		38		38
Liabilities settled		(9)		(26)
Accretion expense	4	20	16	39
Foreign currency translation	(135)	(40)	(64)	(8)
Asset retirement obligations, end of period	$ 1,870	$ 1,679	$ 1,870	$ 1,679

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Product Warranties

Certain of the Company s products are covered by warranty to be free from defects in material and workmanship for periods ranging from one year to five years. At the time of sale, the Company accrues a warranty liability for estimated costs to provide products, parts or services to repair or replace products in satisfaction of the warranty obligation. The Company s estimate of costs to fulfill its warranty obligations is based on historical experience and expectations of future conditions. When the Company experiences changes in warranty claim activity or costs associated with fulfilling those claims, the warranty liability is adjusted accordingly. Changes in the Company s warranty liability for the three and six months ended September 30, 2012 and 2011 were as follows (in thousands):

	Three months ended September 30,		Six months ended September 30,	
	2012	**2011**	**2012**	**2011**
Warranty liability, beginning of period	$ 4,821	$ 4,633	$ 5,184	$ 4,970
Provision for warranties issued during the period	(215)	4,991	1,417	9,412
Settlements made during the period	(363)	(4,792)	(2,358)	(9,550)
Warranty liability, end of period	$ 4,243	$ 4,832	$ 4,243	$ 4,832

Purchase Commitments

At September 30, 2012, the Company had the following outstanding purchase commitments (in thousands):

	September 30, 2012
Inventory purchases	$ 166,212
Operating expenses	66,402
Capital expenditures	19,000
Total purchase commitments	$ 251,614

Commitments for inventory purchases are made in the normal course of business to original design manufacturers, contract manufacturers and other suppliers and are expected to be fulfilled by December 2012. Operating expense commitments are for consulting services, marketing arrangements, advertising, outsourced customer services, information technology maintenance and support services, and other services. Fixed purchase commitments for capital expenditures primarily related to commitments for computer hardware and leasehold improvements. Although open purchase orders are considered enforceable and legally binding, the terms generally allow the Company the option to reschedule and adjust its requirements based on the business needs prior to delivery of goods or performance of services.

Guarantees

Logitech International S.A., the parent holding company, has guaranteed payment of the purchase obligations of various subsidiaries from certain component suppliers. These guarantees generally have an unlimited term. The maximum potential future payment under the guarantee arrangements is limited to $36.0 million. At September 30, 2012, there were no purchase obligations outstanding for which the parent holding company was required to guarantee payment.

Logitech Europe S.A., a subsidiary of the parent holding company, has guaranteed the purchase obligations of another Logitech subsidiary and third-party contract manufacturers under three guarantee agreements. Two of these guarantees do not specify a maximum amount. The remaining guarantee has a total limit of $7.0 million. As of September 30, 2012, $2.6 million of guaranteed purchase obligations were outstanding under these guarantees. Logitech Europe S.A. has also guaranteed payment of the purchase obligations of a third-party contract manufacturer under three guarantee agreements. The maximum amount of these guarantees was $3.7 million as of September 30, 2012. As of September 30, 2012, $2.0 million of guaranteed purchase obligations were outstanding under these agreements.

Logitech International S.A. and Logitech Europe S.A. have guaranteed certain contingent liabilities of various subsidiaries related to transactions occurring in the normal course of business. The maximum amount of the guarantees was $36.9 million as of September 30, 2012. As of September 30, 2012, $10.0 million of guaranteed liabilities were subject to these guarantees.

Indemnifications

Logitech indemnifies some of its suppliers and customers for losses arising from matters such as intellectual property 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. No amounts have been accrued for indemnification provisions at September 30, 2012. 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.

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

Legal Proceedings

On May 23, 2011, a class action complaint was filed against Logitech International S.A. and certain of its officers in the United States District Court for the Southern District of New York on behalf of individuals who purchased Logitech shares between October 28, 2010 and April 1, 2011. The complaint relates to Logitech s disclosure on March 31, 2011 that its results for fiscal year 2011 would fall below expectations and seeks unspecified monetary damages and other relief against the defendants. The action was transferred to the United States District Court for the Northern District of California on July 28, 2011. The California Court appointed a lead plaintiff on October 27, 2011. The plaintiff filed an amended complaint on January 9, 2012 which expanded the alleged class period to between October 28, 2010 and September 22, 2011. On July 13, 2012, the California Court granted defendants motion to dismiss the amended complaint, with leave to amend. On September 28, 2012, the Court approved a stipulation and proposed order submitted by the parties dismissing the case with prejudice.

On July 15, 2011, a complaint was filed against Logitech International S.A. and two of its subsidiaries in the United States District Court for the Central District of California by Universal Electronics, Inc. (UEI). On November 3, 2011, the Company filed a counter suit against UEI. On July 18, 2012, Logitech and UEI signed a nonbinding settlement and license agreement term sheet, and the District Court thereafter dismissed the suits without prejudice to the right, upon good cause shown within 60 days, to reopen the action if a settlement is not consummated. The parties subsequently finalized the settlement.

In addition, from time to time the Company is involved in claims and legal proceedings which 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 and results of operations in a particular period. Any claims or proceedings against us, whether meritorious or not, can have an adverse impact because of defense costs, diversion of management and operational resources, negative publicity and other factors. Any failure to obtain necessary license or other rights, or litigation arising out of intellectual property claims, could adversely affect our business.

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Note 10 Shareholders Equity

Dividends

On September 5, 2012, the Company s shareholders approved a cash dividend of CHF 125.7 million out of retained earnings to Logitech shareholders who owned shares on September 17, 2012. Eligible shareholders were paid CHF 0.79 per share ($0.85 per share in U.S. dollars), totaling $133.5 million in U.S. dollars on September 18, 2012.

Share Repurchases

During the three and six months ended September 30, 2012 and 2011, the Company had in place the approved share buyback programs shown in the following table (in thousands, excluding transaction costs). The amended September 2008 share buyback program enables the Company to repurchase shares for cancellation.

Date of Announcement	**Approved Share Buyback Number**	**Approved Buyback Amount**	**Expiration Date**	**Completion Date**	**Number of Shares Remaining (1)**	**Amount Remaining**
September 2008 - amended	28,465	$ 177,030	August 2013		482	$ 4,435
September 2008	8,344	$ 250,000	August 2013			

(1) Represents an estimate of the number of shares remaining to be repurchased, calculated based on the amount of $4.4 million remaining to repurchase as of September 30, 2012, divided by the per share adjusted closing price on the SIX Swiss Exchange as of the same date.

During the three and six months ended September 30, 2012 and 2011, the Company repurchased shares under these programs as follows (in thousands):

Date of	**Shares Repurchased Program to date**		**Three Months ended September 30, (1)**				**Six Months ended September 30,**			
			2012		**2011**		**2012**		**2011**	
Announcement	**Shares**	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**
September 2008 - amended	18,500	$ 172,857		$		$	8,600	$ 89,955		$
September 2008	7,609	73,134			7,609	73,134			7,609	73,134
	26,109	$ 245,991		$	7,609	$ 73,134	8,600	$ 89,955	7,609	$ 73,134

(1) Represents the amount in U.S. dollars, including transaction costs, calculated based on exchange rates on the repurchase dates.

On September 5, 2012, the Company s shareholders approved the cancellation of the 18.5 million shares repurchased under the September 2008 amended share buyback program. These shares are expected to be legally cancelled during the third quarter of fiscal year 2013.

Accumulated Other Comprehensive Income (Loss)

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

	September 30, 2012	March 31, 2012
Foreign currency translation	$ (68,149)	$ (66,854)
Pension liability adjustments, net of tax of $752 and $752	(20,686)	(29,362)
Unrealized gain on investments		343
Net deferred hedging losses	(2,740)	(56)
	$ (91,575)	$ (95,929)

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Note 11 Segment Information

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

	Three months ended September 30, 2012	Three months ended September 30, 2011 (*)	Six months ended September 30, 2012	Six months ended September 30, 2011 (*)
Peripherals				
Retail - Pointing Devices	$ 122,490	$ 133,165	$ 238,217	$ 254,915
Retail - Keyboards & Desktops	130,806	109,325	241,251	203,921
Retail - Audio	109,831	126,967	199,878	204,640
Retail - Video	47,352	57,276	84,232	106,862
Retail - Gaming	47,302	47,836	74,576	85,002
Retail - Digital Home	18,698	27,166	33,426	41,171
OEM	36,718	50,261	73,393	99,439
Total peripherals	513,197	551,996	944,973	995,950
Video Conferencing	34,496	37,208	71,324	73,695
Total net sales	$ 547,693	$ 589,204	$ 1,016,297	$ 1,069,645

(*) Certain products within the retail product families as presented in the prior year have been reclassified to conform to the current year presentation, with no impact on previously reported total peripheral retail sales.

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

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

	Three months ended September 30, 2012	Three months ended September 30, 2011	Six months ended September 30, 2012	Six months ended September 30, 2011
Net sales by operating segment				
Peripherals	$ 513,197	$ 551,996	$ 944,973	$ 995,950
Video Conferencing	34,496	37,208	71,324	73,695
Total net sales	$ 547,693	$ 589,204	$ 1,016,297	$ 1,069,645
Operating income (loss) by segment				
Peripherals	$ 39,130	$ 38,632	$ (6,696)	$ 11,753
Video Conferencing	(1,680)	(1,473)	(2,745)	(3,281)
All other	(13,305)	(13,664)	(25,694)	(30,009)
Total operating income (loss)	$ 24,145	$ 23,495	$ (35,135)	$ (21,537)
Depreciation and amortization by segment				
Peripherals	$ 11,921	$ 13,197	$ 24,054	$ 28,214
Video Conferencing	5,259	5,150	10,510	9,935
Total depreciation and amortization	$ 17,180	$ 18,347	$ 34,564	$ 38,149

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

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

	Three months ended September 30, 2012	Three months ended September 30, 2011	Six months ended September 30, 2012	Six months ended September 30, 2011
Americas	$ 216,596	$ 233,309	$ 420,522	$ 459,329
EMEA	212,050	219,898	362,056	350,750
Asia Pacific	119,047	135,997	233,719	259,566
Total net sales	$ 547,693	$ 589,204	$ 1,016,297	$ 1,069,645

Sales are attributed to countries on the basis of the customers locations. The United States represented more than 10% of the Company s total consolidated net sales for each of the quarters ended September 30, 2012 and 2011. No other single country represented more than 10% of the Company s total consolidated net sales for the three months ended September 30, 2012 and 2011. One customer group represented 13% of net sales in each of the quarters ended September 30, 2012 and 2011. The United States represented more than 10% of the Company s total consolidated net sales for each of the six months ended September 30, 2012 and 2011, and China represented more than 10% of the Company s total consolidated net sales for the six months ended September 30, 2011. No other single country represented more than 10% of the Company s total consolidated net sales for the six months ended September 30, 2012 and 2011. One customer group represented 12% of net sales in each of the six month periods ended September 30, 2012 and 2011.

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

	September 30, 2012	March 31, 2012
Americas	$ 47,511	$ 49,365
EMEA	9,355	9,304
Asia Pacific	42,401	41,576
Total long-lived assets	$ 99,267	$ 100,245

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Long-lived assets in China and the United States each represented more than 10% of the Company s total consolidated long-lived assets at September 30 and March 31, 2012.

Note 12 Acquisitions and Divestitures

On July 18, 2011, the Company acquired all of the outstanding shares of Mirial S.r.l., a Milan-based privately-held provider of personal and mobile video conferencing solutions, for a total consideration of $18.8 million (13.0 million), net of cash acquired of $1.4 million (1.0 million). In addition, Logitech incurred $0.4 million in transaction costs, which are included in operating expenses in fiscal year 2012. Mirial has been integrated into the video conferencing reporting unit, and we expect that its technology will be used to enhance video connection capabilities on a variety of mobile devices and networks.

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

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

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

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

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Note 13 Restructuring

On April 25, 2012, Logitech announced a restructuring plan to simplify the Company s organization, to better align costs with its current business, and to free up resources to pursue growth opportunities. A majority of the restructuring activity was completed during the three months ended June 30, 2012. As part of this restructuring plan, the Company reduced its worldwide non-direct-labor workforce by approximately 340 employees. Charges and other costs related to the workforce reduction are presented as restructuring charges in the consolidated statements of operations.

The following table summarizes restructuring related activities during the three and six months ended September 30, 2012 (in thousands):

	Total	Termination Benefits	Lease Exit Costs	Other
Balance at March 31, 2012	$	$	$	$
Charges	31,227	28,655	1,472	1,100
Cash payments	(5,195)	(4,766)		(429)
Foreign exchange	63	63		
Balance at June 30, 2012	$ 26,095	$ 23,952	$ 1,472	$ 671
Charges (credits)	(2,671)	(3,816)	48	1,097
Cash payments	(17,652)	(16,642)	(52)	(958)
Foreign exchange	14			14
Balance at September 30, 2012	$ 5,786	$ 3,494	$ 1,468	$ 824

During the current quarter, the Company incurred a $3.8 million credit in termination benefits to affected employees due to the further refinement of estimates which were previously accrued during the three months ended June 30, 2012. For the six months ended September 30, 2012, the Company incurred $24.8 million in termination benefits to affected employees under this plan. In addition, the Company incurred legal, consulting, and other costs of $1.1 million and $2.2 million as a result of the terminations during the three and six months ended September 30, 2012. The Company also incurred $1.5 million in lease exit costs primarily related to costs associated with the closure of existing facilities during the six months ended September 30, 2012.

During the six months ended September 30, 2012, charges of approximately $3.0 million related to discontinuance of certain product development efforts are included in cost of goods sold in the consolidated statements of operations. During the quarter ended September 30, 2012, the Company also incurred $2.2 million from the re-measurement of its Swiss defined benefit pension plan caused by the number of plan participants affected by this restructuring. This amount was not included in restructuring charge since it related to prior services.

Termination benefits were calculated based on regional benefit practices and local statutory requirements. Lease exit costs primarily relate to costs associated with the closure of existing facilities. Other charges primarily consist of legal, consulting and other costs related to employee terminations.

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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 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, 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 and in emerging markets, our expectations regarding trends in consumer demand for PCs and mobile, tablet, gaming, audio, video, digital home and other computer devices and the interoperability of our products with such third party platforms, our competitive position and the effect of pricing, product, marketing and other initiatives by us and our competitors, the impact of our restructuring plan on future costs, expenses and financial performance and the timing thereof, our estimates of future charges related to our restructuring plan, our expectations regarding the recoverability of our goodwill and the potential for future impairment charges, significant fluctuations in currency exchange rates, 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, compliance with our credit facilities, our expectations regarding share repurchases 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, and Logitech s ability to achieve renewed growth, profitability and future success. Forward-looking statements also include, among others, those statements including the words anticipate, believe, could, estimate, expect, forecast, intend, may, plan, project, predict, should, will, and similar language. These forward-looking statements involve risks and uncertainties that could cause our actual performance to differ materially from that anticipated in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section titled Risk Factors in Part II, Item 1A of this quarterly report on Form 10-Q. You should carefully review the risks described in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q or Current Reports on Form 8-K that we file in fiscal year 2013 and our fiscal year 2012 Form 10-K, which was filed on May 30, 2012, which discuss our business in greater detail. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.

Overview of Our Company

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

Our peripherals segment encompasses the design, manufacturing and marketing of peripherals for PCs (personal computers), tablets and other digital platforms. Our products for home and business PCs include mice, trackballs, keyboards, interactive gaming controllers, multimedia speakers, headsets and webcams. Our tablet accessories include keyboards, keyboard cases and covers, headsets, wireless speakers, earphones and stands. Our Internet communications products include webcams, headsets, video

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communications services, and digital video security systems. Our digital music products include speakers, earphones, custom in-ear monitors and Smart Radios. For home entertainment systems, we offer the Harmony line of advanced remote controls. Our gaming products include a range of gaming controllers and microphones, as well as other accessories.

Our brand, portfolio management, product definition and engineering teams in our peripherals segment are responsible for product strategy, technological innovation, product design and development, and bringing our products to market. Our business groups are organized by product categories. Our global marketing organization is responsible for developing and building the Logitech brand, consumer insight, public relations and social media, customer care and digital marketing. Our regional retail sales and marketing activities are organized into three geographic areas: Americas (including North and South America), EMEA (Europe-Middle East-Africa), and Asia Pacific (including, among other countries, China, Taiwan, Japan, India and Australia).

We sell our peripheral products to a network of distributors, retailers, and OEMs. Our worldwide retail network includes wholesale distributors, consumer electronics retailers, mass merchandisers, specialty electronics stores, computer and telecommunications stores, value-added resellers, and online merchants. Sales of peripherals to our retail channels were 86% and 84% of our net sales for the six months ended September 30, 2012 and 2011. The large majority of our revenues have historically been derived from sales of our peripheral products for use by consumers. Our OEM customers include the majority of the world s largest PC manufacturers. Sales to OEM customers were 7% and 9% of our net sales for the six months ended September 30, 2012 and 2011.

Our video conferencing segment encompasses the design, manufacturing and marketing of LifeSize video conferencing products, infrastructure, and services for the enterprise, public sector, and other business markets. LifeSize products include scalable HD (high-definition) video communication endpoints, HD video conferencing systems with integrated monitors, video bridges and other infrastructure software and hardware to support large-scale video deployments, and services to support these products. The LifeSize division maintains a separate marketing and sales organization, which sells LifeSize products and services worldwide. LifeSize product development and product management organizations are separate, but coordinated with our peripherals business, particularly our Consumer Computing Platforms group. We sell our LifeSize products and services to distributors, value-added resellers, OEMs, and, occasionally, direct enterprise customers. Sales of LifeSize products were 7% of our net sales in each of the six months ended September 30, 2012 and 2011.

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

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

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Many of these companies have greater financial, technical, sales, marketing and other resources than we have.

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

As we address the current and future market challenges we face, we are simplifying our current product portfolio and roadmap to align our resources, prioritize our investments, and focus on fewer, more compelling products. From time to time, we may seek to partner with or acquire, when appropriate, companies that have products, personnel, and technologies that complement our strategic direction. We continually review our product offerings and our strategic direction in light of our profitability targets, competitive conditions, changing consumer trends, and the evolving nature of the interface between the consumer and the digital world.

Summary of Financial Results

Our total net sales for the six months ended September 30, 2012 decreased 5% compared with the six months ended September 30, 2011 due to a sharp decline in OEM sales, and from modest declines in retail and video conferencing. OEM sales decreased 26% in the six months ended September 30, 2012 compared with the same period of the prior fiscal year, and OEM units sold decreased 11%, primarily in keyboard/desktops and pointing devices.

Retail sales during the six months ended September 30, 2012 decreased 3% and retail units increased 1% compared with the six months ended September 30, 2011. We experienced modest growth in our EMEA region of 4%, led by keyboards/desktops, decline in our Americas region of 9% overall and in most categories, and decline in our Asia Pacific region of 4% primarily from video and gaming. If foreign currency exchange rates had been the same in the six months ended September 30, 2012 and 2011, the percentage changes in our constant dollar retail sales would have been an increase of 13% in EMEA, a decrease of 4% in Asia Pacific, and a decrease of 8% in the Americas. Sales incentive spending (including pricing discounts) during the six months ended September 30, 2012, compared with the same period of the prior fiscal year, decreased 12% due to controlled spending for customer incentive programs as well as lower sell-through during this period. Sales returns expense during the six months ended September 30, 2012, compared with the same period of the prior fiscal year, decreased 27% due to lower return trends and better channel inventory aging during this period.

Sales of video conferencing products, which were 7% of total net sales in each of the six months ended September 30, 2012 and 2011, decreased by 3% in the six months ended September 30, 2012, compared with the same period of the prior fiscal year, due to sales declines in all geographic regions.

Our gross margin for the six months ended September 30, 2012 improved to 33.5% compared with 30.3% in the same period of the prior fiscal year. The gross margin improvement primarily resulted from the absence of a $34.1 million inventory valuation adjustment related to Logitech Revue and related peripherals which occurred during the six months ended September 30, 2011, and from improvements to our channel pricing program and global supply chain process, offset in part by the negative impact of a weaker euro, $4.5 million in pricing actions related to the simplification of our product portfolio and $3.0 million in restructuring-related costs.

Operating expenses for the six months ended September 30, 2012 were 37% of net sales compared with 32% in the same period of the prior fiscal year. This increase was primarily attributable to the $28.6 million in costs related to the restructuring plan initiated in April 2012.

Net income for the six months ended September 30, 2012 was $2.7 million compared with net loss of $12.2 million in the six months ended September 30, 2011. This improvement was primarily from a discrete tax benefit of $32.1 million from the closure of federal income tax examinations in the United States, offset in part by restructuring charges.

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Our balance sheet includes goodwill of $221.9 million related to various past acquisitions which are part of our peripherals reporting unit, and $339.2 million related to our video conferencing reporting unit. We perform our annual goodwill impairment test annually as of December 31, or more frequently, if certain events or circumstances warrant. Events or changes in circumstances which might indicate potential impairment in goodwill include the company specific factors described in our Annual Report on Form 10-K, volatility in stock price, a sustained decline in market capitalization relative to net book value, and lower than projected revenue, market growth, or operating results. On April 25, 2012, the Company announced a restructuring plan as described in Note 13, and as a result, we performed an impairment test during the first quarter of fiscal year 2013 to evaluate the recoverability of goodwill after implementation of the restructuring. The goodwill impairment evaluation we performed indicated that the fair value of our peripherals reporting unit exceeded the carrying value of the reporting unit by more than 70% of the carrying value, and the fair value of our video conferencing reporting unit exceeded the carrying value of the reporting unit by more than 100% of the carrying value. Also in connection with the restructuring, we reviewed long-lived assets, such as property, equipment, and intangible assets, for recoverability by comparing the projected undiscounted net cash flows associated with those assets to their carrying values. No impairment of long-lived assets was required as a result of the review. We continue to evaluate and monitor all key factors impacting the carrying value of our recorded goodwill and long-lived assets. Further adverse changes in our actual or expected operating results, market capitalization, business climate, economic factors or other negative events that may be outside the control of management could result in a material non-cash impairment charge in the future.

Trends in Our Business

Our sales of PC peripherals for use by consumers in the Americas and Europe have historically made up the large majority of our revenues. We believe Logitech s future growth will be determined by our ability to create innovative products across multiple digital platforms, to sustain the growth of our PC peripherals, or in some cases to limit their decline, and to pursue growth opportunities in emerging markets, products for tablets, smartphones and other mobile devices, products for digital music, sales to enterprise markets, and LifeSize video conferencing. The following discussion represents key trends specific to each of our two operating segments, peripherals and video conferencing.

Trends Specific to our Peripherals Segment

Emerging Markets. In our traditional, mature markets, such as North America, Western and Northern Europe, Japan, and Australia, although the installed base of PC users is large, consumer demand for PCs has declined in recent months and may potentially continue to decline in future years. As a consequence, consumer demand for PC peripherals is slowing, or in some case declining. While we continue to pursue growth opportunities in selected PC peripheral product lines in mature markets, we believe there are larger growth opportunities for our PC peripherals outside the mature markets. We have invested significantly in growing the number of our sales, marketing and administrative personnel in China, our largest target emerging market, with the result that China was our third-largest country in retail sales for the six months ended September 30, 2012. We are also expanding our presence and our sales in Russia, India and Latin America.

Enterprise Market. We are increasing our efforts on creating and selling products and services to enterprises. We believe the preferences of employees increasingly drive companies choices in the information technologies they deploy to their employee base, and this consumerization of information technology has made the enterprise market open to embracing consumer technology and design. We are still in the early stages of our enterprise market team s efforts for our productivity peripherals. Growing our enterprise peripherals business will continue to require investment in selected business-specific products, targeted product marketing, and sales channel development.

Tablets, Smartphones and Other Mobile Devices. The increasing popularity of smaller, mobile computing devices, such as tablets and smartphones with touch interfaces, have created new markets and usage models for peripherals and accessories. Logitech has begun to offer products to enhance the use of mobile devices. For example, we are experiencing strong demand for our tablet keyboards, led by strong initial demand for our Logitech Ultrathin Keyboard Cover.

Digital Music. We believe that digital music, the seamless consumption of audio content on home and mobile devices, presents a significant growth opportunity for Logitech, based on our history of successful earphone, headset and speaker products. Many consumers listen to music as a pervasive entertainment activity, fueled by the growth in smartphones, tablets, music services and Internet radio. Logitech has a solid foundation of audio solutions to satisfy consumers needs for music consumption, including Logitech UE earphones, headphones, digital music speakers, and Smart Radios.

OEM business. Sales of our OEM mice and keyboards have historically made up the bulk of our OEM sales. In recent years, the shift away from desktop PCs adversely affected our sales of OEM mice and keyboards, which are sold with name-brand desktop PCs. We expect this trend to continue and for OEM sales to comprise a smaller percentage of our total revenues in the future.

Trends in Other Peripheral Product Categories. Some of our other peripherals product categories are experiencing significant market challenges. As the quality of PC embedded webcams improves, we expect future sales of our PC-connected webcams in mature consumer markets to continue declining. We intend to address this market decline by enhancing our webcam product line-up to enable experiences that cannot be easily achieved with an embedded webcam and by targeting webcam applications on non-PC platforms. Sales in our digital home category have declined significantly. We believe the recent disappointing sales results for Harmony reflect the aging of our Harmony products at the mid- and high-level price points as we previously directed significant digital home engineering and marketing resources towards our Logitech Revue and related peripherals for Google TV. We have since exited the Google TV product category. During the current quarter we released two new products, Logitech TV Cam HD with built-in Skype capability as well as our long-awaited Harmony Touch remote control which features an intuitive, color touch-screen enabling users the ability to personalize their screens.

Trends Specific to our Video Conferencing Segment

The trend among businesses and institutions to use video conferencing offers a key growth opportunity for Logitech. However, the growth of our video conferencing segment depends in part on our ability to increase sales to enterprises with existing installed bases of equipment supplied by our competitors, and to enterprises that may purchase such competitor equipment in the future. We believe the ability of our LifeSize products to interoperate with the equipment of other telecommunications, video conferencing or telepresence equipment suppliers to be a key factor in purchasing decisions by current or prospective LifeSize customers. In addition, LifeSize has broadened its product portfolio to include infrastructure, cloud services and other offerings which require different approaches to developing customer solutions. We also are seeking to offer LifeSize products designed to enhance the use of mobile devices in video conferencing applications.

Emerging Market. China also represents a significant targeted emerging market for our video conferencing segment. We have invested significantly in growing the number of our video conferencing sales, marketing and administrative personnel in China.

Critical Accounting Estimates

The preparation of financial statements and related disclosures in conformity with U.S. GAAP (generally accepted accounting principles in the United States of America) requires the Company to make judgments, estimates and assumptions that affect reported amounts of assets, liabilities, net sales and expenses, and the disclosure of contingent assets and liabilities.

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

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

There have been no significant changes during the six months ended September 30, 2012 to the nature of the critical accounting estimates and other accounting policies disclosed in the Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended March 31, 2012.

Results of Operations

Net Sales

Net sales by channel for the three and six months ended September 30, 2012 and 2011 were as follows (in thousands):

	Three Months Ended September 30, 2012	**2011**	**Change %**	**Six Months Ended September 30, 2012**	**2011**	**Change %**
Peripherals						
Retail	$ 476,479	$ 501,735	(5)%	$ 871,580	$ 896,511	(3)%
OEM	36,718	50,261	(27)%	73,393	99,439	(26)%
Total peripherals	513,197	551,996	(7)%	944,973	995,950	(5)%
Video Conferencing	34,496	37,208	(7)%	71,324	73,695	(3)%
Total net sales	$ 547,693	$ 589,204	(7)%	$ 1,016,297	$ 1,069,645	(5)%

Although our financial results are reported in U.S. dollars, a portion of our sales for the three and six months ended September 30, 2012 were made in currencies other than the U.S. dollar, such as the euro, Chinese renminbi, Japanese yen, Canadian dollar and Australian dollar. The following table presents the approximate percentage of our total net sales that were denominated in currencies other than the U.S. dollar in the three and six months ended September 30, 2012 and 2011:

	Three Months Ended September 30, 2012	**2011**	**Six Months Ended September 30, 2012**	**2011**
Currencies other than USD	49%	47%	47%	41%

If foreign currency exchange rates had been the same in the three and six months ended September 30, 2012 and 2011, the percentage change in our constant dollar net sales would have been:

	Three Months Ended September 30, 2012	Six Months Ended September 30, 2012
Peripherals		
Retail	(2)%	1%
OEM	(27)%	(26)%
Video Conferencing	(7)%	(3)%
Total net sales	(4)%	(2)%

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Our retail sales in the three and six months ended September 30, 2012 declined compared with the same periods of the prior fiscal year. Retail sales declined in all three regions during the three months ended September 30, 2012, and increased in EMEA and declined in the Americas and Asia Pacific regions during the six months ended September 30, 2012, compared with the same periods of the prior fiscal year. Retail units sold decreased 2% during the three months ended September 30, 2012, and increased 1% in the six months ended September 30, 2012, compared with the same periods of the prior fiscal year. Our overall retail average selling price declined 3% in the three and six months ended September 30, 2012, compared with the same periods in the prior fiscal year. Products priced below $40 represented 54% and 57% of retail sales in the three and six months ended September 30, 2012, compared with 55% and 56% of retail sales in the three and six months ended September 30, 2011. Sales of our retail products priced above $100 represented 14% and 13% of retail sales in the three and six months ended September 30, 2012, compared with 15% and 16% of total retail sales in the three and six months ended September 30, 2011. If foreign currency exchange rates had been the same in the three and six months ended September 30, 2012 and 2011, our constant dollar retail sales would have been a decrease of 2% and an increase of 1%.

OEM net sales decreased 27% and 26% and units sold decreased 15% and 11% in the three and six months ended September 30, 2012, compared with the same periods in the prior fiscal year. These declines were primarily due to lower sales in the keyboard/desktop category due to product mix changes with a large customer, and lower sales of OEM mice.

Video conferencing net sales decreased 7% and 3% in the three and six months ended September 30, 2012, compared with the same periods in the prior fiscal year, due to sales declines in all geographic regions. Foreign currency exchange rates did not affect video conferencing sales.

We refer to our net sales excluding the impact of foreign currency exchange rates as constant dollar sales. Constant dollar sales are a non-GAAP financial measure, which is information derived from consolidated financial information but not presented in our financial statements prepared in accordance with U.S. GAAP. Our management uses these non-GAAP measures in its financial and operational decision-making, and believes these non-GAAP measures, when considered in conjunction with the corresponding GAAP measures, facilitate a better understanding of changes in net sales. Constant dollar sales are calculated by translating prior period sales in each local currency at the current period s average exchange rate for that currency.

Retail Sales by Region

The following table presents the changes in retail units sold, retail sales and constant dollar retail sales by region for the three and six months ended September 30, 2012 compared with the three and six months ended September 30, 2011.

	Three months ended September 30, 2012			Six months ended September 30, 2012		
	Change in Retail Units Sold	Change in Retail Sales	Change in Constant Dollar Retail Sales	Change in Retail Units Sold	Change in Retail Sales	Change in Constant Dollar Retail Sales
EMEA	1%	(3)%	5%	5%	4%	13%
Asia Pacific	(4)%	(7)%	(7)%	1%	(4)%	(4)%
Americas	(4)%	(6)%	(6)%	(5)%	(9)%	(8)%
Total retail sales	(2)%	(5)%	(2)%	1%	(3)%	1%

Retail sales in our EMEA region experienced a modest decrease during the three months ended September 30, 2012, compared with the same period of the prior fiscal year. This decrease resulted from double-digit percentage sales declines in audio and digital home, and by a single-digit decline in video, offset in part by double-digit sales increase in keyboards/desktops and gaming product categories, and by a single-digit increase in video. Retail sales increase in our EMEA region during the six months ended September 30, 2012, compared with the same period of the prior fiscal year, resulted from a double-digit percentage increase in keyboards/desktops and by a single-digit increase in gaming, offset in part by a double-digit decrease in digital home and by a single-digit decrease in audio and pointing devices. Sales results varied by country, with increased sales during the three months ended September 30, 2012 in

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Turkey, Ukraine, Italy, Belarus, Norway and Switzerland, and declining sales in Netherlands, Germany, France, Sweden, Spain and the United Kingdom. During the six months ended September 30, 2012, we experienced increased sales in Italy, Germany, Switzerland, Denmark and Ukraine, and declining sales in Poland, Greece, France and Croatia. Retail sell-through in the EMEA region decreased 6% and 2% in the three and six months ended September 30, 2012, compared with the same periods in the prior fiscal year.

Asia Pacific region retail sales decreased by 7% during the three months ended September 30, 2012, compared with the same period in the prior fiscal year. This decrease resulted from double-digit percentage declines in video and gaming, single-digit declines in pointing devices and keyboard/desktops, offset by sales more than tripling in digital home and with single-digit improvement in audio. Declines by country within the Asia Pacific region during the three months ended September 30, 2012 were from weakness in India, Australia, Taiwan, China and South Korea. Asia Pacific region retail sales decreased by 4% during the six months ended September 30, 2012, compared with the same period of the prior fiscal year. This decrease resulted from double-digit percentage declines in video, gaming, and digital home, offset by single-digit improvement in audio, desktop/keyboards and pointing devices. Declines by country within the Asia Pacific region during the six months ended September 30, 2012 were from weakness in Australia and India, offset in part by increased sales in Japan and China. Retail sales in China decreased by 4% during the three months ended September 30, 2012, with declines in all categories except audio where sales more than tripled. For the six months ended September 30, 2012, retail sales in China increased by 3% primarily from strong audio and keyboard/desktop sales. China was our third-largest country in terms of net revenue during the three and six months ended September 30, 2012, compared to the same periods of the prior fiscal year. Retail sell-through in China increased 1% and 9% in the three and six months ended September 30, 2012 compared with the same periods in the prior fiscal year, while retail sell-through in the rest of the Asia Pacific region decreased 8% and 4% during the same periods.

The decline in retail sales in the Americas region for the three and six months ended September 30, 2012, compared with the same periods in the prior fiscal year, was driven by double-digit percentage sales declines in digital home, video, gaming and pointing devices, and by a single-digit sale decline in audio. These declines were offset in part by a double-digit percentage sales increase in desktop/keyboards during the three and six months ended September 30, 2012, compared to the same periods of the prior fiscal year, driven by strong demand for the Logitech Ultrathin Keyboard Cover for the iPad. During the three months ended September 30, 2012, compared to the same period of the prior fiscal year, we experienced weakness in the United States, which was offset in part by improvement in Canada and Mexico. During the six months ended September 30, 2012, the weakness in the United States was offset in part by improvement in Mexico. Retail sell-through in the Americas region decreased 9% and 7% in the three and six months ended September 30, 2012, compared with the same periods in the prior fiscal year.

We use retail sell-through data, which represents sales of our products by our retailer customers to consumers, and by our distributor customers to their customers, along with other metrics, to assess consumer demand for our products. Sell-through data is subject to limitations due to collection methods and the third party nature of the data. Although the sell-through data we obtain typically represents a majority of our retail sales, the customers supplying sell-through data vary by geographic region and from period to period. As a result of these limitations, sell-through data may not be an accurate indicator of actual consumer demand for our products.

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Net Retail Sales by Product Category

Net retail sales by product category during the three and six ended September 30, 2012 and 2011 were as follows (in thousands):

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Change %	Six Months Ended September 30, 2012	Six Months Ended September 30, 2011	Change %
Retail - Pointing Devices	$ 122,490	$ 133,165	(8)%	$ 238,217	$ 254,915	(7)%
Retail - Keyboards & Desktops	130,806	109,325	20%	241,251	203,921	18%
Retail - Audio	109,831	126,967	(13)%	199,878	204,640	(2)%
Retail - Video	47,352	57,276	(17)%	84,232	106,862	(21)%
Retail - Gaming	47,302	47,836	(1)%	74,576	85,002	(12)%
Retail - Digital Home	18,698	27,166	(31)%	33,426	41,171	(19)%
Total net retail sales	$ 476,479	$ 501,735	(5)%	$ 871,580	$ 896,511	(3)%

Logitech s pointing devices product category includes our mice, trackballs and other pointing devices. Keyboards and desktops (mouse and keyboard combined) include cordless and corded keyboards and desktops, and tablet keyboards. Audio includes headsets, unified communications products, and digital music products including docks, speakers, earphones, headphones, and Smart Radios. Our video product category is comprised of PC webcams and Alert video security systems. Gaming includes console, tablet, and PC gaming peripherals, including gaming mice and keyboards. The digital home product category combines our Harmony Remote controls and Logitech Revue with related peripherals. Net sales reflect accruals for product returns, cooperative marketing arrangements, customer incentive programs and pricing programs.

In the first quarter of fiscal year 2013, we changed the product category classification for a number of our retail products, in order to include all of our gaming-related retail sales in the gaming product category. The product categories impacted by this change included pointing devices, audio and gaming. Products within the retail product categories as presented in the three and six months ended September 30, 2011 have been reclassified to conform to the fiscal year 2013 presentation, with no impact on previously reported total net retail sales.

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Retail Pointing Devices

Retail sales of our pointing devices decreased 8% and 7% in the three and six months ended September 30, 2012, compared with the same period in the prior fiscal year, while retail units sold increased 2% and 1% during these periods. The primary weakness during the three and six months ended September 30, 2012, compared to the same periods of the prior fiscal year, was in our mid-priced and high-priced offerings which experienced double-digit declines, offset in part by single-digit growth in our low-priced offerings. Sales of all cordless mice decreased 4% and 6% in the three and six months ended September 30, 2012, while units sold increased 7% and 4% during the same period. Corded mice sales decreased 14% and 10% and units sold decreased 3% and 5% in the three and six months ended September 30, 2012 compared with the same periods in the prior fiscal year. In October 2012, we introduced several new products designed to enhance the touch and navigation capabilities of the new Windows 8 operating system.

Retail Keyboards and Desktops

Retail sales of keyboards and desktops increased 20% and 18% during the three and six months ended September 30, 2012, compared with the same periods in the prior fiscal year, while units sold increased 4% and 9% during these periods. The primary driver of this increase was from continued strong demand for the Logitech Ultrathin Keyboard Cover which experienced sales more than tripling during the three months ended September 30, 2012 and nearly tripling during the six months ended September 30, 2012, compared to the same periods in the prior fiscal year. Sales of cordless keyboards and desktops increased 4% in sales and 8% in units while sales of corded keyboards and desktops decreased 10% in sales and 8% in units during the three months ended September 30, 2012, compared with the same period in the prior fiscal year. Sales of cordless keyboards and desktops increased 13% in sales and 22% in units while sales of corded keyboards and desktops decreased 11% in sales and 6% in units during the six months ended September 30, 2012, compared with the same period in the prior fiscal year.

Retail Audio

Retail audio sales decreased 13% and 2% in the three and six months ended September 30, 2012 compared with the same periods in the prior fiscal year, while retail units sold decreased 8% and 1% during these periods. The decrease during the three months ended September 30, 2012, compared to the same period of the prior fiscal year, was driven by double-digit sales declines in our PC speaker, PC headset and speaker dock categories. The sales decline in PC-related products is consistent with the decline in our other PC categories, while the decline in speaker docks is consistent with our product development efforts focusing on wireless speakers for smartphones and tablets rather than speaker docks. These declines were offset in part by strong initial sales from our new wireless speakers including Logitech Mini Boombox, which we began shipping in the latter part of fiscal year 2012, and from Logitech UE Mobile Boombox and Logitech UE Boombox, both of which began shipping late in the current quarter. We also had strong initial sales from our new Logitech UE products which were initially available exclusively through Apple stores. The sales decrease during the six months ended September 30, 2012, compared to the same period of the prior fiscal year, was primarily from a single-digit decline in PC speakers and from a double-digit decline in speaker docks. These declines were partially offset by initial sales success from new products including Logitech Mini Boombox, Logitech UE Mobile Boombox and Logitech UE Boombox and from new Logitech UE products initially available exclusively through Apple stores.

Retail Video

Retail sales of our video products declined 17% and 21% in the three and six months ended September 30, 2012 compared with the same periods in the prior fiscal year, while retail units sold decreased 21% and 19% during these periods. The sales decrease was mainly due to weakness in our webcam product line, which continued to be negatively impacted by the combination of market trends, including the popularity of embedded webcams in mobile devices, and the overall weakness of the PC market. We expect future sales of our USB cable connected consumer webcams in the consumer market to continue declining, as the embedded webcam experience appears to be sufficient to meet the needs of many

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retail consumers. We are enhancing our webcam product line-up to enable experiences that cannot be easily achieved with an embedded webcam. For example, we experienced strong growth in the high-end category driven by the Logitech HD Pro Webcam C920, which offers full HD 1080p video calls on Skype, and from Logitech BCC950 Conference Cam for the enterprise market.

Retail Gaming

Retail sales of our gaming peripherals declined 1% and 12% in the three and six months ended September 30, 2012 compared with the same periods in the prior fiscal year, while retail units sold increased 10% during these periods. The decrease during both periods was from console gaming sales which declined by 85% in sales and 67% in units during the three months ended September 30, 2012 and by 89% in sales and 75% in units during the six months ended September 30, 2012. In contrast, PC gaming sales increased by 12% in sales and 17% in units during the three months ended September 30, 2012 and declined by 1% in sales and increased by 17% in units during the six months ended September 30, 2012. The improvement in PC gaming sales during the current quarter was driven by gaming mice, particularly from strong sales of Logitech G600 MMO Gaming Mouse, and by gaming headsets. The difference between the decline in PC gaming sales and the increase in units during the six months ended September 30, 2012 reflects a mix shift away from steering wheels to lower-priced mice, keyboards and gamepads.

Retail Digital Home

Retail sales of our digital home category, which includes Harmony remotes and our discontinued Google TV peripherals, decreased 31% and 19% in the three and six months ended September 30, 2012, compared with same periods in the prior fiscal year, while retail units sold decreased 41% and 22% during these periods. Sales of Harmony remotes declined 14% in dollars and declined 31% in units in the three months ended September 30, 2012, compared with same period in the prior fiscal year. For the six months ended September 30, 2012, Harmony remotes declined 12% in dollars and 15% in units in the six months ended September 30, 2012, compared with same period in the prior fiscal year. We recently released two significant digital home products, Logitech TV Cam HD with built-in Skype capability during the three months ended September 30, 2012, and our long-awaited Harmony Touch remote control in October 2012, which features an intuitive, color touch-screen enabling users the ability to personalize their screens.

Gross Profit

Gross profit for the three and six months ended September 30, 2012 and 2011 was as follows (in thousands):

	Three Months Ended September 30,			Six Months Ended September 30,		
	2012	**2011**	**Change**	**2012**	**2011**	**Change**
Net sales	$ 547,693	$ 589,204	(7)%	$ 1,016,297	$ 1,069,645	(5)%
Cost of goods sold	351,698	390,783	(10)%	676,050	745,617	(9)%
Gross profit	$ 195,995	$ 198,421	(1)%	$ 340,247	$ 324,028	5%
Gross margin	35.8%	33.7%		33.5%	30.3%	

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

The improvement in gross margin for the three months ended September 30, 2012, compared with the same period of the prior fiscal year, was primarily a result of tight management of channel pricing programs and a variety of efficiency improvements in our global supply chain process, offset in part by the negative impact of a weaker euro. The improvement in gross margin for the six months ended September 30, 2012, compared with the same period of the prior fiscal year, primarily resulted from a $34.1 million valuation adjustment to cost of goods sold which occurred during the three months ended June 30, 2011, from the improvements to our channel pricing programs and global supply chain process, offset in part by the negative impact of a weaker euro. The $34.1 million valuation adjustment reflected the lower of cost or

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market on our inventory of Logitech Revue and related peripherals on hand and at our suppliers. The gross margin for the six months ended September 30, 2012 was also negatively impacted by $4.5 million in pricing actions related to the simplification of our product portfolio in the Americas and EMEA regions, $3.0 million in costs related to product development efforts that were discontinued as a result of the restructuring, a provision for a patent dispute which was settled during the current quarter, typical sales seasonality, and changes in our product mix.

Operating Expenses

Operating expenses for the three and six months ended September 30, 2012 and 2011 were as follows (in thousands):

	Three Months Ended September 30,			Six Months Ended September 30,		
	2012	**2011**	**Change**	**2012**	**2011**	**Change**
Marketing and selling	$ 110,522	$ 107,446	3%	$ 211,419	$	