

LOGITECH INTERNATIONAL SA

Form 10-Q

October 23, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

Or

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

For the Transition Period from _____ to _____

Commission File Number: 0-29174

LOGITECH INTERNATIONAL S.A.

(Exact name of registrant as specified in its charter)

Canton of Vaud, Switzerland
(State or other jurisdiction
of incorporation or organization)

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

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

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

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

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

Yes No

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

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Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

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

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

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

LOGITECH INTERNATIONAL S.A.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net sales	\$539,862	\$530,311	\$1,010,182	\$1,012,514
Cost of goods sold	353,851	325,533	652,442	625,984
Gross profit	186,011	204,778	357,740	386,530
Operating expenses:				
Marketing and selling	89,877	95,862	177,304	186,908
Research and development	34,898	32,325	68,731	63,641
General and administrative	26,851	34,470	57,355	71,149
Restructuring charges, net	8,696	—	21,691	—
Total operating expenses	160,322	162,657	325,081	321,698
Operating income	25,689	42,121	32,659	64,832
Interest income, net	192	355	456	613
Other expense, net	(780)	(885)	(1,901)	(1,083)
Income before income taxes	25,101	41,591	31,214	64,362
Provision for income taxes	7,004	5,501	5,680	8,596
Net income	\$18,097	\$36,090	\$25,534	\$55,766
Net income per share:				
Basic	\$0.11	\$0.22	\$0.16	\$0.34
Diluted	\$0.11	\$0.22	\$0.15	\$0.34
Weighted average shares used to compute net income per share :				
Basic	163,515	163,230	163,957	163,121
Diluted	165,841	166,065	166,352	165,949
Cash dividends per share	\$0.53	\$—	\$0.53	\$—

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

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LOGITECH INTERNATIONAL S.A.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(unaudited)

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

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

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

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

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

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

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

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

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LOGITECH INTERNATIONAL S.A.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands)

(unaudited)

	Registered Shares		Additional		Retained	Accumulated	Total
	Shares	Amount	Paid-in	Treasury Shares	Earnings	Other	Shareholders'
			Capital	Shares	Amount	Comprehensive	Equity
						Income (Loss)	
March 31, 2014	173,106	\$30,148	\$—	10,206	\$(116,510)	\$976,292	\$ (85,802) \$ 804,128
Total comprehensive income	—	—	—	—	—	55,766	1,455 57,221
Tax effects from share-based awards	—	—	825	—	—	—	— 825
Sales of shares upon exercise of options and purchase rights	—	—	(881)	(134)	2,414	—	— 1,533
Issuance of shares upon vesting of restricted stock units	—	—	(5,443)	(225)	4,120	—	— (1,323)
Share-based compensation expense	—	—	13,055	—	—	—	— 13,055
Repurchase of ESPP awards	—	—	(1,078)	—	—	—	— (1,078)
September 30, 2014	173,106	\$30,148	\$ 6,478	9,847	\$(109,976)	\$1,032,058	\$ (84,347) \$ 874,361
	Registered Shares		Additional		Retained	Accumulated	Total
	Shares	Amount	Paid-in	Treasury Shares	Earnings	Other	Shareholders'
			Capital	Shares	Amount	Comprehensive	Equity
						Income (Loss)	
March 31, 2015	173,106	\$30,148	\$—	8,625	\$(88,951)	\$930,174	\$ (113,237) \$ 758,134
Total comprehensive income (loss)	—	—	—	—	—	25,534	(27) 25,507
Tax effects from share-based awards	—	—	(727)	—	—	—	— (727)
Sales of shares upon exercise of options and purchase rights	—	—	(2,452)	(987)	13,555	—	— 11,103
Issuance of shares upon vesting of restricted stock units	—	—	(8,363)	(411)	4,861	—	— (3,502)
Share-based compensation expense	—	—	13,175	—	—	—	— 13,175
Purchases of treasury shares	—	—	—	3,502	(48,802)	—	— (48,802)
Cash dividends	—	—	—	—	—	(85,915)	— (85,915)
September 30, 2015	173,106	\$30,148	\$ 1,633	10,729	\$(119,337)	\$869,793	\$ (113,264) \$ 668,973

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

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

Note 1 — Summary of Significant Accounting Policies

Basis of Presentation

The condensed consolidated interim financial statements include the accounts of Logitech and its subsidiaries. All intercompany balances and transactions have been eliminated. The condensed consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and therefore do not include all the information required by GAAP for complete financial statements. They should be read in conjunction with the Company’s audited consolidated financial statements for the fiscal year ended March 31, 2015, included in its Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on June 5, 2015. In the opinion of management, these condensed consolidated financial statements include all adjustments, consisting of only normal and recurring adjustments, necessary and in all material aspects, for a fair statement of the results of operations, financial position, comprehensive income, cash flows and changes in shareholders' equity for the periods presented. Operating results for the three and six months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2016, or any future periods.

Fiscal Year

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

Changes in Significant Accounting Policies

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

Use of Estimates

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

Recent Accounting Pronouncements

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

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

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

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

Note 2 — Net Income per Share

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$ 18,097	\$ 36,090	\$ 25,534	\$ 55,766
Shares used in net income per share computation:				
Weighted average shares outstanding - basic	163,515	163,230	163,957	163,121
Effect of potentially dilutive equivalent shares	2,326	2,835	2,395	2,828
Weighted average shares outstanding - diluted	165,841	166,065	166,352	165,949
Net income per share:				
Basic	\$0.11	\$0.22	\$0.16	\$0.34
Diluted	\$0.11	\$0.22	\$0.15	\$0.34

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

Note 3 — Employee Benefit Plans

Employee Share Purchase Plans and Stock Incentive Plans

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

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

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

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

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

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Defined Benefit Plans

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

Note 4 — Income Taxes

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

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

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

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

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

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

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

Although the Company has adequately provided for uncertain tax positions, the provisions on these positions may change as revised estimates are made or the underlying matters are settled or otherwise resolved. During fiscal year 2016, the Company will continue to review its tax positions and provide for or reverse unrecognized tax benefits as issues arise. During the next 12 months, it is reasonably possible that the amount of unrecognized tax benefits could increase or decrease significantly due to changes in tax law in various jurisdictions, new tax audits and changes in the U.S. dollar as compared to other currencies. Excluding these factors, uncertain tax positions

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

Note 5— Balance Sheet Components

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

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

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

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

Note 6— Fair Value Measurements

Fair Value Measurements

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

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

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

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

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

Investment Securities

The marketable securities for the Company's deferred compensation plan are recorded at a fair value of \$15.6 million and \$17.2 million as of September 30, 2015 and March 31, 2015, respectively, based on quoted market prices. Quoted market prices are observable inputs that are classified as Level 1 within the fair value hierarchy. Unrealized trading gains / (losses) related to trading securities for the three or six months ended September 30, 2015 and 2014 were not significant and are included in other expense, net.

Derivative Financial Instruments

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

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

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

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

	Three Months Ended September 30, Amount of Gain (Loss)					
	Deferred as a Component of Accumulated Other Comprehensive Loss After Reclassification to Costs of Goods Sold		Amount of Loss (Gain) Reclassified from Accumulated Other Comprehensive Loss to Costs of Goods Sold		Amount of Gain (Loss) Immediately Recognized in Other Expense, Net	
	2015	2014	2015	2014	2015	2014
Cash flow hedges	\$1,060	\$3,290	\$(28)	\$(215)	\$75	\$(1)
	Six Months Ended September 30, Amount of Gain (Loss)					
	Deferred as a Component of Accumulated Other Comprehensive Loss After Reclassification to Costs of Goods Sold		Amount of Loss (Gain) Reclassified from Accumulated Other Comprehensive Loss to Costs of Goods Sold		Amount of Gain (Loss) Immediately Recognized in Other Expense, Net	
	2015	2014	2015	2014	2015	2014
Cash flow hedges	\$(3,662)	\$3,938	\$(2,488)			