

PLANTRONICS INC /CA/  
Form 10-Q  
October 29, 2013

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 28, 2013

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: 1-12696

Plantronics, Inc.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or  
organization)

77-0207692  
(I.R.S. Employer Identification No.)

345 Encinal Street  
Santa Cruz, California 95060  
(Address of principal executive offices)  
(Zip Code)

(831) 426-5858  
(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 S 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes S No ``

Edgar Filing: PLANTRONICS INC /CA/ - Form 10-Q

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

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

As of October 26, 2013, 43,774,566 shares of the registrant's common stock were outstanding.

Plantronics, Inc.  
FORM 10-Q  
TABLE OF CONTENTS

|   | Page No.  |
|---|-----------|
| <b>PART I. FINANCIAL INFORMATION</b>  |           |
| <u>Item 1. Financial Statements (Unaudited):</u>  |           |
| <u>Condensed Consolidated Balance Sheets as of September 30, 2013 and March 31, 2013</u>  | <u>3</u>  |
| <u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended September 30, 2013 and 2012</u>           | <u>4</u>  |
| <u>Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended September 30, 2013 and 2012</u> | <u>5</u>  |
| <u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended September 30, 2013 and 2012</u>                     | <u>6</u>  |
| <u>Notes to Condensed Consolidated Financial Statements</u>   | <u>7</u>  |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                            | <u>23</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>   | <u>35</u> |
| <u>Item 4. Controls and Procedures</u>  | <u>37</u> |
| <b>PART II. OTHER INFORMATION</b>   |           |
| <u>ITEM 1. LEGAL PROCEEDINGS</u>  | <u>38</u> |
| <u>ITEM 1A. RISK FACTORS</u>  | <u>38</u> |
| <u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>  | <u>52</u> |
| <u>ITEM 6. EXHIBITS</u>   | <u>53</u> |
| <u>SIGNATURES</u>   | <u>54</u> |

Plantronics®, Clarity®, and Simply Smarter Communications® are trademarks or registered trademarks of Plantronics, Inc.

DECT™ is a trademark of ETSI registered for the benefit of its members in France and other jurisdictions.

The Bluetooth name and the Bluetooth® trademarks are owned by Bluetooth SIG, Inc. and are used by Plantronics, Inc. under license. All other trademarks are the property of their respective owners.



Table of Contents

## Part I -- FINANCIAL INFORMATION

## Item 1. Financial Statements.

PLANTRONICS, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (in thousands)  
 (Unaudited)

|  | September 30,<br>2013 | March 31,<br>2013 |
|--|-----------------------|-------------------|
| <b>ASSETS</b>                                    |                       |                   |
| Current assets:                                  |                       |                   |
| Cash and cash equivalents                        | \$245,980             | \$228,776         |
| Short-term investments                           | 113,143               | 116,581           |
| Accounts receivable, net                         | 123,748               | 128,209           |
| Inventory, net                                   | 69,150                | 67,435            |
| Deferred tax assets                              | 10,065                | 10,120            |
| Other current assets                             | 15,289                | 15,369            |
| Total current assets                             | 577,375               | 566,490           |
| Long-term investments                            | 79,475                | 80,261            |
| Property, plant, and equipment, net              | 118,318               | 99,111            |
| Goodwill and purchased intangibles, net          | 16,265                | 16,440            |
| Other assets                                     | 2,240                 | 2,303             |
| Total assets                                     | \$793,673             | \$764,605         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>      |                       |                   |
| Current liabilities:                             |                       |                   |
| Accounts payable                                 | \$29,500              | \$37,067          |
| Accrued liabilities                              | 60,926                | 66,419            |
| Total current liabilities                        | 90,426                | 103,486           |
| Deferred tax liabilities                         | 2,833                 | 1,742             |
| Long-term income taxes payable                   | 12,685                | 12,005            |
| Other long-term liabilities                      | 1,686                 | 925               |
| Total liabilities                                | 107,630               | 118,158           |
| Commitments and contingencies (Note 7)           |                       |                   |
| Stockholders' equity:                            |                       |                   |
| Common stock                                     | 769                   | 757               |
| Additional paid-in capital                       | 645,169               | 612,283           |
| Accumulated other comprehensive income           | 1,858                 | 5,567             |
| Retained earnings                                | 69,670                | 28,344            |
| Total stockholders' equity before treasury stock | 717,466               | 646,951           |
| Less: Treasury stock, at cost                    | (31,423               | ) (504            |
| Total stockholders' equity                       | 686,043               | 646,447           |
| Total liabilities and stockholders' equity       | \$793,673             | \$764,605         |

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



Table of Contents

## PLANTRONICS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

|   | Three Months Ended |           | Six Months Ended |           |
|---|--------------------|-----------|------------------|-----------|
|   | September 30,      |           | September 30,    |           |
|   | 2013               | 2012      | 2013             | 2012      |
| Net revenues  | \$193,980          | \$179,280 | \$396,798        | \$360,645 |
| Cost of revenues                                    | 94,366             | 82,052    | 191,552          | 165,721   |
| Gross profit  | 99,614             | 97,228    | 205,246          | 194,924   |
| Operating expenses:                                 |                    |           |                  |           |
| Research, development, and engineering              | 20,447             | 19,581    | 41,310           | 39,277    |
| Selling, general, and administrative                | 48,507             | 43,130    | 96,604           | 89,034    |
| Restructuring and other related charges             | (176               | ) —       | 547              | —         |
| Total operating expenses                            | 68,778             | 62,711    | 138,461          | 128,311   |
| Operating income                                    | 30,836             | 34,517    | 66,785           | 66,613    |
| Interest and other income (expense), net            | 359                | 275       | (127             | ) 287     |
| Income before income taxes                          | 31,195             | 34,792    | 66,658           | 66,900    |
| Income tax expense                                  | 8,057              | 8,868     | 16,567           | 17,413    |
| Net income  | \$23,138           | \$25,924  | \$50,091         | \$49,487  |
| Earnings per common share:                          |                    |           |                  |           |
| Basic   | \$0.54             | \$0.62    | \$1.17           | \$1.19    |
| Diluted   | \$0.53             | \$0.61    | \$1.15           | \$1.16    |
| Shares used in computing earnings per common share: |                    |           |                  |           |
| Basic   | 42,810             | 41,482    | 42,751           | 41,571    |
| Diluted   | 43,597             | 42,403    | 43,667           | 42,521    |
| Cash dividends declared per common share            | \$0.10             | \$0.10    | \$0.20           | \$0.20    |

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

Table of Contents

## PLANTRONICS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

|   | Three Months Ended<br>September 30, |            | Six Months Ended<br>September 30, |            |
|---|-------------------------------------|------------|-----------------------------------|------------|
|   | 2013                                | 2012       | 2013                              | 2012       |
| Net income  | \$23,138                            | \$25,924   | \$50,091                          | \$49,487   |
| Other comprehensive income (loss), net of tax:                          |                                     |            |                                   |            |
| Foreign currency translation adjustments                                | 311                                 | 217        | (41                               | ) (119     |
| Unrealized gains (losses) on cash flow hedges:                          |                                     |            |                                   |            |
| Unrealized cash flow hedge gains (losses) arising during the period     | (1,949                              | ) (632     | ) (3,576                          | ) 1,534    |
| Net (gains) losses reclassified into income for revenue hedges          | 128                                 | (1,158     | ) 144                             | (3,019     |
| Net (gains) losses reclassified into income for cost of revenues hedges | 26                                  | 93         | (239                              | ) 290      |
| Net unrealized losses on cash flow hedges                               | (1,795                              | ) (1,697   | ) (3,671                          | ) (1,195   |
| Unrealized gains (losses) on investments:                               |                                     |            |                                   |            |
| Unrealized holding gains during the period                              | 164                                 | 46         | 6                                 | 58         |
| Other comprehensive (loss)  | (1,320                              | ) \$(1,434 | ) (3,706                          | ) \$(1,256 |
| Comprehensive income  | \$21,818                            | \$24,490   | \$46,385                          | \$48,231   |

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



Table of Contents

## PLANTRONICS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

|   | Six Months Ended<br>September 30, |           |
|---|-----------------------------------|-----------|
|   | 2013                              | 2012      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                                   |           |
| Net income  | \$50,091                          | \$49,487  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                   |           |
| Depreciation and amortization   | 7,891                             | 7,880     |
| Stock-based compensation  | 10,953                            | 9,482     |
| Provision for excess and obsolete inventories                                     | 3,281                             | 899       |
| Deferred income taxes   | 5,293                             | (902)     |
| Excess tax benefit from stock-based compensation                                  | (4,086)                           | (679)     |
| Other operating activities  | 1,200                             | 1,265     |
| Changes in assets and liabilities:  |                                   |           |
| Accounts receivable, net  | 3,082                             | 5,008     |
| Inventory, net  | (4,552)                           | (8,230)   |
| Current and other assets  | (659)                             | (1,218)   |
| Accounts payable  | (7,567)                           | (3,854)   |
| Accrued liabilities   | (3,885)                           | (559)     |
| Income taxes  | (3,436)                           | 1,445     |
| Cash provided by operating activities   | 57,606                            | 60,024    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                                   |           |
| Proceeds from sales of short-term investments                                     | 50,118                            | 25,057    |
| Proceeds from maturities of short-term investments                                | 54,970                            | 60,890    |
| Purchase of short-term investments  | (41,634)                          | (65,411)  |
| Proceeds from sales of long-term investments                                      | 15,012                            | 2,000     |
| Purchase of long-term investments   | (74,720)                          | (33,951)  |
| Acquisitions, net of cash acquired  | —                                 | (1,723)   |
| Capital expenditures  | (27,213)                          | (21,526)  |
| Cash used for investing activities  | (23,467)                          | (34,664)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                                   |           |
| Repurchase of common stock  | (27,313)                          | (19,930)  |
| Proceeds from issuances under stock-based compensation plans                      | 18,637                            | 11,888    |
| Employees' tax withheld and paid for restricted stock and restricted stock units  | (4,369)                           | (1,729)   |
| Proceeds from revolving line of credit  | —                                 | 18,000    |
| Repayments of revolving line of credit  | —                                 | (26,000)  |
| Payment of cash dividends   | (8,765)                           | (8,490)   |
| Excess tax benefit from stock-based compensation                                  | 4,086                             | 679       |
| Cash used for financing activities  | (17,724)                          | (25,582)  |
| Effect of exchange rate changes on cash and cash equivalents                      | 789                               | (1,184)   |
| Net increase (decrease) in cash and cash equivalents                              | 17,204                            | (1,406)   |
| Cash and cash equivalents at beginning of period                                  | 228,776                           | 209,335   |
| Cash and cash equivalents at end of period  | \$245,980                         | \$207,929 |
| <b>SUPPLEMENTAL DISCLOSURES</b>   |                                   |           |
| Transfers of long-term investments to short-term investments                      | \$60,424                          | \$48,574  |

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

6

---

Table of Contents

PLANTRONICS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements (“financial statements”) of Plantronics, Inc. (“Plantronics” or “the Company”) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) applicable to interim financial information. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements have been prepared on a basis consistent with the Company’s March 31, 2013 audited consolidated financial statements and include all adjustments, consisting of normal recurring adjustments, necessary to fairly state the information set forth herein. The financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2013, which was filed with the SEC on May 24, 2013. The results of operations for the interim period ended September 30, 2013 are not indicative of the results to be expected for the entire fiscal year or any future period.

The financial statements include the accounts of Plantronics and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

The Company’s fiscal year ends on the Saturday closest to the last day of March. The Company’s current fiscal year ends on March 29, 2014 and consists of 52 weeks. The Company’s prior fiscal year ended on March 30, 2013 and also consisted of 52 weeks. The Company’s results of operations for the three and six months ended September 28, 2013 and September 29, 2012 both contain 13 and 26 weeks, respectively. For purposes of presentation, the Company has indicated its accounting year as ending on March 31 and its interim quarterly periods as ending on the applicable calendar month end.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Recently Issued Pronouncements

Recent accounting pronouncements issued by the Financial Accounting Standards Board (“FASB”) and the SEC did not and are not expected by the Company to have a material impact on the Company’s present or future consolidated financial statements.

Table of Contents

## 3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The following table represents the Company's cash, cash equivalents, and investments as of September 30, 2013 and March 31, 2013:

| (in thousands)                                       | September 30, 2013 |                        |                         |            | March 31, 2013 |                        |                         |            |
|--|--------------------|------------------------|-------------------------|------------|----------------|------------------------|-------------------------|------------|
|  | Amortized Cost     | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Cash and cash equivalents:                           |                    |                        |                         |            |                |                        |                         |            |
| Cash   | \$236,372          | \$—                    | \$—                     | \$236,372  | \$118,881      | \$—                    | \$—                     | \$118,881  |
| Cash equivalents                                     | 9,607              | 1                      | —                       | 9,608      | 109,895        | —                      | —                       | 109,895    |
| Total cash and cash equivalents                      | \$245,979          | \$1                    | \$—                     | \$245,980  | \$228,776      | \$—                    | \$—                     | \$228,776  |
| Short-term investments:                              |                    |                        |                         |            |                |                        |                         |            |
| U.S. Treasury Bills and Government Agency Securities | \$56,964           | \$33                   | \$(15)                  | \$56,982   | \$66,092       | \$18                   | \$(3)                   | \$66,107   |
| Commercial paper                                     | 30,835             | 12                     | (1)                     | 30,846     | 15,670         | 9                      | —                       | 15,679     |
| Corporate bonds                                      | 24,294             | 19                     | (1)                     | 24,312     | 34,766         | 31                     | (2)                     | 34,795     |
| Certificates of deposit ("CDs")                      | 1,002              | 1                      | —                       | 1,003      | —              | —                      | —                       | —          |
| Total short-term investments                         | \$113,095          | \$65                   | \$(17)                  | \$113,143  | \$116,528      | \$58                   | \$(5)                   | \$116,581  |
| Long-term investments:                               |                    |                        |                         |            |                |                        |                         |            |
| U.S. Treasury Bills and Government Agency Securities | \$15,473           | \$18                   | \$(4)                   | \$15,487   | \$55,317       | \$42                   | \$(1)                   | \$55,358   |
| Corporate bonds                                      | 63,926             | 85                     | (23)                    | 63,988     | 23,878         | 23                     | (3)                     | 23,898     |
| CDs  | —                  | —                      | —                       | —          | 1,002          | 3                      | —                       | 1,005      |
| Total long-term investments                          | \$79,399           | \$103                  | \$(27)                  | \$79,475   | \$80,197       | \$68                   | \$(4)                   | \$80,261   |
| Total cash, cash equivalents and investments         | \$438,473          | \$169                  | \$(44)                  | \$438,598  | \$425,501      | \$126                  | \$(9)                   | \$425,618  |

As of September 30, 2013 and March 31, 2013, all of the Company's investments are classified as available-for-sale securities. The carrying value of available-for-sale securities included in cash equivalents approximates fair value because of the short maturity of those instruments.

The following table summarizes the amortized cost and fair value of the Company's cash equivalents, short-term investments, and long-term investments, classified by stated maturity as of September 30, 2013 and March 31, 2013:

| (in thousands) | September 30, 2013 |            | March 31, 2013 |            |
|----------------|--------------------|------------|----------------|------------|
|                | Amortized          | Fair Value | Amortized      | Fair Value |

Edgar Filing: PLANTRONICS INC /CA/ - Form 10-Q

|                       | Cost      |           | Cost      |           |
|-----------------------|-----------|-----------|-----------|-----------|
| Due in 1 year or less | \$122,702 | \$122,751 | \$226,423 | \$226,476 |
| Due in 1 to 3 years   | 79,399    | 79,475    | 80,197    | 80,261    |
| Total                 | \$202,101 | \$202,226 | \$306,620 | \$306,737 |

The Company did not incur any material realized or unrealized net gains or losses in the three and six months ended September 30, 2013 and 2012.

Table of Contents

## 4. FAIR VALUE MEASUREMENTS

The following tables present the Company's financial assets and liabilities, measured at fair value, by level within the fair value hierarchy as of September 30, 2013 and March 31, 2013.

## Fair Values as of September 30, 2013:

| (in thousands)                      | Level 1   | Level 2   | Total     |
|-------------------------------------|-----------|-----------|-----------|
| Cash and cash equivalents:          |           |           |           |
| Cash                                | \$236,372 | \$—       | \$236,372 |
| Mutual funds                        | 609       | —         | 609       |
| Commercial paper                    | —         | 8,999     | 8,999     |
| Short-term investments:             |           |           |           |
| Government Agency Securities        | —         | 56,982    | 56,982    |
| Commercial paper                    | —         | 30,846    | 30,846    |
| Corporate bonds                     | —         | 24,312    | 24,312    |
| CDs                                 | —         | 1,003     | 1,003     |
| Long-term investments:              |           |           |           |
| Government Agency Securities        | —         | 15,487    | 15,487    |
| Corporate bonds                     | —         | 63,988    | 63,988    |
| Other current assets:               |           |           |           |
| Derivative assets                   | —         | 70        | 70        |
| Total assets measured at fair value | \$236,981 | \$201,687 | \$438,668 |
| Accrued liabilities:                |           |           |           |
| Derivative liabilities              | \$8       | \$2,435   | \$2,443   |

## Fair Values as of March 31, 2013:

| (in thousands)                                       | Level 1   | Level 2   | Total     |
|--|-----------|-----------|-----------|
| Cash and cash equivalents:                           |           |           |           |
| Cash   | \$118,881 | \$—       | \$118,881 |
| U.S. Treasury Bills                                  | 104,995   | —         | 104,995   |
| Commercial paper                                     | —         | 4,900     | 4,900     |
| Short-term investments:                              |           |           |           |
| U.S. Treasury Bills and Government Agency Securities | 7,243     | 58,864    | 66,107    |
| Commercial paper                                     | —         | 15,679    | 15,679    |
| Corporate bonds                                      | —         | 34,795    | 34,795    |
| Long-term investments:                               |           |           |           |
| U.S. Treasury Bills and Government Agency Securities | 22,904    | 32,454    | 55,358    |
| Corporate bonds                                      | —         | 23,898    | 23,898    |
| CDs  | —         | 1,005     | 1,005     |
| Other current assets:                                |           |           |           |
| Derivative assets                                    | —         | 1,665     | 1,665     |
| Total assets measured at fair value                  | \$254,023 | \$173,260 | \$427,283 |
| Accrued liabilities:                                 |           |           |           |
| Derivative liabilities                               | \$3       | \$291     | \$294     |

There were no transfers between fair value measurement levels during the three and six months ended September 30, 2013 and 2012.

Refer to Note 12, Foreign Currency Derivatives, which discloses the nature of the Company's derivative assets and liabilities as of September 30, 2013 and March 31, 2013.

9

---

Table of Contents

All financial assets and liabilities are recognized or disclosed at fair value in the financial statements. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

## Level 1

The Company's Level 1 financial assets consist of Mutual Funds. Level 1 financial liabilities consist of derivative contracts that have closed but have not settled. The fair value of Level 1 financial instruments is measured based on the quoted market price of identical securities.

## Level 2

The Company's Level 2 financial assets and liabilities consist of Government Agency Securities, Commercial Paper, Corporate Bonds, CDs, and derivative foreign currency call and put option contracts. The fair value of Level 2 investment securities is determined based on other observable inputs, including multiple non-binding quotes from independent pricing services. Non-binding quotes are based on proprietary valuation models that are prepared by the independent pricing services and use algorithms based on inputs such as observable market data, quoted market prices for similar securities, issuer spreads, and internal assumptions of the broker. The Company corroborates the reasonableness of non-binding quotes received from the independent pricing services using a variety of techniques depending on the underlying instrument, including: (i) comparing them to actual experience gained from the purchases and maturities of investment securities, (ii) comparing them to internally developed cash flow models based on observable inputs, and (iii) monitoring changes in ratings of similar securities and the related impact on fair value. The fair value of Level 2 derivative foreign currency call and put option contracts is determined using pricing models that use observable market inputs.

## 5. DETAILS OF CERTAIN BALANCE SHEET ACCOUNTS

## Accounts receivable, net:

| (in thousands)  | September 30,<br>2013 | March 31,<br>2013 |
|---|-----------------------|-------------------|
| Accounts receivable                                   | \$147,581             | \$151,250         |
| Provisions for returns                                | (7,756)               | (8,957)           |
| Provisions for promotions, rebates, and other         | (15,771)              | (13,675)          |
| Provisions for doubtful accounts and sales allowances | (306)                 | (409)             |
| Accounts receivable, net                              | \$123,748             | \$128,209         |

## Inventory, net:

| (in thousands)  | September 30,<br>2013 | March 31,<br>2013 |
|-----------------|-----------------------|-------------------|
| Raw materials   | \$33,659              | \$28,743          |
| Work in process | 432                   | 82                |
| Finished goods  | 35,059                | 38,610            |
| Inventory, net  | \$69,150              | \$67,435          |



Table of Contents

## Property, plant, and equipment, net:

| (in thousands)                                       | September 30,<br>2013 | March 31,<br>2013 |
|--|-----------------------|-------------------|
| Land   | \$ 13,961             | \$ 13,961         |
| Buildings and improvements (useful life: 7-30 years) | 89,434                | 72,263            |
| Machinery and equipment (useful life: 2-10 years)    | 94,737                | 88,538            |
| Software (useful life: 5-6 years)                    | 31,268                | 30,538            |
| Construction in progress                             | 17,892                | 16,101            |
|  | 247,292               | 221,401           |
| Accumulated depreciation and amortization            | (128,974              | ) (122,290        |
| Property, plant, and equipment, net                  | \$ 118,318            | \$ 99,111         |

Depreciation and amortization was \$3.7 million and \$7.7 million for the three and six months ended September 30, 2013, respectively, and \$4.0 million and \$7.7 million for the same periods in the prior year, respectively.

Included in Software are unamortized capitalized software costs of \$5.6 million and \$6.1 million at September 30, 2013 and March 31, 2013, respectively. Amortization related to capitalized software costs was immaterial for the three months ended September 30, 2013 and 2012, and was \$1.2 million and \$1.5 million for the six months ended September 30, 2013 and 2012, respectively.

## Accrued Liabilities:

| (in thousands)   | September 30,<br>2013 | March 31,<br>2013 |
|--|-----------------------|-------------------|
| Employee compensation and benefits                     | \$23,164              | \$29,796          |
| Warranty obligation                                    | 12,881                | 13,410            |
| Accrued advertising, sales, and marketing              | 4,245                 | 3,735             |
| Deferred revenue                                       | 3,994                 | 3,072             |
| Liabilities related to derivatives contracts           | 2,443                 | 294               |
| Income taxes payable                                   | —                     | 3,376             |
| Restructuring and other related charges <sup>(1)</sup> | 47                    | 1,165             |
| Accrued other  | 14,152                | 11,571            |
| Accrued liabilities                                    | \$60,926              | \$66,419          |

(1) Refer to Note 16, Restructuring and Other Related Charges, for more information on the Company's restructuring activity.

The Company's warranty obligation is included as a component of accrued liabilities in the condensed consolidated balance sheets. Changes in the warranty obligation during the six months ended September 30, 2013 were as follows:

| (in thousands)                                  | Six Months Ended<br>September 30, 2013 | Six Months Ended<br>September 30, 2012 |
|---|--|--|
| Warranty obligation at March 31, 2013           | \$ 13,410                              | \$ 13,346                              |
| Warranty provision relating to products shipped | 4,154                                  | 7,440                                  |
| Deductions for warranty claims processed        | (4,683                                 | ) (8,064                               |
| Warranty obligation at September 30, 2013       | \$ 12,881                              | \$ 12,722                              |

Table of Contents

## 6. GOODWILL

Goodwill as of September 30, 2013 and March 31, 2013 was \$15.5 million, net of accumulated impairment of \$54.6 million.

## 7. COMMITMENTS AND CONTINGENCIES

## Minimum Future Rental Payments

The Company leases certain equipment and facilities under operating leases expiring in various years through fiscal year 2022. Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of September 30, 2013 are as follows:

| Fiscal Year Ending March 31,         | (in thousands) |
|--------------------------------------|----------------|
| 2014 (remaining 6 months)            | \$1,997        |
| 2015                                 | 1,920          |
| 2016                                 | 1,341          |
| 2017                                 | 730            |
| 2018                                 | 652            |
| Thereafter                           | 1,576          |
| Total minimum future rental payments | \$8,216        |

Total rent expense for operating leases for the three and six months ended September 30, 2013 was \$2.6 million and \$4.1 million, respectively, which included \$1.2 million and \$1.5 million, respectively, related to early exit lease charges. Total rent expense for operating leases for the three and six months ended September 30, 2012 was \$1.4 million and \$2.8 million, respectively.

## Unconditional Purchase Obligations

The Company utilizes several outsourcing partners to manufacture sub-assemblies for the Company's products. These outsourcing partners acquire components and build product based on demand information supplied by the Company, which typically covers periods up to 270 days. The Company also obtains individual components for its products from a wide variety of individual suppliers. Consistent with industry practice, the Company acquires components through a combination of purchase orders, supplier contracts, and open orders based on projected demand information. As of September 30, 2013, the Company had outstanding off-balance sheet third-party manufacturing, component purchase, and other general and administrative commitments of \$244.5 million.

## Other Guarantees and Obligations

In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners, purchasers of assets or subsidiaries and other parties with respect to certain matters, including, but not limited to, losses arising out of the Company's breach of agreements or representations and warranties made by the Company, services to be provided by the Company, intellectual property infringement claims made by third parties or, with respect to the sale of assets or a subsidiary, matters related to the Company's conduct of business and tax matters prior to the sale. From time to time, the Company indemnifies customers against combinations of loss, expense, or liability arising from various triggering events relating to the sale and use of its products and services. In addition, Plantronics also provides protection to customers against claims related to undiscovered liabilities, additional product liability, or environmental obligations. In addition, the Company has entered into indemnification agreements with its directors and certain of its officers that will require the Company,

among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. The Company maintains director and officer insurance, which may cover certain liabilities arising from its obligation to indemnify its directors and officers in certain circumstances. It is not possible to determine the aggregate maximum potential loss under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Such indemnification agreements might not be subject to maximum loss clauses. Historically, the Company has not incurred material costs as a result of obligations under these agreements and it has not accrued any liabilities related to such indemnification obligations in the condensed consolidated financial statements.

## Table of Contents

### Claims and Litigation

On October 12, 2012, GN Netcom, Inc. sued Plantronics, Inc. in the U.S. District Court for the District of Delaware, alleging violations of the Sherman Act, the Clayton Act, and Delaware common law. In its complaint, GN specifically alleges four causes of action: monopolization, attempted monopolization, concerted action in restraint of trade, and tortious interference with business relations. GN claims that Plantronics dominates the market for headsets sold into contact centers in the United States and that a critical channel for sales of headsets to contact centers is through a limited network of specialized independent distributors ("SIDs"). GN asserts that Plantronics attracts SIDs through Plantronics only distributor agreements and the use of these agreements is allegedly illegal. The Company denies each of the allegations in the complaint and is vigorously defending itself. Given the preliminary nature of the case, the Company is unable to estimate an amount or range of any reasonably possible losses resulting from these allegations.

In addition, the Company is involved in various legal proceedings arising in the normal course of conducting business. For such legal proceedings, where applicable, the Company has accrued an amount that reflects the aggregate liability deemed probable and estimable, but this amount is not material to the Company's financial condition, results of operations, or cash flows. The Company is not able to estimate an amount or range of any reasonably possible additional losses because of the preliminary nature of many of these proceedings, the difficulty in ascertaining the applicable facts relating to many of these proceedings, the variable treatment of claims made in many of these proceedings, and the difficulty of predicting the settlement value of many of these proceedings; however, based upon the Company's historical experience, the resolution of these proceedings is not expected to have a material effect on the Company's financial condition, results of operations or cash flows. The Company may incur substantial legal fees, which are expensed as incurred, in defending against these legal proceedings.

### 8. CREDIT AGREEMENT

On May 9, 2011, the Company entered into a credit agreement with Wells Fargo Bank, National Association ("the Bank"), which was most recently amended on May 3, 2013 to extend its term to May 9, 2016 (as amended, "the Credit Agreement"). The Credit Agreement provides for a \$100.0 million unsecured revolving line of credit ("line of credit") and, if requested by the Company, the Bank may increase its commitment thereunder by up to \$100.0 million, for a total facility size of up to \$200.0 million. As of September 30, 2013 and March 31, 2013, the Company had no outstanding borrowings under the line of credit.

Loans under the Credit Agreement bear interest at the election of the Company (i) at the Bank's announced prime rate less 1.50% per annum, (ii) at a daily one month LIBOR rate plus 1.10% per annum or (iii) at an adjusted LIBOR rate, for a term of one, three or six months, plus 1.10% per annum. Interest on the loans is payable quarterly in arrears. In addition, the Company pays a fee equal to 0.20% per annum on the average daily unused amount of the line of credit, which is payable quarterly in arrears.

Principal, together with accrued and unpaid interest, is due on the amended maturity date, May 9, 2016. The Company may prepay the loans and terminate the commitments in whole at any time, without premium or penalty, subject to reimbursement of certain costs in the case of LIBOR loans.

The Company's obligations under the Credit Agreement are guaranteed by the Company's domestic subsidiaries, subject to certain exceptions.

The line of credit requires the Company to comply with a maximum ratio of funded debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") and a minimum EBITDA coverage ratio, in each case, at each fiscal quarter end and determined on a rolling four-quarter basis. In addition, the Company and its subsidiaries are required to maintain unrestricted cash, cash equivalents, and marketable securities plus availability under the Credit Agreement

at the end of each fiscal quarter of at least \$200.0 million.

The line of credit contains affirmative covenants, including covenants regarding the payment of taxes and other liabilities, maintenance of insurance, reporting requirements and compliance with applicable laws and regulations. The line of credit also contains negative covenants, among other things, limiting, subject to certain monetary thresholds, the ability of the Company to incur debt, make capital expenditures, grant liens, make acquisitions, and make investments. The events of default under the line of credit include payment defaults, cross defaults with certain other indebtedness, breaches of covenants, judgment defaults, and bankruptcy and insolvency events involving the Company or any of its subsidiaries. The Company was in compliance with all covenants at September 30, 2013.

Table of Contents

## 9. STOCK-BASED COMPENSATION

The Company recognizes the grant-date fair value of stock-based compensation as compensation expense using the straight-line attribution approach over the service period for which the stock-based compensation is expected to vest. The following table summarizes the amount of stock-based compensation included in the condensed consolidated statements of operations:

| (in thousands)  | Three Months Ended<br>September 30, |         | Six Months Ended<br>September 30, |         |
|---|-------------------------------------|---------|-----------------------------------|---------|
|   | 2013                                | 2012    | 2013                              | 2012    |
| Cost of revenues  | \$638                               | \$526   | \$1,173                           | \$1,122 |
| Research, development and engineering                   | 1,652                               | 1,256   | 3,020                             | 2,380   |
| Selling, general and administrative                     | 3,675                               | 3,080   | 6,760                             | 5,980   |
| Stock-based compensation included in operating expenses | 5,327                               | 4,336   | 9,780                             | 8,360   |
| Total stock-based compensation                          | 5,965                               | 4,862   | 10,953                            | 9,482   |
| Income tax benefit                                      | (1,838)                             | (1,532) | (3,275)                           | (2,914) |
| Total stock-based compensation, net of tax              | \$4,127                             | \$3,330 | \$7,678                           | \$6,568 |

## Stock Options

The following is a summary of the Company's stock option activity during the six months ended September 30, 2013:

|   | Options Outstanding                       |  |  |   |
|---|---|--|--|---|
|   | Number of<br>Shares<br><br>(in thousands) | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual Life<br>(in years) | Aggregate<br>Intrinsic<br>Value<br><br>(in thousands) |
| Outstanding at March 31, 2013                     | 2,415                                     | \$27.96                                  |  |   |
| Options granted                                   | 176                                       | \$45.98                                  |  |   |
| Options exercised                                 | (667)                                     | \$24.09                                  |  |   |
| Options forfeited or expired                      | (10)                                      | \$32.74                                  |  |   |
| Outstanding at September 30, 2013                 | 1,914                                     | \$30.94                                  | 4.2  | \$29,739  |
| Vested and expected to vest at September 30, 2013 | 1,872                                     | \$30.76                                  | 4.2  | \$29,419  |
| Exercisable at September 30, 2013                 | 1,275                                     | \$27.85                                  | 3.4  | \$23,735  |

The total intrinsic value of options exercised during the six months ended September 30, 2013 and 2012 was \$14.5 million and \$4.5 million, respectively. Intrinsic value is defined as the amount by which the fair value of the underlying stock exceeds the exercise price at the time of option exercise. The total cash received as a result of stock option exercises during the six months ended September 30, 2013 was \$16.1 million, net of taxes.

As of September 30, 2013, total unrecognized compensation cost related to unvested stock options was \$5.8 million, which is expected to be recognized over a weighted average period of 1.9 years.

Table of Contents

## Restricted Stock

Restricted stock consists of awards of restricted stock and restricted stock units ("RSUs"). The following is a summary of the Company's restricted stock activity during the six months ended September 30, 2013:

|                                  | Number of<br>Shares | Weighted<br>Average<br>Grant Date<br>Fair Value |
|----------------------------------|---------------------|---|
|                                  | (in thousands)      |   |
| Non-vested at March 31, 2013     | 1,025               | \$33.34   |
| Restricted stock granted         | 541                 | \$46.10   |
| Restricted stock vested          | (274 )              | \$32.61   |
| Restricted stock forfeited       | (31 )               | \$36.86   |
| Non-vested at September 30, 2013 | 1,261               | \$38.88   |

The weighted average grant-date fair value of awards of restricted stock is based on the quoted market price of the Company's common stock on the date of grant. The weighted average grant-date fair value of restricted stock granted during the six months ended September 30, 2013 and 2012 was \$46.10 and \$32.05, respectively. The total fair value of restricted stock that vested during the six months ended September 30, 2013 and 2012 was \$8.9 million and \$4.9 million, respectively.

As of September 30, 2013, total unrecognized compensation cost related to unvested restricted stock was \$34.4 million, which is expected to be recognized over a weighted average period of 2.3 years.

## Valuation Assumptions

The Company estimates the fair value of stock options and Employee Stock Purchase Plan ("ESPP") shares using a Black-Scholes option valuation model. At the date of grant, the Company estimated the fair value of each stock option grant and purchase right granted under the ESPP using the following weighted average assumptions:

|  | Three Months Ended<br>September 30, |         | Six Months Ended<br>September 30, |         |   |
|--|-------------------------------------|---------|-----------------------------------|---------|---|
|  | 2013                                | 2012    | 2013                              | 2012    |   |
| Employee Stock Options                 |                                     |         |                                   |         |   |
| Expected volatility                    | 30.7                                | % 43.5  | % 33.5                            | % 42.2  | % |
| Risk-free interest rate                | 1.2                                 | % 0.5   | % 0.7                             | % 0.6   | % |
| Expected dividends                     | 0.8                                 | % 1.3   | % 0.9                             | % 1.3   | % |
| Expected life (in years)               | 4.2                                 | 4.3     | 4.2                               | 4.3     |   |
| Weighted-average grant date fair value | \$11.64                             | \$10.84 | \$11.83                           | \$10.43 |   |
| ESPP                                   |                                     |         |                                   |         |   |
| Expected volatility                    | 24.9                                | % 38.4  | % 24.9                            | % 38.4  | % |
| Risk-free interest rate                | 0.1                                 | % 0.1   | % 0.1                             | % 0.1   | % |
| Expected dividends                     | 0.9                                 | % 1.1   | % 0.9                             | % 1.1   | % |
| Expected life (in years)               | 0.5                                 | 0.5     | 0.5                               | 0.5     |   |
| Weighted-average grant date fair value | \$9.58                              | \$8.95  | \$9.58                            | \$8.95  |   |





Table of Contents

## 10. COMMON STOCK REPURCHASES

From time to time, the Company's Board of Directors ("Board") has authorized programs under which the Company may repurchase shares of its common stock, depending on market conditions, in the open market or through privately negotiated transactions. Repurchased shares are held as treasury stock until they are retired or re-issued. Repurchases by the Company pursuant to Board authorized programs during the six months ended September 30, 2013 and 2012 are discussed below. As of September 30, 2013, there remained 274,874 shares authorized for repurchase under the program approved by the Board on August 6, 2012 and there were no remaining shares authorized under previously approved programs.

## Open Market Repurchases

Under Board authorized programs, in the six months ended September 30, 2013 and 2012, the Company repurchased 607,033 shares and 633,613 shares, respectively, of its common stock in the open market for a total cost of \$27.3 million and \$19.9 million, respectively, and at an average price per share of \$44.99 and \$31.45, respectively.

In addition, the Company withheld shares valued at \$4.4 million in the six months ended September 30, 2013, compared to \$1.7 million in the six months ended September 30, 2012, in satisfaction of employee tax withholding obligations upon the vesting of restricted stock granted under the Company's stock plans. The amounts withheld were equivalent to the employees' minimum statutory tax withholding requirements and are reflected as a financing activity within the Company's condensed consolidated statements of cash flows. These share withholdings have the effect of share repurchases by the Company as they reduce the number of shares that would have otherwise been issued in connection with the vesting of shares subject to the restricted stock grants and did not represent an expense to the Company.

## 11. ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of accumulated other comprehensive income ("AOCI"), net of immaterial tax effects, are as follows:

| (in thousands)   | September 30, 2013 | March 31, 2013 |
|--|--------------------|----------------|
| Accumulated unrealized gain (loss) on cash flow hedges | \$(2,325           | ) \$1,349      |
| Accumulated foreign currency translation adjustments   | 4,091              | 4,131          |
| Accumulated unrealized gain on investments             | 92                 | 87             |
| Accumulated other comprehensive income                 | \$1,858            | \$5,567        |

## 12. FOREIGN CURRENCY DERIVATIVES

The Company's foreign currency derivatives consist primarily of foreign currency forward exchange contracts, option contracts and cross-currency swaps. The derivatives expose the Company to credit risk to the extent the counterparties may be unable to meet the terms of the derivative instrument. The Company's maximum exposure to loss due to credit risk that it would incur if parties to derivative contracts failed completely to perform according to the terms of the contracts was equal to the carrying value of the Company's derivative contracts as of September 30, 2013. The Company seeks to mitigate such risk by limiting its counterparties to large financial institutions. In addition, the Company monitors the potential risk of loss with any one counterparty resulting from this type of credit risk on an ongoing basis.

The Company enters into master netting arrangements with counterparties when possible to mitigate credit risk in derivative transactions. A master netting arrangement may allow each counterparty to net settle amounts owed between Plantronics and the counterparty as a result of multiple, separate derivative transactions. As of September 30,

2013, the Company has International Swaps and Derivatives Association (ISDA) agreements with three applicable banks and financial institutions which contain netting provisions. Plantronics has elected to present the fair value of derivative assets and liabilities within the Company's consolidated balance sheet on a gross basis even when derivative transactions are subject to master netting arrangements and may otherwise qualify for net presentation. However, the following tables provide information as if the Company had elected to offset the asset and liability balances of derivative instruments, netted in accordance with various criteria in the event of default or termination as stipulated by the terms of netting arrangements with each of the counterparties. For each counterparty, if netted, the Company would offset the asset and liability balances of all derivatives at the end of the reporting period. Derivatives not subject to master netting agreements are not eligible for net presentation. As of the applicable dates presented below, no cash collateral had been received or pledged related to these derivative instruments.

Table of Contents

## Offsetting of Financial Assets/Liabilities under Master Netting Agreements with Derivative Counterparties

As of September 30, 2013:

| (in thousands)                                       | Gross Amount of Derivative Assets Presented in the Condensed Consolidated Balance Sheets | Gross Amounts Not Offset in the Condensed Consolidated Balance Sheet that are Subject to Master Netting Agreements |                          | Net Amount of Derivative Assets |
|--|--|--|--------------------------|---------------------------------|
|  |  | Gross Amount of Eligible Offsetting Recognized Derivative Liabilities  | Cash Collateral Received |                                 |
| Derivatives subject to master netting agreements     | \$70   | \$(70  | )\$—                     | \$—                             |
| Derivatives not subject to master netting agreements | —  |  |                          | —                               |
| Total  | \$70   |  |                          | \$—                             |

| (in thousands)                                       | Gross Amount of Derivative Liabilities Presented in the Condensed Consolidated Balance Sheets | Gross Amounts Not Offset in the Condensed Consolidated Balance Sheet that are Subject to Master Netting Agreements |                          | Net Amount of Derivative Liabilities |
|--|---|--|--------------------------|--------------------------------------|
|  |   | Gross Amount of Eligible Offsetting Recognized Derivative Assets   | Cash Collateral Received |                                      |
| Derivatives subject to master netting agreements     | \$(1,577  | )\$70  | \$—                      | \$(1,507 )                           |
| Derivatives not subject to master netting agreements | (866  | )  |                          | (866 )                               |
| Total  | \$(2,443  | )  |                          | \$(2,373 )                           |

As of March 31, 2013:

| (in thousands)                                       | Gross Amount of Derivative Assets Presented in the Condensed Consolidated Balance Sheets | Gross Amounts Not Offset in the Condensed Consolidated Balance Sheet that are Subject to Master Netting Agreements |                          | Net Amount of Derivative Assets |
|--|--|--|--------------------------|---------------------------------|
|  |  | Gross Amount of Eligible Offsetting Recognized Derivative Liabilities  | Cash Collateral Received |                                 |
| Derivatives subject to master netting agreements     | \$1,005  | \$(215   | )\$—                     | \$790                           |
| Derivatives not subject to master netting agreements | 660  |  |                          | 660                             |
| Total  | \$1,665  |  |                          | \$1,450                         |

Edgar Filing: PLANTRONICS INC /CA/ - Form 10-Q

| (in thousands)   | Gross Amount of<br>Derivative Liabilities<br>Presented in the<br>Condensed<br>Consolidated Balance<br>Sheets | Gross Amounts Not Offset in the Condensed<br>Consolidated Balance Sheet that are Subject to Master<br>Netting Agreements<br>Gross Amount of Eligible<br>Offsetting Recognized<br>Derivative Assets | Cash Collateral Received | Net Amount of<br>Derivative<br>Liabilities |
|--|--|--|--------------------------|--|
| Derivatives subject to<br>master netting<br>agreements     | \$(215   | )\$215   | \$—                      | \$—  |
| Derivatives not<br>subject to master<br>netting agreements | (79  | )  |                          | (79 )                                      |
| Total  | \$(294   | )  |                          | \$(79 )                                    |

Refer to Note 4, Fair Value Measurements, for disclosure of the Company's fair value hierarchy for its derivative instruments.

Table of Contents

## Non-Designated Hedges

As of September 30, 2013, the Company had foreign currency forward contracts denominated in Euros ("EUR"), British Pound Sterling ("GBP"), and Australian Dollars ("AUD"). The Company does not elect to obtain hedge accounting for these forward contracts. These forward contracts hedge against a portion of the Company's foreign currency-denominated cash balances, receivables and payables. The following table summarizes the notional value of the Company's outstanding foreign exchange currency contracts and approximate U.S. Dollar ("USD") equivalent at September 30, 2013:

|     | Local Currency<br>(in thousands) | USD Equivalent<br>(in thousands) | Position | Maturity |
|-----|----------------------------------|----------------------------------|----------|----------|
| EUR | € 16,000                         | \$21,632                         | Sell EUR | 1 month  |
| GBP | £ 2,600                          | \$4,191                          | Sell GBP | 1 month  |
| AUD | A\$4,600                         | \$4,276                          | Sell AUD | 1 month  |

Foreign currency transactions, net of the effect of forward contract hedging activity, resulted in immaterial net gains and immaterial net losses, respectively in the three and six months ended September 30, 2013 and immaterial net gains and immaterial net losses, respectively, in the three and six months ended September 30, 2012, which are included in interest and other income (expense), net in the condensed consolidated statements of operations.

## Cash Flow Hedges

On a monthly basis, the Company enters into option contracts with a one-year term. The Company does not purchase options for trading purposes. As of September 30, 2013, the Company had foreign currency option contracts of approximately €50.8 million and £21.0 million. As of March 31, 2013, the Company had foreign currency option contracts of approximately €50.2 million and £19.9 million.

In the three and six months ended September 30, 2013, an immaterial loss on cash flow hedges was recognized in net revenues in the condensed consolidated statement of operations, compared to realized gains of \$1.2 million and \$3.1 million for the three and six months periods in the prior year, respectively. A loss of \$2.0 million, net of tax, in accumulated other comprehensive income ("AOCI") as of September 30, 2013 is expected to be reclassified to net revenues during the next 12 months due to the recognition of the hedged forecasted sales.

The Company hedges expenditures denominated in Mexican Peso ("MX\$"), which are designated as cash flow hedges and are accounted for under the hedge accounting provisions of the Derivatives and Hedging Topic of the FASB ASC. The Company hedges a portion of the forecasted MX\$ denominated expenditures with a cross-currency swap. The effective portion of the hedge gain or loss is initially reported as a component of AOCI and subsequently reclassified into cost of revenues when the hedged exposure affects operations. Any ineffective portion of related gains or losses is recorded in the condensed consolidated statements of operations immediately. As of September 30, 2013 and March 31, 2013, the Company had foreign currency swap contracts of approximately MX\$361.1 million and MX\$325.4 million, respectively.

In the three and six months ended September 30, 2013 and 2012, there were no material realized gains or losses on MX\$ cash flow hedges recognized in cost of revenues in the condensed consolidated statement of operations and there were no material gains or losses in AOCI as of September 30, 2013 to be recognized during the next 12 months due to the recognition of the hedged forecasted expenditures.

The following table summarizes the notional value of the Company's outstanding MX\$ cross-currency swaps and approximate USD Equivalent at September 30, 2013:

|      | Local Currency<br>(in thousands) | USD Equivalent<br>(in thousands) | Position | Maturity               |
|------|----------------------------------|----------------------------------|----------|------------------------|
| MX\$ | \$361,100                        | \$27,500                         | Buy MX\$ | Monthly over 15 months |

Table of Contents

The amounts in the tables below include fair value adjustments related to the Company's own credit risk and counterparty credit risk.

## Fair Value of Derivative Contracts

The fair value of derivative contracts was as follows:

| (in thousands)  | Derivative Assets<br>Reported in Other Current Assets |                   | Derivative Liabilities<br>Reported in Accrued Liabilities |                   |
|---|---|-------------------|---|-------------------|
|   | September 30,<br>2013                                 | March 31,<br>2013 | September 30,<br>2013                                     | March 31,<br>2013 |
| Foreign exchange contracts designated as cash flow hedges | \$70  | \$1,665           | \$2,443   | \$294             |

## Effect of Designated Derivative Contracts on AOCI

The following table represents the balance of designated derivative contracts as of September 30, 2013 and March 31, 2013, and the pre-tax impact of designated derivative contracts on AOCI for the six months ended September 30, 2013:

| (in thousands)  | Gain (loss)<br>included in<br>AOCI as of<br>March 31,<br>2013 | Amount of gain<br>(loss)<br>recognized in AOCI<br>(effective portion) | Amount of gain (loss)<br>reclassified from<br>AOCI<br>to income (loss)<br>(effective portion) | Gain (loss)<br>included in<br>AOCI as of<br>September 30,<br>2013 |
|---|---|---|---|---|
| Foreign exchange contracts designated as cash flow hedges | \$1,371   | \$(3,646  | ) \$98  | \$(2,373 )  |

## Effect of Designated Derivative Contracts on the Condensed Consolidated Statements of Operations

The effect of designated derivative contracts on results of operations recognized in gross profit in the condensed consolidated statements of operations was as follows:

| (in thousands)   | Three Months Ended<br>September 30, |           | Six Months Ended<br>September 30, |         |
|--|-------------------------------------|-----------|-----------------------------------|---------|
|  | 2013                                | 2012      | 2013                              | 2012    |
| Gain (loss) on foreign exchange contracts designated as cash flow hedges | \$(156                              | ) \$1,074 | \$98                              | \$2,768 |

## Effect of Non-Designated Derivative Contracts on the Condensed Consolidated Statements of Operations

The effect of non-designated derivative contracts on results of operations recognized in interest and other income (expense), net in the condensed consolidated statements of operations was as follows:

|  | Three Months Ended<br>September 30, | Six Months Ended<br>September 30, |
|--|-------------------------------------|-----------------------------------|
|--|-------------------------------------|-----------------------------------|

Edgar Filing: PLANTRONICS INC /CA/ - Form 10-Q

| (in thousands)                            | 2013     | 2012     | 2013       | 2012    |
|---|----------|----------|------------|---------|
| Gain (loss) on foreign exchange contracts | \$(1,266 | ) \$(648 | ) \$(1,193 | ) \$819 |



Table of Contents

13. INCOME TAXES

The Company and its subsidiaries are subject to taxation in the U.S. and in various foreign and state jurisdictions. The effective tax rate for the three and six months ended September 30, 2013 was 25.8% and 24.9%, respectively, compared to 25.5% and 26.0%, respectively, for the same periods in the prior year. The effective tax rates differ from the statutory rate due to the impact of foreign operations taxed at different statutory rates, tax credits, state taxes, and other factors.

Included in long-term income taxes payable in the condensed consolidated balance sheets as of September 30, 2013 and March 31, 2013 were unrecognized tax benefits of \$11.8 million and \$11.1 million, respectively, which would favorably impact the effective tax rate in future periods if recognized.

The Company's continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense in the condensed consolidated statements of operations. The accrued interest related to unrecognized tax benefits is \$1.9 million as of September 30, 2013 as compared to \$2.0 million as of March 31, 2013. No penalties have been accrued.

The Company is under examination by the Internal Revenue Service for its 2010 tax year and the California Franchise Tax Board for its 2007 and 2008 tax years. Foreign income tax matters for material tax jurisdictions have been concluded for tax years prior to fiscal 2007, except for the United Kingdom, which has been concluded for tax years prior to fiscal year 2012.

The Company believes that an adequate provision has been made for any adjustments that may result from tax examinations; however, the outcome of such examinations cannot be predicted with certainty. If any issues addressed in the tax examinations are resolved in a manner inconsistent with the Company's expectations, the Company could be required to adjust its provision for income tax in the period such resolution occurs.

Table of Contents

## 14. COMPUTATION OF EARNINGS PER COMMON SHARE

The Company has a share-based compensation plan under which employees may be granted share-based awards, including shares of restricted stock on which non-forfeitable dividends are paid on unvested shares. As such, shares of restricted stock are considered participating securities under the two-class method of calculating earnings per share as described in the Earnings per Share Topic of the FASB ASC. The two-class method of calculating earnings per share did not have a material impact on the Company's earnings per share calculation for the three and six month periods ending September 30, 2013 or 2012.

The following table sets forth the computation of basic and diluted earnings per common share for the three and six months ended September 30, 2013 and 2012:

| (in thousands, except per share data)   | Three Months Ended<br>September 30, |          | Six Months Ended<br>September 30, |          |
|---|-------------------------------------|----------|-----------------------------------|----------|
|   | 2013                                | 2012     | 2013                              | 2012     |
| Numerator:  |                                     |          |                                   |          |
| Net income  | \$23,138                            | \$25,924 | \$50,091                          | \$49,487 |
| Denominator:  |                                     |          |                                   |          |
| Weighted average common shares-basic  | 42,810                              | 41,482   | 42,751                            | 41,571   |
| Dilutive effect of employee equity incentive plans  | 787                                 | 921      | 916                               | 950      |
| Weighted average common shares-diluted  | 43,597                              | 42,403   | 43,667                            | 42,521   |
| Basic earnings per common share   | \$0.54                              | \$0.62   | \$1.17                            | \$1.19   |
| Diluted earnings per common share   | \$0.53                              | \$0.61   | \$1.15                            | \$1.16   |
| Potentially dilutive securities excluded from diluted earnings per common share because their effect is anti-dilutive | 183                                 | 1,061    | 162                               | 1,081    |

## 15. REVENUE AND MAJOR CUSTOMERS

The Company designs, manufactures, markets, and sells headsets for business and consumer applications, and other specialty products for the hearing impaired. With respect to headsets, it makes products for use in offices and contact centers, with mobile and cordless phones, and with computers and gaming consoles. Major product categories include "Office and Contact Center", which includes corded and cordless communication headsets, audio processors, and telephone systems; "Mobile", which includes Bluetooth and corded products for mobile phone applications; "Gaming and Computer Audio", which includes personal computer ("PC") and gaming headsets; and "Clarity", which includes specialty products marketed for hearing impaired individuals.

The following table presents net revenues by product group for the three and six months ended September 30, 2013 and 2012:

| (in thousands)                            | Three Months Ended<br>September 30, |           | Six Months Ended<br>September 30, |           |
|---|-------------------------------------|-----------|-----------------------------------|-----------|
|   | 2013                                | 2012      | 2013                              | 2012      |
| Net revenues from unaffiliated customers: |                                     |           |                                   |           |
| Office and Contact Center                 | \$139,945                           | \$133,119 | \$291,128                         | \$267,152 |
| Mobile                                    | 42,685                              | 33,305    | 84,309                            | 69,462    |
| Gaming and Computer Audio                 | 8,156                               | 7,797     | 14,607                            | 14,586    |
| Clarity                                   | 3,194                               | 5,059     | 6,754                             | 9,445     |

|                    |           |           |           |           |
|--------------------|-----------|-----------|-----------|-----------|
| Total net revenues | \$193,980 | \$179,280 | \$396,798 | \$360,645 |
|--------------------|-----------|-----------|-----------|-----------|

21

---

Table of Contents

For reporting purposes, revenue is attributed to each geographic region based on the location of the customer. Other than the U.S., no country accounted for 10% or more of the Company's net revenues for the three and six months ended September 30, 2013 and 2012. The following table presents net revenues by geography:

| (in thousands)                            | Three Months Ended<br>September 30, |            | Six Months Ended<br>September 30, 2013 |            |
|---|-------------------------------------|------------|--|------------|
|   | 2013                                | 2012       | 2013                                   | 2012       |
| Net revenues from unaffiliated customers: |                                     |            |  |            |
| U.S.                                      | \$ 115,795                          | \$ 107,513 | \$ 237,113                             | \$ 211,591 |
| Europe and Africa                         | 43,094                              | 38,951     | 87,479                                 | 80,527     |
| Asia Pacific                              | 23,280                              | 19,839     | 47,160                                 | 43,418     |
| Americas, excluding U.S.                  | 11,811                              | 12,977     | 25,046                                 | 25,109     |
| Total international net revenues          | 78,185                              | 71,767     | 159,685                                | 149,054    |
| Total net revenues                        | \$ 193,980                          | \$ 179,280 | \$ 396,798                             | \$ 360,645 |

One customer, Ingram Micro, accounted for 10.1% and 10.3%, respectively of net revenues for the three and six months ended September 30, 2013. This customer also accounted for 10% of net revenues for the three months ended September 30, 2012. No customer accounted for 10% or more of net revenues for the six months ended September 30, 2012.

Ingram Micro also accounted for 11.7% and 10.3% of net accounts receivable in the condensed consolidated balance sheets at September 30, 2013 and March 31, 2013, respectively.

## 16. SUBSEQUENT EVENTS

On October 29, 2013, the Company's Board of Directors declared a cash dividend of \$0.10 per share of the Company's common stock, payable on December 10, 2013 to stockholders of record at the close of business on November 20, 2013.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

CERTAIN FORWARD-LOOKING INFORMATION:

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 ("Securities Act") and Section 21E of the Securities Exchange Act of 1934 ("Exchange Act"). Forward-looking statements may generally be identified by the use of such words as "expect," "anticipate," "believe," "intend," "plan," "potential," "will," "shall" or variations of such words and similar expressions, or the negative of these terms. Specific forward-looking statements contained within this Form 10-Q include statements regarding (i) the Unified Communications ("UC") markets, (ii) our long-term strategy to invest in UC, (iii) the future of UC technologies, including the effect on headset adoption and use, the effects on enterprises that adopt UC and our expectation concerning our revenue opportunity from UC, (iv) our expectations regarding the slow long-term growth of the traditional office and contact center market and its correlation to gross domestic product in the United States and Western Europe, (v) the growth of UC in enterprises and the impact to our sales in the office and contact center market, (vi) our expectations for new product launches and new consumer product development efforts in fiscal year 2015 and beyond, (vii) the Mobile Bluetooth market and the stereo and mono product categories, (viii) our position in the Mobile Bluetooth market and the effect of our new products on our position in that market, (ix) our research and development strategy, including our investments in software development, (x) our expectations regarding our sales force and customer service operations, (xi) the maintenance of our reputation in the industry, (xii) our expenses, including research, development and engineering expenses and selling, general and administrative expenses, (xiii) our future tax rate, (xiv) our anticipated capital expenditures for the remainder of fiscal year 2014 and the sufficiency of our cash, cash equivalents and cash from operations, (xv) our planned investment of and need for our foreign cash and our ability to repatriate that cash, (xvi) our ability to draw funds on our credit facility as needed, (xvii) future fluctuations in our cash provided by operating activities, (xviii) the timing for implementation of our new ERP system, and (xix) the outcome and effect of legal proceedings, as well as other statements regarding our future operations, financial condition and prospects and business strategies. Such forward-looking statements are based on current expectations and assumptions and are subject to risks and uncertainties that may cause actual results to differ materially from the forward-looking statements. Factors that could cause actual results and events to differ materially from such forward-looking statements are included, but not limited to, those discussed in the section entitled "Risk Factors" herein and other documents filed with the Securities and Exchange Commission ("SEC"), including our Annual Report on Form 10-K for the fiscal year ended March 31, 2013. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by applicable law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

OVERVIEW

We are a leading designer, manufacturer, and marketer of lightweight communications headsets, telephone headset systems, and accessories for the worldwide business and consumer markets under the Plantronics brand. In addition, we manufacture and market, under our Clarity brand, specialty telephone products, such as telephones for the hearing impaired, and other related products for people with special communication needs.

We ship our products to approximately 60 countries through a network of distributors, value-add resellers ("VARs"), retailers, wireless carriers, original equipment manufacturers ("OEMs"), and telephony service providers. We have well-developed distribution channels in North America, Europe, and in some parts of the Asia Pacific region, particularly in China, Australia, Japan, and New Zealand, where use of our products is widespread. Our distribution channels in other geographic regions are less mature, and while we primarily serve the contact center markets in those regions, we continue to expand into the office, mobile, and gaming and computer audio markets in those regions and other international locations. Revenues from our retail channel are typically seasonal, with the December quarter (our

third fiscal quarter) typically being the strongest.

We believe UC represents our key long-term driver of revenue and profit growth, and it continues to be our primary focus area. Business communications are being transformed from voice-centric systems supported by traditional PBX infrastructure to communication systems that are fully integrated with voice, video, and data and are supported by feature-rich UC software. With this transformation, the requirement for a traditional headset used only for voice communications continues to evolve into a device that delivers contextual intelligence, providing the ability to reach people using the mode of communication that is most effective, on the device that is most convenient, and with control over when and how they can be reached. Our portfolio of UC solutions combines hardware with advanced sensor technology and capitalizes on contextual intelligence, addressing the needs of the constantly changing business environments and evolving work styles to make connecting easier and by sharing presence information to convey user availability and other contextual information. We believe UC systems will become more commonly adopted by enterprises to reduce costs and improve collaboration, and we believe our solutions with Simply Smarter Communications® technology will be an important part of the UC environment.

Table of Contents

The traditional office and contact center market ("Core OCC") is the most mature in which we participate. Given the migration to UC by corporations globally, we expect the market for headsets for non-UC enterprise applications to grow very slowly, if at all. We believe the growth of UC will increase overall headset adoption in enterprise environments and we expect most of the growth in our Office and Contact Center ("OCC") category over the next five years to come from headsets designed for UC.

Our priorities for fiscal year 2014 are to deliver profitable growth in Unified Communications and all other areas of our business, extend our brand, expand our consumer reach, scale for growth, and optimize the culture. In order to execute on the first two priorities, our operating plan for the fiscal year includes significant new investments in our global sales force and research and development capabilities. To expand our consumer reach, our fiscal year 2014 product development roadmap includes expected launches of new products targeted toward the fastest-growing segments of the consumer headset market, as well as development efforts for more new consumer products to be launched in fiscal year 2015 and beyond. We are making major capital investments in order to scale for growth.

Total net revenues increased to \$194.0 million in the second quarter growing 8% over the second quarter of the prior year. UC product revenues increased, growing by 22% over the prior-year quarter to \$36.9 million and we believe our innovation and breakthroughs in contextual intelligence and other product features and enhancements spurred this growth. Our increased investments in research and development versus a year ago yielded increased functionality for UC endpoints and successful launches of new consumer products in key markets. We also continued to invest in our global sales force in order to bring these and other products to the marketplace.

In the second quarter of our fiscal year 2014, our Bluetooth product portfolio included Voyager Legend and Marque in the mono Bluetooth category, and BackBeat GO 2 in the stereo Bluetooth category. These products led a strong performance across our Mobile Bluetooth portfolio in the quarter, allowing us to participate fully in market opportunities around the world. We anticipate that our planned investments in these categories will help position us to maintain share as opportunities in these markets continue to expand.

Integral to our core research and development have been investments in firmware and software engineering to enhance the broad compatibility of our products in the enterprise systems with which they will be deployed, and development of value-added software applications for business users. We believe these investments in software development will help us to differentiate our products and maintain long-term gross margins within our business model. We continue to strengthen our strategic partnerships with Unified Communications platform suppliers to ensure that our products remain compatible with all major platforms as UC usage becomes an essential part of the enterprise communications landscape.

Looking forward, we continue to believe that UC is a key long-term driver of revenue and profit growth. We remain cautious about the macroeconomic environment and will monitor our expenditures accordingly; however, we will continue to invest strategically in our long-term growth opportunities. We will continue focusing on innovative product development through our core research and development efforts. We will also continue to grow our sales force and increase marketing and other customer service and support as we expand key strategic partnerships to market our UC products. We believe we have an excellent position in the market and a well-deserved reputation for quality and service that we will continually strive to earn through ongoing investment and strong execution.

## RESULTS OF OPERATIONS

The following tables set forth, for the periods indicated, the condensed consolidated statements of operations data, which is derived from the accompanying unaudited condensed consolidated financial statements. The financial information and ensuing discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and notes thereto.

| (in thousands, except percentages)       | Three Months Ended September 30, |         |           |         |           | Six Months Ended September 30, |           |         |  |  |
|--|----------------------------------|---------|-----------|---------|-----------|--------------------------------|-----------|---------|--|--|
|  | 2013                             |         | 2012      |         |           | 2013                           |           | 2012    |  |  |
| Net revenues                             | \$193,980                        | 100.0 % | \$179,280 | 100.0 % | \$396,798 | 100.0 %                        | \$360,645 | 100.0 % |  |  |
| Cost of revenues                         | 94,366                           | 48.6 %  | 82,052    | 45.8 %  | 191,552   | 48.3 %                         | 165,721   | 46.0 %  |  |  |
| Gross profit                             | 99,614                           | 51.4 %  | 97,228    | 54.2 %  | 205,246   | 51.7 %                         | 194,924   | 54.0 %  |  |  |
| Operating expenses:                      |                                  |         |           |         |           |                                |           |         |  |  |
| Research, development, and engineering   | 20,447                           | 10.5 %  | 19,581    | 10.9 %  | 41,310    | 10.4 %                         | 39,277    | 10.9 %  |  |  |
| Selling, general, and administrative     | 48,507                           | 25.0 %  | 43,130    | 24.1 %  | 96,604    | 24.3 %                         | 89,034    | 24.7 %  |  |  |
| Restructuring and other related charges  | (176 )                           | (0.1 )% | —         | — %     | 547       | 0.1 %                          | —         | — %     |  |  |
| Total operating expenses                 | 68,778                           | 35.5 %  | 62,711    | 35.0 %  | 138,461   | 34.9 %                         | 128,311   | 35.6 %  |  |  |
| Operating income                         | 30,836                           | 15.9 %  | 34,517    | 19.3 %  | 66,785    | 16.8 %                         | 66,613    | 18.5 %  |  |  |
| Interest and other income (expense), net | 359                              | 0.2 %   | 275       | 0.2 %   | (127 )    | — %                            | 287       | 0.1 %   |  |  |
| Income before income taxes               | 31,195                           | 16.1 %  | 34,792    | 19.4 %  | 66,658    | 16.8 %                         | 66,900    | 18.6 %  |  |  |
| Income tax expense                       | 8,057                            | 4.2 %   | 8,868     | 4.9 %   | 16,567    | 4.2 %                          | 17,413    | 4.8 %   |  |  |
| Net income                               | \$23,138                         | 11.9 %  | \$25,924  | 14.5 %  | \$50,091  | 12.6 %                         | \$49,487  | 13.7 %  |  |  |

## NET REVENUES

| (in thousands, except percentages)        | Three Months Ended September 30, |           |          |          |           | Six Months Ended September 30, |          |          |  |  |
|---|----------------------------------|-----------|----------|----------|-----------|--------------------------------|----------|----------|--|--|
|   | 2013                             |           | 2012     |          |           | 2013                           |          | 2012     |  |  |
| Net revenues from unaffiliated customers: |                                  |           |          |          |           |                                |          |          |  |  |
| Office and Contact Center                 | \$139,945                        | \$133,119 | \$6,826  | 5.1 %    | \$291,128 | \$267,152                      | \$23,976 | 9.0 %    |  |  |
| Mobile                                    | 42,685                           | 33,305    | 9,380    | 28.2 %   | 84,309    | 69,462                         | 14,847   | 21.4 %   |  |  |
| Gaming and Computer Audio                 | 8,156                            | 7,797     | 359      | 4.6 %    | 14,607    | 14,586                         | 21       | 0.1 %    |  |  |
| Clarity                                   | 3,194                            | 5,059     | (1,865 ) | (36.9 )% | 6,754     | 9,445                          | (2,691 ) | (28.5 )% |  |  |
| Total net revenues                        | \$193,980                        | \$179,280 | \$14,700 | 8.2 %    | \$396,798 | \$360,645                      | \$36,153 | 10.0 %   |  |  |

OCC products represent our largest source of revenues, while Mobile products represent our largest unit volumes. Net revenues may vary due to seasonality, the timing of new product introductions and discontinuation of existing products, discounts and other incentives, and channel mix. Net revenues derived from sales into the retail channel typically account for a seasonal increase in net revenues in the third quarter of our fiscal year.

Net revenues increased in the second quarter of fiscal year 2014 over the same period a year ago as a result of higher Mobile revenues driven by a stronger product portfolio that was well received in the retail market, as well as from higher OCC revenues driven by growth in UC products. Revenues from our Clarity business have declined, largely as



a result of funding weakness among public-sector services that distribute products for the hearing-impaired.

Net revenues increased in the six months ended September 30, 2013 over the same period a year ago primarily as a result of higher OCC revenues, driven by growth in both UC products and Core OCC products. Mobile revenues have also increased, driven by a stronger product portfolio that has been well-received in the retail market.

---

## Geographic Information

| (in thousands, except percentages)        | Three Months Ended<br>September 30, |            |                        |         | Six Months Ended<br>September 30, |            |                        |         |  |
|---|-------------------------------------|------------|------------------------|---------|-----------------------------------|------------|------------------------|---------|--|
|   | 2013                                | 2012       | Increase<br>(Decrease) |         | 2013                              | 2012       | Increase<br>(Decrease) |         |  |
| Net revenues from unaffiliated customers: |                                     |            |                        |         |                                   |            |                        |         |  |
| U.S.                                      | \$ 115,795                          | \$ 107,513 | \$ 8,282               | 7.7 %   | \$ 237,113                        | \$ 211,591 | \$ 25,522              | 12.1 %  |  |
| As a percentage of net revenues           | 59.7 %                              | 60.0 %     |                        |         | 59.8 %                            | 58.7 %     |                        |         |  |
| Europe and Africa                         | 43,094                              | 38,951     | 4,143                  | 10.6 %  | 87,479                            | 80,527     | 6,952                  | 8.6 %   |  |
| Asia Pacific                              | 23,280                              | 19,839     | 3,441                  | 17.3 %  | 47,160                            | 43,418     | 3,742                  | 8.6 %   |  |
| Americas, excluding U.S.                  | 11,811                              | 12,977     | (1,166 )               | (9.0 )% | 25,046                            | 25,109     | (63 )                  | (0.3 )% |  |
| Total international net revenues          | 78,185                              | 71,767     | 6,418                  | 8.9 %   | 159,685                           | 149,054    | 10,631                 | 7.1 %   |  |
| As a percentage of net revenues           | 40.3 %                              | 40.0 %     |                        |         | 40.2 %                            | 41.3 %     |                        |         |  |
| Total net revenues                        | \$ 193,980                          | \$ 179,280 | \$ 14,700              | 8.2 %   | \$ 396,798                        | \$ 360,645 | \$ 36,153              | 10.0 %  |  |

U.S. net revenues increased in the three and six months ended September 30, 2013, as compared to the same periods in the prior year, due to growth in Mobile product revenue driven by a stronger product portfolio. U.S. OCC revenues also increased led by UC products, but also including growth in revenue from core OCC products.

In the three and six months ended September 30, 2013, international net revenues increased due primarily to significant growth in Mobile revenues in the APAC region and to a lesser extent the E&A region, driven by a stronger product portfolio as well as the effects of hands-free legislation in the People's Republic of China ("PRC"). OCC revenues also increased modestly, with growth in UC revenues partially offset by a decline in core OCC revenues.

## COST OF REVENUES AND GROSS PROFIT

Cost of revenues consists primarily of direct manufacturing and contract manufacturer costs, warranty expense, freight expense, depreciation, duty expense, reserves for excess and obsolete inventory, royalties, and an allocation of overhead expenses, including facilities, IT, and human resources.

| (in thousands, except percentages) | Three Months Ended<br>September 30, |            |                        |        | Six Months Ended<br>September 30, |            |                        |        |
|------------------------------------|-------------------------------------|------------|------------------------|--------|-----------------------------------|------------|------------------------|--------|
|                                    | 2013                                | 2012       | Increase<br>(Decrease) |        | 2013                              | 2012       | Increase<br>(Decrease) |        |
| Net revenues                       | \$ 193,980                          | \$ 179,280 | \$ 14,700              | 8.2 %  | \$ 396,798                        | \$ 360,645 | \$ 36,153              | 10.0 % |
| Cost of revenues                   | 94,366                              | 82,052     | 12,314                 | 15.0 % | 191,552                           | 165,721    | 25,831                 | 15.6 % |
| Gross profit                       | \$ 99,614                           | \$ 97,228  | \$ 2,386               | 2.5 %  | \$ 205,246                        | \$ 194,924 | \$ 10,322              | 5.3 %  |
| Gross profit %                     | 51.4 %                              | 54.2 %     |                        |        | 51.7 %                            | 54.0 %     |                        |        |

As a percentage of net revenues, gross profit decreased in the three and six months ended September 30, 2013 compared to the same periods a year ago due primarily to four drivers. First, revenues from Mobile products have grown faster than revenues from OCC products in both the three and six month periods ended September 30, 2013, with the result that Mobile products, which generally have lower gross margins than our OCC products, represent a higher proportion of our product mix than was the case a year ago. Second, we recorded a one-time lease charge of approximately \$1.5 million for the six months ended September 30, 2013 when we exited the leased facilities in Tijuana, Mexico, representing the costs we would have otherwise continued to incur under the original lease terms.

Third, within our OCC category or products, we are experiencing a shift in our product mix to a higher proportion of revenues from UC products, which generally have lower gross margins than our traditional OCC products. We expect this shift in product mix and associated impact on gross profit to continue as our revenues from UC products grow. Over the long term, we expect our gross profit percentage to range from 50% to 52%. Fourth, we recorded a provision for excess and obsolete inventory of \$1.5 million in the second quarter of fiscal year 2014, which is higher than the \$0.6 million we recorded in the prior year, and a combined provision for excess and obsolete inventory in the six months ended September 30, 2013 of \$3.3 million, which is higher than the \$0.9 million we recorded in the corresponding period a year ago.

There are significant variances in gross profit percentages between our higher and lower margin products; therefore, small variations in product mix, which can be difficult to predict, can have a significant impact on gross profit. Gross profit may also vary based on distribution channel, return rates, and other factors.

---

## RESEARCH, DEVELOPMENT, AND ENGINEERING

Research, development, and engineering costs are expensed as incurred and consist primarily of compensation costs, outside services, including legal fees associated with protecting our intellectual property, expensed materials, travel expenses, depreciation, and an allocation of overhead expenses, including facilities, IT, human resources, and legal costs.

| (in thousands, except percentages)     | Three Months Ended September 30, |          |       | Increase (Decrease) | Six Months Ended September 30, |          |         | Increase (Decrease) |
|--|----------------------------------|----------|-------|---------------------|--------------------------------|----------|---------|---------------------|
|  | 2013                             | 2012     |       |                     | 2013                           | 2012     |         |                     |
| Research, development, and engineering | \$20,447                         | \$19,581 | \$866 | 4.4 %               | \$41,310                       | \$39,277 | \$2,033 | 5.2 %               |
| % of net revenues                      | 10.5                             | % 10.9   | %     |                     | 10.4                           | % 10.9   | %       |                     |

During the three and six months ended September 30, 2013, research, development, and engineering expenses increased as compared to the same periods a year ago due primarily to an increase in our investment in software development and other capabilities related to UC product development. This investment consisted primarily of engineering headcount, resulting in increased compensation and other employee-related expenses.

## SELLING, GENERAL, AND ADMINISTRATIVE

Selling, general, and administrative expenses consist primarily of compensation costs, marketing costs, travel expenses, litigation and professional service fees, and allocations of overhead expenses, including facilities, IT, human resources, and legal costs.

| (in thousands, except percentages)   | Three Months Ended September 30, |          |         | Increase (Decrease) | Six Months Ended September 30, |          |         | Increase (Decrease) |
|--------------------------------------|----------------------------------|----------|---------|---------------------|--------------------------------|----------|---------|---------------------|
|                                      | 2013                             | 2012     |         |                     | 2013                           | 2012     |         |                     |
| Selling, general, and administrative | \$48,507                         | \$43,130 | \$5,377 | 12.5 %              | \$96,604                       | \$89,034 | \$7,570 | 8.5 %               |
| % of net revenues                    | 25.0                             | % 24.1   | %       |                     | 24.3                           | % 24.7   | %       |                     |

In the three months ended September 30, 2013, compared to the same period a year ago, selling, general, and administrative expenses increased, primarily as a result of increased compensation expense of \$3.3 million, related to increased investment in our sales and marketing organizations to support the UC opportunity and growth in emerging markets. We also increased investment in marketing and promotional activities by \$2.2 million compared to the prior year.

In the six months ended September 30, 2013, compared to the same period a year ago, selling, general and administrative expenses increased primarily as a result of higher compensation costs of \$5.8 million primarily as a result of increased headcount in our field sales functions to support UC and growth in emerging markets, as well as increased investment in marketing and promotional activities of \$3.0 million, partly offset by lower costs of legal and accounting services.

## INTEREST AND OTHER INCOME (EXPENSE), NET

|  | Three Months Ended September 30, | Increase | Six Months Ended September 30, | Increase |
|--|----------------------------------|----------|--------------------------------|----------|
|--|----------------------------------|----------|--------------------------------|----------|

Edgar Filing: PLANTRONICS INC /CA/ - Form 10-Q

| (in thousands except percentages)        | 2013  | 2012  | (Decrease) | 2013   | 2012     | (Decrease) |                  |
|--|-------|-------|------------|--------|----------|------------|------------------|
| Interest and other income (expense), net | \$359 | \$275 | \$84       | 30.5 % | \$(127 ) | \$287      | (414 ) (144.3 )% |
| % of net revenues                        | 0.2   | % 0.2 | %          | —      | % 0.1    | %          |                  |

Interest and other income (expense), net did not have a material impact on our financial statements for the three and six months ended September 30, 2013 or 2012.

## INCOME TAX EXPENSE

| (in thousands except percentages) | Three Months Ended<br>September 30, |          |           | Increase<br>(Decrease) | Six Months Ended<br>September 30, |          |         | Increase<br>(Decrease) |
|-----------------------------------|-------------------------------------|----------|-----------|------------------------|-----------------------------------|----------|---------|------------------------|
|                                   | 2013                                | 2012     |           |                        | 2013                              | 2012     |         |                        |
| Income before income taxes        | \$31,195                            | \$34,792 | \$(3,597) | (10.3)%                | \$66,658                          | \$66,900 | \$(242) | (0.4)%                 |
| Income tax expense                | 8,057                               | 8,868    | (811)     | (9.1)%                 | 16,567                            | 17,413   | (846)   | (4.9)%                 |
| Net income                        | \$23,138                            | \$25,924 | \$(2,786) | (10.7)%                | \$50,091                          | \$49,487 | \$604   | 1.2%                   |
| Effective tax rate                | 25.8%                               | 25.5%    |           |                        | 24.9%                             | 26.0%    |         |                        |

The effective tax rate for the three and six months ended September 30, 2013 was 25.8% and 24.9%, respectively compared to 25.5% and 26.0%, in the same periods in the prior year. The higher effective tax rate for the three months ended September 30, 2013 compared to the same period in the prior year is due primarily to the smaller proportion of income in foreign jurisdictions taxed at lower rates, offset by the United States ("U.S.") federal tax research credit benefit that was extended in December 2012 through December 2013 and was not available in the same period a year ago. The lower effective tax rate for the six months ended September 30, 2013 compared to the same period in the prior year is due primarily to the release of tax reserves from the expiration of certain statutes of limitations, an adjustment to transfer pricing, and the reinstatement of the U.S. federal tax research credit. Our effective tax rates differ from the statutory rate due to the impact of foreign operations taxed at different statutory rates, tax credits, state taxes and other factors. Our future tax rates could be impacted by a shift in the mix of domestic and foreign income, tax treaties with foreign jurisdictions, changes in tax laws in the U.S. or internationally, or a change in estimates of future taxable income which could result in a valuation allowance being required.

We are subject to taxation in various foreign and state jurisdictions including the U.S. We are under examination by the Internal Revenue Service for its 2010 tax year and the California Franchise Tax Board for its 2007 and 2008 tax years. Foreign income tax matters for material tax jurisdictions have been concluded for tax years prior to fiscal 2007, except for the United Kingdom, which has been concluded for tax years prior to fiscal year 2012.

## NON-GAAP FINANCIAL MEASURES

To supplement our condensed consolidated financial statements presented on a GAAP basis, Plantronics uses non-GAAP measures of operating results, which are adjusted to exclude certain non-cash expenses and charges, such as stock-based compensation related to stock options, restricted stock and employee stock purchases, accelerated depreciation, lease termination charges, purchase accounting amortization, restructuring and other related charges, all net of the associated tax impact, tax benefits from the release of tax reserves, transfer pricing adjustments, and the impact of the retroactive reinstatement of the U.S. federal R&D tax credit. Plantronics does not believe these expenses, charges, and credits are reflective of ongoing operating results and are not part of our target operating model. The non-GAAP financial measures should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and the financial results calculated in accordance with GAAP and the reconciliations to those financial statements should be carefully evaluated. The non-GAAP financial measures used by Plantronics may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies.

We believe that such non-GAAP measures provide meaningful information to assist shareholders in understanding our financial results and assessing our prospects for future performance. These non-GAAP financial measures are an additional way of viewing aspects of our operations that, when viewed with our GAAP results and the reconciliations to corresponding GAAP financial measures within our discussion of consolidated performance, below, provide a more complete understanding of our business. We strongly encourage investors and shareholders to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure.

The following tables reconcile gross profit, operating expenses, operating income, net income, income before taxes, tax expense, and diluted earnings per share for the periods presented (GAAP financial measures) to their equivalent non-GAAP financial measure counterpart for the periods presented.

|   | Three Months Ended<br>September 30, |           | Six Months Ended<br>September 30, |           |   |   |
|---|-------------------------------------|-----------|-----------------------------------|-----------|---|---|
|   | 2013                                | 2012      | 2013                              | 2012      |   |   |
| GAAP Gross profit                               | \$99,614                            | \$97,228  | \$205,246                         | \$194,924 |   |   |
| Stock-based compensation expense                | 638                                 | 526       | 1,173                             | 1,122     |   |   |
| Accelerated depreciation                        | 41                                  | 318       | 261                               | 442       |   |   |
| Lease termination charges                       | 1,126                               | —         | 1,388                             | —         |   |   |
| Non-GAAP Gross profit                           | \$101,419                           | \$98,072  | \$208,068                         | \$196,488 |   |   |
| Non-GAAP Gross profit %                         | 52.3                                | % 54.7    | % 52.4                            | % 54.5    |   | % |
| GAAP Research, development, and engineering     | \$20,447                            | \$19,581  | \$41,310                          | \$39,277  |   |   |
| Stock-based compensation expense                | (1,652)                             | ) (1,256) | ) (3,020)                         | ) (2,380) | ) | ) |
| Accelerated depreciation                        | (49)                                | ) (226)   | ) (200)                           | ) (283)   | ) | ) |
| Lease termination charges                       | (21)                                | ) —       | ) (21)                            | ) —       | ) | ) |
| Purchase accounting amortization                | (50)                                | ) —       | ) (100)                           | ) —       | ) | ) |
| Non-GAAP Research, development, and engineering | \$18,675                            | \$18,099  | \$37,969                          | \$36,614  |   |   |
| GAAP Selling, general, and administrative       | \$48,507                            | \$43,130  | \$96,604                          | \$89,034  |   |   |
| Stock-based compensation expense                | (3,675)                             | ) (3,080) | ) (6,759)                         | ) (5,980) | ) | ) |
| Lease termination charges                       | (45)                                | ) —       | ) (45)                            | ) —       | ) | ) |
| Purchase accounting amortization                | (35)                                | ) —       | ) (106)                           | ) —       | ) | ) |
| Non-GAAP Selling, general, and administrative   | \$44,752                            | \$40,050  | \$89,694                          | \$83,054  |   |   |
| GAAP Operating expenses                         | \$68,778                            | \$62,711  | \$138,461                         | \$128,311 |   |   |

Edgar Filing: PLANTRONICS INC /CA/ - Form 10-Q

|   |          |   |          |   |           |   |           |   |
|---|----------|---|----------|---|-----------|---|-----------|---|
| Stock-based compensation expense        | (5,327   | ) | (4,336   | ) | (9,779    | ) | (8,360    | ) |
| Accelerated depreciation                | (49      | ) | (226     | ) | (200      | ) | (283      | ) |
| Lease termination charges               | (66      | ) | —        |   | (66       | ) | —         |   |
| Purchase accounting amortization        | (85      | ) | —        |   | (206      | ) | —         |   |
| Restructuring and other related charges | 176      |   | —        |   | (547      | ) | —         |   |
| Non-GAAP Operating expenses             | \$63,427 |   | \$58,149 |   | \$127,663 |   | \$119,668 |   |

---



Edgar Filing: PLANTRONICS INC /CA/ - Form 10-Q

|   | Three Months Ended      |                         | Six Months Ended        |          |
|---|-------------------------|-------------------------|-------------------------|----------|
|   | September 30,           |                         | September 30,           |          |
|   | 2013                    | 2012                    | 2013                    | 2012     |
| GAAP Operating income   | \$30,836                | \$34,517                | \$66,785                | \$66,613 |
| Stock-based compensation expense  | 5,965                   | 4,862                   | 10,952                  | 9,482    |
| Accelerated depreciation  | 90                      | 544                     | 461                     | 725      |
| Lease termination charges   | 1,192                   | —                       | 1,454                   | —        |
| Purchase accounting amortization  | 85                      | —                       | 206                     | —        |
| Restructuring and other related charges                                     | (176 )                  | —                       | 547                     | —        |
| Non-GAAP Operating income   | \$37,992                | \$39,923                | \$80,405                | \$76,820 |
| GAAP Income before income taxes   | \$31,195                | \$34,792                | \$66,658                | \$66,900 |
| Stock-based compensation expense  | 5,965                   | 4,862                   | 10,952                  | 9,482    |
| Accelerated depreciation  | 90                      | 544                     | 461                     | 725      |
| Lease termination charges   | 1,192                   | —                       | 1,454                   | —        |
| Purchase accounting amortization  | 85                      | —                       | 206                     | —        |
| Restructuring and other related charges                                     | (176 )                  | —                       | 547                     | —        |
| Non-GAAP Income before income taxes   | \$38,351                | \$40,198                | \$80,278                | \$77,107 |
| GAAP Income tax expense   | \$8,057                 | \$8,868                 | \$16,567                | \$17,413 |
| Income tax effect of stock-based compensation expense                       | 1,838                   | 1,532                   | 3,275                   | 2,914    |
| Income tax effect of accelerated depreciation                               | —                       | 116                     | 88                      | 155      |
| Income tax effect of lease termination charges                              | 276                     | —                       | 333                     | —        |
| Income tax effect of purchase accounting amortization                       | 24                      | —                       | 61                      | —        |
| Income tax effect of restructuring and other related charges                | (66 )                   | —                       | 204                     | —        |
| Tax benefit from the release of tax reserves & transfer pricing adjustments | 226                     | —                       | 1,161                   | —        |
| Non-GAAP Income tax expense   | \$10,355                | \$10,516                | \$21,689                | \$20,482 |
| Non-GAAP Income tax expense as a % of Non-GAAP Income before income taxes   | 27.0 %                  | 26.2 %                  | 27.0 %                  | 26.6 %   |
| GAAP Net income   | \$23,138                | \$25,924                | \$50,091                | \$49,487 |
| Stock-based compensation expense  | 5,965                   | 4,862                   | 10,952                  | 9,482    |
| Accelerated depreciation  | 90                      | 544                     | 461                     | 725      |
| Lease termination charges   | 1,192                   | —                       | 1,454                   | —        |
| Purchase accounting amortization  | 85                      | —                       | 206                     | —        |
| Restructuring and other related charges                                     | (176 )                  | —                       | 547                     | —        |
| Income tax effect   | (2,298 ) <sup>(1)</sup> | (1,648 ) <sup>(2)</sup> | (5,122 ) <sup>(3)</sup> | (3,069 ) |
| Non-GAAP Net income   | \$27,996                | \$29,682                | \$58,589                | \$56,625 |
| GAAP Diluted earnings per common share                                      | \$0.53                  | \$0.61                  | \$1.15                  | \$1.16   |
| Stock-based compensation expense  | 0.14                    | 0.11                    | 0.25                    | 0.22     |
| Accelerated depreciation  | —                       | 0.01                    | 0.01                    | 0.01     |
| Lease termination costs   | 0.02                    | —                       | 0.03                    | —        |
| Restructuring and other related charges                                     | —                       | —                       | 0.02                    | —        |
| Income tax effect   | (0.05 )                 | (0.03 )                 | (0.12 )                 | (0.06 )  |
| Non-GAAP Diluted earnings per common share                                  | \$0.64                  | \$0.70                  | \$1.34                  | \$1.33   |

|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Shares used in diluted earnings per common share calculation | 43,597 | 42,403 | 43,667 | 42,521 |
|--|--------|--------|--------|--------|

- Excluded amount represents tax benefits from stock-based compensation, accelerated depreciation, lease
- (1) termination charges, purchase accounting amortization, restructuring and other related charges, and the release of tax reserves.
  - (2) Excluded amount represents tax benefits from stock-based compensation and accelerated depreciation.
  - (3) Excluded amount represents tax benefits from stock-based compensation, accelerated depreciation, lease termination charges, purchase accounting amortization, restructuring and other related charges, the release of tax reserves, and transfer pricing adjustments.
-

Table of Contents

## FINANCIAL CONDITION

The table below provides a summary of our condensed consolidated cash flow information for the periods presented:

| (in thousands)   | Six Months Ended |             |            |
|--|------------------|-------------|------------|
|  | September 30,    |             |            |
|  | 2013             | 2012        | Change     |
| Net cash provided by operating activities                    | \$ 57,606        | \$ 60,024   | \$(2,418 ) |
| Net cash used for investing activities                       | (23,467 )        | (34,664 )   | 11,197     |
| Net cash used for financing activities                       | (17,724 )        | (25,582 )   | 7,858      |
| Effect of exchange rate changes on cash and cash equivalents | 789              | (1,184 )    | 1,973      |
| Net increase (decrease) in cash and cash equivalents         | \$ 17,204        | \$ (1,406 ) | \$ 18,610  |

Our primary source of liquidity is cash provided by operating activities. We expect that cash provided by operating activities will fluctuate in future periods as a result of a number of factors, including fluctuations in our revenues, the timing of product shipments during the quarter, accounts receivable collections, inventory and supply chain management, and the timing and amount of tax and other payments.

## Operating Activities

Net cash provided by operating activities during the six months ended September 30, 2013 decreased from the prior year due to the following:

- A net decrease in accounts payable resulting primarily due to timing of payments made during the second quarter of fiscal year 2014 compared with the same prior year quarter.

- A net decrease in accrued liabilities resulting primarily from lower accruals for performance-based compensation in the first half of fiscal year 2014 than in the same prior year period..

- A net decrease in income taxes payable due primarily to the timing of estimated tax payments made during the second quarter of fiscal year 2014.

- A net increase in accounts receivable due primarily to timing of revenues earned during the second quarter of fiscal year 2014 compared with the same prior year quarter.

- A net increase in inventory due primarily to timing of revenues earned during the second quarter of fiscal year 2014 compared with the same prior year quarter.

These decreases were partially offset by an increase in adjustments for non-cash charges; primarily deferred income taxes and higher reserve requirements for excess and obsolete inventories.

## Investing Activities

Net cash used for investing activities during the six months ended September 30, 2013 decreased from the prior year due primarily to an increase in net proceeds from the sale and maturity of short-term investments, which was partially offset by an increase in net cash used for purchases of long-term investments and slightly higher capital expenditures.

For the remainder of fiscal year 2014, we expect to spend approximately \$21.0 million to \$25.0 million on capital expenditures for estimated total capital expenditures of \$50.0 million for fiscal year 2014. The increase from fiscal year 2013 capital expenditures of \$39.3 million is related to continued costs associated with the purchase and related construction of a new manufacturing facility in Mexico. We completed the required upgrades and moved into the new facility in the first half of fiscal year 2014. We will continue to incur costs related to the implementation of a new ERP system, which we expect to place in service at the start of our fiscal year 2015. The remainder of the anticipated capital expenditures for fiscal year 2014 consists primarily of building and leasehold improvements at our U.S.

headquarters, other IT-related expenditures, and tooling for new products. We will continue to evaluate new business opportunities and new markets; as a result, our future growth within the existing business or new opportunities and markets may dictate the need for additional facilities and capital expenditures to support that growth.

## Table of Contents

### Financing Activities

Net cash used for financing activities during the six months ended September 30, 2013 decreased from the prior year due primarily to the following:

- ▲ decrease in repayments on our revolving line of credit
- ▲ An increase in proceeds from employees' exercise of stock options

These decreases were partially offset by an increase in the level of common stock repurchases.

On October 29, 2013, we announced that our Board of Directors ("the Board") declared a cash dividend of \$0.10 per share of our common stock, payable on December 10, 2013 to stockholders of record at the close of business on November 20, 2013. We expect to continue paying a quarterly dividend of \$0.10 per share of our common stock; however, the actual declaration of dividends and the establishment of record and payment dates are subject to final determination by the Audit Committee of the Board each quarter after its review of our financial performance and financial position.

### Liquidity and Capital Resources

Our primary discretionary cash requirements have historically been for repurchases of our common stock and to fund stockholder dividends. At September 30, 2013, we had working capital of \$486.9 million, including \$359.1 million of cash, cash equivalents and short-term investments, compared with working capital of \$463.0 million, including \$345.4 million of cash, cash equivalents and short-term investments at March 31, 2013.

Our cash and cash equivalents as of September 30, 2013 consisted of bank deposits with third party financial institutions and mutual funds held as part of our deferred compensation plan. We monitor bank balances in our operating accounts and adjust the balances as appropriate. Cash balances are held throughout the world, including substantial amounts held outside of the U.S. As of September 30, 2013, of our \$359.1 million of cash, cash equivalents and short-term investments, \$39.8 million is held domestically while \$319.3 million is held by foreign subsidiaries. The costs to repatriate our foreign earnings to the U.S. would be material; however, our intent is to permanently reinvest our earnings from foreign operations and our current plans do not require us to repatriate our earnings from foreign operations to fund our U.S. operations because we generate sufficient domestic operating cash flow and have access to external funding under our revolving line of credit.

Our short and long-term investments are intended to establish a high-quality portfolio that preserves principal and meets liquidity needs. As of September 30, 2013, our investments were composed of Mutual Funds, Government Agency Securities, Commercial Paper, Corporate Bonds, and Certificates of Deposit ("CDs").

From time to time, our Board of Directors ("Board") has authorized plans under which we may repurchase shares of our common stock, depending on market conditions, in the open market or through privately negotiated transactions. During the first six months of fiscal year 2014, we repurchased 607,033 shares of our common stock in the open market as part of these publicly announced repurchase programs. The total cost of these repurchases was \$27.3 million, with an average price of \$44.99 per share. In addition, we withheld 94,748 shares with a total value of \$4.4 million in satisfaction of employee tax withholding obligations upon the vesting of restricted stock granted under our stock plans.

As of September 30, 2013, there remained 274,874 shares authorized for repurchase under the stock repurchase program approved by the Board on August 6, 2012. For more information regarding our stock repurchase programs,

refer to Note 10, Common Stock Repurchases, of the accompanying notes to condensed consolidated financial statements (unaudited) in this Quarterly Report on Form 10-Q.

Table of Contents

In May 2011, we entered into a credit agreement with Wells Fargo Bank, National Association ("the Bank"), as most recently amended in May 2013 to extend its term to May 2016 (as amended, "the Credit Agreement"). The Credit Agreement provides for a \$100.0 million unsecured revolving line of credit (the "line of credit") to augment our financial flexibility and, if requested by us, the Bank may increase its commitment thereunder by up to \$100.0 million, for a total facility of up to \$200.0 million. Any outstanding principal, together with accrued and unpaid interest, is due on the amended maturity date, May 9, 2016, and our obligations under the Credit Agreement are guaranteed by our domestic subsidiaries, subject to certain exceptions. As of September 30, 2013, the Company had no outstanding borrowings under the line of credit. Loans under the Credit Agreement bear interest at our election (1) at the Bank's announced prime rate less 1.50% per annum, (2) at a daily one month LIBOR rate plus 1.10% per annum or (3) at an adjusted LIBOR rate, for a term of one, three or six months, plus 1.10% per annum. The line of credit requires us to comply with the following two financial covenant ratios, in each case at each fiscal quarter end and determined on a rolling four-quarter basis:

- maximum ratio of funded debt to earnings before interest, taxes, depreciation and amortization ("EBITDA"); and,
- minimum EBITDA coverage ratio, which is calculated as interest payments divided by EBITDA.

As of September 30, 2013, we were in compliance with these ratios by a substantial margin.

In addition, we and our subsidiaries are required to maintain, on a consolidated basis, unrestricted cash, cash equivalents and marketable securities plus availability under the Credit Agreement at the end of each fiscal quarter of at least \$200.0 million. The line of credit contains affirmative covenants including covenants regarding the payment of taxes and other liabilities, maintenance of insurance, reporting requirements and compliance with applicable laws and regulations. The credit facility also contains negative covenants, among other things, limiting our ability to incur debt, make capital expenditures, grant liens, make acquisitions and make investments. The events of default under the line of credit include payment defaults, cross defaults with certain other indebtedness, breaches of covenants, judgment defaults and bankruptcy and insolvency events involving us or any of our subsidiaries. As of September 30, 2013, we were in compliance with all covenants under the line of credit.

Our liquidity, capital resources, and results of operations in any period could be affected by repurchases of our common stock, the exercise of outstanding stock options, restricted stock grants under stock plans and the issuance of common stock under our ESPP. We receive cash from the exercise of outstanding stock options and the issuance of shares under our ESPP. However, the resulting increase in the number of outstanding shares from these equity grants and issuances could affect our earnings per share. We cannot predict the timing or amount of proceeds from the sale or exercise of these securities or whether they will be exercised, forfeited, canceled or will expire.

We believe that our current cash and cash equivalents, short-term investments, cash provided by operations and the availability of additional funds under the Credit Agreement will be sufficient to fund operations for at least the next 12 months; however, any projections of future financial needs and sources of working capital are subject to uncertainty. See "Certain Forward-Looking Information" and "Risk Factors" in this Quarterly Report on Form 10-Q for factors that could affect our estimates for future financial needs and sources of working capital.

## Table of Contents

### OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

We have not entered into any transactions with unconsolidated entities whereby we have financial guarantees, subordinated retained interests, derivative instruments, or other contingent arrangements that expose us to material continuing risks, contingent liabilities, or any other obligation under a variable interest in an unconsolidated entity that provides us with financing and liquidity support, market risk, or credit risk support.

A substantial portion of the raw materials, components, and subassemblies used in our products are provided by our suppliers on a consignment basis. These consigned inventories are not recorded on our consolidated balance sheet until we take possession of and title to the raw materials, components, and subassemblies, which occurs when they are consumed in the production process. Prior to consumption in the production process, our suppliers bear the risk of loss and retain title to the consigned inventory. Consigned inventory not consumed in the production process is returnable to our suppliers in accordance with the terms of our agreements with them. If our suppliers were to discontinue financing consigned inventory, it would require us to make cash outlays and we could incur expenses, including write-downs for excess and obsolete inventory, which, if material, could negatively affect our business and financial results. As of September 30, 2013 and March 31, 2013, we had off-balance sheet consigned inventories of \$50.1 million and \$31.3 million, respectively.

#### Unconditional Purchase Obligations

We utilize several outsourcing partners to manufacture sub-assemblies for our products. These outsourcing partners acquire components and build product based on demand information supplied by us, which typically covers periods up to 270 days. We also obtain individual components for our products from a wide variety of individual suppliers. Consistent with industry practice, we acquire components through a combination of purchase orders, supplier contracts, and open orders based on projected demand information. As of September 30, 2013, we had outstanding off-balance sheet third-party manufacturing, component purchase, and other general and administrative commitments of \$244.5 million.

#### Unrecognized Tax Benefits

As of September 30, 2013, long-term income taxes payable reported on our condensed consolidated balance sheet included unrecognized tax benefits and related interest of \$11.8 million and \$1.9 million, respectively. We are unable to reliably estimate the timing of future payments related to unrecognized tax benefits; however, long-term income taxes payable on our condensed consolidated balance sheets includes these unrecognized tax benefits. We do not anticipate any material cash payments associated with our unrecognized tax benefits to be made within the next 12 months.

### CRITICAL ACCOUNTING ESTIMATES

For a complete description of what we believe to be the critical accounting estimates used in the preparation of our condensed consolidated financial statements, refer to our Annual Report on Form 10-K for the fiscal year ended March 31, 2013, filed with the Securities and Exchange Commission ("SEC") on May 24, 2013. There have been no changes to our critical accounting estimates during the six months ended September 30, 2013.

#### Recent Accounting Pronouncements

Recent accounting pronouncements issued by the Financial Accounting Standards Board ("FASB") and the SEC did not and are not expected by the Company to have a material impact on the Company's present or future consolidated financial statements.





Table of Contents

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

The discussion of our exposure to market risk related to changes in interest rates and foreign currency exchange rates contains forward-looking statements that are subject to risks and uncertainties. Actual results could vary materially as a result of a number of factors including those set forth in "Risk Factors."

**INTEREST RATE RISK**

We reported the following balances in cash and cash equivalents, short-term investments, and long-term investments as follows:

| (in millions)             | September 30, 2013 | March 31, 2013 |
|---------------------------|--------------------|----------------|
| Cash and cash equivalents | \$246.0            | \$228.8        |
| Short-term investments    | \$113.1            | \$116.6        |
| Long-term investments     | \$79.5             | \$80.3         |

As of September 30, 2013, our investments were composed of Mutual Funds, Government Agency Securities, Commercial Paper, Corporate Bonds and CDs.

Our investment policy and strategy are focused on preservation of capital and supporting our liquidity requirements. Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. Our investment policy generally limits the amount of credit exposure to any one issuer and requires investments to be high credit quality, primarily rated A or A2 and above, with the objective of minimizing the potential risk of principal loss. All highly liquid investments with initial maturities of three months or less at the date of purchase are classified as cash equivalents. We classify our investments as either short-term or long-term based on each instrument's underlying effective maturity date. All short-term investments have effective maturities less than 12 months, while all long-term investments have effective maturities greater than 12 months or we do not currently have the ability to liquidate the investment. We may sell our investments prior to their stated maturities for strategic purposes, in anticipation of credit deterioration, or for duration management. No material realized or unrealized net gains or losses were recognized during the three and six months ended September 30, 2013 and 2012.

Interest rates were relatively unchanged in the three and six months ended September 30, 2013 compared to the same periods in the prior year. During the three and six month period ended September 30, 2013, we generated no significant interest income from our portfolio of cash equivalents and investments and incurred no interest expense from our revolving line of credit. A hypothetical increase or decrease in our interest rates by 10 basis points would have a minimal impact on our results of operations.

**FOREIGN CURRENCY EXCHANGE RATE RISK**

We are exposed to currency fluctuations, primarily in the Euro ("EUR"), British Pound Sterling ("GBP"), Australian Dollar ("AUD"), Mexican Peso ("MX\$"), and the Chinese Renminbi ("RMB"). We use a hedging strategy to diminish, and make more predictable, the effect of currency fluctuations. All of our hedging activities are entered into with large financial institutions, which we periodically evaluate for credit risks. We hedge our balance sheet exposure by hedging EUR, GBP and AUD denominated cash, accounts receivable, and accounts payable balances, and our economic exposure by hedging a portion of anticipated EUR and GBP denominated sales and our MX\$ denominated expenditures. We can provide no assurance that our strategy will be successful in the future and that exchange rate fluctuations will not materially adversely affect our business.

We experienced immaterial net foreign currency gains and immaterial net foreign currency losses, respectively in the three and six months ended September 30, 2013 and immaterial net foreign currency gains and immaterial net foreign currency losses, respectively, in the three and six months ended September 30, 2012. Although we hedge a portion of our foreign currency exchange exposure, the weakening of certain foreign currencies, particularly the EUR and the GBP in comparison to the U.S. Dollar ("USD"), could result in material foreign exchange losses in future periods.

Table of Contents

## Non-designated Hedges

We hedge our EUR, GBP and AUD denominated cash, accounts receivable and accounts payable balances by entering into foreign exchange forward contracts. The table below presents the impact on the foreign exchange gain (loss) of a hypothetical 10% appreciation and a 10% depreciation of the USD against the forward currency contracts as of September 30, 2013 (in millions):

| Currency - forward contracts | Position  | USD Value of Net Foreign Exchange Contracts | Foreign Exchange Gain From 10% Appreciation of USD | Foreign Exchange Loss From 10% Depreciation of USD |
|------------------------------|-----------|---|--|--|
| EUR                          | Sell Euro | \$21.6                                      | \$2.2  | \$(2.2)  |
| GBP                          | Sell GBP  | \$4.2                                       | \$0.4  | \$(0.4)  |
| AUD                          | Sell AUD  | \$4.3                                       | \$0.4  | \$(0.4)  |

## Cash Flow Hedges

In the six months ended September 30, 2013, approximately 40.3% of our net revenues were derived from sales outside of the U.S. and denominated primarily in EUR and GBP.

As of September 30, 2013, we had foreign currency put and call option contracts with notional amounts of approximately €50.8 million and £21.0 million denominated in EUR and GBP, respectively. Collectively, our option contracts hedge against a portion of our forecasted foreign currency denominated sales. If the USD is subjected to either a 10% appreciation or 10% depreciation versus these net exposed currency positions, we could realize a gain of \$6.3 million or incur a loss of \$8.3 million, respectively.

The table below presents the impact on the Black-Scholes valuation of our currency option contracts of a hypothetical 10% appreciation and a 10% depreciation of the USD against the indicated option contract type for cash flow hedges as of September 30, 2013 (in millions):

| Currency - option contracts | USD Value of Net Foreign Exchange Contracts | Foreign Exchange Gain From 10% Appreciation of USD | Foreign Exchange Loss From 10% Depreciation of USD |
|-----------------------------|---|--|--|
| Call options                | \$102.8                                     | \$2.4  | \$(7.8)  |
| Put options                 | \$95.4                                      | \$3.9  | \$(0.5)  |

Collectively, our swap contracts hedge against a portion of our forecasted MX\$ denominated expenditures. As of September 30, 2013, we had cross-currency swap contracts with notional amounts of approximately MX\$361.1 million.

The table below presents the impact on the valuation of our cross-currency swap contracts of a hypothetical 10% appreciation and a 10% depreciation of the USD as of September 30, 2013 (in millions):

| Currency - cross-currency swap contracts | USD Value of Net Foreign Exchange Contracts | Foreign Exchange Loss From 10% Appreciation of USD | Foreign Exchange Gain From 10% Depreciation of USD |
|--|---|--|--|
| Position: Buy MX\$                       | \$27.5                                      | \$(2.8)  | \$2.7  |

Table of Contents

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are presently engaged in various legal actions arising in the normal course of business. We believe that it is unlikely that any of these actions will have a material adverse impact on our operating results; however, because of the inherent uncertainties of litigation, the outcome of any of these actions could be unfavorable and could have a material adverse effect on our financial condition, results of operations or cash flows. See Note 7, Commitments and Contingencies, of the accompanying notes to condensed consolidated financial statements (unaudited) in this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

You should carefully consider the following risk factors in connection with any investment in our stock. Our stock price will reflect the performance of our business relative to, among other things, our competition, expectations of securities analysts or investors, and general economic market and industry conditions. Our business, financial condition, and results of operations could be materially adversely affected if any of the following risks occur. Accordingly, the trading price of our stock could decline, and investors could lose all or part of their investment.

Adverse or uncertain economic conditions may materially adversely affect us.

Our operations and performance are dependent on worldwide economic conditions. Uncertainty regarding future economic conditions makes it challenging for us to forecast operating results, make business decisions, and identify the risks that may affect our business, including sources and uses of cash, financial condition, and results of operations. Global economic concerns, such as inconsistent regional economic growth, stagnation or contraction, including the moderate pace of economic growth in the United States, continuing pressure on economic growth in Europe, and uncertain growth prospects in the Asia Pacific region, have increased unpredictability for our business as consumers and businesses postpone or forego spending, resulting in, amongst other risks, reductions in sales of our products, longer sales cycles, slower adoption of new technologies, increased price competition, and customer and supplier bankruptcies.

Replacement cycles of our Office and Contact Center ("OCC") headset products, in particular, are impacted by lower voluntary employee turnover as new headset demand is typically created when employees change employers and transition to new job opportunities. In the current economic environment, post-recession slow and inconsistent domestic and international business hiring has perpetuated employee reluctance to change jobs and limits the opportunities for unemployed workers to reenter the workforce. As a consequence, voluntary employee turnover rates remain below historic non-recessionary levels which, therefore, impedes sales of our OCC headsets.

In August 2011, Congress enacted the Budget Control Act of 2011 ("BCA"), committing the U.S. government to significantly reduce the federal deficit over ten years. The BCA contains provisions commonly referred to as "sequestration", which call for substantial, unspecified automatic spending cuts split between defense and non-defense programs that may continue for a period of ten years. The sequestration cuts went into effect at the beginning of March 2013 and the impact of the spending reductions on our business have not been material to date, the potential future impact remains unclear. Likewise, the austerity measures previously implemented by various European governments have reduced, and may in the future further reduce, demand for our products directly by affected governmental agencies and by our customers who derive all or a portion of their revenues from these governmental agencies. Similarly, to the extent uncertainty regarding public debt limits or budget negotiations, particularly in the United States and Europe, have a destabilizing effect on spending by retail consumers, businesses or governmental

agencies, sales of our products may decrease or be delayed. We cannot predict the impact of governmental spending reductions or budget or debt impasses on us or our customers or whether and to what extent our business and results of operations may be adversely harmed.

Further, fluctuations in foreign currency exchange rates may impact our revenues and profitability because we report our financial statements in U.S. Dollars ("USD"), whereas a significant portion of our sales to customers are transacted in other currencies, particularly the Euro and the British Pound Sterling ("GBP"). We hedge a portion of our Euro and GBP forecasted revenue exposure for the future, typically over a 12 month period. We can offer no assurance that such strategies will be effective in minimizing our exposure. If the Euro and GBP fall against the USD, our revenues, gross profit, and profitability in the future could be negatively affected. See also our risk titled, "We are exposed to fluctuations in foreign currency exchange rates which may adversely affect our revenues, gross profit, and profitability."

## Table of Contents

Our operating results are difficult to predict, and fluctuations may cause volatility in the trading price of our common stock.

Given the nature of the markets in which we compete, our revenues and profitability are difficult to predict for many reasons, including the following:

Our operating results are highly dependent on the volume and timing of orders received during the quarter. Customers generally order on an as-needed basis, and we typically do not obtain firm, long-term purchase commitments from them, making forecasting difficult. As a result, our revenues in any quarter depend primarily on orders booked and shipped in that quarter, which fluctuate for many reasons beyond our control, including customers' sales promotions and campaigns, large customer deployments of Unified Communications ("UC") infrastructure, general economic conditions, seasonality, customer cancellations and rescheduling, and fluctuating employment opportunities that increase or reduce employee turnover and, thereby, new headset needs.

Our gross margins vary for a number of reasons, including customer demand, competition, product life cycle, new product introductions, unit volumes, commodity and supply chain costs, geographic sales mix, foreign currency exchange rates, and the complexity and functionality of new product innovations. Moreover, there are significant variances in gross profit percentages between our higher and lower margin products such that small variations in product mix, which can be difficult to predict, can materially impact gross profit. Additionally, if we are unable to timely introduce new products within projected costs, product demand is less than anticipated, there are product pricing, marketing and other initiatives by our competitors to which we need to react or that are initiated by us to drive sales that lower our margins, then our overall gross margin will decrease. Our gross margins also vary significantly by sales geography and customer type. When the mix of products sold shifts from higher margin product lines to lower margin product lines, to lower margin sales geographies, or to lower margin products within product lines, our overall gross margins and our profitability may be adversely affected and create unanticipated fluctuations in our operating results.

We incur a large portion of our costs in advance of customer orders because we must plan research and production, order materials and components, commence manufacturing, incur sales and marketing expenditures, and other operating commitments prior to obtaining firm commitments from our customers. In the event inventories for one or more products exceed demand, the risk of inventory write-downs increases. Conversely, in the event we have inadequate inventory to timely meet the demand for particular products, we may miss significant revenue opportunities or incur significant expenses such as air freight, costs for expediting shipments, and other negative variances in our manufacturing processes as we attempt to make up for the shortfall. When a significant portion of our revenue is derived from new products, forecasting appropriate volumes of production is even more difficult.

Increasingly, we are incorporating software features and functionalities into our products, offering firmware and software fixes, updates and upgrades electronically over the Internet and developing standalone software applications. As the nature and extent of software integration in our products increases or if sales of standalone software applications become more material to our revenues, the way we report our revenue related to our products could be significantly affected. For example, we are increasingly required to evaluate whether our revenue transactions include multiple deliverables and, as such, whether the revenue generated by each transaction should be recognized upon delivery, over a period of time or apportioned and recognized based on a combination of the two in light of all the facts and circumstances related to each transaction. Moreover, the software revenue recognition rules are complex and dynamic. If we fail to accurately apply these complex rules and policies to our business, we may incorrectly report revenues in one or more quarterly or annual periods. If this were to occur and the error were to be material, we may be required to restate our financial statements, which could materially, negatively impact our results for the affected periods, cause our stock price to decline, and result in securities class actions or other similar litigation.



Fluctuations in our operating results, including the failure to meet our expectations or the expectations of financial analysts, may cause volatility, including material decreases, in the trading price of our common stock.

## Table of Contents

The success of our business depends heavily on our ability to effectively market our UC products, and our business could be materially adversely affected if markets do not develop as we expect.

Our OCC products represent our largest source of revenue; and we regard the market for headsets designed for UC as our greatest long-term opportunity in the OCC market. We believe that the implementation of UC technologies by large enterprises will be a significant long-term driver of enterprise UC headset adoption, and, as a result, a key long-term driver of revenue and profit growth. Accordingly, we continue to invest in the development of new products and to enhance existing products to be more appealing in functionality and design for the UC office market; however, we can give no assurance that significant growth in UC will occur or that we will be able to take advantage of any growth that does occur.

Our ability to realize our UC plans and to achieve the financial results projected to arise from UC adoption could be adversely affected by a number of factors, including the following:

As UC becomes more widely adopted, the risk that competitors will offer solutions that will effectively commoditize our headsets, which, in turn, will reduce the sales prices for our headsets.

Our plans are dependent upon the market success of major platform providers and strategic partners such as Microsoft Corporation, Cisco Systems, Inc., Avaya, Inc., Alcatel-Lucent, and IBM, and we have limited ability to influence the functionality of their platforms and product offerings, their rate of deployment, and their willingness to integrate their platforms and product offerings with our solutions.

- The development of UC solutions is technically complex and may delay or limit our ability to introduce solutions that are cost effective, feature-rich, stable, and attractive to our customers.

Our development of UC solutions is dependent on our ability to implement and execute new and different processes in connection with the design, development, and manufacturing of complex electronic systems composed of hardware, firmware, and software that must work in a wide variety of environments and with multiple devices, which may increase the risk of development delays or errors or require the hiring of new personnel or third party contractors at increased cost.

Because UC offerings involve complex integration of hardware and software with UC infrastructure, our sales model and expertise will need to continue to evolve. If we fail to anticipate or effectively implement changes in our sales model or channel our selling techniques and efforts at the primary UC decision makers within enterprises, our ability to maintain and grow our share of the UC market may be adversely impacted.

Competition for market share is anticipated to increase, and some competitors may have superior technical and economic resources.

UC solutions may not be adopted with the breadth and speed in the marketplace that we currently anticipate and sales cycles for more complex UC deployments may substantially increase over our traditional OCC products.

UC may evolve rapidly and unpredictably and our inability to timely and cost-effectively adapt to those changes and future requirements may impact our profitability in this market and our overall margins.

Because the major providers of UC software utilize complex and proprietary platforms in which our UC products are integrated, it is necessary to expand our technical support capabilities. This expansion will result in additional expenses to hire and train personnel and develop the infrastructure necessary to adequately serve our UC customers. Our support expenditures may substantially increase over time as these platforms evolve and as UC becomes more

commonly adopted.

If our investments and strategic focus on UC do not generate incremental revenue, our business, financial condition, and results of operations could be materially adversely affected.

40

---

## Table of Contents

Our reliance on third party suppliers and the failure of such suppliers to provide quality components or services in a timely manner could adversely affect our results of operations.

Our growth and ability to meet customer demand depends in part on our ability to timely obtain sufficient quantities of raw materials, components such as silicon chips and chip-sets, sub-assemblies, and other products (“components or materials”) of acceptable quality from our suppliers. We buy raw components and materials from a variety of suppliers and assemble them into finished products. In addition, certain components and materials and key portions of our product lines are manufactured for us by original design manufacturers and contract manufacturers (“ODMs”). The cost, quality, and availability of the services, components and materials these ODMs and third parties supply are essential to our success and our reliance on these ODMs and third parties involves significant risks, including the following:

Inflexibility to timely respond to changes specific to us or our industry. For instance, rapid increases in production levels to meet unanticipated product demand could result in higher costs for components or materials, increased expenditures for expedited freight delivery, higher overtime costs and other expenses, and decreases in manufacturing yields, any of which can reduce our profit margins.

We obtain certain raw components and materials from specific suppliers and ODMs, including a majority of our Bluetooth products from GoerTek, Inc. Financial instability of a supplier may necessitate a transition to alternative suppliers, which could increase our costs and delay product deliveries. Additionally, suppliers and ODMs may choose to discontinue supplying raw materials or manufacturing components, subassemblies or all or a portion of our products for a variety of reasons, which may (i) be difficult, time-consuming, or costly to replace, (ii) force us to redesign or end of life certain products, or (iii) render us unable to meet customer demand. Consequently, if one or more suppliers or ODMs is unable or unwilling to meet our demand, delivery, or price requirements, our business and operating results in all or a portion of our product lines could be materially adversely affected in the event it is difficult, costly, or time-consuming to identify and ramp-up alternative ODMs.

Periodically, we purchase large quantities of components or materials being discontinued by our suppliers as part of a last-time buy strategy. For example, we have made last-time purchases in excess of our short-term needs, which are included in inventory and used over a period of several years. We routinely review inventory for usage potential, including fulfillment of customer warranty obligations and spare part requirements, and write down to the lower of cost or market value the excess and obsolete inventory, which may have an adverse effect on our results of operations.

Although we generally use standard raw components and materials for our products, the high development costs associated with existing and emerging wireless and other technologies frequently require us to work with a single source of components or materials on particular products. We, or any of our suppliers, may experience challenges in designing, developing, and manufacturing components or materials using these new technologies, which could affect our ability to meet market demand.

In order to accommodate the lead times requirements of our suppliers, we obtain certain raw components or materials from certain suppliers in advance based on our projections of demand, we may be unable to react quickly to changes in demand, potentially resulting in either (i) excess inventories of such components or materials, or (ii) product shortages. Lead times are particularly long for silicon-based components incorporating radio frequency and digital signal processing technologies and such components make up an increasingly larger portion of our product costs. In particular, many consumer product orders have shorter lead times than component lead times, making it increasingly necessary to carry more inventory in anticipation of future orders, which may not materialize. Failure to synchronize the timing of purchases of components or materials and other products to meet demand could increase our inventories or decrease our revenues and could materially adversely affect our business, financial condition, and results of operations.

Prices for commodities may rise based on demands from within our industry and other industries with which we compete for components or materials. Additionally, if our suppliers experience increased demand or shortages, it could affect the timeliness of deliveries to us and our customers. Any such shortages or further increases in prices could materially adversely affect our business, financial condition, and results of operations.

Table of Contents

As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC adopted disclosure requirements regarding the use of certain minerals, known as conflict minerals, which are mined from the Democratic Republic of Congo and adjoining countries, as well as procedures regarding a manufacturer's efforts to identify and prevent the sourcing of such minerals and metals produced from those minerals.

Additional reporting obligations are being considered by the European Union. The implementation of the existing U.S. requirements and any additional requirements in Europe could affect the sourcing and availability of metals used in the manufacture of a limited number of parts contained in our products. For

- example, the implementation of these disclosure requirements may decrease the number of suppliers capable of supplying our needs for certain metals, thereby negatively affecting our ability to obtain products in sufficient quantities or at competitive prices. Our material sourcing is broad based and multi-tiered, and we may be unable to conclusively verify the origins for all metals used in our products. We may suffer financial and reputational harm if customers require, and we are unable to deliver, certification that our products are conflict free. Regardless, we will incur additional costs associated with compliance with these disclosure requirements, including time-consuming and costly efforts to determine the source of any conflict minerals used in our products.

If we fail to forecast demand for our products or successfully match production to demand, we may lose business, incur adverse purchase commitment charges, both of which would negatively affect our gross margins.

Our industry is characterized by rapid technological changes, evolving industry standards, frequent new product introductions, short-term customer commitments and changes in demand. Production levels are forecasted based on anticipated and actual demand for our products. Actual demand depends on many factors, which makes it difficult to forecast. It is particularly difficult to make accurate forecasts because of the uncertainties inherent in global and regional economies. Significant unanticipated fluctuations in product supply or demand could cause operating problems. For example, if forecasted demand does not develop, we could have excess inventory and capacity. We have experienced differences between actual and forecasted demand in the past and expect differences to arise in the future.

We will lose opportunities to increase revenues and profits, may incur penalties for late delivery, and may be unable to later sell the excess inventory if we are unable to timely deliver products to meet the market window of our retail customers. Conversely, over-estimating demand could result in higher inventories of finished products, components or materials. For example, because our retail business has pronounced seasonality, we typically build inventory well in advance of the December quarter to stock up for the anticipated demand. If estimated demand fails to convert into actual sales, we may have to write off some or all of our inventories of excess products, unusable components and materials.

We purchase certain materials from third party suppliers and utilize several outsourcing partners to manufacture sub-assemblies for our products. These suppliers and outsourcing partners deliver materials or acquire components and build products based on demand information we periodically provide to them, typically covering periods of up to 270 days. Consistent with industry practice, we acquire materials and components through a combination of purchase orders, supplier contracts, and open orders. Because our markets are competitive and subject to rapid technology and price changes, there exists a risk that we will forecast inaccurately and thereby order or produce excess or insufficient quantities of components, or that we may not fully utilize materials or components subject to firm purchase commitments, resulting in adverse purchase commitment charges.

From time to time, we or our competitors may announce new products, capabilities, or technologies that may replace or shorten the life cycles of our products or cause customers to defer or stop purchasing our products until new products become available. Additionally, the announcement of new products may incite customers to increase

purchases of successful legacy products as part of a last-time buy strategy, thereby increasing sales in the short-term while decreasing future sales by delaying adoption of new products. These risks increase the difficulty of accurately forecasting demand for discontinued products as well as new products. Accordingly, we must effectively manage inventory levels to have an adequate supply of the new product and avoid retention of excess legacy product; however, we must also concurrently maintain sufficient levels of older product inventory to support continued sales during the transition. Our failure to effectively manage transitions from old to new products could result in inventory obsolescence, and/or loss of revenue and associated gross profit, which may further result in one or more material adverse effects on our revenues and profitability.

Any of the foregoing could materially and adversely affect our business, financial condition, and results of operations.

Table of Contents

Prices of certain components and materials may rise depending upon global market conditions.

We have experienced, and expect to continue to experience, volatility in costs from our suppliers, particularly in light of the price fluctuations of oil, gold, copper and other components and materials in the U.S. and around the world, which could negatively affect our profitability or market share. If we are unable to pass cost increases on to our customers or to achieve operating efficiencies that offset these increases, our business, financial condition, and results of operations may be materially and adversely affected.

We have strong competitors and expect to face additional competition in the future. If we are unable to compete effectively, our results of operations may be adversely affected.

All of the markets in which we sell our products are intensely competitive and market leadership has the potential to change as a result of new product introductions and designs as well as pricing. We face pressure on our selling prices, sales terms and conditions, and in connection with product performance and functionality. Also, aggressive industry pricing practices may result in downward pressure on margins.

Currently, our primary competitor is GN Store Nord A/S (“GN”), a Danish telecommunications conglomerate with whom we experience price competition in the OCC and consumer markets. We are also experiencing competition from consumer electronics companies that currently manufacture and sell mobile phones or computer peripheral equipment. These competitors generally are larger, offer broader product lines, may integrate their products with communications headset devices and adapters manufactured by them or others, offer products containing bases that are incompatible with our headset tops, and have substantially greater financial, marketing, and other resources.

Competitors in audio devices vary by product line. The most competitive product line is headsets for cell phones where we compete with GN's Jabra brand, Motorola, Samsung, Aliph's Jawbone brand, BlueAnt Wireless, Nokia, Bose, and Sony Ericsson, among many others. Many of these competitors have substantially greater resources than us, and each of them has established market positions. In the OCC and UC markets, our principle competitors are GN, Logitech, Sennheiser Communications and VXI. In the gaming market our primary competitors are Turtle Beach, Logitech and Razer. For the computer audio market, our primary competitor is Logitech. In mobile entertainment, our primary competitors are Motorola, Jabra, and LG.

We are facing additional competition from companies, principally located in the Asia Pacific region, which offer very low cost headset products including products modeled on or direct copies of our products. These competitors offer very low cost products, which results in market pricing pressure. If market prices are substantially reduced by these or other competitors, our business, financial condition, or results of operations could be materially adversely affected.

If we do not distinguish our products, particularly our retail products, through distinctive, technologically advanced features and design, as well as continue to build and strengthen our brand recognition, our products may become commoditized and our business could be harmed. If we do not otherwise compete effectively, demand for our products could decline, our revenues and gross margins could decrease, we could lose market share, and our earnings could decline.

We also compete in the consumer market for the sale of our mobile, gaming, entertainment, computer audio, and Clarity products. The consumer market is highly competitive, characterized by relatively rapid product obsolescence, and we are at increased risk of market share loss if we do not have the right products available at the right time to meet consumer needs. In addition, some of our competitors have significant brand recognition, thereby creating barriers to entry or making market share increases difficult and costly. Moreover, price-based competition is typical and can result in significant losses and excess inventory.



If we are unable to stimulate growth in our business or if our expenditures to stimulate demand do not generate incremental profit, our business could suffer. In addition, failure to effectively market our products could lead to lower and more volatile revenue and earnings, excess inventory, and the inability to recover associated development costs, any of which could also have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Table of Contents

The markets for our consumer products are volatile and failure to compete successfully in one or more of these markets may have an adverse effect on our financial condition.

The markets for our consumer products, which consist primarily of Bluetooth headsets, gaming, and entertainment and computer audio headsets, are highly competitive and present many significant manufacturing, marketing and operational risks and uncertainties. The risks include the following:

The global market for mono Bluetooth headsets is shrinking, which is at least partially attributable to increasing integration of Bluetooth systems into automobiles. The market for stereo Bluetooth headsets is growing rapidly, although it is dominated by lifestyle brands which we do not offer. Our market share has been and is significantly larger in the mono market than in the stereo market and it remains unclear whether we will be able to sufficiently increase share in the stereo market to continue growing in the overall market for Bluetooth headsets.

Reductions in the number of suppliers participating in the Bluetooth market, thereby reducing our sourcing options and potentially increasing our costs at a time when our ability to offset higher costs with corresponding product price increases is limited.

Difficulties retaining or obtaining shelf space and maintaining a robust and compelling eCommerce presence for consumer products in our sales channel, particularly with large "brick and mortar" retailers and Internet "etailers" as the market for mono Bluetooth headsets continues to contract.

The varying pace and scale of global economic recovery creates uncertainty and unpredictability about the demand for consumer products.

Our ability to maintain insight into, and quickly respond to, sudden changes in laws or regulations before our competitors.

Difficulties achieving or maintaining sufficient gross margin and uncertainties forecasting demand for the variety of Bluetooth headsets, gaming, entertainment and computer audio headsets, and new products generally within this category for which relevant data is incomplete or unavailable.

Competition may increase more than we expect and result in product pricing pressures.

Failure to compete successfully in one or more markets for our consumer products may have an adverse effect on our business, results of operations, and financial condition.

Our corporate tax rate may increase or we may incur additional income tax liabilities, which could adversely impact our cash flow, financial condition and results of operations.

We have significant operations in various tax jurisdictions throughout the world, and a substantial portion of our taxable income has been generated historically in jurisdictions outside of the U.S. Currently, some of our operations are taxed at rates substantially lower than U.S. tax rates. If our income in these lower tax jurisdictions were no longer to qualify for these lower tax rates, the applicable tax laws were rescinded or changed, or the mix of our earnings shifts from lower rate jurisdictions to higher rate jurisdictions, our operating results could be materially adversely affected. In addition, various governmental tax authorities have recently increased their scrutiny of tax strategies employed by corporations and individuals. If U.S. or other foreign tax authorities change applicable tax laws or successfully challenge the manner in which our profits are currently recognized, our overall taxes could increase, and our business, cash flow, financial condition, and results of operations could be materially adversely affected.

We are also subject to examination by the Internal Revenue Service ("IRS") and other tax authorities, including state revenue agencies and foreign governments. In July 2012, the IRS commenced an examination of our 2010 tax year. While we regularly assess the likelihood of favorable or unfavorable outcomes resulting from examinations by the IRS and other tax authorities to determine the adequacy of our provision for income taxes, there can be no assurance that the actual outcome resulting from these examinations will not materially adversely affect our financial condition and results of operations.

Table of Contents

We are exposed to fluctuations in foreign currency exchange rates, which may adversely affect our revenues, gross profit, and profitability.

Fluctuations in foreign currency exchange rates impact our revenues and profitability because we report our financial statements in USD, whereas a significant portion of our sales to customers are transacted in other currencies, particularly the Euro and the GBP. Furthermore, fluctuations in foreign currency rates impact our global pricing strategy, resulting in our lowering or raising selling prices in one or more currencies in order to avoid disparity with USD prices and to respond to currency-driven competitive pricing actions. Large or frequent fluctuations in foreign currency rates, coupled with the ease of identifying global price differences for our products via the Internet, increase the likelihood of unauthorized third party sales in varying countries, thereby undermining our established sales channels and operations. We also have significant manufacturing operations in Mexico and fluctuations in the Mexican Peso exchange rate can impact our gross profit and profitability. Additionally, the majority of our suppliers are located internationally, principally in Asia. Accordingly, volatile or sustained increases or decreases in exchange rates of Asian currencies may result in increased costs or reductions in the number of suppliers qualified to meet our standards.

Currency exchange rates are volatile, and although we hedge those exposures we deem material, changes in exchange rates may nonetheless still have a negative impact on our financial results. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments.

We hedge a portion of our Euro and GBP forecasted revenue exposures for the future, typically over 12-month periods. In addition, we hedge a portion of our Mexican Peso forecasted cost of revenues and we have foreign currency forward contracts denominated in Euros, GBP, and Australian Dollars that hedge against a portion of our foreign-currency denominated assets and liabilities. Our foreign currency hedging contracts reduce, but do not eliminate, the impact of currency exchange rate movements and we do not execute hedging contracts in all currencies in which we conduct business. We can offer no assurance that such hedging strategies will be effective. Additionally, even if our hedging techniques are successful in the periods during which the rates are hedged, our future revenues, gross profit, and profitability may be negatively affected both at current rates and by adverse fluctuations in currencies against the USD.

Our business will be materially adversely affected if we are unable to develop, manufacture, and market new products in response to changing customer requirements and new technologies.

The market for our products is characterized by rapidly changing technology, evolving industry standards, short product life cycles, and frequent new product introductions by us, our competitors and partners, including mobile phone and software application developers. As a result, we must continually introduce new products and technologies and enhance or adapt existing products to work with a wider variety of new and existing devices and applications in order to maintain customer satisfaction and remain competitive.

The technology used in our products is evolving more rapidly now than in the past and we anticipate that this trend will continue. Historically, new products primarily offered stylistic changes and quality improvements rather than significant new technologies. Our increasing reliance and focus on the UC market has resulted in a growing portion of our products that integrate complex, state-of-the-art technology, increasing the risks associated with new product ramp-up, including product performance and defects in the early stages of production. In addition, our participation in the consumer market requires us to rapidly and frequently adopt new technology and changing market trends; thus, our consumer products experience shorter lifecycles. We believe this is particularly true for our newer emerging technology products in the mobile, gaming, entertainment and computer audio, residential, and certain parts of the office markets. In particular, we anticipate a trend towards more integrated solutions that combine audio, video, and

software functionality, while historically our focus was limited to audio products.

Office phones have begun to incorporate Bluetooth functionality, which has opened the market to consumer Bluetooth headsets and reduced the demand for our traditional office telephony headsets and adapters resulting in lost revenue, lower margins, or both. Moreover, the increasing adoption of wireless headsets has also resulted in increased development costs associated with the introduction of new wireless standards and more frequent changes in those standards and capabilities as compared to wired technologies. If sales and margins on our traditional corded and cordless products decline and we are unable to successfully design, develop, and market alternatives at historically comparable margins, our revenue and profits may decrease.

In addition, innovative technologies such as UC have moved the platform for certain of our products from closed proprietary systems to open platforms such as the PC. In turn, the PC has become more open as a result of technologies such as cloud computing and trends toward more open source software code development. As a result, the risk that current and potential competitors could enter our markets and commoditize our products by offering similar products has increased.

## Table of Contents

The success of our products depends on several factors, including our ability to timely and correctly:

- Anticipate technology and market trends
- Develop innovative new products and enhancements
- Distinguish our products from those of our competitors
- Create industrial designs that appeal to our customers and end-users
- Manufacture and deliver high-quality products in sufficient volumes at acceptable margins
- Price our products competitively
- Hire and retain qualified personnel in the highly competitive software development field
- Provide technical product support to our customers
- Leverage new and existing channel partners effectively

If we are unable to develop, manufacture, market, and introduce enhanced or new products in a timely manner in response to changing market conditions or customer requirements, including changing fashion trends and styles, it will materially adversely affect our business, financial condition, and results of operations. Furthermore, as we develop new generations of products more quickly, we expect that the pace of product obsolescence will increase. The disposition of inventories of excess or obsolete products may result in reductions to our operating margins and materially adversely affect our earnings and results of operations.

We have significant foreign manufacturing operations and rely on third party manufacturers located outside the U.S., and a significant amount of our revenues are generated internationally, which subjects our business to risks of international operations.

We have a manufacturing facility in Tijuana, Mexico. We also have suppliers and other vendors throughout Asia, including GoerTek, Inc., located in Weifang, China, which is the manufacturer of the majority of our Bluetooth products. We furthermore generate a significant amount of our revenues from foreign customers.

Our international operations and sales expose us to various risks including, among others:

- Fluctuations in foreign currency exchange rates
- Cultural differences in the conduct of business
- Greater difficulty in accounts receivable collection and longer collection periods
- The impact of recessionary, volatile or adverse global economic conditions
- Reduced protection for intellectual property rights in some countries
- Unexpected changes in regulatory requirements
- Tariffs and other trade barriers, particularly in developing nations such as Brazil, India, and others
- Political conditions, health epidemics, labor activity, civil unrest, or criminal activities within each country
- The management, operation, and expenses associated with an enterprise spread over various countries
  - The burden and administrative costs of complying with a wide variety of foreign laws and regulations
- Currency restrictions
- Compliance with anti-bribery laws, including the United States Foreign Corrupt Practices Act and the United Kingdom's Bribery Act

The above-listed or other inherent risks of international operations could materially adversely affect our business, financial condition, and results of operations.

We sell our products through various distribution channels that can be volatile, and failure to establish and maintain successful relationships with our channel partners could materially adversely affect our business, financial condition,

or results of operations. In addition, bankruptcies or financial difficulties of our customers may impact our business.

We sell substantially all of our products through distributors, retailers, OEMs, and telephony service providers. Effectively managing these relationships and avoiding channel conflicts is challenging. Our existing relationships with these parties are generally not exclusive and can be terminated by us or them without cause on short notice. In the future, we may be unable to retain or attract a sufficient number of qualified distributors, retailers, OEMs, and telephony service providers. These customers also sell or may sell products offered by our competitors. To the extent that our competitors offer these customers more favorable terms or more compelling products, they may decline to carry, de-emphasize, or discontinue carrying our products. Further, such customers may not recommend or may stop recommending our products. Moreover, our OEMs may elect to manufacture their own products that are similar to ours. The inability to establish or maintain successful relationships with distributors, OEMs, retailers, and telephony service providers or to expand our distribution channels could materially adversely affect our business, financial condition, or results of operations.

## Table of Contents

Additionally, our customers suffer from their own financial and economic challenges. For example, in fiscal year 2012, the bankruptcy of one customer negatively impacted our operating income by \$1.2 million. If global or regional economic conditions deteriorate, more customers may become insolvent and it is impossible to reliably determine if additional bankruptcies will occur.

As a result of the evolution of our consumer business, our customer mix is changing, and certain retailers, OEMs, and wireless carriers are more significant. Our reliance on certain large channel partners could increase the volatility of our revenues and earnings. In particular, we have several large customers whose order patterns are difficult to predict. Offers and promotions by these customers may result in significant fluctuations of their purchasing activities over time. If we are unable to correctly anticipate the quantities and timing of their purchase requirements, our revenues may be adversely affected, or we may be left holding large volumes of inventory that cannot be sold to other customers.

Our intellectual property rights could be infringed on by others, and we may infringe on the intellectual property rights of others resulting in claims or lawsuits. Even if we prevail, claims and lawsuits are costly and time consuming to pursue or defend and may divert management's time from our business.

Our success depends in part on our ability to protect our copyrights, patents, trademarks, trade dress, trade secrets, and other intellectual property, including our rights to certain domain names. We rely primarily on a combination of non-disclosure agreements and other contractual provisions as well as patent, trademark, trade secret, and copyright laws to protect our proprietary rights. Effective trademark, patent, copyright, and trade secret protection may not be available in every country in which our products and media properties are distributed to customers. The process of seeking intellectual property protection can be lengthy, expensive, and uncertain. For example, patents may not be issued in response to our applications, and any patents that may be issued may be invalidated, circumvented, or challenged by others. If we are required to enforce our intellectual property or other proprietary rights through litigation, the costs and diversion of management's attention could be substantial. Furthermore, we may be countersued by an actual or alleged infringer if we attempt to enforce our intellectual property rights, which may materially increase our costs, divert management attention, and result in injunctive or financial damages being awarded against us. In addition, the intellectual property rights granted may not provide us competitive advantages or be adequate to safeguard and maintain our rights. Moreover, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the U.S. If it is not feasible or possible to obtain, enforce, or protect our intellectual property rights, it could materially adversely affect our business, financial condition, and results of operations.

Patents, copyrights, trademarks, and trade secrets are owned by individuals or entities that may make claims or commence litigation based on allegations of infringement or other violations of intellectual property rights. As we have grown, the intellectual property rights claims against us have increased. There has also been a general trend of increasing intellectual property infringement claims against corporations that make and sell products. Our products and technologies may be subject to certain third-party claims and, regardless of the merits of the claim, intellectual property claims are often time-consuming and expensive to litigate, settle, or otherwise resolve. In addition, to the extent claims against us are successful, we may have to pay substantial monetary damages or discontinue the manufacture and distribution of products that are found to be in violation of another party's rights. We also may have to obtain, or renew on less favorable terms, licenses to manufacture and distribute our products, which may significantly increase our operating expenses. In addition, many of our agreements with our distributors and resellers require us to indemnify them for certain third-party intellectual property infringement claims. Discharging our indemnity obligations may involve time-consuming and expensive litigation and result in substantial settlements or damages awards, our products being enjoined, and the loss of a distribution channel or retail partner, any of which may have a material adverse impact on our operating results.





Table of Contents

We cannot guarantee we will continue to repurchase our common stock pursuant to stock repurchase programs or that we will declare future dividend payments at historic rates or at all. The repurchase of our common stock and the payment of dividends may not achieve our objectives or may result in negative side effects.

Since May 2011, we have repurchased in excess of 9 million shares of our common stock through multiple share repurchase programs authorized by our Board of Directors. In addition, we continue to operate under a 1,000,000 share repurchase program approved in August 2012. Moreover, our Board of Directors has declared quarterly dividends of \$0.10 per share since May 2012 and \$0.05 per share prior to May 2012.

Any determination to pay cash dividends at recent rates or at all, or any authorization to repurchase shares of our common stock under share repurchase programs is contingent on a variety of factors, including our financial condition, results of operations, business requirements, and our Board of Directors' continuing determination that such dividends or share repurchases are in the best interests of our stockholders and in compliance with all laws and applicable agreements. Additionally, there can be no assurance that the quantities of stock repurchased will continue at recent historical levels or at all, or that our stock repurchase programs or dividend declarations will have a beneficial impact on our stock price. The timing of our stock repurchases varies with fluctuations in the trading price of our common stock such that at any particular time, our domestic cash flow from operations has been, and in the future may be, insufficient to fully cover our stock repurchases and support our working capital needs, causing us to borrow to support our repurchases or other activities. Although we currently have sufficient reserves in our international entities to fund our existing and any future stock repurchase programs, repatriating all or a portion of our foreign cash would likely result in material tax obligations.

We have previously drawn funds and expect to continue drawing funds under our Credit Agreement from time to time, which amounts bear interest. Moreover, the Credit Agreement contains affirmative and negative covenants with which we must comply. These restrictions apply regardless of whether any loans are outstanding and could adversely impact how we operate our business, our operating results, and dividend declarations, which, in turn, may negatively impact our stock price. In addition, as we borrow additional funds under the Credit Agreement, we may be required to increase the borrowing limit under the Credit Agreement or seek additional sources of credit. Given current credit markets, there is no assurance that if we were to seek additional credit, it would be available when needed or if it is available, the cost or terms and conditions would be acceptable.

We are subject to various regulatory requirements, and changes in such regulatory requirements may adversely impact our gross margins as we comply with such changes, reduce our ability to generate revenues if we are unable to comply, or decrease demand for our products if the actual or perceived quality of our products are negatively impacted.

Our products must meet the requirements set by regulatory authorities in the numerous jurisdictions in which we sell them. For example, certain of our OCC products must meet certain standards to work with local phone systems. Certain of our wireless products must work within existing frequency ranges permitted in various jurisdictions. Moreover, competition for limited radio frequency bandwidth as a result of an increasing number of wireless products by us, our competitors, and other third party product manufacturers increases the risk of interference or diminished product performance. In particular, the effort by a third party manufacturer of wireless devices to release a product in the U.S. that operates in the unlicensed 903-928 megahertz radio frequency range using significantly higher power than the power used by the wireless products of us and many other users in the unlicensed radio frequency range may cause our wireless products to experience interference which, if material, may harm our reputation and adversely affect our sales.

As regulations and local laws change and competition increases, we must modify our products to address those changes. Regulatory restrictions and competition may increase the costs to design, manufacture, and sell our products,

resulting in a decrease in our margins or a decrease in demand for our products if the costs are passed along. Compliance with regulatory restrictions and bandwidth limitations may impact the actual or perceived technical quality and capabilities of our products, reducing their marketability. In addition, if the products we supply to various jurisdictions or which are conveyed by customers or merchants into unauthorized jurisdictions fail to comply with the applicable local or regional regulations, our products might interfere with the proper operation of other devices, and we or consumers purchasing our products may be responsible for the damages that our products cause; thereby causing us to alter the performance of our products, pay substantial monetary damages or penalties, cause harm to our reputation, or cause us to suffer other adverse consequences.

Table of Contents

We are exposed to potential lawsuits alleging defects in our products and/or other claims related to the use of our products.

The sales of our products expose us to the risk of product liability, including hearing loss claims. These claims have in the past been asserted against us. None of the previously resolved claims have materially affected our business, financial condition, or results of operations. Nevertheless, there is no guarantee that similar claims may materially negatively impact our business or result in substantial damages, or both, in the future.

Additionally, our mobile headsets are used with mobile telephones and there has been public controversy over whether the radio frequency emissions from mobile phones are harmful to users of mobile phones. We are unaware of any conclusive proof of any health hazard from the use of mobile phones, but research in this area continues. We have tested our headsets through independent laboratories and have found that use of our corded headsets reduces radio frequency emissions at the user's head to virtually zero and our Bluetooth and other wireless headsets emit significantly less powerful radio frequency emissions than mobile phones; however, if research establishes a health hazard from the use of mobile phones or public controversy grows even in the absence of conclusive research findings, the likelihood of litigation against us may increase. Likewise, should research establish a link between radio frequency emissions and corded or wireless headsets or should we become a party to litigation claiming such a link and public concern in this area grows, demand for our corded or wireless headsets could be reduced creating a material adverse effect on our financial results.

There is also continuing public controversy over the use of mobile phones by operators of motor vehicles. While we believe that our products enhance driver safety by permitting a motor vehicle operator to generally keep both hands free to operate the vehicle, there is no certainty that this is the case, and we may be subject to claims arising from allegations that use of a mobile phone and headset contributed to a motor vehicle accident.

We maintain product liability insurance and general liability insurance in amounts we believe sufficient to cover any claims, including those described above; however, the coverage provided under the policies could be unavailable or insufficient to cover the full amount of any one or more claims. Therefore, successful product liability claims brought against us could have a material adverse effect upon our business, financial condition, and results of operations.

Our stock price may be volatile and the value of an investment in Plantronics stock could be diminished.

The market price for our common stock has been affected and may continue to be affected by a number of factors, including:

- Uncertain economic conditions, including the length and scope of the recovery from the domestic and global recession, slowing economic growth in Asia, inflationary pressures, and a potential decline in investor confidence in the market place
- Failure to meet our forecasts or the expectations and forecasts of securities analysts
- Changes in our published forecasts of future results of operations
- Quarterly variations in our or our competitors' results of operations and changes in market share
- The announcement of new products, product enhancements, or partnerships by us or our competitors
- Our ability to develop, introduce, ship, and support new products and product enhancements and manage product transitions
- Repurchases of our common shares under our repurchase plans or public announcement of our intention not to repurchase our common shares
- Our decision to declare dividends or increase or decrease dividends over historical rates
- The loss of services of one or more of our executive officers or other key employees
-

- Changes in earnings estimates, recommendations, or ratings by securities analysts or a reduction in the number of analysts following our stock
- Developments in our industry, including new or increased enforcement of existing governmental regulations related to our products and new or revised communications standards
- Concentrated ownership of our common stock by a limited number of institutional investors that may limit liquidity for investors interested in acquiring or selling positions in our common stock, particularly substantial positions
- Sales of substantial numbers of shares of our common stock in the public market by us, our officers or directors, or unaffiliated third parties, including institutional investors
- General economic, political, and market conditions, including market volatility
- Litigation brought by or against us
- Other factors unrelated to our operating performance or the operating performance of our competitors

## Table of Contents

Our business could be materially adversely affected if we lose the benefit of the services of key personnel.

Our success depends to a large extent upon the services of a limited number of executive officers and other key employees. The unanticipated loss of the services of one or more of our executive officers or key employees could have a material adverse effect upon our business, financial condition, and results of operations. We also believe that our future success will depend in large part upon our ability to attract and retain additional highly skilled technical, management, sales, and marketing personnel. Competition for such personnel is intense. We may not be successful in attracting and retaining such personnel, and our failure to do so could have a material adverse effect on our business, operating results, or financial condition.

We are subject to environmental laws and regulations that expose us to a number of risks and could result in significant liabilities and costs.

There are multiple initiatives in several jurisdictions regarding the removal of certain potential environmentally sensitive materials from our products to comply with the European Union (“EU”) and other Directives on the Restrictions of the use of Certain Hazardous Substances in Electrical and Electronic Equipment (“RoHS”) and on Waste Electrical and Electronic Equipment (“WEEE”). If it is determined that our products do not comply with RoHs or WEEE, or additional new or existing environmental laws or regulations in the U.S., Europe, or other jurisdictions are enacted or amended, we may be required to modify some or all of our products or replace one or more components in those products, which, if such modifications are possible, may be time-consuming, expensive to implement and decrease end-user demand, particularly if we increase prices to offset higher costs. If any of the foregoing were to happen, our ability to sell one or more of our products may be limited or prohibited causing a material negative effect on our financial results.

We are subject to various federal, state, local, and foreign environmental laws and regulations on a global basis, including those governing the use, discharge, and disposal of hazardous substances in the ordinary course of our manufacturing process. Although we believe that our current manufacturing operations comply in all material respects with applicable environmental laws and regulations, it is possible that future environmental legislation may be enacted or current environmental legislation may be interpreted in any given country to create environmental liability with respect to our facilities, operations, or products. To the extent that we incur claims for environmental matters exceeding reserves or insurance for environmental liability, our operating results could be negatively impacted.

We have \$16.3 million of goodwill and other intangible assets recorded on our balance sheet. If the carrying value of our goodwill were to exceed its implied fair value, or if the carrying value of intangible assets were not recoverable, an impairment loss may be recognized, which would adversely affect our financial results.

As a result of past acquisitions, including an immaterial acquisition in the quarter ended September 30, 2012, we have \$16.3 million of goodwill and other intangible assets on our consolidated balance sheet as of September 30, 2013. It is impossible at this time to determine if any future impairment charge would result or, if it does, whether such charge related to these assets would be material. If such a charge is necessary, it may have a material adverse effect our financial results.

If we are unable to protect our information systems against service interruption, misappropriation of data or breaches of security, our operations could be disrupted, our reputation may be damaged, and we may be financially liable for damages.

We rely on networks, information systems, and other technology (“information systems”), including the Internet and third-party hosted services, to support a variety of business activities, including procurement, manufacturing, sales, distribution, invoicing, and collections. We use information systems to process and report financial information

internally and to comply with regulatory reporting. In addition, we depend on information systems for communications with our suppliers, distributors, and customers. Consequently, our business may be impacted by system shutdowns or service disruptions during routine operations, such as system upgrades or user errors, as well as network or hardware failures, malicious software, hackers, natural disasters, communications interruptions, or other events (collectively, "network incidents"). Our computer systems have been, and will likely continue to be, subject to network incidents. While, to date, we have not experienced a network incident resulting in material impairment to our operations, nor have we experienced material intentional or inadvertent disclosure of our data or information or the information or data of our customers or vendors, future network incidents could result in unintended disruption of our operations or disclosure of sensitive information or assets. Furthermore, we may experience targeted attacks and although we continue to invest in personnel, technologies, and training to prepare for and reduce the adverse consequences of such attacks, these investments are expensive and do not guarantee that such attacks will be unsuccessful, either completely or partially.

Table of Contents

If our information systems are disrupted or shutdown and we fail to timely and effectively resolve the issues, we could experience delays in reporting our financial results and we may lose revenue and profits. Misuse, leakage, or falsification of information could result in a violation of data privacy laws and regulations, damage our reputation, and have a negative impact on net operating results. In addition, we may suffer financial damage and damage to our reputation because of loss or misappropriation of our confidential information or assets, or those of our partners, customers, or suppliers. We could also be required to expend significant effort and incur financial costs to remedy security breaches or to repair or replace networks and information systems.

War, terrorism, public health issues, natural disasters, or other business interruptions could disrupt supply, delivery, or demand of products, which could negatively affect our operations and performance.

War, terrorism, public health issues, natural disasters, or other business interruptions, whether in the U.S. or abroad, have caused or could cause damage or disruption to international commerce by creating economic and political uncertainties that may have a strong negative impact on the global economy, us, and our suppliers or customers. Our major business operations and those of many of our vendors and their sub-suppliers (collectively, "Suppliers") are subject to interruption by disasters, including, without limitation, earthquakes, floods, and volcanic eruptions or other natural or manmade disasters, fire, power shortages, terrorist attacks and other hostile acts, public health issues, flu or similar epidemics or pandemics, and other events beyond our control and the control of our Suppliers. Our corporate headquarters, information technology, manufacturing, certain research and development activities, and other critical business operations are located near major seismic faults or flood zones. While we are partially insured for earthquake-related losses or floods, our operating results and financial condition could be materially affected in the event of a major earthquake or other natural or manmade disaster.

Although it is impossible to predict the occurrences or consequences of any of the events described above, such events could significantly disrupt our operations or the operations of our Suppliers. In addition, should any of the events above arise we could be negatively impacted by the need for more stringent employee travel restrictions, limitations in the availability of freight services, governmental actions limiting the movement of products between various regions, delays in production, and disruptions in the operations of our Suppliers. Our operating results and financial condition could be adversely affected by these events.

We are required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, our management and independent registered public accounting firm are required to report annually on the effectiveness of our internal control over financial reporting. We have an ongoing program to perform the system and process evaluation and testing necessary to comply with these requirements.

We have and will continue to consume management resources and incur significant expenses for Section 404 compliance on an ongoing basis. In the event that our chief executive officer, chief financial officer, or independent registered public accounting firm determines in the future that our internal control over financial reporting is not effective as defined under Section 404, we may not be able to produce timely and accurate financial statements, and we may conclude that our internal control over financial reporting is not effective. If this were to occur, we could be subject to one or more investigations or enforcement actions by state or federal regulatory agencies, stockholder lawsuits, or other adverse actions requiring us to incur defense costs, pay fines, settlements or judgments, and causing investor perceptions to be adversely affected and potentially resulting in a decline in the market price of our stock.



Provisions in our charter documents and Delaware law or a decision by our Board of Directors in the future may delay or prevent a third party from acquiring us, which could decrease the value of our stock.

Our Board of Directors has the authority to issue preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting and conversion rights, of those shares without any further vote or action by the stockholders. The issuance of our preferred stock could have the effect of making it more difficult for a third party to acquire us. In addition, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which could also have the effect of delaying or preventing our acquisition by a third party. Further, certain provisions of our Certificate of Incorporation and bylaws could delay or make more difficult a merger, tender offer or proxy contest, which could adversely affect the market price of our common stock.

Table of Contents

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

The actual declaration of future dividends and the establishment of record and payment dates are subject to final determination by the Audit Committee of the Board of Directors of the Company each quarter after its review of our financial performance.

## Share Repurchase Programs

The following table presents a month-to-month summary of the stock purchase activity in the second quarter of fiscal year 2014:

|  | Total Number<br>of Shares<br>Purchased <sup>1</sup> | Average Price<br>Paid per<br>Share <sup>2</sup> | Total Number of Shares<br>Purchased as Part of<br>Publicly Announced<br>Plans or Programs <sup>1</sup> | Maximum<br>Number of Shares<br>that May Yet Be<br>Purchased Under<br>the Plans or<br>Programs <sup>6</sup> |
|--|---|---|--|--|
| June 30, 2013 to July 27, 2013             | 43,203  | <sup>3</sup> \$44.95                            | 42,400   | 604,039  |
| July 28, 2013 to August 31, 2013           | 218,828   | <sup>4</sup> \$44.51                            | 212,408  | 391,631  |
| September 1, 2013 to September 28,<br>2013 | 117,080   | <sup>5</sup> \$44.44                            | 116,757  | 274,874  |

<sup>1</sup> On August 6, 2012, the Board of Directors authorized a new program to repurchase 1,000,000 shares of our common stock.

<sup>2</sup> "Average Price Paid per Share" reflects open market repurchases of common stock only.

<sup>3</sup> Includes 803 shares that were tendered to us in satisfaction of employee tax withholding obligations upon the vesting of restricted stock granted under our stock plans.

<sup>4</sup> Includes 6,420 shares that were tendered to us in satisfaction of employee tax withholding obligations upon the vesting of restricted stock granted under our stock plans.

<sup>5</sup> Includes 323 shares that were tendered to us in satisfaction of employee tax withholding obligations upon the vesting of restricted stock granted under our stock plans.

<sup>6</sup> These shares reflect the available shares authorized for repurchase under the August 6, 2012 program.

Table of Contents

## ITEM 6. EXHIBITS

We have filed the following documents as Exhibits to this Form 10-Q:

| Exhibit<br>Number | Exhibit Description   | Incorporation by Reference |          |         | Filing Date | Filed<br>Herewith |
|-------------------|---|----------------------------|----------|---------|-------------|-------------------|
|                   |   | Form                       | File No. | Exhibit |             |                   |
| <u>10.1</u>       | <u>Employment Agreement dated as of September 13, 2013 between Registrant and Philip Vanhoutte.</u>             |                            |          |         |             | X                 |
| <u>31.1</u>       | <u>Certification of the President and CEO Pursuant to Rule 13a-14(a)/15d-14(a).</u>                             |                            |          |         |             | X                 |
| <u>31.2</u>       | <u>Certification of Senior Vice President and CFO Pursuant to Rule 13a-14(a)/15d-14(a).</u>                     |                            |          |         |             | X                 |
| <u>32.1</u>       | <u>Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.</u> |                            |          |         |             | X                 |
| 101.INS*          | XBRL Instance Document  |                            |          |         |             | X                 |
| 101.SCH*          | XBRL Taxonomy Extension Schema Document   |                            |          |         |             | X                 |
| 101.CAL*          | XBRL Taxonomy Extension Calculation Linkbase Document   |                            |          |         |             | X                 |
| 101.LAB*          | XBRL Taxonomy Extension Label Linkbase Document   |                            |          |         |             | X                 |
| 101.PRE*          | XBRL Taxonomy Extension Presentation Linkbase Document  |                            |          |         |             | X                 |
| 101.DEF*          | XBRL Taxonomy Definition Linkbase Document  |                            |          |         |             | X                 |

\* In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Exchange Act of 1934, and otherwise is not subject to liability under these sections and shall not be incorporated by reference into any

registration statement or other document  
filed under the Securities Act of 1933, as  
amended, except as expressly set forth by  
specific reference in such filing.

Table of Contents

SIGNATURES

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

PLANTRONICS, INC.

Date: October 29, 2013

By: /s/ Pamela Strayer

Name: Pamela Strayer

Title: Senior Vice President and Chief Financial Officer