HARMAN INTERNATIONAL INDUSTRIES INC /DE/
Form 10-Q
January 30, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 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: 1-9764

Harman International Industries, Incorporated

(Exact name of registrant as specified in its charter)

Delaware	**11-2534306**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
400 Atlantic Street, Suite 1500	
Stamford, CT	**06901**
(Address of principal executive offices)	**(Zip code)**

(203) 328-3500

(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. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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). x Yes ¨ No

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

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

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

As of January 23, 2014, 67,781,797 shares of common stock, par value $.01, were outstanding.

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HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

Form 10-Q

December 31, 2013

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References to Harman , the Company , we , us , and our in this Form 10-Q refer to Harman International Industries Incorporated and its subsidiaries unless the context requires otherwise.

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

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Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. You should not place undue reliance on these statements. Forward-looking statements include information concerning possible or assumed future results of operations, cash flows, capital expenditures, the outcome of pending legal proceedings and claims, goals and objectives for future operations, including descriptions of our business strategies and purchase commitments from customers. These statements are typically identified by words such as believe, anticipate, expect, plan, intend, estimate, should, will and similar expressions. We base these statements on particular assumptions that we have made in light of our industry experience, as well as our perception of historical trends, current conditions, expected future developments and other factors that we believe are appropriate under the circumstances. As you read and consider the information in this report, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties and assumptions. In light of these risks and uncertainties, we cannot assure you that the results and events contemplated by the forward-looking statements contained in, or incorporated by reference into, this report will in fact transpire.

You should carefully consider the risks described below and the other information in this report because they identify important factors that could cause actual results to differ materially from those predicted in any such forward-looking statements. Our operating results may fluctuate significantly and may not meet our expectations or those of securities analysts or investors. The price of our stock would likely decline if this occurs. Factors that may cause fluctuations in our operating results include, but are not limited to, the following:

- our ability to maintain profitability in our infotainment segment if there are delays in our product launches which may give rise to significant penalties and increased engineering expense;

- the loss of one or more significant customers, or the loss of a significant platform with an automotive customer;

- fluctuations in currency exchange rates, particularly with respect to the value of the U.S. Dollar and the Euro;

- our ability to successfully implement our global footprint initiative, including achieving cost reductions and other benefits in connection with the restructuring of our manufacturing, engineering, procurement and administrative organizations;

- fluctuations in the price and supply of raw materials including, without limitation, petroleum, copper, steel, aluminum, synthetic resins, rare metals and rare-earth minerals, or shortages of materials, parts and components;

- the inability of our suppliers to deliver products at the scheduled rate and disruptions arising in connection therewith;

our ability to maintain a competitive technological advantage through innovation and leading product designs; and

our failure to maintain the value of our brands and implementing a sufficient brand protection program.
Although we believe that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual results of operations and could cause actual results to differ materially from those expressed in the forward-looking statements. As a result, the foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this and other reports we file with the Securities and Exchange Commission. For additional information regarding certain factors that may cause our actual results to differ from those expected or anticipated see the information under the caption Risk Factors which is located in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended June 30, 2013. We undertake no obligation to publicly update or revise any forward-looking statement (except as required by law). This report also makes reference to our awarded business, which represents the estimated future lifetime net sales for all customers. Our future awarded business does not represent firm customer orders. We report our awarded business primarily based on written award letters from our customers. To validate these awards, we use various assumptions including global vehicle production forecasts, customer take rates for our products, revisions to product life cycle estimates and the impact of annual price reductions and exchange rates, among other factors. These assumptions are updated and reported externally on an annual basis. We update our estimated awarded business quarterly by adding the value of new awards received and subtracting sales recorded during the quarter. These quarterly updates do not include any assumptions for increased take rates, revisions to product life cycle, or any other factors.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands)	December 31, 2013	June 30, 2013
Assets		
Current assets		
Cash and cash equivalents	$ 518,556	$ 454,258
Short-term investments	0	10,008
Receivables, net	757,006	722,711
Inventories	655,907	549,831
Other current assets	376,618	352,244
Total current assets	2,308,087	2,089,052
Property, plant and equipment, net	437,653	425,182
Goodwill	251,370	234,342
Deferred tax assets, long-term, net	240,380	260,749
Other assets	248,446	226,360
Total assets	**$ 3,485,936**	**$ 3,235,685**
Liabilities and Shareholders Equity		
Current liabilities		
Current portion of long-term debt	$ 30,000	$ 30,000
Short-term debt	21,632	4,930
Accounts payable	616,521	498,055
Accrued liabilities	435,623	402,704
Accrued warranties	146,697	128,411
Income taxes payable	21,944	13,414
Total current liabilities	1,272,417	1,077,514
Long-term debt	240,038	255,043
Pension liability	171,888	167,687
Other non-current liabilities	120,664	90,570
Total liabilities	**1,805,007**	**1,590,814**
Commitments and contingencies		
Preferred stock	0	0

Common stock		980	970
Additional paid-in capital		1,001,975	971,748
Accumulated other comprehensive income		35,314	21,800
Retained earnings		1,904,022	1,827,267
Less: Common stock held in treasury		(1,261,362)	(1,176,914)
Total shareholders equity		**1,680,929**	**1,644,871**
Total liabilities and shareholders equity	**$**	**3,485,936**	**$ 3,235,685**

See accompanying Notes to the Condensed Consolidated Financial Statements.

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HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except earnings per share data)	**Three Months Ended December 31,**		**Six Months Ended December 31,**	
	2013	**2012**	**2013**	**2012**
Net sales	$ 1,328,024	$ 1,055,642	$ 2,499,829	$ 2,053,835
Cost of sales	948,574	783,849	1,798,730	1,503,795
Gross profit	379,450	271,793	701,099	550,040
Selling, general and administrative expenses	277,594	203,411	529,861	402,567
Operating income	101,856	68,382	171,238	147,473
Other expenses:				
Interest expense, net	1,855	3,687	3,825	9,682
Foreign exchange losses, net	3,110	988	3,971	1,139
Miscellaneous, net	1,792	1,430	3,121	2,609
Income before income taxes	95,099	62,277	160,321	134,043
Income tax expense, net	23,470	14,788	42,146	31,999
Equity in net loss of unconsolidated subsidiaries	0	0	94	0
Net income	$ 71,629	$ 47,489	$ 118,081	$ 102,044
Earnings per share:				
Basic	$ 1.04	$ 0.69	$ 1.71	$ 1.48
Diluted	$ 1.03	$ 0.68	$ 1.69	$ 1.47
Weighted average shares outstanding:				
Basic	68,715	69,009	69,131	68,846
Diluted	69,578	69,734	69,947	69,582

See accompanying Notes to the Condensed Consolidated Financial Statements.

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HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Six Months Ended December 31, 2013	Six Months Ended December 31, 2012
Net income	$ 71,629	$ 47,489	$ 118,081	$ 102,044
Other comprehensive income (loss) [1]:				
Foreign currency translation	8,096	15,264	42,181	24,470
Unrealized losses on hedging derivatives	(18,421)	(19,367)	(38,977)	(38,678)
Pension liability adjustment	658	1,172	677	2,082
Unrealized gains on available for sale securities	165	242	175	351
Other comprehensive (loss) income before taxes	(9,502)	(2,689)	4,056	(11,775)
Income taxes benefit	(4,322)	(4,871)	(9,458)	(10,508)
Other comprehensive (loss) income, net of taxes	(5,180)	2,182	13,514	(1,267)
Comprehensive income, net of taxes	$ 66,449	$ 49,671	$ 131,595	$ 100,777

(1) Refer to Note 15 *Other Comprehensive Income (Loss)* for more information.

See accompanying Notes to the Condensed Consolidated Financial Statements.

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HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	**Six Months Ended December 31, 2013**	**2012**
Cash flows from operating activities:		
Net income	$ 118,081	$ 102,044
Adjustments to reconcile net income to net cash provided by (used in) operating activities, net of acquired businesses:		
Depreciation and amortization	64,239	58,843
Deferred income taxes	12,916	20,487
Loss (gain) on disposition of assets	735	(1,698)
Share-based compensation	15,322	10,227
Non-cash interest expense	1,090	7,405
Non-cash reduction in contingent liabilities	0	(12,500)
Changes in operating assets and liabilities, net of acquired businesses:		
(Increase) decrease in:		
Receivables, net	(17,900)	(30,073)
Inventories	(92,374)	(110,128)
Other current assets	148	(17,255)
Pre-production and development costs	(6,997)	(16,769)
Increase (decrease) in:		
Accounts payable	105,112	(36,116)
Accrued warranties	11,769	9,125
Accrued other liabilities	7,952	(36,475)
Income taxes payable	8,039	(3,776)
Net change in derivative assets and liabilities	11,524	1,578
Other operating activities	(5,742)	2,268
Net cash provided by (used in) operating activities	233,914	(52,813)
Cash flows from investing activities:		
Purchases of short-term investments	0	(60,830)
Maturities of short-term investments	10,008	182,302
Acquisitions, net of cash received	(21,274)	(8,836)
Proceeds from asset dispositions	0	3,668
Capital expenditures	(60,829)	(42,608)
Other items, net	254	0
Net cash (used in) provided by investing activities	(71,841)	73,696
Cash flows from financing activities:		
Net increase (decrease) in short-term borrowings	17,250	(26)
Borrowings under new credit agreement	0	300,000
Repayment of long-term debt	(15,000)	(400,000)

Debt issuance costs		0		(6,094)
Cash dividends to shareholders		(41,212)		(20,522)
Repurchase of common stock		(84,448)		(5,398)
Share-based compensation		14,085		7,480
Excess tax benefit from share-based compensation		1,404		0
Other items, net		397		(1,246)
Net cash used in financing activities		(107,524)		(125,806)
Effect of exchange rate changes on cash		9,749		13,818
Net increase (decrease) in cash and cash equivalents		64,298		(91,105)
Cash and cash equivalents at beginning of period		454,258		617,356
Cash and cash equivalents at end of period	$	518,556	$	526,251
Supplemental disclosure of cash flow information:				
Interest paid, net	$	3,127	$	4,198
Income taxes paid	$	4,325	$	14,122
Non-cash investing activities:				
Accrued and contingent acquisition-related liabilities	$	6,476	$	288

See accompanying Notes to the Condensed Consolidated Financial Statements.

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HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(In thousands, except per-share data and where otherwise noted)

(Unaudited)

Note 1 Basis of Presentation

Basis of Presentation

References to we, us, our, the company and Harman refer to Harman International Industries, Incorporated and i consolidated subsidiaries unless the context specifically requires otherwise.

Our unaudited, condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). These unaudited condensed consolidated financial statements have been prepared in accordance with the accounting policies described in our audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013 (our 2013 Annual Report) and do not include all information and footnote disclosures included in our audited financial statements. In the opinion of management, the accompanying unaudited, condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments and accruals, necessary to present fairly, in all material respects, the consolidated financial condition, results of operations and cash flows for the periods presented. Operating results for the three and six months ended December 31, 2013 are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2014 due to seasonal, economic and other factors. Where necessary, information for prior periods has been reclassified to conform to the consolidated financial statement presentation in the current fiscal year. These unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and accompanying notes included in our 2013 Annual Report.

The methods, estimates and judgments we use in applying our accounting policies, in conformity with generally accepted accounting principles in the United States (GAAP), have a significant impact on the results we report in our financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. The estimates affect the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

Note 2 New Accounting Standards

Recently Adopted Accounting Standards

Comprehensive Income: In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which amends Accounting Standards Codification 220, Comprehensive Income. The new guidance requires the disclosure of amounts reclassified out of accumulated other comprehensive income by component and by net income line item. The disclosure may be provided either parenthetically on the face of the financial statements or in the notes. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2012. We adopted the provisions of this new guidance on July 1, 2013. The adoption of the new provisions did not have a material impact on our financial condition or results of operations.

Intangible Assets: In July 2012, the FASB issued ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment, which allows companies to perform a qualitative assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary, similar in approach to the goodwill impairment test. The new guidance allows an entity the option to first assess qualitatively whether it is more likely than not (that is, a likelihood of more than 50 percent) that an indefinite-lived intangible asset is impaired, thus necessitating that it perform the quantitative impairment test. An entity is not required to calculate the fair value of an indefinite-lived intangible asset and perform the quantitative impairment test unless the entity determines that it is more likely than not that the asset is impaired. The new guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted for annual and interim impairment tests performed as of a date before July 27, 2012, if the financial statements for the most recent annual or interim period have not yet been issued. We adopted the provisions of this new guidance on July 1, 2013. The adoption of the new provisions did not have a material impact on our financial condition or results of operations.

Balance Sheet: In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities, which requires companies to disclose information about financial instruments that have been offset and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial condition. Companies will be required to provide both net (offset amounts) and gross information in the notes to the financial statements for relevant assets and liabilities that are offset. The new guidance is effective retrospectively for fiscal years and interim periods within those fiscal years beginning on or after January 1, 2013. We adopted the provisions of this new guidance on July 1, 2013. The adoption of the new provisions did not have a material impact on our financial condition or results of operations.

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Recently Issued Accounting Standards

Income Taxes: In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The new guidance requires that unrecognized tax benefits be presented on a net basis with the deferred tax assets for such carryforwards. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2013. We will adopt the provisions of this new guidance on July 1, 2014. We do not expect the adoption of the new provisions to have a material impact on our financial condition or results of operations.

Note 3 Allowance for Doubtful Accounts

We reserve an estimated amount for accounts receivable that may not be collected. Methodologies for estimating the allowance for doubtful accounts are based primarily on specific identification of uncollectible accounts. Historical collection rates and customer credit worthiness are considered in determining specific reserves. At December 31, 2013 and June 30, 2013, we had $11.4 million and $11.2 million, respectively, reserved for possible uncollectible accounts receivable.

Note 4 Inventories

Inventories consist of the following:

	December 31, 2013	June 30, 2013
Finished goods	$ 304,659	$ 234,770
Work in process	88,243	92,640
Raw materials	263,005	222,421
Inventories	$ 655,907	$ 549,831

At December 31, 2013 and June 30, 2013, our inventory reserves were $81.9 million and $72.9 million, respectively.

Note 5 Property, Plant and Equipment, net

Property, plant and equipment, net consist of the following:

	Estimated Useful Lives (in Years)	December 31, 2013	June 30, 2013
Land		$ 7,071	$ 6,859
Buildings and improvements	1-50	249,320	247,758
Machinery and equipment	3-20	1,192,498	1,113,228
Furniture and fixtures	3-10	34,117	33,175
Property, plant and equipment, gross		1,483,006	1,401,020

Less accumulated depreciation and amortization	(1,045,353)	(975,838)
Property, plant and equipment, net	$ 437,653	$ 425,182

Depreciation expense for the three months ended December 31, 2013 and 2012 was $29.1 million and $27.7 million, respectively, and was $57.9 million and $54.2 million in the six months ended December 31, 2013 and 2012, respectively.

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Note 6 Accrued Warranties

Details of our accrued warranties are as follows:

	Six Months Ended December 31,	
	2013	2012
Accrued warranties, June 30,	$ 128,411	$ 97,289
Warranty expense	39,405	33,184
Warranty payments (cash or in-kind)	(26,704)	(24,286)
Other[1]	5,585	4,070
Accrued warranties, December 31,	$ 146,697	$ 110,257

[1] Other primarily represents foreign currency translation.

Note 7 Earnings Per Share

We apply the two-class method when computing earnings per share, which requires that net income per share for each class of shares entitled to dividends be calculated assuming all of our net income is distributed as dividends to these shareholders based on their contractual rights.

The following table presents the calculation of basic and diluted earnings per share of common stock outstanding:

	Three Months Ended December 31,			
	2013		2012	
	Basic	Diluted	Basic	Diluted
Numerator for Basic and Diluted Earnings per Share:				
Net income	$ 71,629	$ 71,629	$ 47,489	$ 47,489
Denominator for Basic and Diluted Earnings per Share:				
Weighted average shares outstanding	68,715	68,715	69,009	69,009
Employee stock options	0	863	0	725
Total weighted average shares outstanding	68,715	69,578	69,009	69,734
Earnings per Share:				
Earnings per share	$ 1.04	$ 1.03	$ 0.69	$ 0.68

	Six Months Ended December 31,			
	2013		2012	
	Basic	Diluted	Basic	Diluted
Numerator for Basic and Diluted Earnings per Share:				
Net income	$ 118,081	$ 118,081	$ 102,044	$ 102,044
Denominator for Basic and Diluted Earnings per Share:				
Weighted average shares outstanding	69,131	69,131	68,846	68,846
Employee stock options	0	816	0	736
Total weighted average shares outstanding	69,131	69,947	68,846	69,582
Earnings per Share:				
Earnings per share	$ 1.71	$ 1.69	$ 1.48	$ 1.47

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are considered participating securities, as defined under GAAP, and are included in the computation of earnings per share pursuant to the two-class method.

Certain options were outstanding and not included in the computation of diluted net earnings per share because the assumed exercise of these options would have been antidilutive. Options to purchase 943,458 and 1,642,862 shares of our common stock were outstanding for the three months ended December 31, 2013 and 2012, respectively, and were excluded from the computation of diluted earnings per share because they would have been antidilutive. No restricted shares and restricted stock units were outstanding for the three months ended December 31, 2013 and 2012, respectively, that were excluded from the computation of diluted earnings per share as they also would have been antidilutive. Options to purchase 1,014,125 and 1,542,575 shares of our common stock were

outstanding for the six months ended December 31, 2013 and 2012, respectively, and were excluded from the computation of diluted earnings per share because they would have been antidilutive. In addition 177,489 and 59,352 of restricted shares and restricted stock units were outstanding for the six months ended December 31, 2013 and 2012, respectively, that were excluded from the computation of diluted earnings per share as they also would have been antidilutive.

In October 2012, we repaid our $400.0 million of 1.25 percent convertible senior notes due October 15, 2012 (the Convertible Senior Notes), and therefore the Convertible Senior Notes had no impact on our calculation of earnings per share for the three and six months ended December 31, 2013. For the three and six months ended December 31, 2012, the conversion terms of the Convertible Senior Notes would have affected the calculation of diluted earnings per share if the price of our common stock exceeded the conversion price of the Convertible Senior Notes. The initial conversion price of the Convertible Senior Notes was approximately $104 per share, subject to adjustment in specified circumstances as described in the indenture governing the Convertible Senior Notes, as amended (the Indenture). Upon conversion, a holder of the Convertible Senior Notes would have received an amount in cash per $1,000 principal amount of Convertible Senior Notes equal to the lesser of $1,000 or the conversion value of the Convertible Senior Notes, determined in the manner set forth in the Indenture. If the conversion value exceeded $1,000, we would have delivered $1,000 in cash and, at our option, cash or common stock or a combination of cash and common stock for the conversion price in excess of $1,000. The conversion option would not have resulted in an adjustment to net income in calculating diluted earnings per share. The dilutive effect of the conversion option was calculated using the treasury stock method. Therefore, conversion settlement shares would have been included in diluted shares outstanding if the price of our common stock exceeded the conversion price of the Convertible Senior Notes. Refer to Note 9 *Debt* for more information.

Note 8 Goodwill

During the three and six months ended December 31, 2013, we recorded $15.9 million of goodwill in our Professional segment associated with the acquisition of Duran Audio BV (Duran). During the three and six months ended December 31, 2012, we recorded $0.6 million of goodwill in our Infotainment segment associated with the acquisition of certain assets of Interchain Solution Private Limited (Interchain). Refer to Note 23 *Acquisitions* for more information.

We did not recognize any goodwill impairment charges in our Condensed Consolidated Statements of Income in the three and six months ended December 31, 2013 and 2012.

The contingent purchase price associated with the acquisition of innovative Systems GmbH (IS) is calculated pursuant to the terms of an agreement between the parties. Certain terms of the agreement are currently subject to a dispute between the parties and the matter has been submitted to arbitration. On November 5, 2013, the arbitration panel reached a partial judgment on some of the disputed matters covering the period from February 2009 through January 2012 in the amount of 16.3 million. We are contesting the enforcement of the partial award. Until such time as the dispute is resolved, we cannot calculate the contingent purchase price.

Note 9 Debt

Short Term Borrowings

At December 31, 2013 and June 30, 2013, we had $21.6 million and $4.9 million of short-term borrowings outstanding, respectively. At December 31, 2013, we maintained lines of credit of $63.3 million primarily in Germany, Hungary, China, Brazil, the U.S., India and Denmark. At June 30, 2013, we maintained lines of credit of

$55.7 million primarily in Denmark, Hungary, the U.S., Austria, Brazil and India.

We classify our debt based on the contractual maturity dates of the underlying debt instruments. We defer costs associated with debt issuance over the applicable term of the debt. These costs are amortized to Interest expense, net in our Condensed Consolidated Statements of Income.

New Credit Agreement

On October 10, 2012, we and Harman Holding GmbH & Co. KG (Harman KG), entered into a Multi-Currency Credit Agreement (the New Credit Agreement) with a group of banks. At December 31, 2013 and June 30, 2013 there were no outstanding borrowings and approximately $6.0 million and $6.8 million of outstanding letters of credit, respectively, under the new revolving credit facility (New Revolving Credit Facility) and $270.0 million and $285.0 million of outstanding borrowings under the term facility (the Term Facility), respectively, of which $30.0 million is included in each period in our Condensed Consolidated Balance Sheet as Current portion of long-term debt and $240.0 million and $255.0 million, respectively, is classified as Long-term debt. At December 31, 2013 and June 30, 2013, unused available credit under the New Revolving Credit Facility was $744.0 million and $743.2 million, respectively. If we do not meet the forecast in our budgets, we could violate our debt covenants and, absent a waiver from our lenders or an amendment to the New Credit Agreement, we could be in default under the New Credit Agreement. As a result, our debt under the New Credit Agreement could become due, which would have a material adverse effect on our financial condition and results of operations. As of December 31, 2013, we were in compliance with all the covenants of the New Credit Agreement.

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Long-Term Debt and Current Portion of Long-Term-Debt

At December 31, 2013 and June 30, 2013, long-term debt and current portion of long-term debt consisted of the following:

	Fair Value at December 31, 2013	Book Value at December 31, 2013	Fair Value at June 30, 2013	Book Value at June 30, 2013
Term facility	$ 270,000	$ 270,000	$ 285,000	$ 285,000
Other obligations	38	38	43	43
Total debt	270,038	270,038	285,043	285,043
Less: current portion of long-term debt	(30,000)	(30,000)	(30,000)	(30,000)
Total long-term debt	$ 240,038	$ 240,038	$ 255,043	$ 255,043

At December 31, 2013, long-term debt maturing in each of the next five fiscal years and thereafter is as follows:

2014	$ 15,000
2015	35,625
2016	43,125
2017	135,000
2018	41,288
Thereafter	0
Total	$ 270,038

Interest expense is reported net of interest income in our Condensed Consolidated Statements of Income. Interest expense, net was $1.9 million and $3.7 million for the three months ended December 31, 2013 and 2012, respectively. Gross interest expense was $2.6 million and $4.3 million for the three months ended December 31, 2013 and 2012, respectively. The non-cash portion of gross interest expense was $0.5 million and $2.5 million for the three months ended December 31, 2013 and 2012, respectively, associated with the amortization of debt issuance costs on the New Credit Agreement in the three months ended December 31, 2013 and the amortization of the debt discount on the Convertible Senior Notes and the amortization of debt issuance costs on the New Credit Agreement, the Convertible Senior Notes and the Multi-Currency Credit Agreement entered into on December 1, 2010 (the Old Credit Agreement) in the three months ended December 31, 2012. The cash portion of gross interest expense was $2.1 million and $1.8 million for the three months ended December 31, 2013 and 2012, respectively. Interest income was $0.7 million and $0.6 million for the three months ended December 31, 2013 and 2012, respectively.

Interest expense, net was $3.8 million and $9.7 million for the six months ended December 31, 2013 and 2012, respectively. Gross interest expense was $4.9 million and $11.0 million for the six months ended December 31, 2013 and 2012, respectively. The non-cash portion of gross interest expense was $1.1 million and $7.4 million for the six months ended December 31, 2013 and 2012, respectively, associated with the amortization of debt issuance costs on

the New Credit Agreement in the six months ended December 31, 2013 and the amortization of the debt discount on the Convertible Senior Notes and the amortization of debt issuance costs on the New Credit Agreement, the Convertible Senior Notes and the Old Credit Agreement in the six months ended December 31, 2012. The cash portion of gross interest expense was $3.8 million and $3.6 million for the six months ended December 31, 2013 and 2012, respectively. Interest income was $1.1 million and $1.3 million for the six months ended December 31, 2013 and 2012, respectively.

Note 10 Income Taxes

Our provision for income taxes is based on an estimated annual tax rate for the year applied to federal, state and foreign income. Income tax expense for the three months ended December 31, 2013 and 2012 was $23.5 million and $14.8 million, respectively. The effective tax rate for the three months ended December 31, 2013 and 2012 was 24.7 percent and 23.7 percent, respectively. The change in the effective tax rate for the three months ended December 31, 2013 compared to the same period in the prior year was primarily due to higher income in the U.S. that is subject to a tax rate higher than those in our key foreign jurisdictions.

Income tax expense for the six months ended December 31, 2013 and 2012 was $42.1 million and $32.0 million, respectively. The effective tax rate for the six months ended December 31, 2013 and 2012 was 26.3 percent and 23.9 percent, respectively. The change in the effective tax rate for the six months ended December 31, 2013 compared to the same period in the prior year was primarily due to higher income in the U.S. that is subject to a tax rate higher than those in our key foreign jurisdictions.

As of December 31, 2013 unrecognized tax benefits and the related interest were $36.1 million and $2.6 million, respectively; all of which would affect the tax rate if recognized. During the three and six months ended December 31, 2013, we recorded tax reserves on uncertain tax positions in the amount of $0.2 million and $1.0 million, respectively. During the three and six months ended December 31, 2013, we recorded additional interest expense on uncertain tax positions of $0.4 million and $0.5 million, respectively.

Note 11 Shareholders Equity

Preferred Stock

As of December 31, 2013 and June 30, 2013, we had no shares of preferred stock outstanding. We are authorized to issue 5 million shares of preferred stock, $0.01 par value.

Common Stock

We have 200 million authorized shares of common stock, $0.01 par value. At December 31, 2013 and June 30, 2013, we had 98,006,017 and 97,044,572 shares issued; 30,261,508 and 28,992,092 shares in treasury stock and 67,744,509 and 68,052,480 shares outstanding (net of treasury stock), respectively.

Share Buy-Back Program

On October 26, 2011, our Board of Directors authorized the repurchase of up to $200 million of our common stock (the Buyback Program). The Buyback Program allows us to purchase shares of our common stock in accordance with applicable securities laws on the open market, or through privately negotiated transactions. We entered into an agreement with an external broker that provided the structure under which the program was facilitated, which expired on October 25, 2012. The Buyback Program was set to expire on October 26, 2012, but on October 23, 2012 our Board of Directors approved an extension of the Buyback Program through October 25, 2013. On June 19, 2013 we entered into a new agreement with an external broker which expired on October 25, 2013 (the 10b5-1 Plan). On June 26, 2013, our Board of Directors authorized the repurchase of up to an additional $200 million of our common stock (the New Buyback Program) which expires on June 26, 2014. On August 26, 2013 we amended the 10b5-1 Plan to incorporate both board authorizations up until each of their respective expiration dates (the Amended 10b5-1 Plan). The Amended 10b5-1 Plan expires on June 25, 2014. During the three and six months ended December 31, 2013, we repurchased 868,110 shares and 1,268,110 shares, respectively, at a cost of $58.1 million and $84.4 million, respectively, for a total cumulative buyback of 4,660,385 shares at a cost of $213.8 million under the Buyback Program and the New Buyback Program.

The New Buyback Program may be suspended or discontinued at any time. We will determine the timing and the amount of any repurchases based on an evaluation of market conditions, share price and other factors.

Changes in Equity:

The following is a summary of the changes in Accumulated Other Comprehensive Income (AOCI) and changes in equity for the six months ended December 31, 2013 and 2012:

	Preferred Stock	Common Stock	Additional Paid-in Capital	AOCI	Retained Earnings	Treasury Stock	Total Equity
Balance at June 30, 2013	$ 0	$ 970	$ 971,748	$ 21,800	$ 1,827,267	$ (1,176,914)	$ 1,644,871
Net income	0	0	0	0	118,081	0	118,081
Other comprehensive income, net of tax	0	0	0	13,514	0	0	13,514
	0	0	0	0	0	(84,448)	(84,448)

Treasury stock repurchases							
Exercise of stock options, net of shares received	0	10	14,075	0	0	0	14,085
Share-based compensation, net of tax	0	0	16,152	0	0	0	16,152
Dividends ($1.20 per share)	0	0	0	0	(41,326)	0	(41,326)
Balance at December 31, 2013	$ 0	$ 980	$ 1,001,975	$ 35,314	$ 1,904,022	$ (1,261,362)	$ 1,680,929

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	Preferred Stock	Common Stock	Additional Paid-in Capital	AOCI	Retained Earnings	Treasury Stock	Total Equity
Balance at June 30, 2012	$ 0	$ 961	$ 943,971	$ 29,709	$ 1,726,486	$ (1,171,516)	$ 1,529,611
Net income	0	0	0	0	102,044	0	102,044
Other comprehensive loss, net of tax	0	0	0	(1,267)	0	0	(1,267)
Treasury stock repurchases	0	0	0	0	0	(5,398)	(5,398)
Exercise of stock options, net of shares received	0	7	7,473	0	0	0	7,480
Share-based compensation, net of tax	0	0	7,621	0	0	0	7,621
Dividends ($0.60 per share)	0	0	0	0	(20,794)	0	(20,794)
Balance at December 31, 2012	$ 0	$ 968	$ 959,065	$ 28,442	$ 1,807,736	$ (1,176,914)	$ 1,619,297

Note 12 Share-Based Compensation

On December 7, 2011 (the Effective Date), our shareholders approved the 2012 Stock Option and Incentive Plan (the 2012 Plan), which is effective through December 7, 2021. As of the Effective Date, no further grants may be granted under our former plan, the Amended and Restated 2002 Stock Option and Incentive Plan, as amended (the 2002 Plan and together with the 2012 Plan, the Plans). On December 4, 2013, we amended the 2012 Plan to (1) increase the number of shares available under the 2012 Plan for the grant of future awards by 2,869,821 shares to an aggregate amount not to exceed 7,269,821 shares of our common stock and (2) modified certain share counting provisions related to the definition of a full-value grant from 1.71 to 1.5 (Full-Value Grant). The 2012 Plan provides for two types of awards: (1) a Full-Value Grant under which one award shall reduce the shares available for grant under the 2012 Plan by 1.71 shares if granted prior to December 4, 2013 or 1.5 shares if granted on or after December 4, 2013, and (2) an option or stock appreciation right grant, under which one award shall reduce the shares available for grant under the 2012 Plan by one share. During the six months ended December 31, 2013, 449,704 options to purchase shares of our common stock, 447,434 stock-settled restricted stock units, 613 cash-settled restricted stock units and 5,515 cash-settled stock appreciation rights were granted under the 2012 Plan. As of December 31, 2013, there were 4,493,099 shares available for grant under the 2012 Plan.

Share-based compensation expense, net was $8.7 million and $5.4 million for the three months ended December 31, 2013 and 2012, respectively, and was $15.3 million and $10.2 million for the six months ended December 31, 2013 and 2012, respectively. The total income tax benefit recognized in the Condensed Consolidated Statements of Income for share-based compensation arrangements was $2.3 million and $1.2 million for the three months ended December 31, 2013 and 2012, respectively, and was $3.8 million and $2.6 million for the six months ended December 31, 2013 and 2012, respectively.

Fair Value Determination

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model, which uses the assumptions noted in the following table.

	Six Months Ended December 31,	
	2013	**2012**
Expected volatility	32.7% - 55.4%	43.0% - 59.3%
Weighted-average volatility	45.9%	50.1%
Expected annual dividend	$1.20	$0.60
Expected term (in years)	2.41 - 4.66	2.32 - 4.47
Risk-free rate	0.3% - 1.8%	0.2% - 0.6%

Groups of option holders (directors, executives and non-executives) that have similar historical behavior are considered separately for valuation purposes. Expected volatilities are based on historical closing prices of our common stock over the expected option term. We use historical data to estimate option exercises and employee terminations within the valuation model. The expected term of options granted is derived using the option valuation model and represents the estimated period of time from the date of grant that the option is expected to remain outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

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Stock Option Activity

A summary of option activity under our Plans as of December 31, 2013 and changes during the six months ended December 31, 2013 is presented below:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at June 30, 2013	2,124,032	$ 57.67	6.29	$ 21,077
Granted	449,704	66.39		
Exercised	(631,711)	41.78		
Forfeited or expired	(65,454)	61.99		
Outstanding at December 31, 2013	1,876,571	64.95	6.66	$ 43,019
Exercisable at December 31, 2013	901,939	$ 77.29	4.20	$ 15,427

The weighted-average grant-date fair value of options granted for the three months ended December 31, 2013 and 2012 was $20.04 and $15.54, respectively, and for the six months ended December 31, 2013 and 2012 was $20.72 and $15.92, respectively. The total intrinsic value of options exercised for the three months ended December 31, 2013 and 2012 was $6.1 million and $0.4 million, respectively, and for the six months ended December 31, 2013 and 2012 was $18.2 million and $6.0 million, respectively.

Modification of Certain Stock Option Awards

Prior to fiscal year 2011, certain of the award agreements under the 2002 Plan stated that vested options not exercised were forfeited upon termination of employment for any reason other than death or disability. However, such award agreements provided that the Compensation and Option Committee of our Board of Directors (the Compensation and Option Committee) could extend the time period to exercise vested options 90 days beyond the employment termination date for certain employees. During the three and six months ended December 31, 2013 and 2012, the Compensation and Option Committee used this authority. This action represented a modification of the terms or conditions of an equity award and therefore was accounted for as an exchange of the original award for a new award. Incremental share-based compensation cost for the excess of the fair value of the new award over the fair value of the original award was immaterial.

Restricted Stock Units

In the six months ended December 31, 2013, we granted 130,616 restricted stock units with earnings per share (EPS) performance conditions, and 130,641 restricted stock units with market conditions under the 2012 Plan. Additionally, both the restricted stock units with EPS performance conditions and the restricted stock units with market conditions, secondarily vest based on the achievement of a return on invested capital (ROIC) performance condition, specifically, the achievement of a certain average ROIC level over fiscal years 2014 through 2016. The restricted stock units with EPS performance conditions cliff vest three years from the date of grant based on the achievement of certain cumulative EPS levels from fiscal years 2014 through 2016. The restricted stock units with market conditions cliff

vest three years from the date of grant based on a comparison of our total shareholder return (TSR) to the TSR of a selected peer group of publicly listed multinational companies. The grant date fair value of the restricted stock units with market conditions of $6.0 million was calculated using a Monte Carlo simulation model. Compensation expense is recognized ratably over the three-year vesting period based on the grant date fair value and our assessment of the probability that the applicable targets will be met for the performance conditions, which is reassessed each reporting period.

In the six months ended December 31, 2012, we granted 97,733 restricted stock units with EPS performance conditions, 97,733 restricted stock units with ROIC performance conditions and 97,733 restricted stock units with market conditions, under the 2012 Plan. The restricted stock units with EPS performance conditions cliff vest three years from the date of grant based on the achievement of certain cumulative EPS levels from fiscal years 2013 through 2015. The restricted stock units with ROIC conditions cliff vest three years from the date of grant based on the achievement of a certain average ROIC level over fiscal years 2013 through 2015. The restricted stock units with market conditions cliff vest three years from the date of grant based on a comparison of our TSR to the TSR of a selected peer group of publicly listed multinational companies. The grant date fair value of the restricted stock units with market conditions of $3.7 million was calculated using a Monte Carlo simulation model. Compensation expense, for both the restricted stock units with performance conditions and the restricted stock units with market conditions, is recognized ratably over the three-year vesting period based on the grant date fair value and our assessment of the probability that the applicable targets will be met for awards with performance conditions, which is reassessed each reporting period.

In the six months ended December 31, 2013 and 2012, we also granted 175,425 and 234,825 time vested restricted stock units, respectively, without performance or market conditions that cliff-vest three years from the date of grant, and 10,752 and 21,840 time vested restricted stock units, respectively, without performance or market conditions that vest ratably over the three-year vesting period, under the 2012 Plan.

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In the six months ended December 31, 2013 and 2012, we granted 613 and 869 cash-settled restricted stock units, respectively, under the 2012 Plan. These restricted stock units are accounted for as liability awards and are recorded at the fair value at the end of the reporting period in accordance with their vesting schedules. During the six months ended December 31, 2013, and 2012, none of these restricted stock units were settled. At December 31, 2013, 2,632 cash-settled restricted stock units were outstanding.

In January and September 2008, we granted 34,608 and 28,344 cash-settled restricted stock units, respectively, outside the 2002 Plan. These restricted stock units were accounted for as liability awards and were recorded at the fair value at the end of the reporting period in accordance with their vesting schedules. At December 31, 2013, no cash-settled restricted stock units, granted outside the 2002 Plan, were outstanding. During the six months ended December 31, 2013, no cash-settled restricted stock units granted outside the 2002 Plan, were settled. During the six months ended December 31, 2012, 1,608 of these restricted stock units were settled, at a cost of $0.1 million.

A summary of equity classified restricted stock unit activity as of December 31, 2013 and changes during the six months ended December 31, 2013 is presented below:

	Restricted Stock Units
Nonvested at June 30, 2013	1,750,315
Granted	447,434
Vested	(517,563)
Forfeited	(124,527)
Nonvested at December 31, 2013	1,555,659

At December 31, 2013, the aggregate intrinsic value of equity-classified restricted stock units was $127.3 million and there was $40.1 million of total unrecognized compensation cost related to equity classified restricted stock unit compensation arrangements. The weighted average recognition period was 1.6 years.

Stock Appreciation Rights

A summary of cash-settled stock appreciation rights as of December 31, 2013 and changes during the six months ended December 31, 2013 is presented below:

	Stock Appreciation Rights
Non-vested at June 30, 2013	12,666
Granted	5,515
Vested	(5,081)
Forfeited	(478)
Non-vested at December 31, 2013	12,622

Exercisable	486

These stock appreciation rights are accounted for as liability awards and are recorded at the fair value at the end of the reporting period in accordance with their vesting schedules. The fair value is calculated using the Black-Scholes option valuation model using assumptions consistent with our stock options.

Note 13 Derivatives

We are exposed to market risk from changes in foreign currency exchange rates and interest rates, which could affect our operating results, financial condition and cash flows. We manage our exposure to these risks through our regular operating and financial activities and, when appropriate, through the use of derivative financial instruments. These derivative instruments are utilized to hedge economic exposures, as well as to reduce earnings and cash flow volatility resulting from shifts in market rates. We enter into limited types of derivative contracts, including foreign currency spot and forward as well as interest rate swap contracts, to manage foreign currency and interest rate exposures. Our primary foreign currency exposure is the Euro. The fair market values of all our derivative contracts change with fluctuations in interest rates and currency rates and are designed so that any changes in their values are offset by changes in the values of the underlying exposures. Derivative financial instruments are held solely as risk management tools and not for trading or speculative purposes.

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We record all derivative instruments as either assets or liabilities at fair value in our Condensed Consolidated Balance Sheets. Certain of these derivative contracts have been designated as cash flow hedges, whereby gains and losses are reported within AOCI in our Condensed Consolidated Balance Sheets, until the underlying transaction occurs, at which point they are reported in earnings as gains and losses in our Condensed Consolidated Statements of Income. Certain of our derivatives, for which hedge accounting is not applied, are effective as economic hedges. These derivative contracts are required to be recognized each period at fair value, with gains and losses reported in earnings in our Condensed Consolidated Statements of Income and therefore do result in some level of earnings volatility. The level of volatility will vary with the type and amount of derivative hedges outstanding, as well as fluctuations in the currency and interest rate markets during the period. The related cash flow impacts of all our derivative activities are reflected as cash flows from operating activities.

Derivatives, by their nature, involve varying degrees of market and credit risk. The market risk associated with these instruments resulting from currency exchange and interest rate movements is expected to offset the market risk of the underlying transactions, assets and liabilities being hedged. We do not believe there is significant risk of loss in the event of non-performance by the counterparties associated with these instruments, because these transactions are executed with a diversified group of major financial institutions. Furthermore, our policy is to contract only with counterparties having a minimum investment grade or better credit rating. Credit risk is managed through the continuous monitoring of exposure to such counterparties.

Foreign Exchange Risk Management

We use foreign exchange contracts to hedge the price risk associated with foreign denominated forecasted purchases of materials used in our manufacturing process and to manage currency risk associated with operating costs in certain operating units, including foreign currency denominated intercompany loans and other foreign currency denominated assets. Our policy allows and our contracts generally mature within two to five years. The majority of these contracts are designated as cash flow hedges.

At December 31, 2013 and June 30, 2013, we had outstanding foreign exchange contracts, primarily forward contracts, which are summarized below:

	December 31, 2013		**June 30, 2013**	
	Gross Notional Value	**Fair Value Asset/ (Liability)[1]**	**Gross Notional Value**	**Fair Value Asset/ (Liability)[1]**
Currency Hedged (Buy/Sell):				
U.S. Dollar/Euro	$ 1,661,743	$ (31,993)	$ 540,264	$ 13,900
Euro/U.S. Dollar	281,832	6,482	191,978	(304)
Swiss Franc/U.S. Dollar	42,570	604	40,214	(596)
Euro/Brazilian Real	7,959	524	0	0
Chinese Yuan/Euro	7,631	9	0	0
Japanese Yen/Euro	6,981	(882)	16,341	(55)
Euro/Russian Rubles	6,967	43	0	0
British Pound/Swiss Franc	6,954	261	12,778	91
U.S. Dollar/Brazilian Real	6,108	305	0	0
British Pound/U.S. Dollar	4,967	323	9,128	(164)
U.S. Dollar/Indian Rupee	4,000	(28)	0	0

Russian Rubles/Euro	1,703	7	0	0
Total	$ 2,039,415	$ (24,345)	$ 810,703	$ 12,872

(1) Represents the net receivable/(payable) included in our Condensed Consolidated Balance Sheets.

Cash Flow Hedges

We designate a portion of our foreign exchange contracts as cash flow hedges of foreign currency denominated purchases. As of December 31, 2013 and June 30, 2013, we had $1,505.6 million and $479.8 million of forward contracts maturing through June 2018 and June 2014, respectively. These contracts are recorded at fair value in the accompanying Condensed Consolidated Balance Sheets. During the six months ended December 31, 2013, we changed our election to now include forward points in our effectiveness assessment. Prior to this change, the changes in fair value for these contracts were calculated on a spot to spot rate basis. Effective September 30, 2013, the changes in fair value for these contracts are calculated on a forward to forward rate basis. These changes in fair value are reported in AOCI and are reclassified to either Cost of sales or Selling, general and administrative expenses (SG&A), depending on the nature of the underlying asset or liability that is being hedged, in our Condensed Consolidated Statements of Income, in the period or periods during which the underlying transaction occurs.

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Changes in the fair value of the derivatives are highly effective in offsetting changes in the cash flows of the hedged items because the amounts and the maturities of the derivatives approximate those of the forecasted exposures. Any ineffective portion of the derivative is recognized in the current period in our Condensed Consolidated Statements of Income, in the same line item in which the foreign currency gain or loss on the underlying hedged transaction was recorded. We recognized $0.9 million and $1.1 million of ineffectiveness in our Condensed Consolidated Statements of Income in the three and six months ended December 31, 2013, respectively. No amount of ineffectiveness was recognized in our Condensed Consolidated Statements of Income in the three and six months ended December 31, 2012. Prior to September 30, 2013, all components of each derivative s gain or loss, with the exception of forward points (see below), were included in the assessment of hedge ineffectiveness. Effective September 30, 2013, we changed our election and now include forward points in our effectiveness assessment. At December 31, 2013 and June 30, 2013, the fair values of these contracts were a net liability of $27.4 million and a net asset of $11.6 million, respectively. The amount associated with these hedges that is expected to be reclassified from AOCI to earnings within the next 12 months is a loss of $13.2 million.

Prior to September 30, 2013 we elected to exclude forward points from the effectiveness assessment. At the end of the reporting period, we calculated the excluded amount, which is the fair value relating to the change in forward points that is recorded in current earnings as Foreign exchange losses, net in our Condensed Consolidated Statements of Income. For the six months ended December 31, 2013 and 2012, we recognized $0.6 million and $1.4 million of net gains related to the change in forward points, respectively.

Economic Hedges

When hedge accounting is not applied to derivative contracts, or after former cash flow hedges have been de-designated as balance sheet hedges, we recognize the gain or loss on the associated contracts directly in current period earnings in our Condensed Consolidated Statements of Income as either Foreign exchange losses, net or Cost of sales according to the underlying exposure. As of December 31, 2013 and June 30, 2013, we had $533.8 million and $330.9 million, respectively, of forward contracts maturing through June 2014 and October 2013, respectively, in various currencies to hedge foreign currency denominated intercompany loans and other foreign currency denominated assets. At December 31, 2013 and June 30, 2013, the fair values of these contracts were net assets of $3.0 million and $1.2 million, respectively. Adjustments to the carrying value of the foreign currency forward contracts offset the gains and losses on the underlying loans and other foreign denominated assets in Foreign exchange losses, net in our Condensed Consolidated Statements of Income.

Interest Rate Risk Management

We had one interest rate swap contract which matured on September 30, 2013 with a notional amount of $19.7 million at June 30, 2013, in order to manage our interest rate exposure and effectively convert interest on an operating lease from a variable rate to a fixed rate. The objective of the swap was to offset changes in rent expenses caused by interest rate fluctuations. The interest rate swap contract was designated as a cash flow hedge. At the end of each reporting period, the discounted fair value of the swap contract was calculated and recorded in AOCI and reclassified to rent expense, within SG&A in our Condensed Consolidated Statements of Income, in the then current period. If the hedge was determined to be ineffective, the ineffective portion would have been reclassified from AOCI and recorded as rent expense, within SG&A. For the six months ended December 31, 2013 and for the three and six months ended December 31, 2012 we recognized an immaterial amount of ineffectiveness in our Condensed Consolidated Statements of Income. All components of the derivative were included in the assessment of the hedges effectiveness.

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Fair Value of Derivatives

The following tables provide a summary of the fair value amounts of our derivative instruments as of December 31, 2013 and June 30, 2013:

		Fair Value	
	Balance Sheet Location	December 31, 2013	June 30, 2013
Derivatives Designated as Cash Flow Hedges, Gross:			
Other assets:			
Foreign exchange contracts	Other current assets	$ 600	$ 11,812
Other liabilities:			
Foreign exchange contracts	Accrued liabilities	27,956	169
Interest rate swap	Accrued liabilities	0	320
Total liabilities		27,956	489
Net (liability)/asset for derivatives designated as hedging instruments		(27,356)	11,323
Derivatives Designated as Economic Hedges, Gross:			
Other assets:			
Foreign exchange contracts	Other current assets	8,083	3,069
Other liabilities:			
Foreign exchange contracts	Accrued liabilities	5,072	1,840
Net asset for economic hedges:		3,011	1,229
Total net derivative (liability)/asset		$ (24,345)	$ 12,552

Derivative Activity

The following tables show derivative activity for derivatives designated as cash flow hedges for the three months ended December 31, 2013 and 2012:

Derivative	Location of Derivative Gain/(Loss) Recognized in	Gain/(Loss) Reclassified from AOCI into Income	Gain/(Loss) Recognized in Income on Derivatives	Gain/(Loss) from Amounts Excluded from Effectiveness

	Income	(Effective Portion)		(Ineffective Portion)		Testing	
		Three Months Ended December 31,					
		2013	2012	2013	2012	2013	2012
Foreign exchange contracts	Cost of sales	$ (1,483)	$ 9,931	$ (905)	$ 0	$ 0	$ 0
Foreign exchange contracts	SG&A	0	141	0	0	0	0
Foreign exchange contracts	Foreign exchange losses, net	0	0	0	0	58	841
Interest rate swap	SG&A	0	(192)	0	(1)	0	0
Total cash flow hedges		$ (1,483)	$ 9,880	$ (905)	$ (1)	$ 58	$ 841

Derivative	Gain/(Loss) Recognized in AOCI (Effective Portion) Three Months Ended December 31,	
	2013	2012
Foreign exchange contracts	$ (19,904)	$ (9,484)
Interest rate swap	0	(24)
Total cash flow hedges	$ (19,904)	$ (9,508)

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The following table shows derivative activity for derivatives designated as cash flow hedges for the six months ended December 31, 2013 and 2012:

Derivative	Location of Derivative Gain/(Loss) Recognized in Income	Gain/(Loss) Reclassified from AOCI into Income (Effective Portion)		Gain/(Loss) Recognized in Income on Derivatives (Ineffective Portion)		Gain/(Loss) from Amounts Excluded from Effectiveness Testing	
		Six Months Ended December 31,					
		2013	2012	2013	2012	2013	2012
Foreign exchange contracts	Cost of sales	$ (546)	$ 27,765	$ (1,129)	$ 0	$ 0	$ 0
Foreign exchange contracts	SG&A	0	78	0	0	0	0
Foreign exchange contracts	Foreign exchange losses, net	0	0	0	0	578	1,395
Interest rate swap	SG&A	(192)	(365)	(1)	(3)	0	0
Total cash flow hedges		$ (738)	$ 27,478	$ (1,130)	$ (3)	$ 578	$ 1,395

Derivative	Gain/(Loss) Recognized in AOCI (Effective Portion) Six Months Ended December 31,	
	2013	2012
Foreign exchange contracts	$ (39,717)	$ (11,148)
Interest rate swap	35	(86)
Total cash flow hedges	$ (39,682)	$ (11,234)

The following table summarizes gains and losses from our derivative instruments that are not designated as hedging instruments for the three and six months ended December 31, 2013 and 2012:

Derivative	Location of Derivative Gain/(Loss)	Three Months Ended December 31,		Six Months Ended December 31,	
		2013	2012	2013	2012
Foreign exchange contracts forwards	Cost of sales	$ (1,927)	$ (3,314)	$ (5,436)	$ (5,172)
Foreign exchange contracts forwards	Foreign exchange gains, net	4,139	2,363	13,373	2,752

Note 14 Fair Value Measurements

Pursuant to the accounting guidance for fair value instruments, fair value is defined as the price we would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date.

When determining the fair value measurements for assets and liabilities, we consider the principal or most advantageous market in which the asset or liability would transact in and we consider assumptions that market participants would use when pricing the asset or liability.

Fair Value Hierarchy

Under fair value accounting guidance, there is a three-tier fair value hierarchy to prioritize the inputs used in measuring fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions.

The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels are defined as follows:

Level 1: Observable inputs, such as unadjusted quoted market prices in active markets for the identical asset or liability.

Level 2: Inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3: Unobservable inputs that reflect the entity s own assumptions in measuring the asset or liability at fair value.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

For assets and liabilities measured at fair value on a recurring basis, fair value is the price we would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. In the absence of active markets for the

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identical assets and liabilities, such measurements involve developing assumptions based on market observable data, and in the absence of such data, internal information that is consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date.

The following table provides the fair value hierarchy for assets and liabilities measured on a recurring basis.

	Fair Value at December 31, 2013			Fair Value at June 30, 2013		
Description	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Assets/(Liabilities)						
Short-term investments	$ 0	$ 0	$ 0	$ 10,008	$ 0	$ 0
Available-for-sale securities	2,337	0	0	2,149	0	0
Foreign exchange contracts	0	(24,345)	0	0	12,872	0
Interest rate swap	0	0	0	0	(320)	0
Pension assets	7,257	0	0	6,801	0	0
Contingent consideration	0	0	(6,525)	0	0	(228)
Net asset/(liability)	$ 9,594	$ (24,345)	$ (6,525)	$ 18,958	$ 12,552	$ (228)

	Total Losses (Gains) for the Three Months Ended December 31,		Total Losses (Gains) for the Six Months Ended December 31,	
Description of Liability	**2013**	**2012**	**2013**	**2012**
Contingent Consideration	$ 16	$ (12,500)	$ 16	$ (12,500)

The following describes the valuation methodologies we use to measure assets and liabilities accounted for at fair value on a recurring basis:

Short-Term Investments and Available-for-Sale Securities: Short-term investments and available-for-sale securities are classified as Level 1 as the fair value was determined from market quotes obtained from financial institutions in active markets.

Foreign Exchange Contracts: We use foreign exchange contracts to hedge market risks relating to possible adverse changes in foreign currency exchange rates. Our foreign exchange contracts were measured at fair value using Level 2 inputs. Such inputs include foreign currency exchange spot and forward rates for similar transactions in actively quoted markets.

Interest Rate Swap: We use an interest rate swap to hedge market risk relating to possible adverse changes in interest rates. We have elected to use the income approach to value our interest rate swap contract, which uses observable Level 2 inputs at the measurement date and standard valuation techniques to convert future amounts to a single present amount (discounted). Level 2 inputs for the swap contract valuation are limited to quoted prices for similar assets or liabilities in active markets (specifically futures contracts on LIBOR, for the first two years) and inputs other than quoted prices that are observable for the asset or liability (specifically LIBOR cash and swap rates) at commonly quoted intervals, and credit risk. These key inputs, including the LIBOR cash rates for very short-term, futures rates for up to two years, and LIBOR swap rates beyond the derivative maturity are used to construct the swap yield curve

and discount the future cash flows to present value at the measurement date. If the interest rate swap contract is a derivative asset, a credit default swap basis available at commonly quoted intervals can be collected from Bloomberg and applied to all cash flows. If the interest rate swap contract is a derivative liability, we are required to reflect potential credit risk to lenders using a borrowing rate specific to our Company. Refer to Note 13 *Derivatives*, for more information regarding our derivative financial instruments.

Pension Assets: Our pension assets have been valued using Level 1 inputs as quoted prices in an active market exist for these assets. Refer to Note 17 *Retirement Benefits* for more information.

Contingent Consideration: Substantially all of our contingent consideration is related to an earn-out related to our acquisition of Duran. We use a probability-weighted discounted cash flow approach (a form of the income approach) in determining the fair value of the contingent consideration. The principal inputs to the approach include our expectations of Duran gross profit (Duran Gross Profit), through June 30, 2020 and a discount rate that begins with our weighted average cost of capital and adjusts for the risks associated with the underlying Duran Gross Profit outcome, the functional form of the payout and our credit risk associated with making the payment. Refer to Note 23 *Acquisitions* for more information on the contingent consideration.

We also have contingent consideration related to an earn-out related to the acquisition of substantially all of the assets of Interchain. We calculate the contingent consideration based on the probability of actual revenue performance. Given the use of significant inputs that are not observable in the market, the contingent liability is classified within Level 3 of the fair value hierarchy.

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In the three and six months ended December 31, 2012, we revised our estimate of the contingent consideration liability related to the acquisition of MWM Acoustics LLC and certain related entities (MWM Acoustics) and reduced the liability by $12.5 million which was recognized within SG&A in our Condensed Consolidated Statements of Income.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

Certain assets are measured at fair value on a non-recurring basis. These assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. These assets can include loans and long-lived assets that have been reduced to fair value when they are held for sale, impaired loans that have been reduced based on the fair value of the underlying collateral, cost and equity method investments and long-lived assets that are written down to fair value when they are impaired and the remeasurement of retained investments in formerly consolidated subsidiaries upon a change in control that results in deconsolidation of a subsidiary if we sell a controlling interest and retain a noncontrolling stake in the entity. Assets that are written down to fair value when impaired and retained investments are not subsequently adjusted to fair value unless further impairment occurs.

The following table provides the carrying value for assets and liabilities measured on a non-recurring basis, all of which are measured under Level 3 of the fair value hierarchy, and the losses recorded during the periods presented. There were no losses recognized in the three and six months ended December 31, 2013 and 2012.

Description of Assets	**December 31, 2013**	**June 30, 2013**
Equity method investments	$ 1,496	$ 1,660
Goodwill	251,370	234,342
Long-lived assets	508,670	485,296
Total	$ 761,536	$ 721,298

The following describes the valuation methodologies we use to measure financial and non-financial instruments accounted for at fair value on a non-recurring basis.

Equity Method Investments: Equity method investments are generally valued using a discounted cash flow model, comparative market multiples or a combination of both approaches as appropriate. These investments are generally included in Level 3.

Goodwill: Goodwill is evaluated for impairment annually or more frequently if an event or circumstance indicates that an impairment loss may have been incurred. This asset is included in Level 3. Refer to Note 8 *Goodwill* in our 2013 Annual Report for more information.

Long-lived Assets: Long-lived assets include Property, plant and equipment, net and intangible assets, and are valued using the best information available, including quoted market prices or market prices for similar assets when available or internal cash flow estimates discounted at an appropriate interest rate or independent appraisals, as appropriate. For real estate, cash flow estimates are based on current market estimates that reflect current and projected lease profiles and available industry information about expected trends in rental, occupancy and capitalization rates. These assets are generally included in Level 3.

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Note 15 Other Comprehensive Income (Loss)

Other comprehensive income (loss) is comprised of the following:

	Three Months Ended December 31, 2013		Three Months Ended December 31, 2012		Six Months Ended December 31, 2013		Six Months Ended December 31, 2012	
	Pre-Tax	Net of Tax	Pre-Tax	Net of Tax	Pre-Tax	Net of Tax	Pre-Tax	Net of Tax
Foreign currency translation gains	$ 8,096	$ 8,096	$ 15,264	$ 15,264	$ 42,181	$ 42,181	$ 24,470	$ 24,470
Unrealized gains (losses) on hedging derivatives:								
Gains (losses) reclassified from AOCI into income (effective portion) [1]	1,483	1,106	(9,931)	(7,160)	546	407	(27,765)	(20,133)
Gains reclassified from AOCI into income (effective portion) [2]	0	0	51	36	192	143	287	208
Gains (losses) reclassified from AOCI into income (ineffective portion) [1]	905	675	0	0	1,129	842	0	0
Gains reclassified from AOCI into income (ineffective portion) [2]	0	0	1	1	1	1	3	2
Losses recognized in AOCI (effective portion)	(19,904)	(14,877)	(9,508)	(6,890)	(39,682)	(29,634)	(11,234)	(8,146)
Other (losses) gains	(905)	(675)	20	14	(1,163)	(866)	31	23
Unrealized losses on hedging derivatives	(18,421)	(13,771)	(19,367)	(13,999)	(38,977)	(29,107)	(38,678)	(28,046)
Pension liability adjustment:								
Amortization of prior service cost [3]	250	83	291	221	500	243	584	406
Amortization of net loss [3]	760	237	970	726	1,514	736	1,937	1,348
Expected return on plan assets [3]	(64)	(13)	(73)	(46)	(126)	(61)	(145)	(101)

Tax rate change [4]	0	0	0	0	0	0	0	719
Other losses[5]	(288)	84	(16)	(16)	(1,211)	(589)	(294)	(204)
Pension liability adjustment	658	391	1,172	885	677	329	2,082	2,168
Unrealized gains on available-for-sale securities	165	104	242	32	175	111	351	141
Other comprehensive (loss) income	$ (9,502)	$ (5,180)	$ (2,689)	$ 2,182	$ 4,056	$ 13,514	$ (11,775)	$ (1,267)

(1) Reclassified to Cost of sales in our Condensed Consolidated Statements of Income. Refer to Note 13 *Derivatives* for more information.
(2) Reclassified to SG&A in our Condensed Consolidated Statements of Income. Refer to Note 13 *Derivatives* for more information.
(3) Reclassified to SG&A in our Condensed Consolidated Statements of Income. Refer to Note 17 *Retirement Benefits* for more information.
(4) Impact on deferred taxes due to tax rate changes in certain jurisdictions.
(5) Primarily represents currency impact on cumulative amount of benefit plan net actuarial losses and prior service credits included in AOCI.

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AOCI: At December 31, 2013 and June 30, 2013 AOCI consisted of the following:

Income/(Loss):	December 31, 2013	June 30, 2013
Cumulative translation adjustment	$ 93,454	$ 51,273
Pension liability adjustment	(36,390)	(36,719)
Unrealized (losses) gains on hedging derivatives	(22,078)	7,029
Unrealized gains on available-for-sale securities	328	217
Total AOCI	$ 35,314	$ 21,800

We had approximately $2.3 million and $2.1 million of investments at December 31, 2013 and June 30, 2013, respectively, included in Other current assets in our Condensed Consolidated Balance Sheets that have been classified as available-for-sale securities. These securities are recorded at fair value with realized gains and losses recorded in income and unrealized gains and losses recorded in AOCI, net of taxes.

Note 16 Restructuring Program

Our restructuring program that is designed to improve our global footprint, cost structure, technology portfolio, human resources and internal processes continues.

For the three and six months ended December 31, 2013 and 2012, we continued to refine and expand on activities launched in prior years. During the three and six months ended December 31, 2013, we launched additional programs to drive functional efficiencies and improve our cost structure and global footprint. No significant new programs were launched during the three and six months ended December 31, 2012.

A summary and components of our restructuring initiatives are presented below and include accruals for new programs as well as revisions to estimates, both increases and decreases, to programs accrued in prior periods:

	Severance Related Costs	Third Party Contractor Termination Costs	Facility Closure and Other Related Costs	Asset Impairments[1]	Total
Liability, June 30, 2013	$ 23,563	$ 1,014	$ 33,848	$ 0	$ 58,425
Expense [2]	18,353	4,286	2,875	3,455	28,969
Accumulated depreciation offset	0	0	0	(3,455)	(3,455)
Payments	(16,079)	(4,828)	(4,865)	0	(25,772)
Foreign currency translation	1,174	50	1,448	0	2,672
Liability, December 31, 2013	$ 27,011	$ 522	$ 33,306	$ 0	$ 60,839
Liability, June 30, 2012	$ 19,938	$ 17	$ 10,839	$ 0	$ 30,794
Expense [2]	(902)	4	969	995	1,066

Accumulated depreciation offset	0	0	0	(995)	(995)
Payments	(6,774)	(22)	(2,414)	0	(9,210)
Foreign currency translation	513	1	(1)	0	513
Liability, December 31, 2012	$ 12,775	$ 0	$ 9,393	$ 0	$ 22,168

(1) Credits related to restructuring charges for accelerated depreciation and inventory provisions are recorded against the related assets in Property, plant and equipment, net or Inventories in our Condensed Consolidated Balance Sheets and do not impact the restructuring liability.

(2) Restructuring expenses noted above are primarily in SG&A in our Condensed Consolidated Statements of Income. Asset impairments which consist of accelerated depreciation and inventory provisions are primarily in Cost of sales in our Condensed Consolidated Statements of Income.

Restructuring liabilities are recorded in Accrued liabilities and Other non-current liabilities in our Condensed Consolidated Balance Sheets.

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Restructuring expenses by reporting business segment are presented below:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Infotainment	$ (2,881)	$ (565)	$ 17,850	$ (295)
Lifestyle	4,808	858	5,691	751
Professional	1,572	(436)	1,973	(385)
Other	0	0	0	0
Total	3,499	(143)	25,514	71
Asset Impairments	1,435	955	3,455	995
Total	$ 4,934	$ 812	$ 28,969	$ 1,066

Note 17 Retirement Benefits

Plan Descriptions

Retirement savings plan

We provide a Retirement Savings Plan (the Savings Plan) for certain employees in the United States. Under the Savings Plan, employees may contribute up to 50 percent of their pretax compensation subject to certain limitations. Each business unit will make a safe harbor non-elective contribution in an amount equal to three percent of a participant s eligible contribution. Each business unit may also make a matching contribution of up to three percent (50 percent on the first six percent of an employee s tax-deferred contribution). Matching contributions vest at a rate of 25 percent for each year of service with the employer, beginning with the second year of service.

Pension benefits

We provide defined pension benefits to certain eligible employees. The measurement date used for determining pension benefits is the last day of our fiscal year, June 30th. We have certain business units in Europe and Asia that maintain defined benefit pension plans for many of our current and former employees. The coverage provided and the extent to which the retirees share in the cost of the program vary by business unit. Generally, plan benefits are based on age, years of service and average compensation during the final years of service. In the United States, we have a Supplemental Executive Retirement Plan (the SERP) that provides retirement, death and termination benefits, as defined in the SERP, to certain key executives designated by our Board of Directors. The majority of our defined benefit plans do not have contractual or statutory provisions which specify minimum funding requirements. We are in compliance with all existing contractual obligations and statutory provisions.

The following table presents the components of net periodic benefit cost for the three and six months ended December 31, 2013 and 2012:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Service cost	$ 634	$ 544	$ 1,244	$ 1,074
Interest cost	1,807	1,777	3,583	3,526
Expected return on plan assets	(64)	(73)	(126)	(145)
Amortization of prior service cost	253	291	500	584
Amortization of net loss	760	969	1,514	1,936
Net periodic benefit cost	$ 3,390	$ 3,508	$ 6,715	$ 6,975

During the three months ended December 31, 2013 and 2012, we made contributions of $2.7 million and $1.8 million, respectively, to the defined benefit pension plans which were paid to participants. During the six months ended December 31, 2013 and 2012, we made contributions of $4.9 million and $4.2 million, respectively, to the defined benefit pension plans which were paid to participants. We expect to make approximately $4.4 million in contributions for the remainder of the fiscal year ending June 30, 2014.

Note 18 Business Segment Data

We design, manufacture and market high-quality, high fidelity audio products and electronic systems for the infotainment, automotive audio, home audio and professional markets. Our chief operating decision maker evaluates performance and allocates resources based on net sales, operating income and working capital in each of the reporting segments.

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Infotainment

Our Infotainment segment designs, manufactures and markets infotainment systems for vehicle applications to be installed primarily as original equipment by automotive manufacturers.

Lifestyle

Our Lifestyle segment designs, manufactures and markets automotive audio systems for vehicle applications to be installed primarily as original equipment by automotive manufacturers and a wide range of mid-end to high-end audio and consumer electronics for home, multimedia and mobile applications. Our Lifestyle audio products feature some of the world s most recognized audio brands, including JBL®, AKG®, Harman/Kardon®, Infinity®, Mark Levinson®, Revel®, Logic 7®, Lexicon® and Selenium®.

Professional

Our Professional segment designs, manufactures and markets an extensive range of loudspeakers, power amplifiers, digital signal processors, microphones, headphones, lighting and mixing consoles used by audio professionals in concert halls, stadiums, airports, houses of worship and other public spaces. We also provide high quality products to the sound reinforcement, music instrument support and broadcast and recording segments of the professional audio market. We offer complete systems solutions for professional installations and users around the world. Our Professional products are marketed globally under brand names including JBL Professional, AKG, Crown®, Soundcraft®, Lexicon, DigiTech®, dbx®, BSS®, Selenium, Martin® and Studer®.

Other

Our Other segment includes compensation, benefits and occupancy costs for corporate employees, net of reporting segment allocations, expenses associated with new technology innovation and our corporate brand identity campaign.

The following table reports Net sales and Operating income (loss) by each reporting segment for the three and six months ended December 31, 2013 and 2012:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Net sales:				
Infotainment	$ 690,704	$ 540,303	$ 1,330,457	$ 1,100,827
Lifestyle	429,737	371,576	764,225	663,274
Professional	207,479	143,506	404,910	287,185
Other	104	257	237	2,549
Total	$ 1,328,024	$ 1,055,642	$ 2,499,829	$ 2,053,835
Operating income (loss):				
Infotainment	$ 62,691	$ 30,251	$ 95,118	$ 74,925
Lifestyle	51,103	49,832	92,343	87,091
Professional	25,404	19,742	51,884	39,513

Other	(37,342)	(31,443)	(68,107)	(54,056)
Total	$ 101,856	$ 68,382	$ 171,238	$ 147,473

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Note 19 Significant Customers

Presented below are the percentages of net sales to, and net accounts receivables due from, customers who represent ten percent or more of our net sales or net accounts receivable, as follows:

	Net Sales Six Months Ended December 31,		Accounts Receivable, Net	
	2013	2012	December 31, 2013	June 30, 2013
BMW	17%	20%	10%	12%
Chrysler	13%	8%	14%	12%
Audi/Volkswagen	12%	13%	6%	9%
Toyota	9%	10%	5%	6%
Other customers	49%	49%	65%	61%
Total	100%	100%	100%	100%

We anticipate that BMW, Chrysler, Audi/Volkswagen and Toyota will continue to account for a significant portion of our net sales and net accounts receivable for the foreseeable future. Our customers are not obligated to any long-term purchases of our products.

Note 20 Commitments and Contingencies

At December 31, 2013, we were subject to legal claims and litigation arising in the ordinary course of business, including the matters described below. The outcome of these legal actions cannot be predicted with certainty; however, management, based upon advice from legal counsel, believes such actions are either without merit or will not have a material adverse effect on our financial condition, results of operations or cash flows.

In re Harman International Industries, Inc. Securities Litigation

On October 1, 2007, a purported class action lawsuit was filed by Cheolan Kim (the Kim Plaintiff) against Harman and certain of our officers in the United States District Court for the District of Columbia (the Court) seeking compensatory damages and costs on behalf of all persons who purchased our common stock between April 26, 2007 and September 24, 2007 (the Class Period). The original complaint alleged claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act) and Rule 10b-5 promulgated thereunder.

The complaint alleged that the defendants omitted to disclose material adverse facts about Harman s financial condition and business prospects. The complaint contended that had these facts not been concealed at the time the merger agreement with Kohlberg, Kravis, Roberts & Co. and Goldman Sachs Capital Partners was entered into, there would not have been a merger agreement, or it would have been at a much lower price, and the price of our common stock therefore would not have been artificially inflated during the Class Period. The Kim Plaintiff alleged that, following the reports that the proposed merger was not going to be completed, the price of our common stock declined, causing the plaintiff class significant losses.

On November 30, 2007, the Boca Raton General Employees Pension Plan filed a purported class action lawsuit against Harman and certain of our officers in the Court seeking compensatory damages and costs on behalf of all persons who purchased our common stock between April 26, 2007 and September 24, 2007. The allegations in the Boca Raton complaint are essentially identical to the allegations in the original Kim complaint, and like the original Kim complaint, the Boca Raton complaint alleges claims for violations of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder.

On January 16, 2008, the Kim Plaintiff filed an amended complaint. The amended complaint, which extended the Class Period through January 11, 2008, contended that, in addition to the violations alleged in the original complaint, Harman also violated Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder by knowingly failing to disclose significant problems relating to its PND sales forecasts, production, pricing, and inventory prior to January 14, 2008. The amended complaint claimed that when Defendants revealed for the first time on January 14, 2008 that shifts in PND sales would adversely impact earnings per share by more than $1.00 per share in fiscal 2008, that led to a further decline in our share value and additional losses to the plaintiff class.

On February 15, 2008, the Court ordered the consolidation of the Kim action with the Boca Raton action, the administrative closing of the Boca Raton action, and designated the short caption of the consolidated action as In re Harman International Industries, Inc. Securities Litigation, civil action no. 1:07-cv-01757 (RWR). That same day, the Court appointed the Arkansas Public Retirement System as lead plaintiff (Lead Plaintiff) and approved the law firm Cohen, Milstein, Hausfeld and Toll, P.L.L.C. to serve as lead counsel.

On March 24, 2008, the Court ordered, for pretrial management purposes only, the consolidation of Patrick Russell v. Harman International Industries, Incorporated, et al. with In re Harman International Industries, Inc. Securities Litigation.

On May 2, 2008, Lead Plaintiff filed a consolidated class action complaint (the Consolidated Complaint). The Consolidated Complaint, which extends the Class Period through February 5, 2008, contends that Harman and certain of our officers and directors violated Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder, by issuing false and misleading disclosures regarding our financial condition in fiscal year 2007 and fiscal year 2008. In particular, the Consolidated Complaint alleges that defendants knowingly or recklessly failed to disclose material adverse facts about MyGIG radios, personal navigation devices and our capital expenditures. The Consolidated Complaint alleges that when Harman s true financial condition became known to the market, the price of our common stock declined significantly, causing losses to the plaintiff class.

On July 3, 2008, defendants moved to dismiss the Consolidated Complaint in its entirety. Lead Plaintiff opposed the defendants motion to dismiss on September 2, 2008, and defendants filed a reply in further support of their motion to dismiss on October 2, 2008.

On April 12, 2012, In re Harman International Industries, Inc. Securities Litigation, civil action no. 1:07-cv-01757 (D.D.C.) was reassigned to Judge Rudolph Contreras while Patrick Russell v. Harman International Industries, Incorporated, et al. remained before Judge Richard W. Roberts.

On September 5, 2012, the Court heard oral argument on defendants motion to dismiss. At the request of the Court, on September 24, 2012, each side submitted supplemental briefing on defendants motion to dismiss. The motion is now fully briefed. As of December 31, 2013, the case remained pending before the Court.

Patrick Russell v. Harman International Industries, Incorporated, et al.

Patrick Russell (the Russell Plaintiff) filed a complaint on December 7, 2007 in the United States District Court for the District of Columbia and an amended purported putative class action complaint on June 2, 2008 against Harman and certain of our officers and directors alleging violations of the Employee Retirement Income Security Act of 1974 (ERISA) and seeking, on behalf of all participants in and beneficiaries of the Savings Plan, compensatory damages for losses to the Savings Plan as well as injunctive relief, imposition of a constructive trust, restitution, and other monetary relief. The amended complaint alleges that from April 26, 2007 to the present defendants failed to prudently and loyally manage the Savings Plan s assets, thereby breaching their fiduciary duties in violation of ERISA by causing the Savings Plan to invest in our common stock notwithstanding that the stock allegedly was no longer a prudent investment for the Participants retirement savings. The amended complaint further claims that, during the Class Period, defendants failed to monitor the Savings Plan s fiduciaries, failed to provide the Savings Plan s fiduciaries with, and to disclose to the Savings Plan s participants, adverse facts regarding Harman and our businesses and prospects. The Russell Plaintiff also contends that defendants breached their duties to avoid conflicts of interest and to serve the interests of participants in and beneficiaries of the Savings Plan with undivided loyalty. As a result of these alleged fiduciary breaches, the amended complaint asserts that the Savings Plan has suffered substantial losses, resulting in the depletion of millions of dollars of the retirement savings and anticipated retirement income of the Savings Plan s Participants.

On March 24, 2008, the Court ordered, for pretrial management purposes only, the consolidation of Patrick Russell v. Harman International Industries, Incorporated, et al. with In re Harman International Industries, Inc. Securities Litigation. Defendants moved to dismiss the complaint in its entirety on August 5, 2008. The Russell Plaintiff opposed the defendants motion to dismiss on September 19, 2008, and defendants filed a reply in further support of their

motion to dismiss on October 20, 2008. On May 22, 2013, the District Court dismissed the complaint in its entirety. The Russell Plaintiff has filed a notice of appeal but no briefing schedule has been set by the Court.

Infotainment Supply Arrangements

We have arrangements with our infotainment customers to provide products that meet predetermined technical specifications and delivery dates. In the event that we do not satisfy the performance obligations under these arrangements, we may be required to indemnify the customer. We accrue for any loss that we expect to incur under these arrangements when that loss is probable and can be reasonably estimated. We recognized a gain of zero and $6.1 million in the three and six months ended December 31, 2013, respectively relating to losses that we no longer expect to occur. We did not incur any losses under these arrangements in the three and six months ended December 31, 2012. An inability to meet performance obligations on infotainment platforms to be delivered in future periods could adversely affect our results of operations, cash flows and financial condition.

Customs NAFTA Preferential Tariff Treatment

We are in the process of submitting a prior disclosure (Prior Disclosure) related to our compliance with U.S. Customs regulations for our fiscal years 2008 through 2013. This Prior Disclosure addresses several areas of review including our compliance with (a) the North American Free Trade Agreement (NAFTA), (b) classification, (c) quantity, and (d) valuation, as defined by U.S. Customs. During the six months ended December 31, 2013, we continued our analysis and have estimated that our potential liability including interest related to this Prior Disclosure is approximately $27 million and this amount has been accrued for in our Condensed Consolidated Balance Sheets as of December 31, 2013 and June 30, 2013.

We regularly import goods that qualify for preferential duty claims pursuant to NAFTA. NAFTA requires that an importer have a valid NAFTA Certificate of Origin in its possession at the time it makes a preferential duty claim. Our review of our compliance with the NAFTA area of review has preliminarily determined that a number of preferential duty claims were made without first obtaining the required NAFTA certificate. U.S. Customs regulations, however, permit discretion to waive this requirement if the imported goods qualify for NAFTA preferential tariff treatment. We were advised in the fourth quarter of fiscal year 2013 that U.S. Customs has changed its internal practice and now intends to restrict the exercise of this discretion in this area. We believe that we will ultimately be able to demonstrate that a substantial amount of the goods imported qualified for NAFTA preferential tariff treatment. We intend to vigorously pursue a waiver of the NAFTA certificate requirement to minimize the duty and interest paid related to these claims, however, there is no assurance that we will prevail in obtaining this waiver. Our current estimate, including interest, of goods imported that do not qualify for NAFTA preferential tariff treatment is approximately $6.1 million, which is a component of the $27 million accrual referred to above. In October 2013, we submitted our Prior Disclosure supplement relating to our review of our compliance with NAFTA and remitted payment of approximately $5.7 million in November 2013. In December 2013, we submitted an additional Prior Disclosure supplement addressing other areas of our review and as a result we expect to remit payment of approximately $2.7 million by January 2014. We expect to be complete with the other areas of review by June 2014.

Note 21 Related Party Transactions

In December 2009, we entered into a three-year agreement for engineering and software development services with Neusoft Corporation (Neusoft), a Shanghai exchange listed technology solutions provider. A member of our Board of Directors is the Chairman and CEO of Neusoft. On April 20, 2010, our subsidiary, IS entered into an asset purchase and business transfer agreement (the Asset Purchase Agreement) with Neusoft Technology Solutions GmbH (Neusoft Technology), which is a subsidiary of Neusoft, for the sale of certain tangible assets located at IS s facility in Hamburg, Germany. This transaction closed on June 1, 2010. As part of the Asset Purchase Agreement, IS and Neusoft Technology entered into a five-year agreement for engineering and software development services related to IS s vehicle navigation business (the Services Agreement). Under the terms of the Asset Purchase Agreement, IS transferred at closing certain tangible assets and employment relationships to Neusoft Technology and received consideration of 6.0 million. Our indirect wholly-owned subsidiary, Harman Becker Automotive Systems GmbH (HBAS) and Neusoft Europe AG, a subsidiary of Neusoft, are guarantors under the terms of the Asset Purchase Agreement and the Services Agreement.

In the first quarter of fiscal year 2013, we entered into a contract with Neusoft to develop certain software to be integrated into certain infotainment platforms for a customer. In the third quarter of fiscal year 2013, we entered into a separate contract with Neusoft to develop digital map databases. As of December 31, 2013 and June 30, 2013, we have paid Neusoft approximately $10.1 million (7.4 million) and $7.7 million (5.8 million), respectively, which we have classified as a Current asset in our Condensed Consolidated Balance Sheets. Upon acceptance of the purchased software, which we expect to occur in the third quarter of fiscal year 2014, the asset will be reclassified as capitalized software and will be amortized over the future revenue stream of the products to which it relates.

During the three months ended December 31, 2013 and 2012, we incurred total expenses of $8.3 million and $8.6 million, respectively, for engineering and software development services with Neusoft Technology and Neusoft. During the six months ended December 31, 2013 and 2012, we incurred total expenses of $16.0 million and $15.5 million, respectively, for engineering and software development services with Neusoft Technology and Neusoft.

Note 22 Transfer of Ownership of Manufacturing Facility

On April 10, 2013 (the Schaidt Agreement Date), HBAS, entered into an agreement to transfer the ownership of an automotive manufacturing plant in Germany to a third party, Schaidt KG. Schaidt KG will manufacture and supply products for HBAS based on HBAS s orders. As consideration for the assumption by Schaidt KG of certain of HBAS s obligations, HBAS has agreed to pay Schaidt KG 41.1 million, or approximately $53.5 million, plus a bonus of 4.0 million, or approximately $5.2 million, if Schaidt KG meets certain supply obligations, as defined in the agreement. We have determined that the transfer of the manufacturing plant assets cannot be accounted for as a sale since Schaidt KG does not have adequate initial or ongoing investment in the manufacturing plant, and because we will maintain a level of continued involvement such that the risks of ownership have not transferred. During the six months ended December 31, 2013, no further payments were made nor were any expenses recognized related to the payment obligations that have been made or which are deemed probable of being made to Schaidt KG to indemnify them for their assumption of certain of our obligations. Approximately 19.9 million, or approximately $27.4 million of accrued indemnification payments are expected to be paid over the next two years and are accrued as accrued liabilities or other non-current liabilities in our Condensed Consolidated Balance Sheet at December 31, 2013, based on the expected timing. We have revised our estimated useful life of the transferred manufacturing assets to accelerate the depreciation over the expected term of the manufacturing arrangement. Approximately 1.0 million or $1.4 million and 2.0 million or $2.7 million of accelerated depreciation was recorded during the three and six months ended December 31, 2013, respectively. As a result, the manufacturing plant assets will be included in our consolidated financial statements indefinitely from the Schaidt Agreement Date forward unless future circumstances warrant a change.

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Note 23 Acquisitions

Acquisition of Duran Audio BV

On October 17, 2013, (the Duran Acquisition Date), we acquired all of the outstanding shares of Duran, a developer of professional audio products, for a total purchase price of 18.0 million, or approximately $24.4 million (the Duran Acquisition), subject to both a net debt and working capital adjustment (the Duran Adjustments). On the Duran Acquisition Date, we paid approximately 0.6 million, or approximately $0.7 million, for the estimated net debt adjustment. The adjustments are currently being finalized. The Duran Acquisition is subject to a 12 percent indemnification holdback which is payable contingent on the outcome of certain events over the next 18 months. The Duran Acquisition is also subject to an earn-out of a maximum of 12.0 million, or approximately $16.4 million, based on our expectations of the Duran Gross Profit, during the period commencing on the Duran Acquisition Date through June 30, 2020. Our preliminary valuation of the contingent consideration is 4.7 million or approximately $6.4 million.

The total cost of the Duran Acquisition, including the fair value of the contingent consideration, was allocated on a preliminary basis, subject to final allocation, to the assets acquired and liabilities assumed based on their fair values at the Duran Acquisition Date, as follows:

		October 17, 2013
Cash and cash equivalents	$	937
Accounts receivable		1,400
Inventories		2,927
Other current assets		122
Current assets		5,386
Property, plant and equipment		642
Goodwill		15,929
Intangibles		13,907
Total assets		35,864
Accounts payable		334
Accrued liabilities		561
Total current liabilities		895
Other noncurrent liabilities		3,476
Total liabilities		4,371
Net assets	$	31,493

Based on our preliminary valuation, goodwill and intangibles were recorded in connection with the Duran Acquisition based on third-party valuations and management s estimates for those acquired intangible assets. The valuation of the

acquired net assets is subject to change as we obtain additional information for our estimates during the measurement period. The primary areas of those purchase price allocations that are not yet finalized relate to identifiable intangible assets, contingent consideration and residual goodwill. Goodwill was calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Of the $15.9 million of goodwill recognized, none is deductible for tax purposes. Intangible assets include technology of $11.5 million with an approximate useful life of five years, customer relationships of $2.3 million with approximate useful lives ranging from nine months to two years, and a tradename of $0.1 million with an approximate useful life of one year. We also recorded an adjustment of $0.6 million to Inventories to adjust the opening balance to fair value. This fair value adjustment will be amortized over 8.5 months through Cost of Sales. Expenses of $0.3 million were recognized in connection with this acquisition and are included in SG&A in our Condensed Consolidated Statements of Income for the three and six months ended December 31, 2013. The operating results of Duran are included in our condensed consolidated financial statements within our Professional segment. Pro forma financial information has not been provided as the Duran Acquisition is not material to our results of operations.

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Interchain

On July 31, 2012, we entered into an agreement to purchase certain assets and liabilities of Interchain (the Interchain Acquisition), a technology product company that specializes in developing telematics, fleet management, Android® based in-vehicle infotainment and location-based solutions, for a purchase price of 45 million Indian Rupees or approximately $0.8 million, of which $0.3 million was paid on July 31, 2012 and $0.5 million was paid on October 13, 2012, which is the date the transaction closed (the Interchain Acquisition Date). The Interchain Acquisition is also subject to a 50 million Indian Rupee earn-out (approximately $0.9 million) which is payable upon the achievement of certain financial targets in the 12 month periods ending September 1, 2013 and September 2, 2014, which we recorded as a $0.2 million and $0.3 million Non-current liability in our Condensed Consolidated Balance Sheets at December 31, 2013 and June 30, 2013, respectively, based upon management s estimate of its fair value. The total cost of the Interchain Acquisition including the fair value of the earn-out, was allocated to the assets acquired and liabilities assumed based on their fair values at the Interchain Acquisition Date. Goodwill of $0.6 million and intangibles of $0.4 million were recorded in connection with the acquisition. The operating results of the Interchain Acquisition are included in our Infotainment segment. Pro-forma financial information has not been presented as the Interchain Acquisition is not material to our results of operations.

Note 24 Subsequent Events

Dividend Declaration

On January 30, 2014 we declared a cash dividend of $0.30 per share for the quarter ended December 31, 2013. The quarterly dividend will be paid on February 25, 2014 to each stockholder of record as of the close of business on February 10, 2014.

In re Harman International Industries, Inc. Securities Litigation

On January 17, 2014, Judge Rudolph Contreras granted our motion to dismiss, without prejudice, in the In Re Harman International Industries, Inc. Securities Litigation. Refer to Note 20 *Commitments and Contingencies* for more information.

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

General

The following discussion should be read in conjunction with the accompanying unaudited Condensed Consolidated Financial Statements and the related notes included in Item 1 of this Quarterly Report on Form 10-Q, and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K, for the fiscal year ended June 30, 2013 (our 2013 Annual Report). This discussion contains forward-looking statements which are based on our current expectations and experience and our perception of historical trends, current market conditions, including customer acceptance of our new products, current economic data, expected future developments, foreign currency exchange rates, and other factors that we believe are appropriate under the circumstances. These statements involve risks and uncertainties that could cause actual results to differ materially from those suggested in the forward-looking statements. Unless otherwise indicated, Harman, Company, we, our, and us are used interchangeably to refer to Harman International Industries, Incorporated and its consolidated subsidiaries. All amounts are in thousands unless otherwise indicated.

Executive Overview

We believe we are a worldwide leader in the development, manufacture and marketing of high quality, high-fidelity audio products, lighting solutions and electronic systems, as well as digitally integrated audio and infotainment systems for the automotive industry. We have developed a broad range of product offerings which we sell in our principal markets under our renowned brand names, including AKG®, Crown®, JBL®, Infinity®, Harman/Kardon®, Lexicon®, dbx®, BSS®, Studer®, Soundcraft®, Mark Levinson®, Becker®, Revel®, Logic 7®, Martin® and Selenium®. We have built these brands by developing our engineering, manufacturing and marketing competencies, and have employed these resources to establish our company as a leader in the markets we serve.

We report our business on the basis of four segments. Our Infotainment, Lifestyle and Professional segments are based on our strategic approach to the markets and customers we serve. Our fourth segment, Other, primarily includes compensation, benefit and occupancy costs for corporate employees, net of allocations and expenses associated with new technology innovation and our corporate brand identity campaign.

We believe that innovation is an important element to gaining market acceptance of our products and strengthening our market position. We have a history of leveraging our continuous technological innovation across all of the markets we serve. We have a well-deserved reputation for delivering premium audio and infotainment solutions across a full spectrum of applications. We believe that our technological innovation, the quality of our products and our reputation for on-time delivery have resulted in Harman being awarded a substantial amount of Infotainment and Lifestyle business. As of June 30, 2013, we have a cumulative estimated $19.0 billion of future awarded Infotainment and Lifestyle automotive business, which represents the estimated future lifetime net sales for all customers. This amount does not represent firm customer orders. We report our awarded business primarily based on award letters from our customers. To validate these awards, we use various assumptions, which we update annually, including global vehicle production forecasts, customer take rates for our products, revisions to product life cycle estimates and the impact of annual price reductions and exchange rates, among other factors. These assumptions are updated and reported externally on an annual basis. We update our estimated awarded business quarterly by adding the value of new awards received and subtracting sales recorded during the quarter. These quarterly updates do not include any assumptions for increased take rates, revisions to product life cycle, or any other factors. We believe our currently awarded automotive business will position us well for follow-on and new business with these existing customers.

Our management uses the amount of our future awarded business for short- and long-term budgeting and forecasting, development of earnings guidance and for planning future corporate investment and other activities, such as capital expenditures and restructuring. Our future awarded business is also an input used to approximate our enterprise value. We believe our investors utilize this information for a number of reasons, including evaluating our future financial performance over time, to model our financial results of operations, to understand the risks inherent in our current operating plan, and as an input to approximate our enterprise value. However, our estimates of future awarded automotive business are forward-looking statements and may not actually be achieved. See the risk factor We may not realize sales represented by awarded business in Item 1A Risk Factors of Part I of our 2013 Annual Report.

Our products are sold worldwide, with the largest markets located in the United States and Germany. In the United States, our primary manufacturing facilities are located in Kentucky, Indiana and Utah. Outside of the United States, we have manufacturing facilities in Austria, Brazil, China, Hungary, France, Germany, Mexico, Denmark, the Netherlands and the United Kingdom.

Our sales and earnings may vary due to the production schedules and model year changeovers of our automotive customers, the holiday buying season for home audio products, customer acceptance of our products, the timing of new product introductions, product offerings by our competitors, fluctuations in the timing of contractual agreements for customer reimbursements for research, development and engineering expenses (RD&E) and general economic conditions. Since most of our businesses operate using local currencies, our reported sales and earnings may also fluctuate due to fluctuations in foreign currency exchange rates, especially with respect to the value of the Euro and the U.S. Dollar.

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We believe significant opportunities exist to grow our business in all three of our business segments in emerging markets such as Brazil, Russia, India and China (BRIC). During the three months ended December 31, 2013, sales increased in these emerging markets to $191.8 million, an increase of $63.9 million, over the prior fiscal year. Excluding China, the BRIC countries sales increased $10.3 million to $51.8 million, an increase of 24.7 percent during the three months ended December 31, 2013, compared to the same period in the prior fiscal year. During the six months ended December 31, 2013, sales increased in these emerging markets to $332.7 million, an increase of $64.0 million, over the prior fiscal year. Excluding China, the BRIC countries sales increased $12.7 million to $93.4 million, an increase of 15.7 percent during the six months ended December 31, 2013, compared to the same period in the prior fiscal year. We expect our market share to continue to grow significantly in these countries.

We continue to roll out our global marketing campaign featuring some of the world s most prominent artists and celebrities such as Maroon 5, Linkin Park, Mariano Rivera and Tim McGraw, in order to increase brand awareness and support growth and market share gains across our entire business.

Critical Accounting Policies

Recently Adopted Accounting Standards

For the six months ended December 31, 2013, there were no significant changes to our critical accounting policies and estimates from those disclosed in the consolidated financial statements and the related notes included in our 2013 Annual Report, except for recently adopted accounting standards disclosed in Note 2 *New Accounting Standards* in the Notes to the Condensed Consolidated Financial Statements for the six months ended December 31, 2013.

Recently Issued Accounting Standards

Refer to Note 2 *New Accounting Standards* in the Notes to the Condensed Consolidated Financial Statements for a summary of recently issued accounting standards.

Results of Operations

Net Sales

Net sales for the three months ended December 31, 2013 were $1.328 billion compared to $1.056 billion in the same period in the prior year, an increase of 25.8 percent or an increase of 23.3 percent excluding foreign currency translation. Net sales increased in all of our segments. The increase was primarily due to new scalable infotainment business, the acquisition of Martin Professional A/S (Martin), higher automotive production volumes, higher home and multimedia sales, improved economic conditions in Europe and favorable foreign currency translation of $21.6 million.

Net sales for the six months ended December 31, 2013 were $2.500 billion compared to $2.054 billion in the same period in the prior year, an increase of 21.7 percent or an increase of 18.9 percent excluding foreign currency translation. Net sales increased in all of our segments. The increase was primarily due to new scalable infotainment business, the acquisition of Martin, higher automotive production volumes, higher home and multimedia sales, improved economic conditions in Europe and favorable foreign currency translation of $48.0 million.

A summary of our net sales by business segment is presented below:

	Three Months Ended December 31,				Six Months Ended December 31,			
	2013	**%**	**2012**	**%**	**2013**	**%**	**2012**	**%**
Net sales:								
Infotainment	$ 690,704	52.0%	$ 540,303	51.0%	$ 1,330,457	53.2%	$ 1,100,827	53.6%
Lifestyle	429,737	32.4%	371,576	35.0%	764,225	30.6%	663,274	32.3%
Professional	207,479	15.6%	143,506	14.0%	404,910	16.2%	287,185	14.0%
Other	104	0.0%	257	0.0%	237	0.0%	2,549	0.1%
Total	$ 1,328,024	100.0%	$ 1,055,642	100%	$ 2,499,829	100.0%	$ 2,053,835	100.0%

Infotainment Net sales for the three months ended December 31, 2013 increased $150.4 million, or 27.8 percent, compared to the same period in the prior year, and increased 23.9 percent excluding foreign currency translation. The increase in net sales was driven by increases in new scalable infotainment systems and higher take rates, higher automotive production volumes, the extension of product launches across car lines, improved economic conditions in Europe and favorable foreign currency translation of $17.4 million.

Net sales for the six months ended December 31, 2013 increased $229.6 million, or 20.9 percent, compared to the same period in the prior year, and increased 16.6 percent excluding foreign currency translation. The increase in net sales was driven by increases in new scalable infotainment systems and higher take rates, higher automotive production volumes, the expansion of product launches across car lines, improved economic conditions in Europe and favorable foreign currency translation of $40.6 million.

Lifestyle Net sales for the three months ended December 31, 2013 increased $58.2 million, or 15.7 percent, compared to the same period in the prior year, and increased 13.9 percent excluding foreign currency translation. The increase in net sales was driven by higher home and multimedia sales as a result of higher automotive production volumes and increased take rates, the impact of our marketing initiatives, higher automotive audio sales, improved economic conditions in Europe and favorable foreign currency translation of $5.6 million.

Net sales for the six months ended December 31, 2013 increased $101.0 million, or 15.2 percent, compared to the same period in the prior year, and increased 13.5 percent excluding foreign currency translation. The increase in net sales was driven by higher home and multimedia sales, higher automotive audio sales, improved economic conditions in Europe and favorable foreign currency translation of $10.0 million.

Professional Net sales for the three months ended December 31, 2013 increased $64.0 million, or 44.6 percent, compared to the same period in the prior year, and increased 46.0 percent excluding foreign currency translation. The increase in net sales was driven by the Martin acquisition, as well as higher sales in all our business units, increased demand for audio products, improved economic conditions in Europe, partially offset by unfavorable foreign currency translation of $1.4 million.

Net sales for the six months ended December 31, 2013 increased $117.7 million, or 41.0 percent, compared to the same period in the prior year, and increased 42.3 percent excluding foreign currency translation. The increase in net sales was driven by the Martin acquisition, as well as higher sales in all our business units, increased demand for audio products, improved economic conditions in Europe, partially offset by unfavorable foreign currency translation of $2.6 million.

Gross Profit

Gross profit as a percentage of net sales increased 2.9 percentage points to 28.6 percent for the three months ended December 31, 2013 compared to 25.7 percent of net sales in the same period in the prior year. The increase in overall gross profit as a percentage of net sales was in our Infotainment and Lifestyle segments due to improved leverage of fixed costs over a higher net sales base and lower costs due to productivity initiatives and favorable product mix. Our gross profit as a percentage of net sales decreased in our Professional segment due to the inclusion of Martin in the three months ended December 31, 2013.

Gross profit as a percentage of net sales increased 1.2 percentage points to 28.0 percent for the six months ended December 31, 2013 compared to 26.8 percent of net sales in the same period in the prior year. The increase in overall gross profit as a percentage of net sales was in our Infotainment and Lifestyle segments due to improved leverage of fixed costs over a higher net sales base and lower costs due to productivity initiatives and favorable product mix. Our

gross profit as a percentage of net sales decreased in our Professional segment due to the inclusion of Martin in the six months ended December 31, 2013.

A summary of our gross profit by business segment is presented below:

	Three Months Ended December 31,				Six Months Ended December 31,			
	2013	Percentage of Net Sales	2012	Percentage of Net Sales	2013	Percentage of Net Sales	2012	Percentage of Net Sales
Gross profit:								
Infotainment	$ 165,162	23.9%	$ 113,163	20.9%	$ 306,504	23.0%	$ 241,658	22.0%
Lifestyle	136,439	31.7%	102,401	27.6%	243,319	31.8%	196,715	29.7%
Professional	77,671	37.4%	55,967	39.0%	150,982	37.3%	111,207	38.7%
Other	178	*	262	*	294	*	460	*
Total	$ 379,450	28.6%	$ 271,793	25.7%	$ 701,099	28.0%	$ 550,040	26.8%

* Percent not meaningful.

Infotainment Gross profit as a percentage of net sales increased 3.0 percentage points to 23.9 percent for the three months ended December 31, 2013 compared to the same period in the prior year. The increase in gross profit as a percentage of net sales was primarily due to improved leverage of fixed costs over a higher net sales base and lower costs due to productivity initiatives and increased mix of scalable infotainment systems.

Gross profit as a percentage of net sales increased 1.0 percentage point to 23.0 percent for the six months ended December 31, 2013 compared to the same period in the prior year. The increase in gross profit as a percentage of net sales was primarily due to improved leverage of fixed costs over a higher net sales base and lower costs due to productivity initiatives and favorable product mix.

Lifestyle Gross profit as a percentage of net sales increased 4.1 percentage points to 31.7 percent for the three months ended December 31, 2013 compared to the same period in the prior year. The increase in gross profit as a percentage of net sales was due to improved leverage of fixed costs over a higher net sales base and lower costs due to productivity initiatives.

Gross profit as a percentage of net sales increased 2.1 percentage points to 31.8 percent for the six months ended December 31, 2013 compared to the same period in the prior year. The increase in gross profit as a percentage of net sales was due to improved leverage of fixed costs over a higher net sales base and lower costs due to productivity initiatives.

Professional Gross profit as a percentage of net sales decreased 1.6 percentage points to 37.4 percent for the three months ended December 31, 2013 compared to the same period in the prior year. The decrease in gross profit as a percentage of net sales was primarily due to the inclusion of Martin in the three months ended December 31, 2013, partially offset by lower manufacturing expenses resulting from cost saving initiatives.

Gross profit as a percentage of net sales decreased 1.4 percentage points to 37.3 percent for the six months ended December 31, 2013 compared to the same period in the prior year. The decrease in gross profit as a percentage of net sales was primarily due to the inclusion of Martin in the six months ended December 31, 2013, partially offset by lower manufacturing expenses resulting from cost saving initiatives.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) were $277.6 million for the three months ended December 31, 2013 compared to $203.4 million in the same period in the prior year, an increase of $74.2 million. As a percentage of net sales, SG&A increased 1.6 percentage points in the three months ended December 31, 2013 compared to the same period in the prior year. The increase in SG&A was primarily in support of increased net sales, a reduction of $12.5 million in contingent consideration in the prior year related to the acquisition of Harman Embedded Audio, LLC (formerly known as MWM Acoustics LLC) and certain related entities (MWM Acoustics), higher marketing costs related to our brand awareness campaign, the inclusion of Martin in the three months ended December 31, 2013 and unfavorable foreign currency translation of $3.2 million. RD&E increased $19.6 million to $91.1 million, or 6.9 percent of net sales in the three months ended December 31, 2013, compared to $71.5 million, or 6.8 percent of net sales in the same period in the prior year, primarily due to lower customer reimbursements and unfavorable foreign currency translation of $1.9 million.

SG&A were $529.9 million for the six months ended December 31, 2013 compared to $402.6 million in the same period in the prior year, an increase of $127.3 million. As a percentage of net sales, SG&A increased 1.6 percentage points in the six months ended December 31, 2013 compared to the same period in the prior year. The increase in SG&A was primarily in support of increased net sales, a reduction of $12.5 million in contingent consideration in the prior year related to the acquisition of MWM Acoustics, higher marketing costs related to our brand awareness campaign, higher restructuring costs, the inclusion of Martin in the six months ended December 31, 2013 and unfavorable foreign currency translation of $7.4 million. RD&E increased $15.1 million to $164.7 million, or 6.6 percent of net sales in the six months ended December 31, 2013, compared to $149.5 million, or 7.3 percent of net sales in the same period in the prior year, primarily due to lower customer reimbursements and unfavorable foreign

currency translation of $4.9 million.

A summary of SG&A by business segment is presented below:

	Three Months Ended December 31,				Six Months Ended December 31,			
	2013	**Percentage of Net Sales**	**2012**	**Percentage of Net Sales**	**2013**	**Percentage of Net Sales**	**2012**	**Percentage of Net Sales**
SG&A:								
Infotainment	$ 102,472	14.8%	$ 82,912	15.3%	$ 211,387	15.9%	$ 166,733	15.1%
Lifestyle	85,334	19.9%	52,570	14.1%	150,975	19.8%	109,625	16.5%
Professional	52,268	25.2%	36,225	25.2%	99,098	24.5%	71,694	25.0%
Other	37,520	*	31,704	*	68,401	*	54,515	*
Total	$ 277,594	20.9%	$ 203,411	19.3%	$ 529,861	21.2%	$ 402,567	19.6%

* Percent not meaningful.

Infotainment SG&A increased $19.6 million to $102.5 million for the three months ended December 31, 2013 compared to the same period in the prior year. The increase in SG&A was primarily in support of increased net sales, higher RD&E, higher restructuring costs, higher amortization expense and unfavorable foreign currency translation of $2.7 million. As a percentage of net sales, SG&A decreased 0.5 percentage points to 14.8 percent for the three months ended December 31, 2013 compared to the same period in the prior year. RD&E increased $17.0 million to $61.4 million, or 8.9 percent of net sales in the three months ended December 31, 2013, compared to $44.4 million, or 8.2 percent of net sales in the same period in the prior year, primarily due to lower customer reimbursements and unfavorable foreign currency translation of $1.6 million.

SG&A increased $44.7 million to $211.4 million for the six months ended December 31, 2013 compared to the same period in the prior year. The increase in SG&A was primarily in support of increased net sales, higher RD&E, higher restructuring costs, higher amortization expense and unfavorable foreign currency translation of $6.5 million. As a percentage of net sales, SG&A increased 0.8 percentage points to 15.9 percent for the six months ended December 31, 2013 compared to the same period in the prior year. RD&E increased $11.5 million to $110.0 million, or 8.3 percent of net sales in the six months ended December 31, 2013, compared to $98.5 million, or 8.9 percent of net sales in the same period in the prior year, primarily due to lower customer reimbursements and unfavorable foreign currency translation of $4.2 million.

Lifestyle SG&A increased $32.8 million to $85.3 million for the three months ended December 31, 2013, compared to the same period in the prior year, primarily in support of increased net sales, a reduction of $12.5 million in contingent consideration in the prior year related to the acquisition of MWM Acoustics, higher marketing costs related to our brand-awareness campaign and unfavorable foreign currency translation of $0.6 million. As a percentage of net sales, SG&A increased 5.8 percentage points to 19.9 percent for the three months ended December 31, 2013 compared to the same period in the prior year. RD&E decreased $1.0 million to $16.9 million, or 3.9 percent of net sales in the three months ended December 31, 2013 compared to $17.9 million, or 4.8 percent of net sales in the same period in the prior year due to productivity improvements related to changes in our global footprint.

SG&A increased $41.4 million to $151.0 million for the six months ended December 31, 2013, compared to the same period in the prior year, primarily in support of increased net sales, a reduction of $12.5 million in contingent consideration in the prior year related to the acquisition of MWM Acoustics, higher marketing costs related to our brand-awareness campaign and unfavorable foreign currency translation of $1.1 million. As a percentage of net sales, SG&A increased 3.3 percentage points to 19.8 percent for the six months ended December 31, 2013 compared to the same period in the prior year. RD&E decreased $1.1 million to $31.3 million, or 4.1 percent of net sales in the six months ended December 31, 2013 compared to $32.4 million, or 4.9 percent of net sales in the same period in the prior year due to productivity improvements related to changes in our global footprint.

Professional SG&A increased $16.0 million to $52.3 million for the three months ended December 31, 2013, compared to the same period in the prior year, primarily due to the inclusion of Martin in the three months ended December 31, 2013 and higher amortization expense related to intangible assets acquired in the acquisitions of Martin and Duran Audio BV (Duran). As a percentage of net sales, SG&A was flat at 25.2 percent for the three months ended December 31, 2013 compared to the same period in the prior year. RD&E increased $2.9 million to $10.0 million, or 4.8 percent of net sales in the three months ended December 31, 2013 compared to $7.1 million, or 5.0 percent of net sales in the same period in the prior year, primarily due to the inclusion of Martin in the three months ended December 31, 2013.

SG&A increased $27.4 million to $99.1 million for the six months ended December 31, 2013, compared to the same period in the prior year, primarily due to the inclusion of Martin in the six months ended December 31, 2013 and higher amortization expense related to intangible assets acquired in the acquisitions of Martin and Duran. As a

percentage of net sales, SG&A decreased 0.5 percentage point to 24.5 percent for the six months ended December 31, 2013 compared to the same period in the prior year. RD&E increased $3.5 million to $18.0 million, or 4.4 percent of net sales in the six months ended December 31, 2013 compared to $14.5 million, or 5.1 percent of net sales in the same period in the prior year, primarily due to the inclusion of Martin in the six months ended December 31, 2013.

Other Other SG&A includes compensation, benefit and occupancy costs for corporate employees, new technology innovation and expenses associated with our corporate brand identity campaign. Other SG&A increased $5.8 million to $37.5 million in the three months ended December 31, 2013 compared to the same period in the prior year, primarily due to increased stock compensation expense and RD&E expenses. Other SG&A increased $13.9 million to $68.4 million in the six months ended December 31, 2013 compared to the same period in the prior year, primarily due to increased stock compensation expense, marketing and RD&E expenses.

Restructuring

Our restructuring program that is designed to improve our global footprint, cost structure, technology portfolio, human resources and internal processes continues.

For the three and six months ended December 31, 2013 and 2012, we continued to refine and expand on activities launched in prior years. During the three and six months ended December 31, 2013, we launched additional programs to drive functional efficiencies and improve our cost structure and global footprint. No significant new programs were launched during the three and six months ended December 31, 2012.

A summary and components of our restructuring initiatives are presented below and include accruals for new programs as well as revisions to estimates, both increases and decreases, to programs accrued in prior periods:

	Severance Related Costs	Third Party Contractor Termination Costs	Facility Closure and Other Related Costs	Asset Impairments[1]	Total
Liability, June 30, 2013	$ 23,563	$ 1,014	$ 33,848	$ 0	$ 58,425
Expense [2]	18,353	4,286	2,875	3,455	28,969