HARMAN INTERNATIONAL INDUSTRIES INC /DE/
Form 10-K
August 07, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2015

or

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

For the transition period from __________ to __________

Commission File Number 001-09764

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)**

Registrant s telephone number, including area code (203) 328-3500

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, par value $.01 per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 Act). Yes ¨ No x

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of December 31, 2014 (the last business day of the registrant s most recently completed second fiscal quarter) was $7,273,559,193 based upon the closing price of the shares on the New York Stock Exchange on that date.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date: 71,171,673 shares of common stock, par value $.01 per share, as of July 31, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement to be delivered to shareholders in connection with the 2015 Annual Meeting of Stockholders are incorporated by reference into Part III.

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The page numbers in this Table of Contents reflect actual page numbers, not EDGAR page tag numbers.

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

Harman, the Harman logo, and 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, uncertainties and assumptions, 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 if there are delays in our product launches or increased pricing pressure from our customers;
- the loss of one or more significant customers, the loss of a significant platform with an automotive customer or the in-sourcing of certain services by our automotive customers;
- fluctuations in currency exchange rates, particularly with respect to the value of the U.S. Dollar and the Euro;
- 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;

our ability to integrate successfully our recently completed and future acquisitions;

our ability to attract and retain qualified senior management and to prepare and implement an appropriate succession plan for our critical organizational positions; 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 this report. We undertake

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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.

Market, ranking and other data

In this report, we refer to information regarding market data obtained from internal sources, market research, publicly available information and industry publications. Estimates are inherently uncertain, involve risks and uncertainties and are subject to change based on various factors, including those discussed under the caption Risk Factors which is located in Item 1A of Part I of this report.

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Part I

Item 1. Business
Our Company

We believe we are a leader in the design and engineering of connected products and solutions for automakers, consumers and enterprises worldwide, including audio systems, visual products, enterprise automation solutions and connected services. We have developed, both internally and through a series of strategic acquisitions, a broad range of product offerings sold under renowned brand names in our principal markets. Our AKG®, AMX®, Crown®, Harman/Kardon®, Infinity®, JBL®, JBL Professional, Lexicon®, Mark Levinson®, Martin®, Revel®, Soundcraft® and Studer® brand names are well known worldwide for premium quality and performance. Our software solutions power mobile devices and systems that are designed to be connected, integrated, personalized and adaptive across all platforms, from work and home, to car and mobile.

Infotainment

Our Infotainment segment designs, manufactures and markets infotainment systems for vehicle applications to be installed primarily as original equipment by automotive manufacturers. We are committed to enhancing the driving experience through technologically advanced solutions for entertainment, information and safety. Our premium scalable infotainment platforms deliver enhanced and connected capabilities to the car, including intelligent high-performance navigation with embedded solutions for wireless upgradeability, multimedia, premium entertainment, on-board and off-board connectivity and active safety systems. Our new intelligent connected navigation system enables a new generation of driver usability and feature functionality, including navigation solutions with over-the-air updates offering drivers better route instructions, more accurate and up-to-date navigation data and integrated features for a safer and more intuitive experience. Global customers for our infotainment systems include BMW, Daimler, Fiat Chrysler Automobiles, Geely, General Motors, Hyundai, Qoros, Subaru, Suzuki, TATA, Toyota/Lexus, Ssangyong, the Volkswagen Group and Yamaha. We also produce a Harman/Kardon branded infotainment system for Harley-Davidson touring motorcycles.

Lifestyle

Our Lifestyle segment designs, manufactures and markets car audio systems for vehicle applications to be installed primarily as original equipment by automotive manufacturers, as well as a wide range of mid-to high-end loudspeaker and electronics for home, multimedia and mobile applications. We believe that we continue to redefine audio excellence for the home, the car and on-the-go listening. Our Lifestyle products are marketed worldwide under renowned brand names including AKG, Harman/Kardon, Infinity, JBL, JBL Professional, Lexicon, Mark Levinson and Revel. We also have rights to use the Bowers & Wilkins, Bang & Olufsen and Canton brand names within the automotive space. Global customers for our premium car audio systems include Aston Martin, BMW, Brilliance, Chang an, Daimler, Dongfeng, Fiat Chrysler Automobiles, Ford, Geely, General Motors, Great Wall, Hyundai, McLaren, PSA Peugeot Citroën, SAIC, Subaru, Tesla, Toyota/Lexus and the Volkswagen Group. Our car audio products feature innovative technologies such as Clari-Fi , HALOsonic and Quantum Logic Surround .

Home applications include dedicated home audio and theater systems, as well as distribution systems that provide multi-zone high-quality audio and video. Multimedia applications comprise a wide-range of headphones, computer-embedded audio and branded portable wireless speakers. Aftermarket mobile products include speakers, amplifiers and digital signal processors that deliver high-quality in-car audio. Our home audio products are sold in specialty audio stores, Harman stores, mass-market retail stores such as Apple, Best Buy, Target, Media Markt and Fnac and through online retailers such as Amazon.com and Harmanaudio.com.

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Professional

Our Professional segment designs, manufactures and markets an extensive range of audio, lighting, video and control and automation solutions for commercial, enterprise and public space applications, including concert halls, stadiums, airports, conference centers, educational institutions, command centers and houses of worship. We design products for recording, broadcast, cinema and music reproduction applications such as loudspeakers, power amplifiers, digital signal processors, microphones, headphones and mixing consoles. We also provide high-quality products to the sound reinforcement, music instrument support and broadcast and recording segments of the professional audio market. Our Professional audio products are used in prestigious venues and at important events such as the GRAMMY® Awards, the Emmy® Awards, the Super Bowl®, the Oscars®, the MTV® Video Music Awards, the Country Music Awards®, Olympic Stadium in Beijing and Yankee Stadium.

In addition, our Professional segment offers solutions that simplify the way people interact with technology and solves the complexity of managing this technology with scalable systems. These products span control and automation, system-wide switching and audio and video signal distribution, as well as digital signage and technology management. We provide turnkey system solutions that offer the customer improved performance, reliability, ease of installation and use, as well reduced environmental impact. We also provide full lighting solutions for the entertainment, architectural and commercial sectors. Our Professional segment products are marketed globally under a number of brand names, including AKG, AMX, Crown, JBL Professional, Lexicon, Martin, Soundcraft and Studer.

Services

Our Services segment was formed in April 2015 with the acquisition of Symphony Teleca Corporation (STC). The acquisition of STC included more than 8,000 employees, predominantly software engineers and designers. Our Services segment creates innovative software solutions that integrate design, mobility, cloud and analytics and brings the benefits of the connected world to the automotive, retail, mobile, healthcare, media and consumer electronics markets. The Services segment offers services and solutions in order to help customers understand and visualize their data so they can make faster and more informed decisions, cloud-enable their business, support technical agility and exploit omni-channel strategies. Our Services segment customers include Adobe Systems, Comcast, Google, Intel, Jaguar Land Rover, Microsoft, Tesco, Verizon and Sirius/XM Radio.

Other

Other 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 and the operations of Red Bend Ltd. (Redbend) from the February 26, 2015 acquisition date. Redbend provides virtualization technologies for cyber security and advanced over-the-air solutions to automotive manufacturers, handset manufacturers and mobile carriers.

Results of Operations

Our results of operations depend on our sales in the infotainment, car audio, home audio, professional and services industries. Our products and services are sold worldwide, the largest markets of which are the United States and Germany.

Our Strengths

World-class brand portfolio

We believe that our brands and the innovative technologies they represent, many of which Harman pioneered, have helped establish our Company as a leader in the primary markets we serve. We have successfully leveraged our brands across our Infotainment, Lifestyle, Professional and Services segments to increase awareness and build brand equity to the benefit of all of the markets we serve.

Innovation and technological expertise

We believe that our technological innovation, the quality of our products and services and our reputation for on-time delivery have resulted in Harman being awarded a substantial amount of Infotainment and Lifestyle automotive business. As of June 30, 2015, we have a cumulative estimated $23.0 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 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 believe our future 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-term 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 to evaluate 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 this report.

Seasoned management team with extensive global experience

Our senior management team possesses substantial experience leading technology-oriented companies, promoting profitable growth through continuous value-added innovation and providing guidance, leadership and cost-discipline through challenging economic conditions.

Our Growth Strategy

Continued growth through innovation

We are focused on designing and developing products, solutions and software services for automakers, consumers, and enterprises worldwide.

We believe we can grow our business with automotive manufacturers through an increase in the number of models offering our audio and infotainment systems, increases in per-vehicle content through the provision of integrated infotainment and premium branded audio systems, higher penetration levels of high-level audio and infotainment systems within existing models, by providing systems that will continue to integrate advanced driver assistance and safety measures as they evolve and by introducing software services through over-the-air updates.

We have developed advanced solutions for the connected car with our next-generation scalable infotainment platform based on innovative system architecture that offers rapid development of connected car apps and advanced safety features. We have started integrating smart apps like Apple CarPlay™, Google Automotive Link™ and China s Baidu CarLife into our infotainment systems.

We have developed entry-level and mid-range infotainment systems that we believe will deliver industry-leading performance at an affordable price that will allow us to penetrate the emerging entry-level and mid-range automotive market. We have developed, through our GreenEdge™ initiative, environmentally friendly technologies to reduce power consumption and product weight, a growing area of opportunity for environmentally conscious customers.

We are also extending our acoustic expertise beyond premium car audio with our new Individual Sound Zones (ISZ) technology, which we expect will be available in fiscal year 2016. ISZ enables drivers and passengers to create sonic zones between individuals for the ultimate personalized car audio experience.

Continued growth through acquisitions

On April 8, 2015 (the STC Acquisition Date), we acquired all of the outstanding shares of STC, a global software services company that provides software engineering and integration services. We believe that the acquisition of STC is a transformative step for Harman that provides us with immediate advantages in software services. With the addition of cloud, mobility and analytics competencies, we believe we will be able to accelerate the development of solutions for the connected car and for a broader set of industries and markets. We are integrating STC into our newly-formed Services segment. The operating results of STC are included in our consolidated financial statements from the STC Acquisition Date within our newly-formed Services segment.

On June 1, 2015 (the B&O Acquisition Date), we acquired certain automotive assets and liabilities of Bang & Olufsen A/S (B&O), a developer of home audio systems and car audio solutions for global customers such as Aston Martin, BMW, Daimler and the Volkswagen Group, as well as, a perpetual, exclusive license to use the Bang & Olufsen and B&O Play trademarks in the automotive space. Bang & Olufsen is a distinctive brand that complements our existing premium branded offerings. As of June 30, 2015, the acquisition of certain automotive assets of B&O was being reviewed by the UK Competition and Markets Authority (the UK CMA). In connection with this review, the UK CMA issued an order preventing us from proceeding with the integration of the acquired B&O automotive assets into Harman, with certain exceptions, until such time as they have rendered a decision in the matter. On August 5, 2015, the UK CMA revoked the order preventing us from integrating the acquired assets and we intend to complete the integration of the acquired B&O automotive assets into our existing premium branded offerings in car audio within our Lifestyle segment. The operating results of the acquired B&O automotive assets are included in our consolidated financial statements from the B&O Acquisition Date within our Lifestyle segment.

On February 26, 2015 (the Redbend Acquisition Date), Harman Becker Automotive Systems Manufacturing Kft, our indirect wholly-owned subsidiary, acquired all of the outstanding shares of Redbend, a provider of software management technology for connected devices, over-the-air software and firmware upgrading services. Building upon Redbend s strength in the mobile and carrier markets, we are planning on accelerating Redbend s growth in the automotive space to position Redbend software as the de facto standard for over-the-air software services for mobile devices and automotive applications. Redbend serves handset manufacturers and mobile carriers around the world, including HTC, Motorola, Samsung and Sony. Redbend s sophisticated software systems are included in a steadily increasing number of integrated devices and manage updates for firmware, middleware and third party apps. The operating results of Redbend are included in our consolidated financial statements from the Redbend Acquisition Date within our Other segment.

On February 1, 2015 (the S1nn Acquisition Date), Harman Becker Automotive Systems GmbH (HBAS), our indirect wholly-owned subsidiary, acquired all of the issued and outstanding shares of S1nn GmbH & Co. KG (S1nn), a developer of infotainment systems, connectivity and car audio solutions. S1nn provides a range of technology and system integration solutions and software application services to top tier automotive companies, such as Tesla Motors and the Volkswagen Group. The operating results of S1nn are included in our consolidated financial statements from the S1nn Acquisition Date within our Infotainment and Lifestyle segments.

On June 10, 2015 (the SVSI Acquisition Date), Harman Professional, Inc., our wholly-owned subsidiary, acquired all of the issued and outstanding shares of Southern Vision Systems, Inc. (SVSI), a developer, manufacturer and marketer of audio/video over internet protocol products and services. On December 30, 2014 (the IPSG/VFX Acquisition

Date), Harman International Industries Pty. Ltd., our indirect wholly-owned subsidiary, acquired all of the outstanding shares of I.P.S.G. International Product Solution Group Pty Ltd and

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VFX Systems Pty Ltd (collectively IPSG/VFX), a developer, manufacturer and distributor of audio products. We are integrating the products and the technology purchased from these acquisitions into our product offerings within our Professional segment. The operating results of SVSI and IPSG/VFX are included in our consolidated financial statements from the SVSI Acquisition Date and the IPSG/VFX Acquisition Date, respectively, within our Professional segment.

Expansion into emerging markets

We believe significant opportunities continue to exist to grow our business in all of our business segments in emerging markets, particularly in Brazil, Russia, India and China (BRIC). Our BRIC revenue has continued to grow over the last four years, and we expect our market share to continue to grow significantly in the BRIC countries. We have repositioned our research and development and production capabilities and have developed distribution channels to be able to meet the demand for our products in these markets.

Products

Infotainment

We believe that we are a leader in the development and manufacture of high-quality, digitally-integrated infotainment systems for automobiles. In recent years, the automotive industry has experienced increased demand for information and entertainment in automotive vehicles. We have developed leading technical competencies to address this demand. In fiscal year 2015, we supplied infotainment systems for vehicles manufactured by BMW, Daimler, Fiat Chrysler Automobiles, Geely, General Motors, Hyundai, Qoros, Subaru, Suzuki, TATA, Toyota/Lexus, Ssangyong, the Volkswagen Group and Yamaha. We also produce a Harman/Kardon branded infotainment system for Harley-Davidson touring motorcycles.

Lifestyle

We believe that we are a leader in the development and manufacture of high-quality, high-fidelity, digitally-integrated premium branded audio systems and components for automobiles. We continue to leverage our expertise in the design and manufacture of premium branded audio systems and components, as well as our reputation for quality associated with our brand names. As a result of our well-established relationships with automobile manufacturers, our engineers are engaged early in the vehicle design process to develop systems that optimize acoustic performance and minimize weight and space requirements. We supply branded car audio systems and components using our portfolio of brand names including Harman/Kardon, Infinity, JBL, JBL Professional, Lexicon, Mark Levinson and Revel for vehicles manufactured by Aston Martin, BMW, Brilliance, Chang an, Daimler, Dongfeng, Fiat Chrysler Automobiles, Ford, Geely, General Motors, Great Wall, Hyundai, McLaren, PSA Peugeot Citroën, SAIC, Subaru, Tesla, Toyota/Lexus and the Volkswagen Group. We also have an exclusive license with Bowers & Wilkins to develop, manufacture, sell and service premium car audio systems under the Bowers & Wilkins brand name. We also have rights to use the Canton brand name within the automotive space. In connection with the acquisition of certain automotive assets of B&O, in June 2015, we also added Bang & Olufsen and B&O Play to our premium car audio brand portfolio.

We manufacture loudspeakers under the Harman/Kardon, Infinity, JBL and Revel brand names for the home audio market. These loudspeaker lines include models designed for two-channel stereo and multi-channel surround sound applications for the home in a wide range of performance choices. The JBL and Infinity product lines also include car loudspeakers, subwoofers, amplifiers and digital signal processors sold in the mobile aftermarket. The JBL and Infinity products also include marine speakers.

We also offer a broad range of home audio electronics under the Harman/Kardon, Lexicon, and Mark Levinson brand names. Our Harman/Kardon home electronics line includes audio/video receivers featuring surround sound processing capabilities and multi-channel amplifiers, Blu-ray DVD players and CD players. We design high-end home audio electronics, including amplifiers, digital signal processors, multi format digital media players and transports and surround sound processors that we market under the renowned Mark Levinson and Lexicon brands. In the multimedia markets, we sell headphones, computer-embedded audio and branded portable wireless speakers under the AKG, JBL, Harman/Kardon and Infinity brand names.

Professional

Our professional products include loudspeakers, electronic equipment, video and control solutions and lighting solutions that are marketed under what we believe are some of the most respected brand names in the industry. The professional market is increasingly moving to digital technology and we believe that we are a leader in this market. Our Professional segment derives value from our ability to share research and development, engineering talent, technical expertise and other digital resources among our business units. Loudspeakers, power amplifiers, digital signal processors, mixing consoles, microphones, headphones, lighting, video and control and automation solutions equipment each have substantial digital engineering resources and work together to achieve common goals.

Our professional loudspeakers are well known for high quality and superior sound. JBL branded products include studio monitors, loudspeaker systems, powered loudspeakers, sound reinforcement systems, cinema systems, surround sound systems, industrial loudspeakers and electro-acoustic software-based directivity control steerable speaker columns. Our professional branded products include line arrays, screen and portable systems and related technologies for public sound reinforcement.

Our professional electronic audio products are recognized for high quality and reliability. We market these products on a worldwide basis under various trademarks, including AKG, Crown, Lexicon, Soundcraft and Studer.

We believe the integration of loudspeakers and electronics enhances our ability to provide complete systems solutions to the professional audio market. As such, we produce professional microphones and headphones under the AKG brand name, amplifiers under the Crown brand name, sound mixing consoles under the Soundcraft and Studer brand names, and signal processing products, equalizers, and special effects devices under the Lexicon brand name.

With our HiQnet® network protocol we can configure, connect and control a complete professional sound system from microphone to speaker on one unified digital network. This system provides enhanced productivity and facilitates real-time problem diagnosis and correction from a central location.

Our professional video and control solutions include enterprise automation and control systems, as well as audio/video switching and distributing solutions under the AMX brand name. In addition, our IDX information delivery system provides seamless audio and visual information delivery solutions in a highly flexible and scalable manner.

We provide full lighting solutions for the entertainment, architectural and commercial sectors under the Martin brand name.

Services

Our Services segment creates innovative software solutions that integrate design, mobility, cloud and analytics and brings the benefits of the connected world to the automotive, retail, mobile, healthcare, media and consumer electronics markets.

Manufacturing

We believe that our manufacturing capabilities are essential to maintaining and improving product quality and performance. Our manufacturing facilities are located in North America, Europe, Asia and South America. Our facilities have been designed to emphasize worker safety and compliance with environmental, health and safety regulations.

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Our manufacturing facilities for our Infotainment segment are located in Hungary, Mexico, China, India, Brazil and the U.S. These facilities are used to manufacture infotainment systems.

Our manufacturing facilities for our Lifestyle segment are located in Hungary, Mexico, China, India and the U.S. These facilities are used to manufacture our car audio systems. Our Lifestyle segment primarily uses original design manufacturers for the manufacture of its home audio products to generate cost efficiencies, deliver products faster and better serve our customers. These manufacturers are primarily based in China. We also have a facility in Brazil that produces aftermarket mobile products.

In North America, our principal Professional segment s manufacturing facilities are located in Mexico for loudspeakers, in Indiana for electronic products including amplifiers and effects devices, and in Washington for video and control products. Our Professional segment s electronics manufacturing in Europe includes mixing consoles in the United Kingdom, lighting solutions in Denmark and microphones and headphones in Austria. Our Professional segment s electronics manufacturing in Brazil includes electronic loudspeakers, amplifiers and other components. Our Professional segment s manufacturing in China includes audio electronics and loudspeakers.

Suppliers

Although most components essential to our business are generally available from multiple suppliers, a number of components are currently obtained from limited sources. We use rare earth minerals in our products, specifically rare earth neodymium magnets. We also use externally sourced microchips in many of our products. Several independent suppliers manufacture loudspeakers and electronic products for us. The loss of any one of these suppliers could have a material adverse impact on our consolidated results of operations or consolidated financial condition.

Distribution Channels

Infotainment

We primarily sell our infotainment systems directly to automobile manufacturers in the U.S., Europe, Japan, South Korea, China and India, where they are installed as original equipment.

Lifestyle

We primarily sell our Lifestyle car audio systems directly to automobile manufacturers in the U.S., Europe, India, Japan, China and South Korea, where they are installed as original equipment. In both our foreign and domestic markets, we sell our Lifestyle home audio products to dealers who sell directly to the end user and to distributors who resell our products to retailers. We market our products as one brand to the ultimate consumer who chooses what brand of sound system to purchase for their home or their automobile. Our goal is to make Harman brands the preferred brand in both home and car audio applications. Home, multimedia and mobile aftermarket products are offered through specialty audio stores, discount stores, Harman stores, mass-market retail stores and through online retailers including our website Harmanaudio.com. Automotive and computer manufacturers also offer our branded audio products as options.

Professional

In the U.S. we primarily sell our audio products to dealers via manufacturer s representatives. Outside the U.S. we sell primarily to distributors. Manufacturer s representatives are paid sales agents and distributors buy and hold the inventory and sell directly to dealers in their markets. Both manufacturer s representatives and distributors have a defined geographic region. In the broadcast and recording market, we primarily solicit business directly with the end users. We also sell our professional products in retail stores and direct to customers over the Internet. For lighting solutions, we sell directly to the end user in the U.S. and most of Europe. In other countries, our lighting solutions are sold through a distributor network. These distributors deal with either end users or other dealers within their own markets. Our video and control and automation solutions are primarily sold through third parties including dealers, consultants, architects and systems integrators in the U.S. through a distributor network in other countries.

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Services

Our Services segment is a global provider of product engineering outsourcing services with software development and market analytics services groups located in India, Russia and the Ukraine. Our Services segment revenues are derived from commercial software services, primarily sold via our internal sales force, directly to the customer.

Trademarks and Patents

We market our products under numerous brand names that are protected by both pending and registered trademarks around the world. Our trademark registrations cover use of trademark rights in connection with various products, such as loudspeakers, speaker systems, speaker system components and other electrical and electronic devices. We have registered or taken other protective measures for many of these trademarks in substantially all major industrialized countries. As of June 30, 2015, we had 2,281 trademark registrations and 360 pending trademark applications around the world.

We have a history of innovation and, with more than 3,456 patents and 2,211 pending patent applications at June 30, 2015, covering various audio, infotainment and software technologies and products, we continue to take our technology and products into new areas. While we consider our patents on the whole to be important, we do not consider any single patent, any group of related patents or any single license essential to our operations in the aggregate. The expiration of the patents individually and in the aggregate would not have a material adverse effect on our financial condition or results of operations.

Seasonality

We experience seasonal fluctuations in sales and earnings. Historically, our first fiscal quarter ending September 30th is generally the weakest due to automotive model year changeovers and the summer holidays in Europe. Sales of our Lifestyle home audio products are generally significantly higher in the second quarter of our fiscal year, due to increased demand for these products during the holiday buying season. Our sales and earnings also vary due to the timing of the release of new products, customer acceptance of our products, product offerings by our competitors and general economic conditions. Our video and control and automation solutions business also experiences seasonality with sales being historically low during the third quarter of our fiscal year.

Key Customers/Industry Concentration

We are subject to various risks related to our dependence on key customers. Net sales to BMW, Fiat Chrysler Automobiles, the Volkswagen Group and Toyota/Lexus accounted for 15 percent, 14 percent, 11 percent and 6 percent, respectively, of our total consolidated net sales for the fiscal year ended June 30, 2015. Accounts receivable, net due from BMW, Fiat Chrysler Automobiles, The Volkswagen Group and Toyota/Lexus accounted for 9 percent, 14 percent, 7 percent and 3 percent, respectively, of total consolidated accounts receivable, net at June 30, 2015. We anticipate that BMW, Fiat Chrysler Automobiles the Volkswagen Group and Toyota/Lexus will continue to account for a significant portion of our net sales and accounts receivable, net for the foreseeable future.

For the fiscal year ended June 30, 2015, approximately 68 percent of our net sales were to automobile manufacturers. Our automotive customers are not contractually obligated to any long-term purchase of our products. The loss of BMW, Fiat Chrysler Automobiles, the Volkswagen Group, Toyota/Lexus, or any of our other significant automotive customers would have a material adverse effect on our consolidated net sales, results of operations and financial condition.

Backlog Orders

We manufacture our infotainment and car audio systems on a just-in-time basis. We maintain sufficient inventories of finished goods to promptly meet customer orders for our Lifestyle home audio and Professional segment customers. As a result, we do not consider the level of backlog to be an important indication of our future performance. Our backlog was approximately $79.6 million at June 30, 2015. We expect to deliver these products within the next 12 months.

Warranty Liabilities

We warrant our products to be free from defects in materials and workmanship for periods ranging from six months to six years from the date of purchase, depending on the business segment and product. Our dealers and warranty service providers normally perform warranty service in field locations and regional service centers, using parts and replacement finished goods we supply on an exchange basis. Our dealers and warranty service providers also install updates we provide to correct defects covered by our warranties. Estimated warranty liabilities are based upon past experience with similar types of products, the technological complexity of certain products, replacement cost and other factors. If estimates of warranty provisions are no longer adequate based on our analysis of current activity, incremental provisions are recorded as warranty expense in our Consolidated Statement of Income. We take these factors into consideration when assessing the adequacy of our warranty provision for periods still open to claim.

Competition

The industries that we serve are fragmented and competitive and include numerous service providers and manufacturers offering services and products that vary widely in price, quality and distribution methods.

Infotainment

In the infotainment market, we compete with Alpine, Bosch, Panasonic, Continental, Visteon, Mitsubishi Electronics, Aisin Seiki, Delphi and Denso in the sale of infotainment systems to automotive manufacturers. We believe our competitive position is enhanced by our technical expertise in designing and integrating navigation, speech recognition and human-machine interfaces into complete infotainment systems uniquely adapted to the specific requirements of each automobile model.

Lifestyle

In the car audio market, we compete with Bose, Pioneer ASK, Foster Electric, Delphi and Panasonic in the sale of audio systems to automotive manufacturers. We believe our competitive position is enhanced by our technical expertise in designing and integrating audio systems uniquely adapted to the specific requirements of each automobile model. In the automobile after-market category we compete against speaker/amplifier brands such as Rockford Fosgate, Polk Audio and MTX and full range brands such as Alpine, Kenwood, Pioneer and Sony.

In the home audio market, principal competitors in the loudspeaker market include Bose, Klipsch, Polk Audio, Bowers & Wilkins, Sonos and Boston Acoustics. Competition in the home audio and home electronics market remains intense and is dominated by large Asian manufacturers such as Yamaha, Sony, Denon, Onkyo, Pioneer and Marantz. We also compete in the luxury electronics market with our Mark Levinson and Lexicon brands. Our principal competitors in this high-end market include Krell, McIntosh, Audio Research, Meridian, Linn, Bang & Olufsen and Classe.

In the multimedia market, we supply retailers with JBL and Harman/Kardon speaker systems for tablets, smart phones and MP3 players. Our principal competitors for these products are Bose, Altec Lansing, Klipsch, iHome, Bowers & Wilkins and Philips. We also offer Harman/Kardon and JBL speaker systems to personal computer retailers. In this market, our principal competitors are Creative Labs, Altec Lansing, Logitech, Klipsch and Cyber Acoustics. We sell headphones online and through various retailers. Our principal competitors for these products are Beats, Pioneer, Sony, Bowers & Wilkins, Apple, Skullcandy, Sennheiser and Bose. The home audio and multimedia markets are characterized by the short life cycle of products and a need for continuous design and development efforts.

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Professional

The market for professional sound systems is highly competitive. We believe that we have historically held a leading market position in the professional loudspeaker market and have complemented our professional loudspeaker line by adding digital professional electronic products, broadcast and recording equipment, lighting solutions and video and control automation solutions. We compete by utilizing our ability to provide systems solutions to meet the complete audio requirements of our professional customers. With our HiQnet networking protocol software, our professional brand products can communicate and operate together. We offer products for most professional audio applications.

Our principal competitors in the sound reinforcement market include Telex, Electro Voice, Mackie, QSC, Meyer Sound Laboratories, Sennheiser, Peavey, Shure, Audio Technica and Yamaha. Principal competitors in the recording and broadcast markets include Yamaha, Sennheiser, Loud Technologies, Inc., Lawo, Harris Corporation, DigiDesign/M-Audio, Genelec, KRK, Stagetec and Sony. Our competitors in the industrial and architectural sound market include Siemens, Peavey and Tannoy. Our competitors in the lighting market include Barco, Chauvet Lighting, Clay Paky, Elation, JB Lighting, Robe Lighting and Vari-Lite. Our competitors in video and control and automation solutions include Leviton, Extron, Control4, Simtrol and Crestron.

Services

In our Services segment, we compete with a wide range of global and regionally-based companies such as Tata Consultancy Services Limited, Cognizant Technology Solutions, the Aricent Group and WiPro Limited. The specific nature of who we compete with depends on the market segment being served and the specific customer requirements. We believe our market standing and competitive advantages are anchored in our unique combination of design, embedded, cloud and analytical core competencies, together with a strategy of providing large scale off-shore development and local front-end centers in key geographies that enable a customer-centric delivery model.

Environmental Regulation

We are subject to various Federal, state, local and international environmental laws and regulations, including those governing the use, discharge and disposal of hazardous materials and, increasingly, the recycling of our products and their packaging.

In Europe, we are subject to the European Union s (EU) Directive on the Restriction of Use of Certain Hazardous Substances in Electrical and Electronics Equipment (EU RoHS). This directive restricts the placement into the EU market of electrical and electronic equipment containing certain hazardous materials, including lead, mercury, cadmium and chromium. We are also subject to the EU Waste Electrical and Electronic Equipment Directive, which regulates the collection, recovery and recycling of waste from certain electronic products.

The EU has also enacted the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) regulation. REACH requires manufacturers and importers of articles to register the substances contained in the articles if the substances are intended to be released under normal or reasonably foreseeable conditions of use. Because the substances contained in our products are not intended to be released under normal or reasonably foreseeable conditions of use, we do not believe we or the importers of our products have an obligation under REACH to register those substances.

Certain of our Lifestyle products will require submission of energy-use profiles in accordance with the EU Energy Using Products Directive. We are modifying the design and energy-use profiles of our products to comply with applicable laws and regulations. Additionally, the U.S. Department of Energy has promulgated a regulation pertaining to external power supplies and compliance with the energy efficiency standards that were established under the Energy Independence and Security Act of 2007. We will address these requirements as necessary. Our products may also become subject to further energy efficiency requirements if and when required under U.S. Federal climate change legislation.

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In China, we are subject to China s law on Management Methods on the Control of Pollution Caused by Electronic Information Products (China RoHS), which is substantially similar to the EU RoHS. The China RoHS requires the disclosure and marking of certain substances, including lead, mercury, cadmium and chromium in certain electronic products.

We believe that our facilities are in substantial compliance with current laws and regulations. We expect further laws similar to the EU RoHS and China RoHS, and those governing product and packaging recycling, to be introduced in other jurisdictions, many or most of which could impose additional costs, including fees to cover recycling costs. The need for and cost of our compliance with such legislation cannot yet be determined but it could be substantial.

Research and Development

We believe that continued investment in product research and development is critical to our success. Net expenditures for research and development were $380.2 million, $343.8 million and $285.3 million for the fiscal years ended June 30, 2015, 2014 and 2013, respectively. We expect to continue to devote significant resources to research and development to sustain our competitive position.

Number of Employees

At June 30, 2015, we had approximately 24,197 full-time employees, including 6,793 employees located in North America and 17,404 employees located outside of North America.

Foreign Operations

Information about our foreign operations is set forth in Note 18 *Business Segment Data* in the Notes to the Consolidated Financial Statements located in Item 8 of Part II of this report.

Corporate Information

We were incorporated in the state of Delaware in 1980. Our principal executive offices are located at 400 Atlantic Street, Suite 1500, Stamford, Connecticut 06901. Our telephone number is (203) 328-3500.

Subsequent Events

Dividend Declaration

On August 4, 2015, we declared a cash dividend of $0.35 per share for the quarter ended June 30, 2015. The quarterly dividend will be paid on August 28, 2015 to each stockholder of record as of the close of business on August 14, 2015.

Website Information

Our corporate website is located at www.harman.com. We make available free of charge on our investor relations website under SEC Filings our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after we electronically file or furnish such materials to the U.S. Securities and Exchange Commission (SEC). Our website also provides access to reports filed by our directors, executive officers and certain significant stockholders pursuant to Section 16 of the Securities Exchange Act of 1934, as amended (the Exchange Act). In addition, our Corporate Governance Guidelines, Codes of Ethics and Business Conduct, and the charters for the three committees of our Board of Directors are available on our website. The information on our website is not incorporated by reference into this report. In addition, the SEC maintains a website, www.sec.gov that contains reports, proxy and information statements and other information that we file electronically with the SEC.

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Item 1A. Risk Factors

In addition to the other information included in this report, you should carefully consider the risk factors described below.

Decreased demand and pricing pressure from our customers in the automotive industry or bankruptcy of a significant automotive customer could have a material adverse effect on our liquidity, financial condition and results of operations.

For the fiscal year ended June 30, 2015, approximately 68 percent of our sales were to automobile manufacturers. As a result, our financial performance depends, in large part, on conditions in the automotive industry, which is highly dependent on general economic conditions and periodically has experienced significant difficulty. As a result, we have experienced, and may continue to experience, reductions in orders from our original equipment manufacturer customers. If one or more of our significant automotive customers experiences, or continues to experience, increased financial difficulty, including bankruptcy, as a result of a prolonged economic downturn or otherwise, this would have a further adverse effect on our business due to further decreased demand, the potential inability of these companies to make full payment on amounts owed to us, or both. As part of the bankruptcy process, our pre-petition receivables may not be realized, customer manufacturing sites may be closed or contracts voided. The bankruptcy of a major customer could have a material adverse effect on our liquidity, financial condition and results of operations.

In addition, our customer supply agreements generally provide for reductions in pricing of our products over the period of production. Pricing pressures may intensify as a result of cost cutting initiatives of our customers. If we are unable to generate sufficient production cost savings in the future to offset future price reductions, our results of operations may be adversely affected.

A decrease in consumer discretionary spending would likely reduce our sales.

Our sales are dependent on discretionary spending by consumers, which could be materially adversely impacted by economic conditions affecting disposable consumer income and retail sales. In addition, our sales of audio, electronic and infotainment products to automotive customers are dependent on the overall success of the automotive industry, and of premium automobiles in particular, as well as the willingness of automobile purchasers to pay for the option of a premium branded car audio system or a multi-function digital infotainment system. Global demand for, and production of, premium vehicles, including certain vehicle models that incorporate our products, could decline in a difficult economic environment. This decline could have a negative impact on our results of operations.

We have significant operations in Europe which may be adversely impacted by the continued economic challenges in Europe.

The global economic recession that began in 2008 resulted in significantly lower demand and decreased profitability across all of our segments and major markets. While North America and Asia have shown an improved, but somewhat uneven recovery, Europe remains stagnant with continued economic and financial challenges. Recent events in Europe have elevated concerns that macroeconomic conditions will worsen and economic recovery will be delayed. If weak economic conditions persist or worsen, there could be a number of negative effects on our business, including our customers or potential customers reducing or delaying orders, the insolvency of one or more of our key suppliers, which could result in production delays, and our customers being unable to obtain credit. Approximately 32 percent of our sales in fiscal year 2015 were made to end consumers in Europe. Should conditions worsen in these markets, customer demand for our products may deteriorate which would have a negative impact on our results of operations.

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A significant portion of our sales are denominated in Euros, which sales may be adversely impacted by the eurozone crisis.

Approximately 39 percent of our sales in fiscal year 2015 were denominated in Euros. Certain eurozone countries in which we operate have received financial aid packages from the European Union in the form of loans and restructuring of their sovereign debt and have introduced comprehensive fiscal austerity measures. If dissolution and replacement of the Euro currency and the potential reintroduction of individual European Union currencies should occur as a result of the continued eurozone crisis, it could have a negative impact on our results of operations and could expose us to increased foreign exchange risk.

The macroeconomic environment may adversely affect consumer spending patterns and the availability and cost of credit.

Our ability to make scheduled payments or to refinance our obligations with respect to indebtedness will depend on our operating and financial performance, which in turn is subject to prevailing economic conditions. Disruptions in the financial markets, including the bankruptcy and restructuring of major financial institutions, may adversely impact the availability and cost of credit in the future. The historical disruptions in the financial markets that occurred within the past seven years continue to have an adverse effect on the global economy, which has negatively impacted consumer spending patterns. This may result in reductions in sales of our products, longer sales cycles, slower adoption of new technologies and increased price competition. There can be no assurances that government responses to the disruptions in the financial markets will restore consumer confidence, stabilize the markets or increase liquidity and the availability of credit.

We may not realize sales represented by awarded business.

Our current estimate of $23.0 billion of awarded business at June 30, 2015 in our Infotainment and Lifestyle segments is calculated using certain assumptions from our customers, including projected future sales volumes with respect to the applicable platforms. Orders from our customers with respect to these platforms are not made pursuant to contractual obligations and our customers can terminate arrangements with us at any time without penalty. Therefore, our actual platform sales volumes, and thus the ultimate amount of revenue that we derive from such platforms, are not committed. If actual production orders from our customers are not consistent with the projections we use in calculating the amount of our awarded business, we could realize substantially less revenue over the life of these projects than the currently projected estimate.

The demand for our infotainment products may be eroded by replacement technologies becoming available on mobile handsets and tablets.

Sales of our infotainment products represented approximately half of our net sales in fiscal year 2015. GPS/navigation technologies are increasingly being incorporated into devices such as mobile handsets and tablets. Mobile handsets are frequently GPS-enabled and many companies are now offering navigation software for such devices. In future years, if automakers choose to replace embedded infotainment systems with mobile handset devices, the acceptance of this technology by consumers may negatively impact the demand for our infotainment products. If we do not continue to innovate to develop or acquire new and compelling products that capitalize upon new technologies, this could have a material adverse impact on our results of operations.

Failure to maintain relationships with our largest customers and failure by our customers to continue to purchase expected quantities of our products due to changes in market conditions would have an adverse effect on our operations.

We anticipate that our automotive customers, including BMW, Fiat Chrysler Automobiles, the Volkswagen Group and Toyota/Lexus will continue to account for a significant portion of our sales for the foreseeable future. However, none of BMW, Fiat Chrysler Automobiles, the Volkswagen Group, Toyota/Lexus, or any of our other automotive customers is obligated to any long-term purchases of our products. The loss of sales to BMW, Fiat Chrysler

Automobiles, the Volkswagen Group, Toyota/Lexus, or to any of our other significant automotive customers would have a material adverse effect on our consolidated net sales, results of operations and financial condition.

The loss of business with respect to, or the lack of commercial success of, a vehicle model for which we are a supplier could adversely affect our financial performance.

Although we receive award letters or contracts from our automotive customers, these award letters or contracts generally provide for the supply of a customer s requirements for a particular vehicle model, rather than for the purchase of a specific quantity of products. The loss of business with respect to, or the lack of commercial success of, a vehicle model for which we are a supplier could reduce our sales and thereby adversely affect our financial condition, operating results and cash flows.

Strategic decisions by our automotive customers to expand dual sourcing arrangements could have an adverse effect on our operations.

Automakers customarily maintain dual sourcing arrangements and we cannot assure you that our customers will not further expand dual sourcing arrangements in the future, which could have a material adverse effect on our consolidated net sales, results of operations and financial condition.

The in-sourcing of the integration of infotainment and car audio systems by our automotive customers could have a material adverse effect on our business.

A significant portion of our Infotainment revenue depends on our automotive customers utilizing our services for the integration of various components comprising infotainment or car audio systems into the vehicles they manufacture. The in-sourcing of the integration of infotainment and car audio systems by our automotive customers could have a material adverse effect on our business, financial condition and results of operations.

Failure to deliver products on time to our automotive customers could adversely affect our financial results.

We have products in various stages of development for our automotive customers. If we do not complete our development efforts in time to meet our customers vehicle production requirements, we could be subject to monetary penalties and damage our customer relationships, which could have a material adverse effect on our consolidated sales, results of operations and financial condition.

Increased information technology security requirements, vulnerabilities, threats and more sophisticated and targeted cyber crime could pose a risk to our systems, networks, products, solutions, services and data.

Increased global information technology security requirements, vulnerabilities, threats and more sophisticated and targeted cyber crime pose a risk to the security of our systems and networks, products, solutions, services and the confidentiality, availability and integrity of our data. Despite our efforts to protect data or information, our facilities and systems and those of our third-party service providers may be vulnerable to security breaches, theft, misplaced or lost data, programming and/or human errors that could potentially lead to the compromising of sensitive, confidential or personal data or information, improper use of our systems, software solutions or networks, unauthorized access, use, disclosure, modification or destruction of information, defective products, production downtimes and operational disruptions, which in turn could adversely affect our reputation, competitiveness and results of operations. In addition, more sophisticated and targeted cyber crime poses a risk to the security of our products. We may incur significant costs related to the threat of, and to address any damages caused by, unauthorized access to or intentional malfunctions in our products, including but not limited to, costs to protect our products, costs or penalties related to regulatory investigations and litigation costs. Our reputation and brand names could be materially damaged by the threat or perpetration of cyber crime and the sales of our products and services may decrease, which in turn could adversely affect our competitiveness and results of operations.

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Warranty claims, product liability claims and product recalls could adversely affect our financial results.

We warrant our products to be free from defects in materials and workmanship for periods ranging from six months to six years. We also face the inherent business risk of exposure to product liability claims in the event that our products fail to perform as expected and such failure results, or are alleged to result, in bodily injury or property damage (or both). In addition, if any of our designed products are defective or are alleged to be defective, we may be required to participate in a recall campaign. Warranty claims in excess of our estimates, a successful product liability claim or a requirement that we participate in a product recall campaign may adversely affect our results of operations and financial condition.

Our success depends upon our ability to attract and retain key employees and the succession of senior management.

Our success largely depends on the performance of our management team and other key employees. If we are unable to attract and retain talented, highly qualified senior management and other key people, our future operations could be adversely affected. In addition, if we are unable to effectively provide for the succession of senior management, including our chief executive officer, our business may be materially adversely affected. While we follow a disciplined, ongoing succession planning process and have succession plans in place for senior management and other key executives, these do not guarantee that the services of qualified senior executives will continue to be available to us at particular moments in time.

We have invested substantial resources in markets where we expect growth and we may be unable to timely alter our strategies should such expectations not be realized.

Our future growth is dependent on our making the right investments at the right time to support product development and manufacturing capacity in areas where we can support our customer base. We have identified certain regions, including China, Brazil, Russia and India, as key markets likely to experience substantial growth, and accordingly have made and expect to continue to make substantial investments, both directly and through participation in partnerships and joint ventures, in manufacturing operations, technical centers and other infrastructure to support anticipated growth in these regions. If we are unable to deepen existing and develop additional customer relationships in these regions, we may not only fail to realize expected rates of return on our existing investments, but we may incur losses on such investments and be unable to timely redeploy the invested capital to take advantage of other markets, potentially resulting in lost market share to our competitors. Our results of operations and financial condition will also suffer if these regions do not grow as quickly as we anticipate.

Any acquisitions we make could disrupt our business and we may be unable to integrate such acquisitions effectively, which may adversely affect our financial condition, results of operations and cash flows.

Acquisitions are an important element of our corporate growth strategy and use of capital, and these transactions could be material to our financial condition, results of operations and cash flows. We expect to continue to evaluate and enter into discussions regarding a wide array of potential strategic transactions The process of integrating an acquired company, business, or technology has created, and will continue to create, unforeseen operating difficulties and expenditures. The areas of risk we face include, but are not limited to:

Diversion of management time and focus from operating our business to completion of the acquisition and acquisition integration challenges.

Failure to successfully further develop the acquired business or technology.

Implementation or remediation of controls, procedures and policies at the acquired company.

Failure to obtain required approvals on a timely basis, if at all, from governmental authorities, or conditions placed upon approval, under competition laws which could, among other things, delay or prevent us from completing a transaction, integrating an acquired business, or otherwise restrict our ability to realize the expected financial or strategic goals of an acquisition or investment.

In the case of foreign acquisitions, the need to address the particular economic, currency, political and regulatory risks associated with specific countries.

Retention of key employees from the businesses we acquire.

Liability for activities of the acquired company before the acquisition.

Litigation or other claims in connection with the acquisition, including claims from terminated employees, customers, former stockholders, or other third parties.

Our recent acquisitions have resulted in the incurrence of a significant amount of debt. Future acquisitions could also result in dilutive issuances of our equity securities, the incurrence of additional debt, contingent liabilities, or amortization expenses, impairment of goodwill or purchased long-lived assets, and restructuring charges, any of which could be material in amount and harm our financial condition or results. We cannot provide any assurances that we will be able to successfully integrate any acquisitions that we have recently undertaken or will undertake in the future or that such acquisitions will perform as planned or prove to be beneficial to our operations and cash flows. Any such failure could materially harm our financial condition, results of operations and cash flows.

Natural disasters, geo-political events and the failure of our information technology and communication systems could adversely affect our financial performance.

The availability of our products and services depends on the continuing operation of our information technology and communications systems. The occurrence of one or more natural disasters, such as hurricanes, cyclones, typhoons, floods, earthquakes and tsunamis, geo-political events, such as civil unrest or terrorist attacks, or power loss, telecommunications failures, computer viruses, computer denial of service attacks, or other attempts to harm our systems, in a country in which we operate or in which our suppliers are located, could adversely affect our operations and financial performance. Such events could result in physical damage to, or the complete loss of, one or more of our properties, the lack of an adequate work force in a market, the inability of our customers to reach or have transportation to our channel partners directly affected by such events, the evacuation of the populace from areas in which channel partners are located, changes in the purchasing patterns of consumers and in consumers disposable income, the temporary or long-term disruption in the supply of materials and products from our local and overseas suppliers, the disruption or delay in the transport or delivery of goods from overseas to our facilities or to our channel partners, the disruption of utility services to our facilities, the disruption of our information technology, including databases containing sensitive information, and disruption in our communications with our facilities customers and suppliers. If we failed to implement and maintain a comprehensive disaster recovery program and any of the foregoing events occurs, such events and their impacts could have a material adverse effect on our consolidated net sales, results of operations and financial condition.

We depend on our suppliers for key production materials and any disruption in the supply of such materials could interrupt product manufacturing and increase product costs.

Many of our suppliers have in the past, and could in the future decrease their manufacturing capacity and inventory levels. If these steps are taken by our suppliers, it could make us more vulnerable to disruptions in the supply chain. In the near term, an increase in our demand for parts may place an undue strain on our suppliers. Additionally, the supply of raw materials including, without limitation, petroleum, copper, steel, aluminum, synthetic resins, rare metals and rare earth minerals, such as neodymium used in the production of loudspeakers, has been and could continue to be significantly constrained, which is likely to result in continued elevated price levels. Furthermore, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, in August 2012 the SEC adopted annual disclosure and reporting requirements regarding the use of conflict minerals

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mined from the Democratic Republic of Congo and adjoining countries (DRC) in an SEC reporting company s products. Our continued compliance with these disclosure rules could adversely affect the sourcing, supply and pricing of materials used in our products. We may not be able to obtain DRC conflict free products or supplies in sufficient quantities or at competitive prices for our operations. We may also face challenges with our customers and suppliers if we are unable to sufficiently verify that the metals used in our products are conflict free. As a result, we may not be able to obtain the materials necessary to manufacture our products, which could force us to cease production or search for alternative supply sources, possibly at a higher cost. Such disruptions may have a material adverse effect on our business, financial condition, results of operations and cash flows.

We may lose market share if we are unable to compete successfully against our current and future competitors.

We operate in intensely competitive industries that experience rapid technological developments, changes in industry standards and changes in customer requirements. The audio and video product markets that we serve are fragmented, highly competitive, rapidly changing and characterized by intense price competition. Many manufacturers, large and small, domestic and foreign, offer audio and video systems that vary widely in price and quality and are marketed through a variety of channels, including audio and video specialty stores, discount stores, department stores, mail order firms and the Internet. Some of our competitors have financial and other resources greater than ours. We cannot assure you that we will continue to compete effectively against existing or new competitors that may enter our markets. We also compete indirectly with automobile manufacturers that may improve the quality of original equipment audio and electronic systems, reducing demand for our aftermarket mobile audio products, or change the designs of their cars to make installation of our aftermarket products more difficult or expensive.

If we do not continue to develop, introduce and achieve market acceptance of new and enhanced products, our sales may decrease.

Our business is based on the demand for premium audio and video products. In order to increase sales in current markets and gain entry into new markets, we must innovate to maintain and improve existing products, while successfully developing and introducing distinctive new and enhanced products that anticipate changing consumer preferences and capitalize upon emerging technologies. We may experience difficulties that delay or prevent the development, introduction or market acceptance of new or enhanced products. Furthermore, we may be unable to detect and correct defects in some of our products. Delays or defects in new product introduction may result in loss of sales or delays in market acceptance. Even after introduction, our new or enhanced products may not satisfy consumer preferences and product failures may cause consumers to reject our products. As a result, these products may not achieve market acceptance and our brand image could suffer. In addition, our competitors may introduce superior designs or business strategies, impairing our distinctive image and our products desirability, which may cause consumers to defer or forego purchases of our products.

Our success depends substantially on the value of our brands and our implementation of a sufficient brand protection program.

Our success is dependent in large part upon our ability to maintain and enhance the value of our brands, and our customers connection to our brands. Brand value can be severely damaged even by isolated incidents, particularly if the incidents receive considerable negative publicity or result in litigation. Some of these incidents may relate to our growth strategies, our development efforts in domestic and foreign markets, or the ordinary course of our business. Other incidents may arise from events that are or may be beyond our ability to control and may damage our brands, such as counterfeit and knock-off products, litigation and claims, and illegal activity targeted at us or others. Consumer demand for our products and our brands value could diminish significantly if any such incidents or other matters erode consumer confidence in us or our products, and if we do not implement a brand protection program that sufficiently addresses the issue of counterfeit and knock-off products, among other things, either of which would likely result in lower net sales and, ultimately, lower income, which in turn could materially and adversely affect our business and results of operations.

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Covenants in our existing debt agreements limit our ability to undertake certain types of transactions.

Our existing debt agreements contain provisions that limit our operating and financing activities. Our credit agreement contains certain negative covenants that limit, among other things, our ability to permit certain of our subsidiaries to incur debt and the ability of us and our subsidiaries to incur liens, make fundamental changes (including selling all or substantially all of our assets), undertake transactions with affiliates and undertake sale and leaseback transactions. Our indentures contain covenants that, subject to certain exceptions, limit our ability to incur indebtedness secured by principal properties, enter into certain sale and leaseback transactions with respect to principal properties and enter into certain mergers, consolidations and transfers of all or substantially all of the assets of our Company. In addition, our credit agreement contains more restrictive financial covenants that require us to maintain compliance with specified financial ratios. We may have to curtail some of our operations to maintain compliance with the covenants in our existing debt agreements. A violation of any of these covenants could result in a default under our debt agreements, which could permit the lenders to accelerate the repayment of any borrowings outstanding and/or the holders of the notes to direct the trustee to accelerate repayment of amounts outstanding under the notes. A default or acceleration under our debt agreements would result in increased capital costs and could adversely affect our ability to operate our business and our results of operations and financial condition.

Currency fluctuations may reduce profits on our foreign sales or increase our costs, either of which could adversely affect our financial results.

A significant amount of our assets and operations are located, and the majority of our revenue is derived from sales outside the United States. Consequently, we are subject to fluctuations in foreign currency exchange rates, especially the Euro. Translation losses resulting from currency fluctuations may adversely affect the profits from our foreign operations and have a negative impact on our financial results. In addition, we purchase certain foreign-made products. Although we hedge a portion of our foreign currency exposure and, due to the multiple currencies involved in our business, foreign currency positions partially offset and are netted against one another to reduce exposure, we cannot assure you that fluctuations in foreign currency exchange rates will not make these products more expensive to purchase. Increases in our cost of purchasing these products could negatively impact our financial results if we are not able to pass those increased costs on to our customers.

Our operations could be harmed by factors including political instability and changes in regulations that govern international transactions.

The risks inherent in international trade may reduce our international sales and harm our business and the businesses of our distributors and suppliers. These risks include:

- changes in tariff regulations;
- political instability, war, terrorism and other political risks;
- establishing and maintaining relationships with local distributors and dealers;
- lengthy shipping times and accounts receivable payment cycles;

- import and export licensing requirements;
- compliance with foreign laws and regulations, including unexpected changes in taxation and regulatory requirements;
- greater difficulty in safeguarding intellectual property rights than in the United States; and
- difficulty in staffing and managing geographically diverse operations.

These and other risks may, among other things, increase the relative price of our products compared to those manufactured in other countries, reducing the demand for our products.

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We may be adversely affected by future laws or regulations.

We are subject to various U.S. Federal, state and local, and non-U.S. laws and regulations. We cannot predict the substance or impact of pending or future legislation or regulations, or the application thereof. The introduction of new laws or regulations or changes in existing laws or regulations, or the interpretations thereof, could increase the cost of doing business for us or our customers or suppliers or restrict our actions and adversely affect our financial condition, operating results and cash flows. A recent example of such changing regulation is the adoption by the SEC of annual disclosure and reporting requirements for those SEC reporting companies who manufacture or contract to manufacture products that contain conflict minerals, and such minerals are necessary to the production or functionality of such product. Each reporting company is required to conduct a reasonable country of origin inquiry (RCOI) to determine whether such minerals were mined from the DRC, as well as potentially undertake due diligence efforts, and make certain annual disclosures. As a result of our RCOI for each of the calendar years ended December 31, 2013 and December 31, 2014, we were required to conduct due diligence efforts, and comply with the disclosure requirements set forth by the SEC. There are historical and continued future costs associated with complying with these disclosure requirements, including for diligence to determine the sources of conflict minerals, if any, in our products and other potential changes to products, processes or sources of supply as a consequence of such diligence activities.

Our business could be adversely affected by a strike or work stoppage at one of our manufacturing plants or at a facility of one of our significant customers or at a common carrier or major shipping location.

Workers at certain of our facilities and those of our automotive customers are unionized and may incur work stoppages or strikes. A work stoppage at our facilities or those of our automotive customers, or at a common carrier or major shipping location, could have a material adverse effect on our net sales, results of operations and financial condition. The risk of issues of this type at our facilities may be exacerbated by the implementation of our current or future cost reduction initiatives, which may involve significant staff reductions and facility relocations.

If we are unable to enforce or defend our ownership and use of our intellectual property rights, our business may decline.

Our future success will depend, in substantial part, on our intellectual property. We seek to protect our intellectual property rights, but our actions may not adequately protect the rights covered by our patents, patent applications, trademarks, trademark applications and other proprietary rights, and prosecution of our claims could be time consuming and costly. In addition, the intellectual property laws of some foreign countries do not protect our proprietary rights as do the laws of the United States. Despite our efforts to protect our proprietary information, third parties may obtain, disclose or use our proprietary information without our authorization, which could adversely affect our business. From time to time, third parties have alleged that we infringe their proprietary rights. These claims or similar future claims could subject us to significant liability for damages, result in the invalidation of our proprietary rights, limit our ability to use infringing intellectual property or force us to license third-party technology rather than dispute the merits of any infringement claim. Even if we prevail, any associated litigation could be time consuming and expensive and could result in the diversion of our time and resources.

We are engaged in ongoing litigation and may be the subject of additional litigation that may result in payments to third parties, which could harm our business and financial results.

We are currently involved in litigation arising out of or relating to the events leading up to the termination of the proposed acquisition of our Company in October 2007 and certain earnings guidance provided by us. In addition, similar litigation has been and may be initiated against us and others based on the alleged activities and disclosures at issue in the pending litigation. We cannot predict the outcome of any such proceeding or the likelihood that further proceedings will be instituted against us. In the event that there is an adverse ruling in any legal proceeding, we may be required to make payments to third parties that could harm our business or cash flows or financial results. Furthermore, regardless of the merits of any claim, the continued maintenance of these legal proceedings may result in substantial legal expense and could also result in the diversion of our management s time and attention away from our business.

We have deferred tax assets in our consolidated financial statements.

Our consolidated financial statements include net deferred tax assets of $54.4 million as of June 30, 2015, which relate to temporary differences between the assets and liabilities in the consolidated financial statements and the assets and liabilities in the calculation of taxable income. The valuation of deferred tax assets is based on various projections for future taxable income reversing taxable temporary differences and tax planning strategies. Thus, when actual taxable income differs from projections, it may become necessary to adjust the valuation of our deferred tax assets, which would impact our results of operations and financial condition.

Our cash flow and ability to service debt is dependent, in part, upon distributions from our subsidiaries.

Our ability to service our debt and pay dividends is dependent, in part, upon the operating earnings of our subsidiaries. The distribution of those earnings, or advances or other distributions of funds by those subsidiaries to Harman International Industries, Incorporated, all of which could be subject to statutory or contractual restrictions, are contingent upon the subsidiaries earnings and are subject to various business considerations, including tax consequences.

Privacy concerns relating to our products and services could damage our reputation and deter current and potential users from using our products and services.

As we develop new products, we may gain access to sensitive, confidential or personal data or information in certain of our businesses that is subject to privacy and security laws, regulations and customer-imposed controls. Concerns about our practices with regard to the collection, use, disclosure, or security of personal information or other privacy related matters, even if unfounded, could damage our reputation and adversely affect our operating results.

Furthermore, regulatory authorities around the world are considering a number of legislative and regulatory proposals concerning data protection. In addition, the interpretation and application of consumer and data protection laws in the U.S., Europe and elsewhere are often uncertain and in flux. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data practices. If so, in addition to the possibility of fines, this could result in an order requiring that we change our data practices, which could have an adverse effect on our business and results of operations. Complying with these various laws could cause us to incur substantial costs.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

Our corporate headquarters are located at 400 Atlantic Street, Suite 1500, Stamford, Connecticut 06901. Certain information regarding our principal facilities are described in the table below.

Location	Segment	Square Feet	Owned or Leased	Percentage Utilization
Bangalore, India	Infotainment Lifestyle Professional Services	361,000	Leased	71%
Ittersbach, Germany	Infotainment Lifestyle	565,000	Owned	90%
Nova Santa Rita, Brazil	Professional Lifestyle	432,000	Owned	100%
Dandong, China	Lifestyle Professional	323,000	Leased	38%
Moreno Valley, California	Lifestyle Professional	301,000	Leased	100%
Fontana, California	Lifestyle	266,950	Leased	100%
Northridge, California	Lifestyle Professional	238,000	Leased	80%
Straubing, Germany	Infotainment Lifestyle	235,000	Owned	100%
Elkhart, Indiana	Professional	223,000	Owned	90%
Székesfehérvár, Hungary	Infotainment Lifestyle	484,000	Owned	100%
Tijuana, Mexico	Professional Lifestyle	194,000	Leased	100%
Queretaro, Mexico	Infotainment Lifestyle	188,000	Leased	100%
Pune, India	Services Infotainment	164,000	Leased	81%
Franklin, Kentucky	Infotainment Lifestyle	152,000	Owned	100%

Suzhou, China	Infotainment Lifestyle	145,000	Owned	100%
Frederikshavn, Denmark	Professional	136,000	Leased	100%
Manaus, Brazil	Infotainment	171,000	Owned	100%
Richardson, Texas	Professional	129,000	Owned	100%
Novi, Michigan	Infotainment Lifestyle	121,000	Leased	100%
Juarez, Mexico	Lifestyle	109,000	Leased	100%
Farmington Hills, Michigan	Infotainment Lifestyle	106,000	Leased	100%

We also own or lease other facilities that are not considered principal properties. We believe that our facilities are suitable and adequate for our present needs and that suitable additional or substitute facilities will be available, if required.

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Item 3. Legal Proceedings

At June 30, 2015, 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 extended the Class Period through February 5, 2008, contended 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 alleged that defendants knowingly or recklessly failed to disclose material adverse facts about MyGIG radios, personal navigation devices and our capital expenditures. The Consolidated Complaint alleged 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 arguments on defendants motion to dismiss. At the request of the Court, on September 24, 2012, each side submitted a supplemental briefing on defendants motion to dismiss. On January 17, 2014, the Court granted a motion to dismiss, without prejudice, in the In re Harman International Industries, Inc. Securities Litigation. The Lead Plaintiff appealed this ruling to the U.S. Court of Appeals for the District of Columbia Circuit and, on June 23, 2015, the district court s ruling was reversed and remanded for further proceedings. On July 23, 2015, the defendants filed a motion for a rehearing en banc before the U.S. Court of Appeals.

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 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 alleged 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 claimed 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 contended 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 asserted that the Savings Plan had 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 converted the motion to dismiss into a motion for summary judgment and granted summary judgment in favor of Harman. The Russell Plaintiff filed a notice of appeal and oral arguments on the briefs submitted by the parties were heard on September 30, 2014. On December 12, 2014, the Court of Appeals affirmed the ruling of the District Court.

Item 4. Mine Safety Disclosures

None.

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Executive Officers of the Registrant

Executive officers are appointed by our Board of Directors and hold office at the pleasure of the Board until the next annual meeting of shareholders or until their successors are appointed and qualified. Each of our current executive officers is identified below together with information about each officer s age, position and employment history for the last five years.

Name	Position	Age
Dinesh C. Paliwal	Chairman, President and Chief Executive Officer	57
Sandra E. Rowland	Executive Vice President and Chief Financial Officer	44
Blake Augsburger	Executive Vice President, President Professional Division and Country Manager, North America	52
Sanjay Dhawan	Executive Vice President Services	51
Phillip Eyler	Executive Vice President and President Infotainment Division	44
Michael Mauser	Executive Vice President and President Lifestyle Division	52
Dr. I.P. Park	Executive Vice President and Chief Technology Officer	52
Herbert K. Parker	Executive Vice President Operational Excellence	57
Ralph Santana	Executive Vice President and Chief Marketing Officer	47
David Slump	Executive Vice President Operations	47
John Stacey	Executive Vice President and Chief Human Resources Officer	50
Todd A. Suko	Executive Vice President and General Counsel	48

Dinesh C. Paliwal became Chairman, President and Chief Executive Officer on July 1, 2008. Mr. Paliwal joined our Company on July 1, 2007 as President, Chief Executive Officer and Vice Chairman and was elected a director on August 13, 2007. Prior to joining our Company, Mr. Paliwal served as President of Global Markets and Technology of ABB Ltd. from January 2006 until June 2007 and as President and CEO of ABB North America from January 2004 until June 2007.

Sandra E. Rowland became Executive Vice President and Chief Financial Officer on January 1, 2015. Ms. Rowland joined our Company in October 2012 as Vice President, Investor Relations. In January 2013, she also took on the responsibility of Corporate Development, which included Strategy and Mergers and Acquisitions. Prior to joining our Company, from 2000 to 2012, Ms. Rowland served in positions of increasing responsibility at Eastman Kodak Company, including Controller of the Consumer Segment, Director of Corporate Financial Planning and Analysis, Assistant Treasurer, Director of Investor Relations, and Chief Financial Officer of the Commercial Segment.

Blake Augsburger joined our Company in 2001 as the President of Crown International. In 2006, Mr. Augsburger was promoted to Executive Vice President and President-Professional Division. Mr. Augsburger also serves as Country Manager for North America.

Sanjay Dhawan joined our Company on April 8, 2015 as the Executive Vice President of our Services Segment. Prior to this, Mr. Dhawan was the chief executive officer of Symphony Teleca Corporation (STC) from 2010, until we acquired STC on April 8, 2015.

Phillip Eyler joined our Company in 1997, and was appointed Executive Vice President and President Infotainment Division effective July 21, 2015. From April 1, 2011 through July 20, 2015, Mr. Eyler served as our Senior Vice President and General Manager, Automotive Audio, Lifestyle Division. Mr. Eyler served as our Vice President and General Manager, Automotive North America from December 1, 2009 through March 31, 2011, and prior to that he served as our Vice President, North America and Asia Manufacturing from September 1, 2005 through November 30, 2009.

Michael Mauser joined our Company in 1997, and has served as Executive Vice President and President Lifestyle Division since July 1, 2013. From July 1, 2011 through June 30, 2013, Mr. Mauser served as

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Co-President, Infotainment and Lifestyle Divisions. From April 2010 through June 30, 2011, Mr. Mauser served as Executive Vice President and Co-President Automotive Division.

Dr. I.P. Park joined our Company in February 2012 as Executive Vice President and Chief Technology Officer. Prior to joining our Company, he served as Vice President of Intelligent Computing Laboratory at Samsung Electronics, from September 2006 through December 2011. While at Samsung, Dr. Park headed advanced software R&D teams responsible for developing Samsung s future software technologies, and he provided leadership in core software research, standardization and open source activities.

Herbert K. Parker became Executive Vice President Operational Excellence on January 1, 2015. Mr. Parker joined our Company in June 2008 as Executive Vice President and Chief Financial Officer and he served in such capacity until December 31, 2014. From August 15, 2008 until October 1, 2008, Mr. Parker also served as our principal accounting officer. Prior to joining our Company, he served as Chief Financial Officer of ABB North America from January 2006 to May 2008.

Ralph Santana joined our Company in April 2013 as Executive Vice President and Chief Marketing Officer. Prior to joining our Company, he served as Senior Vice President and Chief Marketing Officer for Samsung North America from 2010 to 2012. Prior to Samsung, Mr. Santana s experience included a 16 year career at PepsiCo where he held a variety of positions that spanned multiple international and domestic leadership roles in marketing, most recently as Vice President of Colas.

David Slump became Executive Vice President Operations in March 2015. Prior to that he served as Executive Vice President and President, Services from July 1, 2013 until March 2015. Mr. Slump served as our Executive Vice President, Corporate Development from July 1, 2011 through June 30, 2013. From January 2009 through June 30, 2011, he served as President Consumer Division. From January 2009 to May 2010, he also served as our Vice President, Corporate Development. Prior to joining our Company, from 2008 to January 2009, Mr. Slump served as Senior Vice President for Landis + Gyr Holdings, a leader in the energy management industry, where he directed the company s global brand strategy and evaluated portfolio and architecture investments.

John Stacey joined our Company in February 2008 as Executive Vice President and Chief Human Resources Officer. Prior to joining our Company, he was Vice President, People for InBev North America, InBev Central and Eastern Europe from 2005 through January 2008.

Todd A. Suko joined our Company in October 2008 as Executive Vice President and General Counsel. From October 2008 through December 2011 he also served as Secretary. Prior to joining our Company Mr. Suko served as Vice President, General Counsel and Secretary for UAP Holding Corp. from 2003 to September 2008 and Vice President, General Counsel and Secretary for United Agri Products from 2001 to 2003. Mr. Suko is a member of the bar in Washington, DC and Virginia.

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Part II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The following graph compares changes in cumulative total returns (assuming reinvestment of cash dividends) on shares of our common stock for the five-year period ending on June 30, 2015 against the S&P Composite-500 Stock Index and the S&P Consumer Discretionary Index. The stock price performance graph assumes an initial investment of $100 at the market close on June 30, 2010. Dates on the chart represent the last trading day of the indicated fiscal year. The stock price performance shown on the graph below is not necessarily indicative of future performance of the shares of our common stock.

Our common stock is listed on the New York Stock Exchange and is reported on the New York Stock Exchange Composite Tape under the symbol HAR. As of July 31, 2015, there were approximately 121 record holders of our common stock.

The table below sets forth the reported high and low sales prices for our common stock, as reported on the New York Stock Exchange, for each quarterly period for fiscal years ended June 30, 2015 and 2014.

	Years Ended June 30,			
	2015		2014	
Market Price	**High**	**Low**	**High**	**Low**
First quarter ended September 30	$ 117.15	$ 98.04	$ 70.92	$ 53.37
Second quarter ended December 31	111.35	85.36	84.50	65.19
Third quarter ended March 31	142.43	95.87	110.90	80.20
Fourth quarter ended June 30	146.49	117.80	112.01	99.98

During fiscal year 2015, we declared and paid cash dividends of $1.32 per share, with dividends of $0.33 declared in each quarter. During fiscal year 2014, we declared and paid cash dividends of $1.20 per share, with dividends of $0.30 declared in each quarter. During fiscal year 2013, we declared and paid cash dividends of $0.60 per share, with dividends of $0.15 declared in each quarter.

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On October 28, 2014, our Board of Directors authorized the repurchase of up to $500.0 million of our common stock over the next three years (the 2014 Buyback Program). The 2014 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 during the authorized three year period. The 2014 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, other growth opportunities and other factors. On June 18, 2015, we entered into a repurchase plan with an external broker under the 2014 Buyback Program that provides the structure under which the program will be facilitated. There were no share repurchases during the fiscal year ended June 30, 2015.

On October 26, 2011, our Board of Directors authorized the repurchase of up to $200.0 million of our common stock (the 2012 Buyback Program). The 2012 Buyback Program allowed 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 2012 Buyback Program was set to expire on October 26, 2012, but on October 23, 2012 our Board of Directors approved an extension of the 2012 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 2013 Buyback Program) which expired 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 expired on June 25, 2014. During the fiscal year ended June 30, 2014, we repurchased 1,327,693 shares at a cost of $90.8 million for a total cumulative buyback of 4,719,968 shares at a cost of $220.1 million under the 2012 Buyback Program and the 2013 Buyback Program. The 2012 Buyback Program and the 2013 Buyback Program have expired and therefore no additional shares may be repurchased under such programs.

For a description of limitations on repurchases of shares and on the payment of dividends, see Management s Discussion and Analysis of Financial Condition and Results of Operations located in Item 7 of Part II of this report.

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Item 6. Selected Financial Data

The following table presents selected historical financial data derived from the audited Consolidated Financial Statements for each of the five fiscal years presented. The information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations located in Item 7 of Part II of this report, and the audited Consolidated Financial Statements and the Notes to the Consolidated Financial Statements located in Item 8 of Part II of this report.

(In thousands except per share data)	**2015[1] [2]**	**2014[1] [2]**	**2013[1] [2]**	**2012 [2] [3]**	**2011 [2]**
Net sales	$ 6,155,297	$ 5,348,483	$ 4,297,842	$ 4,364,078	$ 3,772,345
Operating income	$ 469,594	$ 329,727	$ 201,251	$ 300,246	$ 190,051
Net income	$ 342,989	$ 234,579	$ 142,407	$ 329,541	$ 135,916
Net income attributable to Harman International Industries, Incorporated	$ 342,680	$ 234,692	$ 142,407	$ 329,541	$ 135,916
Earnings per share from continuing operations attributable to Harman International Industries, Incorporated:					
Basic	$ 4.89	$ 3.40	$ 2.06	$ 4.62	$ 1.91
Diluted	$ 4.84	$ 3.36	$ 2.04	$ 4.57	$ 1.90
Weighted average shares outstanding:					
Basic	70,147	69,073	68,990	71,297	70,992
Diluted	70,870	69,889	69,736	72,083	71,635
Total assets	$ 5,929,752	$ 4,125,590	$ 3,235,685	$ 3,169,464	$ 3,058,495
Total debt	$ 1,086,238	$ 555,768	$ 289,973	$ 395,688	$ 381,014
Total equity	$ 2,392,826	$ 1,793,021	$ 1,644,871	$ 1,529,611	$ 1,423,658
Dividends per share	$ 1.32	$ 1.20	$ 0.60	$ 0.30	$ 0.05

(1) The results of operations for all acquired companies are included in our Consolidated Statements of Income starting from the date of the respective acquisition. Refer to Note 2 *Acquisitions* in the Notes to the Consolidated Financial Statements for more information on acquisitions.

(2) Includes restructuring expenses of $51.9 million, $84.2 million, $83.1 million, $9.1 million and $20.6 million in fiscal years 2015, 2014, 2013, 2012 and 2011, respectively.

(3) Net income includes a non-cash benefit of $124.2 million related to a reduction of our deferred tax valuation allowance on certain of our net U.S. deferred tax assets.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the information presented in other sections of this Annual Report on Form 10-K, including Item 1. Business, Item 6. Selected Financial Data, and Item 8. Financial Statements and Supplementary Data. 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. See Risk Factors included in Item 1A of Part I of this report. 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 leader in the design and engineering of connected products and solutions for automakers, consumers and enterprises worldwide, including audio systems, visual products, enterprise automation solutions and connected services. We have developed, both internally and through a series of strategic acquisitions, a broad range of product offerings sold under renowned brand names in our principal markets. Our AKG®, AMX®, Crown®, Harman/Kardon®, Infinity®, JBL®, JBL Professional, Lexicon®, Mark Levinson®, Martin®, Revel®, Soundcraft® and Studer® brand names are well known worldwide for premium quality and performance. Our software solutions power mobile devices and systems that are designed to be connected, integrated, personalized and adaptive across all platforms, from work and home, to car and mobile.

We report our business on the basis of four segments. Our Infotainment, Lifestyle, Professional and Services segments are based on our strategic approach to the markets and customers we serve. 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 and the operating results of Red Bend Ltd. (Redbend) from the February 26, 2015 acquisition date.

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 automotive business. As of June 30, 2015, we have a cumulative estimated $23.0 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, 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 believe our future 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 this 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 Washington. Outside of the United States, we have manufacturing facilities in Austria, Brazil, China, Denmark, Hungary, India, Germany, Mexico, 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.

We believe significant opportunities exist to grow our business in all of our business segments in emerging markets such as Brazil, Russia, India and China (BRIC). During the fiscal year ended June 30, 2015, sales increased in these emerging markets to $1.0 billion, an increase of $126.4 million, or 14.4 percent, over the prior fiscal year.

We continue to roll out our global marketing campaign featuring some of the world s most prominent organizations, artists, celebrities and athletes such as the National Basketball Association, Stephen Curry, Quincy Jones, Maroon 5, Linkin Park and Mariano Rivera, in order to increase brand awareness and support growth and market share gains across our entire business.

Critical Accounting Policies

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 consolidated 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. Our accounting policies are more fully described in Note 1 *Summary of Significant Accounting Policies* in the Notes to the Consolidated Financial Statements located in Item 8 of Part II of this report. However, we believe the following policies merit discussion due to their higher degree of judgment, estimation, or complexity.

Revenue Recognition

Revenue from product sales is generally recognized at the time of product shipment or delivery, depending on when the passage of title to goods transfers to unaffiliated customers and when all of the following have occurred: a firm sales agreement is in place, pricing is fixed or determinable and collection is reasonably assured. Sales are reported net of estimated returns, discounts, rebates and incentives. Substantially all of our revenue transactions involve the delivery of a physical product. Royalty income, which is not material, is recorded when earned based upon contract terms with licensees which provide for royalties.

Service revenue is recognized as the services are rendered for time-and-material contracts or, for fixed-fee arrangements, on a proportional performance basis based on actual direct labor hours in relation to total estimated hours. Losses on fixed-fee arrangements are recognized when probable. The majority of our service contracts are on a time-and-material basis.

Revenue from software licensed under perpetual arrangements is recognized using the residual method under the Financial Accounting Standards Board (FASB) Accounting Standard Codification 985, Software Revenue Recognition, and all related interpretations, when vendor-specific evidence (VSOE) of fair value exists for undelivered elements, such as post-contract support services, consulting services and training, but does not exist for the delivered software. Otherwise, revenue is deferred until the earlier of when: (1) VSOE of fair value exists for the remaining undelivered elements, at which point the residual method is applied, or (2) the last element has been delivered, at which point all of the revenue is recognized.

We enter into incentive agreements with certain automotive customers which relate to a specific program award. These incentives are generally based on fixed payments paid by us to the automotive manufacturer, and are generally deferred, if certain criteria are met. The deferability criteria include the existence of legally enforceable rights, management s ability and intent to enforce the recoverability clauses and the ability to generate future earnings from the agreement in excess of the deferred amounts. Capitalized amounts are amortized, generally as a reduction to revenue, over the related program award term based on our estimate of future volumes. Our estimates are reviewed regularly and the cumulative impact of a revision in estimates is recorded in the period such revisions become probable and estimable.

Allowance for Doubtful Accounts

Our products are sold to customers in many different markets and geographic locations. Methodologies for estimating bad debt reserves include specific reserves for known collectability issues and percentages applied to aged receivables based on historical experience. We must make judgments and estimates regarding accounts receivable that may become uncollectible. These estimates affect our bad debt reserve and results of operations. We base these estimates on many factors including historical collection rates, the financial stability and size of our customers as well as the markets they serve and our analysis of aged accounts receivable. Our judgments and estimates regarding collectability of accounts receivable have an impact on our consolidated financial statements.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally by the first-in, first-out method. We establish reserves for our inventory which require us to analyze the aging and forecasted demand for our inventories, to forecast future product sales prices, pricing trends and margins, and to make judgments and estimates regarding obsolete, damaged or excess inventory. Markdown percentages are determined based on our estimate of future demand and selling prices for our products. Future sales prices are determined based on current and forecasted market expectations, as well as terms that have been established for future orders under automotive platform arrangements. Our inventory reserves primarily relate to our raw materials and finished goods. We calculate inventory reserves on raw materials by reviewing the levels of raw materials on-hand and comparing this to estimates of historical consumption and future demand in order to assess whether we have excess materials on-hand. If it is determined that excess materials are in inventory, an appropriate inventory reserve is established. Inventory reserves on finished goods are primarily determined through inventory turnover measures. Products showing low turnover rates are assigned a percentage reserve based on future estimates of sales volumes and margins. We make adjustments to our inventory reserves based on the identification of specific situations and increase our inventory reserves accordingly. As changes in future economic or industry conditions occur, we revise the estimates that were used to calculate our inventory reserves.

If actual conditions are less favorable than those we have projected, we may need to increase our reserves for excess and obsolete inventories. Any increases in our reserves will adversely impact our results of operations. Such reserves are not reduced until the product is sold.

At June 30, 2015 and 2014 our inventory reserves were $79.6 million and $87.7 million, respectively. The primary reason for the decrease in our inventory reserves is due to write-offs due to obsolescence and foreign currency translation. Refer to Note 4 *Inventories* in the Notes to the Consolidated Financial Statements for more information.

Goodwill

We assess goodwill for potential impairments annually each April 30th, or during the year if an event or other circumstance indicates that we may not be able to recover the carrying amount of the asset. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. We estimate the fair value of each reporting unit using a discounted cash flow methodology. This requires us to use significant judgment, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, the useful life over which cash flows will occur, determination of our weighted average cost of capital, and relevant market data.

In evaluating goodwill for impairment, we may first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. If we conclude that it is not more likely than not that the fair value of a reporting unit is less than its carrying value, then no further testing of the goodwill assigned to the reporting unit is required. However, if we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying value, then we perform a two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment to be recognized, if any. In fiscal years 2015 and 2014, we did not elect to first assess the qualitative factors in evaluating our goodwill for impairment; therefore, we proceeded with our quantitative goodwill impairment test.

The first step compares the fair value of each reporting unit to its carrying value, with fair value of each reporting unit determined using established valuation techniques, specifically the market and income approaches. If the results of the first step indicate that the fair value of a reporting unit is less than its carrying value, the second step of this test is conducted wherein the amount of any impairment is determined by comparing the implied fair value of goodwill in a reporting unit to the recorded amount of goodwill for that reporting unit. The implied fair value of goodwill is calculated as the excess of fair value of the reporting unit over the amounts assigned to its assets and liabilities. Should the fair values of the goodwill so calculated be less than the carrying value, an impairment is recognized. We did not record any impairment charges for goodwill in fiscal years 2015, 2014 and 2013.

Intangible Assets, Net

Intangible assets, net primarily consist of customer relationships, trade names, non-compete agreements, technology, patents and software and are amortized over periods ranging from less than one year to 14 years, which are evaluated on an annual basis. Intangible assets, net are amortized on a straight-line basis over their estimated economic lives. We believe that the straight-line method of amortization reflects an appropriate allocation of the cost of the intangible assets to earnings in proportion to the amount of economic benefits obtained annually by our Company. We also have indefinite-lived intangible assets of $74.4 million, primarily consisting of trade names, which we assess for potential impairments annually, or during the year if an event or other circumstance indicates that we may not be able to recover the carrying amount of the asset. We did not record any impairment charges for Intangible assets, net in fiscal years 2015, 2014 and 2013. Refer to Note 8 *Goodwill and Intangible Assets, Net* in the Notes to the Consolidated Financial Statements for more information.

Impairment of Long-Lived Assets

We review the recoverability of our long-lived assets, including buildings, equipment and other definite-lived intangible assets, when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset from the expected future cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. Our primary measure of fair value is based on discounted cash flows. We will continue to monitor the need for impairment tests, which could result in additional impairment charges. We recognized $2.3 million, $0.7 million and $0.7 million in impairment charges related to facilities that were held-for-sale in the fiscal years ended June 30, 2015, 2014 and 2013, respectively.

Pre-Production and Development Costs

We incur pre-production and development costs related to infotainment and car audio systems that we develop for automobile manufacturers pursuant to long-term supply arrangements. Portions of these costs are reimbursable under separate agreements and are recorded as unbilled costs in our Consolidated Balance Sheets in

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Other current assets and Other assets, once an agreement is signed. We believe that the terms of our supply contracts and our established relationships with these automobile manufacturers reasonably assure that we will collect the reimbursable portions of these contracts.

Accrued Warranties

We warrant our products to be free from defects in materials and workmanship for periods ranging from six months to six years from the date of purchase, depending on the business segment and product. Our dealers and warranty service providers normally perform warranty service in field locations and regional service centers, using parts and replacement finished goods we supply on an exchange basis. Our dealers and warranty service providers also install updates we provide to correct defects covered by our warranties. Estimated warranty liabilities are based upon past experience with similar types of products, the technological complexity of certain products, replacement cost and other factors. If estimates of warranty provisions are no longer adequate based on our analysis of current activity, incremental provisions are recorded as warranty expense in our Consolidated Statement of Income. We take these factors into consideration when assessing the adequacy of our warranty provision for periods still open to claim. Refer to Note 6 *Accrued Warranties* in the Notes to the Consolidated Financial Statements for more information.

Income Taxes and Tax Valuation Allowances

We record the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in our Consolidated Balance Sheets, as well as operating loss and tax credit carryforwards. We evaluate all available positive and negative evidence in each tax jurisdiction regarding the recoverability of any asset recorded in our Consolidated Balance Sheets and provide valuation allowances to reduce our deferred tax assets to an amount we believe is more likely than not to be realized. We regularly review our deferred tax assets for recoverability considering historical profitability, our ability to project future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. If we continue to operate at a loss in certain jurisdictions or are unable to generate sufficient future taxable income within the defined lives of such assets, we could be required to increase our valuation allowance against all or a significant portion of our deferred tax assets. This increase in valuation allowance could result in substantial increases in our effective tax rate and could have a material adverse impact on our operating results. Conversely, if and when our operations in some jurisdictions become sufficiently profitable before what we have estimated in our current forecasts, we would be required to reduce all or a portion of our current valuation allowance and such reversal would result in an increase in our earnings in such period. Adjustments to our valuation allowance were recorded through charges to income tax expense, net, and were an expense of $17.0 million, a benefit of $1.6 million and an expense of $2.9 million for the fiscal years ending June 30, 2015, 2014 and 2013, respectively. Refer to Note 13 *Income Taxes* in the Notes to the Consolidated Financial Statements for more information.

The calculation of our tax liabilities involves evaluating uncertainties in the application of complex tax regulations. We recognize liabilities for unrecognized tax positions in the U.S. and other tax jurisdictions based on our estimate of whether and the extent to which additional taxes will be due. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in additional tax benefits recognized in the period in which we determine the liabilities are no longer necessary. If our estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense would result. We recognize interest and penalties related to income tax matters in income tax expense.

Severance and Exit Costs

We recognize liabilities for severance and exit costs based upon the nature of the liability incurred. For involuntary separation programs that are conducted according to the guidelines of our written involuntary separation plan or according to the provisions of collective bargaining agreements or statutes, we recognize the liability when it is probable and reasonably estimable. For one-time termination benefits, such as additional severance pay, and other exit costs, such as lease and other contract termination costs, the liability is measured

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and originally recognized at fair value in the period in which the liability is incurred, with subsequent changes recognized in earnings in the period of change. Refer to Note 16 *Restructuring* in the Notes to the Consolidated Financial Statements for more information.

Share-Based Compensation

Share-based compensation expense is recognized based on the estimated fair value of stock options and similar equity instruments awarded to employees. Refer to Note 14 *Shareholders Equity and Share-Based Compensation* in the Notes to the Consolidated Financial Statements for more information.

Results of Operations

Net Sales

Fiscal year 2015 net sales were $6.155 billion compared to $5.348 billion, an increase of 15.1 percent, or an increase of 22.1 percent excluding foreign currency translation. Net sales increased in all of our segments. The increase was primarily due to the expansion of recently launched platforms, stronger automotive production and higher take rates, new product introductions and the expansion of global distribution channels in the home and multimedia business, the impact of recent acquisitions, partially offset by unfavorable foreign currency translation of $308.7 million. Refer to Note 2 *Acquisitions* in the Notes to the Consolidated Financial Statements for more information on our acquisitions.

Fiscal year 2014 net sales were $5.348 billion compared to $4.298 billion, an increase of 24.4 percent, or an increase of 22.0 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 and take rates, a large order from a mobile telecommunications customer, accelerated sales of new products launched earlier in the year in the home and multimedia business, improved economic conditions in Europe and favorable foreign currency translation of $84.5 million. Refer to Note 2 *Acquisitions* in the Notes to the Consolidated Financial Statements for more information on our acquisition of Martin.

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

	Year Ended June 30,					
	2015	**Percentage**	**2014**	**Percentage**	**2013**	**Percentage**
Infotainment	$ 3,124,882	50.8%	$ 2,838,904	53.1%	$ 2,283,247	53.1%
Lifestyle	1,886,850	30.7%	1,656,094	31.0%	1,338,355	31.1%
Professional	1,048,964	17.0%	853,144	15.9%	672,805	15.7%
Services	88,761	1.4%	0	0.0%	0	0.0%
Other	5,840	0.1%	341	0.0%	3,435	0.1%
Total	$ 6,155,297	100.0%	$ 5,348,483	100.0%	$ 4,297,842	100.0%

Infotainment Infotainment net sales increased $286.0 million, or 10.1 percent, in fiscal year 2015 compared to the prior fiscal year, and increased 18.5 percent excluding foreign currency translation. The increase in net sales was driven by the expansion of recently launched platforms, stronger automotive production, higher take rates and the acquisition of S1nn GmbH & Co. KG (S1nn), partially offset by unfavorable foreign currency translation of $202.5 million.

Infotainment net sales increased $555.7 million, or 24.3 percent, in fiscal year 2014 compared to the prior fiscal year, and increased 20.5 percent excluding foreign currency translation. The increase in net sales was driven by higher automotive production volumes, increases in new scalable infotainment systems and higher take rates, the expansion of recent production launches across car lines, improved economic conditions in Europe and favorable foreign currency translation of $73.6 million.

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Lifestyle Lifestyle net sales increased $230.8 million, or 13.9 percent, in fiscal year 2015 compared to the prior fiscal year, and increased 20.0 percent excluding foreign currency translation. The increase in net sales was driven by accelerated sales of new product introductions and the expansion of global distribution channels in the home and multimedia business, higher car audio sales as a result of the expansion of recently launched programs, stronger automotive production and higher take rates and the acquisition of: substantially all of the assets of Verto Medical Systems LLC d/b/a yurbuds (yurbuds), certain automotive assets of Bang & Olufsen A/S (B&O) and S1nn, partially offset by unfavorable foreign currency translation of $83.9 million.

Lifestyle net sales increased $317.7 million, or 23.7 percent, in fiscal year 2014 compared to the prior fiscal year, and increased 22.4 percent excluding foreign currency translation. The increase in net sales was driven by accelerated sales of new products launched earlier in the year in the home and multimedia business, higher car audio sales as a result of higher automotive production volumes and increased take rates, a large order from a mobile telecommunications customer, improved economic conditions in Europe and favorable foreign currency translation of $14.5 million.

Professional Professional net sales increased $195.8 million, or 23.0 percent, in fiscal year 2015 compared to the prior fiscal year, and increased 26.2 percent excluding foreign currency translation. The increase in net sales was driven by the expansion of our product portfolio into video switching and enterprise automation through the acquisition of AMX LLC and AMX Holding Corporation (collectively AMX), partially offset by unfavorable foreign currency translation of $22.3 million. The strong U.S. dollar is creating a competitive disadvantage as the majority of the Professional segment s net sales are transacted in U.S. Dollars. In addition, this segment has greater macroeconomic exposure in emerging markets where the economies have underperformed.

Professional net sales increased $180.3 million, or 26.8 percent, in fiscal year 2014 compared to the prior fiscal year, and increased 27.5 percent excluding foreign currency translation. The increase in net sales was driven by the Martin acquisition, increased demand for professional audio products and improved economic conditions in Europe, partially offset by unfavorable foreign currency translation of $3.5 million.

Services Services net sales were $88.8 million in fiscal year 2015. We created this new segment in April 2015 due to the acquisition of Symphony Teleca Corporation (STC) in April 2015, so we do not have any comparisons to prior fiscal years.

Other Other net sales increased $5.5 million in fiscal year 2015 compared to the prior fiscal year due to the acquisition of Red Bend Ltd. (Redbend) in February 2015.

Other net sales decreased $3.1 million in fiscal year 2014 compared to the prior fiscal year due to a decrease in royalty revenue.

Gross Profit

Gross profit as a percentage of net sales increased 2.3 percentage points to 29.5 percent in fiscal year 2015 compared to the prior fiscal year. Gross profit as a percentage of net sales increased in all of our segments. In our Infotainment segment, our gross profit as a percentage of net sales increased due to improved leverage of fixed costs over a higher net sales base and lower costs due to productivity initiatives. In our Lifestyle segment, our gross profit as a percentage of net sales increased due to improved leverage of fixed costs over a higher net sales base. In our Professional segment, our gross profit as a percentage of net sales increased due to higher margins due to the acquisition of AMX. In our Services segment, our gross profit as a percentage of net sales was new due to the addition of STC in April 2015.

Gross profit as a percentage of net sales increased 1.5 percentage points to 27.2 percent in fiscal year 2014 compared to the prior fiscal year. Gross profit as a percentage of net sales increased in all of our segments. The increase in gross profit as a percentage of net sales in our Infotainment and Lifestyle segments was primarily due to improved leverage of fixed costs over a higher net sales base, lower costs due to productivity initiatives and

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footprint migration initiatives and an increased mix of scalable infotainment systems. The increase in gross profit as a percentage of net sales in our Lifestyle and Professional segments was due to a decrease in duties and fees related to compliance with U.S. Customs regulations. Refer to Note 19 *Commitments and Contingencies* in the Notes to the Consolidated Financial Statements for more information. The increase in our Lifestyle segment were partially offset by unfavorable product mix due to a higher proportion of net sales coming from home and multimedia sales.

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

	Year Ended June 30,					
	2015	Percentage of Net Sales	2014	Percentage of Net Sales	2013	Percentage of Net Sales
Infotainment	$ 753,803	24.1%	$ 634,959	22.4%	$ 481,960	21.1%
Lifestyle	604,598	32.0%	498,277	30.1%	371,006	27.7%
Professional	428,091	40.8%	323,089	37.9%	249,799	37.1%
Services	27,068	30.5%	0	0.0%	0	0.0%
Other	3,544	*	342	*	1,355	*
Total	$ 1,817,104	29.5%	$ 1,456,667	27.2%	$ 1,104,120	25.7%

* Not meaningful.

Infotainment Gross profit as a percentage of net sales increased 1.7 percentage points to 24.1 percent in fiscal year 2015 compared to the prior fiscal 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.

Gross profit as a percentage of net sales increased 1.3 percentage points to 22.4 percent in fiscal year 2014 compared to the prior fiscal 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, lower costs due to productivity and footprint migration initiatives and an increased mix of scalable infotainment systems.

Lifestyle Gross profit as a percentage of net sales increased 1.9 percentage points to 32.0 percent in fiscal year 2015 compared to the prior fiscal 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.

Gross profit as a percentage of net sales increased 2.4 percentage points to 30.1 percent in fiscal year 2014 compared to the prior fiscal 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, lower costs due to productivity and footprint migration initiatives and a decrease in duties and fees related to compliance with U.S. Customs regulations, partially offset by unfavorable product mix due to a higher proportion of net sales coming from home and multimedia sales versus the higher margin car audio business.

Professional Gross profit as a percentage of net sales increased 2.9 percentage points to 40.8 percent in fiscal year 2015 compared to the prior fiscal year. The increase in gross profit as a percentage of net sales was primarily due to higher margins due to the acquisition of AMX.

Gross profit as a percentage of net sales increased 0.8 percentage points to 37.9 percent in fiscal year 2014 compared to the prior fiscal year. The increase in gross profit as a percentage of net sales was primarily due to favorable product mix, lower restructuring expenses, lower manufacturing expenses resulting from cost saving initiatives and a decrease in duties and fees related to compliance with U.S. Customs regulations.

Services   Gross profit as a percentage of net sales was 30.5 percent in fiscal year 2015.

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Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) were $1.348 billion in fiscal year 2015 compared to $1.127 billion in the prior fiscal year, an increase of $220.6 million. As a percentage of net sales, SG&A increased 0.8 percentage points in fiscal year 2015 compared to the prior fiscal year. The increase in SG&A was primarily in support of increased net sales, the inclusion of our recent acquisitions in the current year SG&A and the related increased amortization expense, higher costs associated with estimated indemnifications related to infotainment supply arrangements, increased amortization expense, higher RD&E, higher restructuring expenses, higher marketing expenses and higher transaction expenses, partially offset by favorable foreign currency translation of $59.4 million. RD&E increased $36.4 million to $380.2 million, or 6.2 percent of net sales in fiscal year 2015, compared to $343.8 million, or 6.4 percent of net sales in the prior fiscal year primarily related to the acquisition of AMX and Redbend and higher gross spending to support new product introductions, partially offset by higher customer reimbursements and favorable foreign currency translation of $24.3 million.

SG&A were $1.127 billion in fiscal year 2014 compared to $902.9 million in the prior fiscal year, an increase of $224.1 million. As a percentage of net sales, SG&A increased 0.1 percentage points in fiscal year 2014 compared to the prior fiscal year. The increase in SG&A was primarily in support of increased net sales, a reduction of $22.1 million in contingent consideration in the prior year related to the acquisition of MWM Acoustics, LLC (MWM), higher marketing costs related to our brand-awareness campaign, higher amortization expense related to intangible assets acquired in recent acquisitions and unfavorable foreign currency translation of $15.5 million, partially offset by cost saving initiatives. RD&E increased $58.5 million to $343.8 million, or 6.4 percent of net sales in fiscal year 2014, compared to $285.3 million, or 6.6 percent of net sales in the prior fiscal year, primarily due to lower customer reimbursements, higher gross spending and unfavorable foreign currency translation of $7.5 million.

We continued to incur costs relating to our restructuring programs, which were designed to address our global footprint, cost structure, technology portfolio, human resources and internal processes. We recorded restructuring charges in SG&A of $42.6 million, $76.4 million and $75.2 million in fiscal years 2015, 2014 and 2013, respectively. Restructuring is further described under the caption Restructuring later in this discussion.

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

	Year Ended June 30,					
	2015	Percentage of Net Sales	2014	Percentage of Net Sales	2013	Percentage of Net Sales
Infotainment	$ 411,452	13.2%	$ 439,556	15.5%	$ 391,161	17.1%
Lifestyle	405,449	21.5%	327,759	19.8%	233,529	17.4%
Professional	326,090	31.1%	209,032	24.5%	163,990	24.4%
Services	26,059	29.4%	0	0.0%	0	0.0%
Other	178,460	*	150,593	*	114,189	*
Total	$ 1,347,510	21.9%	$ 1,126,940	21.1%	$ 902,869	21.0%

* Not meaningful.

Infotainment SG&A decreased $28.1 million to $411.4 million in fiscal year 2015 compared to the prior fiscal year. The decrease in SG&A was primarily due to lower restructuring expenses, lower RD&E and favorable foreign currency translation of $35.3 million, partially offset by higher costs associated with estimated indemnifications related to infotainment supply arrangements and the inclusion of our recent acquisition of S1nn. As a percentage of net sales, SG&A decreased 2.3 percentage points to 13.2 percent in fiscal year 2015 compared to the prior fiscal year. RD&E decreased $23.0 million to $205.2 million, or 6.6 percent of net sales in fiscal year 2015, compared to $228.1 million, or 8.0 percent of net sales in the prior fiscal year primarily due to higher customer reimbursements and favorable foreign currency translation of $20.7 million.

SG&A increased $48.4 million to $439.6 million in fiscal year 2014 compared to the prior fiscal year. The increase in SG&A was primarily in support of increased net sales, higher RD&E, higher amortization expense and unfavorable foreign currency translation of $12.4 million. As a percentage of net sales, SG&A decreased 1.6 percentage points to 15.5 percent in fiscal year 2014 compared to the prior fiscal year. RD&E increased $43.2 million to $228.1 million, or 8.0 percent of net sales in fiscal year 2014, compared to $184.9 million, or 8.1 percent of net sales in the prior fiscal year, primarily due to higher gross spending, lower customer reimbursements, and unfavorable foreign currency translation of $6.0 million.

Lifestyle SG&A increased $77.7 million to $405.4 million in fiscal year 2015, compared to the prior fiscal year. The increase in SG&A was primarily in support of increased net sales, higher marketing costs related to our brand-awareness campaign, higher restructuring expenses and the inclusion of our acquisitions of S1nn, certain automotive assets of B&O and yurbuds, partially offset by favorable foreign currency translation of $16.3 million. As a percentage of net sales, SG&A increased 1.7 percentage points to 21.5 percent in fiscal year 2015 compared to the prior fiscal year due to the prior year impact of a large order from a mobile telecommunications customer that had lower SG&A. RD&E increased $22.2 million to $87.6 million, or 4.6 percent of net sales in fiscal year 2015, compared to $65.4 million, or 3.9 percent of net sales in the prior fiscal year due to higher gross spending to support new product introductions, partially offset by favorable foreign currency translation of $2.0 million.

SG&A increased $94.2 million to $327.8 million in fiscal year 2014, compared to the prior fiscal year. The increase in SG&A was primarily in support of increased net sales, a reduction of $22.1 million in contingent consideration in the prior year related to the acquisition of MWM, higher marketing costs related to our brand-awareness campaign and unfavorable foreign currency translation of $2.8 million, partially offset by lower restructuring costs. As a percentage of net sales, SG&A increased 2.4 percentage points to 19.8 percent in fiscal year 2014 compared to the prior fiscal year. RD&E increased $5.7 million to $65.4 million, or 3.9 percent of net sales in fiscal year 2014 compared to $59.7 million, or 4.5 percent of net sales in the prior fiscal year, primarily due to higher gross spending to support new product introductions.

Professional SG&A increased $117.1 million to $326.1 million in fiscal year 2015, compared to the prior fiscal year. The increase in SG&A was primarily due to the acquisition of AMX and higher restructuring expenses, partially offset by favorable foreign currency translation of $7.2 million. As a percentage of net sales, SG&A increased 6.6 percentage points to 31.1 percent in fiscal year 2015 compared to the prior fiscal year. RD&E increased $31.3 million to $69.3 million, or 6.6 percent of net sales in fiscal year 2015 compared to $38.0 million, or 4.5 percent of net sales in the prior fiscal year primarily related to the acquisition of AMX, partially offset by favorable foreign currency translation of $1.4 million.

SG&A increased $45.0 million to $209.0 million in fiscal year 2014, compared to the prior fiscal year. The increase in SG&A was primarily due to the inclusion of Martin in fiscal year 2014 and higher amortization expense related to intangible assets acquired in the Martin, Duran Audio BV (Duran) and AMX acquisitions. As a percentage of net sales, SG&A increased 0.1 percentage point to 24.5 percent in fiscal year 2014 compared to the prior fiscal year. RD&E increased $6.4 million to $38.0 million, or 4.5 percent of net sales in fiscal year 2014 compared to $31.6 million, or 4.7 percent of net sales in the prior fiscal year, primarily due to the inclusion of Martin and Duran and unfavorable foreign currency translation of $0.8 million.

Services SG&A was $26.1 million in fiscal year 2015.

Other Other SG&A includes the operating results of Redbend from the February 26, 2015 acquisition date and compensation, benefit and occupancy costs for corporate employees, new technology innovation and expenses associated with our corporate brand identity campaign. Other SG&A increased $27.9 million to $178.5 million in fiscal year 2015 compared to the prior fiscal year primarily due to increased transaction expenses, increased compensation expense, the addition of Redbend, increased RD&E, increased integration expenses associated with acquisitions and increased marketing expenses. RD&E increased $9.5 million to $21.8 million in fiscal year 2015 compared to $12.3 million in the prior fiscal year, primarily due to the inclusion of Redbend.

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Other SG&A increased $36.4 million to $150.6 million in fiscal year 2014 compared to the prior fiscal year, primarily due to higher marketing expenses related to our global brand awareness campaign, increased stock compensation expense, higher RD&E and higher incentive expense for bonuses.

Restructuring

Our restructuring program that is designed to improve our global footprint, cost structure, technology portfolio, human resources and internal processes continues. During fiscal years 2015, 2014 and 2013, we continued to refine existing programs and launched significant new programs focused on achieving further productivity improvements to: (i) optimize certain research and development, supply chain and administrative functions; (ii) outsource certain manufacturing capabilities; (iii) divest or sublease facilities no longer needed to support current operations; and (iv) relocate certain functions to best cost countries.

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(1)	Third Party Contractor Termination Costs	Facility Closure and Other Related Costs(2)	Asset Impairments(3)	Total
Liability, June 30, 2012	$ 19,938	$ 17	$ 10,839	$ 0	$ 30,794
Expense(4)	21,297	1,076	55,405	5,337	83,115
Accumulated depreciation offset	0	0	0	(5,337)	(5,337)
Payments	(18,151)	(72)	(38,939)	0	(57,162)
Reclassified liabilities(2)	0	0	6,889	0	6,889
Foreign currency translation	479	(7)	(346)	0	126
Liability, June 30, 2013	$ 23,563	$ 1,014	$ 33,848	$ 0	$ 58,425
Expense(4)	65,870	5,793	5,581	6,959	84,203
Accumulated depreciation offset	0	0	0	(6,959)	(6,959)
Payments	(36,699)	(6,856)	(10,522)	0	(54,077)
Foreign currency translation	1,423	49	1,355	0	2,827
Liability, June 30, 2014	$ 54,157	$ 0	$ 30,262	$ 0	$ 84,419
Expense(4)	39,158	2,097	1,717	8,966	51,938
Accumulated depreciation offset	0	0	0	(8,966)	(8,966)
Reclassified liabilities(1)	553	0	0	0	553
Payments	(22,293)	(2,096)	(24,950)	0	(49,339)
Foreign currency translation	(10,786)	(1)	(2,439)	0	(13,226)
Liability, June 30, 2015	$ 60,789	$ 0	$ 4,590	$ 0	$ 65,379

(1) Certain pre-existing pension liabilities were transferred and reduced the restructuring expenses recorded as part of an individual restructuring program. These offsets are shown as Reclassified liabilities in fiscal year 2015 above.

(2) Certain contractual indemnification payments resulting from the transfer of a manufacturing facility to a third party were recorded as restructuring expenses in fiscal year 2013 and are classified within Facility Closure and Other Related Costs. Certain pre-existing liabilities related to this transferred facility were offset and reduced the restructuring expenses recorded as part of this transaction. These offsets are shown as Reclassified liabilities as noted above. See Note 3 *Transfer of Ownership of Manufacturing Facility* for more information.

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

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

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

Restructuring expenses by reporting business segment are presented below:

	Year Ended June 30,		
	2015	**2014**	**2013**
Infotainment	$ (540)	$ 47,147	$ 58,878
Lifestyle	32,691	23,645	16,260
Professional	10,889	6,335	2,640
Services	0	0	0
Other	(68)	117	0
Total	42,972	77,244	77,778
Asset impairments	8,966	6,959	5,337
Total	$ 51,938	$ 84,203	$ 83,115

Goodwill

In September 2011, we adopted Accounting Standards Update 2011-08, Intangibles Goodwill and Other (Topic 350), under which an entity may first assess qualitative factors in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. In fiscal years 2015 and 2014, we did not elect to first assess the qualitative factors in evaluating our goodwill for impairment; therefore, we proceeded with our quantitative goodwill impairment test.

We test for impairment at the reporting unit level on an annual basis as of April 30th of every year and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. Refer to Note 1 *Summary of Significant Accounting Policies* in the Notes to the Consolidated Financial Statements for more information on how we test goodwill for impairment. The annual goodwill impairment tests conducted as of April 30, 2015 and 2014 indicated that the fair value of each reporting unit was substantially in excess of its carrying value and, as such, no impairments were deemed to exist. Our accumulated amount of goodwill impairment recorded in prior fiscal years is $330.0 million.

Goodwill was $1.3 billion at June 30, 2015 compared with $541.0 million at June 30, 2014. The increase in goodwill in the fiscal year ended June 30, 2015 versus the prior fiscal year was primarily associated with the following: an increase of $13.2 million in connection with the acquisition of SVSI, an increase of $13.2 million in connection with the acquisition of certain automotive assets of B&O, an increase of $529.4 million in connection with the acquisition of STC, an increase of $187.0 million in connection with the acquisition of Redbend, an increase of $20.3 million in connection with the acquisition of S1nn, an increase of $8.0 million in connection with the acquisition of I.P.S.G. International Product Solution Group Pty Ltd and VFX Systems Pty Ltd (collectively IPSG/VFX), an increase of $5.4 million in connection with the acquisition of yurbuds and a reduction of $1.9 million in connection with the acquisition of AMX.

Goodwill was $541.0 million at June 30, 2014 compared with $234.3 million at June 30, 2013. The increase in goodwill in the fiscal year ended June 30, 2014 versus the prior fiscal year was primarily related to goodwill associated with the following: $244.3 million in connection with the acquisition of AMX, $30.1 million in connection with the acquisition of yurbuds, $15.1 million in connection with the acquisition of Duran, $8.1 million in connection with the acquisition of innovative Systems GmbH (IS), $4.9 million in connection with the acquisition of Martin and $0.1 million in connection with the acquisition of iOnRoad Technologies, Ltd.

The contingent purchase price associated with the acquisition of 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 awarding 16.3 million to the IS sellers. We contested the enforcement of the partial award. During the fiscal year ended June 30, 2014, we recorded approximately $8.1 million of additional contingent purchase price to accrue for this partial award. In July 2014, the partial award was upheld. Until such time as the other disputed matters are resolved, we cannot calculate the contingent purchase price related to these other disputed matters. During the fiscal year ended June 30, 2015, we paid the 16.3 million partial award.

The changes in the carrying amount of goodwill by business segment for the fiscal years ended June 30, 2015 and 2014 were as follows:

	Infotainment	Lifestyle	Professional	Services	Other	Total
Balance, June 30, 2013	$ 8,576	$ 107,438	$ 118,328	$ 0	$ 0	$ 234,342
Acquisitions and adjustments(1)	143	30,118	264,308	0	0	294,569
Contingent purchase price consideration associated with the acquisition of IS	8,052	0	0	0	0	8,052
Other adjustments(2)	309	394	3,286	0	0	3,989
Balance, June 30, 2014	$ 17,080	$ 137,950	$ 385,922	$ 0	$ 0	$ 540,952
Acquisitions and adjustments(1)	10,209	28,809	19,225	529,367	187,031	774,641
Other adjustments(2)	(2,867)	(7,671)	(17,286)	0	(589)	(28,413)
Balance, June 30, 2015	$ 24,422	$ 159,088	$ 387,861	$ 529,367	$ 186,442	$ 1,287,180

(1) Refer to Note 2 *Acquisitions* in the Notes to the Consolidated Financial Statements for more information.
(2) The other adjustments to goodwill primarily consist of foreign currency translation adjustments.

Operating Income

Fiscal year 2015 operating income was $469.6 million, or 7.6 percent of net sales. This represents an increase of 1.4 percentage points compared to the prior fiscal year. The increase in operating income was primarily due to higher leverage of fixed costs based on higher net sales volumes resulting in higher gross margin, partially offset by higher SG&A in support of increased net sales and from the inclusion of our recent acquisitions and higher RD&E.

Fiscal year 2014 operating income was $329.7 million, or 6.2 percent of net sales. This represents an increase of 1.5 percentage points compared to the prior fiscal year. The increase in operating income was primarily due to higher gross profit due to increased net sales in fiscal year 2014, partially offset by higher SG&A in support of increased net sales and the inclusion of the acquisitions of Martin and Duran, a reduction of $22.1 million in contingent consideration in the prior year related to the acquisition of MWM and higher marketing costs related to our brand-awareness campaign.

A summary of our operating income (loss) by business segment is presented below:

	Year Ended June 30,					
	2015	Percentage of Net Sales	2014	Percentage of Net Sales	2013	Percentage of Net Sales
Infotainment	$ 342,350	11.0%	$ 195,403	6.9%	$ 90,799	4.0%
Lifestyle	199,149	10.6%	170,517	10.3%	137,477	10.3%
Professional	102,002	9.7%	114,057	13.4%	85,810	12.8%
Services	1,009	1.1%	0	0.0%	0	0.0%
Other	(174,916)	*	(150,250)	*	(112,835)	*
Total	$ 469,594	7.6%	$ 329,727	6.2%	$ 201,251	4.7%

* Not meaningful.

Interest Expense, Net

Interest expense is reported net of interest income in our Consolidated Statements of Income. Interest expense, net was $13.9 million, $8.0 million and $12.9 million for the fiscal years ended June 30, 2015, 2014 and 2013, respectively. Gross interest expense was $16.1 million, $10.1 million and $15.3 million for the fiscal years ended June 30, 2015, 2014 and 2013, respectively. The non-cash portion of interest expense was $2.8 million, $2.2 million and $8.5 million for the fiscal years ended June 30, 2015, 2014 and 2013, respectively. The cash portion of gross interest expense was $13.3 million, $7.9 million and $6.8 million for the fiscal years ended June 30, 2015, 2014 and 2013, respectively. Interest income was $2.2 million, $2.1 million and $2.4 million for the fiscal years ended June 30, 2015, 2014 and 2013, respectively.

Non-cash interest expense for the fiscal year ended June 30, 2015 relates to the amortization of the debt discount and debt issuance costs on the Euro-denominated 2.000 percent senior notes due 2022 (the 2.000 Percent Senior Notes) issued on May 27, 2015 and the U.S. Dollar denominated 4.150 percent senior notes due 2025 (the 4.150 Percent Senior Notes) issued on May 11, 2015 and the amortization of debt issuance costs on the Multi-Currency Credit Agreement entered into on March 26, 2015 (the 2015 Credit Agreement) and the Multi-Currency Credit Agreement entered into on October 10, 2012, (the 2013 Credit Agreement). Non-cash interest expense for the fiscal year ended June 30, 2014 relates to the amortization of debt issuance costs on the 2013 Credit Agreement. Non-cash interest expense for the fiscal year ended June 30, 2013 relates to the amortization of debt issuance costs on the 2013 Credit Agreement, the amortization of the debt discount and debt issuance costs on the $400.0 million of 1.25 percent convertible senior notes repaid on October 15, 2012 (the Convertible Senior Notes) and the amortization of debt issuance costs on the Multi-Currency Credit Agreement, entered into on December 1, 2010, as amended on December 15, 2011 and July 2, 2012 (the 2012 Credit Agreement).

Cash interest expense in the fiscal year ended June 30, 2015 primarily relates to interest on the 2.000 Percent Senior Notes, the 4.150 Percent Senior Notes, the 2015 Credit Agreement, the 2013 Credit Agreement and our short-term borrowings. Cash interest expense in the fiscal year ended June 30, 2014 primarily relates to interest on the 2013 Credit Agreement and our short-term borrowings. Cash interest expense in the fiscal year ended June 30, 2013 primarily relates to interest on the 2013 Credit Agreement, the Convertible Senior Notes, the 2012 Credit Agreement and our short-term borrowings.

Interest income primarily relates to interest earned on our cash and cash equivalents, short-term investment balances and the variances from year to year are due to fluctuations in those balances and changes in interest rates.

The increase in interest expense, net in fiscal year 2015 compared with the prior fiscal year is primarily due to higher cash and non-cash interest expense and the decrease in fiscal year 2014 compared with the prior fiscal year is primarily due to lower non-cash interest expense.

Foreign Exchange Losses, Net

Foreign currency exchange gains and losses resulting from the remeasurement of certain foreign currency denominated monetary assets and liabilities are included in Foreign exchange losses, net in our Consolidated Statements of Income. During the fiscal year ended June 30, 2014, 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 and forward points were included in Foreign exchange losses, net in our Consolidated Statements of Income. 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 Accumulated other comprehensive income and are reclassified to either Cost of sales or SG&A, depending on the nature of the underlying asset or liability that is being hedged, in our Consolidated Statements of Income, in the period or periods during which the underlying transaction occurs. Refer to Note 10 *Derivatives* in the Notes to the Consolidated Financial Statements for more information.

Miscellaneous, Net

We recorded miscellaneous expenses, net, of $10.1 million, $8.4 million and $11.8 million in fiscal years 2015, 2014 and 2013, respectively. In fiscal year 2015, Miscellaneous, net primarily consisted of bank charges of $6.4 million and interest expense of $3.7 million related to a disputed claim and the accretion of certain acquisition consideration liabilities, which are payable in the future. In fiscal year 2014, Miscellaneous, net primarily consisted of bank charges of $6.2 million and interest expense of $2.1 million related to a disputed claim. In fiscal year 2013, Miscellaneous, net primarily consisted of a loss on available-for-sale securities of $5.9 million and bank charges of $5.1 million.

Income Taxes

Our fiscal year 2015, 2014 and 2013 effective tax rates were an expense of 23.1 percent, 23.6 percent and 18.2 percent, respectively. The effective tax rate was lower than the U.S. Federal statutory rate due to income mix, U.S. Federal income tax credits and rate differentials between the U.S. and foreign jurisdictions. Refer to Note 13 *Income Taxes* in the Notes to the Consolidated Financial Statements for more information.

Liquidity and Capital Resources

We primarily finance our working capital requirements through cash generated by operations, the 2015 Credit Agreement, proceeds from the issuance of the 2.000 Percent Senior Notes and the 4.150 Percent Senior Notes and trade credit. Cash and cash equivalents were $649.5 million at June 30, 2015 compared to $581.3 million at June 30, 2014. During the fiscal year ended June 30, 2015, our cash and cash equivalents balance increased $68.2 million. The increase in cash was primarily due to net cash provided by operating activities, new net borrowings under the 2015 Credit Agreement and proceeds from the issuance of the 4.150 Percent Senior Notes and the 2.000 Percent Senior Notes, partially offset by payments for acquisitions, capital expenditures, dividends and repurchases of common stock related to share-based compensation arrangements. We also used cash to make investments in our manufacturing facilities, fund product development and meet the working capital needs of our business segments.

We believe that our existing cash and cash equivalents of $649.5 million at June 30, 2015, together with our expected future operating cash flows, and our availability of $912.1 million under the 2015 Credit Agreement, will be sufficient to cover our working capital needs, debt service, income tax payments, capital expenditures, including major investments related to manufacturing and research facilities in emerging markets, acquisitions, purchase commitments, restructuring projects, share buybacks and quarterly dividends for at least the next 12 months.

Our ability to maintain positive liquidity going forward depends on our ability to continue to generate cash from operations and maintain access to the financial markets, both of which are subject to general economic, financial, competitive, legislative, regulatory and other market factors beyond our control. We earn a significant amount of our operating income outside the U.S., the majority of which is deemed to be permanently reinvested in foreign jurisdictions. For at least the next 12 months, we have sufficient cash in the U.S., availability under the 2015 Credit Agreement and forecasted domestic cash flow to sustain our operating activities and cash commitments for investing and financing activities, such as quarterly dividends, share buybacks and the repayment of debt. In addition, we expect existing foreign cash and cash equivalents and cash flows from operations to continue to be sufficient to fund our foreign operating activities and cash commitments for investing activities, such as material capital expenditures, for at least the next 12 months. As of June 30, 2015, Cash and cash equivalents of $196.3 million were held in the U.S. and Cash and cash equivalents of $453.2 million were held by us in foreign jurisdictions. As of June 30, 2014, Cash and cash equivalents of $235.9 million were held in the U.S. and Cash and cash equivalents of $345.4 million were held by us in foreign jurisdictions. Below is a more detailed discussion of our cash flow activities during fiscal year 2015.

Operating Activities

For the fiscal year ended June 30, 2015, our net cash provided by operating activities was $552.6 million, compared to $592.1 million in the prior fiscal year. The decrease in operating cash flows compared to the prior fiscal year was primarily due to increases in other current assets, pre-production and development costs, accounts receivable and a smaller increase in accrued liabilities, partially offset by increases in accounts payable and higher net income. At June 30, 2015, working capital, excluding cash, short-term debt and current portion of long-term debt was $184.5 million, compared with $431.3 million at June 30, 2014. The decrease was primarily due to higher accrued liabilities, driven by the accrual for remainder of the STC purchase price and the estimated earnout, and higher accounts payable, partially offset by higher receivables, net, other current assets and inventories balances.

Investing Activities

Net cash used in investing activities was $738.5 million for the fiscal year ended June 30, 2015, compared to $612.1 million in the prior fiscal year. The increase in net cash used in investing activities compared to the prior fiscal year was primarily due to higher costs for acquisitions and capital expenditures. Capital expenditures for the fiscal year ended June 30, 2015 were $192.5 million, in support of new Infotainment and Lifestyle awards, compared to $157.1 million in the prior fiscal year. We expect that capital expenditures as a percentage of sales in fiscal year 2016 will remain in line with fiscal year 2015 levels.

Financing Activities

Net cash provided by financing activities was $305.2 million in the fiscal year ended June 30, 2015, compared to $136.6 million provided by financing activities in the prior fiscal year. The increase in cash provided by financing activities was primarily due to higher net borrowings of long-term debt.

Our total debt, including short-term borrowings, at June 30, 2015 was $1.1 billion, primarily comprised of the issuance of $397.3 million of the 4.150 Percent Senior Notes, the issuance of $388.4 million of the 2.000 Percent Senior Notes and outstanding borrowings under the 2015 Credit Agreement of $283.1 million. Also included in total debt at June 30, 2015 are capital leases of $16.3 million, of which $4.6 million is included in Current portion of long-term debt and short-term debt of $1.0 million.

Our total debt, including short-term borrowings, at June 30, 2014 was $558.8 million, primarily comprised of outstanding borrowings under the 2013 Credit Agreement of $555.0 million. Also included in total debt at June 30, 2014 is short-term debt and long-term borrowings of $3.8 million.

Issuance of 2.000 Percent Senior Notes

On May 27, 2015, we completed a public offering of 350.0 million of the 2.000 Percent Senior Notes, issued by Harman Finance S.C.A (Harman Finance), which are fully and unconditionally guaranteed by Harman. Harman Finance is a wholly-owned finance subsidiary and has no independent activities, assets or operations other than in connection with the 2.000 Percent Senior Notes. The 2.000 Percent Senior Notes bear

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interest at a rate of 2.000 percent per year, payable annually in arrears on May 27 of each year, commencing on May 27, 2016 and will mature on May 27, 2022. The 2.000 Percent Senior Notes were issued at 99.613 percent of par value, reflecting a discount of 1.4 million to the aggregate principal amount, which is being amortized to Interest expense, net in our Consolidated Statement of Income using the effective interest method, over the term of the 2.000 Percent Senior Notes. We incurred 2.6 million of debt issuance costs in connection with the 2.000 Percent Senior Notes which are being amortized to Interest expense, net in our Consolidated Statement of Income using the effective interest method, over the term of the 2.000 Percent Senior Notes. The net proceeds from the issuance of the 2.000 Percent Notes were 346.0 million, net of the discount and debt issuance costs. The effective interest related to the 2.000 Percent Senior Notes, based on the net proceeds received is 2.060 percent. The 2.000 Percent Senior Notes were issued under an indenture, dated as of May 27, 2015, by and between Harman Finance, Harman, as guarantor, and a trustee, as supplemented by the first supplemental indenture, dated as of May 27, 2015, by and between Harman Finance, Harman, as guarantor, and a trustee (as supplemented, the 2.000 Percent Senior Notes Indenture). All payments of interest and principal, including payments made upon any redemption of the 2.000 Percent Senior Notes, will be made in Euros, subject to certain exceptions if the Euro is unavailable.

At any time prior to February 27, 2022, Harman Finance has the right to redeem the 2.000 Percent Senior Notes, in whole or in part, at its option, at a make-whole redemption price. At any time on or after February 27, 2022, Harman Finance may redeem the 2.000 Percent Senior Notes, in whole or in part, at a redemption price equal to 100 percent of the principal amount of the 2.000 Percent Senior Notes being redeemed. In each case, Harman Finance will also pay the accrued and unpaid interest on the principal amount being redeemed on the redemption date. Harman Finance is required to offer to repurchase the 2.000 Percent Senior Notes for cash at a price of 101 percent of the aggregate principal amount of the 2.000 Percent Senior Notes, plus accrued and unpaid interest, upon the occurrence of a change of control triggering event (as defined in the 2.000 Percent Senior Notes Indenture). Harman Finance will also have the right to redeem all, but not part, of the 2.000 Percent Senior Notes in the event of certain changes in the tax laws of a relevant taxing jurisdiction at a redemption price equal to 100 percent of the principal amount, plus accrued and unpaid interest. Harman Finance will be required, subject to certain exceptions and limitations set forth in the 2.000 Percent Senior Notes Indenture, to pay as additional interest on the 2.000 Percent Senior Notes such additional amounts as are necessary in order that the net payment by Harman Finance of the principal and interest on the 2.000 Percent Senior Notes to a holder, after withholding or deduction for any present or future tax, assessment or other governmental charge imposed by a relevant taxing jurisdiction, will not be less than the amount provided in the 2.000 Percent Senior Notes to be then due and payable.

The 2.000 Percent Senior Notes Indenture contains covenants that, subject to certain exceptions, limit our ability to: (i) incur indebtedness secured by principal properties, (ii) enter into certain sale and leaseback transactions with respect to principal properties and (iii) enter into certain mergers, consolidations and transfers of all or substantially all of our and our subsidiaries assets on a consolidated basis. In addition, the 2.000 Percent Senior Notes Indenture requires that Harman owns, directly or indirectly, 100 percent of the capital stock of Harman Finance, and limits Harman Finance s ability to enter into certain mergers, consolidations and transfers of all or substantially all of its assets. The 2.000 Percent Senior Notes Indenture also contains customary events of default, including a cross-acceleration provision to the 2015 Credit Agreement and other future material indebtedness of at least $100.0 million. The guarantee of the 2.000 Percent Senior Notes is an unsecured senior obligation of Harman, and ranks equally in right of payment with all of our other senior unsecured indebtedness.

We used the net proceeds from the offering of the 2.000 Percent Senior Notes to repay a portion of indebtedness outstanding under the 2015 Credit Agreement and the financing of our acquisition of certain automotive assets of B&O, with the balance to be used for general corporate purposes. Refer to Note 2 *Acquisitions* in the Notes to the Consolidated Financial Statements for more information.

Issuance of 4.150 Percent Notes

On May 11, 2015, we completed a public offering of $400.0 million of the 4.150 Percent Senior Notes issued by Harman. The 4.150 Percent Senior Notes bear interest at a rate of 4.150 percent per year, payable semi-annually in arrears on May 15 and November 15 of each year, commencing on November 15, 2015, and will

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mature on May 15, 2025. The 4.150 Percent Senior Notes were issued at 99.336 percent of par value, reflecting a discount of $2.7 million to the aggregate principal amount, which is being amortized to Interest expense, net in our Consolidated Statement of Income using the effective interest method, over the term of the 4.150 Percent Senior Notes. We incurred $3.8 million of debt issuance costs, in connection with the 4.150 Percent Senior Notes which are being amortized to Interest expense, net in our Consolidated Statement of Income using the effective interest method, over the term of the 4.150 Percent Senior Notes. The net proceeds from the issuance of the 4.150 Percent Senior Notes were $393.5 million, net of the discount and debt issuance costs. The effective interest related to the 4.150 Percent Senior Notes, based on the net proceeds received is 4.232 percent. The 4.150 Percent Senior Notes were issued under an indenture, dated as of May 11, 2015, by and between us and a trustee, as supplemented by the first supplemental indenture, dated as of May 11, 2015, by and between us and the trustee (as supplemented, the 4.150 Percent Senior Notes Indenture).

At any time prior to February 15, 2025, we have the right to redeem the 4.150 Percent Senior Notes, in whole or in part, at our option, at a make-whole redemption price. At any time on or after February 15, 2025, we may redeem the 4.150 Percent Senior Notes at a redemption price equal to 100 percent of the principal amount of the 4.150 Percent Senior Notes being redeemed. In each case, we will also pay the accrued and unpaid interest on the principal amount being redeemed on the redemption date. We are required to offer to repurchase the 4.150 Percent Senior Notes for cash at a price of 101 percent of the aggregate principal amount of the 4.150 Percent Senior Notes, plus accrued and unpaid interest, upon the occurrence of a change of control triggering event (as defined in the 4.150 Percent Senior Notes Indenture).

The 4.150 Percent Senior Notes Indenture contains covenants that, subject to certain exceptions, limit our ability to: (i) incur indebtedness secured by principal properties, (ii) enter into certain sale and leaseback transactions with respect to principal properties and (iii) enter into certain mergers, consolidations and transfers of all or substantially all of our and our subsidiaries assets on a consolidated basis. The 4.150 Percent Senior Notes Indenture also contains customary events of default, including a cross-acceleration provision to the 2015 Credit Agreement and other future material indebtedness of at least $100.0 million. The 4.150 Percent Senior Notes are unsecured senior obligations of Harman, and rank equally in right of payment with all of our other senior unsecured indebtedness, including our guarantee of the 2.000 Percent Senior Notes.

We used the net proceeds from the offering of the 4.150 Percent Senior Notes to repay a portion of indebtedness outstanding under the 2015 Credit Agreement.

2015 Credit Agreement

On March 26, 2015 we and our wholly-owned subsidiary Harman Holding GmbH & Co. KG (Harman KG), entered into the 2015 Credit Agreement with a group of banks. The 2015 Credit Agreement provides for a five-year unsecured multi-currency revolving credit facility in the amount of $1.2 billion (the Aggregate Commitment) with availability in currencies other than the United States Dollar of up to $750.0 million. Up to $50.0 million of the Aggregate Commitment is available for letters of credit. Subject to certain conditions set forth in the 2015 Credit Agreement, the Aggregate Commitment may be increased by up to $500.0 million. However, there is presently no commitment for this additional borrowing ability. We may select interest rates for borrowings under the 2015 Credit Agreement equal to (i) the LIBO rate plus an applicable margin, (ii) the EURIBO rate plus an applicable margin, or (iii) a base rate plus an applicable margin, which in each case is based on ratings which are established by Standard & Poor s Rating Services (S&P) and Moody s Investor Services (Moody s). We pay a facility fee on the Aggregate Commitment, whether drawn or undrawn, which is also determined based on our ratings which are established by S&P and Moody s. Any proceeds from borrowings under the 2015 Credit Agreement may be used for general corporate purposes.

The 2015 Credit Agreement includes certain financial condition covenants, including covenants that do not permit us to allow (i) our ratio of consolidated EBITDA to consolidated cash interest expense to be less than 3.5:1.0 or (ii) our ratio of consolidated total debt to consolidated EBITDA to exceed 3.5:1.0, or following certain acquisitions, 4.0:1.0, each calculated as of the end of the applicable fiscal quarter on a rolling four-quarter basis. The terms consolidated EBITDA, consolidated cash interest expense, and consolidated total debt are defined in the 2015 Credit Agreement.

The 2015 Credit Agreement also contains certain negative covenants that limit, among other things, the ability of certain of our subsidiaries to incur debt and our ability and the ability of our subsidiaries to incur liens, make fundamental changes (including selling all or substantially all of our assets), undertake transactions with affiliates and undertake sale and leaseback transactions. The 2015 Credit Agreement is subject to acceleration upon certain specified events of default, including failure to make timely payments, breaches of representations or covenants, or a change of control , as such term is defined in the 2015 Credit Agreement. As of June 30, 2015, we were in compliance with all the financial covenants of the 2015 Credit Agreement and we believe we will be in compliance for the next 12 months.

Upon the signing of the 2015 Credit Agreement, we voluntarily terminated the 2013 Credit Agreement with a group of banks. No early termination penalties were incurred by us as a result of the termination of the 2013 Credit Agreement. All of the approximately $4.0 million of letters of credit that were previously outstanding under the 2013 Credit Agreement were deemed to be issued and outstanding under the 2015 Credit Agreement.

At June 30, 2015, there was approximately $283.1 million of outstanding borrowings, which are included in our Consolidated Balance Sheet as Borrowings under revolving credit facility and $4.8 million of outstanding letters of credit under the 2015 Credit Agreement. At June 30, 2015, unused available credit under the 2015 Credit Agreement was $912.1 million. In connection with the 2015 Credit Agreement, we incurred $3.0 million of fees and other expenses, which are included within Other assets in our Consolidated Balance Sheet at June 30, 2015. These costs are amortized over the term of the 2015 Credit Agreement to Interest expense, net in our Consolidated Statement of Income on a straight-line basis. In addition, during the fiscal year ended June 30, 2015, we wrote off $0.6 million of debt issuance costs to Interest expense, net, associated with the 2013 Credit Agreement, which represented the portion of these costs that were attributed to the 2013 Credit Agreement.

At June 30, 2014, there was $300.0 million of outstanding borrowings and approximately $4.6 million of outstanding letters of credit under the revolving credit facility of the 2013 Credit Agreement and $255.0 million of outstanding borrowings under the five-year unsecured United States Dollar term loan facility of the 2013 Credit Agreement, of which $35.6 million is included in our Consolidated Balance Sheet as Current portion of long-term debt and $219.4 million is classified as Long-term debt.

Convertible Senior Notes

On October 15, 2012, the maturity date for the $400.0 million of the Convertible Senior Notes, we repaid all of the outstanding $400.0 million principal amount of Convertible Senior Notes and accrued and unpaid interest thereon held by affiliates of Kohlberg Kravis Roberts & Co. and Goldman Sachs Capital Partners and other investors. The repayment of principal was funded by $300.0 million of borrowings under the term facility of the 2013 Credit Agreement and $100.0 million of cash on hand.

At June 30, 2015, long-term debt maturing in each of the next five fiscal years and thereafter is as follows:

2016	$	4,550
2017		3,748

2018	2,792
2019	1,846
2020	1,464
Thereafter	1,074,933
Total	$ 1,089,333

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Credit Rating

On September 6, 2012, S&P raised our corporate credit rating to the investment grade BBB from BB+, citing improved margins and lower business risk. S&P also raised the issue rating on our senior unsecured notes to BB+ from BB. On October 11, 2012, Moody s raised our credit rating to Baa3 from Ba1, elevating us to investment-grade status, with the assignment of the Baa3 rating. We expect that the increase in our credit rating will enable us to continue to obtain credit in the future.

Dividends

On June 25, 2015, we announced that our annual cash dividend would increase by six percent in fiscal year 2016 to $1.40 per share. The dividends will be paid in quarterly increments of $0.35 per share, effective July 1, 2015.

Off-Balance Sheet Arrangements

We utilize off-balance sheet arrangements in our operations when we enter into operating leases for land, buildings and equipment in the normal course of business, which are not included in our Consolidated Balance Sheets. In addition, we had outstanding letters of credit of $4.8 million and $4.6 million at June 30, 2015 and 2014, respectively, that were not included in our Consolidated Balance Sheets.

Contractual Obligations

We have obligations and commitments to make future payments under various agreements and for uncertain tax positions. The following table details our obligations by due date:

	Year Ending June 30,						
	2016	**2017**	**2018**	**2019**	**2020**	**Thereafter**	**Total**
Short term borrowings[1]	$ 1,021	$ 0	$ 0	$ 0	$ 0	$ 0	$ 1,021
Long-term debt[1]	4,550	3,748	2,792	1,846	1,464	1,074,933	1,089,333
Firm commitments for capital expenditures	60,420	0	0	0	0	0	60,420
Purchase obligations[2]	233,856	0	0	0	0	0	233,856
Non-cancelable operating leases[3]	46,220	43,022	41,528	41,069	39,258	156,070	367,167
Pension obligations[4]	9,992	9,684	10,067	9,223	9,764	60,877	109,607
Endorsement contracts[5]	13,960	10,952	7,573	420	0	0	32,905
Payments for Acquisitions [6]	229,339	0	0	0	0	0	229,339
Uncertain tax positions[7]	58,489	0	0	0	0	0	58,489
Total contractual cash obligations	$ 657,847	$ 67,406	$ 61,960	$ 52,558	$ 50,486	$ 1,291,880	$ 2,182,137

(1) Refer to Note 9 *Debt* in the Notes to the Consolidated Financial Statements for more information and for interest payments associated with our short-term debt, borrowings under revolving credit facility and long-term debt.

(2) Includes amounts committed under enforceable agreements for purchase of goods and services with defined terms as to quantity, price and timing of delivery.
(3) Refer to Note 12 *Leases* in the Notes to the Consolidated Financial Statements for more information.
(4) Refer to Note 17 *Retirement Benefits* in the Notes to the Consolidated Financial Statements for more information.
(5) Endorsement contracts represent short-term and long-term commitments related to promotional agreements.
(6) Refer to Note 2 *Acqusitions* in the Notes to the Consolidated Financial Statements. Represents the remaining portion of the base purchase price due in connection with our acquisition of STC.

(7) Refer to Note 13 *Income Taxes* in the Notes to the Consolidated Financial Statements. All uncertain tax positions are included in fiscal year 2016 as timing of such payments cannot be estimated.

Share Buyback Program

On October 28, 2014, our Board of Directors authorized the repurchase of up to $500.0 million of our common stock over the next three years (the 2014 Buyback Program). The 2014 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 during the authorized three year period. The 2014 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, other growth opportunities and other factors. On June 18, 2015, we entered into a repurchase plan with an external broker under the 2014 Buyback Program that provides the structure under which the program will be facilitated. There were no share repurchases during the fiscal year ended June 30, 2015.

On October 26, 2011, our Board of Directors authorized the repurchase of up to $200.0 million of our common stock (the 2012 Buyback Program). The 2012 Buyback Program allowed 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 2012 Buyback Program was set to expire on October 26, 2012, but on October 23, 2012 our Board of Directors approved an extension of the 2012 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 2013 Buyback Program) which expired 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 expired on June 25, 2014. During the fiscal year ended June 30, 2014, we repurchased 1,327,693 shares at a cost of $90.8 million for a total cumulative buyback of 4,719,968 shares at a cost of $220.1 million under the 2012 Buyback Program and the 2013 Buyback Program. The 2012 Buyback Program and the 2013 Buyback Program have expired and therefore no additional shares may be repurchased under such programs.

Subsequent Events

Dividends

On August 4, 2015, we declared a cash dividend of $0.35 per share for the quarter ended June 30, 2015. The quarterly dividend will be paid on August 28, 2015 to each stockholder of record as of the close of business on August 14, 2015.

Equity

Total shareholders equity at June 30, 2015 was $2.375 billion compared with $1.793 billion at June 30, 2014. The increase is primarily due to higher net income, unrealized gains on hedging and the issuance of our common shares for the acquisitions of STC and Redbend, partially offset by unfavorable foreign currency translation and dividends to shareholders.

Total equity at June 30, 2014 was $1.793 billion compared with $1.645 billion at June 30, 2013. The increase is primarily due to higher net income, favorable foreign currency translation and stock option exercises, partially offset by repurchases of common stock, dividends to shareholders and unrealized losses on hedging. There were 1,327,693 shares of our common stock repurchased during the fiscal year ended June 30, 2014 at a total cost of $90.8 million.

Business Outlook

Our future outlook is largely dependent upon global macroeconomic conditions. We believe that current consumer discretionary spending levels, automotive production rates and projected increased take rates for our automotive products, will continue to support double digit growth in constant currency within our Infotainment and Lifestyle segments. Our Professional segment primarily sells in U.S. Dollars, making our products more expensive for customers in several global markets. To mitigate this impact we will continue to pursue certain discount programs. Our recent acquisition of STC provides diversification of the customer base and moderation of the business cycle. We remain committed to our investment plans in the areas of RD&E and marketing programs, driving growth through increased consumer awareness for our innovative new product introductions. We also remain committed to pursuing incremental productivity and restructuring programs, which are expected to provide an accelerated rate of earnings growth in future years. Capital expenditures as a percentage of sales are expected to remain in line with fiscal year 2015 levels.

Recently Issued Accounting Standards

Imputation of Interest: In April 2015, the FASB issued ASU No. 2015-03, Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which changes the presentation requirements for debt issuance costs and debt discount and premium. The new guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the new guidance. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. We expect to adopt the provisions of this new guidance on July 1, 2016 on a retrospective basis. We do not expect the adoption of the new provisions to have a material impact on our financial condition or results of operations.

Discontinued Operations: In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held-for-sale and represents a strategic shift that has or will have a major effect on an entity s operations and financial results. The standard states that a strategic shift could include a disposal of (i) a major geographical area of operations, (ii) a major line of business, (iii) a major equity method investment or (iv) other major parts of an entity. The new guidance also requires several new disclosures. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2014. Early adoption is permitted. We expect to adopt the provisions of this new guidance on July 1, 2015. We do not expect the adoption of the new provisions to have a material impact on our financial condition or results of operations.

Revenue Recognition: In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which amends the guidance for revenue recognition to replace numerous, industry-specific requirements and converges areas under this topic with those of the International Financial Reporting Standards. The new guidance implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The new guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The original standard was effective for fiscal years beginning after December 15, 2016; however, in April 2015, the FASB proposed a one-year deferral of this standard, with a new effective date of December 15, 2017. In July 2015,the FASB affirmed its proposal to defer the effective date of the new revenue standard for all entities by one year. We expect to adopt the provisions of this new guidance on July 1, 2018, depending on the final guidance. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. We are currently assessing the impact the adoption of the new provisions will have on our financial condition and results of operations.

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Extraordinary Items: In January 2015, the FASB issued ASU 2015-01, Income Statement Extraordinary and Unusual Items (Subtopic 225-20), which eliminates the concept of extraordinary items. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015. The new guidance is to be applied prospectively but may also be applied retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. We expect to adopt the provisions of this new guidance on July 1, 2016. We do not expect the adoption of the new provisions to have a material impact on our financial condition or results of operations.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are required to include information about potential effects of changes in interest rates and currency exchange rates in our periodic reports filed with the SEC.

Interest Rate Sensitivity/Risk

At June 30, 2015, interest on approximately 26 percent of our borrowings was determined on a variable rate basis. The interest rates on this portion of our debt are subject to changes in U.S. and European short-term interest rates. To assess exposure to interest rate changes, we have performed a sensitivity analysis assuming a hypothetical 100 basis point increase or decrease in interest rates across all outstanding variable rate debt and investments. Our analysis indicates that the effect on fiscal year net income of such an increase and decrease in interest rates would be approximately $3.0 million.

Foreign Currency Risk

We maintain significant operations in Germany, Hungary, China, the Netherlands, the United Kingdom, India, Brazil, Denmark and Austria. As a result, we are subject to market risks arising from changes in these foreign currency exchange rates, principally the change in the value of the Euro versus the U.S. Dollar. Refer to Note 10 *Derivatives* in the Notes to the Consolidated Financial Statements for additional discussion on our financial risk management.

Our subsidiaries purchase products and raw materials and sell our products in various currencies. As a result, we may be exposed to cost changes relative to local currencies in these markets. To mitigate these transactional risks, we enter into foreign exchange contracts. Also, foreign currency positions are partially offsetting and are netted against one another to reduce exposure. We presently estimate the effect on projected fiscal year 2016 income before income taxes, based upon a recent estimate of foreign exchange transactional exposure, of a uniform strengthening or uniform weakening of the transaction currency rates of 10 percent, would be to increase or decrease income before income taxes by approximately $39.6 million. As of June 30, 2015, we had hedged a portion of our estimated foreign currency transactions using foreign exchange contracts, including forwards.

We presently estimate the effect on projected fiscal year 2016 income before income taxes, based upon a recent estimate of foreign exchange translation exposure (translating the operating performance of our foreign subsidiaries into U.S. Dollars), of a uniform strengthening or weakening of the U.S. Dollar by 10 percent, would be to increase or decrease income before income taxes by approximately $24.8 million.

Changes in currency exchange rates, principally the change in the value of the Euro compared to the U.S. dollar have an impact on our reported results when the financial statements of foreign subsidiaries are translated into U.S. dollars. Approximately 39.0 percent of our sales are denominated in Euros. The average exchange rate for the Euro versus the U.S. dollar for the fiscal year ended June 30, 2015 decreased 11.5 percent from the same period in the prior fiscal year.

Competitive conditions in the markets in which we operate may limit our ability to increase prices in the event of adverse changes in currency exchange rates. For example, certain products made in Europe are sold in the U.S. Sales of these products are affected by the value of the U.S. Dollar relative to the Euro. Any weakening of the U.S. Dollar could depress the demand for these European manufactured products in the U.S. and reduce sales. However, due to the multiple currencies involved in our business and the netting effect of various simultaneous transactions, our foreign currency positions are partially offsetting. In addition, our foreign currency hedging program is designed to limit our exposure.

Actual gains and losses in the future may differ materially from the hypothetical gains and losses discussed above based on changes in the timing and amount of interest rate and foreign currency exchange rate movements and our actual exposure and hedging transactions.

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Item 8. Financial Statements and Supplementary Data

Management s Report on Internal Control over Financial Reporting

The management of Harman International Industries, Incorporated is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and the fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We assessed the effectiveness of our internal control over financial reporting as of June 30, 2015. In making this assessment, we used the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control Integrated Framework of 1992. Our assessment included an evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, overall control environment and information systems control environment. During the fiscal year ended June 30, 2015, we completed the acquisitions of: Southern Vision Systems, Inc., certain automotive assets of Bang & Olufsen A/S, Symphony Teleca Corporation, Red Bend Ltd., S1nn GmbH & Co. KG and I.P.S.G. International Product Solution Group Pty Ltd and VFX Systems Pty Ltd (collectively the Acquired Businesses). We have begun to integrate certain business processes and systems of the Acquired Businesses. In reliance on interpretive guidance issued by the Securities and Exchange Commission s staff, management has chosen to exclude from its assessment of the effectiveness of our internal control over financial reporting as of June 30, 2015, the Acquired Businesses internal control over financial reporting associated with total assets representing five percent of consolidated assets, and total revenues representing two percent of consolidated revenues, included in our consolidated financial statements as of and for the year ended June 30, 2015. Based on our assessment, we have concluded that, as of June 30, 2015, our internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting, as of June 30, 2015, has been audited by KPMG LLP (KPMG), an independent registered public accounting firm. KPMG s report on our internal control over financial reporting is included herein.

/S/ DINESH C. PALIWAL
Dinesh C. Paliwal

Chairman, President and Chief Executive Officer

/S/ SANDRA E. ROWLAND
Sandra E. Rowland

Executive Vice President and Chief Financial Officer
August 7, 2015

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Harman International Industries, Incorporated:

We have audited Harman International Industries, Incorporated and subsidiaries (the Company) internal control over financial reporting as of June 30, 2015, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Harman International Industries, Incorporated s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2015, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

During the fiscal year ended June 30, 2015, the Company completed the acquisitions of: Southern Vision Systems, Inc., certain automotive assets of Bang & Olufsen A/S, Symphony Teleca Corporation, Red Bend Ltd., S1nn GmbH & Co. KG and I.P.S.G. International Product Solution Group Pty Ltd and VFX Systems Pty Ltd (collectively the Acquired Businesses), and management excluded from its assessment of the effectiveness of the Company s internal control over financial reporting as of June 30, 2015, the Acquired Businesses internal control over financial reporting associated with total assets representing five percent of consolidated assets, and total revenues representing two percent of consolidated revenues, included in the consolidated financial statements of the Company as of and for the year ended June 30, 2015. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of the Acquired Businesses.

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We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Harman International Industries, Incorporated and subsidiaries as of June 30, 2015 and 2014, and the related consolidated statements of income, comprehensive income, shareholders equity and cash flows for each of the years in the three-year period ended June 30, 2015, and our report dated August 7, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
Stamford, Connecticut
August 7, 2015

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Harman International Industries, Incorporated:

We have audited the accompanying consolidated balance sheets of Harman International Industries, Incorporated and subsidiaries (the Company) as of June 30, 2015 and 2014, and the related consolidated statements of income, comprehensive income, shareholders equity and cash flows for each of the years in the three-year period ended June 30, 2015. In connection with our audits of the consolidated financial statements, we also have audited the related financial statement schedule II Valuation and Qualifying Accounts and Reserves for each of the years in the three-year period ended June 30, 2015. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harman International Industries, Incorporated and subsidiaries as of June 30, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2015, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Harman International Industries, Incorporated s internal control over financial reporting as of June 30, 2015, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated August 7, 2015 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP
Stamford, Connecticut

August 7, 2015

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HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30,	
(in thousands)	**2015**	**2014**
Assets		
Current assets		
Cash and cash equivalents	$ 649,513	$ 581,312
Receivables, net	1,024,139	894,579
Inventories	693,574	662,128
Other current assets	581,544	320,852
Total current assets	2,948,770	2,458,871
Property, plant and equipment, net	552,421	509,856
Intangible assets, net	669,667	182,030
Goodwill	1,287,180	540,952
Deferred tax assets, long-term, net	43,706	170,558
Other assets	428,008	263,323
Total assets	$ 5,929,752	$ 4,125,590
Liabilities and Equity		
Current liabilities		
Current portion of long-term debt	$ 4,550	$ 35,625
Short-term debt	1,021	3,736
Accounts payable	918,910	697,553
Accrued liabilities	956,425	566,722
Accrued warranties	163,331	155,472
Income taxes payable	76,131	26,544
Total current liabilities	2,120,368	1,485,652
Borrowings under revolving credit facility	283,125	300,000
Long-term debt	797,542	219,407
Pension liability	186,662	186,352
Other non-current liabilities	149,229	141,158
Total liabilities	3,536,926	2,332,569
Commitments and contingencies		
Preferred stock	0	0
Common stock	1,007	984
Additional paid-in capital	1,365,257	1,040,254
Accumulated other comprehensive income	11,434	39,799
Retained earnings	2,229,517	1,979,234
Less: Common stock held in treasury	(1,232,602)	(1,267,693)

Total Harman International Industries, Incorporated shareholders equity	2,374,613	1,792,578
Noncontrolling interest	18,213	443
Total equity	2,392,826	1,793,021
Total liabilities and equity	$ 5,929,752	$ 4,125,590

See accompanying Notes to the Consolidated Financial Statements.

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HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended June 30,		
(in thousands, except earnings per share data)	**2015**	**2014**	**2013**
Net sales	$ 6,155,297	$ 5,348,483	$ 4,297,842
Cost of sales	4,338,193	3,891,816	3,193,722
Gross profit	1,817,104	1,456,667	1,104,120
Selling, general and administrative expenses	1,347,510	1,126,940	902,869
Operating income	469,594	329,727	201,251
Other expenses:			
Interest expense, net	13,929	8,026	12,868
Foreign exchange (gains) losses, net	(723)	5,935	2,313
Miscellaneous, net	10,107	8,371	11,800
Income before income taxes	446,281	307,395	174,270
Income tax expense, net	103,269	72,610	31,729
Equity in loss of unconsolidated subsidiaries	23	206	134
Net income	342,989	234,579	142,407
Net income (loss) attributable to noncontrolling interest	309	(113)	0
Net income attributable to Harman International Industries, Incorporated	$ 342,680	$ 234,692	$ 142,407
Earnings per share:			
Basic	$ 4.89	$ 3.40	$ 2.06
Diluted	$ 4.84	$ 3.36	$ 2.04
Weighted Average Shares Outstanding:			
Basic	70,147	69,073	68,990
Diluted	70,870	69,889	69,736

See accompanying Notes to the Consolidated Financial Statements.

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HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended June 30,		
(in thousands)	**2015**	**2014**	**2013**
Net income	$ 342,989	$ 234,579	$ 142,407
Net income (loss) attributable to noncontrolling interest	309	(113)	0
Net income attributable to Harman International Industries, Incorporated	$ 342,680	$ 234,692	$ 142,407
Other comprehensive (loss) income, net of taxes[1]:			
Foreign currency translation	(191,212)	44,881	5,379
Unrealized gains (losses) on hedging derivatives, net of taxes	164,599	(21,248)	(19,266)
Pension liability adjustment, net of taxes	(1,858)	(5,817)	1,728
Unrealized gains on available for sale securities	106	183	4,250
Other comprehensive (loss) income, net of taxes, attributable to Harman International Industries, Incorporated	(28,365)	17,999	(7,909)
Comprehensive income, net of taxes	314,624	252,578	134,498
Comprehensive income (loss), net of taxes attributable to noncontrolling interest	309	(113)	0
Comprehensive income, net of taxes attributable to Harman International Industries, Incorporated	$ 314,315	$ 252,691	$ 134,498

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

See accompanying Notes to the Consolidated Financial Statements.

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HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30,		
(in thousands)	**2015**	**2014**	**2013**
Cash flows from operating activities:			
Net income	$ 342,989	$ 234,579	$ 142,407
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	169,231	132,328	128,168
Deferred income taxes	32,074	31,040	7,583
(Gain) loss on disposition of assets	(190)	1,137	(1,131)
Share-based compensation	34,693	28,588	17,578
Excess tax benefit from share-based compensation	(4,031)	(3,622)	0
Non-cash interest expense	2,780	2,180	8,500
Non-cash increase (reduction) in contingent consideration	1,577	0	(22,100)
Changes in operating assets and liabilities, exclusive of impact of acquisitions:			
(Increase) decrease in:			
Receivables, net	(138,257)	(114,354)	(114,847)
Inventories	(89,184)	(67,400)	(72,810)
Other current assets	(100,438)	10,391	(46,695)
Pre-production and development costs	(24,873)	7,821	(23,708)
Increase (decrease) in:			
Accounts payable	273,627	147,994	(23,394)
Accrued warranties	32,971	21,061	28,723
Accrued other liabilities	47,851	127,950	12,558
Income taxes payable	52,579	12,609	(3,026)
Net change in derivative assets and liabilities	(55,246)	18,121	(562)
Other operating activities	(25,550)	1,717	4,892
Net cash provided by operating activities	552,603	592,140	42,136
Cash flows from investing activities:			
Acquisitions, net of cash received	(556,475)	(422,953)	(104,735)
Capital expenditures	(192,498)	(157,141)	(101,682)
Purchases of short-term investments	0	0	(73,761)
Maturities of short-term investments	0	10,008	267,278
Proceeds from asset dispositions	4,552	0	3,944
Purchase of investments for irrevocable trust	5,005	(42,400)	0
Other items, net	950	434	(1,735)
Net cash used in investing activities	(738,466)	(612,052)	(10,691)
Cash flows from financing activities:			

Decrease in short-term borrowings	(2,569)	(1,162)	(36,590)
Borrowings of long-term debt	1,068,892	300,000	300,000
Repayments of long-term debt	(552,298)	(30,000)	(424,079)
Debt issuance costs	(9,668)	0	(6,094)
Cash dividends to shareholders	(92,600)	(83,053)	(41,449)
Repurchase of common stock	0	(90,779)	(5,398)
Exercise of stock options	27,676	48,626	20,149
Repurchases related to share-based compensation arrangements	(22,318)	(12,316)	(6,210)
Excess tax benefit from share-based compensation	4,031	3,622	0
Payment of contingent consideration	(327)	0	0
Repayments of acquiree debt	(121,198)	0	0
Other items, net	5,565	1,666	(3,740)
Net cash provided by (used in) financing activities	305,186	136,604	(203,411)
Effect of exchange rate changes on cash	(51,122)	10,362	8,868
Net increase (decrease) in cash and cash equivalents	68,201	127,054	(163,098)
Cash and cash equivalents at beginning of period	581,312	454,258	617,356
Cash and cash equivalents at end of period	$ 649,513	$ 581,312	$ 454,258
Supplemental Disclosure of Cash Flow Information:			
Non-cash investing activities:			
Accrued and contingent acquisition-related liabilities	$ 280,346	$ 13,384	$ 1,488
Common stock issued in connection with acquisitions	$ 316,035	$ 0	$ 0

See accompanying Notes to the Consolidated Financial Statements.

Table of Contents

HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

Years Ended June 30, 2015, 2014 and 2013

mulated ther rehensive come Loss)	Retained Earnings	Treasury Stock	Total Harman International Industries, Incorporated Shareholders Equity		Non Controlling Interest
9,709	$ 1,726,486	$ (1,171,516)	$ 1,529,611	$	
0	142,407	0	142,407		
7,909)			(7,909)		
0	0	0	0		
0	0	0	(6,210)		
0	0	0	20,149		
0	0	0	(3,731)		
0	0	0	17,578		
0	(41,626)	0	(41,626)		
0	0	(5,398)	(5,398)		
1,800	$ 1,827,267	$ (1,176,914)	$ 1,644,871	$	
0	234,692	0	234,692		
7,999			17,999		
0		0	0		
0	0	0	(12,316)		
0	0	0	48,626		
0	0	0	3,622		
0	0	0	28,588		
0	(82,725)	0	(82,725)		

0	0	(90,779)	(90,779)

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Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option

Values

Options Exercised:

Name	Shares Acquired on Exercise (#)	Value Realized
Dr. John W. Whitney		
Non-compensatory (1)	4,750,461	$ -0-

(1) Dr. Whitney exercised non-compensatory warrants for 4,750,461 shares by payi
debt totaling $195,029. Since the warrants were non-compensatory, no realized valu

Options Unexercised:

	Number of Securities Underlying Unexercised Options at 12/31/04		Value of Une In-the-Money At 12/3	
Name	Exercisable	Unexerciseable	Exercisable	U
Dr. John W. Whitney				
Compensatory	4,800,000	-0-	$ -0- (1)	
Non-compensatory	1,200,000	-0-	$ -0- (1)	
Duane H. Rasmussen				
Compensatory	425,000	-0-	$ -0- (2)	
Non-compensatory	2,125,000	-0-	$ -0- (2)	

(1) If value realized was based on the average of the closing bid and ask prices on
have been $-0- for the compensatory options and $-0- for the non-compensator
common stock, are restricted and thus are not tradable within one year of exercise
10% shareholder of our company, Dr. Whitney is further restricted by SEC regulat
value realized, if and when the securities are sold, may be more or less than the valu
unexercised options is reported at $-0-.

(2) If value realized was based on the average of the closing bid and ask prices on
have been $-0- for the compensatory and non-compensatory warrants. The sec
restricted and thus are not tradable within one year of exercise. In addition, as a
further restricted by SEC regulations as to the sale of our securities. The actual valu
may be more or less than the value listed above. Consequently, the value of the unex

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exerci price of outstanding optio warrants and rights (b)
Equity compensation	-0-	$-0-

plans approved by security holders		
Equity compensation plans not approved by security holders	5,996,626	$0.25
Total	5,996,626	$0.25

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CERTAIN RELATIONSHIPS AND RELATED TI

Advances from an officer/stockholder totaled $161,525 and $248,168 at December

$389,127 and $218,185 of the accrued management salaries as of December 31, 200
arrears due to several officer/stockholders and employee/stockholders. In addition, s
2004 and 2003, respectively, are included in stock to be issued at the respective yea
salaries earned but unpaid that the officers/employees/stockholders have agreed to a
shares to be issued are 6,488,021 and 6,220,624 for 2004 and 2003, respectively. Iss
available to pay the related federal withholding taxes. Interest accrued at 12% per an
employee/stockholders amounted to $97,869 and $113,233, respectively, in 2004 an
$109,290 for 2004 and 2003, respectively, were paid (or will be paid) by issuance o
common stock.

Interest expense on related party loans amounted to $31,041 and $33,706 for the yea
respectively. Accrued interest on related party loans totaled $6,307 and $42,876 at I

After approval from our Board of Directors, in March 1999 our subsidiary, WWI, a
Phoenix Minerals, Inc. (GPXM), a junior mine exploration and development compa
Bulletin Board. Services were billed monthly and WWI received a combination of C
restricted common stock, and cash. The consulting agreement expired on March 1, 2
GPXM.

Separately, Dr. Whitney personally agreed to acquire up to 10,000,000 common sha
beneficial owner of more than ten percent of GPXM. Any unexercised options unde
Dr. Whitney is a principal in a group that controls the mining claims underlying one
development properties. At December 31, 2004 WWI owned 123,198 restricted GP
owned 736,442 restricted GPXM shares. The initial Rule 144 one year period for re
monthly thereafter. Total revenue from GPXM for 2004 and 2003 was $224,039 an
and $13,707 is included in accounts receivable at December 31, 2004 and 2003, resp
bid/asked price for GPXM common was $0.213, resulting in a value of shares held o
GPXM shares held at December 31, 2003 and 2002 are 300,000 and 1,050,000 restr
acquired by WWI purchasing $0.10 options from Dr. Whitney and subsequently exe
receivable due it from GPXM. The purchase price of the options was $109,275, whi
value of the then current trading price of GPXM, less the $0.10 option price. This va
WWI uses to accept GPXM restricted common shares for its monthly services. Dr. W
common shares in the 2002 Equity Private Placement as payment for the options, w
equal number of warrants with conversion prices ranging from $0.08 to $0.24 per sh
shares was $214,275 and the market value at December 31, 2002 was $241,500. Th
were valued at $135,750 and had a cost of $70,650.

During 2004 Dr. Whitney loaned WWI 103,765 shares of GPXM stock at a value o
WWI for $25,097, for a realized loss of $3,179. The loan was repaid in 2004 by con
stock when Dr. Whitney exercised warrants he acquired in 2003. During the first qu
600,000 shares of GPXM stock at a value of $105,000. The loaned shares were sold
$21,955. In 2002, WWI repaid 416,463 of the GPXM shares out of shares owned by
$35,587. During 2003 the remaining balance of the loan and accrued interest was pa
250,000 shares of other marketable securities, and 150,461 of our restricted commo
shares was converted into the $0.08 per share Private Placement under the same terr
an equal number of three year warrants. WWI realized a net gain of $19,369 on the

During 2003 WWI's lease of a vehicle utilized by Dr. Whitney was completed. Dr.
through a commercial lender. The purchase price was $21,741 and the monthly pay
the vehicle from Dr. Whitney by making the monthly payments to the commercial l
vehicle when the loan is paid in full.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWN

The following table sets forth certain data with respect to those persons known to us
owners of more than 5% of the outstanding shares of our common stock:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership: Common Shares Presently Held	Common Shares Which May Be Acquired Within 60 days	Total	Pe C
John W. Whitney P.O. Box 10725 Reno, NV 89510 (1)(2)(3)(4)	27,581,830	8,050,000	35,631,830	1

(1) Director

(2) Officer

(3) Includes 72,768 shares owned by Maureen E. Whitney, Dr. Whitney's wife.

(4) Dr. Whitney's options include compensatory options of 1,000,000 shares at $0.2
share, 250,000 shares at $0.20 per share, and 550,000 shares at $0.15 per share. The
Within 60 Days also includes 3,250,000 shares that are to be issued to Dr. Whitney
payroll tax withholdings. Dr. Whitney exercised non-compensatory three year warra
August 2005 at $0.075 per share by converting $90,000 in short term loans. He rece
$120,000 in short term loans into the then existing private placement under the sam

The following table sets forth as of November 4, 2005, certain information, with res
ownership of our common stock:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownersh: Common Shares Presently Held	Common Shares Which May Be Acquired Within 60 days(1)	Tot
Dr. John W. Whitney P.O. Box 10725 Reno, NV 89510 (3)(4)(5)	27,581,830	8,050,000	35,631
Paul H. Durckel 1655 Highway 395 Minden, NV 89423 (3)	577,168	138,400	715,5
Howland S. Green P.O. Box 10725 Reno, NV 89510 (3)	1,252,500		1,252,
Duane H. Rasmussen P.O. Box 10725 Reno, NV 89510 (4)	1,683,995	5,494,681	7,178,
All directors and Executive officers as a group (5 persons)	31,747,812	13,683,081	45,430

*Less than 1%

(1) Dr. Whitney's options include compensatory options of 1,000,000 shares at $0.2
share, 250,000 shares at $0.20 per share, and 550,000 shares at $0.15 per share. The
Within 60 Days also includes 3,250,000 shares that are to be issued to Dr. Whitney
payroll tax withholdings. Dr. Whitney exercised non-compensatory three year warra
August 2005 at $0.075 per share by converting $90,000 in short term loans. He rece
$120,000 in short term loans into the then existing private placement under the sam

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Mr. Durckel has three year warrants to acquire 138,400 shares of our common sto
and 2003 Equity Private Placements, which are convertible at $0.08, $0.16, and $0.
the option period.

In April 2005 Mr. Green was granted a compensatory option to acquire 1,000,000
$0.10 per share. The first 500,000 shares of the option will become exercisable w
application for the GOLD'n GRO Guardian and the second 500,000 shares of the op
EPA issues the registration for the GOLD'n GRO Guardian. The entire optio
registration is received. This option is not included in the above table as it is not exe

Mr. Rasmussen has a three year non-compensatory warrant to acquire 2,125,000 sha
the first through third years of the option period. He acquired this warrant by investi
private placement. Mr. Rasmussen also was granted a compensatory option to acqui
$0.15 per share. This option is exercisable at any time until one year after Mr. Rasm
Shares Which May Be Acquired Within 60 Days also includes 2,944,681 shares tha
sufficient cash is available to pay payroll tax withholdings.

(2) The percent of class is based on the sum of 197,057,628 shares outstanding or to
each individual, the number of common shares as to which the named individual ha
within 60 days of August 24, 2005.

(3) Director

(4) Officer

(5) Includes 72,768 shares owned by Maureen E. Whitney, Dr. Whitney's wife.

DESCRIPTION OF SECURITIES

COMMON STOCK

We are authorized to issue up to 250,000,000 shares of common stock, par valu
196,907,628 shares of common stock outstanding. Holders of the common stock a
to be voted upon by the stockholders. Holders of common stock are entitled to rec
declared by the Board of Directors out of funds legally available therefore. Upon th
company, the holders of common stock are entitled to share ratably in all of our ass
after payment of all debts and other liabilities and liquidation preference of any ou
stock have no preemptive, subscription, redemption or conversion rights. The ou
issued, fully paid and nonassessable.

We have engaged Securities Transfer Corporation, located in Frisco, Texas, as inde

PREFERRED STOCK

We are authorized to issue up to 999,500 shares of preferred stock, par value $.001
of preferred stock issued.

COMMISSION'S POSITION ON INDEMNIFICATION FOR SE

Our Articles of Incorporation, as amended, provide to the fullest extent permitted b
be personally liable to us or our shareholders for damages for breach of such dire
this provision of our Articles of Incorporation, as amended, is to eliminate our righ
derivative suits on behalf of our company) to recover damages against a director or
as a director or officer (including breaches resulting from negligent or grossly negli
defined by statute. We believe that the indemnification provisions in our Articles o
attract and retain qualified persons as directors and officers.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (th
to directors, officers or persons controlling us pursuant to the foregoing provisions,
opinion of the Securities and Exchange Commission, such indemnification is again
therefore, unenforceable.

PLAN OF DISTRIBUTION

The selling stockholders and any of their respective pledgees, donees, assignees ar
to time, sell any or all of their shares of common stock on any stock exchange, ma
traded or in private transactions. These sales may be at fixed or negotiated prices.
more of the following methods when selling shares:

· ordinary brokerage transactions and transactions in which the broke
· block trades in which the broker-dealer will attempt to sell the shares as agent bu
as principal to facilitate the transaction;
· purchases by a broker-dealer as principal and resale by the brok
· an exchange distribution in accordance with the rules of the
· privately-negotiated transactions;

· broker-dealers may agree with the selling stockholders to sell a specified number

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- a combination of any such methods of sale
- any other method permitted pursuant to applic

The selling stockholders may also sell shares under Rule 144 under the Securities under this prospectus. The selling stockholders shall have the sole and absolute make any sale of shares if they deem the purchase price to be unsatisfactory at any

The selling stockholders or their respective pledgees, donees, transferees or other directly to market makers acting as principals and/or broker-dealers acting as ag broker-dealers may receive compensation in the form of discounts, concessions and/or the purchasers of shares for whom such broker-dealers may act as agents or compensation as to a particular broker-dealer might be in excess of customary com purchasing the shares will do so for their own account and at their own risk. It is po sell shares of common stock in block transactions to market makers or other purch the then market price. The selling stockholders cannot assure that all or any of the to, or sold by, the selling stockholders. The selling stockholders and any brokers, d of the shares offered in this prospectus, may be deemed to be "underwriters" as th 1933, as amended, or the Securities Exchange Act of 1934, as amended, or the r event, any commissions received by such broker-dealers or agents and any profit may be deemed to be underwriting commissions or discounts under the Securities A

We are required to pay all fees and expenses incident to the registration of the share to the selling stockholders, but excluding brokerage commissions or underwriter dis

The selling stockholders, alternatively, may sell all or any part of the shares offered selling stockholder has entered into any agreement with a prospective underw agreement will be entered into.

The selling stockholders may pledge their shares to their brokers under the margin stockholders defaults on a margin loan, the broker may, from time to time, of stockholders and any other persons participating in the sale or distribution of the sh the Securities Exchange Act of 1934, as amended, and the rules and regulations Regulation M. These provisions may restrict certain activities of, and limit the tim by, the selling stockholders or any other such person. In the event that the selling st distribution participants within the meaning of Regulation M, then the selling sto short sales of common stock. Furthermore, under Regulation M, persons engage from simultaneously engaging in market making and certain other activities with r of time prior to the commencement of such distributions, subject to specified except

We have agreed to indemnify the selling stockholders, or their transferees or as liabilities under the Securities Act of 1933, as amended, or to contribute to payme pledgees, donees, transferees or other successors in interest, may be required to mak

If the selling stockholders notify us that they have a material arrangement with stock, then we would be required to amend the registration statement of which t supplement to describe the agreements between the selling stockholders and the bro

PENNY STOCK

The Securities and Exchange Commission has adopted Rule 15g-9 which establi
purposes relevant to us, as any equity security that has a market price of less than $
than $5.00 per share, subject to certain exceptions. For any transaction involving a p

· that a broker or dealer approve a person's account for transacti
· the broker or dealer receive from the investor a written agreement to the transactio
penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker o

· obtain financial information and investment experience objec
· make a reasonable determination that the transactions in penny stocks are suitab
knowledge and experience in financial matters to be capable of evaluating the risk

The broker or dealer must also deliver, prior to any transaction in a penny sto
Commission relating to the penny stock market, which, in highlight form:

· sets forth the basis on which the broker or dealer made the suita
· that the broker or dealer received a signed, written agreement from the

Disclosure also has to be made about the risks of investing in penny stocks in both
about the commissions payable to both the broker-dealer and the registered repre
and the rights and remedies available to an investor in cases of fraud in penny st
have to be sent disclosing recent price information for the penny stock held in the
in penny stocks.

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SELLING STOCKHOLDERS

The table below sets forth information concerning the resale of the shares of comm
not receive any proceeds from the resale of the common stock by the selling stoc
exercise of the warrants. Assuming all the shares registered below are sold by
stockholders will continue to own any shares of our common stock.

The following table also sets forth the name of each person who is offering th
prospectus, the number of shares of common stock beneficially owned by each pe
that may be sold in this offering and the number of shares of common stock each
they sell all of the shares offered.

Name	Total Shares of Common Stock Issuable Upon Conversion of Notes and/or Warrants*	Total Percentage of Common Stock, Assuming Full Conversion	Shares of Common Stock Included in Prospectus (1)	Beneficial Ownership Before the Offering**
AJW Offshore, Ltd. (2)	20,440,000(3)	10.38%	Up to 20,440,000 shares of common stock	9,825,690
AJW Qualified Partners, LLC (2)	13,320,000(4)	6.77%	Up to 13,320,000 shares of common stock	9,825,690
AJW Partners, LLC (2)	5,600,000(5)	2.84%	Up to 5,600,000 shares of common stock	5,600,000
New Millennium Capital Partners II, LLC (2)	640,000(6)	***	Up to 640,000 shares of common stock	640,000

* This column represents an estimated number based on a conversion price as c
divided into the principal amount.

** These columns represent the aggregate maximum number and percentage of sh
one time (and therefore, offer for resale at any one time) due to their 4.99% limitatio

*** Less than 1%

The number and percentage of shares beneficially owned is determined in accordan
Act of 1934, and the information is not necessarily indicative of beneficial owne
beneficial ownership includes any shares as to which the selling stockholders ha
power and also any shares, which the selling stockholders has the right to acquire w
common stock issuable upon the conversion of the secured convertible notes is sub
factors, the future market price of the common stock, and could be materially less o

(1) Includes a good faith estimate of the shares issuable upon conversion of th
warrants, based on current market prices. Because the number of shares of common
convertible notes is dependent in part upon the market price of the common stoc
shares of common stock that will be issued upon conversion will fluctuate daily an
terms of the secured convertible notes, if the secured convertible notes had actu
secured convertible notes would have had a conversion price of $.033. The actual
this prospectus, and included in the registration statement of which this prospectus
shares of common stock as may be issued or issuable upon conversion of the secure
warrants by reason of any stock split, stock dividend or similar transaction involvin
416 under the Securities Act of 1933. However the selling stockholders have co
convert their secured convertible notes or exercise their warrants and receive shares
shares of common stock held by them in the aggregate and their affiliates after
4.99% of the then issued and outstanding shares of common stock as determin
Exchange Act. Accordingly, the number of shares of common stock set forth in the
number of shares of common stock that the selling stockholders could own benefici
of the secured convertible notes and the warrants. In that regard, the beneficial o
stockholder set forth in the table is not determined in accordance with Rule 13d-3
amended.

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(2) The selling stockholders are affiliates of each other because they are under con
investment fund that is owned by its investors and managed by SMS Group, LL
Ribotsky is the fund manager, has voting and investment control over the shares list
Offshore, Ltd., formerly known as AJW/New Millennium Offshore, Ltd., is a p
investors and managed by First Street Manager II, LLC. First Street Manager II,
manager, has voting and investment control over the shares owned by AJW O
formerly known as Pegasus Capital Partners, LLC, is a private investment fund th
AJW Manager, LLC, of which Corey S. Ribotsky and Lloyd A. Groveman are th
control over the shares listed below owned by AJW Qualified Partners, LLC. Ne
private investment fund that is owned by its investors and managed by First Stre
LLC, of which Corey S. Ribotsky is the fund manager, has voting and investm
Millennium Capital Partners II, LLC. We have been notified by the selling stoc
affiliates of broker-dealers and that they believe they are not required to be broker-d

(3) Includes (i) 20,128,801 shares of common stock issuable upon conversion o
shares of common stock issuable upon exercise of common stock purchase warrants

(4) Includes (i) 13,117,203 shares of common stock issuable upon conversion o
shares of common stock issuable upon exercise of common stock purchase warrants

(5) Includes (i) 5,514,740 shares of common stock issuable upon conversion of sec
of common stock issuable upon exercise of common stock purchase warrants.

(6) Includes (i) 630,256 shares of common stock issuable upon conversion of secu
common stock issuable upon exercise of common stock purchase warrants.

(7) Assumes that all securities registered will be sold.

TERMS OF SECURED CONVERTIBLE NOTES AND THE WARRANTS

To obtain funding for our ongoing operations, we entered into a Securities Purchas
July 15, 2005 for the sale of (i) $3,250,000 in secured convertible notes and (ii) wa
stock.

The investors are obligated to provide us with the funds (gross proceeds) as follows

· $250,000 was disbursed on July 15, 20

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· $1,000,000 was disbursed on August 1, 2005, upon receipt by the investors of a
Dr. John W. Whitney, our President, as security for repayment of the secured
14,550,558 shares pursuant to the Guaranty and Pledge Agreement dated as of Jul

· $1,000,000 will be disbursed within five days of the filing of this

· $1,000,000 will be disbursed within five days of the effective

The secured convertible notes bear interest at 8% per annum, mature three years into our common stock, at the investors' option, at the lower of:

· $0.10; or

· a 45% discount to the average of the three lowest intraday trading prices for the trading days before but not including the conversion date.

We have a call option under the terms of the secured convertible notes. The call op the outstanding secured convertible notes at any time, provided we are not in defau share. Prepayment of the notes is to be made in cash equal to either (i) 125% of the prepayments occurring within 30 days following the issue date of the secured co principal and accrued interest for prepayments occurring between 31 and 60 convertible notes; and (iii) 150% of the outstanding principal and accrued interest following the issue date of the secured convertible notes.

Our right to repay the notes is exercisable on not less than ten trading days prio convertible notes. For notice purposes, a trading day is any day on which our com Bulletin Board. Notwithstanding the notice of prepayment, the holders of the secur to convert all or any portion of the secured convertible notes prior to payment of the

We also have a partial call option under the terms of the secured convertible notes common stock is below $0.065. Under the terms of the partial call option, we ha amount of the secured convertible notes plus one-month's interest for that month, convertible notes by the holders for that month. The principal amount of the secure by dividing the then outstanding principal amount of the notes by the maturity o interest.

The full principal amount of the secured convertible notes is due upon default un addition, we have granted the investors a security interest in substantially all registration rights. We are liable for breach of any covenant, representation or w Agreement for a period of two years from the date that the investors distribute the any representation or warranty regarding the condition of our company as set forth liable to pay liquidated damages in shares or cash, at our election, equal to three pe convertible notes per month plus accrued and unpaid interest. In the event tha Securities Purchase Agreement, including the failure to comply with blue sky laws, from the sale of the secured convertible notes in the agreed upon manner, obtain wr contract with a party for additional financing, reserve and have authorized the requ maintenance of our shares of common stock on an exchange or automated quotatio damages in shares or cash, at our election, equal to three percent of the outstandin month plus accrued and unpaid interest.

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In connection with the Securities Purchase Agreement, we executed a Security Ag
Agreement in favor of the investors granting them a first priority security interest in
and general intangibles, receivables, documents, instruments, chattel paper, a
Agreement and Intellectual Property Security Agreement, events of default occur up

- The occurrence of an event of default (as defined in the secured convertible not
- Any representation or warranty we made in the Security Agreement or in the In prove to have been incorrect in any material respect when made;
- The failure by us to observe or perform any of our obligations under the Secur Security Agreement for ten (10) days after receipt of notice of such failure from th
- Any breach of, or default under, the Warr

An event of default under the secured convertible notes occurs if we:

- Fail to pay the principal or interest when
- Do not issue shares of common stock upon receipt of a c
- Fail to file a registration statement within 45 days after July 15, 2005 or fail to November 11, 2005;
- Breach any material covenant or other material term or condition in the secured Agreement;
- Breach any representation or warranty made in the Securities Purchase Agreem therewith;
- Apply for or consent to the appointment of a receiver or trustee for us or any of o of our subsidiaries' property or business, or such a receiver or trustee shall otherw
- Have any money judgment, writ or similar process shall be entered or filed agai property or other assets for more than $50,000, and shall remain unvacated, unb days unless otherwise consented to by the investors;
- Institute or have instituted against us or any of our subsidiaries any bankrupt proceedings or other proceedings for relief under any bankruptcy law or any law f
- Fail to maintain the listing of our common stock on one of the OTCBB or an e National Market, the Nasdaq SmallCap Market, the New York Stock Exchange, o
- Default under any other secured convertible note issued pursuant to the

Upon occurrence of any event of default under either the Security Agreement or the
investors shall have the right to exercise all of the remedies conferred under the Sec
under the secured convertible notes, including:

- Taking possession of all of our assets, including, but not limited to, our inve rights and other general intangibles, as well as our intellectual property; and

- Operating our business using the collateral as set forth above with the right t and deliver all or any part of the collateral, at public or private sale or otherw

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The warrants are exercisable until five years from the date of issuance at a pu
stockholders will be entitled to exercise the warrants on a cashless basis if the sha
are not then registered pursuant to an effective registration statement. In the ev
warrants on a cashless basis, then we will not receive any proceeds. In addition, the
in the event we issue common stock at a price below market, with the exception
warrant or issued in connection with the secured convertible notes issued pursuan
July 15, 2005.

Upon the issuance of shares of common stock below the market price, the exe
accordingly. The market price is determined by averaging the last reported sale pric
trading days immediately preceding such issuance as set forth on our principal
determined by multiplying the exercise price in effect immediately prior to the dil
the fraction is equal to the sum of the number of shares outstanding immediately
amount of consideration received by us in connection with the issuance divided by
the issuance. The denominator of such issuance shall be equal to the number of shar

The conversion price of the secured convertible notes and the exercise price
circumstances such as if we pay a stock dividend, subdivide or combine outstand
lesser number of shares, or take such other actions as would otherwise result in dilu

The selling stockholders have contractually agreed to restrict their ability to conv
their warrants and receive shares of our common stock such that the number of sh
affiliates in the aggregate after such conversion or exercise does not exceed 4.99%
common stock.

Confin International Investments (the "Selling Agent") acted as selling agent in con
amount of warrants to the Selling Agent not to exceed the amount of warrants wh
and the Selling Agent received gross fees of $260,000, representing 8% of
consideration for services performed in connection with the issuance of the se
investors pursuant to the July 2005 Securities Purchase Agreement. Payment of b
future completion of the filing and effectiveness of this registration statement.

A complete copy of the Securities Purchase Agreements and related documents ar
Form SB-2 registration statement relating to this prospectus.

Sample Conversion Calculation

The number of shares of common stock issuable upon conversion of the secured co
portion of the principal of the notes to be converted and interest, if any, by th
conversion of the $3,250,000 of secured convertible notes on August 25, 2005, a
shares issuable upon conversion would be:

$3,250,000/$0.033 = 98,484,849 shares

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The following is an example of the amount of shares of our common stock that a
amount of our secured convertible notes, based on market prices 25%, 50% and
2005 of $0.08.

% Below Market	Price Per Share	With Discount at 45%	N
25%	$.06	$.033	
50%	$.04	$.022	
75%	$.02	$.011	

LEGAL MATTERS

Sichenzia Ross Friedman Ference LLP, New York, New York will issue an opini
common stock being offered hereby.

CHANGE IN ACCOUNTANTS

On November 7, 2003 Kafoury, Armstrong & Co. ("Kafoury") resigned as our inde
registered with the Public Company Accounting Oversight Board (PCAOB) and wa

For each of the two fiscal years prior to Kafoury's resignation, the certifying accour
modified as to an uncertainty. The uncertainty in each of the two years was a substa
going concern.

During the two fiscal years ended December 31, 2002 and subsequent interim perio
no disagreements between us and Kafoury regarding accounting principles or practi
scope or procedures and Kafoury has not advised us of any of the matters identified
Regulation S-K.

On November 7, 2003 we appointed Cacciamatta Accountancy Corporation ("Cacci
independent registered public accounting firm. During the two fiscal years ended D
2003, we have not consulted Cacciamatta with respect to either (a) the application o
transaction, either completed or proposed, or the type of audit opinion that might be
any matter that was either subject of a disagreement (as defined in paragraph 304(a)
paragraph 304(a)(1)(v) of Item 304 of Regulation S-K).

To our knowledge, there is no accounting or financial disclosure dispute involving a

EXPERTS

Cacciamatta Accountancy Corporation, independent registered public accounting
thereon appearing elsewhere herein, our financial statements at December 31, 200
in the prospectus. The financial statements referred to above are included in this p
registered public accounting firm's opinion based on its expertise in accounting and

AVAILABLE INFORMATION

We have filed a registration statement on Form SB-2 under the Securities Act o
common stock being offered by this prospectus, and reference is made to such regi
the prospectus of Itronics Inc., filed as part of the registration statement, and it doe
statement, as certain portions have been omitted in accordance with the rules an
Commission.

We are subject to the informational requirements of the Securities Exchange Act of
statements and other information with the Securities and Exchange Commission. Su
information may be inspected at public reference facilities of the SEC at 100 F Stre
such material can be obtained from the Public Reference Section of the SEC at 100
prescribed rates. Because we file documents electronically with the SEC, you may a
SEC's Internet website at http://www.sec.gov.
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ITRONICS INC.

INDEX TO FINANCIAL STATEMEN

Report of Independent Registered Public Accou

The Board of Directors and Stockholders of Itronics Inc.

We have audited the accompanying consolidated balance sheet of Itronics Inc. (a Te
December 31, 2004 and 2003, and the related consolidated statements of operations
for the years then ended. These consolidated financial statements are the responsibil
responsibility is to express an opinion on these consolidated financial statements ba

We conducted our audits in accordance with the standards of the Public Company
Those standards require that we plan and perform the audit to obtain reasonab
financial statements are free of material misstatement. An audit includes examin
amounts and disclosures in the consolidated financial statements. An audit also inc
and significant estimates made by management, as well as evaluating the overall fin
our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the first paragr
consolidated financial position of Itronics Inc. and subsidiaries as of Decembe
operations and their cash flows for the years then ended in conformity with U.S. ge

The accompanying consolidated financial statements have been prepared assumi
concern. As of December 31, 2004, the Company has an accumulated deficit o
$3,215,298, and a stockholders' deficit balance of $2,564,270. The Company's abi
upon (a) future profitable operations and (b) the ability to generate sufficient cash t
conditions raise substantial doubt about the Company's ability to continue as a goi
matter are described in Note 13. The financial statements do not include any adju
this uncertainty.

/S/ Cacciamatta Accountancy Corporation

Irvine, California

May 19, 2005

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ITRONICS INC. AND SUBSIDIARIE
CONSOLIDATED BALANCE SHEE
DECEMBER 31, 2004 AND 2003

ASSETS
CURRENT ASSETS
Cash
Accounts receivable, less allowance for doubtful accounts, 2004, $5,700; 2003, $5,700
Marketable securities, available for sale
Inventories
Prepaid expenses
Current portion of deferred loan fees
Total Current Assets
PROPERTY AND EQUIPMENT
Land
Building and improvements
Design and construction in progress, manufacturing facility
Equipment and furniture