

HARMAN INTERNATIONAL INDUSTRIES INC /DE/  
Form 10-Q  
April 29, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-9764

**Harman International Industries, Incorporated**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)  
**400 Atlantic Street, Suite 1500**  
**Stamford, CT**  
(Address of principal executive offices)

**11-2534306**  
(I.R.S. Employer  
Identification No.)

**06901**  
(Zip code)

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

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

As of April 26, 2010, 69,528,419 shares of common stock, par value \$.01, were outstanding.

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**HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES**

**Form 10-Q**

**March 31, 2010**

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

Harman International, the Harman International logo, and the Harman International products and brand names referred to herein are either the trademarks or the registered trademarks of Harman International. 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 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, similar expressions. We base these statements on particular assumptions that we have made in light of our industry experience, as well as our perception of historical trends, current conditions, expected future developments and other factors that we believe are appropriate under the circumstances. As you read and consider the information in this report, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties and assumptions. In light of these risks and uncertainties, we cannot assure you that the results and events contemplated by the forward-looking statements contained in, or incorporated by reference into, this report will in fact transpire.

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

our ability to successfully implement our STEP Change cost reduction initiatives and to achieve the intended benefits and anticipated savings of those initiatives;

our ability to maintain profitability in our automotive division;

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

warranty obligations for defects in our products;

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

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

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

our failure to implement and maintain a comprehensive disaster recovery program;

our failure to comply with governmental rules and regulations, including the Foreign Corrupt Practices Act and U.S. export control laws, and the cost of compliance with such laws;

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

acceptance of our mid-platform infotainment systems by original equipment manufacturers ( OEMs ) and customers;

the outcome of pending or future litigation and other claims, including, but not limited to the current stockholder and Employee Retirement Income Security Act of 1974 ( ERISA ) lawsuits; and

our ability to enforce or defend our ownership and use of intellectual property.

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 including the information in Item 1A, under the caption

Risk Factors of Part I to our Annual Report on Form 10-K for the fiscal year ended June 30, 2009, Item 1A, Risk Factors of Part II to our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2009 and December 31, 2009 and Item 1A of Part II of this report. We undertake no obligation to publicly update or revise any forward-looking statement (except as required by law).

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****CONDENSED CONSOLIDATED BALANCE SHEETS****HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES****(In thousands)**

|  | <b>March 31,<br/>2010<br/>(Unaudited)</b> | <b>June 30, 2009</b> |
|--|---|----------------------|
| <b>Assets</b>                              |   |                      |
| Current assets                             |   |                      |
| Cash and cash equivalents                  | \$ 300,589                                | \$ 586,359           |
| Short-term investments                     | 123,769                                   |                      |
| Receivables, net                           | 569,183                                   | 415,837              |
| Inventories, net                           | 361,517                                   | 333,704              |
| Other current assets                       | 151,283                                   | 170,422              |
| <b>Total current assets</b>                | <b>1,506,341</b>                          | <b>1,506,322</b>     |
| Property, plant and equipment, net         | 436,409                                   | 518,596              |
| Goodwill                                   | 88,110                                    | 81,877               |
| Deferred tax assets, long-term             | 269,355                                   | 274,312              |
| Other assets                               | 99,940                                    | 92,390               |
| <b>Total Assets</b>                        | <b>\$ 2,400,155</b>                       | <b>\$ 2,473,497</b>  |
| <b>Liabilities and Equity</b>              |   |                      |
| Current liabilities                        |   |                      |
| Current portion of long-term debt          | \$ 605                                    | \$ 605               |
| Accounts payable                           | 333,595                                   | 241,420              |
| Accrued liabilities                        | 370,830                                   | 362,781              |
| Accrued warranties                         | 104,272                                   | 116,673              |
| Income taxes payable                       | 6,670                                     | 22,051               |
| <b>Total current liabilities</b>           | <b>815,972</b>                            | <b>743,530</b>       |
| Borrowings under revolving credit facility |   | 227,319              |
| Convertible senior notes                   | 358,989                                   | 347,837              |
| Other senior debt                          | 1,018                                     | 1,535                |
| Other non-current liabilities              | 175,024                                   | 145,358              |
| <b>Total Liabilities</b>                   | <b>1,351,003</b>                          | <b>1,465,579</b>     |
| Preferred stock                            |   |                      |
| Common stock                               | 951                                       | 949                  |
| Additional paid-in capital                 | 887,090                                   | 869,609              |
| Accumulated other comprehensive income     | 56,849                                    | 57,198               |
| Retained earnings                          | 1,151,832                                 | 1,126,946            |
| Less: Common stock held in treasury        | (1,047,570)                               | (1,047,570)          |

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|  |                     |                     |
|--|---------------------|---------------------|
| <b>Total Harman International Industries, Incorporated Shareholders Equity</b> | <b>1,049,152</b>    | <b>1,007,132</b>    |
| Noncontrolling Interest  |                     | 786                 |
| <b>Total Equity</b>  | <b>1,049,152</b>    | <b>1,007,918</b>    |
| <b>Total Liabilities and Equity</b>  | <b>\$ 2,400,155</b> | <b>\$ 2,473,497</b> |

See accompanying Notes to the Condensed Consolidated Financial Statements.

**Table of Contents****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES**

(In thousands, except per share data)

(Unaudited)

|  | Three Months Ended<br>March 31, |             | Nine Months Ended<br>March 31, |              |
|--|---------------------------------|-------------|--------------------------------|--------------|
|  | 2010                            | 2009        | 2010                           | 2009         |
| <b>Net sales</b>   | \$ 848,232                      | \$ 598,282  | \$ 2,543,089                   | \$ 2,223,347 |
| Cost of sales  | 621,917                         | 484,987     | 1,858,337                      | 1,691,265    |
| <b>Gross profit</b>  | 226,315                         | 113,295     | 684,752                        | 532,082      |
| Selling, general and administrative expenses   | 195,741                         | 203,434     | 590,841                        | 630,862      |
| Loss on deconsolidation of variable interest entity                                    |                                 |             | 13,122                         |              |
| Goodwill impairment  |                                 | 2,341       | 12,292                         | 327,786      |
| <b>Operating income (loss)</b>   | 30,574                          | (92,480)    | 68,497                         | (426,566)    |
| Other expenses:  |                                 |             |                                |              |
| Interest expense, net  | 5,768                           | 4,999       | 23,933                         | 11,141       |
| Miscellaneous, net   | 1,604                           | 723         | 3,844                          | 1,751        |
| Income (loss) before income taxes  | 23,202                          | (98,202)    | 40,720                         | (439,458)    |
| Income tax expense (benefit), net  | 4,942                           | (29,437)    | 10,545                         | (72,516)     |
| <b>Net income (loss)</b>   | 18,260                          | (68,765)    | 30,175                         | (366,942)    |
| Less: Net income (loss) attributable to noncontrolling interest                        |                                 |             | 5,289                          | (34)         |
| <b>Net income (loss) attributable to Harman International Industries, Incorporated</b> | \$ 18,260                       | \$ (68,765) | \$ 24,886                      | \$ (366,908) |
| <b>Earnings (loss) per share:</b>  |                                 |             |                                |              |
| Basic  | \$ 0.26                         | \$ (1.17)   | \$ 0.35                        | \$ (6.27)    |
| Diluted  | \$ 0.26                         | \$ (1.17)   | \$ 0.35                        | \$ (6.27)    |
| <b>Weighted average shares outstanding:</b>  |                                 |             |                                |              |
| Basic  | 70,531                          | 58,568      | 70,300                         | 58,544       |
| Diluted  | 71,282                          | 58,568      | 70,791                         | 58,544       |

See accompanying Notes to the Condensed Consolidated Financial Statements.



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|  | <b>Nine Months Ended<br/>March 31,</b> |                 |
|--|--|-----------------|
|  | <b>2010</b>                            | <b>2009</b>     |
| <b>Cash flows from operating activities:</b>   |  |                 |
| Net income (loss) attributable to Harman International Industries, Incorporated                                | \$ 24,886                              | \$ (366,908)    |
| Reconcile net income (loss) to net cash provided by operating activities:                                      |  |                 |
| Depreciation and amortization  | 100,286                                | 108,297         |
| Loss on deconsolidation of variable interest entity  | 13,122                                 |                 |
| Goodwill impairment  | 12,292                                 | 327,786         |
| Share-based compensation   | 16,466                                 | 4,911           |
| Non-cash interest expense  | 13,097                                 | 10,413          |
| Noncontrolling interest  | 5,289                                  | (34)            |
| Deferred income taxes  | 2,607                                  | (63,486)        |
| Loss on disposition of assets  | 119                                    | 1,661           |
| Changes in operating assets and liabilities, net of deconsolidation of variable interest entity:               |  |                 |
| (Increase) decrease in:  |  |                 |
| Receivables  | (175,198)                              | 135,519         |
| Inventories  | (37,979)                               | (37,533)        |
| Other current assets   | 2,859                                  | 26,787          |
| Increase (decrease) in:  |  |                 |
| Accounts payable   | 113,027                                | (112,049)       |
| Accrued warranties   | (12,401)                               | (19,191)        |
| Accrued other liabilities  | 13,093                                 | (14,061)        |
| Income taxes payable   | (74)                                   | (19,155)        |
| Other operating activities   | 14,077                                 | 2,128           |
| <b>Net cash provided by (used in) operating activities, net of deconsolidation of variable interest entity</b> | <b>105,568</b>                         | <b>(14,915)</b> |
| <b>Cash flows from investing activities:</b>   |  |                 |
| Purchases of short-term investments  | (238,090)                              |                 |
| Maturities of short-term investments   | 114,321                                |                 |
| Contingent purchase price consideration  |  | (8,228)         |
| Proceeds from asset dispositions   | 1,933                                  | 1,204           |
| Capital expenditures   | (27,015)                               | (57,551)        |
| Deconsolidation of variable interest entity  | (11,347)                               |                 |
| Other items, net   | (1,832)                                | 3,715           |
| <b>Net cash used in investing activities</b>   | <b>(162,030)</b>                       | <b>(60,860)</b> |
| <b>Cash flows from financing activities:</b>   |  |                 |
| Net increase in short-term borrowings  |  | 1               |
| Net (repayments) borrowings under revolving credit facility  | (228,890)                              | 235,000         |
| Increase (decrease) in long-term borrowings  | 4,007                                  | (468)           |
| Dividends paid to shareholders   |  | (2,196)         |
| Share-based payment arrangements   | 1,519                                  | 101             |
| Debt issuance costs  |  | (9,458)         |

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|  |            |             |
|--|------------|-------------|
| Net cash (used in) provided by financing activities  | (223,364)  | 222,980     |
| Effect of exchange rate changes on cash              | (5,944)    | (35,993)    |
| Net (decrease) increase in cash and cash equivalents | (285,770)  | 111,212     |
| Cash and cash equivalents at beginning of period     | 586,359    | 223,109     |
| Cash and cash equivalents at end of period           | \$ 300,589 | \$ 334,321  |
| Supplemental disclosure of cash flow information:    |            |             |
| Interest paid (received)                             | \$ 12,905  | \$ (1,527)  |
| Income tax paid (received)                           | \$ 1,767   | \$ (21,498) |

See accompanying Notes to the Condensed Consolidated Financial Statements.

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**HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

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

**(Unaudited)**

**Note 1 Basis of Presentation**

***Basis of Presentation***

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

Our unaudited, condensed consolidated financial statements at March 31, 2010 and for the three and nine months ended March 31, 2010 and 2009, have been prepared pursuant to rules and regulations of the Securities and Exchange Commission ( SEC ). These unaudited condensed consolidated financial statements have been prepared in accordance with the accounting policies described in our Annual Report on Form 10-K for the fiscal year ended June 30, 2009 ( Form 10-K ) and do not include all information and footnote disclosures included in our audited financial statements. In the opinion of management, the accompanying unaudited, condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments and accruals, necessary to present fairly, in all material respects, the consolidated financial position, results of operations and cash flows for the periods presented. Operating results for the three and nine months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2010 due to seasonal, economic and other factors. Where necessary, information for prior periods has been reclassified to conform to the consolidated financial statement presentation for the corresponding periods in the current fiscal year.

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

These unaudited Condensed Consolidated Financial Statements should be read in conjunction with our audited consolidated financial statements and accompanying notes included in our Form 10-K.

***Revenue Recognition***

Revenue is generally recognized at the time of product shipment or delivery, depending on when the passage of title to goods transfers to unaffiliated customers, 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.

We also record up-front incentive payments which relate to a specific program award as an asset and amortize these amounts as a reduction to revenue over the related program award term based on our estimated future volumes.

***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash on hand, including money-market funds, and investments with original maturities of three months or less.

***Restricted Cash and Investments***

We have a deferred compensation arrangement with certain foreign employees which requires us to maintain cash on hand. At March 31, 2010 and June 30, 2009, such restricted cash amounts were \$6.1 million and \$4.2 million, respectively, and were included in Other assets in our Condensed Consolidated Balance Sheets.

***Short Term Investments***

Short Term Investments consist of investments in time deposits and treasury bills with original maturities of greater than three months and less than one year.

***Allowance for Doubtful Accounts***

We reserve an estimated amount for accounts receivable that may not be collected. Methodologies for estimating the allowance for doubtful accounts are primarily based on specific identification of uncollectible accounts. Historical collection rates and customer credit worthiness are considered in determining specific reserves. At March 31, 2010 and June 30, 2009, we had \$7.2 million and \$11.7 million, respectively, reserved for possible uncollectible accounts receivable. Approximately \$2.1 million of the decrease in the allowance for doubtful accounts was due to the deconsolidation of the Harman Navis, Inc. joint venture ( Harman Navis ) in December 2009. Refer to Note 19 *Investment in Joint Venture* for more information.

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**Table of Contents*****Inventories, net***

Inventories, net 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 requires 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 as our finished goods are primarily produced to order. 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.

***Change in Accounting***

On July 1, 2009, we adopted the new accounting guidance issued by the Financial Accounting Standards Board ( FASB ) within Accounting Standards Codification ( ASC ) 810-10-65, Consolidation, relating to the presentation requirements for noncontrolling interests (formerly minority interests). We retrospectively applied the presentation of our prior year balances in our Condensed Consolidated Financial Statements. Refer to Note 2 *New Accounting Standards* for more information.

On July 1, 2009, we adopted the new accounting guidance issued by the FASB within ASC 470-20, Debt with Conversion and Other Options, which requires the issuer of convertible debt instruments with cash settlement features to account separately for the liability and equity components of the instrument. We retrospectively applied this guidance to all prior periods for which we had applicable outstanding convertible debt. Refer to Note 2 *New Accounting Standards* for more information.

**Note 2 New Accounting Standards*****Recently Adopted Accounting Standards***

**Codification:** In June 2009, the FASB issued ASC 105, Generally Accepted Accounting Principles ( ASC 105 ). The issuance of ASC 105 confirmed that the FASB ASC (the Codification ) is the single official source of authoritative GAAP, other than guidance issued by the SEC, and supersedes existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force and related literature for nongovernmental entities. The Codification does not change GAAP. Instead, it introduces a new structure that is organized in an easily accessible, user-friendly online research system. The Codification, which changes the referencing of financial standards, is effective for interim and annual periods ending on or after September 15, 2009. Thereafter, only one level of authoritative GAAP exists. All other literature is considered non-authoritative. We adopted the Codification on July 1, 2009 and updated all disclosures to reference the Codification in our Quarterly Reports on Form 10-Q for the quarterly periods ended September 30, 2009, December 31, 2009 and March 31, 2010. The adoption of the Codification did not have a significant impact on the reporting of our financial position, results of operations or cash flows.

Following the Codification, the FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates ( ASU ) which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification.

**Convertible Debt:** On July 1, 2009, we adopted the new accounting guidance issued by the FASB within ASC 470-20, Debt with Conversion and Other Options regarding accounting for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement). The new guidance requires the issuer of convertible debt instruments with cash settlement features to account separately for the liability and equity components of the instrument. Under the new guidance, the debt should be recognized at the present value of its cash flows discounted using the issuer's nonconvertible debt borrowing rate at the time of issuance and the equity component should be recognized as the difference between the proceeds from the issuance of the convertible debt and the fair value of the liability, net of deferred taxes. The reduced carrying value on the convertible debt results in a debt discount that should be accreted back to the convertible debt's principal amount through the recognition of non-cash interest expense over the expected life of the debt, which results in recognizing interest expense on these borrowings at effective rates approximating what we would have incurred had nonconvertible debt with otherwise similar terms been issued.

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We had \$400 million of 1.25 percent convertible senior notes (the Convertible Senior Notes ) outstanding at March 31, 2010 and June 30, 2009 which were issued on October 23, 2007 (the Issuance Date ), that are within the scope of this new guidance. The Convertible Senior Notes were issued at par and we pay interest semiannually at a rate of 1.25 percent per annum. The initial conversion rate on the Convertible Senior Notes is 9.6154 shares of our common stock per \$1,000 principal amount of the Convertible Senior Notes (which is equal to an initial conversion price of approximately \$104 per share). The conversion rate is subject to adjustment in specified circumstances described in the indenture governing the Convertible Senior Notes (the Indenture ).

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In accordance with this new guidance, we measured the fair value of the debt components of the Convertible Senior Notes at the Issuance Date using an effective interest rate of 5.6 percent. As a result, we attributed \$75.7 million of the proceeds received to the conversion feature of the Convertible Senior Notes at the Issuance Date, which is netted against the face value of the Convertible Senior Notes as a debt discount. This amount represents the excess proceeds received over the fair value of the Convertible Senior Notes at the Issuance Date. The discount is being accreted back to the principal amount of the Convertible Senior Notes through the recognition of non-cash interest expense over the expected life of the Convertible Senior Notes. In addition, we recorded \$48.3 million within Additional paid-in capital in our Condensed Consolidated Balance Sheets for each period presented which represents the equity component of the Convertible Senior Notes, net of tax. The implementation of this new guidance has resulted in a decrease to net income and earnings per share for all periods presented; however, there is no effect on our cash interest payments.

The following illustrates the impact of adopting this new accounting guidance in our Condensed Consolidated Statements of Operations for the three months ended March 31, 2010 and 2009:

|  | Three Months Ended<br>March 31, 2010               |   |                | Three Months Ended<br>March 31, 2009 |   |                |
|--|--|---|----------------|--------------------------------------|---|----------------|
|  | Excluding<br>the<br>Adoption<br>of New<br>Guidance | Additional<br>Non-cash<br>Interest<br>Expense | As<br>Adjusted | As<br>Previously<br>Reported         | Additional<br>Non-cash<br>Interest<br>Expense | As<br>Adjusted |
| Operating income (loss)  | \$ 30,574  | \$  | \$ 30,574      | \$ (92,480)                          | \$  | \$ (92,480)    |
| Interest expense, net  | 2,105  | 3,663   | 5,768          | 1,580                                | 3,419   | 4,999          |
| Miscellaneous, net   | 1,604  |   | 1,604          | 723                                  |   | 723            |
| <b>Income (loss) before income taxes</b>   | 26,865   | (3,663)                                       | 23,202         | (94,783)                             | (3,419)                                       | (98,202)       |
| Income tax expense (benefit), net  | 6,224  | (1,282)                                       | 4,942          | (28,224)                             | (1,213)                                       | (29,437)       |
| <b>Net income (loss)</b>   | 20,641   | (2,381)                                       | 18,260         | (66,559)                             | (2,206)                                       | (68,765)       |
| Less: Net income attributable to noncontrolling interest                               |  |   |                |                                      |   |                |
| <b>Net income (loss) attributable to Harman International Industries, Incorporated</b> | \$ 20,641  | \$ (2,381)                                    | \$ 18,260      | \$ (66,559)                          | \$ (2,206)                                    | \$ (68,765)    |
| <b>Earnings (loss) per share:</b>  |  |   |                |                                      |   |                |
| Basic  | \$ 0.29  | \$ (0.03)                                     | \$ 0.26        | \$ (1.14)                            | \$ (0.04)                                     | \$ (1.17)      |
| Diluted  | \$ 0.29  | \$ (0.03)                                     | \$ 0.26        | \$ (1.14)                            | \$ (0.04)                                     | \$ (1.17)      |

The following illustrates the impact of adopting this new accounting guidance in our Condensed Consolidated Statements of Operations for the nine months ended March 31, 2010 and 2009:

|                         | Nine Months Ended<br>March 31, 2010                |   |                | Nine Months Ended<br>March 31, 2009 |   |                |
|-------------------------|--|---|----------------|-------------------------------------|---|----------------|
|                         | Excluding<br>the<br>Adoption<br>of New<br>Guidance | Additional<br>Non-cash<br>Interest<br>Expense | As<br>Adjusted | As<br>Previously<br>Reported        | Additional<br>Non-cash<br>Interest<br>Expense | As<br>Adjusted |
| Operating income (loss) | \$ 68,497  | \$  | \$ 68,497      | \$ (426,566)                        | \$  | \$ (426,566)   |
| Interest expense, net   | 12,825   | 11,108  | 23,933         | 728                                 | 10,413  | 11,141         |
| Miscellaneous, net      | 3,844  |   | 3,844          | 1,751                               |   | 1,751          |

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|  |           |            |           |              |            |              |
|--|-----------|------------|-----------|--------------|------------|--------------|
| <b>Income (loss) before income taxes</b>   | 51,828    | (11,108)   | 40,720    | (429,045)    | (10,413)   | (439,458)    |
| Income tax expense (benefit), net  | 14,448    | (3,903)    | 10,545    | (68,824)     | (3,692)    | (72,516)     |
| <b>Net income (loss)</b>   | 37,380    | (7,205)    | 30,175    | (360,221)    | (6,721)    | (366,942)    |
| Less: Net income (loss) attributable to noncontrolling interest                        | 5,289     |            | 5,289     | (34)         |            | (34)         |
| <b>Net income (loss) attributable to Harman International Industries, Incorporated</b> | \$ 32,091 | \$ (7,205) | \$ 24,886 | \$ (360,187) | \$ (6,721) | \$ (366,908) |
| <b>Earnings (loss) per share:</b>  |           |            |           |              |            |              |
| Basic  | \$ 0.46   | \$ (0.10)  | \$ 0.35   | \$ (6.15)    | \$ (0.11)  | \$ (6.27)    |
| Diluted  | \$ 0.45   | \$ (0.10)  | \$ 0.35   | \$ (6.15)    | \$ (0.11)  | \$ (6.27)    |



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The following illustrates the impact of adopting this new accounting guidance in our Condensed Consolidated Balance Sheets as of March 31, 2010 and June 30, 2009:

|   | March 31, 2010                                     |                              |                | June 30, 2009                |                              |                |
|---|--|------------------------------|----------------|------------------------------|------------------------------|----------------|
|   | Excluding<br>the<br>Adoption<br>of New<br>Guidance | Effect of<br>New<br>Guidance | As<br>Adjusted | As<br>Previously<br>Reported | Effect of<br>New<br>Guidance | As<br>Adjusted |
| <b>Noncurrent assets:</b>                     |  |                              |                |                              |                              |                |
| Deferred tax assets, long-term <sup>(1)</sup> | \$ 283,709   | \$ (14,354)                  | \$ 269,355     | \$ 292,568                   | \$ (18,256)                  | \$ 274,312     |
| Other assets <sup>(2)</sup>                   | 100,495  | (555)                        | 99,940         | 92,990                       | (600)                        | 92,390         |
| <b>Noncurrent liabilities:</b>                |  |                              |                |                              |                              |                |
| Convertible senior notes <sup>(3)</sup>       | 400,000  | (41,011)                     | 358,989        | 400,000                      | (52,163)                     | 347,837        |
| <b>Shareholders equity:</b>                   |  |                              |                |                              |                              |                |
| Additional paid-in capital <sup>(4)</sup>     | 838,767  | 48,323                       | 887,090        | 821,286                      | 48,323                       | 869,609        |
| Retained earnings <sup>(5)</sup>              | 1,174,053  | (22,221)                     | 1,151,832      | 1,141,962                    | (15,016)                     | 1,126,946      |

(1) Effect of new guidance reflects a deferred tax liability established in connection with the debt discount.

(2) Effect of new guidance reflects a reduction in debt issuance costs allocated to the equity component.

(3) Effect of new guidance reflects the unamortized debt discount.

(4) Effect of new guidance reflects the recognition of the equity component, net of tax.

(5) Effect of new guidance reflects the amortization of the debt discount, net of tax and the reduction in the amortization of debt issuance costs which were allocated to the equity component.

The principal amounts, unamortized discount and net carrying amounts of the liability components and the equity components for the Convertible Senior Notes as of March 31, 2010 and June 30, 2009 are as follows:

|                | Principal<br>Balance | Unamortized<br>Discount | Net<br>Carrying<br>Amount | Equity<br>Component |
|----------------|----------------------|-------------------------|---------------------------|---------------------|
| March 31, 2010 | \$ 400,000           | \$ (41,011)             | \$ 358,989                | \$ 48,323           |
| June 30, 2009  | 400,000              | (52,163)                | 347,837                   | 48,323              |

At March 31, 2010, the unamortized discount is recognized as a reduction in the carrying value of the Convertible Senior Notes in the Condensed Consolidated Balance Sheets and is being amortized over the expected term of the Convertible Senior Notes of 60 months.

Interest expense related to the Convertible Senior Notes for the three months ended March 31, 2010 and 2009 includes \$1.3 million for both periods of contractual cash interest expense and an additional \$3.7 million and \$3.4 million of non-cash interest expense, respectively, related to the amortization of the discount.

Interest expense related to the Convertible Senior Notes for the nine months ended March 31, 2010 and 2009 includes \$3.8 million for both periods of contractual cash interest expense and an additional \$11.1 million and \$10.4 million of non-cash interest expense, respectively, related to the amortization of the discount.

We reclassified approximately \$0.9 million of unamortized financing costs to shareholders equity as these costs were attributable to the issuance of the conversion feature associated with the Convertible Senior Notes.

**Business Combinations:** On July 1, 2009, we adopted the updated provisions issued by the FASB within ASC 805, Business Combinations. The new guidance requires the acquired entity to recognize the full fair value of assets acquired, liabilities assumed and any noncontrolling interests in the transaction (whether a full or partial acquisition) at the acquisition date fair value with limited exceptions. This will change the

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accounting treatment for certain specific items and include a substantial number of new disclosure requirements. These changes include: (a) the acquirer recording all assets and liabilities of the acquired business, including goodwill, generally at their fair values, (b) recording contingent consideration arrangements at fair value on the date of acquisition, with changes in fair value recognized in earnings until settled, and (c) expensing acquisition-related transaction and restructuring costs rather than treating as part of the cost of the acquisition and including in the amount recorded for assets acquired. The new guidance applies prospectively to business combinations which occur after July 1, 2009. The impact of these new provisions on our consolidated financial statements will depend upon the nature, terms and size of the acquisitions we consummate in the future.

**Noncontrolling Interests:** On July 1, 2009, we adopted the updated provisions issued by the FASB within ASC 810-10-65, Consolidation, relating to the presentation requirements for noncontrolling interests (formerly minority interests). The new guidance

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requires reporting entities to present noncontrolling (minority) interests as a component of equity (as opposed to as a liability) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. In addition, the new provisions also require companies to report a consolidated net income (loss) measure that includes the amount attributable to such noncontrolling interests. The adoption of the new provisions applies to noncontrolling interests prospectively from that date. However, the presentation and disclosure requirements were applied retrospectively for all periods presented. As a result of this adoption, we reclassified noncontrolling interests in the amount of \$0.8 million from liabilities to equity in the June 30, 2009 Condensed Consolidated Balance Sheet and we included zero and less than \$0.1 million of income from our noncontrolling interest within the caption Net income (loss) attributable to Harman International Industries, Incorporated in our Condensed Consolidated Statement of Operations for the three and nine months ended March 31, 2009, respectively.

**Earnings Per Share:** On July 1, 2009, we adopted the updated provisions for earnings per share issued by the FASB within ASC 260-10-45-61A. The new guidance provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. Upon adoption, a company is required to retrospectively adjust its earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data) to conform to the new provisions. The adoption of the new provisions did not have a material impact on our financial position or results of operations.

**Fair Value:** We adopted ASC 820, *Fair Value Measurements and Disclosures* which defines fair value, establishes a market-based framework or hierarchy for measuring fair value and expands disclosures about fair value measurements in two steps. We adopted this guidance for financial assets and liabilities effective July 1, 2008 and for non-financial assets and liabilities effective July 1, 2009. This guidance is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. It does not expand or require any new fair value measures; however the application of this statement may change current practice. Refer to Note 13 *Fair Value Measurements* for further information.

Accounting guidance allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. We did not elect the fair value measurement for any financial assets and liabilities.

On July 1, 2009, we adopted the updated provisions for determining fair value when the volume and level of activity for the asset or liability have significantly decreased and for identifying transactions that are not orderly, issued by the FASB within ASC 820-10-35-51. The new provisions provide additional guidance for estimating fair value, when the volume and level of activity for the asset or liability have significantly decreased when compared with normal market activity for the asset or liability. The new approach is designed to address whether a market is inactive, and if so whether a market should be considered distressed. The objective of the new guidance is to remain consistent with the principles of fair value accounting, yet provide additional guidance on how fair value measurements might be determined in an inactive market. The new guidance also requires additional disclosures relating to an entity's valuation techniques and its major categories of investments in debt and equity securities. The adoption of the new provisions did not have any impact on our financial position or results of operations.

On July 1, 2009, we adopted the updated provisions relating to interim disclosures about fair value of financial instruments, issued by the FASB within ASC 825-10-65. The new provisions require disclosures about fair value of financial instruments for interim reporting periods of publicly-held companies, as well as in annual financial statements. The adoption of the new provisions did not have any impact on our financial position or results of operations.

In August 2009, FASB issued ASU No. 2009-05, *Measuring Liabilities at Fair Value* which provides updated guidance on the fair value measurement of liabilities. This update provides clarification for circumstances in which a quoted price in an active market for the identical liability is not available. In such instances, a reporting entity is required to measure fair value using one or more of the following techniques: 1) a valuation technique that uses either the quoted price of the identical liability when traded as an asset or quoted prices for similar liabilities when traded as an asset; or 2) another valuation technique that is consistent with the principles in ASC 820, *Fair Value Measurements and Disclosures*, such as the income and market approach to valuation. The amendments in this update also clarify that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. This update further clarifies that if the fair value of a liability is determined by reference to a quoted price in an active market for an identical liability, that price would be considered a Level 1 measurement in the fair value hierarchy. Similarly, if the identical liability has a quoted price when traded as an asset in an active market, it is also a Level 1 fair value measurement if no adjustments to the quoted price of the asset are required. This update was effective for us on September 1, 2009. We adopted the updated provisions relating to fair value measurements and disclosures. The adoption of the new guidance did not have a material impact on our financial position or results of operations.

In January 2010, the FASB issued ASU 2010-6, *Fair Value Measurements and Disclosures*. This new guidance requires the gross presentation of activity within the Level 3 fair value measurement to roll forward and requires disclosure of the details of transfers in and out of Level 1 and

Level 2 fair value measurements. It also clarifies two existing disclosure requirements on the level of

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disaggregation of fair value measurements and disclosure on inputs and valuation techniques. The new guidance was effective for us on January 1, 2010. We adopted the updated provisions relating to fair value measurements and disclosures. The adoption of the new guidance did not have a material impact on our financial position or results of operations. Refer to Note 13 *Fair Value Measurements* for further information.

**Impairment of Debt Securities:** On July 1, 2009, we adopted the updated provisions relating to the recognition and presentation of other-than-temporary impairments, issued by the FASB within ASC 820-10-35-51. The new guidance amends the other-than-temporary impairment guidance for certain debt securities and requires an investor to assess the likelihood of selling the security, prior to recovering its cost basis. If an investor is able to meet the criteria to assert that it will not have to sell a security before recovery, impairment charges related to credit losses would be recognized in earnings, while impairment charges related to non-credit losses would be reflected in other comprehensive income. It also amends the disclosure requirements by requiring entities to disclose information that will help users understand the types of investments held, including information about investments in an unrealized loss position for which an impairment charge has not been recognized. The adoption of the new provisions did not have any impact on our financial position or results of operations.

**Intangible Assets:** On July 1, 2009, we adopted the updated provisions relating to the determination of the useful life of intangible assets, issued by the FASB within ASC 350-30-65. The new guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of the provisions is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. The adoption of the new provisions did not have a material impact on our financial position or results of operations.

**Consolidation:** In January 2010, FASB issued ASU No. 2010-02, *Accounting and Reporting for Decreases in Ownership of a Subsidiary*, which clarifies that accounting guidance relating to noncontrolling interests and changes in ownership of a subsidiary, also applies to the disposal of businesses that are not subsidiaries, clarifies certain implementation issues and also amends the disclosure requirements. The new guidance is effective on a retrospective basis for interim periods ended after December 15, 2009. We adopted the provisions of this new guidance on October 1, 2009. The adoption of the new provisions did not have any impact on our financial position or results of operations.

**Subsequent Events:** In May 2009, the FASB issued a statement which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. In February 2010, the FASB issued ASU 2010-09, *Subsequent Events*, which amends the previous guidance on subsequent events and no longer requires SEC filers to disclose the date through which subsequent events have been evaluated. The subsequent event provisions are effective for interim and annual reporting periods ending after June 15, 2009 and were effective for us beginning in the fourth quarter of fiscal 2009. The amendments were effective in February 2010. We adopted the new guidance in our Form 10-Q for the quarter ended March 31, 2010 and as a result of the adoption we no longer disclose the date through which subsequent events have been evaluated. The adoption of the new provisions did not have any impact on our financial position or results of operations.

### *Recently Issued Accounting Standards*

**Variable Interest Entities:** In December 2009, the FASB issued ASU 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, which amended certain provisions relating to the consolidation of variable interest entities, issued within ASC 810, *Consolidation*. The amendments primarily include (i) amending the guidance for determining whether an entity is a variable interest entity ( VIE ) and (ii) amending the criteria for identification of the primary beneficiary of a VIE. The new provisions also require a company to continually reassess whether the company is the primary beneficiary of a VIE and requires enhanced disclosures in the financial statements about the company's relationship with VIEs. The amended provisions are effective for us on July 1, 2010. We do not expect the adoption of the new guidance to have a material impact on our financial position or results of operations.

**Transfers of Financial Assets:** In June 2009, the FASB amended certain provisions relating to the accounting for transfers of financial assets. The new guidance also requires additional disclosures to address concerns regarding the transparency of transfers of financial assets. The amended provisions are effective for us on July 1, 2010. We do not expect the adoption of this new guidance to have a material impact on our financial position or results of operations.

**Multiple Element Revenue Arrangements:** In October 2009, the FASB issued the following ASUs: (1) ASU No. 2009-13, *Revenue Recognition (ASC Topic 605) - Multiple-Deliverable Revenue Arrangements*, a consensus of the FASB Emerging Issues Task Force and (2) ASU No. 2009-14, *Software (ASC Topic 985) - Certain Revenue Arrangements That Include Software Elements*, a consensus of the FASB Emerging Issues Task Force. The new guidance requires a vendor to allocate revenue to each standalone deliverable in arrangements involving multiple deliverables based on the relative selling price of each deliverable. It also changes the level of evidence of standalone selling price required to separate deliverables by allowing a vendor to make its best estimate of the standalone selling price of deliverables when more objective evidence of selling price is not available. The new



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guidance also excludes sales of tangible products that contain essential software elements from the scope of revenue recognition for software arrangements. Because of these changes, revenue will be recognized earlier for many revenue transactions involving multiple deliverables and sales of software enabled devices. We will be required to provide additional disclosures relating to qualitative and quantitative information about a vendor's revenue arrangements and about the significant judgments made about the application of the new guidance and any changes in those judgments or the application that may significantly affect the timing or amount of revenue recognition. The new guidance can be adopted on a prospective basis or in certain circumstances on a retrospective basis. Early adoption is permitted. If prospective application is elected, it is to be applied to arrangements entered into or materially modified in fiscal years beginning after June 15, 2010. The amended provisions are effective for us on July 1, 2010. We do not expect the adoption of this new guidance to have a material impact on our financial position or results of operations.

**Other ASUs:** During 2009 and 2010, the FASB has issued several ASUs – ASU No. 2009-02 through ASU No. 2009-17 and ASU 2010-01 through ASU 2010-11. Except for ASUs discussed above, the remaining ASUs entail technical corrections to existing guidance or affect guidance related to specialized industries or entities or were not applicable to us and therefore have minimal, if any, impact on our consolidated financial statements.

**Note 3 Inventories, net**

Inventories consist of the following:

|                  | <b>March 31,<br/>2010</b> | <b>June 30,<br/>2009</b> |
|------------------|---------------------------|--------------------------|
| Finished goods   | \$ 154,519                | \$ 147,002               |
| Work in process  | 59,375                    | 51,215                   |
| Raw materials    | 147,623                   | 135,487                  |
| Inventories, net | \$ 361,517                | \$ 333,704               |

Inventories are stated at the lower of cost or market. Cost is determined principally by the first-in, first-out method. The valuation of inventory requires us to make judgments and estimates regarding obsolete, damaged or excess inventory as well as current and future demand for our products. The estimates of future demand and product pricing that we use in the valuation of inventory are the basis for our inventory reserves and have an effect on our results of operations. We calculate inventory reserves using a combination of lower of cost or market analysis, analysis of historical usage data, forecast demand data and historical disposal rates. Specific product valuation analysis is applied, if practicable, to those items of inventory representing a higher portion of the value of inventory on-hand. At March 31, 2010 and June 30, 2009 our inventory reserves were \$87.5 million and \$91.5 million, respectively.

**Note 4 Property, Plant and Equipment, net**

Property, plant and equipment consist of the following:

|  | <b>Estimated<br/>Useful Lives<br/>(in Years)</b> | <b>March 31, 2010</b> | <b>June 30, 2009</b> |
|--|--|-----------------------|----------------------|
| Land   |  | \$ 12,328             | \$ 13,506            |
| Buildings and improvements                     | 1-50   | 274,426               | 291,831              |
| Machinery and equipment                        | 3-20   | 913,788               | 948,123              |
| Furniture and fixtures                         | 3-10   | 32,200                | 40,069               |
| Property, plant and equipment, gross           |  | 1,232,742             | 1,293,529            |
| Less accumulated depreciation and amortization |  | (796,333)             | (774,933)            |
| Property, plant and equipment, net             |  | \$ 436,409            | \$ 518,596           |

**Note 5 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 Condensed Consolidated Statement of Operations. We take these factors into consideration when assessing the adequacy of our warranty provision for periods still open to claim.



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Details of our accrued warranties are as follows:

|                                     | Nine Months Ended<br>March 31, |            |
|-------------------------------------|--------------------------------|------------|
|                                     | 2010                           | 2009       |
| Accrued warranties, June 30,        | \$ 116,673                     | \$ 126,977 |
| Warranty provisions                 | 39,168                         | 49,040     |
| Warranty payments (cash or in-kind) | (50,545)                       | (45,637)   |
| Other <sup>(1)</sup>                | (1,024)                        | (17,463)   |
| Accrued warranties, March 31,       | \$ 104,272                     | \$ 112,916 |

<sup>(1)</sup> Other primarily represents foreign currency translation.

**Note 6 Earnings (Loss) Per Share**

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

|   | Three Months Ended March 31, |           |             |             |
|---|------------------------------|-----------|-------------|-------------|
|   | 2010                         |           | 2009        |             |
|   | Basic                        | Diluted   | Basic       | Diluted     |
| Net income (loss) attributable to Harman International Industries, Incorporated | \$ 18,260                    | \$ 18,260 | \$ (68,765) | \$ (68,765) |
| Weighted average shares outstanding   | 70,531                       | 70,531    | 58,568      | 58,568      |
| Employee stock options  |                              | 751       |             |             |
| Total weighted average shares outstanding                                       | 70,531                       | 71,282    | 58,568      | 58,568      |
| Earnings (loss) per share   | \$ 0.26                      | \$ 0.26   | \$ (1.17)   | \$ (1.17)   |

|   | Nine Months Ended March 31, |           |              |              |
|---|-----------------------------|-----------|--------------|--------------|
|   | 2010                        |           | 2009         |              |
|   | Basic                       | Diluted   | Basic        | Diluted      |
| Net income (loss) attributable to Harman International Industries, Incorporated | \$ 24,886                   | \$ 24,886 | \$ (366,908) | \$ (366,908) |
| Weighted average shares outstanding   | 70,300                      | 70,300    | 58,544       | 58,544       |
| Employee stock options  |                             | 491       |              |              |
| Total weighted average shares outstanding                                       | 70,300                      | 70,791    | 58,544       | 58,544       |
| Earnings (loss) per share   | \$ 0.35                     | \$ 0.35   | \$ (6.27)    | \$ (6.27)    |

On July 1, 2009, we adopted new accounting guidance issued by the FASB. The new guidance provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. Upon adoption, a company is required to retrospectively adjust its earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data) to conform to the new provisions. The adoption of the new provisions did not have a material impact on our financial position or results of

operations.

Certain options were outstanding and not included in the computation of diluted earnings per share because the assumed exercise of these options would have been antidilutive. Options to purchase 1,572,904 and 2,709,042 shares of our common stock with exercise prices ranging from \$32.83 to \$126.94 and \$11.72 to \$126.94 per share during the three months ended March 31, 2010 and 2009, respectively, were outstanding and excluded from the computation of diluted earnings per share because they would have been antidilutive. In addition, zero and 598,429 restricted shares and restricted share units for the three months ended March 31, 2010 and 2009, respectively, were excluded from the computation of diluted earnings per share as they also would have been antidilutive. Options to purchase 2,390,501 and 2,716,750 shares of our common stock with exercise prices ranging from \$26.64 to \$126.94 and \$11.72 to \$126.94 per share during the nine months ended March 31, 2010 and 2009, respectively, were outstanding and excluded from the computation of diluted earnings per share because they would have been antidilutive. In addition, 777 and 412,273 restricted shares and restricted share units for the nine months ended March 31, 2010 and 2009, respectively, were excluded from the computation of diluted earnings per share as they also would have been antidilutive.

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The conversion terms of the Convertible Senior Notes will affect the calculation of diluted earnings per share if the price of our common stock exceeds the conversion price of the Convertible Senior Notes. The initial conversion price of the Convertible Senior Notes is approximately \$104 per share, subject to adjustment in specified circumstances as described in the Indenture. Upon conversion, a holder of Convertible Senior Notes will receive an amount per Convertible Note in cash equal to the lesser of \$1,000 or the conversion value of the Convertible Senior Notes, determined in the manner set forth in the Indenture. If the conversion value exceeds \$1,000, we will deliver \$1,000 in cash and, at our option, cash or common stock or a combination of cash and common stock for the conversion price in excess of \$1,000. The conversion option is indexed to our common stock and therefore is classified as equity. The conversion option will not result in an adjustment to net income in calculating diluted earnings per share. The dilutive effect of the conversion option will be calculated using the treasury stock method. Therefore, conversion settlement shares will be included in diluted shares outstanding if the price of our common stock exceeds the conversion price of the Convertible Senior Notes.

### **Note 7 Goodwill**

During the three and nine months ended March 31, 2010 we recognized zero and \$12.3 million, respectively, of goodwill impairment in our Condensed Consolidated Statements of Operations. Our annual goodwill impairment test conducted in April 2009 indicated that no goodwill was supportable in our Automotive segment. In the first half of fiscal year 2010, we recognized additional goodwill of \$12.3 million associated with contingent purchase price arrangements from acquisitions in prior years and subsequently impaired \$12.3 million of goodwill in the same reporting period.

As a result of the sustained improvements in the operating results of our Automotive business due to improvements in economic conditions and realized savings resulting from our cost cutting initiatives, we performed a preliminary goodwill impairment test during the three months ended March 31, 2010. The March 31, 2010 calculation demonstrated that the calculated fair value of our reporting units exceeded the respective carrying values and thus no impairment existed at Automotive and our other reporting units. As a result, we are not recording goodwill impairment charges associated with the incremental goodwill recorded related to the contingent purchase price arrangements. During the three months ended March 31, 2010, we recorded \$3.1 million of goodwill associated with a contingent purchase price arrangement in our Automotive segment.

### **Note 8 Debt**

#### ***Amended Credit Agreement***

We are party to a second amended and restated multi-currency, multi-option credit agreement with a group of banks (the Amended Credit Agreement), which is more fully described in our Form 10-K. We repaid \$228.9 million of outstanding borrowings under the Amended Credit Agreement during the nine months ended March 31, 2010 (see Convertible Senior Notes below). At March 31, 2010, we had a total borrowing capacity of \$231.6 million under the Amended Credit Agreement, with \$6.6 million of outstanding borrowings consisting of outstanding letters of credit and \$225.0 million of available borrowing capacity.

The Amended Credit Agreement contains financial and other covenants that are more fully described in our Form 10-K. If we do not meet the forecast in our budgets, we could violate our debt covenants and, absent a waiver from our lenders or an amendment to our Amended Credit Agreement, we could be in default under the Amended Credit Agreement. As a result, our debt under the Amended Credit Agreement could become due which would have a material adverse effect on our financial condition and results of operations. A default under the Amended Credit Agreement could also lead to an event of default under the Indenture, as amended and the acceleration of the Convertible Senior Notes. As of March 31, 2010, we were in compliance with all the financial covenants of the Amended Credit Agreement. We believe we will be in compliance with these covenants for at least the next 12 months.

#### ***Guarantee and Collateral Agreement***

In connection with the Amended Credit Agreement, we and certain of our subsidiaries entered into a guarantee and collateral agreement, (the Guarantee and Collateral Agreement) which provides, among other things, that the obligations under the Amended Credit Agreement are guaranteed by us and each of the subsidiary guarantors party thereto, and that the obligations generally are secured by liens on substantially all of our assets and certain of our subsidiary guarantors' assets.

The term of the Guarantee and Collateral Agreement corresponds with the term of the Amended Credit Agreement, which matures on December 31, 2011. Under the terms of this Guarantee and Collateral Agreement, we have effectively guaranteed the payment of the full amount of borrowings under the Amended Credit Agreement, including outstanding letters of credit, upon maturity. The potential amount of future payments that we would be required to pay under the Guarantee and Collateral Agreement is the amount that we have borrowed under the

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Amended Credit Agreement, including outstanding letters of credit.

### *Convertible Senior Notes*

On July 1, 2009, we adopted new accounting guidance relating to the Convertible Senior Notes which is more fully described in Note 2 *New Accounting Standards* and in our Form 10-K.

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The Indenture contains covenants, one of which requires us to calculate the ratio of Consolidated Total Debt to Consolidated EBITDA, as defined in the Indenture, each time we incur additional indebtedness, for the most recently ended four quarter period. On January 12, 2010, we entered into a supplemental indenture to the Indenture (the Supplemental Indenture ) which amended this covenant. Under the Supplemental Indenture, we are now permitted to, without complying with the ratio of Consolidated Total Debt to Consolidated EBITDA of 3.25 to 1.00: (a) incur revolving extensions of credit under the Amended Credit Agreement, up to a maximum amount of \$231.6 million, and (b) incur additional indebtedness, subject to a requirement to make a pro rata offer to purchase a principal face amount of the Convertible Senior Notes equal to 50 percent of the aggregate amount of such indebtedness so incurred, plus accrued and unpaid interest thereon. This prepayment obligation survives until the earlier to occur of (i) October 23, 2010 or (ii) the date that less than \$200 million in principal amount of Convertible Senior Notes are outstanding, subject in all instances to the satisfaction of certain conditions. In January 2010, prior to entering into the Supplemental Indenture, we paid down \$222.5 million of outstanding debt under the Amended Credit Agreement, which amount represented the total outstanding borrowings at that time. At March 31, 2010, we were in compliance with all covenants under the Indenture, as amended by the Supplemental Indenture and we believe that we will be in compliance with these covenants for at least the next 12 months.

**Note 9 Income Taxes**

Our provision for income taxes is based on an estimated annual tax rate for the year applied to federal, state and foreign income. Income tax expense for the three months ended March 31, 2010 was \$4.9 million, compared to an income tax benefit of \$29.4 million for the same period in the prior year. The effective rate for the three months ended March 31, 2010 was 21.3 percent, compared to 30.0 percent in the same period in the prior year. The decrease in the effective tax rate for the three months ended March 31, 2010 compared to the same period in the prior year was primarily due to a change in the current period income mix to lower tax jurisdictions. For the nine months ended March 31, 2010, the income tax expense was \$10.5 million, compared to an income tax benefit of \$72.5 million for the same period in the prior year. The effective tax rate for the nine months ended March 31, 2010 was 25.9 percent, compared to an effective tax rate of 16.5 percent for the same period in the prior year. The effective tax rate for the three months ended March 31, 2010 includes foreign tax benefits reduced by the tax effects of significant unusual or infrequent items that are recorded separately or recorded net of their related tax effects. The effective tax rate for the nine months ended March 31, 2010, includes the benefits of the U.S. research and development credit and foreign tax benefits reduced by the tax effects of significant unusual or infrequent items that are recorded separately or recorded net of their related tax effects. The increase in the effective tax rate for the nine months ended March 31, 2010 compared to the same period in the prior year was primarily due to the prior period including a significant amount of goodwill impairment charges that were not deductible for income tax purposes resulting in a lower tax benefit, partially offset by a change in the current period income mix to lower tax jurisdictions.

As of March 31, 2010, unrecognized tax benefits and the related interest were \$13.1 million and \$1.2 million, respectively, all of which would affect the tax rate if recognized. This amount of \$14.3 million is included with noncurrent liabilities in our Condensed Consolidated Balance Sheet at March 31, 2010 as we do not expect settlement within the next 12 months. During the three and nine months ended March 31, 2010, we recorded a benefit related to uncertain tax positions of \$0.7 million and \$1.6 million, respectively.

**Note 10 Shareholders Equity*****Preferred Stock***

As of March 31, 2010 and June 30, 2009, we had no shares of preferred stock outstanding. We are authorized to issue 5 million shares of preferred stock, \$0.01 par value.

***Common Stock***

We have 200 million authorized shares of common stock, \$0.01 par value. At March 31, 2010 and June 30, 2009, we had 95,128,236 and 94,929,595 shares issued; 25,599,817 and 25,599,817 shares in treasury stock and 69,528,419 and 69,329,778 shares outstanding (net of treasury stock), respectively.

***Changes in Equity:***

The following is a summary of the changes in Accumulated Other Comprehensive Income ( AOCI ) for the three months ended March 31, 2010 and 2009:

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|   | <b>Three Months Ended</b> |                  |
|---|---------------------------|------------------|
|   | <b>March 31,</b>          | <b>March 31,</b> |
|   | <b>2010</b>               | <b>2009</b>      |
| Net income (loss) attributable to Harman International Industries,<br>Incorporated: | \$ 18,260                 | \$ (68,765)      |
| Foreign currency translation  | (33,505)                  | (33,766)         |
| Unrealized gains (losses) on hedging  | 10,697                    | (3,724)          |
| Changes in pension benefits   | (212)                     | (135)            |
| Unrealized loss on available-for-sale securities                                    | 28                        | (371)            |
| <br>Total accumulated other comprehensive income (loss)                             | <br>\$ (4,732)            | <br>\$ (106,761) |

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The following is a summary of the changes in AOCI and changes in equity for the nine months ended March 31, 2010 and 2009:

|   | Preferred<br>Stock | Common<br>Stock | Additional<br>Paid-in<br>Capital | AOCI       | Retained<br>Earnings | Treasury Stock | Harman<br>Shareholders<br>Equity | Non-<br>controlling<br>Interest | Total<br>Equity |
|---|--------------------|-----------------|----------------------------------|------------|----------------------|----------------|----------------------------------|---------------------------------|-----------------|
| Balance at June 30, 2009                          | \$                 | \$ 949          | \$ 869,609                       | \$ 57,198  | \$ 1,126,946         | \$ (1,047,570) | \$ 1,007,132                     | \$ 786                          | \$ 1,007,918    |
| Net income  |                    |                 |                                  |            | 24,886               |                | 24,886                           |                                 | 24,886          |
| Foreign currency translation                      |                    |                 |                                  | (17,064)   |                      |                | (17,064)                         |                                 | (17,064)        |
| Unrealized gain on hedging                        |                    |                 |                                  | 16,706     |                      |                | 16,706                           |                                 | 16,706          |
| Changes in pension benefits                       |                    |                 |                                  | (230)      |                      |                | (230)                            |                                 | (230)           |
| Unrealized gain on available-for-sale securities  |                    |                 |                                  | 239        |                      |                | 239                              |                                 | 239             |
| Comprehensive (loss) income:                      |                    |                 |                                  | (349)      | 24,886               |                | 24,537                           |                                 | 24,537          |
| Exercise of stock options, net of shares received |                    | 2               | 2,545                            |            |                      |                | 2,547                            |                                 | 2,547           |
| Share based compensation                          |                    |                 | 14,936                           |            |                      |                | 14,936                           |                                 | 14,936          |
| Noncontrolling interest                           |                    |                 |                                  |            |                      |                |                                  | (786)                           | (786)           |
| Balance at March 31, 2010                         | \$                 | \$ 951          | \$ 887,090                       | \$ 56,849  | \$ 1,151,832         | \$ (1,047,570) | \$ 1,049,152                     | \$                              | \$ 1,049,152    |
|   |                    |                 |                                  |            |                      |                |                                  |                                 |                 |
|   | Preferred<br>Stock | Common<br>Stock | Additional<br>Paid-in<br>Capital | AOCI       | Retained<br>Earnings | Treasury Stock | Harman<br>Shareholders<br>Equity | Non-<br>controlling<br>Interest | Total<br>Equity |
| Balance at June 30, 2008                          | \$                 | \$ 841          | \$ 676,648                       | \$ 191,531 | \$ 1,560,657         | \$ (1,047,570) | \$ 1,382,107                     | \$ 34                           | \$ 1,382,141    |
| Net loss  |                    |                 |                                  |            | (366,908)            |                | (366,908)                        |                                 | (366,908)       |
| Foreign currency translation                      |                    |                 |                                  | (154,599)  |                      |                | (154,599)                        |                                 | (154,599)       |
| Unrealized gain on hedging                        |                    |                 |                                  | 3,443      |                      |                | 3,443                            |                                 | 3,443           |
| Changes in pension benefits                       |                    |                 |                                  | (303)      |                      |                | (303)                            |                                 | (303)           |
| Unrealized loss on available-for-sale securities  |                    |                 |                                  | (5,001)    |                      |                | (5,001)                          |                                 | (5,001)         |
| Comprehensive loss                                |                    |                 |                                  | (156,460)  | (366,908)            |                | (523,368)                        |                                 | (523,368)       |
| Exercise of stock options, net of shares received |                    |                 | 101                              |            |                      |                | 101                              |                                 | 101             |
| Share based compensation                          |                    | 1               | 4,688                            |            |                      |                | 4,689                            |                                 | 4,689           |
| Dividends (\$0.05 per share)                      |                    |                 |                                  |            | (2,196)              |                | (2,196)                          |                                 | (2,196)         |
| Noncontrolling interest                           |                    |                 |                                  |            |                      |                |                                  | (34)                            | (34)            |
| Balance at March 31, 2009                         | \$                 | \$ 842          | \$ 681,437                       | \$ 35,071  | \$ 1,191,553         | \$ (1,047,570) | \$ 861,333                       | \$                              | \$ 861,333      |





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At March 31, 2010 and June 30, 2009, AOCI consists of the following:

|  | March 31,<br>2010 | June 30,<br>2009 |
|--|-------------------|------------------|
| Accumulated other comprehensive income:          |                   |                  |
| Foreign currency translation                     | \$ 67,491         | \$ 84,555        |
| Unrealized gains (losses) on hedging             | 7,665             | (9,041)          |
| Pension benefits                                 | (14,051)          | (13,821)         |
| Unrealized loss on available-for-sale securities | (4,256)           | (4,495)          |
| <br>Total accumulated other comprehensive income | <br>\$ 56,849     | <br>\$ 57,198    |

There are approximately \$1.5 million and \$1.4 million of investments included in other current assets at March 31, 2010 and June 30, 2009, respectively, that have been classified as available-for-sale securities. These securities are recorded at fair value with realized gains or losses recorded in income and unrealized gains and losses recorded in other comprehensive income (loss), net of taxes.

**Note 11 Share-Based Compensation****Share-Based Compensation**

On March 31, 2010, we had one share-based compensation plan with shares available for future grants, the Amended and Restated 2002 Stock Option and Incentive Plan (the 2002 Plan). The 2002 Plan permits the grant of stock options, stock appreciation rights, restricted stock and restricted stock units in an aggregate amount not to exceed 6,760,000 shares of our common stock. During the nine months ended March 31, 2010 options to purchase 610,135 shares of our common stock and 766,756 restricted stock units were granted under the 2002 Plan. No shares of restricted stock or restricted stock units were granted outside the 2002 Plan during the same period.

Share-based compensation expense was \$6.0 million and \$4.9 million for the three months ended March 31, 2010 and 2009, respectively, and was \$16.5 million and \$4.9 million for the nine months ended March 31, 2010 and 2009, respectively. Share-based compensation expense for the three months ended March 31, 2010 was higher than the same period in the prior year due to an increase in grants versus the same period in the prior year. Share-based compensation expense for the nine months ended March 31, 2010 was higher than the same period in the prior year due to stock option forfeitures recorded in connection with the retirement of senior executives in the nine months ended March 31, 2009. The total income tax benefit (expense) recognized in the Condensed Consolidated Statements of Operations for share-based compensation arrangements was \$1.3 million and \$1.2 million for the three months ended March 31, 2010 and 2009, respectively, and was \$3.7 million and \$0.2 million for the nine months ended March 31, 2010 and 2009, respectively.

**Fair Value Determination**

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

|                             | Nine Months Ended March 31, |              |
|-----------------------------|-----------------------------|--------------|
|                             | 2010                        | 2009         |
| Expected volatility         | 59.9% -79.0%                | 42.0% -58.6% |
| Weighted-average volatility | 68.6%                       | 50.1%        |
| Expected annual dividend    | \$                          | \$ 0.05      |
| Expected term (in years)    | 1.88 -3.98                  | 1.90-6.51    |
| Risk-free rate              | 0.9% -2.2%                  | 1.3%-3.6%    |

Groups of option holders (directors, executives and non-executives) that have similar historical behavior are considered separately for valuation purposes. Expected volatilities are based on historical closing prices of our common stock over the expected option term. We use historical data to estimate option exercises and employee terminations within the valuation model. The expected term of options granted is derived using the

option valuation model and represents the estimated period of time from the date of grant that the option is expected to remain outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

**Table of Contents***Stock Option Activity*

A summary of option activity under our stock option plans as of and for the nine months ended March 31, 2010 is presented below:

|                               | Shares    | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (Years) | Aggregate<br>Intrinsic<br>Value |
|-------------------------------|-----------|--|---|---------------------------------|
| Outstanding at June 30, 2009  | 2,612,982 | \$ 60.87                                 | 7.20  | \$ 679                          |
| Granted                       | 610,135   | 28.65                                    |   |                                 |
| Exercised                     | (129,942) | 19.60                                    |   |                                 |
| Forfeited or expired          | (129,354) | 63.44                                    |   |                                 |
| Outstanding at March 31, 2010 | 2,963,821 | 55.94                                    | 7.52  | 27,018                          |
| Exercisable at March 31, 2010 | 1,032,453 | \$ 68.65                                 | 6.08  | \$ 6,212                        |

The weighted-average grant-date fair value of options granted during the three months ended March 31, 2010 and 2009 was \$16.14 and \$7.41, respectively. The weighted-average grant-date fair value of options granted during the nine months ended March 31, 2010 and 2009 was \$12.84 and \$11.19, respectively. The total intrinsic value of options exercised during the three months ended March 31, 2010 and 2009 was \$1.4 million and zero, respectively. The total intrinsic value of options exercised during the nine months ended March 31, 2010 and 2009 was \$2.4 million and \$0.3 million, respectively.

*Grant of Stock Options with Market Conditions*

We granted 330,470 stock options containing a market condition to employees on March 21, 2008. The options vest three years from the date of grant based on a comparison of Harman's total shareholder return (TSR) to the TSR of a selected peer group of publicly listed multinational companies. TSR will be measured as the annualized increase in the aggregate value of our stock price plus the value of dividends, assumed to be reinvested into shares of our stock at the time of dividend payment. The base price to be used for the TSR calculation of \$42.19 is the 20-day trading average from February 6, 2008 through March 6, 2008. The ending price to be used for the TSR calculation will be the 20-day trading average prior to and through March 6, 2011. The grant date fair value of \$4.2 million was calculated using a combination of Monte Carlo simulation and lattice-based models. Share-based compensation expense for these awards was \$0.3 million for each of the three months ended March 31, 2010 and 2009 and was \$1.0 million for each of the nine months ended March 31, 2010 and 2009.

*Restricted Stock Awards*

A summary of the status of our nonvested restricted stock as of and for the nine months ended March 31, 2010, is presented below:

|                             | Shares   | Weighted Average<br>Grant-Date<br>Fair Value |
|-----------------------------|----------|--|
| Nonvested at June 30, 2009  | 86,992   | \$ 81.11                                     |
| Granted                     |          |  |
| Vested                      | (26,992) | 116.65                                       |
| Forfeited                   |          |  |
| Nonvested at March 31, 2010 | 60,000   | \$ 65.13                                     |

As of March 31, 2010, there was \$0.7 million of total unrecognized compensation cost related to nonvested restricted stock-based compensation arrangements. The weighted average recognition period was 1.12 years. At March 31, 2010, a total of 60,000 shares of restricted stock were

outstanding, of which 51,000 were granted under the 2002 Plan and 9,000 were granted outside of the Plan.

*Restricted Stock Units*

In January and September 2008, we granted 34,608 and 28,344 cash-settled restricted stock units, respectively, outside the 2002 Plan. These restricted stock units are accounted for as liability awards and are recorded at the fair value at the end of the reporting period in accordance with their vesting schedules. In the three months ended March 31, 2010 and 2009, there were 12,856 and 26,498 restricted stock units settled, respectively, at a cost of \$0.6 million and \$0.4 million, respectively. In the nine months ended March 31, 2010 and 2009, there were 14,464 and 28,106 restricted stock units settled, respectively, at a cost of \$0.6 million and \$0.5 million, respectively. At March 31, 2010, 17,612 cash-settled restricted stock units were outstanding.

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We granted 380,400 and 133,507 restricted stock units with performance conditions under the 2002 Plan in the nine months ended March 31, 2010 and 2009, respectively. The restricted stock units vest on the third anniversary of the date of grant and are subject to the attainment of certain performance targets in fiscal years 2011 and 2012. Compensation expense is recognized ratably over the three-year vesting period based on the grant date fair value and our assessment of the probability that the performance targets will be met. We have recognized compensation expense based on our estimate of the probability of achieving the targets.

In the nine months ended March 31, 2010 and 2009, we also granted under the 2002 Plan 386,356 and 369,677 restricted stock units, respectively, that vest three years from the date of grant.

A summary of equity classified restricted stock unit activity as of and for the nine months ended March 31, 2010 is presented below:

|                                    | <b>Restricted<br/>Stock<br/>Units</b> |
|------------------------------------|---------------------------------------|
| Nonvested at June 30, 2009         | 506,064                               |
| Granted                            | 766,756                               |
| Vested                             | (96,575)                              |
| Forfeited                          | (24,734)                              |
| <b>Nonvested at March 31, 2010</b> | <b>1,151,511</b>                      |

At March 31, 2010, the aggregate intrinsic value of equity classified restricted stock units was \$53.9 million. As of March 31, 2010, there was \$20.5 million of total unrecognized compensation cost related to restricted stock unit compensation arrangements. The weighted average recognition period was 2.12 years.

*Chief Executive Officer Special Enterprise Value Bonus*

Our Chief Executive Officer ( CEO ) was granted a special bonus award in November 2007 (the Special Bonus Award ). The award was to be settled in cash based on a comparison of Harman s enterprise value at November 2012 to the enterprise value at the grant date in November 2007. This award is classified as a liability in our Condensed Consolidated Balance Sheet at June 30, 2009. The fair value of the Special Bonus Award is required to be measured each quarter using a Monte Carlo simulation model.

On September 1, 2009, pursuant to the terms of an amendment to the CEO s employment letter agreement, the Special Bonus Award was cancelled and replaced with the right to an annual equity award for fiscal years 2011 through 2013 (the Annual Equity Grant ). On September 1, 2009, both time based vesting and performance based vesting restricted stock units were granted to the CEO pursuant to the terms of the Annual Equity Grant. The replacement of the Special Bonus Award with the awards granted pursuant to the Annual Equity Grant was accounted for as a modification of an existing award. As a result of this modification, during the first quarter of fiscal year 2010, approximately \$0.5 million was reclassified from a liability to Additional paid-in capital in our Condensed Consolidated Balance Sheet and \$0.5 million was recognized as compensation expense within Selling, General & Administrative expenses ( SG&A ) in our Condensed Consolidated Statement of Operations in the same reporting period and is therefore included in our results for the nine months ended March 31, 2010.

**Note 12 Derivatives**

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

We are required to recognize all derivative instruments as either assets or liabilities at fair value in our Condensed Consolidated Balance Sheets. As permitted, certain of these derivative contracts have been designated for cash flow hedge accounting treatment, whereby gains and

losses are reported within accumulated other comprehensive income, until the underlying transaction occurs. Certain of our derivatives, for which hedge accounting is not applied, are effective as economic hedges. These derivative contracts are required to be recognized each period at fair value, with gains and losses reported in earnings, and therefore do result in some level of earnings volatility. The level of volatility will vary with the type and amount of derivative hedges outstanding, as well as fluctuations in the currency and interest rate markets during the period. The related cash flow impacts of all our derivative activities are reflected as cash flows from operating activities.

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

**Foreign Exchange Risk Management**

We use foreign exchange contracts to hedge the price risk associated with foreign denominated forecasted purchases of materials used in our manufacturing process and to manage currency risk associated with operating costs in certain operating units. These contracts generally mature in one year or less. A portion of these contracts are designated as cash flow hedges.

At March 31, 2010 and June 30, 2009, we had outstanding foreign exchange contracts which are summarized below:

|                                    | March 31, 2010       |   | June 30, 2009        |   |
|------------------------------------|----------------------|---|----------------------|---|
|                                    | Gross Notional Value | Fair Value Asset/<br>(Liability)<br>(1) | Gross Notional Value | Fair Value Asset/<br>(Liability)<br>(1) |
| <b>Currency Hedged (Buy/Sell):</b> |                      |   |                      |   |
| US Dollar/Euro                     | \$ 154,298           | \$ 6,607                                | \$ 176,872           | \$ (13,039)                             |
| Swiss Franc/US Dollar              | 14,233               | (634)                                   | 13,814               | (52)                                    |
| Euro/British Pound                 | 8,106                | (91)                                    | 5,614                | 6                                       |
| Japanese Yen/Euro                  | 6,420                | 49                                      | 6,225                | (58)                                    |
| Canadian Dollar/US Dollar          | 6,008                | 353                                     | 22,972               | 182                                     |
| Swedish Krona/Euro                 | 5,818                | 22                                      | 5,452                | 65                                      |
| Danish Krone/Euro                  | 1,270                | 1                                       | 73,136               | (4)                                     |
| Swiss Franc/Euro                   |                      |   | 4,835                | (66)                                    |
| Other                              | 3,274                | (111)                                   | 6,891                | (244)                                   |
| <b>Total</b>                       | <b>\$ 199,427</b>    | <b>\$ 6,196</b>                         | <b>\$ 315,811</b>    | <b>\$ (13,210)</b>                      |

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

**Cash Flow Hedges**

We designate a portion of our foreign exchange contracts as cash flow hedges of foreign currency denominated purchases. As of March 31, 2010 and June 30, 2009, we had \$161.2 million and \$199.8 million of forward contracts maturing through August 2010 and June 2010, respectively, in various currencies to hedge foreign currency denominated assets. These contracts are recorded at fair value in the accompanying Condensed Consolidated Balance Sheets. The changes in fair value for these contracts on a spot to spot basis 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 Condensed Consolidated Statements of Operations, in the period or periods during which the underlying transaction occurs. If it becomes apparent that an underlying forecasted transaction will not occur, the amount recorded in Accumulated other comprehensive income related to the hedge is reclassified to Other expenses, in our Condensed Consolidated Statements of Operations, in the then-current period. Amounts relating to such reclassifications were immaterial for the three and nine months ended March 31, 2010 and 2009.

Changes in the fair value of the derivatives are highly effective in offsetting changes in the cash flows of the hedged items because the amounts and the maturities of the derivatives approximate those of the forecasted exposures. Any ineffective portion of the derivative is recognized in the current period in our Condensed Consolidated Statements of Operations, in the same line item in which the foreign currency gain or loss on the underlying hedged transaction was recorded. No amount of ineffectiveness was recognized in the Condensed Consolidated Statements of Operations for the three and nine months ended March 31, 2010 and 2009 and all components of each derivative's gain or loss, with the exception of forward points (see below), were included in the assessment of hedge ineffectiveness. At March 31, 2010 and June 30, 2009, the

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fair value of these contracts was a net asset of \$6.0 million and a net liability of \$11.3 million, respectively. The amount associated with these hedges that is expected to be reclassified from Accumulated other comprehensive income to earnings within the next 12 months is a gain of \$6.1 million.

We elected to exclude forward points from the effectiveness assessment. At the end of the period we calculate the excluded amount, which is the fair value relating to the change in forward points that is recorded to current earnings as Miscellaneous, net in our Condensed Consolidated Statements of Operations. For the three months ended March 31, 2010 and 2009, we recognized \$0.3 million and \$0.9 million, respectively, in net gains related to the change in forward points. For the nine months ended March 31, 2010 and 2009, we recognized \$1.1 million and \$1.6 million, respectively, in net gains related to the change in forward points.



**Table of Contents*****Economic Hedges***

When hedge accounting is not applied to derivative contracts, we recognize the gain or loss on the associated contracts directly in current period earnings in Cost of Sales, in our Condensed Consolidated Statements of Operations, as unrealized exchange gains/(losses). As of March 31, 2010 and June 30, 2009, we had \$38.2 million and \$116.0 million, respectively, of forward contracts maturing through May 2010 and February 2010, respectively, in various currencies to hedge foreign currency denominated intercompany loans and other foreign currency denominated assets. At March 31, 2010 and June 30, 2009, the fair value of these contracts was a liability of \$0.8 million and \$0.4 million, respectively. Adjustments to the carrying value of the foreign currency forward contracts offset the gains and losses on the underlying loans and other foreign denominated assets in other non-operating income.

***Interest Rate Risk Management***

We have one interest rate swap contract with a notional amount of \$24.2 million and \$26.1 million at March 31, 2010 and June 30, 2009, respectively, to manage our interest rate exposure and effectively convert interest on an operating lease from a variable rate to a fixed rate. The objective of the swap is to offset changes in rent expenses caused by interest rate fluctuations. The interest rate swap contract is designated as a cash flow hedge. At the end of each reporting period, the discounted fair value of the swap contract is calculated and recorded in Accumulated other comprehensive income and reclassified to rent expense, within SG&A in our Condensed Consolidated Statements of Operations, in the then current period. If the hedge is determined to be ineffective, the ineffective portion will be reclassified from Accumulated other comprehensive income and recorded as rent expense, within SG&A. We recognized less than \$0.1 million and zero in the Condensed Consolidated Statements of Operations for the three and nine months ended March 31, 2010 and 2009, respectively. All components of the derivative loss were included in the assessment of the hedges effectiveness in all periods presented. The amount associated with the swap contract that is expected to be recorded as rent expense in the next 12 months is a loss of \$0.8 million.

The following tables provide a summary of the fair value amounts of our derivative instruments as of March 31, 2010 and June 30, 2009:

***Fair Values of Derivative Instruments as of March 31, 2010 and June 30, 2009:***

|   | Balance Sheet Location        | Fair Value        |                  |
|---|-------------------------------|-------------------|------------------|
|   |                               | March 31,<br>2010 | June 30,<br>2009 |
| <b>Derivatives Designated as Hedging Instruments, Gross:</b>            |                               |                   |                  |
| <b>Other assets:</b>  |                               |                   |                  |
| Foreign exchange contracts  | Other assets                  | \$ 6,434          | \$ 1,065         |
| <b>Other liabilities:</b>   |                               |                   |                  |
| Foreign exchange contracts  | Other liabilities             | 439               | 12,328           |
| Interest rate swap  | Accrued liabilities           | 938               | 957              |
| Interest rate swap  | Other non-current liabilities | 982               | 810              |
| Total liabilities   |                               | 2,359             | 14,095           |
| Net asset (liability) for derivatives designated as hedging instruments |                               | 4,075             | (13,030)         |
| <b>Economic Hedges, Gross:</b>  |                               |                   |                  |
| <b>Other assets:</b>  |                               |                   |                  |
| Foreign exchange contracts  | Other assets                  | 1,275             | 88               |
| <b>Other liabilities:</b>   |                               |                   |                  |
| Foreign exchange contracts  | Other liabilities             | 1,068             | 1,696            |
| Net asset (liability) for economic hedges:                              |                               | 207               | (1,608)          |
| Total net derivative asset (liability)                                  |                               | \$ 4,282          | \$ (14,638)      |



**Table of Contents****Derivatives Designated as Cash Flow Hedges:**

The following tables show derivative activity for derivatives designated as cash flow hedges for the three months ended March 31, 2010 and 2009:

**Derivatives Designated as Cash Flow Hedging Instruments For the Three Months Ended March 31, 2010 and 2009:**

| Derivative                    | Location of<br>Derivative<br>Gain/(Loss)<br>Recognized in<br>Income | Gain/(Loss)<br>Recognized<br>in OCI<br>(Effective<br>Portion) |                   | Gain/(Loss)<br>Reclassified<br>from AOCI<br>into Income<br>(Effective<br>Portion) |                 | Gain/(Loss)<br>Recognized<br>in<br>Income on<br>Derivatives<br>(Ineffective<br>Portion) |               | Gain/(Loss)<br>from Amounts<br>Excluded from<br>Effectiveness<br>Testing |                 |
|-------------------------------|---|---|-------------------|---|-----------------|---|---------------|--|-----------------|
|                               |   | 2010  | 2009              | 2010  | 2009            | 2010  | 2009          | 2010   | 2009            |
|                               |   | Three Months Ended March 31,                                  |                   |   |                 |   |               |  |                 |
| Foreign exchange contracts    | Cost of sales   | \$ 8,505  | \$ (1,691)        | \$ (10,340)   | \$ 2,711        | \$  | \$            | \$   | \$              |
| Foreign exchange contracts    | SG&A  |   |                   | 2,016   | 5               |   |               | (244)  | (14)            |
| Foreign exchange contracts    | Other expense   |   |                   |   |                 |   |               | (164)  | (530)           |
| Interest rate swap            | Rent expense  | (403)   | (453)             | (214)   | (22)            | 17  | (4)           |  |                 |
| <b>Total cash flow hedges</b> |   | <b>\$ 8,102</b>   | <b>\$ (2,144)</b> | <b>\$ (8,538)</b>   | <b>\$ 2,694</b> | <b>\$ 17</b>  | <b>\$ (4)</b> | <b>\$ (408)</b>  | <b>\$ (544)</b> |

We recognized less than \$0.1 million and zero of ineffectiveness in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2010 and 2009, respectively, and all components of each derivative's gain or loss were included in the assessment of hedge ineffectiveness, with the exception of forward points.

**Derivatives Designated as Cash Flow Hedging Instruments For the Nine Months Ended March 31, 2010 and 2009:**

| Derivative                    | Location of<br>Derivative<br>Gain/(Loss)<br>Recognized in<br>Income | Gain/(Loss)<br>Recognized<br>in OCI<br>(Effective<br>Portion) |                 | Gain/(Loss)<br>Reclassified<br>from AOCI<br>into Income<br>(Effective<br>Portion) |                 | Gain/(Loss)<br>Recognized<br>in Income<br>on<br>Derivatives<br>(Ineffective<br>Portion) |               | Gain/(Loss)<br>from Amounts<br>Excluded from<br>Effectiveness<br>Testing |                   |
|-------------------------------|---|---|-----------------|---|-----------------|---|---------------|--|-------------------|
|                               |   | 2010  | 2009            | 2010  | 2009            | 2010  | 2009          | 2010   | 2009              |
|                               |   | Nine Months Ended March 31,                                   |                 |   |                 |   |               |  |                   |
| Foreign exchange contracts    | Cost of sales   | \$ 8,626  | \$ 5,019        | \$ (18,299)   | \$ 4,054        | \$  | \$            | \$ (335)   | \$ (1,153)        |
| Foreign exchange contracts    | SG&A  |   |                 | 3,876   | 73              |   |               | (380)  | (37)              |
| Interest rate swap            | Rent expense  | (494)   | (2,543)         | (435)   | 83              | 12  | (2)           |  |                   |
| <b>Total cash flow hedges</b> |   | <b>\$ 8,132</b>   | <b>\$ 2,476</b> | <b>\$ (14,858)</b>  | <b>\$ 4,210</b> | <b>\$ 12</b>  | <b>\$ (2)</b> | <b>\$ (715)</b>  | <b>\$ (1,190)</b> |

We recognized less than \$0.1 million and zero of ineffectiveness in the Condensed Consolidated Statements of Operations for the nine months ended March 31, 2010 and 2009, respectively, and all components of each derivative's gain or loss were included in the assessment of hedge ineffectiveness, with the exception of forward points.

**Derivatives Designated as Economic Hedges:**

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The following summarizes gains from our derivative instruments that are not designated as hedging instruments for the three and nine months ended March 31, 2010 and 2009:

| Derivative                 | Location of Derivative Gain/(Loss) | Three Months Ended |         | Nine Months Ended |          |
|----------------------------|------------------------------------|--------------------|---------|-------------------|----------|
|                            |                                    | March 31,          |         | March 31,         |          |
|                            |                                    | 2010               | 2009    | 2010              | 2009     |
| Foreign exchange contracts | Cost of sales                      | \$ 1,461           | \$ (56) | \$ 2,869          | \$ 2,869 |

**Note 13 Fair Value Measurements**

Pursuant to the accounting guidance for fair value instruments, fair value is defined as the price we would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. When determining the fair value measurements for assets and liabilities required to be permitted to be recorded at fair value, we consider the principal or most advantageous market in which it would transact and we consider assumptions that market participants would use when pricing the asset or liability.

***Fair Value Hierarchy:***

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

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

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

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

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

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

For assets and liabilities measured at fair value on a recurring basis, fair value is the price we would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. In the absence of active markets for the identical assets and liabilities, such measurements involve developing assumptions based on market observable data, and in the absence of such data, internal information that is consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date.

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

| Description                   | Fair Value at March 31, 2010 |                 |           | Fair Value at June 30, 2009 |                    |           |
|-------------------------------|------------------------------|-----------------|-----------|-----------------------------|--------------------|-----------|
|                               | Level 1                      | Level 2         | Level 3   | Level 1                     | Level 2            | Level 3   |
| <i>Assets</i>                 |                              |                 |           |                             |                    |           |
| Short-term investments        | \$ 123,769                   | \$              | \$        | \$                          | \$                 | \$        |
| Money market funds            | 17,360                       |                 |           | 17,937                      |                    |           |
| Available-for-sale securities | 1,545                        |                 |           | 1,358                       |                    |           |
| Foreign exchange contracts    |                              | 6,202           |           |                             | (12,871)           |           |
| Interest rate swap            |                              | (1,920)         |           |                             | (1,767)            |           |
| <b>Total</b>                  | <b>\$ 142,674</b>            | <b>\$ 4,282</b> | <b>\$</b> | <b>\$ 19,295</b>            | <b>\$ (14,638)</b> | <b>\$</b> |

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

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

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

**Interest Rate Swap:** We use an interest rate swap to hedge market risk relating to possible adverse changes in interest rates. We have elected to use the income approach to value our interest rate swap contract, which uses observable Level 2 inputs at the measurement date and standard valuation techniques to convert future amounts to a single present amount (discounted). Level 2 inputs for the swap contract valuation are limited to quoted prices for similar assets or liabilities in active markets (specifically futures contracts on London Interbank Offered Rate (LIBOR), for the first two years) and inputs other than quoted prices that are observable for the asset or liability (specifically LIBOR cash and swap rates) at commonly quoted intervals, and credit risk. These key inputs, including the LIBOR cash rates for very short-term, futures rates for up to two years, and LIBOR swap rates beyond the derivative maturity are used to construct the swap yield curve and discount the future cash flows to present value at the measurement date. As the interest rate swap contract is a derivative asset, a credit default swap basis available at commonly quoted intervals has been collected from Bloomberg and applied to all cash flows. If the interest rate swap contract was determined to be a derivative liability, we would be required to reflect potential credit risk to lenders using a borrowing rate specific to our Company. See Note 12 *Derivatives*, for further discussion regarding our derivative financial instruments.



**Table of Contents****Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis**

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

The following table provides the fair value hierarchy for assets and liabilities measured on a non-recurring basis and the losses recorded during the periods presented:

| Description               | Fair Value at March 31, 2010 |           |                  | Total Losses for the Three Months Ended March 31, 2010 | Total Losses for the Nine Months Ended March 31, 2010 |
|---------------------------|------------------------------|-----------|------------------|--|---|
|                           | Level 1                      | Level 2   | Level 3          |  |   |
| <i>Assets</i>             |                              |           |                  |  |   |
| Equity method investments | \$                           | \$        | \$ 2,649         | \$   | \$ (13,122)   |
| Goodwill                  |                              |           | 88,110           |  | (12,292)  |
| Long-lived assets         |                              |           | 2,900            |  | (995)   |
| <b>Total</b>              | <b>\$</b>                    | <b>\$</b> | <b>\$ 93,659</b> | <b>\$</b>  | <b>\$ (26,409)</b>                                    |

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

**Equity Method Investments.** Equity method investments are valued using market observable data such as quoted prices when available. When market observable data is unavailable, investments are valued using a discounted cash flow model, comparative market multiples or a combination of both approaches as appropriate. These investments are generally included in Level 3.

**Investments in Subsidiaries and Formerly Consolidated Subsidiaries.** Upon a change in control that results in either consolidation or deconsolidation of a subsidiary, the fair value measurement of our previous equity investment or retained noncontrolling stake in the former subsidiary, respectively, are valued using an income approach, a market approach, or a combination of both approaches as appropriate. In applying these methodologies we rely on a number of factors, including actual operating results, future business plans, economic projections, market observable pricing multiples of similar businesses and comparable transactions, and possible control premium. These investments are included in Level 3.

**Goodwill:** Goodwill is tested for impairment annually or more frequently if an event or circumstance indicates that an impairment loss may have been incurred. 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. These investments are included in Level 3.

As a result of the deteriorating economic conditions and negative industry trends, in fiscal year 2009 we experienced significant declines in our market capitalization and as a result, we concluded during both the second and third quarters of fiscal year 2009, that a triggering event relating to goodwill impairment had occurred, as defined in guidance issued by the FASB, thereby necessitating the performance of interim period goodwill impairment tests as of November 30, 2008 and February 28, 2009. In connection with this, we revised our estimated cash flow

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projections to reflect the impact of the rapid changes in our business and the downturn in the economy and therefore we lowered our assumptions relating to net sales, operating cash flow margins and net cash flows by reporting unit over the five year projection period. The weak economic climate caused us to assume that the general economic conditions would begin a gradual recovery in fiscal year 2010 but that future growth rates would be lower than had been assumed in previous years. In addition, the instability of the credit markets caused us to increase our assumed discount rates used in calculating the fair value of our reporting units in fiscal year 2009 compared with the rates, which had been assumed in previous years. These estimates require significant management judgment, and as a result, we recorded a \$330.6 million goodwill impairment charge in fiscal year 2009, of which \$295.1 million was in our Automotive segment, \$22.7 million was in our Consumer segment and \$12.8 million was in our Other segment.



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During the three and nine months ended March 31, 2010, we recognized zero and \$12.3 million, respectively, of goodwill impairment in our Condensed Consolidated Statements of Operations. Our annual goodwill impairment test conducted in April 2009 indicated that no goodwill was supportable in our Automotive segment and in the six months ended December 31, 2009, we recognized additional goodwill of \$12.3 million associated with contingent purchase price arrangements from acquisitions in prior years and subsequently impaired \$12.3 million in the same reporting period.

As a result of the sustained improvements in the operating results of our Automotive business due to improvements in economic conditions and realized savings resulting from our cost cutting initiatives, we performed a preliminary goodwill impairment test during the three months ended March 31, 2010. The March 31, 2010 calculation demonstrated that the calculated fair value of our reporting units exceeded the respective carrying values and thus no impairment existed at Automotive and our other reporting units. As a result, we are not recording goodwill impairment charges associated with the incremental goodwill recorded related to the contingent purchase price arrangements. During the three months ended March 31, 2010, we recorded \$3.1 million of goodwill associated with a contingent purchase price arrangement in our Automotive segment.

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

**Note 14 Restructuring Program**

We announced a restructuring program in June 2006 designed to increase efficiency in our manufacturing, engineering and administrative organizations. The implementation of this program has continued through fiscal year 2010, as we expanded our restructuring actions to improve our global footprint, cost structure, technology portfolio, human resources and internal processes.

In fiscal year 2009, programs initiated included the closure of the Woodbury, New York facility and numerous headcount reductions across our business units to reduce excess capacity due to decreased sales. The most significant of these programs were in Germany, Austria, the United Kingdom and various locations in the United States. In fiscal year 2010, we announced the relocation of certain manufacturing activities from the United Kingdom to Hungary, a consolidation and optimization of our manufacturing capabilities in China and a reorganization of our portable navigation device ( PND ) business in Germany, which resulted in our exit of the PND distribution channel.

For the three months ended March 31, 2010, we recorded \$4.4 million for our restructuring program, primarily within SG&A, of which \$4.0 million was related to employee termination benefits. Cash paid for these and prior initiatives was \$8.8 million. In addition, we have recorded \$1.5 million of accelerated depreciation and inventory provisions primarily in Cost of sales.

For the three months ended March 31, 2009, we recorded \$17.5 million for our restructuring program, primarily within SG&A, of which \$16.6 million was related to employee termination benefits. Cash paid for these and prior initiatives was \$14.1 million. In addition, we recorded \$1.0 million of accelerated depreciation and inventory provisions primarily in Cost of Sales.

For the nine months ended March 31, 2010, we recorded \$9.2 million for our restructuring program, primarily within SG&A, of which \$8.0 million was related to employee termination benefits. Cash paid for these and prior initiatives for the nine months ended March 31, 2010 was \$38.7 million. In addition, we have recorded \$4.7 million of accelerated depreciation and inventory provisions primarily in Cost of Sales. During the second fiscal quarter of 2010, our Automotive and Professional segments updated their severance accruals based on new estimates which took into account higher than originally anticipated natural attrition rates. As a result, these restructuring accruals were reduced by approximately \$12.0 million to reflect these updated estimates which are included within expense in the tables below.

For the nine months ended March 31, 2009, we recorded \$44.6 million for our restructuring program, primarily within SG&A, of which \$37.5 million was related to employee termination benefits. Cash paid for restructuring actions for the nine months ended March 31, 2009 was \$31.7 million. In addition, we have recorded \$9.7 million primarily in Cost of Sales for accelerated depreciation and the reclassification of the Martinsville property from held and used to held for sale.

Below is a rollforward of our restructuring accrual for the three and nine months ended March 31, 2010 and 2009:

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|                             | Three Months Ended<br>March 31, |           | Nine Months Ended<br>March 31, |           |
|-----------------------------|---------------------------------|-----------|--------------------------------|-----------|
|                             | 2010                            | 2009      | 2010                           | 2009      |
| Beginning accrued liability | \$ 53,466                       | \$ 43,896 | \$ 77,454                      | \$ 35,601 |
| Expense                     | 4,395                           | 17,490    | 9,159                          | 44,637    |
| Utilization <sup>(1)</sup>  | (11,001)                        | (14,357)  | (39,753)                       | (33,209)  |
| Ending accrued liability    | \$ 46,860                       | \$ 47,029 | \$ 46,860                      | \$ 47,029 |

(1) Includes cash payments and the effects of foreign currency translation.

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Restructuring expenses by reporting segment are as follows and include accruals for new programs as noted above plus revisions to estimates, both increases and decreases, to programs accrued in prior periods:

|   | Three Months Ended |                  | Nine Months Ended |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | March 31,          |                  | March 31,         |                  |
|   | 2010               | 2009             | 2010              | 2009             |
| Automotive  | \$ 1,434           | \$ 14,486        | \$ 3,588          | \$ 22,874        |
| Consumer  | 372                | 131              | 3,719             | 5,559            |
| Professional                                      | 2,456              | 3,054            | 1,467             | 8,695            |
| Other   | 133                | (181)            | 385               | 7,509            |
| <b>Total</b>                                      | <b>4,395</b>       | <b>17,490</b>    | <b>9,159</b>      | <b>44,637</b>    |
| Accelerated depreciation and inventory provisions | 1,541              | 994              | 4,693             | 9,651            |
| <b>Total</b>                                      | <b>\$ 5,936</b>    | <b>\$ 18,484</b> | <b>\$ 13,852</b>  | <b>\$ 54,288</b> |

**Note 15 Retirement Benefits****Plan Descriptions***Retirement savings plan*

We provide a Retirement Savings Plan for certain employees in the United States. Under the plan, employees may contribute up to 50 percent of their pretax compensation subject to certain limitations. Each business unit will make a safe harbor non-elective contribution in an amount equal to three percent of a participant's eligible contribution. Upon approval of the board of directors, each business unit may make a matching contribution of up to three percent (50 percent on the first six percent of an employee's tax-deferred contribution) and a profit sharing contribution. Matching and profit sharing contributions vest at a rate of 25 percent for each year of service with the employer, beginning with the second year of service. Effective January 1, 2009, we suspended the matching and safe harbor non-elective contributions for these plans. The employer matching contribution has been reinstated as of January 1, 2010. Approval for the profit sharing contribution is requested from the board of directors at the end of each fiscal year. Management did not request approval for the profit sharing contribution for the fiscal year ended June 30, 2009, therefore no amount has been accrued for fiscal year 2010.

*Pension benefits*

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

Our retirement benefits are more fully disclosed in Note 14, *Retirement Benefits*, to our consolidated financial statements included in Item 8 of our Form 10-K.

The following table presents the components of net periodic benefit costs:

| Three Months Ended | Nine Months Ended |
|--------------------|-------------------|
| March 31,          | March 31,         |

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|                                    | 2010            | 2009            | 2010            | 2009            |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Service cost                       | \$ 565          | \$ 206          | \$ 1,735        | \$ 1,855        |
| Interest cost                      | 1,921           | 1,816           | 5,852           | 5,568           |
| Amortization of prior service cost | 352             | 401             | 1,055           | 1,358           |
| Amortization of net loss           | 177             | 46              | 530             | 173             |
| <b>Net periodic benefit cost</b>   | <b>\$ 3,015</b> | <b>\$ 2,469</b> | <b>\$ 9,172</b> | <b>\$ 8,954</b> |

During the nine months ended March 31, 2010, we made contributions of \$6.2 million to the defined benefit pension plans which were paid to participants. We expect to make approximately \$2.2 million in contributions for the remainder of the fiscal year ending June 30, 2010.

**Table of Contents****Note 16 Business Segment Data**

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

We report our business on the basis of four segments. Our Automotive, Consumer and Professional segments are based on the end-user markets we serve. Our fourth segment, Other, includes our QNX business and compensation, benefit and occupancy costs for corporate employees.

**Automotive**

Our Automotive segment designs, manufactures and markets audio, electronic and infotainment systems for vehicle applications to be installed primarily as original equipment by automotive manufacturers. Our Automotive products are marketed worldwide under brand names including JBL®, Infinity®, Mark Levinson®, Harman/Kardon®, Logic 7®, Lexicon® and Becker®. Our premium branded audio, video, navigation and infotainment systems are offered to automobile manufacturers through engineering and supply agreements.

**Consumer**

Our Consumer segment designs, manufactures and markets a wide-range of mid- to high-end audio and digital storage systems for home, multimedia and mobile applications. Our Consumer products feature some of the world's most recognized audio brands, including AKG®, Harman/Kardon, Infinity, JBL and Mark Levinson. Our loudspeaker and electronic products are offered through audio specialty and retail chain stores. Our branded products for computer and multimedia applications are focused on retail customers with products designed to enhance sound for computers, Apple's iPod™, iPhone™ and similar devices.

**Professional**

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

**Other (QNX)**

Our Other segment includes the operations of our QNX® business, which offers real-time operating system software, middleware, development tools and consulting services. Our Other segment also includes compensation, benefit and occupancy costs for corporate employees. On April 9, 2010, we entered into a share purchase agreement (the Purchase Agreement) to sell all of the issued and outstanding shares of QNX Software Systems Co., QNX Software Systems (Wavemakers), Inc. and QNX Software Systems, Inc. (collectively, the QNX Entities) to two third parties. Refer to Note 21 Subsequent Events for further information.

The following table reports net sales and operating income (loss) by each reporting segment:

|              | Three Months Ended<br>March 31, |            | Nine Months Ended<br>March 31, |              |
|--------------|---------------------------------|------------|--------------------------------|--------------|
|              | 2010                            | 2009       | 2010                           | 2009         |
| Net sales:   |                                 |            |                                |              |
| Automotive   | \$ 629,676                      | \$ 405,234 | \$ 1,840,668                   | \$ 1,539,345 |
| Consumer     | 81,192                          | 69,001     | 292,284                        | 286,503      |
| Professional | 125,994                         | 114,498    | 380,294                        | 368,582      |
| Other        | 11,370                          | 9,549      | 29,843                         | 28,917       |
| Total        | \$ 848,232                      | \$ 598,282 | \$ 2,543,089                   | \$ 2,223,347 |

|                          |           |             |           |              |
|--------------------------|-----------|-------------|-----------|--------------|
| Operating income (loss): |           |             |           |              |
| Automotive               | \$ 29,140 | \$ (83,834) | \$ 53,945 | \$ (383,538) |
| Consumer                 | (742)     | (7,809)     | 5,710     | (34,521)     |
| Professional             | 14,912    | 8,400       | 52,319    | 36,288       |
| Other                    | (12,736)  | (9,237)     | (43,477)  | (44,795)     |
| Total                    | \$ 30,574 | \$ (92,480) | \$ 68,497 | \$ (426,566) |

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Other operating loss includes activity related to the operations of our QNX business and compensation, benefit and occupancy costs for our corporate operations.

**Note 17 Significant Customers**

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

|                 | Net Sales         |             | Accounts Receivable, net |             |
|-----------------|-------------------|-------------|--------------------------|-------------|
|                 | Nine Months Ended |             | March 31,                |             |
|                 | 2010              | 2009        | 2010                     | 2009        |
| BMW             | 18%               | 14%         | 13%                      | 11%         |
| Audi/Volkswagen | 14%               | 15%         | 14%                      | 16%         |
| Daimler AG      | 8%                | 9%          | 10%                      | 6%          |
| Other customers | 60%               | 62%         | 63%                      | 67%         |
| <b>Total</b>    | <b>100%</b>       | <b>100%</b> | <b>100%</b>              | <b>100%</b> |

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

**Note 18 Commitments and Contingencies**

At March 31, 2010, 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 position or results of operations.

***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 (the 1934 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. (KKR) and GS Capital Partners VI Fund, L.P. and its related funds (GSCP) 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 (the Boca Raton Plaintiff) 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 1934 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 1934 Act and Rule 10b-5 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

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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 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.



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

On May 2, 2008, Lead Plaintiff filed a consolidated class action complaint (the Consolidated Complaint). The Consolidated Complaint, which extends the Class Period through February 5, 2008, contends that Harman and certain of our officers and directors violated Sections 10(b) and 20(a) of the 1934 Act and Rule 10b-5 promulgated thereunder, by issuing false and misleading disclosures regarding our financial condition in fiscal year 2007 and fiscal year 2008. In particular, the Consolidated Complaint alleges that defendants knowingly or recklessly failed to disclose material adverse facts about MyGIG radios, PNDs and our capital expenditures. The Consolidated Complaint alleges that when Harman's true financial condition became known to the market, the price of our common stock declined significantly, causing losses to the plaintiff class.

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

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

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

### ***Siemens vs. Harman Becker Automotive Systems GmbH***

In October 2006, Harman Becker Automotive Systems GmbH (Harman Becker) received notice of a complaint filed against it by Siemens AG with the Regional Court in Düsseldorf in August 2006 alleging that certain of Harman Becker's infotainment products, including both radio receiver and Bluetooth hands free telephony functionality, infringe upon a patent owned by Siemens. In November 2006, Harman Becker filed suit with the German Federal Patent Court in Munich to nullify the claims of this patent.

On August 14, 2007, the court of first instance in Düsseldorf ruled that the patent in question had been infringed and ordered Harman Becker to cease selling the products in question in Germany, and to compile and submit data to Siemens AG concerning its prior sales of such products. Harman Becker has appealed that ruling.

Despite the pending appeal, Siemens AG provisionally enforced the ruling against Harman Becker. Accordingly, in December 2007, Harman Becker ceased selling aftermarket products covered by the patent in Germany, and submitted the required data to Siemens AG. On June 4, 2008, the German Federal Patent Court nullified all relevant claims of Siemens AG's patent. As a result, Harman Becker resumed selling the affected products, and Siemens AG suspended further attempts to enforce the patent. Siemens AG also requested that Harman Becker suspend its appeal of the Düsseldorf court's ruling of infringement until the German Federal Patent Court's nullity ruling has become final. Harman Becker has consented to this suspension. Harman Becker received the written decision of the German Federal Patent Court on August 18, 2008, and Siemens AG has appealed the decision to the German Federal Supreme Court. We expect these appellate proceedings to take at least three years until a final decision is rendered.

*Automotive Supply Arrangements*

We have arrangements with our automotive customers to provide products that meet predetermined technical specifications and delivery dates. In the event that we do not satisfy the performance obligations under these arrangements, we may be required to indemnify the customer. We accrue for any loss that we expect to incur under these arrangements when that loss is probable and can

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be reasonably estimated. In the three and nine months ended March 31, 2010, we incurred zero and \$11.7 million, respectively, of costs relating to delayed delivery of product to an automotive customer. In the three and nine months ended March 31, 2009, we incurred zero and \$2.6 million, respectively, of costs relating to delayed delivery of product to an automotive customer. An inability to meet performance obligations on automotive platforms to be delivered in future periods could adversely affect our results of operations and financial condition in future periods.

**Note 19 Investment in Joint Venture**

In October 2005, we formed Harman Navis, a joint venture located in Korea, to engage in the design and development of navigation systems for Asian markets. We evaluated the joint venture agreement and determined that the newly formed joint venture was a VIE requiring consolidation under the appropriate accounting guidance. We owned a 50 percent equity interest in the joint venture. We are not obligated to fund any joint venture losses beyond our investment.

On July 1, 2009 we adopted new accounting guidance which recharacterized the minority interest to a noncontrolling interest and changed presentation requirements in our Condensed Consolidated Financial Statements. Refer to Note 2 *New Accounting Standards* for further information.

In fiscal year 2009, we entered into a restructuring agreement which amends the Harman Navis Inc. ( Harman Navis ) joint venture agreement and other related agreements which resulted in the sale of the Harman Navis joint venture to our 50 percent equity partner ( Navis ) over a period of 26 months. As a result of the restructuring agreement, we and Navis agreed to have Navis purchase our interest in the joint venture for an aggregate price of \$20 million, payable in three installments through June 2011. The first of these amounts was due on December 15, 2009 and, on such date, Navis agreed to make a payment in the amount of \$10 million in exchange for 50 percent of our equity interest. However, we agreed to pay a guaranteed royalty of \$29 million over a three year period in lieu of future royalty payments, of which \$10 million was payable by us on December 15, 2009, and as a result no cash was exchanged in this transaction since both the amount payable from us and receivable from Navis were equal and offsetting.

As a result of this transaction, we determined that we were no longer the primary beneficiary of the joint venture and therefore deconsolidated the joint venture and recorded an investment of \$2.8 million in our Condensed Consolidated Balance Sheets which is being accounted for under the equity method. Our remaining 25 percent equity interest was measured at fair value using a weighted application of the cost, market and income valuation techniques. The deconsolidation of Harman Navis resulted in an overall loss of \$13.1 million which is included in our Condensed Consolidated Statement of Operations as deconsolidation of variable interest entity for the three and nine months ended March 31, 2010. The loss resulted primarily from the difference between the fair value of the consideration received for the disposal of our equity interest and the net asset value of the joint venture that was deconsolidated.

In addition to the guaranteed royalty discussed above, we also agreed to pay Navis to perform certain engineering development work which will continue post-deconsolidation. We may enter into similar arrangements to support our future product development needs. Navis is considered a related party.

**Note 20 Related Parties**

From time to time we enter into transactions with related parties. In December 2009, we entered into a three-year agreement for engineering and software development services with Neusoft Corporation ( Neusoft ), a Shanghai exchange listed technology solutions provider. A member of our board of directors is the Chairman and Chief Executive Officer of Neusoft. There have been no material transactions with Neusoft during the three and nine months ended March 31, 2010.

On April 20, 2010, our subsidiary, innovative systems GmbH Navigation Multimedia ( Innovative ) entered into an asset purchase and business transfer agreement (the Asset Purchase Agreement ) with Neusoft Technology Solutions GmbH ( Neusoft Technology ), which is a subsidiary of Neusoft. Refer to Note 21 - *Subsequent Events* for more information.

**Note 21 Subsequent Events**

On April 9, 2010, we and our wholly owned subsidiary, Harman Holding GmbH & Co. KG (collectively, the Sellers ), entered into the Purchase Agreement with Research In Motion Corporation and 2236008 Ontario Inc. (collectively, the Buyers ) and Research In Motion Limited, as guarantor of the Buyers obligations under the Purchase Agreement. Upon the terms and subject to the conditions set forth in the Purchase Agreement, the Sellers have agreed to sell to the Buyers, and the Buyers have agreed to purchase from the Sellers, all of the issued and outstanding shares of the QNX Entities for \$200 million in cash. As of March 31, 2010, the net assets of the QNX Entities were \$55.3 million and net sales for the nine months ended March 31, 2010 were \$29.8 million. The purchase price is subject to adjustment based on the working

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capital of the QNX Entities as of the closing of the transaction contemplated by the Purchase Agreement (the Closing ). The Closing is subject to certain regulatory approvals and other customary closing conditions.

Although, an asset purchase agreement was in draft form as of March 31, 2010, significant points surrounding the transaction were still being negotiated. Given the significance of these points, we could not deem the completion of the sale as probable on March 31, 2010. Accordingly, the sale of the QNX Entities will be treated as a discontinued operation in the fourth quarter of fiscal year 2010.

On April 20, 2010, Innovative and Neusoft Technology entered into the Asset Purchase Agreement for the sale of certain tangible assets located at Innovative s facility in Hamburg, Germany. As part of the Asset Purchase Agreement, Innovative and Neusoft Technology entered into a five-year agreement for engineering and software development services related to Innovative s vehicle navigation business (the

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Services Agreement ). Neusoft Technology is a related party, refer to Note 20 *Related Parties* for further information. Under the terms of the Asset Purchase Agreement, Innovative will transfer at closing certain tangible assets and employment relationships to Neusoft Technology and will receive consideration of \$6 million (the Neusoft Closing ). Our subsidiary, Harman Becker Automotive Systems GmbH and Neusoft Europe AG, a subsidiary of Neusoft, are guarantors under the terms of the Asset Purchase Agreement and the Services Agreement. The Neusoft Closing, which is expected to be finalized in the fourth quarter of fiscal year 2010, is subject to certain regulatory approvals and other customary closing conditions.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****General**

*The following discussion should be read in conjunction with the accompanying unaudited Condensed Consolidated Financial Statements and the related notes included in Item 1 of this Quarterly Report on Form 10-Q, together with Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2009 ( 2009 Form 10-K ). This discussion contains forward-looking statements which are based on our current expectations and experience and our perception of historical trends, current market conditions, including customer acceptance of our new products, current economic data, expected future developments, foreign currency exchange rates, and other factors that we believe are appropriate under the circumstances. These statements involve risks and uncertainties that could cause actual results to differ materially from those suggested in the forward-looking statements. Unless otherwise indicated, Harman, our company, we, our, and us are used interchangeably to refer to Harman International Industries, Incorporated and its consolidated subsidiaries.*

We begin our discussion with an executive overview of our company to give you an understanding of our business and the markets we serve. This is followed by a discussion of our critical accounting policies, and then by a discussion of our results of operations for the three and nine months ended March 31, 2010 and 2009. We include in this discussion an analysis of certain significant period-to-period variances in our Condensed Consolidated Statements of Operations and an analysis of our restructuring program. We also provide specific information regarding our four business segments: Automotive, Consumer, Professional and Other. We then discuss our financial condition at March 31, 2010 with a comparison to June 30, 2009. This section contains information regarding our liquidity, capital resources and cash flows from operating, investing and financing activities. We complete our discussion with an update on our outlook.

*Executive Overview*

We believe we are a worldwide leader in the development, manufacturing and marketing of high-quality, high-fidelity audio products and electronic systems. 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. We also believe that we are a leader in digitally integrated infotainment systems for the automotive industry. Our AKG®, Crown®, JBL®, Infinity®, harman/kardon®, Lexicon®, dbx®, Studer®/Soundcraft®, Mark Levinson® and Becker® brand names are well-known worldwide for premium quality and performance. We have built these brands by developing our engineering, manufacturing and marketing competencies, and have employed these resources to establish our company as a leader in the markets we serve. We report our business on the basis of four segments. Our Automotive, Consumer and Professional segments are based on the end-user markets we serve. Our fourth segment, Other, includes our QNX business, and compensation, benefits and occupancy costs for corporate employees. On April 9, 2010, we entered into a share purchase agreement ( the Purchase Agreement ) to sell our all of the issued and outstanding shares of QNX Software Systems Co., QNX Software Systems (Wavemakers), Inc. and QNX Software Systems, Inc. (collectively, the QNX Entities ) to two third parties. Refer to Note 21 *Subsequent Events* in the Notes to the Condensed Consolidated Financial Statements for further information.

Outside of the United States, we have manufacturing facilities in Germany, Austria, the United Kingdom, Mexico, Hungary, France and China. We previously announced an expansion of our restructuring program that will reduce our manufacturing footprint in high-cost countries, which resulted in the closure of our Automotive manufacturing facilities in California and Indiana. In October 2009, we sold our Automotive facility in Indiana. These actions also resulted in numerous headcount reductions, primarily in Germany, Austria, the United Kingdom and the United States, as certain manufacturing capabilities were reduced and relocated to lower cost countries.

Our sales and earnings may vary due to the production schedules of our automotive customers, customer acceptance of our products, the timing of new product introductions, product offerings by our competitors and general economic conditions. Since our businesses operate using local currencies, our reported sales and earnings may also fluctuate due to foreign currency exchange rates, especially for the Euro.

Fiscal year 2009 was an extremely challenging year due to worldwide economic weakness which put significant pressure on our business and adversely affected our sales and profitability. We believe that key markets are beginning to recover. Also, we continue to execute on our STEP Change cost savings program ahead of plan. We believe the cost savings and productivity initiatives instituted in the prior year have positioned our company to emerge from this downturn as a stronger and more profitable competitor.

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### ***Critical Accounting Policies***

For the three and nine months ended March 31, 2010, there were no significant changes to our critical accounting policies and estimates from those disclosed in the consolidated financial statements and the related notes included in our 2009 Form 10-K, except as discussed below:

**Revenue Recognition:** Revenue is generally recognized at the time of product shipment or delivery, depending on when the passage of title to goods transfers to unaffiliated customers, 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.

We also record up-front incentive payments which relate to a specific program award as an asset and amortize these amounts as a reduction to revenue over the related program award term based on our estimated future volumes.

**Cash and Cash Equivalents:** Cash and cash equivalents consist of cash on hand, including money-market funds, and investments with original maturities of three months or less.

**Restricted Cash and Investments:** We have a deferred compensation arrangement with certain foreign employees which requires us to maintain cash on hand. At March 31, 2010 and June 30, 2009, such restricted cash amounts were \$6.1 million and \$4.2 million, respectively, and were included in Other assets in our Condensed Consolidated Balance Sheets.

**Short Term Investments:** Short Term Investments consist of investments in time deposits and treasury bills with original maturities of greater than three months and less than one year.

**Allowance for Doubtful Accounts:** We reserve an estimated amount for accounts receivable that may not be collected. Methodologies for estimating the allowance for doubtful accounts are primarily based on specific identification of uncollectible accounts. Historical collection rates and customer credit worthiness are considered in determining specific reserves. At March 31, 2010 and June 30, 2009, we had \$7.2 million and \$11.7 million, respectively, reserved for possible uncollectible accounts receivable. Approximately \$2.1 million of the decrease in the allowance for doubtful accounts was due to the deconsolidation of Harman Navis, Inc. ( Harman Navis ) joint venture in December 2009. Refer to Note 19 *Investment in Joint Venture* in the Notes to the Condensed Consolidated Financial Statements for more information.

**Inventories, net:** Inventories, net 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 requires 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 as our finished goods are primarily produced to order. 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. The establishment of a reserve for excess and obsolete inventory establishes a new cost basis in the inventory. Such reserves are not reduced until the product is sold.

Although there was deterioration in economic conditions in fiscal year 2009 and the beginning of fiscal year 2010, we did not experience significant increases in our inventory write-downs, primarily due to a significant portion of our inventories being produced as a result of specific customer orders within our Automotive segment. After discussions with several of our significant customers, we concluded that the majority of orders would be postponed and not cancelled. We were able to proactively adjust our supply chain demand to match these new customer requirements, thereby reducing our exposure to inventory write-downs. There was no significant movement in our inventory reserves in fiscal year 2009 compared with the prior year. At March 31, 2010 and June 30, 2009, our inventory reserve was \$87.5 million and \$91.5 million, respectively.





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**Change in Accounting:** On July 1, 2009, we adopted the new accounting guidance issued by the Financial Accounting Standards Board ( FASB ) within Accounting Standards Codification ( ASC ) 810-10-65, Consolidation, relating to the presentation requirements for noncontrolling interests (formerly minority interests). We retrospectively applied the presentation of our prior year balances in our Condensed Consolidated Financial Statements. Refer to Note 2 *New Accounting Standards* in the Notes to the Condensed Consolidated Financial Statements for more information.

On July 1, 2009, we adopted the new accounting guidance issued by the FASB within ASC 470-20, Debt with Conversion and Other Options, which requires the issuer of convertible debt instruments with cash settlement features to account separately for the liability and equity components of the instrument. We retrospectively applied this guidance to all prior periods for which we had applicable outstanding convertible debt. Refer to Note 2 *New Accounting Standards* in the Notes to the Condensed Consolidated Financial Statements for more information.

***Recently Adopted Accounting Standards***

**Codification:** In June 2009, the FASB issued ASC 105, Generally Accepted Accounting Principles ( ASC 105 ). The issuance of ASC 105 confirmed that the FASB ASC (the Codification ) is the single official source of authoritative U.S. generally accepted accounting principles ( GAAP ), other than guidance issued by the Securities and Exchange Commission ( SEC ), and supersedes existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force and related literature for nongovernmental entities. The Codification does not change GAAP. Instead, it introduces a new structure that is organized in an easily accessible, user-friendly online research system. The Codification, which changes the referencing of financial standards, is effective for interim and annual periods ending on or after September 15, 2009. Thereafter, only one level of authoritative GAAP exists. All other literature is considered non-authoritative. We adopted the Codification on July 1, 2009 and updated all disclosures to reference the Codification in our Quarterly Reports on Form 10-Q for the quarterly periods ended September 30, 2009, December 31, 2009 and March 31, 2010. The adoption of the Codification did not have a significant impact on the reporting of our financial position, results of operations or cash flows.

Following the Codification, the FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates ( ASU ) which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification.

**Convertible Debt:** On July 1, 2009, we adopted the new accounting guidance issued by the FASB within ASC 470-20, Debt with Conversion and Other Options regarding accounting for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement). The new guidance requires the issuer of convertible debt instruments with cash settlement features to account separately for the liability and equity components of the instrument. Under the new guidance, the debt should be recognized at the present value of its cash flows discounted using the issuer's nonconvertible debt borrowing rate at the time of issuance and the equity component should be recognized as the difference between the proceeds from the issuance of the convertible debt and the fair value of the liability. The reduced carrying value on the convertible debt results in a debt discount that should be accreted back to the convertible debt's principal amount through the recognition of non-cash interest expense over the expected life of the debt, which results in recognizing interest expense on these borrowings at effective rates approximating what we would have incurred had nonconvertible debt with otherwise similar terms been issued.

We had \$400 million of 1.25 percent convertible senior notes (the Convertible Senior Notes ) outstanding at March 31, 2010 and June 30, 2009, which were issued on October 23, 2007 (the Issuance Date ) that are within the scope of this new guidance. The Convertible Senior Notes were issued at par and we pay interest semi-annually at a rate of 1.25 percent per annum. The initial conversion rate on the Convertible Senior Notes is 9.6154 shares of our common stock per \$1,000 principal amount of the Convertible Senior Notes (which is equal to an initial conversion price of approximately \$104 per share). The conversion rate is subject to adjustment in specified circumstances described in the indenture governing the Convertible Senior Notes (the Indenture ).

In accordance with this new guidance, we measured the fair value of the debt components of the Convertible Senior Notes at the Issuance Date using an effective interest rate of 5.6 percent. As a result, we attributed \$75.7 million of the proceeds received to the conversion feature of the Convertible Senior Notes at the Issuance Date, which is netted against the face value of the Convertible Senior Notes as a debt discount. This amount represents the excess proceeds received over the fair value of the Convertible Senior Notes at the Issuance Date. The discount is being accreted back to the principal amount of the Convertible Senior Notes through the recognition of non-cash interest expense over the expected life of the Convertible Senior Notes. In addition, we recorded \$48.3 million within Additional paid-in capital in our Condensed Consolidated Balance Sheets representing the equity component of the Convertible Senior Notes, which is net of tax. The implementation of this new guidance has resulted in a decrease to net income and earnings per share for all periods presented; however, there is no effect on our cash interest payments.

Interest expense related to the Convertible Senior Notes for the three months ended March 31, 2010 and 2009 includes \$1.3 million for both periods of contractual cash interest expense and an additional \$3.7 million and \$3.4 million of non-cash interest expense,



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respectively, related to the amortization of the discount. Interest expense related to the Convertible Senior Notes for the nine months ended March 31, 2010 and 2009 includes \$3.8 million for both periods of contractual cash interest expense and an additional \$11.1 million and \$10.4 million of non-cash interest expense, respectively, related to the amortization of the discount. Refer to Note 2 *New Accounting Standards* in the Notes to the Condensed Consolidated Financial Statements for further information.

**Business Combinations:** On July 1, 2009 we adopted the updated provisions for Business Combinations, issued by the FASB within ASC 805, Business Combinations. The new guidance requires the acquired entity to recognize the full fair value of assets acquired, liabilities assumed and any noncontrolling interests in the transaction (whether a full or partial acquisition) at the acquisition date fair value with limited exceptions. This will change the accounting treatment for certain specific items and include a substantial number of new disclosure requirements. These changes include: (a) the acquirer recording all assets and liabilities of the acquired business, including goodwill, generally at their fair values, (b) recording contingent consideration arrangements at fair value on the date of acquisition, with changes in fair value recognized in earnings until settled, and (c) expensing acquisition-related transaction and restructuring costs rather than treating as part of the cost of the acquisition and including in the amount recorded for assets acquired. The new guidance applies prospectively to business combinations which occur after July 1, 2009. The impact of these new provisions on our consolidated financial statements will depend upon the nature, terms and size of the acquisitions we consummate in the future.

**Noncontrolling Interests:** On July 1, 2009, we adopted the updated provisions issued by the FASB within ASC 810-10-65, Consolidation, relating to the presentation requirements for noncontrolling interests (formerly minority interests). The new guidance requires reporting entities to present noncontrolling (minority) interests as a component of equity (as opposed to as a liability) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. In addition, the new provisions also require companies to report a consolidated net income (loss) measure that includes the amount attributable to such noncontrolling interests. The adoption of the new provisions applies to noncontrolling interests prospectively from that date. However, the presentation and disclosure requirements were applied retrospectively for all periods presented. As a result of this adoption, we reclassified noncontrolling interests in the amount of \$0.8 million from liabilities to equity in the June 30, 2009 Condensed Consolidated Balance Sheet and we included zero and less than \$0.1 million of income from our noncontrolling interest within the caption Net income (loss) attributable to Harman International Industries, Incorporated in our Condensed Consolidated Statement of Operations for the three and nine months ended March 31, 2009, respectively.

**Earnings Per Share:** On July 1, 2009, we adopted the updated provisions issued by the FASB within ASC 260-10-45-61A for earnings per share. The new guidance provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. Upon adoption, a company is required to retrospectively adjust its earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data) to conform to the new provisions. The adoption of the new provisions did not have a material impact on our financial position or results of operations.

**Fair Value:** We adopted ASC 820, Fair Value Measurements and Disclosures which defines fair value, establishes a market-based framework or hierarchy for measuring fair value and expands disclosures about fair value measurements in two steps. We adopted this guidance for financial assets and liabilities effective July 1, 2008 and for non-financial assets and liabilities effective July 1, 2009. This guidance is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. It does not expand or require any new fair value measures; however the application of this statement may change current practice. Refer to Note 13 *Fair Value Measurements* for further information.

Accounting guidance allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. We did not elect the fair value measurement for any financial assets and liabilities.

On July 1, 2009, we adopted the updated provisions for determining fair value when the volume and level of activity for the asset or liability have significantly decreased and for identifying transactions that are not orderly, issued by the FASB within ASC 820-10-35-51. The new provisions provide additional guidance for estimating fair value, when the volume and level of activity for the asset or liability have significantly decreased when compared with normal market activity for the asset or liability. The new approach is designed to address whether a market is inactive, and if so whether a market should be considered distressed. The objective of the new guidance is to remain consistent with the principles of fair value accounting, yet provide additional guidance on how fair value measurements might be determined in an inactive market. The new guidance also requires additional disclosures relating to an entity's valuation techniques and its major categories of investments in debt and equity securities. The adoption of the new provisions did not have any impact on our financial position or results of operations.

On July 1, 2009, we adopted the updated provisions relating to interim disclosures about fair value of financial instruments, issued by the FASB within ASC 825-10-65. The new provisions require disclosures about fair value of financial instruments for interim reporting periods of publicly-held companies, as well as in annual financial statements. The adoption of the new provisions did not have any impact on our financial

position or results of operations.

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In August 2009, FASB issued ASU No. 2009-05, *Measuring Liabilities at Fair Value* which provides updated guidance on the fair value measurement of liabilities. This update provides clarification for circumstances in which a quoted price in an active market for the identical liability is not available. In such instances, a reporting entity is required to measure fair value using one or more of the following techniques: 1) a valuation technique that uses either the quoted price of the identical liability when traded as an asset or quoted prices for similar liabilities when traded as an asset; or 2) another valuation technique that is consistent with the principles in ASC 820, *Fair Value Measurements and Disclosures*, such as the income and market approach to valuation. The amendments in this update also clarify that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. This update further clarifies that if the fair value of a liability is determined by reference to a quoted price in an active market for an identical liability, that price would be considered a Level 1 measurement in the fair value hierarchy. Similarly, if the identical liability has a quoted price when traded as an asset in an active market, it is also a Level 1 fair value measurement if no adjustments to the quoted price of the asset are required. This update was effective for us on September 1, 2009. We adopted the updated provisions relating to fair value measurements and disclosures. The adoption of the new guidance did not have a material impact on our financial position or results of operations.

In January 2010, the FASB issued ASU 2010-6, *Fair Value Measurements and Disclosures*. This new guidance requires the gross presentation of activity within the Level 3 fair value measurement to roll forward and requires disclosure of the details of transfers in and out of Level 1 and Level 2 fair value measurements. It also clarifies two existing disclosure requirements on the level of disaggregation of fair value measurements and disclosure on inputs and valuation techniques. The new guidance was effective for us on January 1, 2010. We adopted the updated provisions relating to fair value measurements and disclosures. The adoption of the new guidance did not have a material impact on our financial position or results of operations. Refer to Note 13 *Fair Value Measurements* for further information.

**Impairment of Debt Securities:** On July 1, 2009, we adopted the updated provisions relating to the recognition and presentation of other-than-temporary impairments, within ASC 820-10-35-51. The new guidance amends the other-than-temporary impairment guidance for certain debt securities and requires an investor to assess the likelihood of selling the security, prior to recovering its cost basis. If an investor is able to meet the criteria to assert that it will not have to sell a security before recovery, impairment charges related to credit losses would be recognized in earnings, while impairment charges related to non-credit losses would be reflected in other comprehensive income. It also amends the disclosure requirements by requiring entities to disclose information that will help users understand the types of investments held, including information about investments in an unrealized loss position for which an impairment charge has not been recognized. The adoption of the new provisions did not have any impact on our financial position or results of operations.

**Intangible Assets:** On July 1, 2009, we adopted the updated provisions relating to the determination of the useful life of intangible assets, issued in ASC 350-30-65. The new guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of the provisions is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. The adoption of the new provisions did not have a material impact on our financial position or results of operations.

**Consolidation:** In January 2010, FASB issued ASU No. 2010-02, *Accounting and Reporting for Decreases in Ownership of a Subsidiary*, which clarifies that accounting guidance relating to noncontrolling interests and changes in ownership of a subsidiary, also applies to the disposal of businesses that are not subsidiaries, clarifies certain implementation issues and also amends the disclosure requirements. The new guidance is effective on a retrospective basis for interim periods ended after December 15, 2009. We adopted the provisions of this new guidance on October 1, 2009. The adoption of the new provisions did not have any impact on our financial position or results of operations.

**Subsequent Events:** In May 2009, the FASB issued a statement which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. In February 2010, the FASB issued ASU 2010-09, *Subsequent Events*, which amends the previous guidance on subsequent events and no longer requires SEC filers to disclose the date through which subsequent events have been evaluated. The subsequent event provisions are effective for interim and annual reporting periods ending after June 15, 2009 and were effective for us beginning in the fourth quarter of fiscal 2009. The amendments were effective in February 2010. We adopted the new guidance in our Form 10-Q for the quarter ended March 31, 2010 and as a result of the adoption we no longer disclose the date through which subsequent events have been evaluated. The adoption of the new provisions did not have any impact on our financial position or results of operations.

## **Results of Operations**

### *Net Sales*

Net sales for the three months ended March 31, 2010 were \$848.2 million compared to \$598.3 million in the same period in the prior year, an increase of 42 percent. Foreign currency translation favorably impacted net sales by \$23.7 million when compared to the same period in the prior

year. The increase in overall net sales for the three months ended March 31, 2010 compared to the same

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period in the prior year was primarily within our Automotive segment and was attributable to increased mid-level and high-end infotainment business resulting from the launch of new platforms, overall production recovery and new acoustic model launches. These increases were partially offset by lower portable navigation device ( PND ) net sales due to our exit from this distribution channel following our execution of a trademark license agreement we entered into in January 2010. Net sales were higher in our Professional and Consumer segments compared to the same period in the prior year, which previously had been negatively affected by the financial and economic crisis and reductions in the availability of credit.

For the nine months ended March 31, 2010, net sales were \$2.543 billion, compared to net sales of \$2.223 billion in the same period in the prior year, an increase of 14 percent. Foreign currency translation favorably impacted net sales by \$57.9 million when compared to the same period in the prior year. The increase in overall net sales for the nine months ended March 31, 2010 compared to the same period in the prior year was primarily within our Automotive segment and was attributable to increased mid-level and high-end infotainment business resulting from the launch of new platforms, overall production recovery and new acoustic model launches, partially offset by lower PND net sales due to our exit from this distribution channel. Net sales were higher in our Professional segment primarily due to new product introductions compared to the same period in the prior year, which previously had been negatively affected by the financial and economic crisis and reductions in the availability of credit. Net sales were higher in our Consumer segment primarily due to favorable foreign currency translation.

As mentioned above, in January 2010 we reorganized our PND business and entered into a trademark license agreement under which we exited the PND distribution channel. Under the terms of the agreement, a third party will sell our PND inventory over a six month period beginning in January 2010. Thereafter we will receive 50 percent of the profits from the sale of PNDs by the third party for the first five years. Subsequent to this, we will receive a royalty based on sales for the term of the agreement which can be extended for up to 20 years. As a result of this agreement, we expect to see a decline in our net sales of approximately \$100 million on an annualized basis, subsequent to the sale of the remaining inventory, however, we do not expect there to be any material adverse impact on our operating profit.

Following is a summary of our net sales by business segment:

|              | Three Months Ended March 31, |      |            |      | Nine Months Ended March 31, |      |              |      |
|--------------|------------------------------|------|------------|------|-----------------------------|------|--------------|------|
|              | 2010                         | %    | 2009       | %    | 2010                        | %    | 2009         | %    |
| Net sales:   |                              |      |            |      |                             |      |              |      |
| Automotive   | \$ 629,676                   | 74%  | \$ 405,234 | 68%  | \$ 1,840,668                | 72%  | \$ 1,539,345 | 69%  |
| Consumer     | 81,192                       | 10%  | 69,001     | 12%  | 292,284                     | 12%  | 286,503      | 13%  |
| Professional | 125,994                      | 15%  | 114,498    | 19%  | 380,294                     | 15%  | 368,582      | 17%  |
| Other        | 11,370                       | 1%   | 9,549      | 1%   | 29,843                      | 1%   | 28,917       | 1%   |
| Total        | \$ 848,232                   | 100% | \$ 598,282 | 100% | \$ 2,543,089                | 100% | \$ 2,223,347 | 100% |

*Automotive* Net sales for the three months ended March 31, 2010 increased \$224.4 million, or 55 percent compared to the same period in the prior year. Foreign currency translation favorably impacted net sales by \$19.0 million compared to the same period in the prior year. Net sales for the nine months ended March 31, 2010 increased \$301.3 million, or 20 percent compared to the same period in the prior year. Foreign currency translation favorably impacted net sales by \$44.4 million compared to the same period in the prior year.

The increase in net sales for the three months ended March 31, 2010 compared to the same period in the prior year was primarily attributable to increased mid-level and high-end infotainment business resulting from the launch of new platforms, overall industry production recovery and new acoustic model launches. These increases were partially offset by lower PND net sales, due to our exit from this distribution channel. The increase in net sales for the nine months ended March 31, 2010 compared to the same period in the prior year was primarily attributable to increased mid-level and high-end infotainment business resulting from the launch of new platforms, overall industry production recovery and new acoustic model launches, partially offset by lower PND sales, due to our exit from this distribution channel.

*Consumer* Net sales for the three months ended March 31, 2010 increased \$12.2 million, or 18 percent, compared to the same period in the prior year. Foreign currency translation favorably impacted net sales by \$2.8 million compared to the same period in the prior year. Net sales for the nine months ended March 31, 2010 increased \$5.8 million, or 2 percent compared to the same period in the prior year. Foreign currency translation favorably impacted net sales by \$10.4 million compared to the same period in the prior year.

The increase in net sales for the three months ended March 31, 2010 was primarily attributable to higher multimedia and mobile business in Europe, as well as foreign currency translation. The increase in net sales for the nine months ended March 31, 2010 was primarily due to foreign

currency translation.



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*Professional* Net sales for the three months ended March 31, 2010 increased \$11.5 million, or 10 percent compared to the same period in the prior year. Foreign currency translation favorably impacted net sales by \$1.9 million compared to the same period in the prior year. Net sales for the nine months ended March 31, 2010 increased by \$11.7 million, or 3 percent compared to the same period in the prior year. Foreign currency translation favorably impacted net sales by \$3.1 million compared to the same period in the prior year.

The increase in net sales for the three and nine months ended March 31, 2010 compared to the same period in the prior year was primarily due to higher net sales as markets continued to rebound.

*Other* Other sales increased \$1.8 million, or 19 percent, in the three months ended March 31, 2010 and \$0.9 million, or 3 percent, in the nine months ended March 31, 2010, compared to each of the same periods in the prior year due to an increase in net sales in our QNX business, which offers embedded operating systems software and related development tools and consulting services used in a variety of products and industries. On April 9, 2010, we entered into a share purchase agreement to sell the QNX Entities to two third parties. Refer to Note 21 *Subsequent Events* in the Notes to the Condensed Consolidated Financial Statements for further information.

*Gross Profit*

Gross profit as a percentage of net sales increased 7.8 percentage points to 26.7 percent for the three months ended March 31, 2010 compared to 18.9 percent of net sales in the same period in the prior year. Gross profit as a percentage of net sales increased 3.0 percentage points to 26.9 percent for the nine months ended March 31, 2010 compared to 23.9 percent of net sales in the same period in the prior year. The increase in gross profit margin in the three months ended March 31, 2010 versus the same period in the prior year was primarily due to improved leverage of fixed overhead costs due to higher sales volumes and savings achieved through our STEP Change initiatives, partially offset by inventory write-downs associated with our exit from the PND business. The increase in gross profit in the nine months ended March 31, 2010 compared to the same period in the prior year was primarily due to lower restructuring charges relating to accelerated depreciation, improved leverage of fixed overhead costs due to higher sales volumes and savings achieved through our STEP Change initiatives, partially offset by inventory write-downs associated with our exit from the PND business.

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

|               | Three Months Ended March 31, |                         |            |                         | Nine Months Ended March 31, |                         |            |                         |
|---------------|------------------------------|-------------------------|------------|-------------------------|-----------------------------|-------------------------|------------|-------------------------|
|               | 2010                         | Percentage of Net Sales | 2009       | Percentage of Net Sales | 2010                        | Percentage of Net Sales | 2009       | Percentage of Net Sales |
| Gross profit: |                              |                         |            |                         |                             |                         |            |                         |
| Automotive    | \$ 145,085                   | 23.0%                   | \$ 52,096  | 12.9%                   | \$ 438,506                  | 23.8%                   | \$ 306,978 | 19.9%                   |
| Consumer      | 22,386                       | 27.6%                   | 15,405     | 22.3%                   | 79,651                      | 27.3%                   | 68,232     | 23.8%                   |
| Professional  | 50,226                       | 39.9%                   | 39,913     | 34.9%                   | 147,480                     | 38.8%                   | 138,204    | 37.5%                   |
| Other         | 8,618                        | 75.8%                   | 5,881      | 61.6%                   | 19,115                      | 64.1%                   | 18,668     | 64.6%                   |
| Total         | \$ 226,315                   | 26.7%                   | \$ 113,295 | 18.9%                   | \$ 684,752                  | 26.9%                   | \$ 532,082 | 23.9%                   |

*Automotive* Gross profit as a percentage of net sales increased 10.1 percentage points to 23.0 percent for the three months ended March 31, 2010 compared to the same period in the prior year. Gross profit as a percentage of net sales increased 3.9 percentage points to 23.8 percent for the nine months ended March 31, 2010 compared to the same period in the prior year. The increase in gross profit for the three and nine months ended March 31, 2010 compared to the same periods in the prior year was primarily due to improved leverage of fixed overhead costs due to higher sales volumes and savings achieved through our STEP Change initiatives and lower warranty expense.

*Consumer* Gross profit as a percentage of net sales increased 5.3 percentage points to 27.6 percent for the three months ended March 31, 2010 compared to the same period in the prior year. Gross profit as a percentage of net sales increased 3.5 percentage points to 27.3 percent for the nine months ended March 31, 2010 compared to the same period in the prior year. The increase in gross profit for the three months ended March 31, 2010 compared to the same period in the prior year was primarily due to improved leverage of fixed overhead costs due to higher sales volumes and savings achieved through our STEP Change initiatives. The increase in gross profit for the nine months ended March 31, 2010 compared to the same period in the prior year was primarily due to lower inventory write-offs and savings achieved through our STEP Change initiatives.

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*Professional* Gross profit as a percentage of net sales increased 5.0 percentage points to 39.9 percent for the three months ended March 31, 2010 compared to the same period in the prior year. Gross profit as a percentage of net sales increased 1.3 percentage point to 38.8 percent for the nine months ended March 31, 2010 compared to the same period in the prior year. The increase in gross profit for the three months ended March 31, 2010 compared to the same period in the prior year was primarily due to improved leverage of

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fixed overhead costs due to higher sales volumes, savings achieved through our STEP Change initiatives and higher margins on new product introductions. The increase in gross profit for the nine months ended March 31, 2010 compared to the same period in the prior year was due to improved leverage of fixed overhead costs due to higher sales volumes, savings achieved through our STEP Change initiatives and favorable product mix.

*Other* Other gross profit as a percentage of net sales increased 14.2 percentage points to 75.8 percent in the three months ended March 31, 2010 compared to the same period in the prior year and declined 0.5 percentage point to 64.1 percent in the nine months ended March 31, 2010 compared to the same period in the prior year. The increase in gross profit for the three months ended March 31, 2010 compared to the same period in the prior year was primarily due to improved margins in our QNX business. The decrease in gross profit for the nine months ended March 31, 2010 compared to the same period in the prior year was primarily due to vacant facility costs, offset by improved margins in our QNX business.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses ( SG&A ) were \$195.7 million for the three months ended March 31, 2010 compared to \$203.4 million in the same period in the prior year, a decrease of \$7.7 million. As a percentage of net sales, SG&A decreased 10.9 percentage points in the three months ended March 31, 2010 compared to the same period in the prior year. Foreign currency translation unfavorably impacted SG&A by \$7.1 million. The decrease in SG&A compared to the same period in the prior year was primarily due to lower restructuring expenses, partially offset by an increase in research and development expenses ( R&D ).

SG&A was \$590.8 million for the nine months ended March 31, 2010 compared to \$630.9 million in the same period in the prior year, a decrease of \$40.0 million. As a percentage of net sales, SG&A decreased 5.2 percentage points in the nine months ended March 31, 2010 compared to the same period in the prior year. Foreign currency translation unfavorably impacted SG&A by \$14.7 million. The decrease in SG&A compared to the same period in the prior year was primarily due to lower restructuring expenses and R&D.

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

|              | Three Months Ended March 31, |                         |            |                         | Nine Months Ended March 31, |                         |            |                         |
|--------------|------------------------------|-------------------------|------------|-------------------------|-----------------------------|-------------------------|------------|-------------------------|
|              | 2010                         | Percentage of Net Sales | 2009       | Percentage of Net Sales | 2010                        | Percentage of Net Sales | 2009       | Percentage of Net Sales |
| SG&A:        |                              |                         |            |                         |                             |                         |            |                         |
| Automotive   | \$ 115,946                   | 18.4%                   | \$ 133,589 | 33.0%                   | \$ 359,147                  | 19.5%                   | \$ 398,213 | 25.9%                   |
| Consumer     | 23,128                       | 28.5%                   | 23,214     | 33.6%                   | 73,941                      | 25.3%                   | 80,090     | 28.0%                   |
| Professional | 35,314                       | 28.0%                   | 31,514     | 27.5%                   | 95,160                      | 25.0%                   | 101,917    | 27.7%                   |
| Other        | 21,353                       |                         | 15,117     |                         | 62,593                      |                         | 50,642     |                         |
| Total        | \$ 195,741                   | 23.1%                   | \$ 203,434 | 34.0%                   | \$ 590,841                  | 23.2%                   | \$ 630,862 | 28.4%                   |

*Automotive* SG&A decreased \$17.6 million to \$115.9 million for the three months ended March 31, 2010, compared to the same period in the prior year, primarily due to savings from STEP Change initiatives, lower bad debt expense, lower legal expenses as a result of a prior year legal settlement and lower R&D, partially offset by unfavorable foreign currency translation of \$5.7 million. As a percentage of net sales, SG&A decreased 14.6 percentage points to 18.4 percent for the three months ended March 31, 2010 compared to the same period in the prior year. R&D decreased \$0.2 million to \$65.8 million or 10.4 percent of net sales for the three months ended March 31, 2010 compared to \$66.0 million, or 16.3 percent of net sales in the same period in the prior year, primarily due to lower gross spending as a result of STEP Change initiatives, partially offset by unfavorable foreign currency translation.

SG&A decreased \$39.1 million to \$359.1 million for the nine months ended March 31, 2010, compared to the same period in the prior year, primarily due to savings from STEP Change initiatives, lower restructuring expenses and R&D, partially offset by the impact of a settlement of a claim associated with an automotive supply arrangement and unfavorable foreign currency translation of \$12.0 million. As a percentage of net sales, SG&A decreased 6.4 percentage points to 19.5 percent for the nine months ended March 31, 2010 compared to the same period in the prior year. R&D decreased \$5.6 million to \$198.2 million, or 10.8 percent of net sales, for the nine months ended March 31, 2010 compared to \$203.7 million, or 13.2 percent of net sales, in the same period in the prior year, primarily due to lower gross spending as a result of STEP Change initiatives, partially offset by higher amortization expense and unfavorable foreign currency translation.

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*Consumer* SG&A of \$23.1 million for the three months ended March 31, 2010 was flat compared to the same period in the prior year, primarily due to higher selling expenses, offset by savings from STEP Change initiatives. As a percentage of net sales, SG&A decreased 5.1 percentage points to 28.5 percent for the three months ended March 31, 2010 compared to the same period in the prior year. R&D decreased \$0.7 million to \$4.2 million or 5.2 percent of net sales for the three months ended March 31, 2010 compared to \$4.9 million or 7.1 percent of net sales in the same period in the prior year, primarily due to savings from STEP Change initiatives.

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SG&A decreased \$6.1 million to \$73.9 million for the nine months ended March 31, 2010 compared to the same period in the prior year, primarily due to savings from STEP Change initiatives. As a percentage of net sales, SG&A decreased 2.7 percentage points to 25.3 percent for the nine months ended March 31, 2010 compared to the same period in the prior year. R&D decreased \$2.7 million to \$11.5 million or 3.9 percent of net sales for the nine months ended March 31, 2010 compared to \$14.2 million or 5.0 percent of net sales in the same period in the prior year, primarily due to savings from STEP Change initiatives.

*Professional* SG&A increased \$3.8 million to \$35.3 million for the three months ended March 31, 2010 compared to the same period in the prior year, primarily due to higher variable compensation expenses associated with improved performance. As a percentage of net sales, SG&A increased 0.5 percentage points to 28.0 percent for the three months ended March 31, 2010 compared to the same period in the prior year. R&D increased \$1.3 million to \$9.0 million or 7.1 percent of net sales for the three months ended March 31, 2010 compared to \$7.7 million or 6.8 percent of net sales in the same period in the prior year, primarily due to savings from STEP Change initiatives.

SG&A decreased \$6.8 million to \$95.2 million for the nine months ended March 31, 2010 compared to the same period in the prior year, primarily due to lower restructuring expenses and R&D, partially offset by higher variable compensation expenses associated with improved performance. As a percentage of net sales, SG&A decreased 2.7 percentage points to 25.0 percent for the nine months ended March 31, 2010 compared to the same period in the prior year. R&D decreased \$2.3 million to \$26.1 million or 6.9 percent of net sales for the nine months ended March 31, 2010 compared to \$28.4 million or 7.7 percent of net sales in the same period in the prior year, primarily due to savings from STEP Change initiatives.

*Other* Other SG&A includes SG&A related to our QNX business, as well as compensation and benefit expenses and occupancy costs for corporate employees. Other SG&A increased 6.2 million to \$21.4 million for the three months ended March 31, 2010 compared to the same period in the prior year, primarily due to higher share-based compensation and higher variable compensation expenses associated with improved performance. R&D increased \$1.6 million to \$2.4 million, or 21 percent of net sales, for the three months ended March 31, 2010, compared to \$0.8 million, or 8 percent of net sales, in the same period in the prior year. Other SG&A increased \$12.0 million to \$62.6 million for the nine months ended March 31, 2010 compared to the same period in the prior year, primarily due to higher share-based compensation as a result of stock option forfeitures incurred in the prior period, and higher variable compensation expenses associated with improved performance, partially offset by lower restructuring expenses. R&D increased \$3.6 million to \$7.7 million, or 26 percent of net sales, for the nine months ended March 31, 2010, compared to \$4.1 million, or 14 percent of net sales, in the same period in the prior year.

On April 9, 2010, we entered into a share purchase agreement to sell the QNX Entities to two third parties. Refer to Note 21 *Subsequent Events* in the Notes to the Condensed Consolidated Financial Statements for further information.

*Restructuring Program*

We announced a restructuring program in June 2006 designed to increase efficiency in our manufacturing, engineering and administrative organizations. The implementation of this program has continued through fiscal year 2010, as we expanded our restructuring actions to improve our global footprint, cost structure, technology portfolio, human resources and internal processes.

In fiscal year 2009, programs initiated included the closure of the Woodbury, New York facility and numerous headcount reductions across our business units to reduce excess capacity due to decreased sales. The most significant of these programs were in Germany, Austria, the United Kingdom and various locations in the United States. In fiscal year 2010, we announced the relocation of certain manufacturing activities from the United Kingdom to Hungary, a consolidation and optimization of our manufacturing capabilities in China and a reorganization of our PND business in Germany, which resulted in our exit of the PND distribution channel.

For the three months ended March 31, 2010, we recorded \$4.4 million for our restructuring program, primarily within SG&A, of which \$4.0 million was related to employee termination benefits. Cash paid for these and prior initiatives was \$8.8 million. In addition, we have recorded \$1.5 million of accelerated depreciation and inventory provisions primarily in Cost of Sales.

For the three months ended March 31, 2009, we recorded \$17.5 million for our restructuring program, primarily within SG&A, of which \$16.6 million was related to employee termination benefits. Cash paid for these and prior initiatives was \$14.1 million. In addition, we recorded \$1.0 million of accelerated depreciation and inventory provisions primarily in Cost of Sales.

For the nine months ended March 31, 2010, we recorded \$9.2 million for our restructuring program, primarily within SG&A, of which \$8.0 million was related to employee termination benefits. Cash paid for these and prior initiatives for the nine months ended March 31, 2010 was \$38.7 million. In addition, we have recorded \$4.7 million of accelerated depreciation and inventory provisions primarily in Cost of Sales. During the second fiscal quarter of 2010, our Automotive and Professional segments updated their severance accruals based on new estimates which

took into account higher than originally anticipated natural attrition rates. As a result, these restructuring accruals were reduced by approximately \$12.0 million to reflect these updated estimates which are included within expense in the tables below.

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For the nine months ended March 31, 2009, we recorded \$44.6 million for our restructuring program, primarily within SG&A, of which \$37.5 million was related to employee termination benefits. Cash paid for restructuring actions for the nine months ended March 31, 2009 was \$31.7 million. In addition, we have recorded \$9.7 million primarily in Cost of Sales for accelerated depreciation and the reclassification of the Martinsville property from held and used to held for sale.

Below is a rollforward of our restructuring accrual for the three and nine months ended March 31, 2010 and 2009:

|                             | Three Months Ended<br>March 31, |           | Nine Months Ended<br>March 31, |           |
|-----------------------------|---------------------------------|-----------|--------------------------------|-----------|
|                             | 2010                            | 2009      | 2010                           | 2009      |
| Beginning accrued liability | \$ 53,466                       | \$ 43,896 | \$ 77,454                      | \$ 35,601 |
| Expense                     | 4,395                           | 17,490    | 9,159                          | 44,637    |
| Utilization <sup>(1)</sup>  | (11,001)                        | (14,357)  | (39,753)                       | (33,209)  |
| Ending accrued liability    | \$ 46,860                       | \$ 47,029 | \$ 46,860                      | \$ 47,029 |

(1) Includes cash payments and the effects of foreign currency translation.

Restructuring expenses by reporting segment are as follows and include accruals for new programs as noted above plus revisions to estimates, both increases and decreases, to programs accrued in prior periods:

|   | Three Months Ended<br>March 31, |                  | Nine Months Ended<br>March 31, |                  |
|---|---------------------------------|------------------|--------------------------------|------------------|
|   | 2010                            | 2009             | 2010                           | 2009             |
| Automotive  | \$ 1,434                        | \$ 14,486        | \$ 3,588                       | \$ 22,874        |
| Consumer  | 372                             | 131              | 3,719                          | 5,559            |
| Professional                                      | 2,456                           | 3,054            | 1,467                          | 8,695            |
| Other   | 133                             | (181)            | 385                            | 7,509            |
| <b>Total</b>                                      | <b>4,395</b>                    | <b>17,490</b>    | <b>9,159</b>                   | <b>44,637</b>    |
| Accelerated depreciation and inventory provisions | 1,541                           | 994              | 4,693                          | 9,651            |
| <b>Total</b>                                      | <b>\$ 5,936</b>                 | <b>\$ 18,484</b> | <b>\$ 13,852</b>               | <b>\$ 54,288</b> |

*Loss on Deconsolidation of Variable Interest Entity*

In December 2009, we determined that we were no longer the primary beneficiary of the Harman Navis joint venture which was considered a variable interest entity and previously required consolidation. Since we were no longer the primary beneficiary, in December 2009, we deconsolidated the Harman Navis joint venture which resulted in an overall loss of \$13.1 million which is included in our Condensed Consolidated Statement of Operations as Loss on deconsolidation of variable interest entity for the nine months ended March 31, 2010. The loss resulted primarily from the difference between the fair value of the consideration received for the disposal of our equity interest and the net asset value of the joint venture that was deconsolidated. Refer to Note 19 *Investment in Joint Venture* in the Notes to the Condensed Consolidated Financial Statements for more information.

*Goodwill Impairment*

Beginning in fiscal year 2009, investor and consumer confidence was negatively affected due to the turmoil in the global credit and financial markets. We continued to see these effects on our results of operations through most of fiscal year 2009 and in the beginning of fiscal year 2010. Our results of operations depend on our sales of audio products and electronic systems in the automotive, consumer and professional markets.

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Our products are sold worldwide, with the largest markets being the United States and Germany. Significant portions of our net sales are denominated in Euros. We have been and may continue to be negatively impacted by the contraction in consumer discretionary spending and also by adverse changes in foreign currency exchange rates (primarily the Euro compared to the U.S. dollar), resulting in reduced sales.

Approximately two-thirds of our sales are 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 which have recently experienced significant difficulty. Certain of our customers have publicly announced their financial difficulties, including some of our major customers. As a result, we have and may continue to experience reductions in orders from these customers. In addition, our customer supply agreements generally provide for reductions in pricing of our products over the period of production. Pricing pressures have and may continue to intensify as a result of cost cutting initiatives of our customers in the current economic environment.



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As a result of the deteriorating economic conditions and negative industry trends, in fiscal year 2009 we experienced significant declines in our market capitalization and as a result, we concluded during both the second and third quarters of fiscal year 2009, that a triggering event relating to goodwill impairment had occurred, as defined in guidance issued by the FASB, thereby necessitating the performance of interim period goodwill impairment tests as of November 30, 2008 and February 28, 2009. In connection with this, we revised our estimated cash flow projections to reflect the impact of the rapid changes in our business and the downturn in the economy and therefore we lowered our assumptions relating to net sales, operating cash flow margins and net cash flows by reporting unit over the five year projection period. The weak economic climate caused us to assume that the general economic conditions would begin a gradual recovery in fiscal year 2010 but that future growth rates would be lower than had been assumed in previous years. In addition, the instability of the credit markets caused us to increase our assumed discount rates used in calculating the fair value of our reporting units in fiscal year 2009 compared with the rates, which had been assumed in previous years. These estimates require significant management judgment. As a result, we recorded a \$330.6 million goodwill impairment charge in fiscal year 2009, of which \$295.1 million was in our Automotive segment, \$22.7 million was in our Consumer segment and \$12.8 million was in our Other segment.

During the three and nine months ended March 31, 2010, we recognized zero and \$12.3 million, respectively, of goodwill impairment in our Condensed Consolidated Statements of Operations. Our annual goodwill impairment test conducted in April 2009 indicated that no goodwill was supportable in our Automotive segment. In the first half of fiscal year 2010, we recognized additional goodwill of \$12.3 million associated with contingent purchase price arrangements from acquisitions in prior years and subsequently impaired \$12.3 million of goodwill in the same reporting period.

These non-cash impairment charges do not have any direct impact on our liquidity, compliance with any covenants under our debt agreements or potential future results of operations. Our historical operating results may not be indicative of our future operating results. We will revise our estimates used in calculating the fair value of our reporting units as needed.

As a result of the sustained improvements in the operating results of our Automotive business due to improvements in economic conditions and realized savings resulting from our cost cutting initiatives, we performed a preliminary goodwill impairment test during the three months ended March 31, 2010. The March 31, 2010 calculation demonstrated that the calculated fair value of our reporting units exceeded the respective carrying values and thus no impairment existed at Automotive and our other reporting units. As a result, we are not recording goodwill impairment charges associated with the incremental goodwill recorded related to the contingent purchase price arrangements. During the three months ended March 31, 2010, we recorded \$3.1 million of goodwill associated with a contingent purchase price arrangement in our Automotive segment.

***Operating Income (Loss)***

Operating income for the three months ended March 31, 2010 was \$30.6 million or 3.6 percent of net sales compared to an operating loss of \$(92.5) million, or (15.5) percent of net sales, in the same period in the prior year. Operating income for the nine months ended March 31, 2010 was \$68.5 million or 2.7 percent of net sales compared to an operating loss of \$(426.6) million, or (19.2) percent of net sales, in the same period in the prior year. The increase in operating income was primarily due to the lower goodwill impairment charges and higher net sales in the three and nine months ended March 31, 2010 compared to the same periods in the prior year.

***Interest Expense, Net***

Interest expense, net, was \$5.8 million for the three months ended March 31, 2010 compared to \$5.0 million for the same period in the prior year. Interest expense, net, for the three months ended March 31, 2010 included interest income of \$1.1 million and \$6.9 million of interest expense, of which \$2.6 million was cash interest and \$4.3 million was non-cash interest associated with the amortization of the debt discount on the Convertible Senior Notes and amortization of debt issuance costs on the Convertible Senior Notes and our second amended and restated multi-currency, multi-option credit agreement dated March 31, 2009 (the Amended Credit Agreement). Interest expense, net, for the three months ended March 31, 2009 included interest income of \$1.6 million and \$6.6 million of interest expense, of which \$3.2 million was cash interest and \$3.4 million was non cash interest associated with the amortization of the debt discount on the Convertible Senior Notes.

Interest expense, net, was \$23.9 million for the nine months ended March 31, 2010 compared to \$11.1 million in the same period in the prior year. Interest expense, net, for the nine months ended March 31, 2010 included interest income of \$2.9 million and \$26.8 million of interest expense, of which \$13.7 million was cash interest and \$13.1 million was non cash interest associated with the amortization of the debt discount on the Convertible Senior Notes and amortization of debt issuance costs on the Convertible Senior Notes and our Amended Credit Agreement. Interest expense, net, for the nine months ended March 31, 2009 included interest income of \$6.9 million and \$18.0 million of interest expense of which \$7.6 million was cash interest and \$10.4 million was non cash interest associated with the amortization of the debt discount on the Convertible Senior Notes and amortization of debt issuance costs on the Convertible Senior Notes and our Amended Credit Agreement.



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**Table of Contents*****Miscellaneous, Net***

Net miscellaneous expenses were \$1.6 million and \$0.7 million for the three months ended March 31, 2010 and 2009, respectively. Net miscellaneous expenses were \$3.8 million and \$1.8 million for the nine months ended March 31, 2010 and 2009, respectively. For each three and nine month period, miscellaneous expenses were primarily comprised of bank charges.

***Income Tax Expense (Benefit), Net***

Our provision for income taxes is based on an estimated annual tax rate for the year applied to federal, state and foreign income. Income tax expense for the three months ended March 31, 2010 was \$4.9 million, compared to an income tax benefit of \$29.4 million for the same period in the prior year. The effective rate for the three months ended March 31, 2010 was 21.3 percent, compared to 30.0 percent in the same period in the prior year. The decrease in the effective tax rate for the three months ended March 31, 2010 compared to the same period in the prior year was primarily due to a change in the current period income mix to lower tax jurisdictions. For the nine months ended March 31, 2010, the income tax expense was \$10.5 million, compared to an income tax benefit of \$72.5 million for the same period in the prior year. The effective tax rate for the nine months ended March 31, 2010 was 25.9 percent, compared to an effective tax rate of 16.5 percent for the same period in the prior year. The effective tax rate for the three months ended March 31, 2010, includes foreign tax benefits reduced by the tax effects of significant unusual or infrequent items that are recorded separately or recorded net of their related tax effects. The effective tax rate for the nine months ended March 31, 2010, includes the benefits of the US research and development credit and foreign tax benefits reduced by the tax effects of significant unusual or infrequent items that are recorded separately or recorded net of their related tax effects. The increase in the effective tax rate for the nine months ended March 31, 2010 compared to the same period in the prior year was primarily due to the prior period including a significant amount of goodwill impairment charges that were not deductible for income tax purposes resulting in a lower tax benefit, partially offset by a change in the current period income mix to lower tax jurisdictions.

We have deferred tax assets of \$304.3 million, primarily consisting of deferred deductions, research and development credits and foreign tax credits. We have evaluated all evidence, both positive and negative and, based on the weight of all available evidence, we continue to believe that our deferred tax assets are fairly reflected in our Condensed Consolidated Balance Sheets. If the results of our operations do not meet our current expectations, our deferred tax assets may become impaired.

As of March 31, 2010, unrecognized tax benefits and the related interest were \$13.1 million and \$1.2 million, respectively, all of which would affect the tax rate if recognized. This amount of \$14.3 million is included with noncurrent liabilities in our Condensed Consolidated Balance Sheet at March 31, 2010 as we do not expect settlement within the next 12 months. During the three and nine months ended March 31, 2010, we recorded a benefit related to uncertain tax positions of \$0.7 million and \$1.6 million, respectively.

***Financial Condition******Liquidity and Capital Resources***

We primarily finance our working capital requirements through cash generated by operations, borrowings under our Amended Credit Agreement and trade credit. Cash and cash equivalents were \$300.6 million at March 31, 2010 compared to \$586.4 million at June 30, 2009. During the nine months ended March 31, 2010, our cash balance decreased by \$285.8 million due to investments in short term time deposits and treasury bills which have maturities of greater than three months but less than a year and earn higher interest rates than investments with maturities of less than three months. We also repaid \$228.9 million of outstanding borrowings under the Amended Credit Agreement. Cash and cash equivalents decreased by \$11.3 million due to the deconsolidation of the Harman Navis joint venture. Refer to Note 19 *Investment in Joint Venture* for more information. Cash was also used to make investments in our manufacturing facilities, fund product development and restructuring programs, and meet the working capital needs of our business segments.

We will continue to have cash requirements to support seasonal working capital needs, investments in our manufacturing facilities, interest and principal payments on our outstanding debt and to fund potential acquisitions. We intend to use cash on hand, cash generated by our operations and borrowings under our Amended Credit Agreement to meet these requirements. Refer to the heading *Convertible Senior Notes* below for more information relating to repayments of borrowings under the Amended Credit Agreement. Our existing cash and cash equivalents may decline and our ability to refinance our existing credit facility may be adversely affected in the event of continued volatility in the credit markets or further economic deterioration. We expect that market conditions will continue to be weak in the near future. However, we believe that in this difficult environment our cash on hand of \$300.6 million, our short-term investments of \$123.8 million at March 31, 2010 and our operating cash flows will be adequate to meet our cash requirements for our operations, restructuring and necessary capital expenditures over the next 12 months. Below is a more detailed discussion of our cash flow activities during the nine months ended March 31, 2010.

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In fiscal 2009 and the first six months of fiscal year 2010, we incurred significant non-cash goodwill impairment charges due to a significant decline in our market capitalization, as deteriorating economic conditions and negative industry trends adversely affected our business. As a result, we revised our estimated cash flow projections to reflect the impact of the rapid changes in our business and the downturn in the economy and therefore we lowered our assumptions relating to net sales, operating cash flow margins and net cash flows by reporting unit over the five year projection period. The weak economic climate caused us to assume that the general economic conditions would begin a gradual recovery in fiscal year 2010 but that future growth rates would be lower than had been assumed in previous years. In addition, the instability of the credit markets caused us to increase our assumed discount rates used in calculating the fair value of our reporting units in fiscal year 2009 than had been assumed in previous years. These estimates require significant management judgment. Refer to Note 7 *Goodwill* in the Notes to the Condensed Consolidated Financial Statements for more information.

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These non-cash impairment charges do not have any direct impact on our liquidity, compliance with any covenants under our debt agreements or potential future results of operations. Our historical operating results may not be indicative of our future operating results. We will revise our estimates used in calculating the fair value of our reporting units as needed.

As a result of the sustained improvements in the operating results of our Automotive business due to improvements in economic conditions and realized savings resulting from our cost cutting initiatives, we performed a preliminary goodwill impairment test during the three months ended March 31, 2010. The March 31, 2010 calculation demonstrated that the calculated fair value of our reporting units exceeded the respective carrying values and thus no impairment existed at Automotive and our other reporting units. As a result, we are not recording goodwill impairment charges associated with the incremental goodwill recorded related to the contingent purchase price arrangements. During the three months ended March 31, 2010, we recorded \$3.1 million of goodwill associated with a contingent purchase price arrangement in our Automotive segment.

### *Operating Activities*

For the nine months ended March 31, 2010 our net cash provided by operations was \$105.6 million compared to net cash used by operations of \$14.9 million in the same period in the prior year. Operating cash flows increased due to higher operating income, higher accounts payable, resulting from better management of our vendor payment terms, partially offset by higher receivable and inventory balances reflecting higher revenue. At March 31, 2010, working capital, excluding cash, short-term investments and short-term debt, was \$266.6 million, compared with \$177.0 million at June 30, 2009. The increase was primarily due to higher receivables and inventories, partially offset by higher accounts payable.

### *Investing Activities*

Net cash used in investing activities was \$162.0 million for the nine months ended March 31, 2010 compared to \$60.9 million in the same period in the prior year. Net cash used in investing activities consisted of net investments of \$123.8 million in short-term time deposits and treasury bills which have maturities of greater than three months but less than one year and earn higher interest rates than investments with maturities of less than three months, a \$11.3 million decrease in cash related to the deconsolidation of the Harman Navis joint venture and capital expenditures of \$27.0 million compared to \$57.6 million for the same period in the prior year. Capital spending was lower because the prior year included more significant expenditures relating to the launch of new automotive platforms and a new manufacturing facility in China. We expect that our run rate for capital expenditures will increase in fiscal year 2010, however capital expenditures will be below fiscal year 2009 levels.

### *Financing Activities*

Net cash flows used in financing activities were \$223.4 million in the nine months ended March 31, 2010 compared to \$223.0 million provided by financing activities in the same period in the prior year. The decrease was primarily due to a repayment of \$228.9 million under our Amended Credit Agreement in fiscal year 2010 compared to \$235.0 million of borrowings under our Amended Credit Agreement in fiscal year 2009.

Our total debt at March 31, 2010 was \$360.6 million, primarily comprised of \$400.0 million of the Convertible Senior Notes, which are shown net of a discount of \$41.0 million in our Condensed Consolidated Balance Sheet at March 31, 2010 due to the adoption of new accounting guidance, which is more fully described above under the heading *Critical Accounting Policies*. Also included in total debt are capital leases and other borrowings of \$1.0 million.

### *Amended Credit Agreement*

We are party to a second amended and restated multi-currency, multi-option credit agreement with a group of banks (the *Amended Credit Agreement*), which is more fully described in our Form 10-K. We repaid \$228.9 million of outstanding borrowings under the Amended Credit Agreement during the nine months ended March 31, 2010 (see *Convertible Senior Notes* below). At March 31, 2010, we had a total borrowing capacity of \$231.6 million under the Amended Credit Agreement, with \$6.6 million of outstanding borrowings consisting of outstanding letters of credit and \$225.0 million of available borrowing capacity.

The Amended Credit Agreement contains financial and other covenants that are more fully described in our Form 10-K. If we do not meet the forecast in our budgets, we could violate our debt covenants and, absent a waiver from our lenders or an amendment to our Amended Credit Agreement, we could be in default under the Amended Credit Agreement. As a result, our debt under the Amended Credit Agreement could become due, which would have a material adverse effect on our financial condition and results of operations. A default under the Amended Credit Agreement could also lead to an event of default under the Indenture, as amended, and the acceleration of the Convertible Senior Notes. As of March 31, 2010, we were in compliance with all the financial covenants of the Amended Credit Agreement. We believe we will be

in compliance with these covenants for at least the next 12 months.

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### ***Guarantee and Collateral Agreement***

In connection with the Amended Credit Agreement, we and certain of our subsidiaries entered into a guarantee and collateral agreement, (the *Guarantee and Collateral Agreement* ) which provides, among other things, that the obligations under the Amended Credit Agreement are guaranteed by us and each of the subsidiary guarantors party thereto, and that the obligations generally are secured by liens on substantially all of our assets and certain of our subsidiary guarantors' assets.

The term of the *Guarantee and Collateral Agreement* corresponds with the term of the Amended Credit Agreement, which matures on December 31, 2011. Under the terms of this *Guarantee and Collateral Agreement*, we have effectively guaranteed the payment of the full amount of borrowings under the Amended Credit Agreement, including outstanding letters of credit, upon maturity. The potential amount of future payments that we would be required to pay under the *Guarantee and Collateral Agreement* is the amount that we have borrowed under the Amended Credit Agreement, including outstanding letters of credit.

### ***Convertible Senior Notes***

On July 1, 2009, we adopted new accounting guidance relating to the *Convertible Senior Notes* which is more fully described in Note 2 *New Accounting Standards* in the Notes to the Condensed Consolidated Financial Statements and in our Form 10-K.

The Indenture contains covenants, one of which requires us to calculate the ratio of Consolidated Total Debt to Consolidated EBITDA, as defined in the Indenture each time we incur additional indebtedness, for the most recently ended four quarter period. On January 12, 2010, we entered into a supplemental indenture to the Indenture (the *Supplemental Indenture* ) which amended this covenant. Under the *Supplemental Indenture*, we are now permitted to, without complying with the ratio of Consolidated Total Debt to Consolidated EBITDA of 3.25 to 1.00: (a) incur revolving extensions of credit under the Amended Credit Agreement, up to a maximum amount of \$231.6 million, and (b) incur additional indebtedness, subject to a requirement to make a pro rata offer to purchase a principal face amount of the *Convertible Senior Notes* equal to 50 percent of the aggregate amount of such indebtedness so incurred, plus accrued and unpaid interest thereon. This prepayment obligation survives until the earlier to occur of (i) October 23, 2010 or (ii) the date that less than \$200 million in principal amount of *Convertible Senior Notes* are outstanding, subject in all instances to the satisfaction of certain conditions. In January 2010, prior to entering into the *Supplemental Indenture*, we paid down \$222.5 million of outstanding debt under the Amended Credit Agreement, which amount represented the total outstanding borrowings at that time. At March 31, 2010, we were in compliance with all covenants under the Indenture, as amended by the *Supplemental Indenture* and we believe that we will be in compliance with these covenants for at least the next 12 months.

### ***Equity***

Total shareholders' equity at March 31, 2010 was \$1.049 billion compared with \$1.008 billion at June 30, 2009. The increase is primarily due to a decrease in foreign currency translation net of increases in share-based compensation and unrealized gains on hedging activities and net income. There were no shares of our common stock repurchased during the nine months ended March 31, 2010.

### ***Off-Balance Sheet Arrangements***

Although we rarely utilize off-balance sheet arrangements in our operations, we enter into operating leases for land, buildings and equipment in the normal course of business which are not included in our Condensed Consolidated Balance Sheets. In addition, we had outstanding letters of credit of \$6.6 million at March 31, 2010 and \$7.4 million at June 30, 2009 that were not included in our Condensed Consolidated Balance Sheets.

### ***Business Outlook***

We continued to see the effects of the worldwide economic crisis in our results through the three and nine months ended March 31, 2010. However, we do believe that the markets are beginning to recover. Our future outlook may continue to be impacted by the contraction in consumer discretionary spending. Our outlook could also be affected by changes in foreign currency exchange rates potentially resulting in reduced sales.

To mitigate the potential impacts of the weak economic markets, we accelerated many of our strategic initiatives and restructuring actions during fiscal year 2009. We continue to focus on improving our global footprint, technology portfolio, human resources and internal processes to help us improve our cost structure to enable us to remain competitive and mitigate the negative effects of this challenging environment. We are continuing to proceed with our 24-month cost improvement and productivity program called STEP Change. This program is designed to yield \$400 million in sustainable savings by fiscal year 2011.

**Item 3. 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. Since June 30, 2009, there have been no material changes in the quantitative or qualitative aspects of our market risk profile. See Item 7A, Quantitative and Qualitative Disclosure About Market Risk included in our 2009 Form 10-K.



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### ***Interest Rate Sensitivity/Risk***

At March 31, 2010, interest on approximately 99.6 percent of our borrowings was determined on a fixed rate basis. The interest rates on the balance 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 debt and investments. Our analysis indicates that the effect on net income for the nine months ended March 31, 2010 of such an increase or decrease in interest rates would be approximately \$0.8 million.

### ***Foreign Currency Risk***

We maintain operations in Germany, the United Kingdom, France, Austria, Hungary, Mexico, and China. As a result, we are subject to market risks arising from changes in foreign currency exchange rates, principally the change in the value of the Euro versus the U.S. Dollar. Our subsidiaries purchase products and raw materials in various currencies. As a result, we may be exposed to cost changes relative to local currencies in the markets to which we sell our products. 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.

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.

Over half of our sales are denominated in Euros. The fluctuation in currency exchange rates, specifically the Euro versus the U.S. dollar, had a significant impact on earnings for the nine months ended March 31, 2010 compared to the same prior year period due to the strengthening of the Euro relative to the U.S. dollar. The average exchange rate for the Euro versus the U.S. dollar for the nine months ended March 31, 2010 increased 4.1 percent from the same period in the prior year. In recent months, the U.S. dollar has strengthened against the Euro.

To assess exposure to changes in currency exchange rates, we prepared an analysis assuming a hypothetical 10 percent change in currency exchange rates across all currencies used by our subsidiaries. This analysis indicated that a 10 percent increase in exchange rates would have decreased income before income taxes by approximately \$1.5 million and a 10 percent decrease in exchange rates would have increased income before income taxes by approximately \$1.5 million for the nine months ended March 31, 2010.

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 4. Controls and Procedures**

#### ***Evaluation of Disclosure Controls and Procedures***

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated by the SEC under the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms. We note that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving our stated goals under all potential future conditions.

#### ***Changes in Internal Control Over Financial Reporting***

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) as promulgated by the SEC under the Securities Exchange Act of 1934) during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A Risk Factors in our Annual Report on Form 10-K for the fiscal year ended June 30, 2009, which to our knowledge have not materially changed other than as set forth below.

#### ***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.***

Due to the recent economic downturn, many of our suppliers have significantly decreased their manufacturing capacity and inventory levels. These steps taken by our suppliers 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. 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.

#### ***The recent recalls by Toyota and consequent negative impact on Toyota's car sales may decrease demand for our products which could adversely affect our results of operations.***

Our financial performance depends, in a large part, on conditions in the automotive industry, which is highly dependent on general economic conditions and has recently experienced significant difficulty. Toyota, which is one of our customers, recently announced safety recalls on certain vehicles, and as a result of one of the recalls, temporarily suspended new car sales and halted production on the affected vehicles in some plants in North America. If Toyota continues to experience a reduction in sales, or one of our other automotive customers experiences a reduction in sales or increased financial difficulty, this may have an adverse effect on our business due to decreased demand, the potential inability of these companies to make full payment on amounts owed to us, or both.

**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

We acquired 27,876 shares at an average price of \$36.84 per share from certain members of our Board of Directors during the nine months ended March 31, 2010 in connection with the surrender of shares to pay option exercise prices, as shown in the table below.

| <b>Period</b>            | <b>Total Number<br/>of Shares<br/>Acquired<br/>During Period</b> | <b>Average Price<br/>Paid Per<br/>Share</b> |
|--------------------------|--|---|
| July 1 July 31           |  | \$  |
| August 1 August 31       |  |   |
| September 1 September 30 |  |   |
| October 1 October 31     | 11,875   | 31.60                                       |
| November 1 November 30   |  |   |
| December 1 December 31   | 6,020  | 36.15                                       |
| January 1 January 31     |  |   |
| February 1 February 28   |  |   |
| March 1 March 31         | 9,981  | 43.48                                       |
| Total                    | 27,876   | \$ 36.84                                    |

**Table of Contents****Item 6. Exhibits**

| Exhibit No. | Exhibit Description   |
|-------------|---|
| 4.1         | Supplemental Indenture, dated as of January 12, 2010, to the Indenture dated as of October 23, 2007, between Harman International Industries, Incorporated and Wells Fargo Bank, National Association (filed as Exhibit 4.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on January 12, 2010, and incorporated herein by reference). |
| 31.1        | Certification of Dinesh Paliwal pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*   |
| 31.2        | Certification of Herbert Parker pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*   |
| 32.1        | Certification of Dinesh Paliwal and Herbert Parker, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*  |
| 101.INS     | XBRL Instance Document.*  |
| 101.SCH     | XBRL Taxonomy Extension Schema.*  |
| 101.CAL     | XBRL Taxonomy Calculation Linkbase.*  |
| 101.LAB     | XBRL Taxonomy Label Linkbase.*  |
| 101.PRE     | XBRL Definition.*   |

\* Submitted electronically herewith.

Attached as Exhibit 101 to this report are the following financial information formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations for the three and nine months ended March 31, 2010 and 2009, (ii) Condensed Consolidated Balance Sheets at March 31, 2010 and June 30, 2009, (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended March 31, 2010 and 2009 and (iv) Notes to Condensed Consolidated Financial Statements. In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference in such filing.

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**SIGNATURES**

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

Harman International Industries, Incorporated

Date: April 29, 2010

By: */s/* HERBERT K. PARKER  
**Herbert K. Parker**  
**Executive Vice President and Chief Financial Officer**  
  
**(Principal Financial Officer)**