

HARMAN INTERNATIONAL INDUSTRIES INC /DE/
Form 10-K/A
September 29, 2004

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A**

Amendment No. 1

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

For the fiscal year ended **June 30, 2004**

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)

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

**1101 Pennsylvania Ave., N.W., Suite 1010,
Washington, D.C.**
(Address of principal executive offices)

20004
(Zip Code)

Registrant's telephone number, including area code: **(202) 393-1101**

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

| Title of Each Class | Name of Exchange on which registered |
|--|--------------------------------------|
| Common Stock, par value \$.01 per share | New York Stock Exchange |
| Preferred Stock Purchase Rights | New York Stock Exchange |

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market value of the voting stock held by nonaffiliates of the Registrant as of December 31, 2003 was \$4,484,104,612.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 66,188,810 shares of common stock, par value \$.01 per share, as of August 31, 2004.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement relating to the 2004 Annual Meeting of Shareholders are incorporated by reference in Part III, Items 10, 11, 12 and 14.

Explanatory Note

The sole purpose of this amendment is to amend the Report of Independent Registered Public Accounting Firm and the Consent of Independent Registered Public Accounting Firm to the Company's Annual Report on Form 10-K for the year ended June 30, 2004, as originally filed with the SEC on September 8, 2004, to correct a typographical error in the conformed signature of KPMG LLP that appears in Item 8 of Part II to this report and in Exhibit 23.1. The remainder of the information contained in the original Form 10-K filing is not hereby amended and this amendment does not reflect events occurring after the filing of the original Form 10-K.

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Item 8. Consolidated Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Harman International Industries, Incorporated:

We have audited the accompanying consolidated balance sheets of Harman International Industries, Incorporated and subsidiaries as of June 30, 2004 and 2003, and the related consolidated statements of operations, cash flows and shareholders' equity and comprehensive income for each of the years in the three-year period ended June 30, 2004. In connection with our audits of the consolidated financial statements, we also audited the consolidated financial statement schedule of valuation and qualifying accounts and reserves for each of the years in the three-year period ended June 30, 2004. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harman International Industries, Incorporated and subsidiaries as of June 30, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related consolidated financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

As discussed in note 1 to the consolidated financial statements, the Company changed its method of accounting for stock-based compensation and goodwill during the year ended June 30, 2003.

/s/ KPMG LLP

Los Angeles, California

August 12, 2004

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Consolidated Balance Sheets

Harman International Industries, Incorporated and Subsidiaries

(\$000s omitted except share amounts)

| | June 30, | |
|---|---------------------|------------------|
| | 2004 | 2003 |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 377,708 | 147,911 |
| Receivables (less allowance for doubtful accounts of \$8,657 in 2004 and \$13,785 in 2003) | 426,211 | 363,121 |
| Inventories (note 2) | 291,710 | 349,626 |
| Other current assets | <u>108,406</u> | <u>106,966</u> |
| Total current assets | 1,204,035 | 967,624 |
| Property, plant and equipment, net (notes 3, 6 and 7) | 434,091 | 393,920 |
| Goodwill (note 4) | 251,722 | 221,579 |
| Other assets | <u>98,962</u> | <u>120,535</u> |
| Total assets | <u>\$ 1,988,810</u> | <u>1,703,658</u> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Short-term borrowings (notes 5 and 6) | \$ 3,898 | 4,345 |
| Current portion of long-term debt (note 6) | 3,411 | 964 |
| Accounts payable | 238,663 | 176,846 |
| Accrued liabilities | 294,168 | 253,361 |
| Income taxes payable (note 10) | <u>122,214</u> | <u>51,894</u> |
| Total current liabilities | <u>662,354</u> | <u>487,410</u> |
| Senior long-term debt (note 6) | 387,616 | 497,759 |
| Other non-current liabilities | 63,844 | 62,704 |
| Shareholders' equity (note 11) | | |
| Preferred stock, \$.01 par value. Authorized 5,000,000 shares; none issued and outstanding | --- | --- |
| Common stock, \$.01 par value. Authorized 200,000,000 shares; issued 78,871,604 shares in 2004 and 78,000,848 in 2003 | 789 | 390 |
| Additional paid-in capital | 355,477 | 324,757 |
| Accumulated other comprehensive income (loss): | | |
| Unrealized loss on hedging derivatives | (7,821) | (10,605) |
| Minimum pension liability adjustment | (7,379) | (6,462) |
| Cumulative foreign currency translation adjustment | 43,179 | 11,548 |
| Retained earnings | 662,602 | 508,008 |
| Less common stock held in treasury (12,781,582 shares in 2004 and 2003) | <u>(171,851)</u> | <u>(171,851)</u> |
| Total shareholders' equity | <u>874,996</u> | <u>655,785</u> |
| Commitments and contingencies (notes 7, 8 and 14) | | |
| Total liabilities and shareholders' equity | <u>\$ 1,988,810</u> | <u>1,703,658</u> |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

Harman International Industries, Incorporated and Subsidiaries
(\$000s omitted except per share amounts)

| | Years Ended June 30, | | |
|---|----------------------|------------------|------------------|
| | 2004 | 2003 | 2002 |
| Net sales | \$ 2,711,374 | 2,228,519 | 1,826,188 |
| Cost of sales | <u>1,822,782</u> | <u>1,577,372</u> | <u>1,326,317</u> |
| Gross profit | 888,592 | 651,147 | 499,871 |
| Selling, general and administrative expenses | <u>634,127</u> | <u>484,253</u> | <u>396,650</u> |
| Operating income | 254,465 | 166,894 | 103,221 |
| Other expenses: | | | |
| Interest expense | 17,207 | 22,621 | 22,406 |
| Miscellaneous, net | <u>9,738</u> | <u>1,802</u> | <u>638</u> |
| Income before income taxes | 227,520 | 142,471 | 80,177 |
| Income tax expense | 69,637 | 37,043 | 22,602 |
| Minority interest | <u>---</u> | <u>---</u> | <u>62</u> |
| Net income | <u>\$ 157,883</u> | <u>105,428</u> | <u>57,513</u> |
| Basic earnings per share | <u>\$ 2.40</u> | <u>1.63</u> | <u>0.89</u> |
| Diluted earnings per share | <u>\$ 2.27</u> | <u>1.55</u> | <u>0.85</u> |
| Weighted average shares outstanding – basic | 65,779 | 64,688 | 64,522 |
| Weighted average shares outstanding – diluted | 69,487 | 68,048 | 67,806 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Harman International Industries, Incorporated and Subsidiaries

(\$000s omitted)

| | Years Ended June 30, | | |
|---------------------------------------|----------------------|------|------|
| | 2004 | 2003 | 2002 |
| Cash flows from operating activities: | | | |

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| | | | | |
|---|----|-----------------------|-----------------------|-----------------------|
| Net income | \$ | 157,883 | 105,428 | 57,513 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | | 106,032 | 88,545 | 78,084 |
| Deferred income taxes | | (17,119) | (10,528) | (12,379) |
| Loss on disposition of assets | | 13,358 | 4,814 | 6,897 |
| Stock option expense | | 10,942 | 5,025 | --- |
| Tax benefit attributable to stock options | | 9,819 | 18,250 | 4,169 |
| Changes in working capital, net of acquisition/disposition effects: | | | | |
| Decrease (increase) in: | | | | |
| Receivables | | (44,459) | 4,265 | 7,021 |
| Inventories | | 65,679 | 20,819 | 12,948 |
| Other current assets | | 5,294 | 19,071 | 3,951 |
| Increase (decrease) in: | | | | |
| Accounts payable | | 56,761 | (31,785) | 25,900 |
| Accrued liabilities | | 33,182 | 28,071 | (6,819) |
| Income taxes payable | | 66,429 | 8,240 | 24,151 |
| Other operating activities | | 18,650 | (10,153) | (11,065) |
| Net cash provided by operating activities | \$ | <u>482,451</u> | <u>250,062</u> | <u>190,371</u> |
| Cash flows from investing activities: | | | | |
| Payment for purchase of companies, net of cash acquired | \$ | (34,281) | (11,211) | (35,512) |
| Proceeds from asset dispositions | | 9,048 | 1,026 | 5,526 |
| Capital expenditures | | (135,493) | (115,337) | (104,527) |
| Other items, net | | 1,639 | (493) | (17,845) |
| Net cash used in investing activities | \$ | <u>(159,087)</u> | <u>(126,015)</u> | <u>(152,358)</u> |
| Cash flows from financing activities: | | | | |
| Net increase (decrease) in short-term borrowings | \$ | (750) | (229) | (20,528) |
| Net increase (decrease) in long-term debt | | (15,587) | (54,079) | 331,586 |
| Repayment of long-term debt | | (88,480) | --- | (238,961) |
| Debt issuance costs | | (285) | (1,580) | (778) |
| Repurchase of common stock | | --- | (31,212) | (3,667) |
| Dividends paid to shareholders | | (3,289) | (3,231) | (3,227) |
| Exercise of stock options and other benefits, net | | 10,358 | (8,677) | 8,488 |
| Net cash flow provided by (used in) financing activities | \$ | <u>(98,033)</u> | <u>(99,008)</u> | <u>72,913</u> |
| Effect of exchange rate changes on cash | | 4,466 | 6,619 | 2,579 |
| Net increase in cash and cash equivalents | | 229,797 | 31,658 | 113,505 |
| Cash and cash equivalents at beginning of period | \$ | <u>147,911</u> | <u>116,253</u> | <u>2,748</u> |
| Cash and cash equivalents at end of period | \$ | <u><u>377,708</u></u> | <u><u>147,911</u></u> | <u><u>116,253</u></u> |
| Supplemental schedule of non-cash investing activities: | | | | |
| Fair value of assets acquired | \$ | 35,678 | 30,455 | 62,487 |
| Cash paid for the assets | | 27,545 | 11,211 | 35,512 |
| Liabilities assumed | \$ | <u>8,133</u> | <u>19,244</u> | <u>26,975</u> |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity and Comprehensive Income

Harman International Industries, Incorporated and Subsidiaries

(\$000s omitted)

Years Ended June 30, 2004, 2003 and 2002

| | Common Stock | | Additional paid-in Capital | Accumulated other comprehensive income (loss) | | Retained Earnings | Treasury stock | Total shareholders' equity |
|-------------------------------|-------------------|------------------|----------------------------|---|----------------|-------------------|----------------|----------------------------|
| | Number of Shares | \$0.01 Par value | | | | | | |
| Balance, June 30, 2001 | <u>32,060,631</u> | <u>\$ 377</u> | <u>297,515</u> | <u>(89,503)</u> | <u>351,525</u> | <u>(136,972)</u> | <u>422,942</u> | |

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| | | | | | | | |
|--|-------------------|---------------|----------------|-----------------|----------------|------------------|----------------|
| Comprehensive income: | | | | | | | |
| Net income | — | — | — | — | 57,513 | — | 57,513 |
| Foreign currency translation adjustment | — | — | — | 47,602 | — | — | 47,602 |
| Unrealized gain (loss) on hedging derivatives | — | — | — | (4,284) | — | — | (4,284) |
| Minimum pension liability adjustment | — | — | — | (2,907) | — | — | (2,907) |
| Total comprehensive income | — | — | — | 40,411 | 57,513 | — | 97,924 |
| Exercise of stock options and restricted stock granted | 580,559 | 6 | 8,482 | — | — | — | 8,488 |
| Tax benefit attributable to stock options | — | — | 4,169 | — | — | — | 4,169 |
| Treasury shares purchased | (118,000) | — | — | — | — | (3,667) | (3,667) |
| Dividends (\$.05 per share) | — | — | — | — | (3,227) | — | (3,227) |
| Balance, June 30, 2002 | <u>32,523,190</u> | <u>\$ 383</u> | <u>310,166</u> | <u>(49,092)</u> | <u>405,811</u> | <u>(140,639)</u> | <u>526,629</u> |
| Comprehensive income: | | | | | | | |
| Net income | — | — | — | — | 105,428 | — | 105,428 |
| Foreign currency translation adjustment | — | — | — | 56,234 | — | — | 56,234 |
| Unrealized gain (loss) on hedging derivatives | — | — | — | (9,106) | — | — | (9,106) |
| Minimum pension liability adjustment | — | — | — | (3,555) | — | — | (3,555) |
| Total comprehensive income | — | — | — | 43,573 | 105,428 | — | 149,001 |
| Exercise of stock options, net of shares received | 669,934 | 7 | (8,684) | — | — | — | (8,677) |
| Tax benefit attributable to stock options | — | — | 18,250 | — | — | — | 18,250 |
| Stock option compensation | — | — | 5,025 | — | — | — | 5,025 |
| Treasury shares purchased | (583,491) | — | — | — | — | (31,212) | (31,212) |
| Dividends (\$.05 per share) | — | — | — | — | (3,231) | — | (3,231) |
| Balance, June 30, 2003 | <u>32,609,633</u> | <u>\$ 390</u> | <u>324,757</u> | <u>(5,519)</u> | <u>508,008</u> | <u>(171,851)</u> | <u>655,785</u> |
| Comprehensive income: | | | | | | | |
| Net income | — | — | — | — | 157,883 | — | 157,883 |
| Foreign currency translation adjustment | — | — | — | 31,631 | — | — | 31,631 |
| Unrealized gain (loss) on hedging derivatives | — | — | — | 2,784 | — | — | 2,784 |
| Minimum pension liability adjustment | — | — | — | (917) | — | — | (917) |
| Total comprehensive income | — | — | — | 33,498 | 157,883 | — | 191,381 |
| Stock issue: two-for-one split | 32,609,633 | 390 | (390) | — | — | — | — |
| Exercise of stock options, net of shares received | 870,756 | 9 | 10,349 | — | — | — | 10,358 |
| Tax benefit attributable to stock option plan | — | — | 9,819 | — | — | — | 9,819 |
| Stock option compensation | — | — | 10,942 | — | — | — | 10,942 |
| Dividends (\$.05 per share) | — | — | — | — | (3,289) | — | (3,289) |
| Balance, June 30, 2004 | <u>66,090,022</u> | <u>\$ 789</u> | <u>355,477</u> | <u>27,979</u> | <u>662,602</u> | <u>(171,851)</u> | <u>874,996</u> |

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

Harman International Industries, Incorporated and Subsidiaries

Note 1-Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and subsidiaries after the elimination of significant intercompany transactions and accounts.

Reclassifications. Where necessary, prior years' information has been reclassified to conform to the 2004 financial statement presentation.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates, and the differences may be material to the consolidated financial statements.

Among the most significant estimates used in the preparation of our financial statements are estimates associated with the valuation of inventory, depreciable lives of fixed assets, the evaluation of net assets acquired and allocation of related purchase prices for corporate acquisitions, the evaluation of the recoverability of goodwill, evaluation of the recoverability of pre-production and development contract costs, warranty liability, litigation, product liability, taxation and environmental matters. In addition, estimates form the basis for our reserves for sales discounts, sales allowances, accounts receivable, inventory, and postretirement and other employee benefits. Various assumptions go into the determination of these estimates. The process of determining significant estimates requires consideration of factors such as historical experience, current and expected economic conditions, and actuarial methods. We re-evaluate these significant factors and makes changes and adjustments where facts and circumstances indicate that changes are necessary.

Revenue Recognition. Revenue is 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 revenue transactions involve the delivery of a physical product. We do not have multiple element arrangements that contain undelivered products or services at shipment.

Sales Discounts. We offer product discounts and sales incentives including prompt payment discounts, volume incentive programs, rebates and dealer order incentives. We report revenues net of discounts and other sales incentives in accordance with Emerging Issues Task Force (EITF) Issue No. 01-09.

Cost of Sales. Cost of sales includes material, labor and overhead for products manufactured by us and cost of goods produced for us on a contract basis. Expenses incurred for manufacturing depreciation and engineering, warehousing, shipping and handling, sales commissions, and customer service are also included in cost of sales.

Bad Debt Reserve. We reserve an estimated amount for accounts receivable that may not be collected. Methodologies for estimating bad debt reserves range from specific reserves to various percentages applied to aged receivables. Historical collection rates and customer credit worthiness are considered in determining specific reserves. At June 30, 2004, we had \$8.7 million reserved for possible uncollectible accounts receivable. As with many estimates, management must make judgments about potential actions by third parties in establishing and evaluating our reserves for bad debts.

Warranty Liabilities. We warrant our products to be free from defects in materials and workmanship for a period ranging from 90 days to five years from the date of purchase, depending on the product. The warranty is a limited warranty, and it imposes certain shipping costs on the customer and excludes deficiencies in appearance except for those evident when the product is delivered. Our dealers normally perform warranty service for loudspeakers and

electronics in the field, using parts supplied on an exchange basis by the Company. Warranties in international markets are generally similar to those in the domestic market. Estimated warranty liabilities are based upon past experience with similar types of products, the technological sophistication of certain products, replacement cost and other factors. Please see Note 9, *Warranty Liabilities*, for addition information regarding the Company's warranties.

Selling, General and Administrative Expenses. Selling, general and administrative expenses include non-manufacturing salaries and benefits, occupancy costs, professional fees, research and development costs, amortization of intangibles, advertising and marketing costs and other operating expenses.

Advertising Costs. We expense advertising costs as incurred. When production costs are incurred for future advertising, these costs are recorded as an asset and subsequently expensed when the advertisement is first put into service.

Amortization of intangibles. Amortization of intangibles primarily includes amortization of intangible assets such as patents, trademarks and distribution agreements and amortization of costs, other than interest costs, associated with debt issuance. In accordance with SFAS 142, *Goodwill and Other Intangible Assets*, goodwill was not amortized after July 1, 2002. Prior to SFAS 142, goodwill was amortized over periods from 3 to 40 years, using the straight-line method, and impairment testing was based on an undiscounted cash flow analysis for future periods.

Research and Development. Research and development costs are expensed as incurred. The Company's expenditures for research and development were \$216.9 million, \$143.1 million and \$109.9 million for the fiscal years ending June 30, 2004, 2003 and 2002, respectively.

Interest Expense. Interest expense includes interest expense and amortization of original issue discount on debt securities, net of interest income.

Cash and Cash Equivalents. Cash and cash equivalents includes cash on hand and short-term investments with original maturities of less than three months.

Inventories. 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 along with analysis of usage data that we use in the valuation of inventory are the basis for our inventory reserves and have an effect on our results of operations. Please see Note 2, *Inventories*, for additional information.

Property, Plant and Equipment. Property, plant and equipment is stated at cost or, in the case of capitalized leases, at the present value of the future minimum lease payments. Depreciation and amortization of property, plant and equipment is computed primarily using the straight-line method over useful lives estimated from 3 to 50 years or over the term of the lease, whichever is shorter. Buildings and improvements are depreciated over 3 to 50 years, machinery and equipment are depreciated over 5 to 10 years and furniture and fixtures are depreciated over 3 years. Please see Note 3, *Property, Plant and Equipment*, for additional information.

Goodwill. Effective July 1, 2002, we adopted SFAS 142, *Goodwill and Other Intangible Assets*. Under SFAS 142, goodwill and other intangible assets deemed to have indefinite lives are no longer amortized, but are subject to an annual impairment test. Other amortizable intangible assets continue to be amortized over their useful lives. The goodwill balance at June 30, 2004 was \$251.7 million. During our annual impairment test in fiscal 2004, we determined that goodwill was not impaired based on a valuation of our reporting units at the April 30, 2004 test date.

The valuation took into consideration various factors such as our historical performance, future discounted cash flows, performance of our competitors and overall market conditions.

We cannot predict the occurrence of certain events that might adversely affect the reported value of goodwill. Such events may include, but are not limited to, strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on the our customer base, or a material negative change in our relationships with significant customers. Please see Note 4, *Goodwill*, for additional information.

Pre-Production and Development Costs. We incur pre-production and development costs related to infotainment systems that we develop for automobile manufacturers pursuant to long-term supply agreements. We record certain costs incurred pursuant to these agreements as unbilled costs in accordance with EITF Issue No. 99-5, *Accounting for Pre-Production Costs Related to Long-Term Supply Agreements*, or the percentage of completion method of AICPA Statement of Position (SOP) 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*.

Unbilled costs at June 30, 2004 were \$47.0 million, including \$17.0 million of pre-production costs and \$30.0 million of costs under development contracts. Unbilled costs reimbursable in the next twelve months total \$15.7 million and are recorded in other current assets. Unbilled costs reimbursable in subsequent years total \$31.3 million and are recorded in other assets.

At June 30, 2003, total unbilled costs were \$58.2 million, including \$38.0 million of pre-production costs and \$20.2 million of costs under development contracts. At June 30, 2003, unbilled costs reimbursable in the next twelve months totaled \$19.4 million and were recorded in other current assets. Unbilled costs reimbursable in subsequent years totaled \$38.8 million and were recorded in other assets.

At June 30, 2004, we had fixed assets of \$10.2 million for molds, dies and other tools which our customers will eventually own pursuant to long-term supply contracts.

Purchased and Deferred Software Costs. Software costs that are related to conceptual formulation and incurred prior to the establishment of technological feasibility are expensed as incurred. Costs incurred to purchase software to be sold as an integral component of a product are deferred until the product is sold. Software costs incurred subsequent to establishment of technological feasibility and which are considered recoverable by management are deferred in compliance with SFAS 86 and amortized over the product's life, usually three years. At June 30, 2004, deferred costs were \$4.0 million, net of accumulated amortization of \$31.5 million. At June 30, 2003, deferred costs were \$7.9 million, net of accumulated amortization of \$26.6 million. Deferred costs, net, are included in other assets on the balance sheet. Deferred costs are principally comprised of costs to acquire or develop automotive navigation, telecommunications and networking software.

Income Taxes. The deferred income tax asset or liability is determined by applying currently enacted tax laws and rates to the expected reversal of the cumulative temporary differences between the carrying value of assets and liabilities for financial statement and income tax purposes. Deferred income

tax expense is measured by the change in the net deferred income tax asset or liability during the year. We have not made provision for U.S. federal or foreign withholding taxes on foreign subsidiary undistributed earnings as of June 30, 2004, because such earnings are intended to be permanently invested. It is not practicable to determine the U.S. Federal income tax liability, if any, which would be payable if such earnings were not reinvested indefinitely. Additional information regarding income taxes appears in Note 10, *Income Taxes*.

Pension and Other Postretirement benefits. We provide postretirement benefits to certain employees. Domestic employees are covered by a defined contribution plan. Our contributions to this plan are based on a percentage of employee contributions and, with approval of the Board of Directors, profit sharing contributions may be made as a percentage of employee compensation. These plans are funded on a current basis.

Certain non-domestic employees are covered by non-contributory defined benefit plans. The defined benefit plans are funded in conformity with the funding requirements of applicable government regulations. Generally, benefits are based on age, years of service, and the level of compensation during the final years of service.

We also have an unfunded Supplemental Executive Retirement Plan (SERP) that provides retirement, pre-retirement and termination benefits, as defined, to certain key executives designated by the Board of Directors. Pension and Other Postretirement benefits are discussed further in Note 12, *Pension and Other Postretirement Benefits*.

Foreign Currency Translation. The financial statements of subsidiaries located outside of the United States generally are measured using the local currency as the functional currency. Assets, including goodwill, and liabilities of these subsidiaries are translated at the rates of exchange at the balance sheet date. The resulting translation adjustments are included in accumulated other comprehensive income (loss). Income and expense items are translated at average monthly exchange rates. Gains and losses from foreign currency transactions of these subsidiaries are included in net income.

Derivative Financial Instruments. We are exposed to market risks arising from changes in interest rates, commodity prices and foreign currency exchange rates. We use derivatives in our management of interest rate and foreign currency exposure. We do not utilize derivatives that contain leverage features. On the date that we enter into a derivative, the derivative is designated as a hedge of the identified exposure. We document all relationships between hedging instruments and hedged items and measure the effectiveness of our hedges at inception and on an ongoing basis.

For each derivative instrument that is designated and qualifies as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings during the period of the change in fair values. For each derivative instrument that is designated and qualifies as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the period during which the hedged transaction affects earnings. For derivatives that are designated and qualify as hedges of net investments in subsidiaries located outside the United States, the gain or loss is reported in other comprehensive income as a part of the cumulative translation adjustment if the derivative is effective. For derivative instruments not designed as hedging instruments, the gain or loss is recognized in current earnings during the period of change. For additional information regarding derivatives, please see Note 15, *Derivatives*.

Interest Rate Management. We have in place interest rate swaps, which are designated as fair value hedges of the underlying fixed rate obligations. The fair value of the interest rate swaps is recorded in other assets or other long-term liabilities with a corresponding increase or decrease in the fixed rate obligation. The changes in the fair value of the interest rate swaps and the underlying fixed rate obligations are recorded as equal and offsetting unrealized gains and losses in interest expense in the Consolidated Statement of Operations.

Foreign Currency Management. The fair value of foreign currency related derivatives is included in the Consolidated Balance Sheet in other current assets and accrued liabilities. The earnings impact of cash flow hedges relating to forecasted purchases of inventory is generally reported in cost of sales to match the underlying transaction

being hedged. Unrealized gains and losses on these instruments are deferred in other comprehensive income until the underlying transaction is recognized in earnings. The earnings impact of cash flow hedges relating to the variability in cash flows associated with foreign currency denominated assets and liabilities is reported in cost of sales or other expense depending on the nature of the assets or liabilities being hedged. The amounts deferred in other comprehensive income associated with these instruments generally relate to foreign currency spot-rate to forward-rate differentials that are recognized in earnings over the term of the hedge. The discount or premium relating to cash flow hedges associated with foreign currency denominated assets and liabilities is recognized in net interest expense over the life of the hedge.

Stock Based Compensation. On July 1, 2002, the Company adopted the fair-value method of stock based compensation per SFAS 123, *Accounting for Stock-Based Compensation*, for all grants made on or after July 1, 2002. As such, an expense based on service attribution recognized in accordance with Financial Accounting Standards Interpretation No. (FIN) 28 and the fair value of stock options granted in fiscal 2004 has been reflected in net income. Prior to fiscal 2003, we accounted for expense under the stock option plans according to the intrinsic-value-based provisions of APB No. 25, *Accounting for Stock Issue to Employees*, and related interpretations. Options granted in prior periods continue to be accounted for under the intrinsic-value-based provisions of APB No. 25. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. Consequently, no compensation expense was recognized in fiscal 2002 for stock options issued under the stock option plans. Stock based compensation is discussed further in Note 11, *Stock Option and Incentive Plan*.

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The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock Based Compensation* to all of our outstanding and unvested awards in each period:

| (\$000s omitted except per share amounts) | Years Ended June 30, | | |
|---|----------------------|----------------|---------------|
| | 2004 | 2003(a) | 2002(a) |
| Reported net income | \$ 157,883 | 105,428 | 57,513 |
| Add: Stock based employee compensation expense included in reported net income, net of tax | 7,906 | 3,852 | 189 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax | 9,802 | 7,252 | 5,622 |
| Net income, pro forma | <u>\$ 155,987</u> | <u>102,028</u> | <u>52,080</u> |
| Basic earning per share, as reported | \$ 2.40 | 1.63 | 0.89 |
| Basic earnings per share, pro forma | <u>2.37</u> | <u>1.58</u> | <u>0.81</u> |
| Diluted earnings per share, as reported | \$ 2.27 | 1.55 | 0.85 |
| Diluted earnings per share, pro forma | <u>2.24</u> | <u>1.50</u> | <u>0.77</u> |

(a) Basic and diluted earnings per share have been adjusted to reflect the two-for-one stock split in November 2003.

Recent Accounting Pronouncements. In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46 "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" (FIN 46). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest

entities created or acquired prior to February 1, 2003, the provisions of FIN 46 will be applicable for the first interim or annual period beginning after December 15, 2003. In July 2003, the FASB added a limited scope project to its agenda to modify FIN 46. In December 2003, the FASB released a revised version of FIN 46 (hereafter referred to as FIN 46R) clarifying certain aspects of FIN 46 and providing certain entities with exemptions from the requirements of FIN 46. The Company adopted the provisions of FIN 46R in fiscal 2004. The adoption of FIN 46R did not have a material impact on the Company's consolidated financial statements.

In April 2003, the FASB issued SFAS 149 "Amendment of Statement on Derivative Instruments and Hedging Activities." SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is effective for all contracts created or modified after June 30, 2003. The Company adopted SFAS 149 on July 1, 2003. The adoption of SFAS 149 did not have a material impact on the Company's consolidated financial statements.

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In May 2003, the FASB issued SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement requires the classification of certain financial instruments that embody obligations for the issuer as liabilities (or assets in some circumstances). This statement was effective generally for financial instruments entered into or modified after May 31, 2003, and otherwise was effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not have financial instruments within the scope of SFAS No. 150.

In December 2003, the FASB issued a revision to SFAS No. 132 "Employer's Disclosures about Pension and Other Post-Retirement Benefits." As revised, this statement requires additional disclosures about plan assets, obligations, cash flows and net periodic benefit costs of defined benefit plans and other relevant information. Cash flows will include projections of future benefit payments and an estimate of contributions to be made in the next year to fund pension and other postretirement benefit plans. In addition to expanded annual disclosures, the FASB requires companies to report the various elements of pension and other postretirement benefit costs on a quarterly basis. The disclosure requirements are effective for annual financial statements with fiscal years ending after December 15, 2003 and for interim periods beginning after December 15, 2003. The Company adopted the additional disclosure requirements of SFAS No. 132R in fiscal 2004. See Note 12, *Pension and Other Postretirement Benefits* for additional information.

Note 2-Inventories

Inventories consist of the following:

| (\$000s omitted) | June 30, | |
|----------------------------|-------------------|----------------|
| | 2004 | 2003 |
| Finished goods | \$ 104,705 | 126,729 |
| Work in process | 44,738 | 54,733 |
| Raw materials and supplies | 142,267 | 168,164 |
| <i>Total</i> | <u>\$ 291,710</u> | <u>349,626</u> |

The Company calculates inventory reserves using a combination of lower of cost or market analysis, analysis of historical usage data and forecast demand data. Lower of cost or market analysis is typically applied to those items of inventory that represent a high portion of the total value of inventory on-hand. The high-value units typically represent a small percentage of the total inventory items, so identification of obsolescence or valuation reserve requirements for the balance of the inventory on-hand is accomplished using either historic or forecast usage data to

identify slow-moving or obsolete items.

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Note 3-Property, Plant and Equipment

Property, plant and equipment are composed of the following:

| (\$000s omitted) | June 30, | |
|--|-------------------|------------------|
| | 2004 | 2003 |
| Land | \$ 10,396 | 10,566 |
| Buildings and improvements | 193,599 | 182,215 |
| Machinery and equipment | 559,663 | 489,241 |
| Furniture and fixtures | 76,548 | 65,180 |
| | <u>840,206</u> | <u>747,202</u> |
| Less accumulated depreciation and amortization | <u>(406,115)</u> | <u>(353,282)</u> |
| <i>Property, plant and equipment, net</i> | <u>\$ 434,091</u> | <u>393,920</u> |

Note 4-Goodwill

Goodwill was \$251.7 million at June 30, 2004 compared with \$221.6 million at June 30, 2003. The increase is due primarily to the acquisition of two engineering resource centers that added \$16.7 million to the goodwill balance. The remaining increase was due to foreign currency translation. Our SFAS 142 annual impairment test concluded that goodwill was not impaired as of the test date, April 30, 2004. There was no amortization of goodwill in fiscal years 2004 and 2003 in accordance with SFAS 142. Amortization of \$7.7 million was recorded during fiscal 2002.

Prior to July 1, 2002, goodwill was amortized over periods from three to 40 years, using the straight-line method. The following is a pro forma presentation of reported net income, adjusted for the exclusion of goodwill amortization net of related income tax effect:

| (\$000s omitted except per share amounts) | Years Ended June 30, | | |
|---|----------------------|----------------|---------------|
| | 2004 | 2003 (a) | 2002 (a) |
| Net income, reported | \$ 157,883 | 105,428 | 57,513 |
| Goodwill amortization, net of tax | --- | --- | 5,494 |
| Net income, adjusted | <u>\$ 157,883</u> | <u>150,428</u> | <u>63,007</u> |
| Basic earnings per share, reported | \$ 2.40 | 1.63 | .89 |
| Goodwill amortization, net of tax | --- | --- | .09 |
| Basic earnings per share, adjusted | <u>\$ 2.40</u> | <u>1.63</u> | <u>.98</u> |
| Diluted earnings per share, reported | \$ 2.27 | 1.55 | .85 |
| Goodwill amortization, net of tax | --- | --- | .08 |
| Diluted earnings per share, adjusted | <u>\$ 2.27</u> | <u>1.55</u> | <u>.93</u> |

(a) Basic and diluted earnings per share have been adjusted to reflect the two-for-one stock split in November 2003.

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Note 5- Short-Term Borrowings

At June 30, 2004, we had outstanding short-term borrowings of \$3.9 million at a weighted average interest rate of 2.9 percent. The short-term borrowings were under unsecured lines of credit totaling \$8.1 million in Japan and China. We had \$4.3 million of outstanding short-term borrowings at a weighted average interest rate of 3.0 percent at June 30, 2003.

Note 6- Long-Term Debt

Our long-term debt at June 30, 2004, was comprised primarily of \$220.6 million of 7.125 percent senior notes due February 15, 2007, and \$140.0 million of 7.32 percent senior notes due July 1, 2007. The Company has a \$150 million multi-currency revolving credit facility with a group of banks. This facility expires on August 14, 2005. The interest rate on the revolving rate facility is based upon LIBOR plus 80 to 125 basis points and we pay a commitment fee of 20 to 50 basis points. The interest rate and commitment fee are determined based upon our interest coverage ratio and senior unsecured debt rating. At June 30, 2004, the Company had no borrowings under the revolving credit facility and outstanding letters of credit of \$16.0 million.

Our long-term debt agreements contain covenants that, among other things, limit the ability of the Company to incur additional indebtedness, create restrictions on subsidiary dividends and distributions, limit the Company's ability to encumber certain assets and restrict the Company's ability to issue capital stock of our subsidiaries. The most restrictive provisions limit the Company's ability to make dividend payments and purchases of capital stock to \$50 million annually. The Company was in compliance with the terms of our long-term debt agreements at June 30, 2004 and 2003.

The Company's weighted average borrowings were \$453.0 million, \$465.1 million and \$451.9 million for fiscal years ended 2004, 2003 and 2002, respectively. The weighted average interest rate in fiscal 2004 was 4.6 percent. In fiscal 2003 and fiscal 2002, the weighted average interest rate was 5.0 percent.

Cash paid for interest was \$18.7 million, \$22.7 million, and \$23.3 million during the fiscal years ended June 30, 2004, 2003 and 2002, respectively.

During the fiscal year ended June 30, 2004, we purchased and retired \$78.5 million of our 7.125 percent senior notes due February 2007 and \$10 million of our 7.32 percent senior notes due July 2007 at an average premium of 1.0934, resulting in an other non-operating expense of \$8.3 million. The Company also unwound \$10 million in interest rate swaps that hedged the 7.32 percent senior notes due February 2007, resulting in a gain to other non-operating expense of \$0.7 million.

Long-term debt is composed of the following:

| (\$000s omitted) | June 30, | |
|---|------------|---------|
| | 2004 | 2003 |
| Senior notes, unsecured, due February 15, 2007 interest due semiannually at 7.13% | \$ 220,597 | 298,287 |
| Senior notes, unsecured, due July 1, 2007 due semiannually at 7.32% | 140,000 | 150,000 |
| Carrying value of interest rate hedge | 14,179 | 37,137 |

| | | |
|--|-------------------|----------------|
| Obligations under capital leases (note 7) | 4,027 | 4,573 |
| Other unsubordinated variable rate loans due through 2030, bearing interest at an average effective rate of 1.59% at June 30, 2004 | <u>12,224</u> | <u>8,726</u> |
| Total | 391,027 | 498,723 |
| Less current installments | <u>(3,411)</u> | <u>(964)</u> |
| <i>Long-term debt</i> | <u>\$ 387,616</u> | <u>497,759</u> |

Long-term debt, including obligations under capital leases, maturing in each of the next five fiscal years is as follows (\$000s omitted):

| | | |
|------------|----|--------------|
| 2005 | \$ | 3,411 |
| 2006 | | 3,063 |
| 2007 | | 229,901 |
| 2008 | | 145,729 |
| 2009 | | 451 |
| Thereafter | | <u>8,472</u> |

Note 7-Leases

The following analysis represents property under capital leases:

| (\$000s omitted) | June 30, | |
|-------------------------------|-----------------|----------------|
| | 2004 | 2003 |
| Capital lease assets | \$ 13,076 | 12,351 |
| Less accumulated amortization | <u>(5,164)</u> | <u>(4,358)</u> |
| <i>Net</i> | <u>\$ 7,912</u> | <u>7,993</u> |

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At June 30, 2004, the Company is obligated for the following minimum lease commitments under terms of noncancelable lease agreements:

| (\$000s omitted) | Capital Leases | Operating Leases |
|--|-------------------|---------------------|
| 2005 | \$ 1,073 | \$ 46,510 |
| 2006 | 665 | 39,174 |
| 2007 | 514 | 32,081 |
| 2008 | 509 | 28,423 |
| 2009 | 508 | 22,422 |
| Thereafter | <u>1,326</u> | <u>32,021</u> |
| Total minimum lease payments | 4,595 | <u>\$ 200,631</u> |
| Less interest | <u>(568)</u> | |
| <i>Present value of minimum lease payments</i> | <u>\$ 4,027</u> | |

Operating lease expense for the years ended June 30, 2004 and 2003 was \$65.4 million each year, and for the year ended June 30, 2002 was \$60.7 million.

Note 8- Fair Value of Financial Instruments

The estimated fair value of the Company's financial instruments was determined using market information and valuation methodologies. In the measurement of the fair value of certain financial instruments, quoted market prices were unavailable and other valuation techniques were utilized. These derived fair value estimates are significantly affected by the assumptions used.

The fair values of cash and cash equivalents, receivables, accounts payable, accrued liabilities and short-term borrowings approximate their carrying values due to the short-term nature of these items.

Fair values of long-term debt are based on market prices where available. When quoted market prices are not available, fair values are estimated using discounted cash flow analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

The carrying value and fair value of long-term debt were \$391.0 million and \$392.7 million, respectively, at June 30, 2004.

Note 9-Warranty Liabilities

Details of the estimated warranty liability are as follows:

| (\$000s omitted) | Years Ended June 30, | |
|-------------------------------------|----------------------|---------------|
| | 2004 | 2003 |
| Beginning balance | \$ 21,122 | 12,495 |
| Warranty provisions | 44,719 | 30,748 |
| Warranty payments (cash or in-kind) | (25,096) | (22,121) |
| <i>Ending balance</i> | <u>\$ 40,745</u> | <u>21,122</u> |

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Note 10-Income Taxes

The tax provisions and analysis of effective income tax rates are comprised of the following items:

| (\$000s omitted) | Years Ended June 30, | | |
|---|----------------------|--------------|------------|
| | 2004 | 2003 | 2002 |
| Provision for Federal income taxes before credits at statutory rate | \$ 79,632 | 49,865 | 28,062 |
| State income taxes | 8 | 135 | 344 |
| Difference between Federal statutory rate and foreign effective rate | (2,311) | (2,260) | 526 |
| Permanent differences | 707 | (398) | 226 |
| Tax benefit from export sales | (4,777) | (2,660) | (3,242) |
| Loss on foreign investment | (1,910) | (3,196) | --- |
| Change in valuation allowance | 1,423 | (1,454) | (541) |
| Change in other tax liabilities | (1,277) | 855 | (925) |
| Difference between Federal and financial accounting for incentive stock option grants | 752 | 400 | --- |
| Federal income tax credits | (3,000) | (3,972) | (2,000) |
| Other | <u>390</u> | <u>(272)</u> | <u>152</u> |

Total \$69,637 37,043 22,602

Income tax expense (benefit) consists of the following:

| (\$000s omitted) | Years Ended June 30, | | |
|---|----------------------|-----------------|-----------------|
| | 2004 | 2003 | 2002 |
| Current: | | | |
| Federal | \$ 1,216 | 2,765 | 4,989 |
| State | 362 | 395 | 380 |
| Foreign | <u>77,601</u> | <u>35,715</u> | <u>24,371</u> |
| | <u>79,179</u> | <u>38,875</u> | <u>29,740</u> |
| Deferred: | | | |
| Federal | (7,912) | (19,484) | (3,454) |
| State | (343) | (260) | (36) |
| Foreign | <u>(11,106)</u> | <u>(338)</u> | <u>(7,817)</u> |
| | <u>(19,361)</u> | <u>(20,082)</u> | <u>(11,307)</u> |
| Charge in lieu of taxes attributable to tax benefit from employee stock options | <u>9,819</u> | <u>18,250</u> | <u>4,169</u> |
| <i>Total</i> | <u>\$ 69,637</u> | <u>37,043</u> | <u>22,602</u> |

Deferred taxes are recorded based upon differences between the financial statement and tax basis of assets and liabilities and available tax loss and credit carry-forwards.

The following deferred taxes are recorded:

Assets/(liabilities)

| (\$000s omitted) | June 30, | |
|--|--------------------|-----------------|
| | 2004 | 2003 |
| Federal tax loss | \$ 4,983 | 12,651 |
| Federal tax credits | 13,639 | 10,247 |
| Inventory costing differences | 7,355 | 7,170 |
| Foreign net operating loss | 16,864 | 9,064 |
| Valuations and other allowances | <u>28,179</u> | <u>18,037</u> |
| Total gross deferred tax asset | \$ 71,020 | 57,169 |
| Less valuation allowance | (3,069) | (1,646) |
| Deferred tax asset | \$ 67,951 | 55,523 |
| Total gross deferred tax liability from fixed asset depreciation | \$ (14,094) | (14,541) |
| Foreign statutory accounting including royalty payments | <u>(17,238)</u> | <u>(21,482)</u> |
| Total gross deferred tax liability | <u>\$ (31,332)</u> | <u>(36,023)</u> |
| Net deferred tax asset | <u>\$ 36,619</u> | <u>19,500</u> |

We have Federal research credit carryforwards of \$12.6 million and \$9.6 million at June 30, 2004 and 2003, respectively, and an alternative minimum tax credit carryforward valued at \$1.0 million and \$0.6 million at June 30, 2004 and 2003, respectively. The research credit carryforward will begin to expire in 2019. The alternative minimum tax credit does not expire. We have U.S. Federal net operating loss carryovers of \$14.2 million that will expire in 2023. Additionally, we have an Austrian net operating loss carryover of \$38 million that will not expire and other foreign net operating loss carryovers of \$11.1 million that begin to expire in 2009. A valuation allowance has been

established for certain of the foreign net operating loss carryovers. Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax asset.

Cash paid for Federal, state and foreign income taxes was \$8.5 million, \$11.4 million and \$6.2 million, during fiscal years ended June 30, 2004, 2003 and 2002, respectively.

Accrued income taxes were \$122.2 million and \$51.9 million as of June 30, 2004 and 2003, respectively. These balances are included in accrued liabilities.

During the fiscal year ended June 30, 2004, we generated income before income taxes of \$50.5 million from our operations in the United States and \$177.0 million from our international operations.

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Note 11-Stock Option and Incentive Plan

The 2002 Stock Option and Incentive Plan (the 2002 Plan) authorizes the granting of stock options, stock appreciation rights in tandem with options, restricted stock and performance units to officers and key employees of the Company. In addition, the 2002 Plan authorizes the automatic annual grant of options to the non-officer directors of the Company and for a further automatic grant to such non-officer directors each year in which the Company achieves a specified level of return on consolidated equity.

The 2002 Plan replaced our 1992 Plan. The 1992 Plan expired on November 9, 2002; however, options previously granted pursuant to this Plan of 6,057,238 remain outstanding and will be exercisable in accordance with the terms of the 1992 Plan. The 2002 Plan expires on November 8, 2012. At June 30, 2004, a total of 5,004,250 shares of Common Stock were available for grant under the 2002 Plan and a total of 12,119,438 shares of Common Stock were reserved for issuance under all plans.

Stock appreciation rights allow the holders to receive a predetermined percentage of the spread between the option price and the fair market value of the shares on the date of exercise. A grant of restricted stock involves the immediate transfer of ownership of a specified number of shares of Common Stock with a “substantial risk of forfeiture” for a period of at least three years. The participant that receives a restricted stock grant is entitled immediately to voting, dividend and other share ownership rights associated with the restricted stock. A performance unit is the equivalent of \$100 and is awarded for the achievement of specified management objectives as a condition to the payment of the award. The performance period will not be less than three years.

Options to purchase shares of Common Stock have been granted under both the 1992 and 2002 Plans. In fiscal 2004, the Company granted 933,750 stock options under the 2002 Plan. No stock appreciation right, restricted stock or performance unit grants have been made under the 2002 Plan. Options granted are at prices not less than market value on the date of grant and, under the terms of the 2002 Plan, may not be re-priced. Options granted pursuant to the 2002 Plan generally vest over five years and expire ten years from the date of grant.

For purposes of awards granted under SFAS No. 123 and the pro-forma disclosures for awards granted under APB No. 25, the fair value of each option granted has been estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted average assumptions used for grants in fiscal 2004, 2003, and 2002, respectively: annual dividends consistent with the Company's current dividend policy, which resulted in payments of \$0.05 per share in the last three years; expected volatility of 41%, 44% and 40%; risk free interest rate of 3.3%, 3.0% and 4.0%; and weighted average expected life of 6.2 years, 5.4 years and 5.4 years in fiscal 2004, 2003 and 2002, respectively. The weighted average fair value of options granted was \$26.72 in fiscal 2004, \$10.59 in fiscal

2003, and \$7.78 in fiscal 2002.

Stock Option Activity Summary: Years ended June 30

| | Shares | Weighted Average Exercise Price |
|--------------------------|-------------------------|---------------------------------|
| Balance at June 30, 2001 | <u>9,883,198</u> | \$ 10.46 |
| Granted | 647,000 | \$ 18.50 |
| Canceled | (1,408,040) | \$ 10.13 |
| Exercised | <u>(1,270,758)</u> | \$ 8.40 |
| Balance at June 30, 2002 | <u>7,851,400</u> | \$ 11.52 |
| Granted | 1,424,000 | \$ 24.44 |
| Canceled | (117,764) | \$ 12.55 |
| Exercised | <u>(1,991,562)</u> | \$ 8.06 |
| Balance at June 30, 2003 | <u>7,166,074</u> | \$ 15.03 |
| Granted | 933,750 | \$ 60.08 |
| Canceled | (106,920) | \$ 15.95 |
| Exercised | <u>(877,716)</u> | \$ 12.19 |
| Balance at June 30, 2004 | <u><u>7,115,188</u></u> | \$ 21.28 |

Options Outstanding at June 30, 2004:

| Ranges of exercise prices | Number of options | Weighted average remaining life in years | Weighted average exercise price |
|---------------------------|-------------------------|---|------------------------------------|
| \$ 8.45 – 12.63 | 3,107,658 | 4.16 | \$ 10.98 |
| \$ 13.13 – 18.89 | 1,705,400 | 5.88 | \$ 16.33 |
| \$ 20.50 – 28.94 | 1,368,380 | 8.19 | \$ 24.36 |
| \$ 39.59 – 59.35 | 524,000 | 9.22 | \$ 49.44 |
| \$ 60.57 – 75.22 | <u>409,750</u> | 9.70 | \$ 73.69 |
| \$ 8.45 – 75.22 | <u><u>7,115,188</u></u> | 6.04 | \$ 21.28 |

Options Exercisable at June 30, 2004:

| Ranges of exercise prices | Number of options | Weighted average exercise price |
|---------------------------|-------------------------|------------------------------------|
| \$ 8.45 – 12.63 | 2,506,298 | \$ 10.77 |
| \$ 13.13 – 18.89 | 996,200 | \$ 15.72 |
| \$ 20.50 – 28.94 | 240,180 | \$ 24.11 |
| \$ 39.59 – 59.35 | --- | \$ --- |
| \$ 60.57 – 75.22 | --- | \$ --- |
| \$ 8.45 – 75.22 | <u><u>3,742,678</u></u> | \$ 12.95 |

At June 30, 2003, options with a weighted average exercise price of \$11.71 were exercisable on 3,443,654 shares. At June 30, 2002, options with a weighted average exercise price of \$9.72 were exercisable on 4,316,540 shares.

We adopted SFAS No. 123 in July 2002. Prior to fiscal 2003, we accounted for expense under the stock option plans according to the provisions of APB No. 25 and related interpretations. Accordingly, no compensation expense was

recognized in fiscal year 2002 for stock options issued under the stock option plans. In July 2003, the Company implemented the expense recognition provisions of SFAS No. 123. Options granted in fiscal years prior to fiscal 2003 will continue to be accounted for using the intrinsic value method as described in APB 25. As a result of the change in accounting method, we recorded compensation expense for employee stock options granted during fiscal years 2004 and 2003 based on the fair value of the options at the date of grant and vesting requirements. Stock option expense of \$10.9 million and \$5.0 million was recorded in fiscal 2004 and 2003, respectively.

Note 12 - Pension and Other Postretirement Benefits

The Company provides a Retirement Savings Plan for certain domestic employees. 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. Expenses related to the Retirement Savings Plan for the years ended June 30, 2004, 2003 and 2002 were \$10.1 million, \$9.8 million and \$8.5 million, respectively.

In addition, the Company provides defined benefit pension and other postretirement benefits to certain eligible employees. The measurement date used for determining pension and other postretirement benefits is the last day of the Company's fiscal year-end, June 30.

Pension benefits. The Company has certain non-domestic business units 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.

The accumulated benefit obligation for the defined benefit pension plans was \$35.9 million at June 30, 2004 and \$24.3 million at June 30, 2003. The accumulated benefit obligation is the actuarial present value of benefits attributed to employee services rendered to date excluding assumptions about future compensation levels.

Defined benefit pension plan assets are primarily invested in equity securities, 81 percent, while the remaining 19 percent of plan assets are invested in other assets. During fiscal 2005, the non-domestic business units expect to contribute \$0.3 million to the defined benefit pension plans. The benefits expected to be paid in each fiscal year from 2005 to 2009 are \$1.3 million, \$1.4 million, \$1.4 million, \$1.8 million and \$1.9 million, respectively. The aggregate benefits expected to be paid in the five fiscal years from 2010 to 2014 are \$11.0 million.

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Other postretirement benefits. We have an unfunded Supplemental Executive Retirement Plan (SERP) that provides retirement, pre-retirement and termination benefits, as defined, to certain key executives designated by the Board of Directors. The accumulated benefit obligation for the SERP was \$31.1 million at June 30, 2004 and \$25.2 million at June 30, 2003.

Our expenses related to the SERP for the years ended June 30, 2004, 2003 and 2002 were \$4.4 million, \$2.4 million and \$2.0 million, respectively. The benefits expected to be paid in each fiscal year from 2005 to 2009 are \$1.8 million, \$1.9 million, \$1.9 million, \$3.2 million and \$3.2 million, respectively. The aggregate benefits expected to be paid in the five fiscal years from 2010 to 2014 are \$13.5 million.

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The following is a reconciliation of the benefit obligations, plan assets and funded status of the plans as well as the amounts recognized on the balance sheet:

| (\$000s omitted) June 30, | Pension Benefits | | | Other Postretirement Benefits | | |
|---|--------------------|-----------------|-----------------|-------------------------------|------|------|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Change in benefit obligation: | | | | | | |
| Benefit obligation at beginning of year | \$ 31,457 | 30,513 | 28,528 | 17,330 | | |
| Service cost | 999 | 1,169 | 1,274 | 583 | | |
| Interest cost | 1,827 | 1,960 | 1,618 | 1,176 | | |
| Amendments | 304 | --- | --- | 3,758 | | |
| Actuarial (gain) loss | 3,588 | (1,068) | 3,716 | 6,095 | | |
| Benefits paid | (1,184) | (1,117) | (369) | (414) | | |
| Foreign currency exchange rate changes | 961 | --- | --- | --- | | |
| Benefit obligation at end of year | <u>\$ 37,952</u> | <u>31,457</u> | <u>34,767</u> | <u>28,528</u> | | |
| Change in plan assets: | | | | | | |
| Fair value of assets at beginning of year | \$ 1,450 | 1,530 | --- | --- | | |
| Actual return on plan assets | 181 | (198) | --- | --- | | |
| Asset transfer | --- | 71 | --- | --- | | |
| Employer contributions | 72 | 47 | 369 | 414 | | |
| Benefits paid | --- | --- | (369) | (414) | | |
| Foreign currency exchange rate changes | 79 | --- | --- | --- | | |
| Fair value of assets at end of year | <u>\$ 1,782</u> | <u>1,450</u> | <u>---</u> | <u>---</u> | | |
| Reconciliation of funded status: | | | | | | |
| Funded status | \$ (36,170) | (30,007) | (34,767) | (28,528) | | |
| Unrecognized transitional amount | --- | --- | --- | 88 | | |
| Unrecognized prior service cost | --- | --- | 5,028 | 5,704 | | |
| Unrecognized net (gain) loss | (1,667) | (1,636) | 15,065 | 12,057 | | |
| Prepaid or (accrued) pension cost | <u>\$ (37,837)</u> | <u>(31,643)</u> | <u>(14,674)</u> | <u>(10,679)</u> | | |
| Amounts recognized on the balance sheet: | | | | | | |
| Prepaid benefit cost | \$ 333 | 264 | --- | --- | | |
| Accrued benefit cost | (38,170) | (31,987) | (31,054) | (25,240) | | |
| Intangible assets | --- | --- | 5,028 | 5,792 | | |
| Accumulated other comprehensive income | --- | 80 | 11,352 | 8,769 | | |
| Prepaid or (accrued) pension cost | <u>\$ (37,837)</u> | <u>(31,643)</u> | <u>(14,674)</u> | <u>(10,679)</u> | | |

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Presented below are the components of net periodic pension and other postretirement benefit costs for fiscal years ending June 30, 2004 and 2003:

| (\$000s omitted) June 30, | Pension Benefits | | | Other Postretirement Benefits | | |
|---|------------------|--------------|--------------|-------------------------------|--------------|--------------|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Components of net periodic benefit cost: | | | | | | |
| Service cost | \$ 999 | 1,169 | 955 | 1,274 | 583 | 431 |
| Interest cost | 1,827 | 1,960 | 1,141 | 1,618 | 1,176 | 1,035 |
| Expected return on plan assets | (176) | 192 | --- | --- | --- | --- |
| Amortization of prior service cost | 304 | --- | (11) | 764 | --- | --- |
| Amortization of net (gain) loss | 2,529 | (247) | --- | 708 | 672 | 530 |
| Net periodic benefit cost | <u>\$ 5,483</u> | <u>3,074</u> | <u>2,085</u> | <u>4,364</u> | <u>2,431</u> | <u>1,996</u> |

The following table presents the assumptions used to determine the Company's benefit obligations and net periodic pension and other postretirement benefit costs:

| June 30, | Pension Benefits | | | Other Postretirement Benefits | | |
|---|------------------|-------------|-------------|-------------------------------|------|------|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Assumptions: | | | | | | |
| Weighted average used to determine benefit obligations at June 30: | | | | | | |
| Discount rates for pension plans may vary between foreign subsidiaries | 5.0% - 5.5% | 5.5% - 6.0% | 5.8% - 6.0% | 6.2% | 5.9% | 5.9% |
| Rate of compensation increase for pension plans may vary between foreign subsidiaries | 2.0% - 4.5% | 2.0% - 2.3% | 2.0% - 2.3% | 4.0% | 4.0% | 4.0% |
| Weighted average used to determine net periodic benefit cost at June 30: | | | | | | |
| Discount rates for pension plans may vary between foreign subsidiaries | 5.0% - 5.5% | 5.5% - 6.0% | 5.8% - 6.0% | 5.9% | 7.3% | 7.3% |
| Expected long-term return on plan assets | 5.5% | 5.5% | 5.5% | --- | --- | --- |
| Rate of compensation increase for pension plans may vary between foreign subsidiaries | 2.0% - 4.5% | 2.0% - 2.3% | 2.0% - 2.3% | 4.0% | 4.0% | 4.0% |

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The Company relies on historical long-term rates of return by asset class, the current long-term U.S. Treasury bond rate, and the current and expected asset allocation strategy to determine the expected long-term rate of return assumptions.

Note 13- Business Segment Data

The Company designs, manufactures and markets high-quality audio products and electronic systems for the consumer and professional markets. The Company is organized into reporting segments by the end-user markets we serve – consumer and professional. The chief operating decision maker evaluates performance and allocates resources based on net sales, operating income and working capital in each of the segments.

The Consumer Systems Group has operating segments, which design, manufacture and market loudspeakers and audio, video and electronic systems for vehicle, home and computer applications. These operating segments market products worldwide under brand names including Harman/Kardon, Becker, JBL, Infinity, Revel, Lexicon and Mark Levinson.

Net sales to DaimlerChrysler accounted for approximately 28.5%, 25.9% and 20.6% of consolidated net sales for the years ended June 30, 2004, 2003 and 2002, respectively. Accounts receivable due from DaimlerChrysler accounted for 22.4% and 22.0% of total consolidated accounts receivable at June 30, 2004 and 2003, respectively.

BMW net sales accounted for approximately 12.8%, 10.4% and 8.3% of consolidated net sales for the years ended June 30, 2004, 2003 and 2002, respectively. Accounts receivable due from BMW accounted for 7.7% and 7.8% of total consolidated accounts receivable at June 30, 2004 and 2003, respectively.

The Professional Group designs, manufactures and markets loudspeakers and electronics used by audio professionals in concert halls, stadiums, airports and other buildings and recording, broadcast, cinema and music reproduction applications. Professional products are marketed worldwide under brand names including JBL, AKG, Crown, Studer, Soundcraft, Lexicon, DOD, Digitech and dbx.

The following table reports external sales, operating income (loss), assets, capital expenditures and depreciation and amortization by segment.

Segmentation

| (\$000s omitted) | Years Ended June 30, | | |
|--------------------------------|----------------------|------------------|------------------|
| | 2004 | 2003 | 2002 |
| External sales: | | | |
| Consumer Systems | \$ 2,229,658 | 1,782,521 | 1,401,446 |
| Professional | 481,716 | 445,998 | 424,742 |
| Total | <u>\$ 2,711,374</u> | <u>2,228,519</u> | <u>1,826,188</u> |
| Operating income (loss): | | | |
| Consumer Systems | \$ 299,116 | 190,797 | 110,445 |
| Professional | 8,581 | 15,398 | 16,802 |
| Other | (53,232) | (39,301) | (24,026) |
| Total | <u>\$ 254,465</u> | <u>166,894</u> | <u>103,221</u> |
| Assets: | | | |
| Consumer Systems | \$ 1,643,805 | 1,216,400 | 1,023,623 |
| Professional | 232,026 | 292,086 | 295,534 |
| Other | 112,979 | 195,172 | 161,123 |
| Total | <u>\$ 1,988,810</u> | <u>1,703,658</u> | <u>1,480,280</u> |
| Capital expenditures: | | | |
| Consumer Systems | \$ 115,343 | 98,617 | 88,227 |
| Professional | 19,838 | 15,597 | 13,636 |
| Other | 312 | 1,123 | 2,664 |
| Total | <u>\$ 135,493</u> | <u>115,337</u> | <u>104,527</u> |
| Depreciation and amortization: | | | |
| Consumer Systems | \$ 87,865 | 71,648 | 61,357 |
| Professional | 15,706 | 14,246 | 14,552 |
| Other | 2,461 | 2,651 | 2,175 |
| Total | <u>\$ 106,032</u> | <u>88,545</u> | <u>78,084</u> |

Below we present sales, long-lived assets and net assets by geographic area as of and for the years ended June 30, 2004, 2003 and 2002. Net sales are attributable to geographic areas based upon the location of the business unit executing the sale.

| (\$000s omitted) | Years Ended June 30, | | |
|------------------|----------------------|---------|---------|
| | 2004 | 2003 | 2002 |
| Net sales: | | | |
| U.S. | \$ 645,762 | 645,542 | 714,774 |
| Germany | 1,149,862 | 808,876 | 459,042 |
| Other Europe | 468,222 | 377,497 | 289,711 |

| | | | | |
|--------------------|----|------------------|------------------|------------------|
| Other | | 447,528 | 396,604 | 362,661 |
| Total | \$ | <u>2,711,374</u> | <u>2,228,519</u> | <u>1,826,188</u> |
| Long-lived assets: | | | | |
| U.S. | \$ | 244,658 | 214,735 | 187,206 |
| Germany | | 402,330 | 349,858 | 260,515 |
| Other Europe | | 114,639 | 132,534 | 118,163 |
| Other | | <u>23,148</u> | <u>38,907</u> | <u>37,633</u> |
| Total | \$ | <u>784,775</u> | <u>736,034</u> | <u>603,517</u> |
| Net Assets | | | | |
| U.S. | \$ | 176,847 | 280,286 | 253,551 |
| Germany | | 462,439 | 319,556 | 208,483 |
| Other Europe | | 194,724 | 15,567 | 39,315 |
| Other | | <u>40,986</u> | <u>40,376</u> | <u>25,280</u> |
| Total | \$ | <u>874,996</u> | <u>655,785</u> | <u>526,629</u> |

Note 14- Commitments and Contingencies

The Company has operating lease arrangements for certain machinery and equipment used in several of our production facilities. The leases expire through March 2006. Upon expiration of the leases, the Company has the option to purchase the leased equipment for approximately \$22 million and the Company has guaranteed the lessors that the equipment will have a residual value of approximately \$18 million. Approximately \$4 million has been accrued at June 30, 2004 for the Company's obligation at the end of the lease term.

At June 30, 2004, we were involved in several legal actions. The outcome 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 the Company's financial position or results of operations.

The Company's Board of Directors has authorized the repurchase of a total of 16.0 million shares of common stock. Through June 30, 2004, we had acquired and placed in treasury 12.8 million shares of its common stock at a total cost of \$171.9 million. We did not repurchase any shares of common stock during the year ended June 30, 2004. We expect future share repurchases to be funded with cash generated by operations.

In June 2003, the Board of Directors approved spending up to \$100 million to repurchase outstanding notes. As of June 30, 2004, we had repurchased \$88.5 million principal amount of the outstanding notes under this authorization. In June 2004, the Board of Directors approved the repurchase of an additional \$225 million of notes beginning in fiscal 2005.

Note 15- Derivatives

The Company uses foreign currency forward contracts to hedge a portion of our forecasted transactions. These forward contracts are designated as foreign currency cash flow hedges and recorded at fair value in the accompanying consolidated balance sheet with a corresponding entry to other accumulated comprehensive income (loss) until the underlying forecasted foreign currency transaction occurs. When the transaction occurs, the gain or loss from the derivative designated as a hedge of the transaction is reclassified from accumulated other comprehensive income (loss) to the same income statement line item in which the foreign currency gain or loss on the underlying hedged transaction is recorded. If the underlying forecasted transaction does not occur, the amount recorded in accumulated other comprehensive income (loss) is reclassified to the miscellaneous, net line of the income statement in the then-current period.

Because the amounts and the maturities of the derivatives approximate those of the forecasted exposures, changes in the fair value of the derivatives are highly effective in offsetting changes in the cash flows of the hedged items. Any ineffective portion of the derivatives is recognized in current earnings. The ineffective portion of the derivatives, which was immaterial for all periods presented, primarily results from discounts or premiums on forward contracts.

As of June 30, 2004, the Company had contracts maturing through June 2005 to purchase and sell the equivalent of approximately \$47.2 million of various currencies to hedge future foreign currency purchases and sales. The Company recorded approximately \$7.2 million in net losses from cash flow hedges of forecasted foreign currency transactions in fiscal 2004. At June 30, 2004, the amount that will be reclassified from accumulated other comprehensive income (loss) to earnings within the next twelve months is a loss of approximately \$0.5 million.

The Company has entered into cross currency swaps to hedge future cash flows due from foreign consolidated subsidiaries under operating lease agreements. As of June 30, 2004, the Company had such swap contracts in place to purchase and sell the equivalent of approximately \$23.5 million in various currencies to hedge quarterly lease commitments through March 2006. As of June 30, 2004, the market value related to the cross currency swaps was a negative \$7.4 million. As of June 30, 2004, the amount that will be reclassified from accumulated other comprehensive income (loss) to earnings within the next twelve months that is associated with these hedges is a loss of \$4.2 million.

The Company entered into swap contracts in August 2001 and October 2001 to convert interest on \$150 million principal amount of our 7.32 percent senior notes due July 1, 2007, from a fixed rate to a floating rate. The Company also entered into swap contracts in March 2002 and April 2002 to convert interest on \$200 million of the \$300 million principal amount of our 7.125 percent senior notes due February 15, 2007, from a fixed rate to a floating rate. In December 2003, the Company purchased and retired \$10 million of our 7.32 percent senior notes due July 1, 2007, reducing both the notes and the interest swap contract from \$150 million to \$140 million.

The objective of these interest rate swap contracts is to offset changes in the fair value of the Company's fixed rate debt caused by interest rate fluctuations. The interest rate swap contracts are carried at fair value in the Company's consolidated balance sheet and the related hedged portion of fixed-rate debt is carried at remaining principal due net of the valuation adjustment for the change in fair value of the debt obligation attributable to the hedged risk. The valuation at June 30, 2004, was a positive \$14.2 million.

Changes in the fair value of the interest rate swaps and the offsetting changes in the carrying value of the hedged fixed-rate debt are recognized in interest expense in the Company's consolidated statement of operations.

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As of June 30, 2004, the Company had contracts maturing through December 2005 to purchase and sell the equivalent of \$61.2 million of various currencies to hedge foreign currency denominated loans to foreign subsidiaries. These loans are of a long-term investment nature. Adjustments to the carrying value of the foreign currency forward contracts offset the gains and losses on the underlying loans. At June 30, 2004, the market value on these contracts was a negative \$0.3 million.

Note 16-Acquisitions

In July 2003, the Company acquired Wavemakers Inc., which is located in Vancouver, British Columbia. Wavemakers Inc. develops voice optimization software, including noise and echo cancellation, which focuses on enhancing and reconstructing speech to improve the accuracy of voice communication in automobiles, PDAs and consumer electronics. The purchase price, net of cash acquired, was \$15.1 million. At June 30, 2004, goodwill

related to this transaction was \$3.1 million. The acquisition of Wavemakers Inc. is not material to the consolidated financial statements of the Company.

In September 2003, the Company acquired Margi Systems, which is located in Fremont, California. Margi Systems, is an engineering contracting company that develops multimedia applications for the office, the car and the home. The purchase price, net of cash acquired, was \$17.5 million. At June 30, 2004, goodwill related to this transaction was \$13.6 million. The acquisition of Margi Systems is not material to the consolidated financial statements of the Company.

Note 17-Stock Split and Amendment to Certificate of Incorporation

On October 1, 2003, the Company announced that our Board of Directors had approved a two-for-one split of common stock contingent upon stockholder approval of an amendment to the Company's certificate of incorporation to increase the number of authorized shares of common stock from 100 million to 200 million shares. Stockholders of record as of the close of business on September 15, 2003 were entitled to vote on the proposals. On November 12, 2003, the stockholders at the Company's annual meeting approved the proposals to approve the two-for-one stock split and the amendment to the certificate of incorporation. All share and per share amounts in this report have been restated, except on the consolidated statements of shareholders' equity and comprehensive income, to reflect the stock split for all periods presented.

Note 18-Earnings Per Share Information

| (\$000s omitted except per share amounts) | Years Ended June 30, | | | | | |
|---|----------------------|---------------|---------------|---------------|---------------|---------------|
| | 2004 | | 2003 | | 2002 | |
| | Basic | Diluted | Basic | Diluted | Basic | Diluted |
| Net income | \$ 157,883 | 157,883 | 105,428 | 105,428 | 57,513 | 57,513 |
| Shares of Harman common stock outstanding | 65,779 | 65,779 | 64,688 | 64,688 | 64,522 | 64,522 |
| Employee stock options | --- | 3,708 | --- | 3,360 | --- | 3,284 |
| Total average equivalent shares | <u>65,779</u> | <u>69,487</u> | <u>64,688</u> | <u>68,048</u> | <u>64,522</u> | <u>67,806</u> |
| <i>Earnings per share</i> | <u>\$ 2.40</u> | <u>2.27</u> | <u>1.63</u> | <u>1.55</u> | <u>0.89</u> | <u>0.85</u> |

For all periods presented, share and per share amounts have been restated to reflect the two-for-one stock split that was approved by the Company's stockholders on November 12, 2003.

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Certain options were outstanding and not included in the computation of diluted net earnings per share because the sum of the options' exercise prices, related tax benefit and compensation cost not yet recognized were greater than the average market price of the common shares, therefore the exercise of these options would have been anti-dilutive. Options to purchase 498,889 shares of Harman common stock with exercise prices ranging from \$50.03 to \$75.22 per share at June 30, 2004 were outstanding and not included in the computation of diluted earnings per share because the exercise of these options would have been antidilutive.

Options to purchase 1,050,994 shares of Harman common stock with exercise prices ranging from \$24.11 to \$28.94 per share were not included at June 30, 2003; and options to purchase 36,334 shares with exercise prices ranges from \$22.50 to \$24.13 per share were not included at June 30, 2002 because they would have been anti-dilutive.

Note 19-Quarterly Summary of Operations (unaudited)

The following is a summary of operations by quarter for fiscal 2004 and 2003:

Three months ended: (\$000s omitted except per share amounts)

| Fiscal 2004 | September 30 | December 31 | March 31 | June 30 |
|--------------------------------|--------------|-------------|----------|---------|
| Net sales | \$ 597,294 | 691,611 | 690,432 | 732,037 |
| Gross profit | \$ 180,871 | 219,314 | 228,951 | 259,456 |
| Net income | \$ 19,777 | 41,472 | 43,665 | 52,969 |
| Earnings per share – basic * | \$ 0.30 | 0.63 | 0.66 | 0.80 |
| Earnings per share – diluted * | \$ 0.29 | 0.60 | 0.63 | 0.76 |
| Fiscal 2003 | | | | |
| Net sales | \$ 490,759 | 559,977 | 554,454 | 623,329 |
| Gross profit | \$ 140,125 | 159,422 | 162,966 | 188,634 |
| Net income | \$ 9,802 | 27,606 | 30,614 | 37,406 |
| Earnings per share – basic * | \$ 0.15 | 0.43 | 0.48 | 0.58 |
| Earnings per share – diluted * | \$ 0.14 | 0.41 | 0.45 | 0.55 |

* Quarters may not add to full year due to changes in shares outstanding.

Per share amounts have been adjusted for stock split in November 2003.

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PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

- (a).
1. The following consolidated financial statements are included in Item 8 of Part II of this report:
 - Report of Independent Registered Public Accounting Firm;
 - Consolidated Balance Sheets as of June 30, 2004 and 2003;
 - Consolidated Statements of Operations for the years ended June 30, 2004, 2003 and 2002;
 - Consolidated Statements of Cash Flows for the years ended June 30, 2004, 2003 and 2002;
 - Consolidated Statements of Shareholders' Equity and Comprehensive Income for the years ended June 30, 2004, 2003 and 2002; and
 - Notes to Consolidated Financial Statements.
 2. The following schedules are filed as part of this report:
 - Schedule II - Consolidated Valuation and Qualifying Accounts and Reserves.
 - (Schedules I, III, IV and V are not applicable and have therefore been omitted.)
 3. List of Exhibits:
 - 3.1 Restated Certificate of Incorporation of the Company, as amended. (filed as Exhibit 3.1 to the Quarterly Report on Form 10-Q for the quarter ended December 31, 2003, and hereby incorporated by reference)
 - 3.2 By-Laws of the Company, as amended, dated June 10, 2004.
 - 4.3 Rights Agreement, dated as of December 13, 1999, between the Company and ChaseMellon Shareholder Services, L.L.C., as rights agent (including a Form of Certificate of Designation of Series A Junior Participating Preferred Stock, a Form of Right Certificate and a Summary of Rights to Purchase Preferred Stock). (filed as Exhibit 4.1 to the Form 8 A filed with the Commission on December 16, 1999, and hereby incorporated by reference)
 - 4.4 Certificate of Designation of Series A Junior Participating Preferred Stock of the Company, dated January 11, 2000. (filed as Exhibit 4.3 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2000, and hereby incorporated by reference)
 - 4.5 Amended and Restated Indenture, dated July 1, 1997, between the Company and PNC Bank, National Association, as trustee. (filed as Exhibit 10.63 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, and hereby incorporated by reference)
 - 4.6

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- 10.1 Indenture, dated as of February 19, 2002, between the Company and J.P. Morgan Trust Company, National Association, as trustee. (filed as Exhibit 4.5 to the Registration Statement on Form S-4 (Reg. No. 333-83688) filed with the Commission on March 4, 2002, and hereby incorporated by reference)
- Multi-Currency, Multi-Option Credit Agreement, dated August 14, 2002, among the Company and the several lenders from time to time parties hereto. (filed as Exhibit 10.10 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2002, and hereby incorporated by reference)

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- 10.2 Amended and Restated Equipment Leasing Agreement between BTM Capital Corporation and the Company, dated as of June 30, 2003. (filed as Exhibit 10.2 to the Annual Report on Form 10 K for the fiscal year ended June 30, 2003, and hereby incorporated by reference)
- 10.3 Amended and Restated Participation Agreement among the Company, U.S. Bank National Association, BTM Capital Corporation, Bank of Tokyo-Mitsubishi Trust Company and certain lenders, dated as of June 30, 2003. (filed as Exhibit 10.3 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2003, and hereby incorporated by reference)
- 10.4 Amended and Restated Equipment Leasing Agreement between BTM Capital Corporation and the Company dated as of June 30, 2003. (filed as Exhibit 10.4 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2003, and hereby incorporated by reference)
- 10.5 Amended and Restated Participation Agreement among the Company, U.S. Bank National Association, BTM Capital Corporation, Bank of Tokyo Mitsubishi Trust Company and certain lenders, dated as of June 30, 2003. (filed as Exhibit 10.5 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2003, and hereby incorporated by reference)
- 10.6 Lease Agreement, dated as of April 28, 1988, by and between Harman International Business Campus Joint Venture and Harman Electronics, Inc. (filed as Exhibit 10.23 to the Annual Report on Form 10 K for the fiscal year ended June 30, 1988, and hereby incorporated by reference)
- 10.7 First Amendment to the Lease Agreement by and between Harman International Business Campus Joint Venture and JBL, Inc., dated October 1995. (filed as Exhibit 10.58 to the Annual Report on Form 10 K for the fiscal year ended June 30, 1996, and hereby incorporated by reference)
- 10.8 Lease, dated as of June 18, 1987, between Harman International Business Campus Joint Venture and JBL Inc. (filed as Exhibit 10.1 to the Annual Report on Form 10-K for the fiscal year ended June 30, 1987, and hereby incorporated by reference)
- 10.9 First Amendment to the Lease Agreement by and between Harman International Business Campus Joint Venture and Harman Electronics, Inc., dated October 1995. (filed as Exhibit 10.57 to the Annual Report on Form 10 K for the fiscal year ended June 30, 1996, and hereby incorporated by reference)
- 10.10 Guaranty, dated as of June 18, 1987, by the Company of Lease, dated as of June 18, 1987, between Harman International Business Campus Joint Venture and JBL Inc. (filed as Exhibit 10.2 to the Annual Report on Form 10-K for the fiscal year ended June 30, 1987, and hereby incorporated by reference)
- 10.11 Harman International Industries, Incorporated 1987 Executive Incentive Plan. (filed as Exhibit 10.18 to the Annual Report on Form 10-K for the fiscal year ended June 30, 1988, and hereby incorporated by reference) **
- 10.12 Harman International Industries, Incorporated 1992 Incentive Plan, as amended and restated. (filed as Exhibit B to the Company's 1999 Proxy Statement, and hereby incorporated by reference) **
- 10.13 Harman International Industries, Incorporated 2002 Stock Option and Incentive Plan. (filed as Exhibit B to the Company's 2002 Proxy Statement, and hereby incorporated by reference) **
- 10.14 Harman International Industries, Incorporated 2002 Key Executive Officers Bonus Plan. (filed as Exhibit A to the Company's 2002 Proxy Statement, and hereby incorporated by reference) **

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- 10.15 Harman International Industries, Incorporated Supplemental Executive Retirement Plan, as amended and restated as of October 1, 1999. (filed as Exhibit 10.27 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2000, and hereby incorporated by reference) **
- 10.16 Amendment No. 1 to the Harman International Industries, Incorporated Supplemental Executive Retirement Plan, dated September 24, 2002. (filed as Exhibit 10.5 to the Quarterly Report on Form 10 Q for the quarter ended December 31, 2002, and hereby incorporated by reference) **
- 10.17 Benefit Agreement under the Supplemental Executive Retirement Plan between Bernard A. Girod and the Company, dated June 22, 2000. (filed as Exhibit 10.72 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2000, and hereby incorporated by reference) **
- 10.18 Benefit Agreement under the Supplemental Executive Retirement Plan between Gregory Stapleton and the Company, dated June 20, 2000. (filed as Exhibit 10.73 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2000, and hereby incorporated by reference) **
- 10.19 Benefit Agreement under the Supplemental Executive Retirement Plan between Frank Meredith and the Company, dated June 21, 2000. (filed as Exhibit 10.74 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2000, and hereby incorporated by reference) **
- 10.20 Harman International Industries, Inc. Deferred Compensation Plan, effective June 1, 1997. (filed as Exhibit 4 to the Registration Statement on Form S-8 (Reg. No. 333-28793) filed with the Commission June 9, 1997, and hereby incorporated by reference) **

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- 10.21 Amendment No. 1 to the Harman International Industries, Inc. Deferred Compensation Plan dated October 1, 1999. (filed as Exhibit 10.46 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2000, and hereby incorporated by reference) **
- 10.22 Amendment No. 2 to the Harman International Industries, Inc. Deferred Compensation Plan, effective December 16, 2003. (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended December 31, 2003, and hereby incorporated by reference) **
- 10.23 Employment Agreement between the Company and Dr. Erich a. Geiger, effective as of July 1, 2003. (filed as Exhibit 10.27 to the Annual Report on form 10-K for the fiscal year ended June 30, 2003, and hereby incorporated by reference) **
- 10.24 Amendment to Employment Agreement between the Company and Dr. Erich A. Geiger, effective as of August 1, 2004. **
- 10.25 Employment Agreement between the Company and William S. Palin, dated as of October 24, 2003. (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, and hereby incorporated by reference) **
- 10.26 Restricted Stock Agreement between the Company and Dr. Erich A. Geiger, dated effective August 15, 2001. (filed as Exhibit 10.4 to the Quarterly Report on Form 10 Q for the quarter ended December 31, 2002, and hereby incorporated by reference) **
- 10.27 Form of Severance Agreement between the Company and each of Sidney Harman, Bernard Girod, Gregory Stapleton and Frank Meredith. (filed as Exhibit 10.71 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2000, and hereby incorporated by reference) **
- 21.1 Subsidiaries of the Company.

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- 23.1 Consent of Independent Registered Public Accounting Firm. +
- 31.1 Certification of Sidney Harman filed pursuant to Section 302 of the Sarbanes Oxley Act of 2002. +
- 31.2 Certification of Bernard Girod filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. +
- 31.3 Certification of Frank Meredith filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. +
- 32.1 Certification of Sidney Harman, Bernard Girod, and Frank Meredith filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. +
- (b).1. Reports on Form 8-K:
 - The Company filed the following reports on Form 8-K during the fourth quarter of fiscal 2004:
 - During the quarter ended June 30, 2004, the Company furnished a Report on Form 8-K dated April 28, 2004 containing information pursuant to Items 7, 9 and 12 relating to the announcement of the Company's earnings for the quarter ended March 31, 2004.

** Management contract, compensatory plan or arrangement.

+ Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED

Date: September 29, 2004

By: **/s/ Bernard A. Girod**

Bernard A. Girod

Vice Chairman of the Board and Chief Executive Officer (Principal Executive Officer)

Date: September 29, 2004

By: **/s/ Frank Meredith**

Frank Meredith

Executive Vice President, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Harman International on September 29, 2004 in the capacities indicated below.

SIGNATURES

/s/ Sidney Harman

Sidney Harman

Executive Chairman of the Board

/s/ Bernard A. Girod

Bernard A. Girod

Vice Chairman of the Board and

Chief Executive Officer (Principal Executive Officer)

/s/ Gregory P. Stapleton

Gregory P. Stapleton

President, Chief Operating Officer and Director

/s/ Frank Meredith

Frank Meredith

Executive Vice President, Chief Financial Officer, and Secretary (Principal Accounting Officer)

/s/ Shirley M. Hufstedler

Shirley M. Hufstedler

Director

/s/ Ann McLaughlin Korologos

Ann McLaughlin Korologos

Director

/s/ Edward H. Meyer

Edward H. Meyer
Director

/s/ Stanley A. Weiss

Stanley A. Weiss
Director