HARMAN INTERNATIONAL INDUSTRIES INC /DE/
Form 10-Q
April 28, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from to

Commission File Number: 001-9764

Harman International Industries, Incorporated

(Exact name of registrant as specified in its charter)

| Delaware | 11-2534306 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 400 Atlantic Street, Suite 1500 | |
| Stamford, CT | 06901 |

(Address of principal executive offices) (Zip code)

(203) 328-3500

(Registrant's telephone number, including area code)

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

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

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

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

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

As of April 26, 2016 70,554,695 shares of common stock, par value $.01, were outstanding.

HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

Form 10-Q

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

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

Forward-Looking Statements

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

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

- our ability to maintain profitability if there are delays in our product launches or increased pricing pressure from our customers;
- the loss of one or more significant customers, the loss of a significant platform with an automotive customer or the in-sourcing of certain services by our automotive customers;
- fluctuations in currency exchange rates, particularly with respect to the value of the U.S. Dollar and the Euro;
- fluctuations in the price and supply of raw materials including, without limitation, petroleum, copper, steel, aluminum, synthetic resins, rare metals and rare-earth minerals, or shortages of materials, parts and components;
- the inability of our suppliers to deliver products at the scheduled rate and disruptions arising in connection therewith;
- our ability to maintain a competitive technological advantage through innovation and leading product designs;
- our ability to integrate successfully our recently completed and future acquisitions;
- our ability to attract and retain qualified senior management and to prepare and implement an appropriate succession plan for our critical organizational positions; and
- our failure to maintain the value of our brands and implementing a sufficient brand protection program.

Although we believe that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual results of operations and could cause actual results to differ materially from those expressed in the forward-looking statements. As a result, the foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this and other reports we file with the Securities and Exchange Commission. For additional information regarding certain factors that may cause our actual results to differ from those expected or anticipated see the information under the caption “Risk Factors” which is located in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended June 30, 2015. We undertake no obligation to publicly update or revise any forward-looking statement (except as required by law). This report also makes reference to our awarded business, which represents the estimated future lifetime net sales for all customers. Our future awarded business does not represent firm customer orders. We report our awarded business primarily based on written award letters from our customers. To validate these awards, we use various assumptions including global vehicle production forecasts, customer take rates for our products, revisions to product life-cycle estimates and the impact of annual price reductions and exchange rates, among other factors. These assumptions are updated and reported externally on an annual basis.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

| (in thousands) | March 31, 2016 | June 30, 2015 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | $360,420 | $649,513 |
| Receivables, net | 1,087,327 | 1,024,139 |
| Inventories | 840,216 | 693,574 |
| Other current assets | 502,943 | 461,366 |
| Total current assets | 2,790,906 | 2,828,592 |
| Property, plant and equipment, net | 576,788 | 552,421 |
| Intangible assets, net | 496,289 | 669,667 |
| Goodwill | 1,426,202 | 1,287,180 |
| Deferred tax assets, net | 116,212 | 100,032 |
| Other assets | 382,000 | 428,008 |
| Total assets | $5,788,397 | $5,865,900 |
| Liabilities and Equity | | |
| Current liabilities | | |
| Current portion of long-term debt | $4,227 | $4,550 |
| Short-term debt | 812 | 1,021 |
| Accounts payable | 781,962 | 918,910 |
| Accrued liabilities | 673,371 | 907,024 |
| Accrued warranties | 173,479 | 163,331 |
| Income taxes payable | 29,022 | 76,131 |
| Total current liabilities | 1,662,873 | 2,070,967 |
| Borrowings under revolving credit facility | 483,000 | 283,125 |
| Long-term debt | 803,809 | 797,542 |
| Pension liability | 189,259 | 186,662 |
| Other non-current liabilities | 174,865 | 134,778 |
| Total liabilities | 3,313,806 | 3,473,074 |
| Commitments and contingencies | - | - |
| Preferred stock | - | - |
| Common stock | 1,011 | 1,007 |
| Additional paid-in capital | 1,397,492 | 1,365,257 |
| Accumulated other comprehensive income | (59,324) | 11,434 |
| Retained earnings | 2,442,713 | 2,229,517 |
| Less: Common stock held in treasury | (1,307,319) | (1,232,602) |
| Total Harman International Industries, Incorporated shareholders' equity | 2,474,573 | 2,374,613 |
| Noncontrolling interest | 18 | 18,213 |

| | | |
|---|---|---|
| Total equity | 2,474,591 | 2,392,826 |
| Total liabilities and equity | $5,788,397 | $5,865,900 |

See accompanying Notes to the Condensed Consolidated Financial Statements.

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HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| | Three Months Ended | | Nine months ended | |
|---|---|---|---|---|
| (In thousands, except earnings per share data) | March 31, 2016 | 2015 | March 31, 2016 | 2015 |
| Net sales | $1,628,082 | $1,464,193 | $5,031,127 | $4,476,664 |
| Cost of sales | 1,135,215 | 1,046,063 | 3,505,770 | 3,150,736 |
| Gross profit | 492,867 | 418,130 | 1,525,357 | 1,325,928 |
| Selling, general and administrative expenses | 357,514 | 326,623 | 1,099,384 | 969,881 |
| Operating income | 135,353 | 91,507 | 425,973 | 356,047 |
| Other expenses: | | | | |
| Interest expense, net | 8,633 | 3,001 | 24,558 | 7,861 |
| Foreign exchange losses (gains), net | 3,570 | (3,406) | 2,612 | (4,366) |
| Miscellaneous, net | 2,912 | 2,294 | 11,262 | 6,932 |
| Income before income taxes | 120,238 | 89,618 | 387,541 | 345,620 |
| Income tax expense, net | 31,419 | 19,346 | 98,019 | 76,250 |
| Equity in loss of unconsolidated subsidiaries | - | 23 | - | 23 |
| Net income | 88,819 | 70,249 | 289,522 | 269,347 |
| Net (loss) income attributable to noncontrolling interest | (5) | (46) | 702 | (156) |
| Net income attributable to Harman International Industries, Incorporated | $88,824 | $70,295 | $288,820 | $269,503 |
| Earnings per share: | | | | |
| Basic | $1.23 | $1.00 | $4.01 | $3.87 |
| Diluted | $1.22 | $.99 | $3.98 | $3.83 |
| Weighted average shares outstanding: | | | | |
| Basic | 72,020 | 69,946 | 72,046 | 69,557 |
| Diluted | 72,642 | 70,795 | 72,524 | 70,322 |

See accompanying Notes to the Condensed Consolidated Financial Statements.

HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

| | Three Months Ended | | Nine months ended | |
|---|---|---|---|---|
| (In thousands) | March 31, | | March 31, | |
| | 2016 | 2015 | 2016 | 2015 |
| Net income | $88,819 | $70,249 | $289,522 | $269,347 |
| Net (loss) income attributable to noncontrolling interest | (5) | (46) | 702 | (156) |
| Net income attributable to Harman International Industries, Incorporated | $88,824 | $70,295 | $288,820 | $269,503 |
| Other comprehensive (loss) income, net of taxes[1]: | | | | |
| Foreign currency translation | 33,583 | (82,855) | (19,664) | (210,530) |
| Unrealized (losses) gains on hedging derivatives, net of taxes | (57,574) | 100,583 | (50,856) | 218,749 |
| Pension liability adjustment, net of taxes | (1,340) | 3,436 | (5) | 6,704 |
| Unrealized (losses) gains on available for sale securities | (182) | 38 | (233) | 90 |
| Other comprehensive (loss) income, net of taxes attributable to Harman International Industries, Incorporated | (25,513) | 21,202 | (70,758) | 15,013 |
| Comprehensive income, net of taxes | 63,306 | 91,451 | 218,764 | 284,360 |
| Comprehensive (loss) income, net of taxes attributable to noncontrolling interest | (5) | (46) | 702 | (156) |
| Comprehensive income, net of taxes attributable to Harman International Industries, Incorporated | $63,311 | $91,497 | $218,062 | $284,516 |

[1] Refer to Note 15 – Other Comprehensive Income (Loss) for more information.
See accompanying Notes to the Condensed Consolidated Financial Statements.

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HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| (In thousands) | Nine months ended March 31, 2016 | 2015 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $289,522 | $269,347 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 165,841 | 114,809 |
| Deferred income taxes | 37,094 | 29,767 |
| Loss (gain) on disposition of assets | 1,274 | (890) |
| Share-based compensation | 32,908 | 27,707 |
| Excess tax benefit from share-based compensation | (3,693) | (3,204) |
| Non-cash interest expense | 2,097 | 2,242 |
| Non-cash (decrease) increase in contingent consideration | (5,309) | 1,016 |
| Changes in operating assets and liabilities, exclusive of impact of acquisitions: | | |
| (Increase) decrease in: | | |
| Receivables, net | (63,054) | (142,805) |
| Inventories | (145,364) | (139,094) |
| Other current assets | (35,478) | (42,251) |
| Pre-production and development costs | (41,247) | (8,395) |
| (Decrease) increase in: | | |
| Accounts payable | (138,781) | 182,498 |
| Accrued warranties | 7,326 | 29,573 |
| Accrued other liabilities | 16,770 | 78,978 |
| Income taxes payable | (45,906) | 9,662 |
| Net change in derivative assets and liabilities | 4,104 | (66,283) |
| Other operating activities | 3,382 | (37,302) |
| Net cash provided by operating activities | 81,486 | 305,375 |
| Cash flows from investing activities: | | |
| Acquisitions, net of cash received | (226,841) | (118,021) |
| Capital expenditures | (139,850) | (108,488) |
| Proceeds from asset dispositions | 120 | 4,548 |
| Other items, net | 2,550 | 549 |
| Net cash used in investing activities | (364,021) | (221,412) |
| Cash flows from financing activities: | | |
| (Decrease) in short-term borrowings | (182) | (963) |
| Borrowings of long-term debt | 232,627 | 593,448 |
| Repayments of long-term debt | (35,125) | (543,610) |
| Cash dividends to shareholders | (75,517) | (68,631) |
| Repurchase of common stock | (74,717) | - |
| Exercise of stock options | 6,102 | 23,066 |

| | | |
|---|---|---|
| Repurchases related to share-based compensation arrangements | (11,932 ) | (22,272 ) |
| Excess tax benefit from share-based compensation | 3,693 | 3,204 |
| Debt issuance costs | - | (3,019 ) |
| Payment of contingent consideration | (27,138 ) | (327 ) |
| Repayments of acquiree debt | (2,572 ) | (5,612 ) |
| Purchase of non-controlling interest | (17,133 ) | - |
| Other items, net | (762 ) | 10,244 |
| Net cash used in financing activities | (2,656 ) | (14,472 ) |
| Effect of exchange rate changes on cash | (3,902 ) | (58,444 ) |
| Net (decrease) increase in cash and cash equivalents | (289,093) | 11,047 |
| Cash and cash equivalents at beginning of period | 649,513 | 581,312 |
| Cash and cash equivalents at end of period | $360,420 | $592,359 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid, net | $12,403 | $6,363 |
| Income taxes paid | $77,981 | $13,290 |
| Non-cash investing activities: | | |
| Accrued and contingent acquisition-related liabilities | $24,938 | $31,003 |
| Common stock issued in connection with acquisitions | $ | $124,253 |

See accompanying Notes to the Condensed Consolidated Financial Statements.

HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

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

(Unaudited)

Note 1 – Basis of Presentation

Basis of Presentation

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

Our unaudited, condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited condensed consolidated financial statements have been prepared in accordance with the accounting policies described in our audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2015 (our "2015 Annual Report") and do not include all information and footnote disclosures included in our audited financial statements. In the opinion of management, the accompanying unaudited, condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments and accruals, necessary to present fairly, in all material respects, the consolidated financial condition, results of operations and cash flows for the periods presented. Operating results for the three and nine months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2016 due to seasonal, economic and other factors. Where necessary, information for prior periods has been reclassified to conform to the condensed consolidated financial statement presentation in the current fiscal year. These unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and accompanying notes included in our 2015 Annual Report.

Effective July 1, 2015, we revised our business segments in order to better align them with our strategic approach to the markets and customers we serve. Refer to Note 18 – Business Segment Data for more information. Prior period segment amounts throughout the Notes to the Condensed Consolidated Financial Statements have been reclassified to the new segment structure. The reclassification of historical business segment information had no impact on our basic financial statements.

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

Note 2 – New Accounting Standards

Recently Adopted Accounting Standards

Deferred Taxes: In November 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-17, “Balance Sheet Classification of Deferred Taxes,” which changes the requirement to separate both current and non-current deferred taxes on the balance sheet. Under the new guidance, all deferred tax assets and liabilities, along with any related valuation allowance, will be classified as non-current on the balance sheet. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. We adopted the provisions of this new guidance on December 1, 2015 on a retrospective basis. The adoption of the new guidance resulted in a balance sheet reclassification of $120.2 million from current assets and a $49.4 million reclassification from current liabilities in our June 30, 2015 balance sheet. Due to the jurisdictional netting of non-current deferred tax assets and liabilities, our overall assets and liabilities were reduced by $63.9 million in our June 30, 2015 Condensed Consolidated Balance Sheet.

Discontinued Operations: In April 2014, the FASB issued ASU No. 2014-08, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity,” which changes the criteria for determining which disposals can be presented as discontinued operations and modifies disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held-for-sale and represents a strategic shift that has or will have a major effect on an entity’s operations and financial results. The standard states that a strategic shift could include a disposal of: (i) a major geographical area of operations, (ii) a major line of business, (iii) a major equity method investment or (iv) other major parts of an entity. The new guidance also requires several new disclosures. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2014. We adopted the provisions of this new guidance on July 1, 2015. The adoption of the new provisions did not have any impact on our financial condition or results of operations.

Business Combinations: In September 2015, the FASB issued ASU No. 2015-16, “Simplifying the Accounting for Measurement Period Adjustments,” which requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. We adopted the provisions of this new guidance on July 1, 2015. The adoption of the new provisions did not have a material impact on our financial condition or results of operations.

Recently Issued Accounting Standards

Share-Based Payments: In March 2016, the FASB issued ASU No. 2016-09, “Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”, which simplifies how share-based payments are accounted for and presented in the consolidated financial statements. The guidance amends certain income tax consequences for share-based payments, the accounting for forfeitures, the classification of share-based awards, and the classification of share-based payments in the statement of cash flows. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. We expect to adopt the provisions of this new guidance on July 1, 2017. The provisions in this guidance will be applied on a prospective basis. We are currently assessing the impact the adoption of the new provisions will have on our financial condition and results of operations.

Derivatives: In March 2016, the FASB issued ASU No. 2016-05, “Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships”, which clarifies existing guidance on the designation of hedging instruments. Under the new guidance, a change in the counterparty to a derivative instrument that has been designated as a hedging instrument would not require dedesignation of that hedging relationship, provided that all other hedge accounting criteria continues to be met. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. We expect to adopt the provisions of this new guidance on July 1, 2017. The provisions in this guidance can be applied on either a prospective basis or a modified retrospective basis. We do not expect the adoption of the new provisions to have a material impact on our financial condition or results of operations.

Leases: In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)”, which increases transparency and comparability by requiring a lessee to record a right-of-use asset and lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification determining whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. ASU No. 2016-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2018. Early adoption is permitted for financial statements that have not been previously issued. We expect to adopt the provisions of this new guidance on July 1, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are currently assessing the impact the adoption of the new provisions will have on our financial condition and results of operations, as well as the method of adoption.

Financial Instruments: In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,” which changes the guidance on the classification and measurement of financial instruments related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured

at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. Under the new guidance, equity investments (excluding those accounted for under the equity method or those that result in consolidation) will be measured at fair value, with changes in fair value recognized in net income. For financial liabilities that an entity has elected to measure at fair value in accordance with the fair value option guidance, the amendments require an entity to present separately in other comprehensive income the portion of the change in fair value that results from a change in instrument-specific credit risk. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017. Early adoption is permitted for financial statements that have not been previously issued. We expect to adopt the provisions of this new guidance on July 1, 2018. We do not expect the adoption of the new provisions to have a material impact on our financial condition or results of operations.

Imputation of Interest: In August 2015, the FASB issued ASU No. 2015-15, "Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements," which clarifies the presentation and subsequent measurement of debt issuance costs associated with lines of credit. Under the new guidance, these costs may be presented as an asset and amortized ratably over the term of the line-of-credit arrangement, regardless of whether there are outstanding borrowings on the arrangement. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. We expect to adopt the provisions of this new guidance on July 1, 2016 on a retrospective basis. We do not expect the adoption of the new provisions to have a material impact on our financial condition or results of operations.

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

Inventory: In July 2015, the FASB issued ASU No. 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory," which states that inventory should be measured at the lower of cost and net realizable value. Net realizable value is defined as estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2016. We expect to adopt the provisions of this new guidance on July 1, 2017. The new guidance should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. We are currently assessing the impact the adoption of the new provisions will have on our financial condition and results of operations.

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

Revenue Recognition: In March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)", which clarifies how an entity should identify the unit of accounting (i.e. the specified good or service) for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements. The new guidance is effective for fiscal years beginning after December 15, 2017. We expect to adopt the provisions of this new guidance on July 1, 2018. We are currently assessing the impact the adoption of the new provisions will have on our financial condition and results of operations.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," which amends the guidance for revenue recognition to replace numerous, industry-specific requirements and converges areas under this topic with those of the International Financial Reporting Standards. The new guidance implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The new guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The original standard was effective for fiscal years beginning after December 15, 2016; however, in August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date" ("ASU 2015-14"). The amendments in ASU 2015-14 defer the effective date of the new revenue standard by one year. We expect to adopt the provisions of this new guidance on July 1, 2018. Entities can transition to the new standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. We are currently assessing the impact the adoption of the new provisions will have on our financial condition and

results of operations, as well as the method of adoption.

Note 3 – Allowance for Doubtful Accounts

We reserve an estimated amount for accounts receivable that may not be collected. Methodologies for estimating the allowance for doubtful accounts are based primarily on specific identification of uncollectible accounts. Historical collection rates and customer credit worthiness are considered in determining specific reserves. At March 31, 2016 and June 30, 2015, we had $21.9 million and $20.2 million, respectively, reserved for possible uncollectible accounts receivable.

Note 4 – Inventories

At March 31, 2016 and June 30, 2015, inventories consisted of the following:

| | March 31, 2016 | June 30, 2015 |
|---|---|---|
| Finished goods | $365,473 | $294,104 |
| Work in process | 93,899 | 90,538 |
| Raw materials | 380,844 | 308,932 |
| Inventories | $840,216 | $693,574 |

At March 31, 2016 and June 30, 2015, our inventory reserves were $91.8 million and $79.6 million, respectively.

Note 5 – Property, Plant and Equipment, net

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

| | Estimated Useful Lives (in Years) | March 31, 2016 | June 30, 2015 |
|---|---|---|---|
| Land | | $9,796 | $9,742 |
| Buildings and improvements | 1-50 | 290,036 | 260,074 |
| Machinery and equipment | 3-20 | 1,389,661 | 1,270,650 |
| Furniture and fixtures | 3-10 | 31,740 | 30,492 |
| Property, plant and equipment, gross | | 1,721,233 | 1,570,958 |
| Less accumulated depreciation and amortization | | (1,144,445) | (1,018,537) |
| Property, plant and equipment, net | | $576,788 | $552,421 |

Depreciation expense for the three months ended March 31, 2016 and 2015 was $38.9 million and $33.2 million, respectively, and for the nine months ended March 31, 2016 and 2015 was $109.7 million and $96.6 million, respectively.

Note 6 – Accrued Warranties

Details of our accrued warranties are as follows:

| | Nine months ended March 31, | |
|---|---|---|
| | 2016 | 2015 |
| Accrued warranties, June 30, | $ 163,331 | $ 155,472 |
| Warranty expense | 47,531 | 67,157 |
| Warranty payments (cash or in-kind) | (40,182 ) | (38,798 ) |
| Other[1] | 2,799 | (28,042 ) |
| Accrued warranties, March 31, | $ 173,479 | $ 155,789 |

[1] Other primarily represents foreign currency translation.

Note 7 – Earnings Per Share

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

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

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Basic | Diluted | Basic | Diluted |
| Numerator for Basic and Diluted Earnings per Share: | | | | |
| Net income | $88,819 | $88,819 | $70,249 | $70,249 |
| Net loss attributable to noncontrolling interest | (5 ) | (5 ) | (46 ) | (46 ) |
| Net income attributable to Harman International Industries, Incorporated | $88,824 | $88,824 | $70,295 | $70,295 |
| Denominator for Basic and Diluted Earnings per Share: | | | | |
| Weighted average shares outstanding | 72,020 | 72,020 | 69,946 | 69,946 |
| Employee stock options | 0 | 622 | 0 | 849 |
| Total weighted average shares outstanding | 72,020 | 72,642 | 69,946 | 70,795 |
| Earnings per Share: | | | | |
| Earnings per share | $1.23 | $1.22 | $1.00 | $0.99 |

| | Nine months ended March 31, | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Basic | Diluted | Basic | Diluted |
| Numerator for Basic and Diluted Earnings per Share: | | | | |
| Net income | $289,522 | $289,522 | $269,347 | $269,347 |
| Net income (loss) attributable to noncontrolling interest | 702 | 702 | (156 ) | (156 ) |
| Net income attributable to Harman International Industries, Incorporated | $288,820 | $288,820 | $269,503 | $269,503 |
| Denominator for Basic and Diluted Earnings per Share: | | | | |
| Weighted average shares outstanding | 72,046 | 72,046 | 69,557 | 69,557 |
| Employee stock options | 0 | 478 | 0 | 765 |
| Total weighted average shares outstanding | 72,046 | 72,524 | 69,557 | 70,322 |
| Earnings per Share: | | | | |
| Earnings per share | $4.01 | $3.98 | $3.87 | $3.83 |

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

Certain options were outstanding and not included in the computation of diluted net earnings per share because the assumed exercise of these options would have been antidilutive. Options to purchase 202,463 and 3,892 shares of our common stock for the three months ended March 31, 2016 and 2015, respectively, were outstanding and were excluded from the computation of diluted earnings per share because they would have been antidilutive. In addition, 34,035 and 0 restricted stock units for the three months ended March 31, 2016 and 2015, respectively, were outstanding and were excluded from the computation of diluted earnings per share because they also would have been antidilutive. Options to purchase 195,300 and 203,582 shares of our common stock for the nine months ended

March 31, 2016 and 2015, respectively, were outstanding and were excluded from the computation of diluted earnings per share because they would have been antidilutive. In addition 215,589 and 27,589 restricted stock units for the nine months ended March 31, 2016 and 2015, respectively, were outstanding and were excluded from the computation of diluted earnings per share as they also would have been antidilutive.

Note 8 – Goodwill and Intangible Assets, Net

Goodwill

Goodwill was $1.426 billion at March 31, 2016 compared with $1.287 billion at June 30, 2015. The increase in goodwill in the nine months ended March 31, 2016 versus June 30, 2015 was primarily associated with the following: increases of $69.7 million, $60.9 million and $18.9 million in connection with the acquisitions of Symphony Teleca Corporation (“STC”), TowerSec Ltd. (“TowerSec”) and Red Bend Ltd. (“Redbend”), respectively, and decreases of $4.3 million, $3.7 million and $0.2 million in connection with the acquisitions of I.P.S.G International Product Solution Group Pty Ltd. and VFX Systems Pty Ltd. (collectively “IPSG/VFX”), certain assets and liabilities of Verto Medical Solutions LLC d/b/a/ yurbuds and Yurbuds UK Limited (collectively, “yurbuds”) and certain

automotive assets and liabilities of Bang & Olufsen A/S ("B&O"), respectively, partially offset by unfavorable foreign currency translation of $2.3 million.

As more fully discussed in Note 18 – Business Segment Data, we revised our segment and reporting unit structure effective July 1, 2015. Under this new structure, our former Infotainment segment is now known as Connected Car, our former Lifestyle segment is now known as Lifestyle Audio, our former Professional segment is now known as Professional Solutions and our former Services segment is now known as Connected Services. Our Connected Services segment includes STC, as previously reported, and also now includes Redbend and our automotive services businesses. Redbend had previously been included within Other. Our automotive services businesses had previously been included within our Infotainment and Lifestyle segments. Other includes compensation, benefits and occupancy costs for corporate employees, net of reporting segment allocations, as well as expenses associated with new technology innovation and our corporate brand identity campaign. Our reporting units are the same as our reportable segments with the exception of Lifestyle Audio, which consists of two reporting units, automotive audio and consumer audio. In connection with this realignment, we reallocated our goodwill to our new reporting units based on each reporting unit's relative fair value. We also performed a goodwill impairment test as of July 1, 2015 using our new reporting units. We determined that the fair value of each of our reporting units exceeded its carrying value and, as such, no impairments were deemed to exist as of this date.

The changes in the carrying amount of goodwill by business segment for the nine months ended March 31, 2016 were as follows:

| | Connected Car | Lifestyle Audio | Professional Solutions | Connected Services | Other | Total |
|---|---|---|---|---|---|---|
| Balance, June 30, 2015 | $ 24,422 | $ 159,088 | $ 387,861 | $ 529,367 | $ 186,442 | $ 1,287,180 |
| Realignment adjustments[1] | (3,673) | (6,738) | - | 196,853 | (186,442) | - |
| Balance, June 30, 2015 – adjusted | 20,749 | 152,350 | 387,861 | 726,220 | - | 1,287,180 |
| Acquisitions and adjustments[2] | 60,936 | (3,849) | (4,249) | 88,481 | - | 141,319 |
| Other adjustments[3] | 402 | (860) | (1,114) | (725) | - | (2,297) |
| Balance, March 31, 2016 | $ 82,087 | $ 147,641 | $ 382,498 | $ 813,976 | $ - | $ 1,426,202 |

(1) The realignment adjustments reallocate our goodwill based on our new reporting structure based on the relative fair value of each reporting unit.
(2) Refer to Note 22—Acquisitions for more information.
(3) The other adjustments to goodwill primarily consist of foreign currency translation adjustments.

We did not recognize any goodwill impairment charges in our Condensed Consolidated Statements of Income in the three and nine months ended March 31, 2016 and 2015.

The contingent purchase price associated with the acquisition of innovative Systems GmbH ("IS") is calculated pursuant to the terms of an agreement between the parties. Certain terms of the agreement are currently subject to a dispute between the parties and the matter has been submitted to arbitration. On November 5, 2013, the arbitration panel issued a partial award on some of the disputed matters covering the period from February 2009 through January 2012 awarding €16.3 million to the IS sellers. We contested the enforcement of the partial award. In July 2014, the partial award was upheld. During the fiscal year ended June 30, 2015, we paid the €16.3 million partial award. Until such time

as the other disputed matters are resolved, we cannot calculate the contingent purchase price related to these other disputed matters.



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Intangible Assets, Net

Net intangible assets were $496.3 million and $669.7 million at March 31, 2016 and June 30, 2015, respectively, and were comprised of the following:

| | Weighted Average Amortization | March 31, 2016 Gross Carrying Amount | Accumulated Amortization | Net Amount | June 30, 2015 Gross Carrying Amount | Accumulated Amortization | Net Amount |
|---|---|---|---|---|---|---|---|
| Customer relationships | 12 Years | $386,608 | $ (61,285) | $325,323 | $503,928 | $ (30,924) | $473,004 |
| Technology | 6 Years | 74,531 | (24,531) | 50,000 | 87,090 | (17,653) | 69,437 |
| Patents | 15 Years | 7,288 | (1,367) | 5,921 | 5,136 | (1,265) | 3,871 |
| Trade names[1] | 2 Years | 100,627 | (26,131) | 74,496 | 100,827 | (15,282) | 85,545 |
| Non-compete agreement | 4 Years | 2,627 | (1,819) | 808 | 3,168 | (1,543) | 1,625 |
| Software | 5 Years | 49,942 | (10,961) | 38,981 | 42,013 | (6,863) | 35,150 |
| Other | 7 Years | 7,109 | (6,349) | 760 | 7,242 | (6,207) | 1,035 |
| Total | | $628,732 | $ (132,443) | $496,289 | $749,404 | $ (79,737) | $669,667 |

[1] Includes $55.7 million and $18.5 million of indefinite-lived intangible assets related to the acquisition of AMX LLC and AMX Holding Corporation (collectively “AMX”) and Martin Professional A/S, respectively.

Amortization expense related to intangible assets was $12.1 million and $7.1 million for the three months ended March 31, 2016 and 2015, respectively, and was $56.2 million and $18.2 million for the nine months ended March 31, 2016 and 2015, respectively.

At March 31, 2016, amortization expense is expected to approximate the following:

| | |
|---|---|
| 2016 | $17,590 |
| 2017 | 67,579 |
| 2018 | 61,528 |
| 2019 | 57,087 |
| 2020 | 52,528 |
| Thereafter | 165,627 |
| Total | $421,939 |

Note 9 – Debt

Short Term Borrowings

At March 31, 2016 and June 30, 2015, we had $0.8 million and $1.0 million of short-term borrowings outstanding, respectively. At March 31, 2016 and June 30, 2015, we maintained lines of credit of $54.7 million primarily in India, China, Brazil, Denmark and Israel and $69.1 million primarily in India, China, Hungary, Brazil, Denmark and Israel, respectively.

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

Issuance of 2.000 Percent Senior Notes

On May 27, 2015, we completed a public offering of €350.0 million in aggregate principal amount of Euro-denominated 2.000 percent senior notes due 2022 (the “2.000 Percent Senior Notes”), issued by Harman Finance International, S.C.A. (“Harman Finance”), which are fully and unconditionally guaranteed by Harman. Harman Finance is a wholly-owned finance subsidiary and has no independent activities, assets or operations other than in connection with the 2.000 Percent Senior Notes. The 2.000 Percent Senior Notes bear interest at a rate of 2.000 percent per year, payable annually in arrears on May 27 of each year, commencing on May 27, 2016 and will mature on May 27, 2022. The 2.000 Percent Senior Notes were issued at 99.613 percent of par value, reflecting a discount of €1.4 million to the aggregate principal amount, which is being amortized to Interest expense, net in our Condensed Consolidated Statements of Income using the effective interest method, over the term of the 2.000 Percent Senior Notes. We incurred €2.6 million of debt issuance costs in connection with the 2.000 Percent Senior Notes which are being amortized to Interest expense, net in our Condensed Consolidated Statements of Income using the effective interest method, over the term of the 2.000 Percent Senior Notes. The net proceeds from the issuance of the 2.000 Percent Notes were €346.0 million, net of the discount and debt issuance costs. The effective interest related to the 2.000 Percent Senior Notes, based on the net proceeds received is 2.060 percent.

The 2.000 Percent Senior Notes were issued under an indenture, dated as of May 27, 2015, by and between Harman Finance, Harman, as guarantor, and a trustee, as supplemented by the first supplemental indenture, dated as of May 27, 2015, by and among Harman Finance, Harman, as guarantor, and a trustee (as supplemented, the "2.000 Percent Senior Notes Indenture"). All payments of interest and principal, including payments made upon any redemption of the 2.000 Percent Senior Notes, will be made in Euros, subject to certain exceptions if the Euro is unavailable.

Issuance of 4.150 Percent Senior Notes

On May 11, 2015, we completed a public offering of $400.0 million in aggregate principal amount of U.S. Dollar denominated 4.150 Percent Senior Notes due 2025 (the "4.150 Percent Senior Notes") issued by Harman. The 4.150 Percent Senior Notes bear interest at a rate of 4.150 percent per year, payable semi-annually in arrears on May 15 and November 15 of each year, commencing on November 15, 2015, and will mature on May 15, 2025. The 4.150 Percent Senior Notes were issued at 99.336 percent of par value, reflecting a discount of $2.7 million to the aggregate principal amount, which is being amortized to Interest expense, net in our Condensed Consolidated Statements of Income using the effective interest method, over the term of the 4.150 Percent Senior Notes. We incurred $3.8 million of debt issuance costs in connection with the 4.150 Percent Senior Notes which are being amortized to Interest expense, net in our Condensed Consolidated Statements of Income using the effective interest method, over the term of the 4.150 Percent Senior Notes. The net proceeds from the issuance of the 4.150 Percent Senior Notes were $393.5 million, net of the discount and debt issuance costs. The effective interest related to the 4.150 Percent Senior Notes, based on the net proceeds received is 4.232 percent. The 4.150 Percent Senior Notes were issued under an indenture, dated as of May 11, 2015, by and between Harman and a trustee, as supplemented by the first supplemental indenture, dated as of May 11, 2015, by and between Harman and a trustee (as supplemented, the "4.150 Percent Senior Notes Indenture").

2015 Credit Agreement

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

At March 31, 2016 and June 30, 2015, there was approximately $483.0 million and $283.1 million, respectively, of outstanding borrowings, which are included in our Condensed Consolidated Balance Sheets as Borrowings under revolving credit facility. At March 31, 2016 and June 30, 2015 there were $3.8 million and $4.8 million, respectively, of outstanding letters of credit under the 2015 Credit Agreement. At March 31, 2016 and June 30, 2015, unused available credit under the 2015 Credit Agreement was $713.2 million and $912.1 million, respectively. In connection with the 2015 Credit Agreement, we incurred $3.0 million of fees and other expenses, which are included within Other assets in our Condensed Consolidated Balance Sheets at March 31, 2016 and June 30, 2015. These costs are amortized over the term of the 2015 Credit Agreement to Interest expense, net in our Condensed Consolidated Statements of Income on a straight-line basis.

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

At March 31, 2016 and June 30, 2015, long-term debt and current portion of long-term debt consisted of the following:

| | Fair Value at March 31, 2016 [1] | Book Value at March 31, 2016 | Fair Value at June 30, 2015 [1] | Book Value at June 30, 2015 |
|---|---|---|---|---|
| 4.150 Percent Senior Notes | $ 394,480 | $ 400,000 | $ 393,160 | $ 400,000 |
| 2.000 Percent Senior Notes | 390,351 | 398,318 | 379,200 | 389,883 |
| Borrowings under revolving credit facility | 483,000 | 483,000 | 283,125 | 283,125 |
| Capital lease obligations | 13,547 | 13,547 | 16,325 | 16,325 |
| Total debt | 1,281,378 | 1,294,865 | 1,071,810 | 1,089,333 |
| Current portion of long-term debt | (4,227) | (4,227) | (4,550) | (4,550) |
| Unamortized debt discount on 4.150 Percent Senior Notes | (2,462) | (2,462) | (2,626) | (2,626) |
| Unamortized debt discount on 2.000 Percent Senior Notes | (1,367) | (1,367) | (1,490) | (1,490) |
| Total long-term debt | $ 1,273,322 | $ 1,286,809 | $ 1,063,144 | $ 1,080,667 |

(1) The estimated fair value of the 2.000 Percent Senior Notes and the 4.150 Percent Senior Notes were based on a broker quotation (Level 2). Under fair value accounting guidance, Level 2 is based on inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

At March 31, 2016, long-term debt maturing in each of the next five fiscal years and thereafter is as follows:

| | |
|---|---|
| 2016 | $ 1,143 |
| 2017 | 3,853 |
| 2018 | 2,980 |
| 2019 | 2,050 |
| 2020 | 484,626 |
| Thereafter | 800,213 |
| Total | $ 1,294,865 |

Our existing debt agreements contain provisions that limit our operating and financing activities. The 2015 Credit Agreement contains certain negative covenants that limit, among other things, our ability to permit certain of our subsidiaries to incur debt and the ability of us and our subsidiaries to incur liens, make fundamental changes (including selling all or substantially all of our assets), undertake transactions with affiliates and undertake sale and leaseback transactions. The 2.000 Percent Senior Notes Indenture and the 4.150 Percent Senior Notes Indenture contain covenants that, subject to certain exceptions, limit our ability to incur indebtedness secured by principal properties, enter into certain sale and leaseback transactions with respect to principal properties and enter into certain mergers, consolidations and transfers of all or substantially all of the assets of Harman. In addition, the 2015 Credit Agreement contains more restrictive financial covenants that require us to maintain compliance with specified

financial ratios. We may have to curtail some of our operations to maintain compliance with the covenants in our existing debt agreements. A violation of any of these covenants could result in a default under our debt agreements, which could permit the lenders to accelerate the repayment of any borrowings outstanding and/or the holders of the notes to direct the trustee to accelerate repayment of amounts outstanding under the notes. A default or acceleration under our debt agreements would result in increased capital costs and could adversely affect our ability to operate our business and our results of operations and financial condition. As of March 31, 2016, we were in compliance with all of the covenants contained in the 2015 Credit Agreement, the 2.000 Percent Senior Notes Indenture and the 4.150 Percent Senior Notes Indenture.

Interest expense is reported net of interest income in our Condensed Consolidated Statements of Income. Interest expense, net was $8.6 million and $3.0 million for the three months ended March 31, 2016 and 2015, respectively. Gross interest expense was $9.7 million and $3.5 million for the three months ended March 31, 2016 and 2015, respectively. The non-cash portion of gross interest expense was $0.7 million and $1.2 million for the three months ended March 31, 2016 and 2015, respectively. The cash portion of gross interest expense was $9.0 million and $2.3 million in the three months ended March 31, 2016 and 2015, respectively. Interest income was $1.1 million and $0.5 million for the three month periods ended March 31, 2016 and 2015, respectively.

Interest expense, net was $24.6 million and $7.9 million for the nine months ended March 31, 2016 and 2015, respectively. Gross interest expense was $27.1 million and $9.3 million for the nine months ended March 31, 2016 and 2015, respectively. The non-cash portion of gross interest expense was $2.1 million and $2.2 million for the nine months ended March 31, 2016 and 2015, respectively. The cash portion of gross interest expense was $25.0 million and $7.1 million in the nine months ended March 31, 2016 and 2015, respectively. Interest income was $2.5 million and $1.4 million for the nine month periods ended March 31, 2016 and 2015, respectively.

Non-cash interest expense for the three and nine months ended March 31, 2016 relates to the amortization of the debt discount and debt issuance costs on the 2.000 Percent Senior Notes and the 4.150 Percent Senior Notes and the amortization of debt issuance costs on the 2015 Credit Agreement. Non-cash interest expense for the three and nine months ended March 31, 2015 relates to the amortization of debt issuance costs on the 2015 Credit Agreement and the Multi-Currency Credit Agreement, dated as of October 10, 2012, entered into by and among Harman, Harman KG and a group of banks (the “2013 Credit Agreement”).

Cash interest expense for the three and nine months ended March 31, 2016 primarily relates to interest on the 2.000 Percent Senior Notes, the 4.150 Percent Senior Notes, the 2015 Credit Agreement and our short-term borrowings. Cash interest expense for the three and nine months ended March 31, 2015 primarily relates to interest on the 2015 Credit Agreement, the 2013 Credit Agreement, and our short-term borrowings.

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

Note 10 – Income Taxes

Our provision for income taxes is based on an estimated annual tax rate for the year applied to federal, state and foreign income. Income tax expense for the three months ended March 31, 2016 and 2015 was $31.4 million and $19.3 million, respectively. The effective tax rate for the three months ended March 31, 2016 and 2015 was 26.1 percent and 21.6 percent, respectively. The increase in the effective tax rate for the three months ended March 31, 2016 compared to the same period in the prior year was primarily due to higher income in the U.S. that is taxed at higher rates than our key foreign jurisdictions.

Income tax expense for the nine months ended March 31, 2016 and 2015 was $98.0 million and $76.3 million, respectively. The effective tax rate for the nine months ended March 31, 2016 and 2015 was 25.3 percent and 22.1 percent, respectively. The increase in the effective tax rate for the nine months ended March 31, 2016 compared to the same period in the prior year was primarily due to higher income in the U.S. that is taxed at higher rates than our key foreign jurisdictions.

As of March 31, 2016 unrecognized tax benefits and the related interest were $57.8 million and $2.6 million, respectively, all but $6.0 million of which would affect the tax rate if recognized. During the three months ended March 31, 2016, $0.7 million of tax reserves were established on new uncertain tax positions and $0.1 million of tax reserves were reduced based on a settlement with the Indian tax authorities. Related interest on prior year exposures was increased by $0.1 million primarily related to Germany and Brazil and decreased by $0.1 million related to the Indian settlement. During the nine months ended March 31, 2016, $2.1 million of tax reserves were established on new uncertain tax positions and $2.9 million of tax reserves were reduced based on settlements with the German and Indian tax authorities. Related interest on prior year exposures was decreased by $1.4 million primarily related to the German and Indian tax audit settlement.

We periodically reevaluate the recognition and measurement threshold of our uncertain tax positions based on new or additional evidence such as tax authority administrative pronouncements, rulings and court decisions. The ultimate settlement, however, may be materially different from the amount accrued. Our significant jurisdictions are Germany, Brazil, Austria, India and the U.S. The German audit for fiscal years 2005 through 2010 was recently closed, with one issue remaining in dispute; we have filed a formal appeal for this issue and will proceed to the fiscal authority and

court. The tax year currently under examination by the Brazilian tax authorities is fiscal year 2008. Austria is not under examination for any tax year. The tax years currently under examination by the United States Internal Revenue Service ("IRS") are fiscal years 2006 to 2008, 2010 to 2012 for STC and 2012 to 2015. We have reached a tentative agreement with the IRS on two issues being audited for fiscal years 2012 and 2013, research and experimentation credits and the domestic production activity deduction. We expect these issues to be settled within the next 12 months and estimate that unrecognized tax benefits will decrease by $2.8 million and $0.5 million, respectively. Although the final resolution of the proposed adjustments is uncertain, we believe that the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations and cash flows. While we expect the amount of unrecognized tax benefits to change, we are unable to quantify the change at this time.

Note 11 – Shareholders' Equity

Preferred Stock

As of March 31, 2016 and June 30, 2015, we had no shares of preferred stock outstanding. We are authorized to issue 5 million shares of preferred stock, $0.01 par value.

Common Stock

We have 200 million authorized shares of common stock, $0.01 par value. At March 31, 2016 and June 30, 2015, we had 101,135,877 and 100,699,641 shares issued; 30,283,842 and 29,480,498 shares in treasury stock; and 70,852,035 and 71,219,143 shares outstanding (net of treasury stock), respectively.

Share Buyback Program

On October 28, 2014, our Board of Directors authorized the repurchase of up to $500.0 million of our common stock over a three year period (the “2014 Buyback Program”). The 2014 Buyback Program allows us to purchase shares of our common stock in accordance with applicable securities laws on the open market or through privately negotiated transactions during the authorized three year period. The 2014 Buyback Program may be suspended or discontinued at any time. We will determine the timing and the amount of any repurchases based on an evaluation of market conditions, share price, other growth opportunities and other factors. We have and may repurchase shares on the open market or, from time to time, through repurchase plans with one or more external brokers that provide a structure for execution of share repurchases under the 2014 Buyback Program. During the three and nine months ended March 31, 2016, we repurchased 308,794 shares and 803,344 shares at a cost of $24.7 million and $74.7 million, respectively, for a total cumulative buyback of 803,344 shares at a cost of $74.7 million under the 2014 Buyback Program.

Changes in Equity:

The following is a summary of the changes in Accumulated Other Comprehensive Income (“AOCI”) and changes in equity for the nine months ended March 31, 2016 and 2015:

| ($ in thousands, except per share data) | Preferred Stock | Common Stock | Additional Paid-in Capital | AOCI | Retained Earnings | Treasury Stock | Total Harman International Industries, Incorporated Shareholders’ Equity | Non Controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| Balance, June 30, 2015 | $- | $1,007 | $1,365,257 | $11,434 | $2,229,517 | $(1,232,602) | $2,374,613 | $18,213 | $2,392,826 |
| Net income | - | - | - | - | 288,820 | - | 288,820 | 702 | 289,522 |
| Other comprehensive income, net of tax | - | - | - | (70,758) | - | - | (70,758) | - | (70,758) |
| Exercise of stock options | - | 4 | 6,098 | - | - | - | 6,102 | - | 6,102 |
| Repurchases related to share-based | - | - | (11,932) | - | - | - | (11,932) | - | (11,932) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| compensation arrangements | | | | | | | | | |
| Share-based compensation, net | - | - | 32,908 | - | - | - | 32,908 | - | 32,908 |
| Excess tax benefit from share-based compensation | - | - | 3,693 | - | - | - | 3,693 | - | 3,693 |
| Treasury stock repurchases | - | - | - | - | - | (74,717) | (74,717) | - | (74,717) |
| Dividends ($0.35 per share) | - | - | - | - | (75,624) | - | (75,624) | - | (75,624) |
| Non-controlling interest | - | - | 1,468 | - | - | - | 1,468 | (18,897) | (17,429) |
| Balance, March 31, 2016 | $- | $1,011 | $1,397,492 | $(59,324) | $2,442,713 | $(1,307,319) | $2,474,573 | $18 | $2,474,591 |

| ($ in thousands, except per share data) | Preferred Stock | Common Stock | Additional Paid-in Capital | AOCI | Retained Earnings | Treasury Stock | Total Harman International Industries, Incorporated Shareholders' Equity | Non Controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| Balance, June 30, 2014 | $- | $984 | $1,040,254 | $39,799 | $1,979,234 | $(1,267,693) | $1,792,578 | $443 | $1,793,021 |
| Net income | - | - | - | - | 269,503 | - | 269,503 | (156) | 269,347 |
| Other comprehensive income, net of tax | | | | 15,013 | | | 15,013 | - | 15,013 |
| Exercise of stock options | - | 8 | 23,058 | - | - | - | 23,066 | - | 23,066 |
| Repurchases related to share-based compensation arrangements | - | - | (22,272) | - | - | - | (22,272) | - | (22,272) |
| Share-based compensation, net | - | - | 27,707 | - | - | - | 27,707 | - | 27,707 |
| Excess tax benefit from share-based compensation | - | - | 3,204 | - | - | - | 3,204 | - | 3,204 |
| Acquisition of Redbend[1] | - | - | 89,162 | - | - | 35,091 | 124,253 | - | 124,253 |
| Dividends ($0.33 per share) | - | - | - | - | (68,634) | - | (68,634) | - | (68,634) |
| Balance, March 31, 2015 | $- | $992 | $1,161,113 | $54,812 | $2,180,103 | $(1,232,602) | $2,164,418 | $287 | $2,164,705 |

[1] Refer to Note 22 – Acquisitions for more information.

Note 12 – Share-Based Compensation

On December 7, 2011 (the “Effective Date”), our shareholders approved the 2012 Stock Option and Incentive Plan (the “2012 Plan”), which is effective through December 7, 2021. As of the Effective Date, no further grants may be granted under our former plan, the Amended and Restated 2002 Stock Option and Incentive Plan, as amended (the “2002 Plan” and together with the 2012 Plan, the “Plans”). On December 4, 2013, we amended the 2012 Plan to (i) increase the number of shares available under the 2012 Plan for the grant of future awards by 2,869,821 shares to an aggregate amount not to exceed 7,269,821 shares of our common stock and (ii) modified certain share counting provisions related to the definition of a full-value grant from 1.71 to 1.5 (“Full-Value Grant”). On December 9, 2015, we further amended the 2012 Plan to increase the number of shares available under the 2012 Plan for the grant of future awards by 2,000,000 shares to an aggregate amount not to exceed 9,269,821 shares of our common stock. The 2012 Plan provides for two types of awards: (i) a Full-Value Grant under which one award shall reduce the shares available for grant under the 2012 Plan by 1.71 shares if granted prior to December 4, 2013 or 1.5 shares if granted on or after December 4, 2013, and (ii) an option or stock appreciation right grant, under which one award shall reduce the shares available for grant under the 2012 Plan by one share. Shares may be issued as original issuances, treasury shares or a combination of both. Option awards are granted with an exercise price equal to the market price of our common stock on the date of the grant. The option awards generally vest over three to five years of continuous service commencing one year from the date of the grant and expire after ten years. During the nine months ended March 31, 2016, 0 options to purchase shares of our common stock, 745,259 stock-settled restricted stock units, 4,923 cash-settled restricted stock units and 1,709 cash-settled stock appreciation rights were granted under the 2012 Plan. As of March 31, 2016, there were 5,122,511 shares available for grant under the 2012 Plan.

Share-based compensation expense, net was $11.9 million and $8.9 million for the three months ended March 31, 2016 and 2015, respectively, and was $32.9 million and $27.7 million for the nine months ended March 31, 2016 and 2015, respectively. The total income tax benefit recognized in the Condensed Consolidated Statements of Income for share-based compensation arrangements was $3.1 million and $2.4 million for the three months ended March 31, 2016 and 2015, respectively, and was $8.4 million and $7.6 million for the nine months ended March 31, 2016 and 2015, respectively.

Fair Value Determination

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model, which uses the assumptions noted in the following table. There were no options granted during the nine months ended March 31, 2016.

| | Nine Months Ended March 31, 2015 |
|---|---|
| Expected volatility | 31.6% - 39.3% |
| Weighted-average volatility | 35.9% |
| Expected annual dividend | $1.32 |
| Expected term (in years) | 2.12 - 4.46 |
| Risk-free rate | 0.4% - 1.4% |

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

Stock Option Activity

A summary of option activity under the Plans as of March 31, 2016 and changes during the nine months ended March 31, 2016 is presented below:

| | Shares | Weighted Average Exercise Price Per | Weighted Average Remaining Contractual | Aggregate Intrinsic Value |
|---|---|---|---|---|

| | | Share | Term (Years) | |
|---|---|---|---|---|
| Outstanding at June 30, 2015 | 837,398 | $ 70.40 | 5.62 | $ 40,864 |
| Granted | 0 | 0.00 | | |
| Exercised | (120,677) | 53.25 | | |
| Forfeited or expired | (27,128 ) | 88.44 | | |
| Outstanding at March 31, 2016 | 689,593 | $ 72.69 | 4.89 | $ 16,878 |
| Exercisable at March 31, 2016 | 571,466 | $ 73.94 | 4.36 | $ 14,167 |

The weighted-average grant-date fair value of options granted for the three months ended March 31, 2016 and 2015 was $0.0 and $35.36, respectively, and for the nine months ended March 31, 2016 and 2015 was $0.0 and $29.76, respectively. The total intrinsic value of options exercised for the three months ended March 31, 2016 and 2015 was $0.6 million and $12.3 million, respectively, and for the nine months ended March 31, 2016 and 2015 was $5.9 million and $25.5 million, respectively.

Modification of Certain Stock Option Awards

Prior to fiscal year 2011, certain of the award agreements under the 2002 Plan stated that vested options not exercised were forfeited upon termination of employment for any reason other than death or disability. However, such award agreements provided that the Compensation and Option Committee of our Board of Directors (the "Compensation and Option Committee") could extend the time period to exercise vested options 90 days beyond the employment termination date for certain employees. During the three and nine months ended March 31, 2016 and 2015, the Compensation and Option Committee used this authority. This action represented a modification of the terms or conditions of an equity award and therefore was accounted for as an exchange of the original award for a new award. Incremental share-based compensation cost for the excess of the fair value of the new award over the fair value of the original award was immaterial.

Restricted Stock Units

In the nine months ended March 31, 2016, we granted 175,353 restricted stock units with earnings per share ("EPS") performance conditions, and 175,353 restricted stock units with market conditions under the 2012 Plan. Additionally, both the restricted stock units with EPS performance conditions and the restricted stock units with market conditions secondarily vest based on the achievement of a

return on invested capital ("ROIC") performance condition, specifically, the achievement of a certain average ROIC level over fiscal years 2016 through 2018. The restricted stock units with EPS performance conditions cliff vest three years from the date of grant based on the achievement of certain cumulative EPS levels from fiscal years 2016 through 2018. The restricted stock units with market conditions cliff vest three years from the date of grant based on a comparison of our total shareholder return ("TSR") to the TSR of a selected peer group of publicly listed multinational companies. The grant date fair value of the restricted stock units with market conditions of $12.3 million was calculated using a Monte Carlo simulation model. Compensation expense is recognized ratably over the three-year vesting period based on the grant date fair value and our assessment of the probability that the applicable targets will be met for the performance conditions, which is reassessed each reporting period.

In the nine months ended March 31, 2015, we granted 103,896 restricted stock units with EPS performance conditions and 103,896 restricted stock units with market conditions under the 2012 Plan. Additionally, both the restricted stock units with EPS performance conditions and the restricted stock units with market conditions secondarily vest based on the achievement of a ROIC performance condition, specifically, the achievement of a certain average ROIC level over fiscal years 2015 through 2017. The restricted stock units with EPS performance conditions cliff vest three years from the date of grant based on the achievement of certain cumulative EPS levels from fiscal years 2015 through 2017. The restricted stock units with market conditions cliff vest three years from the date of grant based on a comparison of our TSR to the TSR of a selected peer group of publicly listed multinational companies. The grant date fair value of the restricted stock units with market conditions of $7.8 million was calculated using a Monte Carlo simulation model. Compensation expense is recognized ratably over the three-year vesting period based on the grant date fair value and our assessment of the probability that the applicable targets will be met for the performance conditions, which is reassessed each reporting period.

In the nine months ended March 31, 2016 and 2015, we also granted 13,094 and 217,654 time-vested restricted stock units, respectively, without performance or market conditions, that cliff-vest three years from the date of grant, 367,035 and 2,868 time-vested restricted stock units, respectively, without performance or market conditions that vest ratably over the three-year vesting period, and 14,424 and 10,040 time-vested restricted stock units, respectively, without performance or market conditions, that cliff-vest one year from the date of grant, under the 2012 Plan.

In connection with our acquisition of Redbend, certain Redbend stock options were cancelled and exchanged for 76,563 time-vested restricted stock units under the 2012 Plan. Of this amount, 58,137 restricted stock units vested immediately upon grant at the closing of the acquisition. The remaining 18,426 time-vested restricted stock units vest in accordance with the original vesting schedule as set forth in the Redbend stock option agreement under which they were granted. These time-vested restricted stock units vest either: (i) ratably every three months over a four-year period or (ii) 25 percent in the first year and ratably every three months thereafter, for the remaining three-year term of the award. Refer to Note 22 – Acquisitions for more information.

In the nine months ended March 31, 2016 and 2015, we granted 4,923 and 856 cash-settled restricted stock units, respectively, under the 2012 Plan. These restricted stock units are accounted for as liability awards and are recorded at the fair value at the end of the reporting period in accordance with their vesting schedules. During the nine months ended March 31, 2016 and 2015, 869 and 1,150 cash-settled restricted stock units were settled, respectively. At March 31, 2016, 6,392 cash-settled restricted stock units were outstanding.

A summary of equity classified restricted stock unit activity as of March 31, 2016 and changes during the nine months ended March 31, 2016 is presented below:

Restricted Stock

| | Units |
|---|---|
| Nonvested at June 30, 2015 | 1,293,034 |
| Granted | 745,259 |
| Vested | (438,419) |
| Forfeited | (141,289) |
| Nonvested at March 31, 2016 | 1,458,585 |

At March 31, 2016, the aggregate intrinsic value of equity-classified restricted stock units was $129.9 million and there was $84.5 million of total unrecognized compensation cost related to equity classified restricted stock unit compensation arrangements. The weighted average recognition period was 1.7 years.

Stock Appreciation Rights

A summary of cash-settled stock appreciation rights as of March 31, 2016 and changes during the nine months ended March 31, 2016 is presented below:

| | Stock Appreciation Rights |
|---|---|
| Non-vested at June 30, 2015 | 6,794 |
| Granted | 1,709 |
| Vested | (4,161) |
| Forfeited | 0 |
| Non-vested at March 31, 2016 | 4,342 |
| Exercisable | 6,064 |

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

Note 13 – Derivatives

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

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

as fluctuations in the currency and interest rate markets during the period. The related cash flow impacts of all our derivative activities are reflected as cash flows from operating activities.

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

Foreign Exchange Risk Management

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

At March 31, 2016 and June 30, 2015, we had outstanding foreign exchange contracts, primarily forward contracts, which are summarized below:

| | March 31, 2016 | | June 30, 2015 | |
|---|---|---|---|---|
| | Gross Notional Value | Fair Value Asset/ (Liability)[1] | Gross Notional Value | Fair Value Asset/ (Liability)[1] |
| Currency Hedged (Buy/Sell): | | | | |
| U.S. Dollar/Euro | $1,597,741 | $ 131,760 | $1,479,685 | $ 208,532 |
| Indian Rupee/U.S. Dollar | 238,125 | 599 | 205,150 | (935) |
| Euro/U.S. Dollar | 157,419 | (1,904) | 153,549 | (15,994) |
| Mexican Pesos/U.S. Dollar | 14,697 | 529 | 0 | 0 |
| Chinese Yuan/U.S. Dollar | 13,512 | (44) | 0 | 0 |
| Japanese Yen/Euro | 8,528 | 504 | 0 | 0 |
| Euro/Russian Rubles | 3,428 | (347) | 5,963 | (865) |
| U.S. Dollar/Brazilian Real | 3,349 | (389) | 6,148 | 318 |
| U.S. Dollar/Russian Rubles | 2,157 | (133) | 1,613 | 24 |
| Russian Rubles/U.S. Dollar | 1,099 | 43 | 0 | 0 |
| U.S. Dollar/Australian Dollar | 766 | (52) | 0 | 0 |
| Swiss Franc/Euro | - | - | 32,050 | 4,262 |
| Total | $2,040,821 | $ 130,566 | $1,884,158 | $ 195,342 |

[1] Represents the net receivable/(payable) included in our Condensed Consolidated Balance Sheets within Other current assets, Other assets, Accrued liabilities and Other non-current liabilities, as applicable.

Cash Flow Hedges

We designate a portion of our foreign exchange contracts as cash flow hedges of foreign currency denominated purchases. As of March 31, 2016 and June 30, 2015, we had $1.682 billion and $1.578 billion of forward and option contracts maturing through October 2019 and June 2018, respectively. These contracts are recorded at fair value in the accompanying Condensed Consolidated Balance Sheets. The changes in fair value for these contracts are calculated on a forward-to-forward rate basis. These changes in fair value are reported in AOCI and are reclassified to either Cost of sales or Selling, general and administrative expenses (“SG&A”), depending on the nature of the underlying asset or liability that is being hedged, in our Condensed Consolidated Statements of Income, in the period or periods during which the underlying transaction occurs.

Changes in the fair value of the derivatives are highly effective in offsetting changes in the cash flows of the hedged items because the amounts and the maturities of the derivatives approximate those of the forecasted exposures. Any ineffective portion of the derivative is recognized in the current period in our Condensed Consolidated Statements of Income, in the same line item in which the foreign currency gain or loss on the underlying hedged transaction was recorded. We recognized $0.3 million and $0.2 million of ineffectiveness in our Condensed Consolidated Statement of Income in the three months ended March 31, 2016 and 2015, respectively, and $0.4 million and $2.2 million in the nine months ended March 31, 2016 and 2015, respectively. At March 31, 2016 and June 30, 2015, the fair values of these contracts were net assets of $121.6 million and $191.9 million, respectively. The amount associated with these hedges that is expected to be reclassified from AOCI to earnings within the next 12 months is a gain of $70.9 million.

Economic Hedges

When hedge accounting is not applied to derivative contracts, or after former cash flow hedges have been de-designated as balance sheet hedges, we recognize the gain or loss on the associated contracts directly in current period earnings in our Condensed Consolidated Statements of Income as either Foreign exchange (gains) losses, net or Cost of sales, or SG&A according to the underlying exposure. As of March 31, 2016 and June 30, 2015, we had $358.8 million and $306.4 million, respectively, of forward contracts maturing through October 2017 in various currencies to hedge foreign currency denominated intercompany loans and other foreign currency denominated assets. At March 31, 2016 and June 30, 2015, the fair values of these contracts were net assets of $8.9 million and $3.5 million, respectively. Adjustments to the carrying value of the foreign currency forward contracts offset the gains and losses on the underlying loans and other foreign denominated assets in Foreign exchange (gains) losses, net in our Condensed Consolidated Statements of Income.

Interest Rate Risk Management

Interest Rate Lock

In May 2015, we entered into an interest rate lock on the 2.000 Percent Senior Notes. The interest rate lock was used to protect the interest rate on the 2.000 Percent Senior Notes between the time the lock was initiated and the time the 2.000 Percent Senior Notes were issued, therefore eliminating any interest rate risk leading up to the bond issuance. We recognized $0.1 million in AOCI which will be amortized into Interest expense, net in our Consolidated Statements of Income over the term of the 2.000 Percent Senior Notes.

The following tables provide a summary of the fair value amounts of our derivative instruments as of March 31, 2016 and June 30, 2015:

| | | Fair Value | |
|---|---|---|---|
| | | March 31, | June 30, |
| Derivatives Designated as Cash Flow Hedges, Gross: | Balance Sheet Location | 2016 | 2015 |
| Other assets: | | | |
| Foreign exchange contracts | Other current assets | $56,852 | $73,082 |
| Foreign exchange contracts | Other assets | 68,815 | 121,496 |
| Total assets | | 125,667 | 194,578 |
| Other liabilities: | | | |
| Foreign exchange contracts | Accrued liabilities | $1,886 | $1,034 |
| Foreign exchange contracts | Other non-current liabilities | 2,153 | 1,654 |
| Total liabilities | | 4,039 | 2,688 |
| Net asset for derivatives designated as hedging instruments | | $121,628 | $191,890 |
| Derivatives Designated as Economic Hedges, Gross: | | | |
| Other assets: | | | |
| Foreign exchange contracts | Other current assets | $14,209 | $20,226 |
| Foreign exchange contracts | Other assets | 22 | 85 |
| Total assets | | 14,231 | 20,311 |
| Other liabilities: | | | |
| Foreign exchange contracts | Accrued liabilities | $3,746 | $13,288 |
| Foreign exchange contracts | Other non-current liabilities | 1,547 | 3,571 |
| Total liabilities | | 5,293 | 16,859 |
| Net asset for economic hedges: | | $8,938 | $3,452 |
| Total net derivative asset | | $130,566 | $195,342 |

Derivative Activity:

The following tables show derivative activity for derivatives designated as cash flow hedges for the three months ended March 31, 2016 and 2015:

| Derivative | Location of Derivative Gain/(Loss) Recognized in Income | Gain/(Loss) Reclassified from AOCI into Income (Effective Portion) | | Gain/(Loss) Recognized in Income on Derivatives (Ineffective Portion) | | Gain/(Loss) from Amounts Excluded from Effectiveness Testing | |
|---|---|---|---|---|---|---|---|
| | | Three Months Ended March 31, | | | | | |
| | | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Foreign exchange contracts | Cost of sales | $24,354 | $15,392 | $(316) | $174 | $ | $ - |
| Foreign exchange contracts | SG&A | (427) | (3) | - | - | - | - |
| Foreign exchange contracts | Foreign exchange losses (gains), net | - | - | - | - | 1 | (9) |
| Interest rate lock | Interest expense, net | (5) | - | - | - | - | - |
| Total cash flow hedges | | $23,922 | $15,389 | $(316) | $174 | $ 1 | $ (9) |

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| Derivative | Gain/(Loss) Recognized in AOCI (Effective Portion) Three Months Ended March 31, | |
|---|---|---|
| | 2016 | 2015 |
| Foreign exchange contracts | $(51,488) | $148,115 |

The following tables show derivative activity for derivatives designated as cash flow hedges for the nine months ended March 31, 2016 and 2015:

| Derivative | Location of Derivative Gain/(Loss) Recognized in Income | Gain/(Loss) Reclassified from AOCI into Income (Effective Portion) | | Gain/(Loss) Recognized in Income on Derivatives (Ineffective Portion) | | Gain/(Loss) from Amounts Excluded from Effectiveness Testing | |
|---|---|---|---|---|---|---|---|
| | | Nine months ended March 31, | | | | | |
| | | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Foreign exchange contracts | Cost of sales | $67,653 | $21,942 | $(432) | $2,197 | $ | $ - |
| Foreign exchange contracts | SG&A | (403) | 215 | - | - | - | - |
| Foreign exchange contracts | Foreign exchange losses (gains), net | - | - | - | - | - | (18) |
| Interest rate lock | Interest expense, net | (15) | - | - | - | - | - |
| Total cash flow hedges | | $67,235 | $22,157 | $(432) | $2,197 | $ - | $ (18) |

| Derivative | Gain/(Loss) Recognized in AOCI (Effective Portion) Nine months ended March 31, | |
|---|---|---|
| | 2016 | 2015 |
| Foreign exchange contracts | $ (40) | $ 311,226 |

The following table summarizes gains and losses from our derivative instruments that are not designated as hedging instruments for the three and nine months ended March 31, 2016 and 2015:

| | | Three Months Ended | | Nine months ended | |
|---|---|---|---|---|---|
| | | March 31, | | March 31, | |
| Derivative | Location of Derivative Gain/(Loss) | 2016 | 2015 | 2016 | 2015 |
| Foreign exchange contracts | Cost of sales | $ (4,740 ) | $ 13,473 | $ (251 ) | $ 25,606 |
| Foreign exchange contracts | Foreign exchange losses (gains), net | 4,770 | (17,450 ) | 1,291 | (39,822 ) |

Note 14 – Fair Value Measurements

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

Fair Value Hierarchy

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

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

Level 1: Observable inputs, such as unadjusted quoted market prices in active markets for the identical asset or liability.
Level 2: Inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.
Level 3: Unobservable inputs that reflect the entity's own assumptions in measuring the asset or liability at fair value.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

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

| | Fair Value at March 31, 2016 | | | Fair Value at June 30, 2015 | | |
|---|---|---|---|---|---|---|
| Description | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Assets/(Liabilities) | | | | | | |
| Available-for-sale securities | $51,597 | $- | $- | $54,947 | $- | $- |
| Foreign exchange contracts | - | 130,566 | - | - | 195,342 | - |
| Pension assets | 2,914 | - | - | 3,572 | - | - |
| Contingent consideration | - | - | (42,772) | - | - | (56,296) |
| Net asset/(liability) | $54,511 | $130,566 | $(42,772) | $58,519 | $195,342 | $(56,296) |

| | Total Gains (Losses) for the Three Months Ended March 31, | | Total Gains (Losses) for the Nine months ended March 31, | |
|---|---|---|---|---|
| Description of Liability | 2016 | 2015 | 2016 | 2015 |
| Contingent Consideration | $6,223 | $ 0 | $5,309 | $(866) |

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

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

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

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

Contingent Consideration: A portion of our contingent consideration is associated with an earn-out related to the acquisition of TowerSec. We determined the fair value of the contingent consideration based on our expectations of TowerSec's achievement of certain targets through March 10, 2019. During the three and nine months ended March 31, 2016, our preliminary estimate of the fair value of this contingent consideration liability is $20.0 million.

At June 30, 2015, a portion of our contingent consideration is associated with an earn-out related to the acquisition of STC. We used a discounted cash flow approach (a form of the income approach) in determining the fair value of the contingent consideration. The principal inputs to the approach included our expectations of STC's calendar year 2015 revenue and a discount rate that began with our weighted average cost of capital and adjusted for the risks associated with the underlying STC calendar year 2015 revenue, the functional form of the payout and our credit risk associated with making the payment. During the three and nine months ended March 31, 2016, we recorded approximately $0.2 million and $1.1 million of interest accretion to increase this liability. We finalized our calculation during the three and nine months ended March 31, 2016, and paid the $23.3 million contingent consideration liability. We

recorded a decrease of $3.1 million to our estimated contingent consideration liability within SG&A in our Condensed Consolidated Statement of Income during the three and nine months ended March 31, 2016.

A portion of our contingent consideration is associated with a $10.0 million earn-out related to the acquisition of Southern Vision Systems, Inc. (“SVSI”). We determined the fair value of the contingent consideration based on our expectations of SVSI’s contribution margin related to the sale of certain products through June 30, 2018. During the three and nine months ended March 31, 2016, we reassessed our expectations of the SVSI contribution margin outcome and confirmed our estimate of $0 contingent consideration liability.

A portion of our contingent consideration is associated with a $30.0 million earn-out related to the acquisition of Redbend. We use a discounted cash flow approach (a form of the income approach) in determining the fair value of the contingent consideration. The principal inputs to the approach include our expectations of the achievement of Redbend’s cumulative bookings target for awarded business from January 1, 2015 through December 31, 2016 and a discount rate that begins with our weighted average cost of capital and adjusts for the risks associated with the underlying cumulative bookings target for awarded business outcome, the functional form of the payout and our credit risk associated with making the payment. During the three and nine months ended March 31, 2016, we reassessed our expectations of Redbend’s cumulative bookings target and revised our estimate of the contingent consideration liability to increase it to $20.9 million from the previous recorded balance of $16.7 million. This increase was adjusted to goodwill in the opening balance sheet.

At June 30, 2015, a portion of our contingent consideration is associated with an earn-out related to our acquisition of certain assets and liabilities of yurbuds. We used a discounted cash flow approach (a form of the income approach) in determining the fair value of the contingent consideration. The principal inputs to the approach included our expectations of yurbuds’ gross profit through June 30, 2017 and a discount rate that began with our weighted average cost of capital and adjusted for the risks associated with the underlying yurbuds gross profit outcome, the functional form of the payout and our credit risk associated with making the payment. During the three and nine months ended March 31, 2016, we reached an agreement to settle our obligation for this contingent consideration liability and paid $3.5 million. From the previously recorded balance of $6.8 million, we recorded a $3.3 million decrease to this contingent consideration liability which was recorded within SG&A in our Condensed Consolidated Statement of Income for the three and nine months ended March 31, 2016.

A portion of our contingent consideration is associated with an earn-out related to the acquisition of IPSG/VFX. We determined the fair value of the contingent consideration based on our expectations of IPSG/VFX’s gross profit related to the sale of certain specified products through June 30, 2017. During the three months ended September 30, 2015, we reassessed our expectations of IPSG/VFX’s gross profit outcome and revised our estimate of the contingent consideration liability to decrease it to $0 from the previously recorded balance of $5.8 million. This reduction was adjusted to goodwill in the opening balance sheet. During the three and nine months ended March 31, 2016, we confirmed our estimate of the contingent consideration liability of $0.

A portion of our contingent consideration is associated with an earn-out related to our acquisition of Duran Audio BV (“Duran”). We use a probability-weighted discounted cash flow approach (a form of the income approach) in determining the fair value of the contingent consideration. The principal inputs to the approach include our expectations of Duran’s gross profit related to the sale of certain specified products through June 30, 2020 and a discount rate that begins with our weighted average cost of capital and adjusts for the risks associated with the underlying Duran gross profit outcome, the functional form of the payout and our credit risk associated with making the payment. During the three and nine months ended March 31, 2016, we reassessed our expectations of Duran’s gross profit outcome and confirmed our estimate of the $1.9 million contingent consideration liability. During the nine months ended March 31, 2016 and 2015, we made a payment of approximately $0.3 million and $0.3 million for the fiscal year 2015 and 2014 results, respectively.

Given the use of significant inputs that are not observable in the market, our contingent consideration is classified within Level 3 of the fair value hierarchy. Refer to Note 22—Acquisitions for more information.

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

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

The following table provides the carrying value for assets and liabilities measured on a non-recurring basis, all of which are measured under Level 3 of the fair value hierarchy, and the losses recorded during the periods presented. There were no gains or losses recognized in the three and nine months ended March 31, 2016 and there were $2.3 million of losses related to long-lived assets recognized in the three and nine months ended March 31, 2015.

| Description of Assets | March 31, 2016 | June 30, 2015 |
|---|---|---|
| Equity method investments | $1,175 | $2,871 |
| Goodwill | 1,426,202 | 1,287,180 |
| Long-lived assets | 1,073,077 | 1,222,088 |
| Total | $2,500,454 | $2,512,139 |

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

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

Goodwill: Goodwill is evaluated for impairment annually or more frequently if an event or circumstance indicates that an impairment loss may have been incurred. This asset is included in Level 3. Refer to Note 8—Goodwill and Intangible Assets, Net for more information.

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

Note 15 – Other Comprehensive Income (Loss)

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

| | Three Months Ended March 31, 2016 | | Three Months Ended March 31, 2015 | | Nine months ended March 31, 2016 | | Nine months ended March 31, 2015 | |
|---|---|---|---|---|---|---|---|---|
| | Pre-Tax | Net of Tax | Pre-Tax | Net of Tax | Pre-Tax | Net of Tax | Pre-Tax | Net of Tax |
| Foreign currency translation gains (losses) | $33,583 | $33,583 | $(82,855) | $(82,855) | $(19,664) | $(19,664) | $(210,530) | $(210,530) |
| Changes in hedging derivatives: | | | | | | | | |
| Reclassifications from AOCI into income (effective portion)[1] | (24,354) | (15,502) | (15,392) | (11,653) | (67,653) | (51,158) | (21,942) | (16,604) |
| Reclassifications from AOCI into income (effective portion)[2] | 427 | 325 | 3 | 2 | 403 | 305 | (215) | (163) |
| Reclassifications from AOCI into income (effective portion)[3] | 5 | 3 | 0 | 0 | 15 | 11 | | |
| Gains recognized in AOCI (effective portion) | (51,488) | (42,397) | 148,115 | 112,229 | (40) | (30) | 311,226 | 235,511 |
| Other (losses) gains | (2) | (3) | (83) | 5 | 21 | 16 | 6 | 5 |
| Unrealized (losses) gains on hedging derivatives | (75,412) | (57,574) | 132,643 | 100,583 | (67,254) | (50,856) | 289,075 | 218,749 |
| Pension liability adjustment: | | | | | | | | |
| Amortization of prior service cost[4] | 247 | 1,506 | 243 | 182 | 741 | 1,853 | 730 | 524 |
| Amortization of net loss[4] | 1,313 | 8,001 | 918 | 692 | 3,937 | 9,843 | 2,847 | 2,045 |
| Expected return on plan assets[4] | (29) | (184) | (60) | (46) | (91) | (228) | (189) | (136) |
| | (3,435) | (10,663) | 3,571 | 2,608 | (4,589) | (11,473) | 5,943 | 4,271 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Other (losses) gains[5] | | | | | | | | |
| Pension liability adjustment | (1,904) | (1,340) | 4,672 | 3,436 | (2) | (5) | 9,331 | 6,704 |
| Unrealized (losses) gains on available-for-sale securities | (286) | (182) | 68 | 38 | (367) | (233) | 149 | 90 |
| Other comprehensive (loss) income | (44,019) | (25,513) | 54,528 | 21,202 | (87,287) | (70,758) | 88,025 | 15,013 |
| Other comprehensive (loss) income attributable to Harman International Industries, Incorporated | $(44,019) | $(25,513) | $54,528 | $21,202 | $(87,287) | $(70,758) | $88,025 | $15,013 |

[1] Reclassified to Cost of sales in our Condensed Consolidated Statements of Income. Refer to Note 13 – Derivatives for more information.

[2] Reclassified to SG&A in our Condensed Consolidated Statements of Income. Refer to Note 13 – Derivatives for more information.

[3] Reclassified to Interest expense, net in our Condensed Consolidated Statements of Income. Refer to Note 13 – Derivatives for more information.

[4] Reclassified to SG&A in our Condensed Consolidated Statements of Income. Refer to Note 17 – Retirement Benefits for more information.

[5] Primarily represents currency impact on cumulative amount of benefit plan net actuarial losses and prior service credits included in AOCI.

AOCI: At March 31, 2016 and June 30, 2015 AOCI consisted of the following:

| Income/(Loss): | March 31, 2016 | June 30, 2015 |
|---|---|---|
| Cumulative translation adjustment | $ (114,722) | $ (95,058) |
| Pension liability adjustment | (44,399) | (44,394) |
| Unrealized gains (losses) on hedging derivatives | 99,524 | 150,380 |
| Unrealized gains on available-for-sale securities | 273 | 506 |
| Total AOCI | $ (59,324) | $ 11,434 |

At March 31, 2016, we had approximately $8.6 million and $43.0 million of investments included in Other current assets and Non-current assets, respectively, in our Condensed Consolidated Balance Sheets that have been classified as available-for-sale securities. At June 30, 2015, we had approximately $2.7 million and $52.2 million of investments included in Other current assets and Non-current assets, respectively, in our Condensed Consolidated Balance Sheets that have been classified as available-for-sale securities.

These securities are recorded at fair value with realized gains and losses recorded in income and unrealized gains and losses recorded in AOCI, net of taxes.

Note 16 – Restructuring Program

Our restructuring program that is designed to improve our global footprint, cost structure, technology portfolio, human resources and internal processes continues. For the three and nine months ended March 31, 2016 and 2015, we continued to refine existing programs and launched significant new programs focused on achieving further productivity improvements to: (i) optimize certain research and development, supply chain and administrative functions; (ii) outsource certain manufacturing capabilities; (iii) divest or sublease facilities no longer needed to support current operations; and (iv) relocate certain functions to best cost countries.

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

| | Severance Related Costs | Third Party Contractor Termination Costs | Facility Closure and Other Related Costs | Asset Impairments[1] | Total |
|---|---|---|---|---|---|
| Liability, June 30, 2015 | $ 60,789 | $ - | $ 4,590 | $ - | $ 65,379 |
| Expense[2] | 3,383 | 592 | 1,341 | 6,168 | 11,484 |
| Accumulated depreciation offset | - | - | - | (6,168) | (6,168) |
| Payments | (38,625) | (338) | (2,030) | - | (40,993) |
| Foreign currency translation | 95 | 3 | 6 | - | 104 |
| Liability, March 31, 2016 | $ 25,642 | $ 257 | $ 3,907 | $ - | $ 29,806 |
| Liability, June 30, 2014 | $ 54,157 | $ - | $ 30,262 | $ - | $ 84,419 |
| Expense[2] | 36,674 | 2,034 | 535 | 7,508 | 46,751 |
| Accumulated depreciation offset | - | - | - | (7,508) | (7,508) |
| Payments | (16,862) | (1,998) | (18,969) | - | (37,829) |
| Reclassified liabilities[3] | 893 | - | - | - | 893 |
| Foreign currency translation | (12,896) | (2) | (2,494) | - | (15,392) |
| Liability, March 31, 2015 | $ 61,966 | $ 34 | $ 9,334 | $ - | $ 71,334 |

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

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

[3] Certain pre-existing pension liabilities were transferred and reduced the restructuring expenses recorded as part of an individual restructuring program initiated in this quarter. These offsets are shown as Reclassified liabilities as

noted above.

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

Restructuring expenses by reporting business segment are presented below:

| | Three Months Ended March 31, | | Nine months ended March 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Connected Car | $ (251 ) | $ 1,223 | $ (1,488 ) | $ 1,052 |
| Lifestyle Audio | 945 | 4,440 | 2,119 | 29,590 |
| Professional Solutions | 2,516 | 4,425 | 4,692 | 8,669 |
| Connected Services | - | - | - | - |
| Other | (7 ) | - | (7 ) | (68 ) |
| Total | 3,203 | 10,088 | 5,316 | 39,243 |
| Asset Impairments | 2,204 | 4,723 | 6,168 | 7,508 |
| Total | $ 5,407 | $ 14,811 | $ 11,484 | $ 46,751 |

Note 17 – Retirement Benefits

Plan Descriptions

Retirement savings plan

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

Pension benefits

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

The SERP is an unfunded plan for tax purposes and under the Employee Retirement Income Security Act of 1974 (“ERISA”) all obligations arising under the SERP are payable from our general assets. To assist in the funding of the benefits under the SERP, we maintain assets in an irrevocable trust whereby the use of these assets is restricted to funding our future benefit obligations under the SERP. These assets are not plan assets of the SERP, therefore, in the event of bankruptcy, the assets become unrestricted and the SERP would become a general creditor of our company. The assets and liabilities, and earnings and expenses, of the irrevocable trust are consolidated in our condensed consolidated financial statements. As of March 31, 2016 and June 30, 2015, there were $89.8 million and $98.4 million, respectively, of total assets included in the irrevocable trust of which $0.1 million and $6.1 million, respectively, consisted of Cash and cash equivalents, $40.6 million and $40.0 million, respectively, consisted of the cash surrender value of life insurance policies and $49.1 million and $52.3 million, respectively, consisted of equity and fixed income mutual funds, which are classified as available-for-sale securities.

The following table presents the components of net periodic benefit cost for the three and nine months ended March 31, 2016 and 2015:

| | Three Months Ended | | Nine months ended | |
|---|---|---|---|---|
| | March 31, | | March 31, | |
| | 2016 | 2015 | 2016 | 2015 |
| Service cost | $ 1,394 | $ 908 | $ 4,233 | $ 2,935 |
| Interest cost | 1,715 | 1,591 | 5,156 | 4,975 |

| | | | | |
|---|---|---|---|---|
| Expected return on plan assets | (29 ) | (60 ) | (91 ) | (189 ) |
| Amortization of prior service cost | 247 | 243 | 741 | 730 |
| Amortization of net loss | 1,313 | 918 | 3,937 | 2,847 |
| Curtailments and settlements | (91 ) | (845 ) | (273 ) | (454 ) |
| Net periodic benefit cost | $ 4,549 | $ 2,755 | $ 13,703 | $ 10,844 |

During the three months ended March 31, 2016 and 2015, we made contributions of $2.4 million and $2.0 million, respectively, to the defined benefit pension plans which were paid to participants. During the nine months ended March 31, 2016 and 2015, we made contributions of $7.1 million and $7.0 million, respectively, to the defined benefit pension plans which were paid to participants. We expect to make approximately $3.0 million in contributions for the remainder of the fiscal year ending June 30, 2016.

Note 18 – Business Segment Data

Effective July 1, 2015, we revised our business segments in order to better align them with our strategic approach to the markets and customers we serve. Prior period segment amounts throughout the condensed consolidated financial statements have been reclassified to the new segment structure. The reclassification of historical business segment information had no impact on our basic financial statements.

The accounting principles applied at the operating segment level in determining income (loss) from operations are the same as those applied at the consolidated financial statement level. Goodwill was allocated to our segments based on the relative fair value of the components of our reporting units that were affected by our change in segments. Refer to Note 8 – Goodwill and Intangible Assets, Net for more information.

We design and engineer connected products and solutions, including audio, visual and infotainment systems, enterprise automation solutions and software services for consumers, automakers, and enterprises worldwide. Our chief operating decision maker evaluates performance and allocates resources based on net sales, operating income and working capital in each of the operating segments which are also our reporting segments.

Connected Car

Our Connected Car segment designs, manufactures and markets infotainment systems for vehicle applications to be installed primarily as original equipment by automotive manufacturers. Our scalable infotainment platforms deliver enhanced and connected capabilities to the car, including intelligent high-performance navigation with embedded solutions for multimedia, premium entertainment tuners, and on-board and off-board connectivity that addresses a wide range of vehicle categories. Leveraging a software-driven computer platform, we offer an integrated suite of technologies that extends beyond infotainment to encompass telematics, connected safety, and over-the-air update capabilities. We also offer a comprehensive suite of automotive cyber security solutions through a multi-layer architecture that can protect not only future vehicles, but connected cars on the road today.

Lifestyle Audio

Our Lifestyle Audio segment designs, manufactures and markets car audio systems for vehicle applications to be installed primarily as original equipment by automotive manufacturers, as well as a wide range of mid-to high-end loudspeaker and electronics for home, multimedia and mobile applications. We believe that we continue to redefine audio excellence for the home, the car and on-the-go listening. Our Lifestyle Audio products are marketed worldwide under renowned brand names including AKG®, Harman/Kardon®, Infinity®, JBL®, JBL Professional, Lexicon®, Mark Levinson® and Revel®.

Professional Solutions

Our Professional Solutions segment designs, manufactures and markets an extensive range of audio, lighting, video and control and automation solutions for commercial, enterprise and public space applications, including concert halls, stadiums, airports, conference centers, educational institutions, command centers and houses of worship. We design products for recording, broadcast, cinema and music reproduction applications such as loudspeakers, power amplifiers, digital signal processors, microphones, headphones, mixing consoles, lighting, video and control and automation solutions equipment. We also provide high-quality products to the sound reinforcement, music instrument support and broadcast and recording segments of the professional audio market. Our Professional Solutions segment products are marketed globally under a number of brand names including AKG, AMX®, Crown®, JBL Professional, Lexicon, Martin®, Soundcraft® and Studer®.

Connected Services

Our Connected Services segment includes the operating results of STC, Redbend, and our automotive services businesses. Our Connected Services segment creates innovative software solutions that integrate design, mobility, cloud and analytics and brings the benefits of the connected world to the automotive, retail, mobile, healthcare, media and consumer electronics markets. Our Connected Services segment offers services and solutions in order to help customers understand and visualize their data so they can make faster and more informed decisions, cloud-enable their

businesses, support technical agility and exploit omni-channel strategies.

Other

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

The following table reports Net sales and Operating income (loss) by each reporting segment for the three and nine months ended March 31, 2016 and 2015:

| | Three Months Ended | | Nine months ended | |
|---|---|---|---|---|
| | March 31, 2016 | 2015 | March 31, 2016 | 2015 |
| Net sales: | | | | |
| Connected Car | $766,757 | $730,216 | $2,259,209 | $2,152,793 |
| Lifestyle Audio | 472,781 | 424,482 | 1,560,210 | 1,349,922 |
| Professional Solutions | 232,016 | 242,329 | 727,993 | 764,124 |
| Connected Services | 166,015 | 67,166 | 509,441 | 208,370 |
| Other | - | - | 39 | 1,455 |
| Eliminations** | (9,487) | - | (25,765) | - |
| Total | $1,628,082 | $1,464,193 | $5,031,127 | $4,476,664 |
| Operating income (loss): | | | | |
| Connected Car | $95,617 | $73,661 | $267,102 | $223,007 |
| Lifestyle Audio | 60,574 | 44,626 | 191,283 | 148,475 |
| Professional Solutions | 2,667 | 16,043 | 52,304 | 75,128 |
| Connected Services | 11,799 | 6,303 | 21,857 | 26,912 |
| Other | (35,304) | (49,126) | (106,573) | (117,475) |
| Total | $135,353 | $91,507 | $425,973 | $356,047 |

| | Three Months Ended | | |
|---|---|---|---|
| | March 31, 2016 | | |
| | Net Sales | Eliminations ** | Third Party Sales |
| Net sales: | | | |
| Connected Car | $766,757 | $ - | $ 766,757 |
| Lifestyle Audio | 472,781 | (547) | 472,234 |
| Professional Solutions | 232,016 | (465) | 231,551 |
| Connected Services | 166,015 | (8,475) | 157,540 |
| Other | - | - | - |
| Eliminations** | (9,487) | 9,487 | - |
| Total | $1,628,082 | $ - | $ 1,628,082 |

| | Nine months ended | | |
|---|---|---|---|
| | March 31, 2016 | | |
| | Net Sales | Eliminations ** | Third Party Sales |
| Net sales: | | | |
| Connected Car | $2,259,209 | $ - | $ 2,259,209 |
| Lifestyle Audio | 1,560,210 | (1,802) | 1,558,408 |
| Professional Solutions | 727,993 | (1,834) | 726,159 |
| Connected Services | 509,441 | (22,129) | 487,312 |

| | | | |
|---|---|---|---|
| Other | 39 | - | 39 |
| Eliminations** | (25,765 ) | 25,765 | - |
| Total | $5,031,127 | $ - | $ 5,031,127 |

**Represents elimination of inter-segment activity.

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Note 19 – Significant Customers

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

| | Net Sales Three Months Ended March 31, | | Net Sales Nine months ended March 31, | | Accounts Receivable, Net | |
|---|---|---|---|---|---|---|
| | | | | | March 31, | June 30, |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| BMW | 13 % | 15 % | 13 % | 15 % | 9 % | 9 % |
| Fiat Chrysler Automobiles | 15 % | 16 % | 14 % | 14 % | 14 % | 14 % |
| The Volkswagen Group | 12 % | 12 % | 12 % | 11 % | 8 % | 7 % |
| Other customers | 60 % | 57 % | 61 % | 60 % | 69 % | 70 % |
| Total | 100 % | 100 % | 100 % | 100 % | 100 % | 100 % |

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

Note 20 – Commitments and Contingencies

At March 31, 2016, we were subject to legal claims and litigation arising in the ordinary course of business, including the matters described below. The outcome of these legal actions cannot be predicted with certainty; however, management, based upon advice from legal counsel, believes such actions are either without merit or will not have a material adverse effect on our financial condition, results of operations or cash flows.

In re Harman International Industries, Inc. Securities Litigation

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

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

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

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

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



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

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

On September 5, 2012, the District Court heard oral arguments on the defendants’ motion to dismiss. At the request of the District Court, on September 24, 2012, each side submitted a supplemental briefing on the defendants’ motion to dismiss. On January 17, 2014, the District Court granted a motion to dismiss, without prejudice, in the In re Harman International Industries, Inc. Securities Litigation. The Lead Plaintiff appealed this ruling to the U.S. Court of Appeals for the District of Columbia Circuit (the “Court of Appeals”) and, on June 23, 2015, the District Court’s ruling was reversed and remanded for further proceedings. On July 23, 2015, the defendants filed a motion for a rehearing en banc before the Court of Appeals, which was denied on August 26, 2015. The defendants filed a petition for a writ of certiorari seeking U.S. Supreme Court review on November 24, 2015, which was denied by the District Court on February 29, 2016.  Discovery in this matter is ongoing.

Connected Car Supply Arrangements

We have arrangements with our Connected Car customers to provide infotainment products that meet predetermined technical specifications and delivery dates. In the event that we do not satisfy the performance obligations under these arrangements, we may be required to indemnify the customer. We accrue for any loss that we expect to incur under these arrangements when that loss is probable and can be reasonably estimated.  For the three months ended March 31, 2016 and 2015, we recognized $1.8 million and $9.8 million, respectively, of costs relating to delayed delivery of product to Connected Car customers. For the nine months ended March 31, 2016 and 2015, we recognized $2.1 million of gains relating to losses we no longer expect to incur and $24.5 million of costs relating to delayed delivery of product to Connected Car customers, respectively. An inability to meet performance obligations on infotainment platforms to be delivered in future periods could adversely affect our results of operations, cash flows and financial condition in future periods.

Note 21 – Related Party Transactions

Singularity University

In fiscal year 2015, we joined Singularity University’s Innovation Partnership Program, which is an innovation ecosystem for Fortune 500 companies to collaborate in the areas of technology, entrepreneurship, innovation and business strategy. In fiscal year 2015, we also purchased a Corporate Labs Membership from Singularity University (“Singularity”), providing Harman with access to educational programs, facilities and network connections. Payments to Singularity in fiscal year 2015 totaled, in the aggregate, approximately $575,000. Robert Nail, who was appointed as a

member of our Board of Directors on September 15, 2015, is an Associate Founder and the Chief Executive Officer of Singularity. He owns approximately 6.6% of the outstanding equity of Singularity and holds a $350,000 convertible note issued by Singularity.

Note 22 – Acquisitions

TowerSec Ltd.

On March 10, 2016 (the "TowerSec Acquisition Date"), Harman Becker Automotive Systems Manufacturing Kft, our indirect wholly-owned subsidiary ("Harman Becker Kft"), acquired all of the outstanding shares of TowerSec (the "TowerSec Acquisition"), a global automotive cyber security company, for a purchase price of $45.0 million, subject to certain adjustments (the "TowerSec Adjustments"). On the TowerSec Acquisition Date we paid $37.9 million which excludes $2.3 million for an indemnification holdback and $3.0 million for a deferred consideration amount (the "Deferred Consideration Amount"). The indemnification holdback will be released within 18 months of the TowerSec Acquisition Date, if not used. The Deferred Consideration Amount will be released on the second anniversary of the TowerSec Acquisition Date. Approximately $2.6 million of third-party debt was assumed and paid off at the closing. The TowerSec Acquisition is also subject to an earn-out of up to $30.0 million, contingent on TowerSec's achievement of certain targets through March 10, 2019. Our preliminary estimate of the fair value of this contingent consideration liability is $20.0 million.

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

| | March 10, 2016 |
|---|---|
| Cash and cash equivalents | $ 793 |
| Other current assets | 89 |
| Total current assets | 882 |
| Property, plant and equipment | 209 |
| Goodwill | 60,936 |
| Intangible assets | 6,000 |
| Total assets | 68,027 |
| Accounts payable | 293 |
| Accrued liabilities | 373 |
| Total current liabilities | 666 |
| Other non-current liabilities | 4,162 |
| Total liabilities | 4,828 |
| Net assets | $ 63,199 |

Based on our preliminary valuation, goodwill and intangibles were recorded in connection with the TowerSec Acquisition based on third-party valuations and management's estimates for those acquired intangible assets. The valuation of the acquired net assets is subject to change as we obtain additional information for our estimates during the measurement period. The primary areas of those purchase price allocations that are not yet finalized relate to identifiable intangible assets and residual goodwill. Goodwill was calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. None of the goodwill recognized is deductible for tax purposes. Intangible assets include internally developed technology of $6.0 million with an approximate useful life of six years. Expenses of $0.6 million were recognized in connection with this acquisition and are included in SG&A in our Condensed Consolidated Statement of Income for the quarter ended March 31, 2016. The operating results of TowerSec are included in our condensed consolidated financial statements from the TowerSec Acquisition Date within our Connected Car segment. Pro forma financial information has not been provided as the TowerSec Acquisition is not material to our results of operations.

Southern Vision Systems, Inc.

On June 10, 2015 (the "SVSI Acquisition Date"), Harman Professional, Inc., our wholly-owned subsidiary, acquired all of the issued and outstanding shares of SVSI (the "SVSI Acquisition"), a developer, manufacturer and marketer of audio/video over internet protocol products and services, for a total purchase price of $20.0 million, subject to certain adjustments (the "SVSI Adjustments"). On the SVSI Acquisition Date we paid $19.5 million which excludes $2.4 million for certain indemnification holdbacks. These holdbacks will be released within 18 months of the SVSI Acquisition Date if not used. The SVSI Adjustments were finalized during the three months ended September 30, 2015 and we recorded an increase to the purchase price of approximately $0.1 million. The SVSI Acquisition is also subject to an earn-out of up to $10.0 million to be paid in fiscal years 2017, 2018 and 2019, based upon the achievement of certain contribution margin targets related to the sale of certain products through fiscal year 2018. Our

preliminary estimate of the fair value of this contingent consideration liability is $0.



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

| | June 10, 2015 |
|---|---|
| Cash and cash equivalents | $ 2,134 |
| Receivables | 1,510 |
| Inventories | 855 |
| Other current assets | 50 |
| Total current assets | 4,549 |
| Property, plant and equipment | 177 |
| Goodwill | 13,244 |
| Intangible assets | 8,360 |
| Total assets | 26,330 |
| Accounts payable | 513 |
| Accrued liabilities | 464 |
| Total current liabilities | 977 |
| Other non-current liabilities | 3,351 |
| Total liabilities | 4,328 |
| Net assets | $ 22,002 |

Based on our preliminary valuation, goodwill and intangibles were recorded in connection with the SVSI Acquisition based on third-party valuations and management's estimates for those acquired intangible assets. The valuation of the acquired net assets is subject to change as we obtain additional information for our estimates during the measurement period. The primary areas of those purchase price allocations that are not yet finalized relate to identifiable intangible assets and residual goodwill. Goodwill was calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. None of the goodwill recognized is deductible for tax purposes. Intangible assets include internally developed software of $7.7 million with an approximate useful life of five years, distributor relationships of $0.6 million with an approximate useful life of approximately two years, and a trade name of $0.1 million with an approximate useful life of one-half year. Expenses of $0.3 million were recognized in connection with this acquisition and are included in SG&A in our Condensed Consolidated Statement of Income for the fiscal year ended June 30, 2015. The operating results of SVSI are included in our condensed consolidated financial statements from the SVSI Acquisition Date within our Professional Solutions segment. Pro forma financial information has not been provided as the SVSI Acquisition is not material to our results of operations.

Bang & Olufsen Automotive Assets

On June 1, 2015 (the "B&O Acquisition Date"), we acquired certain automotive assets and liabilities of B&O, a developer of home audio systems and car audio solutions, including a perpetual exclusive license to use the Bang & Olufsen® and B&O Play® trademarks, for a total purchase price of €150.8 million (the "B&O Preliminary Purchase Price") or approximately $165.7 million (the "B&O Acquisition"), subject to a final purchase price adjustment (the "B&O Adjustment"). On the B&O Acquisition Date, we paid the B&O Preliminary Purchase Price, of which €12.5 million was placed in escrow for certain indemnification matters, which will be released within 15 months of the B&O Acquisition Date if not used. The B&O Adjustment was finalized during the three months ended September 30, 2015 and we recorded a decrease to the purchase price of approximately €0.5 million or $0.5 million.

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The total cost of the B&O Acquisition was allocated on a preliminary basis, subject to final allocation, to the assets acquired and liabilities assumed based on their fair values at the B&O Acquisition Date, as follows:

| | June 1, 2015 |
|---|---|
| Receivables | $ 9,338 |
| Inventories | 5,430 |
| Other current assets | 1,152 |
| Total current assets | 15,920 |
| Property, plant and equipment | 7,594 |
| Goodwill | 13,006 |
| Intangible assets | 129,700 |
| Total assets | 166,220 |
| Accrued liabilities | 1,047 |
| Total current liabilities | 1,047 |
| Total liabilities | 1,047 |
| Net assets | $ 165,173 |

Based on our preliminary valuation, goodwill and intangibles were recorded in connection with the B&O Acquisition based on third-party valuations and management's estimates for those acquired intangible assets. The valuation of the acquired net assets is subject to change as we obtain additional information for our estimates during the measurement period. The primary areas of those purchase price allocations that are not yet finalized relate to identifiable intangible assets and residual goodwill. Goodwill was calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Of the $13.0 million of goodwill recognized, all is deductible for tax purposes. The Intangible assets balance relates to a customer relationship asset of $129.7 million with an approximate useful life of seven years. Expenses of $0.8 million were recognized in connection with this acquisition and are included in SG&A in our Condensed Consolidated Statement of Income for the fiscal year ended June 30, 2015. The operating results of the automotive business of B&O are included in our condensed consolidated financial statements from the B&O Acquisition Date within our Lifestyle Audio segment. Pro forma financial information has not been provided as the B&O Acquisition is not material to our results of operations.

Symphony Teleca Corporation

On April 8, 2015 (the "STC Acquisition Date"), we acquired all of the outstanding shares of STC (the "STC Acquisition"), a global software services company, that provides software, engineering and integration services, for an estimated total base purchase price of $720.8 million (the "STC Purchase Price"), of which $491.5 million was paid at closing, consisting of $299.7 million in cash and $191.8 million in shares of our common stock. Approximately $115.6 million of third-party debt was assumed and paid off at closing and we also acquired $61.9 million of cash, of which $14.8 million was restricted, related to the acquisition of the remaining portion of a noncontrolling interest that we did not currently own. The STC Acquisition was subject to an earn-out which is based upon STC's calendar year 2015 revenue. The STC Acquisition was also subject to a final base purchase price adjustment (the "Final Base Purchase Price Adjustment") comprised of both a net debt and net working capital component which was estimated to be $0.

During the three and nine months ended March 31, 2016 the calculation of the remainder of the STC Purchase Price and the earn-out (the "Additional Payments") of $231.1 million and $23.3 million, respectively, and the Final Base Purchase Price Adjustment of $0 were finalized and settled in cash. There is a $42.0 million holdback related to

specified indemnification matters which was withheld from our settlement of the Additional Payments. There are also holdbacks of $31.2 million and $21.0 million which were placed in separate escrow accounts to be used for other specified indemnification matters. The amounts placed in escrow or withheld from the Additional Payments will be released based on certain defined events.

There were 1,410,161 shares of our common stock issued which were valued at $136.00 per share based upon the closing price of our common stock on the STC Acquisition Date.

Certain STC unvested restricted stock units (the “STC Unvested RSUs”) participate in the cash proceeds from the acquisition. If the future service condition is not achieved, the STC Unvested RSUs will not vest and these respective cash proceeds are forfeited. We will record compensation expense over the remaining vesting period of these awards.



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The total cost of the STC Acquisition was allocated to the assets acquired and liabilities assumed based on their fair values at the STC Acquisition Date, as follows:

| | April 8, 2015 |
|---|---|
| Cash and cash equivalents | $47,023 |
| Receivables | 51,553 |
| Other current assets | 74,095 |
| Total current assets | 172,671 |
| Property, plant and equipment | 24,954 |
| Goodwill | 598,849 |
| Intangible assets | 202,900 |
| Other assets | 38,011 |
| Total assets | 1,037,385 |
| Short-term debt | 13,417 |
| Accounts payable | 4,469 |
| Accrued liabilities | 49,183 |
| Total current liabilities | 67,069 |
| Long-term debt | 120,847 |
| Other non-current liabilities | 87,167 |
| Total liabilities | 275,083 |
| Non-controlling interest | 17,461 |
| Total liabilities and equity | 292,544 |
| Net assets | $744,841 |

Based on our valuation, goodwill and intangibles were recorded in connection with the STC Acquisition based on third-party valuations and management's estimates for those acquired intangible assets. Goodwill was calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Of the $598.8 million of goodwill recognized, none is deductible for tax purposes. Intangible assets include customer relationships of $183.1 million with approximate useful lives ranging from 11 to 12 years, trade names of $14.6 million with an approximate useful life of nine months, technology of $4.2 million with an approximate useful life of three years, and a covenant not-to-compete of $1.0 million with an approximate useful life of four years. As part of our purchase price allocation, we revalued deferred revenue to fair value based on the remaining post-acquisition service obligation. Expenses of $13.8 million were recognized in connection with this acquisition and are included in SG&A in our Condensed Consolidated Statements of Income for the fiscal year ended June 30, 2015. The operating results of STC are included in our Connected Services segment. Pro forma financial information has not been provided as the STC Acquisition is not material to our results of operations.

Red Bend Ltd.

On February 26, 2015 (the "Redbend Acquisition Date"), Harman Becker Kft acquired all of the outstanding shares of Redbend, a provider of software management technology for connected devices, over-the-air software and firmware upgrading services, in a cash and stock transaction valued at approximately $195.3 million (the "Redbend Acquisition"), of which $71.0 million was paid in cash and $124.3 million was paid in shares of our common stock (the "Redbend Purchase Price"), subject to certain adjustments (the "Post-Closing Adjustment"). Approximately $5.6 million of third

party debt was assumed and paid off at the closing. The Redbend Acquisition is also subject to an earn-out of up to $30.0 million to be paid in the third quarter of fiscal year 2017, based upon the achievement of Redbend's cumulative bookings target for awarded business from January 1, 2015 through December 31, 2016. Our preliminary estimate of the fair value of this contingent consideration liability is $20.9 million. Our final calculation of the Post-Closing Adjustment was $0.4 million, which was paid during the fiscal year ended June 30, 2015. Approximately $16.0 million of the Redbend Purchase Price was placed in escrow for certain indemnification matters which will be released within 18 months of the Redbend Acquisition Date if not used. There were 897,424 shares of our common stock transferred, of which 839,287 shares were reissued from treasury shares and 58,137 shares were issued out of the 2012 Plan reserve, which were valued at $137.78 per share based upon the closing price of our common stock on the Redbend Acquisition Date.

Certain unvested stock options held by Redbend employees were cancelled and exchanged for unvested restricted stock units. We determined that approximately $0.6 million of the fair value of these awards issued were associated with pre-acquisition services and accordingly is included as part of the Redbend Purchase Price. Approximately $1.9 million of the fair value of these awards issued is associated with post-acquisition services and will be recorded as compensation expense over the remaining vesting period of these awards.

The total cost of the Redbend Acquisition was allocated to the assets acquired and liabilities assumed based on their fair values at the Redbend Acquisition Date, as follows:

| | February 26, 2015 |
|---|---|
| Cash and cash equivalents | $ 2,401 |
| Receivables | 2,007 |
| Other current assets | 1,245 |
| Total current assets | 5,653 |
| Property, plant and equipment | 1,261 |
| Goodwill | 205,907 |
| Intangible assets | 30,500 |
| Other assets | 4,933 |
| Total assets | 248,254 |
| Accounts payable | 833 |
| Short-term debt | 1,715 |
| Accrued liabilities | 15,826 |
| Total current liabilities | 18,374 |
| Other non-current liabilities | 13,630 |
| Total liabilities | 32,004 |
| Net assets | $ 216,250 |

Based on our valuation, goodwill and intangibles were recorded in connection with the Redbend Acquisition based on third-party valuations and management's estimates for those acquired intangible assets. Goodwill was calculated as the excess of the Redbend Purchase Price over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Of the $205.9 million of goodwill recognized, none is deductible for tax purposes. Intangible assets include technology of $29.5 million with an approximate useful life of eight years, customer relationships of $0.9 million with an approximate useful life of eight years and trade names of $0.1 million with an approximate useful life of ten months. As part of our purchase price allocation, we revalued existing deferred revenue to fair value based on the remaining post-acquisition service obligation. The total revaluation adjustment was $4.0 million and represented the value of services already rendered for which no future obligation to provide services remains. The operating results of Redbend are included in our Connected Services segment. Pro forma financial information has not been provided as the Redbend Acquisition is not material to our results of operations.

S1nn GmbH & Co. KG

On February 1, 2015 (the "S1nn Acquisition Date"), Harman Becker Automotive Systems GmbH ("HBAS"), our indirect wholly-owned subsidiary, acquired all of the issued and outstanding shares of S1nn GmbH & Co. KG ("S1nn"), a developer of infotainment systems, connectivity and car audio solutions, for a total purchase price of €49.0 million or approximately $55.4 million, which includes €4.1 million, or approximately $4.6 million, placed in escrow for certain indemnification holdbacks.

I.P.S.G./VFX

On December 30, 2014 (the “IPSG/VFX Acquisition Date”), Harman International Industries Pty. Ltd., our indirect wholly-owned subsidiary, acquired all of the outstanding shares of IPSG/VFX (the “IPSG/VFX Acquisition”), a developer, manufacturer and distributor of audio products, for an aggregate purchase price of $5.0 million, less certain adjustments determined at the IPSG/VFX Acquisition Date (the “IPSG/VFX Purchase Price”), which was paid in cash on the IPSG/VFX Acquisition Date. The IPSG/VFX Acquisition is subject to cumulative earn-outs of up to $8.0 million payable primarily based on expectations of the gross profit of IPSG/VFX (the “IPSG/VFX Contingent Consideration”). The IPSG/VFX Purchase Price and the IPSG/VFX Contingent Consideration are subject to a holdback of 15 percent payable contingent upon the outcome of certain events within 18 months of the IPSG/VFX Acquisition Date. Our preliminary value of the IPSG/VFX Contingent Consideration liability is $0.

Measurement Period Adjustments

During the nine months ended March 31, 2016, we recorded certain measurement period adjustments to the provisional values recorded as of June 30, 2015. The adjustments recorded during the nine months ended March 31, 2016 and the balance sheet accounts impacted are as follows:

| Balance Sheet Account: | Increase / (Decrease) | |
|---|---|---|
| Inventories | $ | (325) |
| Other current assets | | (607) |
| Total current assets | | (932) |
| Property, plant and equipment, net | | (529) |
| Goodwill | | 84,980 |
| Intangible assets, net | | (136,849) |
| Other assets | | 4,532 |
| Total Assets | $ | (48,798) |
| Accrued liabilities | $ | 984 |
| Total current liabilities | | 984 |
| Other non-current liabilities | | (54,538) |
| Total liabilities | | (53,554) |
| Total shareholders' equity | | 4,756 |
| Total Liabilities and Equity | $ | (48,798) |

These adjustments primarily related to updated estimates, which resulted in a decrease in the estimated fair value of the STC and Redbend Intangible assets, net and the related decrease in the non-current deferred tax liability, a reduction in our estimate of the contingent consideration liability recorded for IPSG/VFX offset by an increase in the contingent consideration liability recorded for Redbend.

These adjustments to the provisional amounts resulted in a cumulative reduction of $1.2 million and $2.0 million in amortization expense, which was recorded during the three and nine months ended March 31, 2016, respectively, and was related to the previous year.

Note 23 – Accounts Payable

Beginning in fiscal year 2015, we entered into an agreement with a third party to provide an accounts payable tracking system which allows participating suppliers to sell our payment obligations to designated third-party financial institutions. Participating suppliers may, at their sole discretion, make offers to sell one or more of our payment obligations prior to their scheduled due dates, at a discounted price, to participating financial institutions. Our goal in entering into this agreement is to capture overall supplier savings, in the form of pricing and payment terms, created by facilitating the supplier's ability to sell payment obligations, while providing them with greater working capital flexibility. We have no economic interest in the sale of these suppliers' receivables and no direct financial relationship

with the financial institutions concerning these services. Our obligations to our suppliers, including amounts due and scheduled payment dates, are not impacted by a supplier's decision to sell amounts under this arrangement; however, our right to offset balances due from suppliers against payment obligations is restricted by this agreement for those payment obligations that have been sold by suppliers. As of March 31, 2016, $256.2 million of our outstanding payment obligations had been placed in the accounts payable tracking system, and participating suppliers had sold $123.4 million of those payment obligations to participating financial institutions.

Note 24 – Subsequent Events

Dividend Declaration

On April 28, 2016 we declared a cash dividend of $0.35 per share for the quarter ended March 31, 2016. The quarterly dividend will be paid on May 23, 2016 to each stockholder of record as of the close of business on May 9, 2016.

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

Effective July 1, 2015, we revised our business segments in order to better align them with our strategic approach to the markets and customers we serve. Our former Infotainment segment is now known as Connected Car, our former Lifestyle segment is now known as Lifestyle Audio, our former Professional segment is now known as Professional Solutions and our former Services segment is now known as Connected Services. Our Connected Services segment includes Symphony Teleca Corporation ("STC"), as previously reported, and also now includes Red Bend Ltd. ("Redbend") and our automotive services businesses. Redbend had previously been included within Other. Our automotive services businesses had previously been included within our Infotainment and Lifestyle segments. Other includes compensation, benefits and occupancy costs for corporate employees, net of reporting segment allocations and expenses associated with new technology innovation and our corporate brand identity campaign.

Prior period segment amounts throughout the condensed consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations have been reclassified to conform to the current segment structure. The reclassification of historical business segment information had no impact on our basic financial statements.

The following discussion should be read in conjunction with the accompanying unaudited Condensed Consolidated Financial Statements and the related notes included in Item 1 of this Quarterly Report on Form 10-Q, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K, for the fiscal year ended June 30, 2015 (our "2015 Annual Report"). This discussion contains forward-looking statements which are based on our current expectations and experience and our perception of historical trends, current market conditions, including customer acceptance of our new products, current economic data, expected future developments, foreign currency exchange rates, and other factors that we believe are appropriate under the circumstances. These statements involve risks and uncertainties that could cause actual results to differ materially from those suggested in the forward-looking statements. Unless otherwise indicated, "Harman," "Company," "we," "our," and "us" are used interchangeably to refer to Harman International Industries, Incorporated and its consolidated subsidiaries. All amounts are in thousands unless otherwise indicated.

Executive Overview

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

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

We believe that innovation is an important element to gaining market acceptance of our products and strengthening our market position. We have a history of leveraging our continuous technological innovation across all of the markets we serve. We have a well-deserved reputation for delivering premium audio and infotainment solutions across a full

spectrum of applications. We believe that our technological innovation, the quality of our products and our reputation for on-time delivery have resulted in Harman being awarded a substantial amount of Connected Car and Lifestyle Audio automotive business. As of June 30, 2015, we have a cumulative estimated $23.0 billion of future awarded Connected Car and Lifestyle Audio automotive business, which represents the estimated future lifetime net sales for all customers. This amount does not represent firm customer orders. We report our awarded business primarily based on award letters from our customers. To validate these awards, we use various assumptions, including global vehicle production forecasts, customer take rates for our products, revisions to product life-cycle estimates and the impact of annual price reductions and exchange rates, among other factors. The term “take rate” represents the number of Harman units sold divided by the total number of vehicles of a specific vehicle line, in accessible markets based on the award criteria, produced during the same timeframe. These assumptions are updated and reported externally on an annual basis. We believe our future awarded automotive business will position us well for follow-on and new business with these existing customers.

Our management uses the amount of our future awarded business for short- and long-term budgeting and forecasting, development of earnings guidance and for planning future corporate investment and other activities, such as capital expenditures and restructuring. Our future awarded business is also an input used to approximate our enterprise value. We believe our investors utilize this information for a number of reasons, including evaluating our future financial performance over time, to model our financial results of

operations, to understand the risks inherent in our current operating plan, and as an input to approximate our enterprise value. However, our estimates of future awarded automotive business are forward-looking statements and may not actually be achieved. See the risk factor "We may not realize sales represented by awarded business" in Item 1A "Risk Factors" of Part I of our 2015 Annual Report.

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

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

We believe significant opportunities exist to grow our business in all of our business segments in emerging markets such as Brazil, Russia, India and China ("BRIC"). During the three months ended March 31, 2016, sales increased $37.0 million in these emerging markets to $276.3 million, an increase of 15.5 percent over the same period in the prior fiscal year. During the nine months ended March 31, 2016, sales increased $45.8 million in these emerging markets to $763.8 million, an increase of 6.4 percent over the same period in the prior fiscal year.

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

Critical Accounting Policies

Recently Adopted Accounting Standards

For the three and nine months ended March 31, 2016, there were no significant changes to our critical accounting policies and estimates from those disclosed in the consolidated financial statements and the related notes included in our 2015 Annual Report, except for recently adopted accounting standards disclosed in Note 2 – New Accounting Standards in the Notes to the Condensed Consolidated Financial Statements for the three and nine months ended March 31, 2016.

Recently Issued Accounting Standards

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

Results of Operations

Net Sales

Net sales for the three months ended March 31, 2016 were $1.628 billion compared to $1.464 billion in the same period in the prior year, an increase of 11.2 percent, or 12.4 percent excluding foreign currency translation. Net sales increased in our Connected Services, Lifestyle Audio, and Connected Car segments. The increase was primarily due to higher take rates, the impact of our recent acquisitions, and higher consumer audio sales, partially offset by unfavorable foreign currency translation of $15.9 million. Net sales decreased in our Professional Solutions segment primarily driven by unfavorable foreign currency translation, lower demand in Brazil and certain European markets, as well as channel rationalization to support a solutions-based go-to-market structure. Refer to Note 2—Acquisitions in the Notes to the Consolidated Financial Statements in our 2015 Annual Report and Note 22—Acquisitions in the Notes to the Condensed Consolidated Financial Statements for more information on our acquisitions.

Net sales for the nine months ended March 31, 2016 were $5.031 billion compared to $4.477 billion in the same period in the prior year, an increase of 12.4 percent, or 18.0 percent excluding foreign currency translation. Net sales increased in our Connected Services, Lifestyle Audio and Connected Car segments. The increase was primarily due to higher take rates, stronger automotive production, and the expansion of recently launched platforms, the impact of our recent acquisitions, new product introductions and the expansion of global distribution channels in consumer audio, partially offset by unfavorable foreign currency translation of $214.8 million. Net sales decreased in our Professional Solutions segment primarily driven by unfavorable foreign currency translation, lower demand in Brazil and certain European markets, as well as channel rationalization to support a solutions-based go-to-market structure.

Refer to Note 2—Acquisitions in the Notes to the Consolidated Financial Statements in our 2015 Annual Report and Note 22—Acquisitions in the Notes to the Condensed Consolidated Financial Statements for more information on our acquisitions.

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

| | Three Months Ended March 31, | | | | Nine months ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | % | 2015 | % | 2016 | % | 2015 | % |
| Net sales: | | | | | | | | |
| Connected Car | $766,757 | 47.1% | $730,216 | 49.9% | $2,259,209 | 44.9% | $2,152,793 | 48.1% |
| Lifestyle Audio | 472,781 | 29.0% | 424,482 | 29.0% | 1,560,210 | 31.0% | 1,349,922 | 30.1% |
| Professional Solutions | 232,016 | 14.3% | 242,329 | 16.5% | 727,993 | 14.5% | 764,124 | 17.1% |
| Connected Services | 166,015 | 10.2% | 67,166 | 4.6 % | 509,441 | 10.1% | 208,370 | 4.7 % |
| Other | - | 0.0 % | - | 0.0 % | 39 | 0.0 % | 1,455 | 0.0 % |
| Eliminations** | (9,487 ) | -0.6 % | - | 0.0 % | (25,765 ) | -0.5 % | - | 0.0 % |
| Total | $1,628,082 | 100 % | $1,464,193 | 100 % | $5,031,127 | 100 % | $4,476,664 | 100 % |

**Represents elimination of inter-segment activity

Connected Car – Net sales for the three months ended March 31, 2016 increased $36.5 million, or 5.0 percent, compared to the same period in the prior year, or 5.7 percent excluding foreign currency translation. The increase in net sales was driven by higher take rates, partially offset by unfavorable foreign currency translation of $5.1 million.

Net sales for the nine months ended March 31, 2016 increased $106.4 million, or 4.9 percent, compared to the same period in the prior year, or 10.9 percent excluding foreign currency translation. The increase in net sales was driven by higher take rates, stronger automotive production, and the expansion of recently launched platforms, partially offset by unfavorable foreign currency translation of $115.6 million.

Lifestyle Audio – Net sales for the three months ended March 31, 2016 increased $48.3 million, or 11.4 percent, compared to the same period in the prior year, or 12.5 percent excluding foreign currency translation. The increase in net sales was driven by the impact of our recent acquisition of certain automotive assets and liabilities of Bang & Olufsen A/S (“B&O”), higher take rates in car audio, and higher consumer audio sales, partially offset by unfavorable foreign currency translation of $4.1 million.

Net sales for the nine months ended March 31, 2016 increased $210.3 million, or 15.6 percent, compared to the same period in the prior year, or 20.2 percent excluding foreign currency translation. The increase in net sales was driven by new product introductions and the expansion of global distribution channels in consumer audio, the impact of our recent acquisitions of certain automotive assets and liabilities of B&O and S1nn GmbH & Co. KG, new program launches and higher take rates in car audio, partially offset by unfavorable foreign currency translation of $52.1 million.

Professional Solutions – Net sales for the three months ended March 31, 2016 decreased $10.3 million, or 4.3 percent, compared to the same period in the prior year, or 2.7 percent excluding foreign currency translation. The decrease in net sales was primarily driven by unfavorable foreign currency translation of $3.8 million, lower demand in Brazil and certain European markets, as well as channel rationalization to support a solutions-based go-to-market structure.

Net sales for the nine months ended March 31, 2016 decreased $36.1 million, or 4.7 percent, compared to the same period in the prior year, or 1.8 percent excluding foreign currency translation. The decrease in net sales was primarily driven by unfavorable foreign currency translation of $22.9 million, lower demand in Brazil and certain European markets, as well as channel rationalization to support a solutions-based go-to-market structure.

Connected Services – Net sales for the three months ended March 31, 2016 increased $98.8 million, or 147.2 percent, compared to the same period in the prior year, or 158.8 percent excluding foreign currency translation. The increase in net sales was primarily driven by the expansion of our services portfolio with the acquisitions of STC, partially offset by unfavorable foreign currency translation of $3.0 million.

Net sales for the nine months ended March 31, 2016 increased $301.1 million, or 144.5 percent, compared to the same period in the prior year, or 176.5 percent excluding foreign currency translation. The increase in net sales was primarily driven by the expansion of our services portfolio with the acquisitions of STC and Redbend, partially offset by unfavorable foreign currency translation of $24.1 million.

Gross Profit

Gross profit as a percentage of net sales increased 1.7 percentage points to 30.3 percent for the three months ended March 31, 2016 compared to 28.6 percent in the same period in the prior year. The increase in overall gross profit as a percentage of net sales was driven by our Lifestyle Audio and Connected Car segments. In our Connected Car segment, our gross profit as a percentage of net sales increased primarily due to improved leverage of fixed costs over a higher net sales base, lower warranty costs and supplier productivity. In our Lifestyle Audio segment, our gross profit as a percentage of net sales increased due to improved leverage of fixed costs, the impact of our recent acquisition of certain automotive assets and liabilities of B&O and supplier productivity. In our Connected Services segment, our gross profit as a percentage of net sales decreased due to unfavorable product mix, partially offset by improved leverage of fixed costs. In our Professional Solutions segment, our gross profit as a percentage of net sales decreased due to discounts on older inventory and to partially offset foreign currency impacts, incremental costs associated with migrating manufacturing to Hungry and reduced operating leverage as a result of lower net sales.

Gross profit as a percentage of net sales increased 0.7 percentage points to 30.3 percent for the nine months ended March 31, 2016 compared to 29.6 percent in the same period in the prior year. The increase in overall gross profit as a percentage of net sales was driven by our Connected Car, Connected Services and Lifestyle Audio segments. In our Connected Car segment, our gross profit as a percentage of net sales increased due to improved leverage of fixed costs over a higher net sales base, lower warranty costs and supplier productivity.  In our Connected Services segment, our gross profit as a percentage of net sales increased due to improved leverage of fixed costs. In our Lifestyle Audio segment, our gross profit as a percentage of net sales increased primarily due to improved leverage of fixed costs over a higher net sales base, the impact of our recent acquisition of certain automotive assets and liabilities of B&O and supplier productivity, partially offset by a non-recurring reduction in duties and fees related to compliance with U.S. Customs regulations in the same period in the prior year. In our Professional Solutions segment, our gross profit as a percentage of net sales decreased due to discounts on older inventory and to partially offset foreign currency impacts, incremental costs associated with migrating manufacturing to Hungry, reduced operating leverage as a result of lower net sales, and a non-recurring reduction in duties and fees related to compliance with U.S. Customs regulations in the same period in the prior year.

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

| | Three Months Ended March 31, | | | | Nine months ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | Percentage of Net Sales | 2015 | Percentage of Net Sales | 2016 | Percentage of Net Sales | 2015 | Percentage of Net Sales |
| Gross profit: | | | | | | | | |
| Connected Car | $201,574 | 26.3 % | $164,291 | 22.5 % | $562,344 | 24.9 % | $503,294 | 23.4 % |
| Lifestyle Audio | 167,419 | 35.4 % | 132,689 | 31.3 % | 522,273 | 33.5 % | 442,424 | 32.8 % |
| Professional Solutions | 77,673 | 33.5 % | 100,500 | 41.5 % | 283,184 | 38.9 % | 315,359 | 41.3 % |
| Connected Services | 47,626 | 28.7 % | 20,646 | 30.7 % | 161,587 | 31.7 % | 63,396 | 30.4 % |
| Other | 247 | * | 4 | * | 362 | * | 1,455 | * |
| Eliminations** | (1,672 ) | * | - | * | (4,393 ) | * | - | * |
| Total | $492,867 | 30.3 % | $418,130 | 28.6 % | $1,525,357 | 30.3 % | $1,325,928 | 29.6 % |

*Percent not meaningful.
**Represents elimination of inter-segment activity
Connected Car – Gross profit as a percentage of net sales increased 3.8 percentage points to 26.3 percent for the three months ended March 31, 2016 compared to the same period in the prior year. The increase in gross profit as a percentage of net sales was due to improved leverage of fixed costs over a higher net sales base, lower warranty costs and supplier productivity.

Gross profit as a percentage of net sales increased 1.5 percentage points to 24.9 percent for the nine months ended March 31, 2016 compared to the same period in the prior year. The increase in gross profit as a percentage of net sales was due to improved leverage of fixed costs over a higher net sales base, lower warranty costs and supplier productivity.

Lifestyle Audio – Gross profit as a percentage of net sales increased 4.1 percentage points to 35.4 percent for the three months ended March 31, 2016 compared to the same period in the prior year. The increase in gross profit as a percentage of net sales was due to improved leverage of fixed costs over a higher net sales base, the impact of our recent acquisition of certain automotive assets and liabilities of B&O and supplier productivity.

Gross profit as a percentage of net sales increased 0.7 percentage points to 33.5 percent for the nine months ended March 31, 2016 compared to the same period in the prior year. The increase in gross profit as a percentage of net sales was due to improved leverage of fixed costs over a higher net sales base, the impact of our recent acquisition of certain automotive assets and liabilities of B&O and

supplier productivity, partially offset by a non-recurring reduction of $12.6 million in duties and fees related to compliance with U.S. Customs regulations in the same period in the prior year.

Professional Solutions – Gross profit as a percentage of net sales decreased 8.0 percentage points to 33.5 percent for the three months ended March 31, 2016 compared to the same period in the prior year. The decrease in gross profit as a percentage of net sales was due to discounts on older inventory and to partially offset foreign currency impacts, incremental costs associated with migrating manufacturing to Hungry and reduced operating leverage as a result of lower net sales.

Gross profit as a percentage of net sales decreased 2.4 percentage points to 38.9 percent for the nine months ended March 31, 2016 compared to the same period in the prior year. The decrease in gross profit as a percentage of net sales was primarily due to discounts on older inventory and to partially offset foreign currency impacts, incremental costs associated with migrating manufacturing to Hungry, reduced operating leverage as a result of lower net sales and a non-recurring reduction of $3.3 million in duties and fees related to compliance with U.S. Customs regulations in the same period in the prior year.

Connected Services – Gross profit as a percentage of net sales decreased 2.0 percentage points to 28.7 percent for the three months ended March 31, 2016 compared to the same period in the prior year. The decrease in gross profit as a percentage of net sales was due to unfavorable product mix, partially offset by improved leverage of fixed costs.

Gross profit as a percentage of net sales increased 1.3 percentage points to 31.7 percent for the nine months ended March 31, 2016 compared to the same period in the prior year. The increase in gross profit as a percentage of net sales was due to improved leverage of fixed costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (“SG&A”) were $357.5 million for the three months ended March 31, 2016 compared to $326.6 million in the same period in the prior year, an increase of $30.9 million. As a percentage of net sales, SG&A decreased 0.3 percentage points in the three months ended March 31, 2016 compared to the same period in the prior year. The increase in SG&A was due to higher information technology costs to support future business, the inclusion of our recent acquisitions in the current year SG&A and the related amortization expense, and higher RD&E partially offset by lower restructuring expenses, lower costs associated with estimated indemnifications related to Connected Car supply arrangements, tighter expense controls and favorable foreign currency translation of $3.1 million. RD&E increased $3.5 million to $101.0 million, or 6.2 percent of net sales in the three months ended March 31, 2016, compared to $97.5 million, or 6.7 percent of net sales in the same period in the prior year primarily due to higher gross spending to support new product introductions partially offset by higher customer reimbursements and favorable foreign currency translation of $1.1 million.

SG&A were $1.099 billion for the nine months ended March 31, 2016 compared to $969.9 million in the same period in the prior year, an increase of $129.5 million. As a percentage of net sales, SG&A increased 0.2 percentage points in the nine months ended March 31, 2016 compared to the same period in the prior year. The increase in SG&A was primarily in support of increased net sales, the inclusion of our recent acquisitions in the current year SG&A and the related amortization expense, and higher RD&E partially offset by lower restructuring expenses, lower costs associated with estimated indemnifications related to Connected Car supply arrangements, tighter expense controls and favorable foreign currency translation of $40.6 million. RD&E increased $34.4 million to $312.0 million, or 6.2 percent of net sales in the nine months ended March 31, 2016, compared to $277.5 million, or 6.2 percent of net sales in the same period in the prior year primarily due to higher gross spending to support new product introductions partially offset by higher customer reimbursements and favorable foreign currency translation of $14.4 million.

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

| | Three Months Ended March 31, | | | | Nine months ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | Percentage of Net Sales | 2015 | Percentage of Net Sales | 2016 | Percentage of Net Sales | 2015 | Percentage of Net Sales |
| SG&A: | | | | | | | | |
| Connected Car | $105,956 | 13.8 % | $90,629 | 12.4 % | $295,241 | 13.1 % | $280,287 | 13.0 % |
| Lifestyle Audio | 106,846 | 22.6 % | 88,063 | 20.7 % | 330,990 | 21.2 % | 293,949 | 21.8 % |
| Professional Solutions | 75,005 | 32.3 % | 84,457 | 34.9 % | 230,879 | 31.7 % | 240,231 | 31.4 % |
| Connected Services | 35,828 | 21.6 % | 14,343 | 21.4 % | 139,731 | 27.4 % | 36,484 | 17.5 % |
| Other | 35,551 | * | 49,131 | * | 106,936 | * | 118,930 | * |
| Eliminations ** | (1,672 ) | * | — | * | (4,393 ) | * | 0 | * |
| Total | $357,514 | 22.0 % | $326,623 | 22.3 % | $1,099,384 | 21.9 % | $969,881 | 21.7 % |

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*Percent not meaningful.
**Represents elimination of inter-segment activity
Connected Car – SG&A increased $15.3 million to $106.0 million for the three months ended March 31, 2016 compared to the same period in the prior year. The increase in SG&A was primarily due to higher information technology costs to support future business partially offset by lower costs associated with estimated indemnifications related to Connected Car supply arrangements and favorable foreign currency translation of $1.0 million. As a percentage of net sales, SG&A increased 1.4 percentage points to 13.8 percent for the three months ended March 31, 2016 compared to the same period in the prior year. RD&E decreased $0.6 million to $45.4 million, or 5.9 percent of net sales in the three months ended March 31, 2016, compared to $46.0 million, or 6.3 percent of net sales, in the same period in the prior year primarily due to favorable foreign currency translation of $0.8 million.

SG&A increased $15.0 million to $295.2 million for the nine months ended March 31, 2016 compared to the same period in the prior year. The increase in SG&A was primarily in support of increased net sales and higher RD&E partially offset by lower costs associated with estimated indemnifications related to Connected Car supply arrangements, and favorable foreign currency translation of $17.9 million. As a percentage of net sales, SG&A increased 0.1 percentage points to 13.1 percent for the nine months ended March 31, 2016 compared to the same period in the prior year. RD&E increased $2.7 million to $139.8 million, or 6.2 percent of net sales in the nine months ended March 31, 2016, compared to $137.1 million, or 6.4 percent of net sales, in the same period in the prior year primarily due to higher gross spending to support new product introductions partially offset by higher customer reimbursements and favorable foreign currency translation of $10.5 million.

Lifestyle Audio – SG&A increased $18.8 million to $106.8 million for the three months ended March 31, 2016 compared to the same period in the prior year. The increase in SG&A was primarily related to higher RD&E to support several new car audio programs and the inclusion of our recent acquisition of certain automotive assets and liabilities of B&O partially offset by lower restructuring expenses and favorable foreign currency translation of $0.8 million. As a percentage of net sales, SG&A increased 1.9 percentage points to 22.6 percent for the three months ended March 31, 2016 compared to the same period in the prior year. RD&E increased $5.2 million to $28.0 million, or 5.9 percent of net sales, in the three months ended March 31, 2016 compared to $22.7 million, or 5.4 percent of net sales in the same period in the prior year due to higher gross spending to support new product introductions and the inclusion of our recent acquisitions.

SG&A increased $37.0 million to $331.0 million for the nine months ended March 31, 2016 compared to the same period in the prior year. The increase in SG&A was primarily related to higher RD&E to support several new car audio programs and the inclusion of our recent acquisition of certain automotive assets and liabilities of B&O, partially offset by lower restructuring expenses and favorable foreign currency translation of $13.5 million. As a percentage of net sales, SG&A decreased 0.6 percentage points to 21.2 percent for the nine months ended March 31, 2016 compared to the same period in the prior year. RD&E increased $23.4 million to $83.1 million, or 5.3 percent of net sales, in the nine months ended March 31, 2016 compared to $59.7 million, or 4.4 percent of net sales in the same period in the prior year due to higher gross spending to support new product introductions and the inclusion of our recent acquisitions partially offset by favorable foreign currency translation of $1.4 million.

Professional Solutions – SG&A decreased $9.5 million to $75.0 million for the three months ended March 31, 2016 compared to the same period in the prior year. The decrease in SG&A was primarily due to lower restructuring expenses, tighter expense controls and favorable foreign currency translation of $0.9 million. As a percentage of net sales, SG&A decreased 2.6 percentage points to 32.3 percent for the three months ended March 31, 2016 compared to the same period in the prior year. RD&E increased $0.8 million to $17.6 million, or 7.6 percent of net sales, in the three months ended March 31, 2016 compared to $16.8 million, or 7.0 percent of net sales, in the same period in the

prior year to support new product introductions.

SG&A decreased $9.4 million to $230.9 million for the nine months ended March 31, 2016 compared to the same period in the prior year. The decrease in SG&A was primarily due to lower restructuring expenses, tighter expense controls and favorable foreign currency translation of $6.1 million. As a percentage of net sales, SG&A increased 0.3 percentage points to 31.7 percent for the nine months ended March 31, 2016 compared to the same period in the prior year. RD&E increased $0.7 million to $51.9 million, or 7.1 percent of net sales, in the nine months ended March 31, 2016 compared to $51.2 million, or 6.7 percent of net sales, in the same period in the prior year to support new product introductions.

Connected Services – SG&A increased $21.5 million to $35.8 million for the three months ended March 31, 2016 compared to the same period in the prior year primarily due to the acquisitions of STC and Redbend partially offset by favorable foreign currency translation of $0.4 million. As a percentage of net sales, SG&A increased 0.2 percentage points to 21.6 percent for the three months ended March 31, 2016 compared to the same period in the prior year primarily driven by the expansion of our services portfolio. RD&E increased $0.1 million to $6.6 million, or 4.0 percent of net sales, in the three months ended March 31, 2016 compared to $6.5 million, or 9.7 percent of net sales, in the same period in the prior year.

SG&A increased $103.2 million to $139.7 million for the nine months ended March 31, 2016 compared to the same period in the prior year primarily due to the acquisitions of STC and Redbend and higher RD&E partially offset by favorable foreign currency translation of $2.8 million. As a percentage of net sales, SG&A increased 9.9 percentage points to 27.4 percent for the nine months ended March 31, 2016 compared to the same period in the prior year primarily driven by the expansion of our services portfolio. RD&E increased $10.3 million to $28.2 million, or 5.5 percent of net sales for the nine months ended March 31, 2016 compared to $17.9 million, or 8.6 percent of net sales, in the same period in the prior year primarily due to the acquisition of Redbend partially offset by favorable foreign currency translation of $1.5 million.

Other – Other SG&A includes compensation, benefit and occupancy costs for corporate employees, new technology innovation and expenses associated with our corporate brand identity campaign. Other SG&A decreased $13.6 million to $35.6 million in the three months ended March 31, 2016 compared to the same period in the prior year primarily due to lower transaction expenses partially offset by increased investments in marketing.  Other SG&A decreased $12.0 million to $106.9 million in the nine months ended March 31, 2016 compared to the same period in the prior year primarily due to lower transaction expenses partially offset by higher RD&E and increased investments in marketing.

Restructuring

Our restructuring program that is designed to improve our global footprint, cost structure, technology portfolio, human resources and internal processes continues. For the three and nine months ended March 31, 2016 and 2015, we continued to refine existing programs and launched significant new programs focused on achieving further productivity improvements to: (i) optimize certain research and development, supply chain and administrative functions; (ii) outsource certain manufacturing capabilities; (iii) divest or sublease facilities no longer needed to support current operations; and (iv) relocate certain functions to best cost countries.

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

| | Severance Related Costs | Third Party Contractor Termination Costs | Facility Closure and Other Related Costs | Asset Impairments[1] | Total |
|---|---|---|---|---|---|
| Liability, June 30, 2015 | $ 60,789 | $ - | $ 4,590 | $ - | $ 65,379 |
| Expense[2] | 3,383 | 592 | 1,341 | 6,168 | 11,484 |
| Accumulated depreciation offset | - | - | - | (6,168) | (6,168) |
| Payments | (38,625) | (338) | (2,030) | - | (40,993) |
| Foreign currency translation | 95 | 3 | 6 | - | 104 |
| Liability, March 31, 2016 | $ 25,642 | $ 257 | $ 3,907 | $ - | $ 29,806 |
| Liability, June 30, 2014 | $ 54,157 | $ - | $ 30,262 | $ - | $ 84,419 |
| Expense[2] | 36,674 | 2,034 | 535 | 7,508 | 46,751 |
| Accumulated depreciation offset | - | - | - | (7,508) | (7,508) |
| Payments | (16,862) | (1,998) | (18,969) | - | (37,829) |
| Reclassified liabilities[3] | 893 | - | - | - | 893 |
| Foreign currency translation | (12,896) | (2) | (2,494) | - | (15,392) |
| Liability, March 31, 2015 | $ 61,966 | $ 34 | $ 9,334 | $ - | $ 71,334 |

[1] Credits related to restructuring charges for accelerated depreciation and inventory provisions are recorded against the related assets in Property, plant and equipment, net or Inventories in our Condensed Consolidated Balance Sheets and do not impact the restructuring liability.
[2] Restructuring expenses noted above are primarily in SG&A in our Condensed Consolidated Statements of Income. Asset impairments which consist of accelerated depreciation and inventory provisions are primarily in Cost of sales in our Condensed Consolidated Statements of Income.
[3] Certain pre-existing pension liabilities were transferred and reduced the restructuring expenses recorded as part of an individual restructuring program initiated in this quarter. These offsets are shown as Reclassified liabilities as noted above.

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

Restructuring expenses by reporting business segment are presented below:

| | Three Months Ended | | Nine months ended | |
|---|---|---|---|---|
| | March 31, | | March 31, | |
| | 2016 | 2015 | 2016 | 2015 |
| Connected Car | $ (251) | $ 1,223 | $ (1,488) | $ 1,052 |
| Lifestyle Audio | 945 | 4,440 | 2,119 | 29,590 |
| Professional Solutions | 2,516 | 4,425 | 4,692 | 8,669 |
| Connected Services | - | - | - | - |
| Other | (7) | - | (7) | (68) |
| Total | 3,203 | 10,088 | 5,316 | 39,243 |
| Asset Impairments | 2,204 | 4,723 | 6,168 | 7,508 |
| Total | $ 5,407 | $ 14,811 | $ 11,484 | $ 46,751 |

Goodwill

Goodwill was $1.426 billion at March 31, 2016 compared with $1.287 billion at June 30, 2015. The increase in goodwill in the nine months ended March 31, 2016 versus June 30, 2015 was primarily associated with the following: increases of $69.7 million, $60.9 million and $18.9 million in connection with the acquisitions of STC, TowerSec Ltd. ("TowerSec") and Redbend, respectively, and decreases of $4.3 million, $3.7 million and $0.2 million in connection with the acquisitions of I.P.S.G International Product Solution Group Pty Ltd. and VFX Systems Pty Ltd. (collectively "IPSG/VFX"), certain assets and liabilities of Verto Medical Solutions LLC d/b/a/ yurbuds and Yurbuds UK Limited (collectively, "yurbuds") and certain automotive assets and liabilities of B&O, respectively, partially offset by unfavorable foreign currency translation of $2.3 million.

As more fully discussed in Note 18 – Business Segment Data and in Note 8 - Goodwill and Intangible Assets, Net in the Notes to the Condensed Consolidated Financial Statements, we revised our segment and reporting unit structure effective July 1, 2015.

The changes in the carrying amount of goodwill by business segment for the nine months ended March 31, 2016 were as follows:

| | Connected Car | Lifestyle Audio | Professional Solutions | Connected Services | Other | Total |
|---|---|---|---|---|---|---|
| Balance, June 30, 2015 | $ 24,422 | $ 159,088 | $ 387,861 | $ 529,367 | $ 186,442 | $ 1,287,180 |
| Realignment adjustments[1] | (3,673) | (6,738) | - | 196,853 | (186,442) | - |
| Balance, June 30, 2015 – adjusted | 20,749 | 152,350 | 387,861 | 726,220 | - | 1,287,180 |
| Acquisitions and adjustments[2] | 60,936 | (3,849) | (4,249) | 88,481 | - | 141,319 |
| Other adjustments[3] | 402 | (860) | (1,114) | (725) | - | (2,297) |
| Balance, March 31, 2016 | $ 82,087 | $ 147,641 | $ 382,498 | $ 813,976 | $ - | $ 1,426,202 |

(1) The realignment adjustments reallocate our goodwill based on our new reporting structure based on the relative fair value of each reporting unit.
(2) Refer to Note 22—Acquisitions for more information.
(3) The other adjustments to goodwill primarily consist of foreign currency translation adjustments.

We did not recognize any goodwill impairment charges in our Condensed Consolidated Statements of Income in the three and nine months ended March 31, 2016 and 2015.

The contingent purchase price associated with the acquisition of innovative Systems GmbH (“IS”) is calculated pursuant to the terms of an agreement between the parties. Certain terms of the agreement are currently subject to a dispute between the parties and the matter has been submitted to arbitration. On November 5, 2013, the arbitration panel issued a partial award on some of the disputed matters covering the period from February 2009 through January 2012 awarding €16.3 million to the IS sellers. We contested the enforcement of the partial award. In July 2014, the partial award was upheld. During the fiscal year ended June 30, 2015, we paid the €16.3 million partial award. Until such time as the other disputed matters are resolved, we cannot calculate the contingent purchase price related to these other disputed matters.

Operating Income

Operating income for the three months ended March 31, 2016 was $135.4 million, or 8.3 percent of net sales, compared to operating income of $91.5 million, or 6.2 percent of net sales, in the same period in the prior year. The increase in operating income was primarily due to the impact of our recent acquisitions, higher leverage of fixed costs based on higher sales volumes, favorable product mix and lower restructuring expenses, partially offset by higher SG&A in support of increased net sales and our recent acquisitions and higher RD&E.

Operating income for the nine months ended March 31, 2016 was $426.0 million, or 8.5 percent of net sales, compared to operating income of $356.0 million, or 8.0 percent of net sales, in the same period in the prior year. The increase in operating income was primarily due to the impact of our recent acquisitions, higher leverage of fixed costs based on higher sales volumes, favorable product mix and lower restructuring expenses, partially offset by higher SG&A in support of increased net sales and our recent acquisitions and higher RD&E.

Interest Expense, Net

Interest expense is reported net of interest income in our Condensed Consolidated Statements of Income. Interest expense, net was $8.6 million and $3.0 million for the three months ended March 31, 2016 and 2015, respectively. Gross interest expense was $9.7 million and $3.5 million for the three months ended March 31, 2016 and 2015, respectively. The non-cash portion of gross interest expense was $0.7 million and $1.2 million for the three months ended March 31, 2016 and 2015, respectively. The cash portion of gross interest expense was $9.0 million and $2.3 million in the three months ended March 31, 2016 and 2015, respectively. Interest income was $1.1 million and $0.5 million for the three month periods ended March 31, 2016 and 2015, respectively.

Interest expense, net was $24.6 million and $7.9 million for the nine months ended March 31, 2016 and 2015, respectively. Gross interest expense was $27.1 million and $9.3 million for the nine months ended March 31, 2016 and 2015, respectively. The non-cash portion of gross interest expense was $2.1 million and $2.2 million for the nine months ended March 31, 2016 and 2015, respectively. The cash portion of gross interest expense was $25.0 million and $7.1 million in the nine months ended March 31, 2016 and 2015, respectively. Interest income was $2.5 million and $1.4 million for the nine month periods ended March 31, 2016 and 2015, respectively.

Non-cash interest expense for the three and nine months ended March 31, 2016 relates to the amortization of the debt discount and debt issuance costs on the 2.000 Percent Senior Notes due 2022 (the “2.000 Percent Senior Notes”) issued on May 27, 2015 and the U.S. Dollar denominated 4.150 Percent Senior Notes due 2025 (the “4.150 Percent Senior Notes”) issued on May 11, 2015 and the amortization of debt issuance costs on the Multi-Currency Credit Agreement entered into on March 26, 2015 by and among Harman, Harman Holding GmbH & Co. KG (“Harman KG”) and a group of banks (the “2015 Credit Agreement”). Non-cash interest expense for the three and nine months ended March 31, 2015 relates to the amortization of debt issuance costs on the 2015 Credit Agreement and the Multi-Currency Credit Agreement, dated as of October 10, 2012, entered into by and among Harman, Harman KG and a group of banks (the “2013 Credit Agreement”).

Cash interest expense for the three and nine months ended March 31, 2016 primarily relates to interest on the 2.000 Percent Senior Notes, the 4.150 Percent Senior Notes, the 2015 Credit Agreement and our short-term borrowings. Cash interest expense for the three and nine months ended March 31, 2015 primarily relates to interest on the 2015 Credit Agreement and the 2013 Credit Agreement and our short-term borrowings.

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

Foreign Exchange Losses, Net

Foreign currency exchange gains and losses resulting from the remeasurement of certain foreign currency denominated monetary assets and liabilities are included in Foreign exchange losses (gains), net in our Condensed Consolidated Statements of Income.

Miscellaneous, Net

Miscellaneous, net expenses were $2.9 million and $2.3 million for the three months ended March 31, 2016 and 2015, respectively, and were $11.3 million and $6.9 million for the nine months ended March 31, 2016 and 2015, respectively. During the three and nine months ended March 31, 2016, Miscellaneous, net expenses primarily consisted of bank charges, interest expense related to a disputed claim and accretion of certain acquisition consideration liabilities which are payable in the future. During the three and nine months ended March 31, 2015, Miscellaneous, net expenses primarily consisted of bank charges and interest expense related to a disputed claim.

Income Tax Expense, Net

Our provision for income taxes is based on an estimated annual tax rate for the year applied to federal, state and foreign income. Income tax expense for the three months ended March 31, 2016 and 2015 was $31.4 million and $19.3 million, respectively. The effective tax rate for the three months ended March 31, 2016 and 2015 was 26.1 percent and 21.6 percent,

respectively. The increase in the effective tax rate for the three months ended March 31, 2016 compared to the same period in the prior year was primarily due to higher income in the U.S. that is taxed at higher rates than our key foreign jurisdictions.

Income tax expense for the nine months ended March 31, 2016 and 2015 was $98.0 million and $76.3 million, respectively. The effective tax rate for the nine months ended March 31, 2016 and 2015 was 25.3 percent and 22.1 percent, respectively. The increase in the effective tax rate for the nine months ended March 31, 2016 compared to the same period in the prior year was primarily due to higher income in the U.S. that is taxed at higher rates than our key foreign jurisdictions.

We have net deferred tax assets of $85.9 million primarily consisting of deferred deductions, research and experimentation credits, and foreign tax credits. We have evaluated all available evidence, both positive and negative, and based on the weight of all available evidence we continue to believe that our net deferred tax assets are fairly reflected in our Condensed Consolidated Balance Sheets. If the results of our operations do not meet our current expectations, our net deferred tax assets may become impaired.

As of March 31, 2016 unrecognized tax benefits and the related interest were $57.8 million and $2.6 million, respectively, all but $6.0 million of which would affect the tax rate if recognized. During the three months ended March 31, 2016, $0.7 million of tax reserves were established on new uncertain tax positions and $0.1 million of tax reserves were reduced based on a settlement with the Indian tax authorities. Related interest on prior year exposures was increased by $0.1 million primarily related to Germany and Brazil and decreased by $0.1 million related to the Indian settlement. During the nine months ended March 31, 2016, $2.1 million of tax reserves were established on new uncertain tax positions and $2.9 million of tax reserves were reduced based on settlements with the German and Indian tax authorities. Related interest on prior year exposures was decreased by $1.4 million primarily related to the German and Indian tax audit settlement.

Financial Condition

Liquidity and Capital Resources

We primarily finance our working capital requirements through cash generated by operations, the 2015 Credit Agreement, and trade credit. Cash and cash equivalents were $360.4 million at March 31, 2016 compared to $649.5 million at June 30, 2015. During the nine months ended March 31, 2016, our cash and cash equivalents balance decreased $289.1 million. The decrease in cash was due to net cash utilized in operating activities, payments related to acquisitions, capital expenditures, dividends, repurchases of common stock under our board authorized share buyback programs and related to our share-based compensation arrangements partially offset by net borrowings of long-term debt. We also used cash to make investments in our manufacturing facilities, fund product development and meet the working capital needs of our business segments.

We believe that our existing cash and cash equivalents of $360.4 million at March 31, 2016, together with our expected future operating cash flows, and our availability of $713.2 million under the 2015 Credit Agreement, will be sufficient to cover our working capital needs, debt service, income tax payments, capital expenditures, including major investments related to manufacturing and research facilities in emerging markets, acquisitions, purchase commitments, restructuring projects, share buybacks and quarterly dividends for at least the next 12 months.

Our ability to maintain positive liquidity going forward depends on our ability to continue to generate cash from operations and maintain access to the financial markets, both of which are subject to general economic, financial, competitive, legislative, regulatory and other market factors beyond our control. We earn a significant amount of our operating income outside the U.S., the majority of which is deemed to be permanently reinvested in foreign

jurisdictions. For at least the next 12 months, we have sufficient cash in the U.S., availability under the 2015 Credit Agreement and forecasted domestic cash flow to sustain our operating activities and cash commitments for investing and financing activities, such as quarterly dividends, share buybacks and the repayment of debt. In addition, we expect existing foreign cash and cash equivalents and cash flows from operations to continue to be sufficient to fund our foreign operating activities and cash commitments for investing activities, such as material capital expenditures, for at least the next 12 months. As of March 31, 2016, Cash and cash equivalents of $95.2 million were held in the U.S. and Cash and cash equivalents of $265.2 million were held by us in foreign jurisdictions. As of June 30, 2015, Cash and cash equivalents of $196.3 million were held in the U.S. and Cash and cash equivalents of $453.2 million were held by us in foreign jurisdictions. Below is a more detailed discussion of our cash flow activities during the nine months ended March 31, 2016 compared to the same period in the prior fiscal year.

Operating Activities

For the nine months ended March 31, 2016, our net cash provided by operations was $81.5 million compared to $305.4 million in the same period in the prior year. The decrease in operating cash flows compared to the same period in the prior year was primarily due to decreases in accounts payable, accrued liabilities, and income taxes payable partially offset by higher amortization and changes in derivatives. At March 31, 2016, working capital, excluding cash and short-term debt, was $772.7 million, compared with $113.7

million at June 30, 2015. The increase was primarily due to higher receivables, inventory and other current assets and lower accounts payable, accrued liabilities and income taxes payable.

Investing Activities

Net cash used in investing activities was $364.0 million for the nine months ended March 31, 2016, compared to $221.4 million in the same period in the prior year. The increase in net cash used in investing activities compared to the same period in the prior year was primarily due to increased payments related to acquisitions and higher capital expenditures in the current year. Capital expenditures for the nine months ended March 31, 2016 were $139.9 million, in support of new Connected Car and Lifestyle Audio awards, compared to $108.5 million for the same period in the prior year. We expect that capital expenditures as a percentage of sales for fiscal year 2016 will remain in line with fiscal year 2015 levels.

Financing Activities

Net cash used in financing activities was $2.7 million for the nine months ended March 31, 2016, compared to $14.5 million in the same period in the prior year. The decrease in cash used in financing activities was primarily due to higher net borrowings of debt in the current year partially offset by higher repurchases of common stock related to our board authorized share buyback programs and higher payments related to acquisitions.

Issuance of 2.000 Percent Senior Notes

On May 27, 2015, we completed a public offering of €350.0 million in aggregate principal amount of the 2.000 Percent Senior Notes, issued by Harman Finance International, S.C.A. (“Harman Finance”), which are fully and unconditionally guaranteed by Harman. Harman Finance is a wholly-owned finance subsidiary and has no independent activities, assets or operations other than in connection with the 2.000 Percent Senior Notes. The 2.000 Percent Senior Notes bear interest at a rate of 2.000 percent per year, payable annually in arrears on May 27 of each year, commencing on May 27, 2016 and will mature on May 27, 2022. The 2.000 Percent Senior Notes were issued at 99.613 percent of par value, reflecting a discount of €1.4 million to the aggregate principal amount, which is being amortized to Interest expense, net in our Condensed Consolidated Statements of Income using the effective interest method, over the term of the 2.000 Percent Senior Notes. We incurred €2.6 million of debt issuance costs in connection with the 2.000 Percent Senior Notes which are being amortized to Interest expense, net in our Condensed Consolidated Statements of Income using the effective interest method, over the term of the 2.000 Percent Senior Notes. The net proceeds from the issuance of the 2.000 Percent Senior Notes were €346.0 million, net of the discount and debt issuance costs. The effective interest related to the 2.000 Percent Senior Notes, based on the net proceeds received is 2.060 percent. The 2.000 Percent Senior Notes were issued under an indenture, dated as of May 27, 2015, by and between Harman Finance, Harman, as guarantor, and a trustee, as supplemented by the first supplemental indenture, dated as of May 27, 2015, by and among Harman Finance, Harman, as guarantor, and a trustee (as supplemented, the “2.000 Percent Senior Notes Indenture”). All payments of interest and principal, including payments made upon any redemption of the 2.000 Percent Senior Notes, will be made in Euros, subject to certain exceptions if the Euro is unavailable.

We used the net proceeds from the offering of the 2.000 Percent Senior Notes to repay a portion of indebtedness outstanding under the 2015 Credit Agreement and the financing of our acquisition of certain automotive assets and liabilities of B&O, with the balance used for general corporate purposes. Refer to Note 22 – Acquisitions in the Notes to the Condensed Consolidated Financial Statements for more information.

Issuance of 4.150 Percent Senior Notes

On May 11, 2015, we completed a public offering of $400.0 million in aggregate principal amount of the 4.150 Percent Senior Notes issued by Harman. The 4.150 Percent Senior Notes bear interest at a rate of 4.150 percent per year, payable semi-annually in arrears on May 15 and November 15 of each year, commencing on November 15, 2015, and will mature on May 15, 2025. The 4.150 Percent Senior Notes were issued at 99.336 percent of par value, reflecting a discount of $2.7 million to the aggregate principal amount, which is being amortized to Interest expense, net in our Condensed Consolidated Statements of Income using the effective interest method, over the term of the 4.150 Percent Senior Notes. We incurred $3.8 million of debt issuance costs in connection with the 4.150 Percent Senior Notes which are being amortized to Interest expense, net in our Condensed Consolidated Statements of Income using the effective interest method, over the term of the 4.150 Percent Senior Notes. The net proceeds from the issuance of the 4.150 Percent Senior Notes were $393.5 million, net of the discount and debt issuance costs. The effective interest related to the 4.150 Percent Senior Notes, based on the net proceeds received is 4.232 percent. The 4.150 Percent Senior Notes were issued under an indenture, dated as of May 11, 2015, by and between Harman and a trustee, as supplemented by the first supplemental indenture, dated as of May 11, 2015, by and between Harman and a trustee (as supplemented, the “4.150 Percent Senior Notes Indenture”).

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

2015 Credit Agreement

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

At March 31, 2016 and June 30, 2015, there was approximately $483.0 million and $283.1 million, respectively, of outstanding borrowings, which are included in our Condensed Consolidated Balance Sheets as Borrowings under revolving credit facility. At March 31, 2016 and June 30, 2015 there were $3.8 million and $4.8 million, respectively, of outstanding letters of credit under the 2015 Credit Agreement. At March 31, 2016 and June 30, 2015, unused available credit under the 2015 Credit Agreement was $713.2 million and $912.1 million, respectively. In connection with the 2015 Credit Agreement, we incurred $3.0 million of fees and other expenses, which are included within Other assets in our Condensed Consolidated Balance Sheets at March 31, 2016 and June 30, 2015. These costs are amortized over the term of the 2015 Credit Agreement to Interest expense, net in our Condensed Consolidated Statements of Income on a straight-line basis.

At March 31, 2016, long-term debt maturing in each of the next five fiscal years and thereafter is as follows:

| | |
|---|---|
| 2016 | $1,143 |
| 2017 | 3,853 |
| 2018 | 2,980 |
| 2019 | 2,050 |
| 2020 | 484,626 |
| Thereafter | 800,213 |
| Total | $1,294,865 |

Our existing debt agreements contain provisions that limit our operating and financing activities. The 2015 Credit Agreement contains certain negative covenants that limit, among other things, our ability to permit certain of our subsidiaries to incur debt and the ability of us and our subsidiaries to incur liens, make fundamental changes (including selling all or substantially all of our assets), undertake transactions with affiliates and undertake sale and leaseback transactions. The 2.000 Percent Senior Notes Indenture and the 4.150 Percent Senior Notes Indenture contain covenants that, subject to certain exceptions, limit our ability to incur indebtedness secured by principal properties, enter into certain sale and leaseback transactions with respect to principal properties and enter into certain mergers, consolidations and transfers of all or substantially all of the assets of Harman. In addition, the 2015 Credit Agreement contains more restrictive financial covenants that require us to maintain compliance with specified financial ratios. We may have to curtail some of our operations to maintain compliance with the covenants in our existing debt agreements. A violation of any of these covenants could result in a default under our debt agreements, which could permit the acceleration of the repayment of any borrowings outstanding and/or the holders of the notes to

direct the trustee to accelerate repayment of amounts outstanding under the notes. A default or acceleration under our debt agreements would result in increased capital costs and could adversely affect our ability to operate our business and our results of operations and financial condition. As of March 31, 2016, we were in compliance with all of the covenants contained in the 2015 Credit Agreement, the 2.000 Percent Senior Notes Indenture and the 4.150 Percent Senior Notes Indenture.

Equity

Total shareholders' equity at March 31, 2016 was $2.475 billion compared with $2.393 billion at June 30, 2015. The increase is primarily due to higher net income, offset by unrealized losses on hedging derivatives, unfavorable foreign currency translation, treasury stock repurchases and dividends to shareholders.

Off-Balance Sheet Arrangements

We utilize off-balance sheet arrangements in our operations when we enter into operating leases for land, buildings and equipment in the normal course of business, which are not included in our Condensed Consolidated Balance Sheets. In addition, we had outstanding

letters of credit of $3.8 million and $4.8 million at March 31, 2016 and June 30, 2015, respectively, which were not included in our Condensed Consolidated Balance Sheets.

Share Buyback Program

On October 28, 2014, our Board of Directors authorized the repurchase of up to $500.0 million of our common stock over a three year period (the “2014 Buyback Program”). The 2014 Buyback Program allows us to purchase shares of our common stock in accordance with applicable securities laws on the open market or through privately negotiated transactions during the authorized three year period. The 2014 Buyback Program may be suspended or discontinued at any time. We will determine the timing and the amount of any repurchases based on an evaluation of market conditions, share price, other growth opportunities and other factors. We have and may repurchase shares on the open market or, from time to time, through repurchase plans with one or more external brokers that provide a structure for execution of share repurchases under the 2014 Buyback Program. During the three and nine months ended March 31, 2016, we repurchased 308,794 shares and 803,344 shares at a cost of $24.7 million and $74.7 million, respectively, for a total cumulative buyback of 803,344 shares at a cost of $74.7 million under the 2014 Buyback Program.

Business Outlook

Our future outlook is largely dependent upon global macroeconomic conditions. Results in our combined automotive based Connected Car and Lifestyle Audio segments are in-line with our expectations. Due to the recent earthquakes in Japan, these two segments may be negatively impacted by temporary supply chain interruptions and automotive manufacturing plant shut-downs. We believe that current consumer discretionary spending levels, automotive production rates and projected increased take rates for our automotive products, will continue to support double digit growth in constant currency within our combined Connected Car and Lifestyle Audio segments. Results in our Professional Solutions segment remain negatively impacted by continued weakness in emerging markets particularly in Brazil and Russia as well as certain European markets. Additionally, sales channel rationalizations to support our new solutions based go-to-market structure within the Professional Solutions segment have also negatively impacted results relative to expectations. To mitigate these impacts we continue to launch new innovative products and pursue certain discount programs, while focusing management attention on completing the re-alignment of the sales structure to better capitalize on our unique end-to-end solutions. Our recent acquisition of STC provides diversification of the customer base and moderation of the business cycle. We remain committed to our investment plans in the areas of RD&E and marketing programs, driving growth through increased consumer awareness for our innovative new product introductions. We also remain committed to pursuing incremental productivity and restructuring programs, which are expected to provide an accelerated rate of earnings growth in future years. Capital expenditures as a percentage of sales are expected to remain in line with fiscal year 2015 levels.

Subsequent Events

Dividend Declaration

On April 28, 2016 we declared a cash dividend of $0.35 per share for the quarter ended March 31, 2016. The quarterly dividend will be paid on May 23, 2016 to each stockholder of record as of the close of business on May 9, 2016.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are required to include information about potential effects of changes in interest rates and currency exchange rates in our periodic reports filed with the Securities and Exchange Commission. Since June 30, 2015, there have been no material changes in the quantitative or qualitative aspects of our market risk profile. See Item 7A, Quantitative and Qualitative Disclosure About Market Risk included in our 2015 Annual Report.

Interest Rate Sensitivity/Risk

At March 31, 2016, interest on approximately 37 percent of our borrowings was determined on a variable rate basis. The interest rates on the balances of our debt, cash and cash equivalents are subject to changes in U.S. and European short-term interest rates. To assess exposure to interest rate changes, we have performed a sensitivity analysis assuming a hypothetical 100 basis point increase or decrease in interest rates across all outstanding variable rate debt and investments. Our analysis indicates that the effect on net income for the three months ended March 31, 2016 of such an increase or decrease in interest rates would be approximately $0.2 million.

Foreign Currency Risk

We maintain significant operations in Germany, China, Hungary, the United Kingdom, the Netherlands, India, and Brazil. As a result, we are subject to market risks arising from changes in these foreign currency exchange rates, principally the change in the value of the Euro versus the U.S. Dollar. Refer to Note 13 – Derivatives in the Notes to the Condensed Consolidated Financial Statements for

additional discussion on our financial risk management. Changes in currency exchange rates, principally the change in the value of the Euro compared to the U.S. Dollar have an impact on our reported results when the financial statements of foreign subsidiaries are translated into U.S. Dollars. Approximately 38 percent of our sales are denominated in Euros. The average exchange rate for the Euro versus the U.S. Dollar for the nine months ended March 31, 2016 decreased 10.5 percent from the same period in the prior fiscal year.

We presently estimate the effect on fiscal year 2016 income before income taxes, based upon a recent estimate of foreign exchange translation exposure (translating the operating performance of our foreign subsidiaries into U.S. Dollars), of a uniform strengthening or weakening of the U.S. Dollar by 10 percent, would be to increase or decrease income before income taxes by approximately $13.3 million for the nine months ended March 31, 2016.

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

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

## Item 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

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

Interpretive guidance issued by the SEC staff permits the exclusion of an evaluation of the effectiveness of a registrant's disclosure controls and procedures as they relate to the internal control over financial reporting for acquired businesses during the first year following such acquisition. As discussed in Note 2 - Acquisitions in the Notes to the Consolidated Financial Statements contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 2015 and in Note 22 – Acquisitions in the Notes to the Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q, during the fiscal year ended June 30, 2015, we completed the acquisitions of: Southern Vision Systems, Inc., certain automotive assets and liabilities of Bang & Olufsen A/S, and Symphony Teleca Corporation (collectively the "Acquired Businesses"). The Acquired Businesses had total assets representing 20.1 percent of

consolidated assets, and total revenues representing 7.2 percent of consolidated revenues included in our condensed consolidated financial statements as of and for the three and nine months ended March 31, 2016. Management's evaluation and conclusion as to the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q excludes any evaluation of the internal control over financial reporting of the Acquired Businesses.

Changes in Internal Control Over Financial Reporting.

As a result of the acquisitions of the Acquired Businesses, we have begun to integrate certain business processes and systems of the Acquired Businesses.

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

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

Certain legal proceedings in which we are involved are discussed in Part I, Item 3 of our 2015 Annual Report on Form 10-K. The following discussion is limited to certain recent developments concerning our legal proceedings and should be read in conjunction with those earlier reports.

In re Harman International Industries, Inc. Securities Litigation

On October 1, 2007, a purported class action lawsuit was filed by Cheolan Kim (the "Kim Plaintiff") against Harman and certain of our officers in the United States District Court for the District of Columbia (the "District Court") seeking compensatory damages and costs on behalf of all persons who purchased our common stock between April 26, 2007 and September 24, 2007 (the "Class Period") alleging violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 10b-5 promulgated thereunder. On November 30, 2007, the Boca Raton General Employees' Pension Plan filed a purported class action lawsuit against Harman and certain of our officers in the District Court seeking compensatory damages and costs on behalf of all persons who purchased our common stock between April 26, 2007 and September 24, 2007. The allegations in the Boca Raton complaint are essentially identical to the allegations in the original Kim complaint.

On February 15, 2008, the District Court ordered the consolidation of the Kim action with the Boca Raton action, the administrative closing of the Boca Raton action, and designated the short caption of the consolidated action as In re Harman International Industries, Inc. Securities Litigation, civil action no. 1:07-cv-01757 (RWR). That same day, the District Court appointed the Arkansas Public Retirement System as lead plaintiff ("Lead Plaintiff").

On May 2, 2008, Lead Plaintiff filed a consolidated class action complaint (the "Consolidated Complaint"). On July 3, 2008, the defendants moved to dismiss the Consolidated Complaint in its entirety. Lead Plaintiff opposed the defendants' motion to dismiss on September 2, 2008, and the defendants filed a reply in further support of their motion to dismiss on October 2, 2008.

On September 5, 2012, the District Court heard oral arguments on the defendants' motion to dismiss. At the request of the District Court, on September 24, 2012, each side submitted a supplemental briefing on the defendants' motion to dismiss. On January 17, 2014, the District Court granted a motion to dismiss, without prejudice. The Lead Plaintiff appealed this ruling to the U.S. Court of Appeals for the District of Columbia Circuit (the "Court of Appeals") and, on June 23, 2015, the District Court's ruling was reversed and remanded for further proceedings. On July 23, 2015, the defendants filed a motion for a rehearing en banc before the Court of Appeals, which was denied on August 26, 2015. The defendants filed a petition for a writ of certiorari seeking U.S. Supreme Court review on November 24, 2015, which was denied by the District Court on February 29, 2016. Discovery in this matter is ongoing.

### Item 1A. Risk Factors

There have been no material changes to the disclosure regarding the risk factors set forth in Item 1A to our 2015 Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Share Repurchases

On October 28, 2014, our Board of Directors authorized the repurchase of up to $500.0 million of our common stock over a three year period (the “2014 Buyback Program”). The 2014 Buyback Program allows us to purchase shares of our common stock in accordance with applicable securities laws on the open market or through privately negotiated transactions during the authorized three year period. The 2014 Buyback Program may be suspended or discontinued at any time. We will determine the timing and the amount of any repurchases based on an evaluation of market conditions, share price, other growth opportunities and other factors. We have and may repurchase shares on the open market or, from time to time, through repurchase plans with one or more external brokers that provide a structure for execution of share repurchases under the 2014 Buyback Program. During the three and nine months ended March 31, 2016, we repurchased 308,794 shares and 803,344 shares at a cost of $24.7 million and $74.7 million, respectively, for a total cumulative buyback of 803,344 shares at a cost of $74.7 million under the 2014 Buyback Program.

The following table provides information about shares acquired in connection with our share buyback program during the three months ended March 31, 2016:

| | Total Number of Shares Acquired During Period | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Dollar Amount of Shares That May Yet Be Purchased Under the Program |
|---|---|---|---|---|
| January 1 –January 31, 2016 | - | - | - | 449,991,623 |
| February 1 – February 29, 2016 | 50,801 | 77.39 | 50,801 | 446,059,402 |
| March 1– March 31, 2016 | 257,993 | 80.51 | 257,993 | 425,283,188 |
| Total | 308,794 | | 308,794 | 425,283,188 |

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

| Exhibit No. | Exhibit Description |
|---|---|
| 31.1 | Certification of Dinesh C. Paliwal pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Sandra E. Rowland pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Dinesh C. Paliwal and Sandra E. Rowland, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase. |

Attached as Exhibit 101 to this report are the following financial information formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at March 31, 2016 and June 30, 2015, (ii) Condensed Consolidated Statements of Income for the three and nine months ended March 31, 2016 and 2015, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended March 31, 2016 and 2015, (iv) Condensed Consolidated Statements of Cash Flows for the three and nine months ended March 31, 2016 and 2015 and (v) Notes to the Condensed Consolidated Financial Statements.

SIGNATURES

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

Harman International Industries, Incorporated

Date: April 28, 2016 By: /S/ SANDRA E. ROWLAND
Sandra E. Rowland
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)