

HARMAN INTERNATIONAL INDUSTRIES INC /DE/  
Form DEF 14A  
October 22, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**(Rule 14a-101)**

**Proxy Statement Pursuant to Section 14(a) of the Securities**

**Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

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**(as permitted by Rule 14a-6(e)(2))**

**Harman International Industries, Incorporated**

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(3) Filing Party:

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**Harman International Industries, Incorporated**

**400 Atlantic Street**

**Stamford, CT 06901**

**October 22, 2014**

Dear Stockholder:

You are cordially invited to attend the 2014 Annual Meeting of Stockholders (the Annual Meeting ) of Harman International Industries, Incorporated, a Delaware corporation. The meeting will be held on Wednesday, December 3, 2014, beginning at 11:00 a.m. Eastern Time. We are very pleased that this year s meeting will again be a completely virtual meeting of stockholders, meaning that you may participate solely by means of remote communication. You will be able to attend the Annual Meeting, vote, and submit your questions during the meeting via live webcast by visiting [www.virtualshareholdermeeting.com/HAR2014](http://www.virtualshareholdermeeting.com/HAR2014).

As permitted by the rules of the Securities and Exchange Commission, we are also pleased to be furnishing our proxy materials to stockholders primarily over the Internet. We believe this process expedites stockholders receipt of the materials, lowers the cost of our meeting, and conserves natural resources. On or about October 24, 2014, we will mail to our stockholders (other than those who previously requested electronic or paper delivery) a notice containing instructions on how to access our 2014 Proxy Statement and 2014 Annual Report and vote online. The notice will also include instructions on how you can receive a paper copy of the proxy materials, including the notice of annual meeting, 2014 Proxy Statement and proxy card. If you elect to receive your proxy materials by mail, the notice of annual meeting, 2014 Proxy Statement and proxy card from our Board of Directors will be enclosed. If you elect to receive your proxy materials via e-mail, the e-mail will contain voting instructions and links to the 2014 Proxy Statement and 2014 Annual Report on the Internet.

At the meeting, management will report on our company s operations during fiscal year 2014 and comment on our outlook for the current fiscal year. The report will be followed by a question and answer period.

It is important that your shares be represented at the meeting. To ensure representation of your shares, please review the proxy materials and vote your shares over the Internet in advance of the meeting. Any proxy materials sent to you will include a proxy card that you may sign, date and return by mail or you may vote by using the telephone or Internet voting procedures described on the proxy card.

Sincerely,

Dinesh C. Paliwal  
Chairman, Chief Executive Officer and President

**Harman International Industries, Incorporated**

**400 Atlantic Street**

**Stamford, CT 06901**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To be held on December 3, 2014**

To Our Stockholders:

The 2014 Annual Meeting of Stockholders of Harman International Industries, Incorporated (the Annual Meeting ) will be held on December 3, 2014, beginning at 11:00 a.m. Eastern Time. You may attend the Annual Meeting, vote your shares electronically and submit questions during the Annual Meeting by visiting [www.virtualshareholdermeeting.com/HAR2014](http://www.virtualshareholdermeeting.com/HAR2014).

Please have the information that is printed in the box marked by the arrow to enter the Annual Meeting. The Annual Meeting will be held for the following purposes:

- (1) To elect the nine directors named in the Proxy Statement to serve until the 2015 Annual Meeting of Stockholders;
- (2) To ratify the appointment of KPMG LLP as our independent registered public accounting firm for our 2015 fiscal year;
- (3) To hold an advisory vote on executive compensation; and
- (4) To conduct any other business that may be properly brought before the Annual Meeting or any adjournments or postponements of the Annual Meeting.

Information concerning the matters to be acted upon at the Annual Meeting is set forth in the accompanying Proxy Statement, which you are encouraged to access and review prior to submitting your vote. The Board of Directors of Harman International Industries, Incorporated recommends that you vote FOR the election of the nine director nominees, FOR the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for our 2015 fiscal year and FOR, on an advisory basis, the compensation paid to our company's named executive officers.

Stockholders of record as of the close of business on October 7, 2014 are entitled to notice of, and to vote at, the Annual Meeting or any adjournment thereof.

You have three options for submitting your vote before the Annual Meeting:

Internet;

Phone; or

Mail.

Please vote as soon as possible to record your vote promptly by signing, dating and promptly returning the proxy card in the enclosed postage prepaid envelope or by using the telephone or Internet voting procedures described on the proxy card, even if you plan to attend the Annual Meeting.

**Important Notice regarding the Availability of Proxy Materials for the  
Annual Meeting of Stockholders to be Held on December 3, 2014  
The 2014 Proxy Statement and 2014 Annual Report to Stockholders  
are available at: <https://proxyvote.com>**

As permitted by the rules of the Securities and Exchange Commission, we are furnishing our proxy materials to stockholders primarily over the Internet. We believe this process expedites stockholders' receipt of the materials, lowers the cost of the Annual Meeting, and conserves natural resources. On or about October 24, 2014, we will mail to our stockholders (other than those who previously requested electronic or paper delivery) a notice containing instructions on how to access our 2014 Proxy Statement and 2014 Annual Report and vote online. The notice will also include instructions on how you can receive a paper copy of the 2014 Annual Report and the proxy materials, including the notice of annual meeting, 2014 Proxy Statement and proxy card. If you elect to receive your proxy materials by mail, the notice of annual meeting, 2014 Proxy Statement, proxy card from our Board of Directors and 2014 Annual Report will be enclosed. If you elect to receive our proxy materials electronically, you will receive an email with instructions to access these materials via the Internet unless you elect otherwise.

By Order of the Board of Directors,

Marisa Iasenza  
*Corporate Secretary and Associate General Counsel*

Stamford, CT

October 22, 2014

## 2014 Proxy Summary

*This summary highlights information contained elsewhere in this proxy statement. This summary does not contain all of the information that you should consider, and you should read the entire proxy statement carefully before voting.*

### Annual Meeting of Stockholders

|               |  |
|---------------|--|
| Time and Date | 11:00 a.m., December 3, 2014   |
| Place         | <a href="http://www.virtualshareholdermeeting.com/HAR2014">www.virtualshareholdermeeting.com/HAR2014</a>   |
| Record date   | October 7, 2014  |
| Voting        | Stockholders as of the record date are entitled to vote. Each share of Common Stock is entitled to one vote for each director nominee and one vote for each of the proposals to be voted on. |

### Meeting Agenda

Election of nine directors

Ratification of KPMG LLP as auditors for fiscal year 2015

Advisory vote on executive compensation

Transact other business that may properly come before the Annual Meeting

### Voting Matters

| Proposal No. | Matter   | Board Vote Recommendation | Page Reference (for more detail) |
|--------------|--|---------------------------|----------------------------------|
| 1            | Election of Directors                                    | FOR EACH DIRECTOR NOMINEE | 4                                |
| 2            | Ratification of KPMG LLP as Auditor for Fiscal Year 2015 | FOR                       | 47                               |
| 3            | Advisory Vote on Executive Compensation                  | FOR                       | 49                               |

### Board Nominees

The following table provides summary information about each of our incumbent directors that have been nominated for re-election. At the 2011 Annual Meeting of Stockholders, our stockholders approved, upon recommendation of our Board of Directors (the Board), amendments to Article Eighth of our Restated Certificate of Incorporation and Article III of our Bylaws to provide that directors shall be elected on an annual basis. The amendments became effective upon our filing a Certificate of Amendment with the Delaware Secretary of State on December 12, 2011. As a result of the stockholder approval of such amendments, each director nominee will be elected for a one year term. Each director is elected by a majority of the votes cast.



| Name                        | Age | Director Since | Occupation  | Experience/Qualification  | Independent |
|-----------------------------|-----|----------------|---|---|-------------|
| Adriane M. Brown(1)         | 56  | 2013           | President and Chief Operating Officer, Intellectual Ventures                                  | Leadership<br>Strategy<br>Innovation/Technology   | X           |
| John W. Diercksen(3)        | 65  | 2013           | Former Executive Vice President, Verizon Communications                                       | Operations<br>Strategy<br>Finance & Accounting  | X           |
| Ann McLaughlin Korologos(2) | 72  | 1995           | Former Chairman, Rand Corporation Board of Trustees; Chairman Emeritus of the Aspen Institute | Corporate Governance<br>Leadership/Succession<br>Risk Management  | X           |
| Edward H. Meyer(1)(2)       | 87  | 1990           | Chairman & CEO, Ocean Road Advisors, Inc.   | Regulatory and Governmental Affairs<br>Corporate Governance<br>Marketing<br>Capital Markets/ Allocation | X           |
| Dinesh C. Paliwal           | 56  | 2007           | Chairman, CEO & President, Harman International Industries, Incorporated                      | Executive Compensation<br>Leadership/Succession<br>Strategy<br>Global Operations                        |             |
| Kenneth M. Reiss(2)(3)      | 71  | 2008           | Former Partner, Ernst & Young   | Innovation/Technology<br>Corporate Governance<br>Finance & Accounting                                   | X           |
| Hellene S. Runtagh(1)(3)    | 66  | 2008           | Former President & CEO, Berwind Group   | Risk Management<br>Leadership<br>Operations/Audit   | X           |
| Frank S. Sklarsky(1)(3)     | 57  | 2012           | CFO and Executive Vice President, PPG Industries, Inc.  | Information Technology<br>Leadership<br>Finance & Accounting<br>Strategy                                | X           |
| Gary G. Steel(1)(2)         | 61  | 2007           | Former Head of Group<br><br>HR, ABB Ltd.  | Automotive<br>Executive Compensation<br>Talent/Succession   | X           |

Leadership

- (1) Member of Compensation and Option Committee
- (2) Member of Nominating and Governance Committee
- (3) Member of Audit Committee

All of the incumbent directors attended 75% or more of the aggregate meetings of the Board and committees on which they served during fiscal year 2014.

### Auditors

As a matter of good corporate governance, we are asking our stockholders to ratify the selection of KPMG LLP as our independent registered public accounting firm for fiscal year 2015. Set forth below is summary information with respect to KPMG LLP's fees for services provided in fiscal years 2014 and 2013.

| Type of Fees       | Fiscal Year 2014    | Fiscal Year 2013    |
|--------------------|---------------------|---------------------|
| Audit fees         | \$ 6,015,000        | \$ 5,052,000        |
| Audit-related fees | 142,000             | 172,000             |
| Tax fees           | 925,000             | 980,000             |
| All other fees     | 16,500              | 38,000              |
| <b>Total</b>       | <b>\$ 7,098,500</b> | <b>\$ 6,242,000</b> |

### Executive Compensation Advisory Vote

We are asking our stockholders to approve on an advisory basis our named executive officer compensation. The Board recommends a FOR vote because it believes that our compensation policies and practices are effective in achieving our company's goals of recognizing financial and operating performance and leadership excellence, and aligning our executives' long-term interests with those of our stockholders.

### Executive Compensation Elements

| Type       | Form  | Terms  |
|------------|---|--|
| Cash       | Salary  | Increases must be approved by the Compensation and Option Committee and/or the Board   |
|            | Annual incentive compensation   | Based on quantitative and qualitative performance goals  |
| Equity     | 60% Performance-vested restricted share units ( Performance RSUs ) at target achievement                        | Performance RSUs have a three-year performance period with three objective performance measures  |
|            | 40% Time-vested restricted share units ( RSUs )   | RSUs generally vest on the third anniversary of the date of grant  |
| Retirement | Supplementary pension (CEO and Mr. Augsburg only)   | Ten year vesting, payable at or after age 55. As of September 2008, our company no longer offers this benefit to newly hired or newly appointed executive officers |
| Severance  | Severance payable upon termination of employment in certain specified circumstances or upon a change in control | Severance benefit ranges from a multiple of one time base salary plus pro rata bonus to three times base salary plus full bonus                                    |
| Other      | Perquisites   | Supplemental life insurance, car allowances, company products at cost, legal services  |

### Other Key Compensation Features

Executive share ownership requirements (six times base salary for CEO, and three times base salary for all other executive committee members)

Double trigger event required for severance benefits for the majority of our executive officers upon a change in control

Only CEO and CFO entitled to tax gross-ups for excise taxes in the event of a change in control (our company has discontinued this practice)

Clawback Policy permits recovery of any incentive compensation paid to a current or former executive officer in the event of a material negative accounting restatement of our financial statements due to material noncompliance by our company with any financial reporting requirement under the securities laws

### Basis for Compensation Decisions

Our company achieved record performance in fiscal year 2014. As a result of our organic and inorganic growth strategies, our net sales in fiscal year 2014 were \$5.348 billion, an increase of 24 percent from the prior year, as all three of our company's divisions reported sales increases. This increase in net sales was due to a number of strategic measures implemented by our management team to create sustainable stockholder value, including capitalizing on robust demand for an embedded connected car experience and a more favorable production environment in the automotive business, launching award winning products, and expanding our company's portfolio into exciting new markets including enterprise automation and control. In addition, during fiscal year 2014 we continued to return value to our stockholders by increasing our dividend and repurchasing 1,327,693 shares of our common stock.

Our executive compensation philosophy continues to focus on pay-for-performance. As a result, compensation increases, if any, for our executive officers are generally tied to our company's performance, external benchmark data and each executive's contributions to that performance through their respective responsibilities. At the same time, we balance our annual guaranteed pay with at-risk pay so as to mitigate excessive risk taking to our company.

### 2015 Annual Meeting

Deadline for stockholder proposals                      August 25, 2015

**HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED**

**400 Atlantic Street**

**Stamford, CT 06901**

**PROXY STATEMENT**

**FOR THE 2014 ANNUAL MEETING OF STOCKHOLDERS**

This Proxy Statement provides information in connection with the solicitation of proxies by the Board of Directors (the **Board**) of Harman International Industries, Incorporated (sometimes referred to as **we**, **us**, **our**, or **our company**) for use at our 2014 Annual Meeting of Stockholders or any postponement or adjournment thereof (the **Meeting**). This Proxy Statement also provides information you will need in order to consider and to act upon the matters specified in the accompanying Notice of Annual Meeting of Stockholders.

In accordance with rules and regulations adopted by the Securities and Exchange Commission (the **SEC**), instead of mailing a printed copy of our proxy materials to each stockholder of record, we will furnish our proxy materials on the Internet. If you receive a Notice of Internet Availability of Proxy Materials (the **Notice**) by mail, you will not receive a printed copy of the proxy materials other than as described in this Proxy Statement. Instead, the Notice will instruct you as to how you may access and review all of the important information contained in the proxy materials. The Notice will also instruct you as to how you may submit your proxy over the Internet. If you receive a Notice by mail and would like to receive a printed copy of our proxy materials or vote by telephone, you should follow the instructions for requesting proxy materials included in the Notice.

It is anticipated that the Notice will be sent to our stockholders on or about October 24, 2014. The Proxy Statement and the form of proxy relating to the Meeting will be made available to our stockholders on the date that the Notice is first sent.

Holders of record of our common stock, \$0.01 par value per share (**Common Stock**), as of the close of business on October 7, 2014 (the **Record Date**) are entitled to vote at the Meeting. Each stockholder of record as of the Record Date is entitled to one vote for each share of Common Stock held by such stockholder. On October 7, 2014, there were 68,506,141 shares of Common Stock outstanding and entitled to vote.

You cannot vote your shares of Common Stock unless you are present at the Meeting or you have previously given your proxy. You can vote by proxy in one of three convenient ways:

*in writing:* sign, date and return the proxy card in the enclosed envelope;

*by telephone:* within the U.S. or Canada, call the toll-free telephone number shown on your proxy card and follow the instructions; or

*by Internet:* visit the website shown on your proxy card and follow the instructions.

You may revoke your proxy at any time prior to the vote at the Meeting by:

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delivering a written notice revoking your proxy to our company's Corporate Secretary at the address above;

delivering a new proxy bearing a date after the date of the proxy being revoked; or

voting in person at the Meeting.

All properly executed proxies, unless revoked as described above, will be voted at the Meeting in accordance with your directions on the proxy. If a properly executed proxy does not provide instructions, the shares of Common Stock represented by your proxy will be voted as follows:

FOR the election of each of the nine director nominees to serve until our company's 2015 Annual Meeting of Stockholders;

FOR the ratification of our selection of KPMG LLP as our independent registered public accounting firm for the 2015 fiscal year;

FOR the approval of the compensation paid to our company's named executive officers; and

at the discretion of the proxy holders with regard to any other matter that is properly presented at the Meeting.

A majority of the outstanding shares of Common Stock must be present, in person or by proxy, to constitute a quorum at the Meeting.

Our company's majority voting policy requires any director nominee in an uncontested election who receives a greater number of votes against than votes for his or her election to tender his or her resignation promptly following the certification of the election results. The Nominating and Governance Committee of the Board will consider all of the relevant facts and circumstances and make a recommendation to the Board with respect to accepting or rejecting the resignation. Within 90 days, the Board is required to take action with respect to the recommendation and to publicly disclose its decision by issuing a press release. The majority voting policy is more fully described below in *The Board, Its Committees and Its Compensation*, *Corporate Governance*, *Majority Voting Policy*.

Those stockholders who fail to return a proxy or attend the Meeting will not have their shares of Common Stock count towards determining any required vote or quorum. Stockholders and brokers returning proxies or attending the Meeting who abstain from voting on the election of our directors will count towards determining a quorum. Brokers holding shares of record for customers generally are not entitled to vote on certain matters unless they receive voting instructions from their customers. In the event that a broker does not receive voting instructions for these matters from its customers, a broker may notify us that it lacks voting authority to vote those shares. These broker non-votes refer to votes that could have been cast on the matter in question by brokers with respect to uninstructed shares if the brokers had received their customers' instructions. These broker non-votes will be included in determining whether a quorum exists. Your broker is not permitted to vote on your behalf on non-routine matters, which include the election of directors and the advisory vote on executive compensation, unless you provide specific instructions by completing and returning the proxy card or following the instructions provided to you to vote your shares via telephone or the Internet. The proposal to ratify the appointment of our company's independent registered public accounting firm is considered a routine matter under the New York Stock Exchange rules, which means that your bank, broker or other nominee will have discretionary authority to vote your shares held in street name on that matter. To ensure your shares are voted in the manner you desire, you should instruct your broker, bank or other financial institution before the date of the Meeting on how to vote your shares.

Each of the ratification of the independent registered public accounting firm and the approval of the advisory vote on executive compensation requires the affirmative vote of a majority of the votes cast by stockholders entitled to vote, present in person or represented by proxy at the Meeting. Therefore, abstentions, shares not voted and broker non-votes, if any, will not be treated as votes cast and have no effect on these matters.

If you own shares through our employee retirement savings and investment plan, and you do not direct the trustee of the 401(k) plan to vote your shares, then the trustee will vote the shares credited to your account in the same proportion as the voting of shares for which the trustee receives direction from other participants.

We are soliciting your proxy and will pay the cost of preparing and mailing this Proxy Statement and the enclosed proxy card. Additionally, our employees may solicit proxies personally and by telephone. Our employees will receive no compensation for soliciting proxies other than their regular salaries. We may request banks, brokers and other custodians, nominees and fiduciaries to forward copies of these proxy materials to their principals and to request authority for the execution of proxies. We may reimburse such persons for their expenses in so doing.

**QUESTIONS AND ANSWERS**

**Q: Who can attend the Meeting?**

A: All stockholders of record as of the close of business on October 7, 2014 can attend the Meeting.

**Q: What do I need to do to attend the Meeting?**

A: We will be hosting the Meeting live via the Internet. A summary of the information you need to attend the Meeting online is provided below:

Any stockholder can attend the Meeting live via the Internet at [www.virtualshareholdermeeting.com/HAR2014](http://www.virtualshareholdermeeting.com/HAR2014)

Webcast starts at 11:00 a.m. Eastern Time

Please have the information that is printed in the box marked by the arrow to enter the Meeting

Stockholders may vote and submit questions while attending the Meeting on the Internet

Instructions on how to attend and participate via the Internet, including how to demonstrate proof of stock ownership, are posted at [www.proxyvote.com](http://www.proxyvote.com)

Questions regarding how to attend and participate via the Internet will be answered by calling 1-855-449-0991 on the day of the Meeting

Webcast replay of the Meeting will be available until December 3, 2015

**Q: Will there be a management presentation at the Meeting?**

A: Management will give a brief presentation at the Meeting.

**Q: If more than one stockholder lives in my household, how can I obtain an extra copy of this Proxy Statement and the Annual Report?**

A: Pursuant to the rules of the SEC, services that deliver our communications to stockholders who hold their shares through a broker or other nominee may deliver to multiple stockholders sharing the same address a single copy of this Proxy Statement and our Annual Report. Upon written or oral request, we will mail a separate copy of this Proxy Statement and our Annual Report to any stockholder at a shared address to which a single copy of each document was delivered. You may contact us with your request by writing to our company's



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Corporate Secretary at the following address: 400 Atlantic Street, Suite 1500, Stamford, CT 06901, or by calling (203) 328-3500. We will mail materials you request at no cost to you. You can also access this Proxy Statement and our Annual Report online at <https://materials.proxyvote.com/413086>.

**Q. How many votes are needed to approve each proposal?**

- A. For Proposal No. 1, the election of directors to hold office until the 2015 Annual Meeting of Stockholders, a nominee will be elected if the number of votes cast For that nominee exceeds the number of Against votes cast for that nominee. The affirmative vote of a majority of the shares that are present at the meeting in person or by proxy and entitled to vote thereon, is required to: ratify the appointment of our independent registered public accounting firm (Proposal No. 2); and approve, by non-binding vote, our executive compensation (Proposal No. 3). Abstentions and broker non-votes have no effect on the outcome of Proposal Nos. 1, 2 and 3.

**PROPOSAL NO. 1**

**ELECTION OF DIRECTORS**

Stockholders will elect the directors at the Meeting to serve for one-year terms. This section contains information relating to the nine director nominees.

The incumbent directors that have been nominated for re-election are Adriane M. Brown, John W. Diercksen, Ann McLaughlin Korologos, Edward H. Meyer, Dinesh C. Paliwal, Kenneth M. Reiss, Hellene S. Runtagh, Frank S. Sklarsky and Gary G. Steel. Each of the nominees for election at the Meeting was selected by the Board as a nominee in accordance with the recommendation of the Nominating and Governance Committee of the Board ( Nominating Committee ). If elected at the Meeting, each of the nominees have consented to serve on the Board and each of the nominees would so serve until the 2015 Annual Meeting of Stockholders and until his or her successor is elected and has been duly qualified, or until such director s death, resignation or removal.

The Board expects that the nominees will be available for election at the time of the Meeting. If for any reason a nominee should become unavailable for election, the shares of Common Stock voted For that nominee by proxy will be voted for a substitute nominee designated by the Board, unless the Board reduces the number of directors or allows that nominee s director position to remain vacant until a qualified nominee is identified.

In an uncontested election, directors are elected by the vote of a majority of the votes cast by shares present in person or represented by proxy and entitled to vote at the Meeting. In a contested election, a plurality of the votes cast is required for the election of directors. This means that the director nominee with the most votes for a particular Board position is elected for that position. The election of directors at the Meeting is an uncontested election. Therefore, for Proposal No. 1, the election of Adriane M. Brown, John W. Diercksen, Ann McLaughlin Korologos, Edward H. Meyer, Dinesh C. Paliwal, Kenneth M. Reiss, Hellene S. Runtagh, Frank S. Sklarsky and Gary G. Steel as directors, a nominee will be elected if the number of votes cast For that nominee exceeds the number of Against votes cast for that nominee. Abstentions and broker non-votes will have no effect. In no event may proxies be voted for more than nine nominees.

Dr. Jiren Liu will retire from our Board at the Meeting. Our company extends its sincere appreciation to Dr. Liu for the valuable contributions he provided to our company and stockholders during his service as a member of our Board since December 2009.

**Directors Retirement Policy**

On September 11, 2012, our Board approved an amendment to our Corporate Governance Guidelines to implement a retirement policy for our directors. This policy requires directors to retire at the annual meeting immediately following their 75<sup>th</sup> birthday, unless the Board otherwise grants a waiver to such policy. Mr. Edward H. Meyer, the Chairman of the Compensation and Option Committee, has been actively involved in the shareholder engagement process and has made other invaluable contributions to the Board in this role. The Board has waived the retirement policy for Mr. Meyer.

**Nominees to be Elected at the Meeting**

**Adriane M. Brown**

**Director since June 2013**

Ms. Brown, age 56, is the President and Chief Operating Officer of Intellectual Ventures, a privately held invention capital firm that focuses on the creation of new inventions and the introduction of new models for monetizing inventions as stand-alone assets. Prior to joining Intellectual Ventures, Ms. Brown worked for Honeywell International, a Fortune 100 publicly traded diversified technology and manufacturing leader serving customers worldwide with aerospace products and services, control technologies for buildings, homes and industry, automotive products, turbochargers and specialty materials. Ms. Brown served as Senior Vice President, Energy Strategy from May 2009 to September 2009 and as President and CEO of Honeywell Transportation Systems from 2005 to 2009. Ms. Brown does not currently serve, and has not served in the last five years, on any other public company boards. She currently serves on the board of directors of the Pacific Science Center, a not-for-profit organization whose mission is to inspire lifelong interest in science, technology and math, and Jobs for America's Graduates, the nation's leading drop-out prevention program.

Ms. Brown's qualifications to serve on the Board include her extensive expertise and experience in the areas of technology, emerging markets and innovation, as well as the comprehensive management and leadership experience she has gained as the President and Chief Operating Officer of an invention capital firm.

**John W. Diercksen**

**Director since June 2013**

Mr. Diercksen, age 65, served as the Executive Vice President - Strategy of Verizon Communications, a global leader in delivering broadband and other wireless and wireline communications services to consumer, business, government and wholesale customers, from 2012 until September 2013, where he had responsibility for key strategic initiatives related to the review and assessment of potential mergers, acquisitions and divestitures. From 2003 through 2012, Mr. Diercksen was Executive Vice President - Strategy, Development and Planning for Verizon Communications. Mr. Diercksen currently serves as a Senior Advisor for LionTree Investment Advisors, a technology, media and telecommunications investment advisory firm. Mr. Diercksen is a director of Popular, Inc., a leading banking institution in Puerto Rico, and Intelsat, S.A., a communications satellite services provider.

Mr. Diercksen's qualifications to serve on the Board include his extensive expertise and experience in the areas of strategy and strategic planning, emerging markets and finance and accounting.

**Ann McLaughlin Korologos**

**Director since November 1995**

Ms. Korologos, age 72, has served as our Lead Director since May 2008. From April 2004 to April 2009, she served as Chairman of the RAND Corporation Board of Trustees. She is Chairman Emeritus of The Aspen Institute, where she served as Chairman from 1996 to 2000. Ms. Korologos was a Senior Advisor to Benedetto, Gartland & Company, Inc., an investment banking firm, from 1996 to 2005. From 1987 until 1989 she served as the United States Secretary of Labor. Ms. Korologos is a director of Michael Kors Holdings Limited, Host Hotels & Resorts, Inc. and Kellogg Company. Ms. Korologos also served as a director of Vulcan Materials Company and AMR Corporation, the parent company of American Airlines, during the last five years.

Ms. Korologos' qualifications to serve on the Board include her expertise and experience in the areas of international markets, marketing, regulatory and government affairs, policy making, and social responsibility and reputational issues. She also has significant public company board experience, including specific experience in compensation, diversity and corporate governance.

**Edward H. Meyer**

**Director since July 1990**

Mr. Meyer, age 87, has served as Chairman, Chief Executive Officer and Chief Investment Officer of Ocean Road Advisors, Inc., an investment management company, since January 2007. From 1972 to 2006, Mr. Meyer served as Chairman, Chief Executive Officer and President of Grey Global Group, Inc., a global advertising and marketing services company. Mr. Meyer also serves as a director of Retail Opportunity Investments Corp., a REIT that invests in a diverse portfolio of necessity-based retail properties. Mr. Meyer also served as a director of Ethan Allen Interiors Inc. and National CineMedia, Inc., an in-theater advertising company, during the last five years.

Mr. Meyer's qualifications to serve on the Board include his extensive expertise and experience in the areas of sales, advertising, marketing and investment management. He also has significant public company board experience.

**Dinesh C. Paliwal**

**Director since August 2007**

Mr. Paliwal, age 56, has served as our Chairman, Chief Executive Officer and President since July 1, 2008. He joined our company in July 2007 as Vice Chairman, CEO and President. Prior to joining our company, Mr. Paliwal served as President of ABB Ltd., a global leader in industrial automation and power transmission systems. From January 2004 until June 2007, Mr. Paliwal also served as Chairman and CEO of ABB Inc., and from October 2002 to December 2005 he served as President of ABB Automation. Mr. Paliwal currently serves as a director of Bristol-Myers Squibb Company. Mr. Paliwal served as a director of Tyco International Ltd. and ADT Corporation during the past five years.

Mr. Paliwal's qualifications to serve on the Board include his extensive expertise and experience in the areas of business execution and turnaround, international markets, strategy, as well as the comprehensive management and leadership experience he has gained as the head of a global business. In his 30-year professional career he has lived in six countries on four continents. He also has significant public company and non-profit board experience.

**Kenneth M. Reiss**

**Director since February 2008**

Mr. Reiss, age 71, served as a partner with Ernst & Young LLP, an accounting firm he joined in 1965, from 1977 until his retirement in June 2003. While at Ernst & Young, he also served as Managing Partner for the Assurance and Advisory Practice in the firm's New York office and served as the lead auditor for several publicly traded companies, including Toys 'R Us, Inc., Staples, Inc., Phillips-Van Heusen, Inc. and Columbia Pictures. Mr. Reiss serves on the board of directors of The Children's Place and The Wet Seal, Inc., both of which are national specialty retailers. Mr. Reiss also served as a director of Eddie Bauer Holdings, Inc. during the last five years.

Mr. Reiss' qualifications to serve on the Board include his extensive expertise and experience in the areas of auditing, accounting, finance and risk management. He also has significant public company board experience (including specific experience serving on audit committees).

**Hellene S. Runtagh**

**Director since December 2008**

Ms. Runtagh, age 66, formerly served as President and Chief Executive Officer of the Berwind Group from 2001 to 2002, a diversified pharmaceutical services, industrial manufacturing and real estate company. From 1998 through 2000, she served as Executive Vice President of Universal Studios. Prior to joining Universal, Ms. Runtagh spent 25 years at General Electric Company in a variety of leadership positions. Ms. Runtagh also serves on the board of directors of Lincoln Electric Holdings, Inc., a full-line manufacturer and reseller of welding and cutting products, and NeuStar Inc., a provider of clearinghouse services to the communications industry. Ms. Runtagh served as a director of IKON Office Solutions, Inc. during the last five years.

Ms. Runtagh's qualifications to serve on the Board include her extensive expertise and experience in the areas of operations, marketing and sales, as well as comprehensive management and leadership experience she gained as a former senior executive for a diverse global business. She also has significant public company board experience (including specific experience serving on audit and compensation committees).

**Frank S. Sklarsky**

**Director since June 2012**

Mr. Sklarsky, age 57, is Executive Vice President and Chief Financial Officer of PPG Industries, Inc. Prior to joining PPG Industries he served as the Chief Financial Officer and Executive Vice President of Tyco International Ltd. from December 2010 to September 2012. Prior thereto, from October 2006 to November 2010, Mr. Sklarsky served as Executive Vice President and Chief Financial Officer of Eastman Kodak Co. Mr. Sklarsky served as Chief Financial Officer and Executive Vice President of ConAgra Foods, Inc. from November 2004 to October 2006. Earlier in his career, Mr. Sklarsky spent 20 years with Chrysler in a series of senior financial leadership roles, and he also served in executive finance positions with Dell, Inc. Mr. Sklarsky serves on the Board of Trustees of Rochester Institute of Technology. He is also a certified public accountant. Mr. Sklarsky does not currently serve, and has not served in the last five years, on any other public company boards.

Mr. Sklarsky's qualifications to serve on the Board include his extensive financial expertise and experience in the automotive industry as well as the comprehensive management and leadership experience he has gained as a senior executive of multiple global corporations.



**Gary G. Steel**

**Director since December 2007**

Mr. Steel, age 61, formerly served as the Head of Group HR and Sustainability and a member of the Group Executive Committee of ABB Ltd. from January 2003 to November 2013. Prior to joining ABB Ltd., Mr. Steel served in various executive positions with Royal Dutch Shell plc, including Human Resources Director for Global Finance for Shell International B.V., a wholly owned subsidiary of Royal Dutch Shell plc. Mr. Steel currently serves on the board of directors of a publicly listed ABB subsidiary in India and is a non-executive director of SSEPD, a subsidiary of SSE plc, a publicly listed UK producer, distributor and supplier of electricity and gas. Mr. Steel served as a director of a publicly listed ABB subsidiary in Sweden during the last five years.

Mr. Steel's qualifications to serve on the Board include his extensive expertise and experience in human resources, executive compensation matters, talent development, succession planning and benefits administration, as well as the comprehensive management and leadership experience he has gained as a senior executive for a global organization.

*The Board recommends a vote FOR election of each of the nominees.*

## THE BOARD, ITS COMMITTEES AND ITS COMPENSATION

### The Board of Directors

The Board currently consists of ten directors, with one current member, Dr. Jiren Liu, retiring from the Board as of the Meeting. The Board has determined that eight of the non-management directors are independent directors, except for Dr. Jiren Liu, and that one director is a current member of our senior management. With the exception of Dr. Jiren Liu, each of our non-management directors meets the qualifications for independence under the listing standards of the New York Stock Exchange. Following the Meeting, the Board will consist of nine members, eight of whom are independent. Dr. Liu will not serve as a director after the Meeting. There are no family relationships among any directors or executive officers of our company.

### Director Compensation

#### *Process*

The Compensation and Option Committee is responsible for annually reviewing and making recommendations to the Board regarding the compensation of our non-management directors.

#### *Fiscal 2014 Compensation*

For services rendered during fiscal 2014, non-management directors received an annual retainer fee of \$70,000, plus \$1,500 for each Board or committee meeting attended. The chairperson of each of the Board's standing committees received an additional annual retainer fee as follows: Audit Committee (\$25,000), Compensation and Option Committee (\$15,000) and Nominating Committee (\$10,000). The Lead Director received an additional annual retainer fee of \$25,000. We do not pay fees to directors who are officers of our company or our subsidiaries. We reimburse all directors for expenses incurred in attending Board and committee meetings.

On the date of our 2013 Annual Meeting of Stockholders, each then-current non-management director received a restricted share unit ( RSU ) grant equal to \$125,000 divided by the closing price of our Common Stock on December 4, 2013. All of these RSUs were granted under the Harman International Industries, Incorporated 2012 Stock Option and Incentive Plan (the 2012 Incentive Plan ). Each RSU vests at a rate of one-third per year commencing on the first anniversary of the grant date.

The following table sets forth compensation earned by each of our non-management directors for his or her service as a director during fiscal 2014.

| Name                     | Fees Earned     |                    | Total     |
|--------------------------|-----------------|--------------------|-----------|
|                          | Paid in Cash(1) | Stock Awards(2)(3) |           |
| Adriane M. Brown         | \$ 83,346       | \$ 0               | \$ 83,346 |
| John W. Dierksen         | 96,846          | 0                  | 96,846    |
| Dr. Harald Einsmann(4)   | 47,000          | 0                  | 47,000    |
| Ann McLaughlin Korologos | 121,500         | 124,938            | 246,438   |
| Dr. Jiren Liu            | 79,000          | 124,938            | 203,938   |
| Edward H. Meyer          | 110,500         | 124,938            | 235,438   |
| Kenneth M. Reiss         | 125,000         | 124,938            | 249,938   |
| Hellene S. Runtagh       | 103,000         | 124,938            | 227,938   |
| Frank S. Sklarsky        | 101,500         | 124,938            | 226,438   |
| Gary G. Steel            | 95,500          | 124,938            | 220,438   |

- (1) Includes annual retainer and meeting attendance fees paid to each non-management director for his or her service as a director during fiscal 2014, and additional annual retainer fees paid to the Lead Director and the chairperson of each committee of the Board.



- (2) On December 4, 2013, each non-management director (except Ms. Brown, Mr. Diercksen and Dr. Einsmann) received an RSU grant of 1,536 shares of our Common Stock. The grant date fair value of each award, calculated in accordance with Financial Accounting Standards Board ( FASB ) ASC Topic 718, was \$124,938. As of June 30, 2014, the number of outstanding RSUs held by each of our non-management directors was as follows: Ms. Brown (2,731 shares), Mr. Diercksen (2,731 shares), Ms. Korologos (4,633 shares), Dr. Liu (4,633 shares), Mr. Meyer (4,633 shares), Mr. Reiss (4,633 shares), Ms. Runtagh (4,633 shares), Mr. Sklarsky (3,333 shares) and Mr. Steel (4,633 shares). Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based conditions. See Note 14, *Shareholders' Equity and Share-Based Compensation*, to our consolidated financial statements in our Form 10-K for the fiscal year ended June 30, 2014, for information regarding the assumptions made in determining these values.
- (3) As of June 30, 2014, the number of outstanding stock options held by each of our non-management directors was as follows: Ms. Korologos (28,000 shares), Mr. Meyer (28,000 shares), Mr. Reiss (8,000 shares), and Mr. Steel (8,000 shares). Our company ceased granting stock options to non-management directors after December 2007.
- (4) Dr. Einsmann retired from the Board at the end of his term on December 4, 2013.

***Changes to Director Compensation***

Based on a benchmarking review conducted by ClearBridge Compensation Group ( ClearBridge ), the Compensation and Option Committee's (the Compensation Committee) independent compensation consultant, the Compensation Committee recommended changes to the non-employee director compensation program that were approved by the Board in September 2014. The material amendments include:

eliminating meeting fees and adjusting retainers as follows to deliver approximately equivalent total compensation:

increasing the annual Board cash retainer from \$70,000 to \$80,000;

increasing the annual committee chair retainers by \$5,000 each;

paying to each committee member (excluding the committee chair) an annual retainer equal to 50% of the committee chair retainer for each committee that such director serves on, such that the retainers for the committee members of each of the Audit Committee, Compensation Committee and Nominating Committee would be \$15,000, \$10,000 and \$7,500, respectively; and

increasing the value of the annual equity grant for non-management directors from \$125,000 to \$135,000

eliminating the award to future new directors of an initial equity grant of \$200,000 and providing that such new directors will receive a pro-rata portion of the annual equity grant upon appointment to the Board with the full annual equity grant to be granted at the following annual meeting;

changing the vesting schedule of RSUs from three-year ratable vesting to one-year cliff vesting to align with the one-year director term; and

allowing for elective deferral by directors of the cash retainer and RSUs.

There was no appreciable increase in total non-employee director cash compensation, but rather adjustments were made to the retainers to address the elimination of meeting fees. The changes to the non-employee director compensation program are effective October 1, 2014.

**Corporate Governance**

The Board and senior management believe that one of their primary responsibilities is to promote a culture of ethical behavior throughout our company by setting examples and by displaying a sustained commitment to instilling and maintaining deeply ingrained principles of honesty and decency. Consistent with these principles we have, among other things, adopted:

written charters for our Audit Committee, Compensation Committee and Nominating Committee;

Corporate Governance Guidelines that describe the principles under which the Board operates;

a Code of Ethics for Senior Management and the Board, a Code of Ethics and Conflicts of Interest Policy for Members of the Board, and a Code of Business Conduct applicable to all our employees;

prohibition on hedging our Insider Trading Policy expressly prohibits directors and employees from engaging in short sales of our Common Stock or buying or selling puts, calls or similar instruments in connection with our Common Stock; and

a Majority Voting Policy that requires our directors to submit their resignation if they do not receive a majority of votes For their election.

The committee charters, corporate governance guidelines, ethics codes and majority voting policy are available on our website ([www.harman.com](http://www.harman.com)) in the Corporate Governance section of the Investors page. Copies of these documents are also available upon written or oral request to our Corporate Secretary. We will post information regarding any amendment to, or waiver from, our Code of Ethics for Senior Management and the Board on our website under the Corporate Governance section of the Investors page.

The Board periodically reviews its corporate governance policies and practices. Based on these reviews, the Board expects to adopt changes to policies and practices that are in the best interests of our company and as appropriate to comply with any new requirements of the SEC or the New York Stock Exchange.

#### ***Director Independence***

As part of our Corporate Governance Guidelines, we have established a policy requiring a majority of the members of the Board to be independent. The Board has also adopted a policy establishing independence standards to assist the Board in determining the independence of the non-management directors. Those standards reflect, among other things, the requirements under the listing standards of the New York Stock Exchange. The independence standards for non-management directors are available on our website under the Corporate Governance section of the Investors page.

In making its independence determinations, the Board considered transactions that occurred in fiscal 2014 between our company and entities associated with the non-management directors or members of their respective immediate families. All identified transactions that appeared to relate to our company and a family member of, or entity with a known connection to, a non-management director were presented to the Board for consideration. The Board considered the transactions in the context of the New York Stock Exchange objective standards, the special standards established by the SEC for members of audit committees, and the SEC and U.S. Internal Revenue Service standards for compensation committee members. Based on all of the foregoing, as required by the New York Stock Exchange rules, the Board made a determination on September 10, 2014 that Dr. Liu was not independent of our company within the meaning of the New York Stock Exchange listing standards. Such determination was based on Dr. Liu's position as the Chairman and CEO of Neusoft Corporation and the fact that our company paid Neusoft Corporation and its related entities more than 2% of their revenue in fiscal 2014 for engineering and software development services rendered to our company. The Board determined that no other relationships exist that, in the opinion of the Board, would impair any other director's independence.

The Board has determined that each of Ms. Brown, Mr. Diercksen, Ms. Korologos, Mr. Meyer, Mr. Reiss, Ms. Runtagh, Mr. Sklarsky and Mr. Steel, is independent of our company and our management within the meaning of the New York Stock Exchange listing standards and satisfies our independence standards. Following the Meeting, the Board will consist of nine members, eight of whom are independent and one of whom is a member of our senior management. Dr. Liu will not serve as a director after the Meeting. There are no family relationships among any directors or executive officers of our company.

#### ***Majority Voting Policy***

Under our majority voting policy, in an uncontested election of directors, any nominee who receives a greater number of votes Against than votes For his or her election will, promptly following the certification

of the stockholder vote, tender his or her written resignation to the Board for consideration by the Nominating Committee. The Nominating Committee will consider the resignation and will make a recommendation to the Board concerning whether to accept or reject it.

In determining its recommendation to the Board, the Nominating Committee will consider all factors it deems relevant, which may include:

the stated reason or reasons why stockholders who cast  Against  votes for the director did so;

the qualifications of the director (including, for example, whether the director serves on the Audit Committee of the Board as an  audit committee financial expert  and whether there are one or more other directors qualified, eligible and available to serve on the Audit Committee in such capacity); and

whether the director's resignation from the Board would be in our best interests and the best interests of our stockholders. The Nominating Committee also will consider a range of possible alternatives concerning the director's tendered resignation as it deems appropriate, which may include:

acceptance of the resignation;

rejection of the resignation; or

rejection of the resignation coupled with a commitment to seek to address and cure the underlying reasons reasonably believed by the Nominating Committee to have substantially resulted in the  Against  votes.

Under our majority voting policy, the Board will take formal action on the recommendation no later than 90 days following the certification of the results of the stockholders' meeting. In considering the recommendation, the Board will consider the information, factors and alternatives considered by the Nominating Committee and any additional information that the Board deems relevant. We will publicly disclose the Board's decision promptly after the decision is made in a press release. If applicable, the Board will also disclose the reason or reasons for rejecting the tendered resignation.

#### ***Non-Employee Director Stock Ownership***

In fiscal 2012, we adopted revised Stock Ownership Guidelines for Non-Employee Directors. The guidelines recommend that non-management directors should, upon the later of (a) three years after the date of original adoption of the updated guidelines or (b) three years after becoming a director, own and hold shares of Common Stock equal in value to the lesser of:

three times the director's annual cash retainer; or

7,000 shares.

#### ***Communications with the Board***

Stockholders and other interested parties may communicate with the Board, the non-management directors, any of the committees of the Board or specific directors by mail addressed to: Board of Directors, c/o Harman International Industries, Incorporated, 400 Atlantic Street, Suite 1500, Stamford, Connecticut 06901, Attn: General Counsel. The mailing envelope should also clearly indicate whether the communication is intended for the Board, the non-management directors, any of the committees of the Board or a specific director. The General Counsel or the Head of Internal Audit will review all these communications and will, within a reasonable period of time after receiving the communications, forward all communications to the appropriate director or directors, other than those communications that are merely solicitations for products or services or relate to matters that are of a type that are clearly improper or irrelevant to the functioning of the Board or the business and affairs of our

company.

**Board Meetings**

The Board held eight meetings during fiscal 2014. Each director attended at least 75% of the total number of meetings of the Board and committees on which he or she served during the period he or she was a director in fiscal 2014. The Board has established a policy that the non-management directors meet in executive session, without members of our management present, at each regularly scheduled meeting of the full Board.

The following table provides a summary of the membership of each of the standing committees of the Board as of June 30, 2014.

| Name                     | Audit  | Compensation and<br>Option | Nominating and<br>Governance |
|--------------------------|--------|----------------------------|------------------------------|
| Adriane M. Brown         |        | Member                     |                              |
| John W. Diercksen        | Member |                            |                              |
| Ann McLaughlin Korologos |        |                            | Chair                        |
| Edward H. Meyer          |        | Chair                      | Member                       |
| Kenneth M. Reiss         | Chair  |                            | Member                       |
| Hellene S. Runtagh       | Member | Member                     |                              |
| Frank S. Sklarsky        | Member | Member                     |                              |
| Gary G. Steel            |        | Member                     | Member                       |

**Annual Meetings of Stockholders**

As part of our Corporate Governance Guidelines, the Board has adopted a policy that each director is expected to make reasonable efforts to attend our stockholders' meetings. All Board members who were directors at the time of the meeting attended our 2013 Annual Meeting of Stockholders.

**Audit Committee**

During fiscal 2014, the Audit Committee held nine meetings. The Board has determined that each member of the Audit Committee is independent under the New York Stock Exchange listing standards and each is financially literate and experienced in financial matters. The Board has also determined that Messrs. Reiss, Diercksen and Sklarsky are audit committee financial experts within the meaning of applicable SEC regulations.

The Audit Committee assists the Board in its oversight of our financial reporting, focusing on the integrity of our company's financial statements, our compliance with legal and regulatory requirements, and the qualifications and independence of our independent registered public accounting firm. The Audit Committee's primary responsibilities include:

acting as the direct contact with our independent registered public accounting firm, who is ultimately accountable to the Audit Committee and the Board;

appointing the independent registered public accounting firm, setting the terms of compensation and retention for the independent registered public accounting firm, and evaluating and overseeing the work of the independent registered public accounting firm;

pre-approving all audit and non-audit services provided to our company by the independent registered public accounting firm;

oversight over the audit scope and performance of the internal audit function;

oversight over our company's ethics and compliance programs;

evaluating and discussing with management and the Board our company's risk assessment and risk management processes; and

acting in respect of all other matters as to which Audit Committee action is required by law or New York Stock Exchange listing standards.

The Audit Committee's responsibilities and key practices are more fully described in its written charter. A report of the Audit Committee appears on page 48 of this Proxy Statement.

#### ***Compensation and Option Committee***

During fiscal 2014, the Compensation Committee held six meetings. Each member of the Compensation Committee is independent under the New York Stock Exchange listing standards.

The Compensation Committee assists the Board in overseeing executive compensation and administers our executive bonus, option and incentive, deferred compensation and retirement plans. The Compensation Committee's primary responsibilities include:

establishing our company's executive compensation philosophy;

annually reviewing and benchmarking CEO compensation, and recommending to the Board the compensation level for the CEO;

annually reviewing, benchmarking and approving compensation levels for our executive officers and reviewing executive compensation matters generally;

reviewing and making recommendations to the Board with respect to director compensation;

making recommendations to the Board with respect to approval and adoption of all cash and equity-based incentive plans;

reviewing and approving the Compensation Discussion and Analysis to be included in the annual proxy statement; and

approving awards of options, restricted shares, RSUs and other equity rights to executive officers.

The Compensation Committee's responsibilities and key practices are discussed more fully in its written charter. A report of the Compensation and Option Committee appears on page 33 of this Proxy Statement.

#### ***Compensation Committee Interlocks and Insider Participation***

Edward H. Meyer, Adriane M. Brown, Hellene S. Runtagh, Frank S. Sklarsky and Gary G. Steel served as members of the Compensation Committee in fiscal 2014. During fiscal 2014, no member of the Compensation Committee was an employee, officer or former officer of our company. None of our executive officers served in fiscal 2014 on the board of directors or compensation committee (or other committee serving an equivalent function) of any entity that had an executive officer serving as a member of the Board or the Compensation Committee. As described below under "Certain Relationships and Related Person Transactions," Dr. Jiren Liu is Chairman and CEO of Neusoft Corporation, a company to which we made more than \$120,000 in payments during fiscal 2014 for services rendered pursuant to an engineering and software development services agreement.

#### ***Nominating and Governance Committee***

During fiscal 2014, the Nominating Committee held four meetings. Each member of the Nominating Committee is independent under the New York Stock Exchange listing standards.

The Nominating Committee assists the Board in carrying out its oversight responsibilities relating to the composition of the Board and certain corporate governance matters. The Nominating Committee's primary responsibilities include:



considering and making recommendations to the Board with respect to nominees for election to the Board consistent with criteria approved by the Board or the Nominating Committee, including director candidates submitted by our stockholders;

periodically reviewing and assessing our policies and practices with regard to corporate responsibility, human health and safety, sustainability and the environment;

annually reviewing and reassessing the adequacy of our codes of conduct, corporate governance guidelines and committee charters;

overseeing the process for the annual performance evaluation of the Board, Board committees and CEO; and

reviewing the independence of each of the directors annually.

The Nominating Committee's responsibilities and key practices are more fully described in its written charter.

#### ***Board Role in Respect of CEO Compensation***

The Compensation Committee makes recommendations to the Board regarding the CEO's compensation level, and the Board makes all final decisions regarding CEO compensation. The Board approves the CEO's goals and objectives for the upcoming fiscal year, assesses the CEO's performance in the current fiscal year against the goals and objectives for such fiscal year and approves the CEO's compensation for the upcoming fiscal year. The CEO is not involved in the approval process for his compensation.

#### ***Board Leadership Structure***

The current Board Chairman is also the current CEO of our company. In addition, in May 2008 the non-management directors designated Ann McLaughlin Korologos as Lead Director. In this role, Ms. Korologos is responsible for chairing executive sessions and other meetings of the Board, with and without the participation of the Chairman. Our Lead Director sets the agenda for Board meetings and ensures that all topics proposed by the other directors are considered for debate and discussion. Our Lead Director also conducts the CEO's performance appraisal at the end of each fiscal year and reviews the CEO's performance goals and objectives for the new fiscal year. In preparation for these reviews with the CEO, all non-management directors provide their input to the Lead Director. Following the review sessions with the Lead Director, our CEO holds an in-person performance appraisal presentation and discussion with the Board. The Board designates the Lead Director on an annual basis.

The non-management directors believe that our company's current model of the combined Chairman/CEO role in conjunction with the Lead Director position is the appropriate leadership structure for our company at this time. The non-management directors believe that each of the possible leadership structures for a board has its particular advantages and disadvantages, which must be considered in the context of the specific circumstances, culture and challenges facing a company, and that such consideration is the responsibility of a company's board and requires a diversity of views and experiences. The combined Chairman/CEO model is a leadership model that has served our stockholders well for many years and through a succession of effective leaders.

The non-management directors of the Board believe that the combined Chairman/CEO position, together with the Lead Director, has certain advantages over other board leadership structures and continues to best meet our company's current needs, including:

efficient communication between management and the Board;

clear delineation of the Lead Director's and other non-management directors' oversight role from the Chairman/CEO's and other management's day-to-day operations role;

clarity for our company's key stakeholders on corporate leadership and accountability; and

the Board Chairman possessing the best knowledge of our company's strategy, operations and financial condition and, in turn, the ability to communicate that to external stakeholders.



The Nominating Committee and the other non-management directors periodically review this structure to ensure it is still appropriate for our company, especially in the context of future succession plans.

### ***Board Oversight of Risk Management***

Management is responsible for day-to-day enterprise risk management. In its oversight role regarding enterprise risk management, the Board reviews and approves our company's long-term strategic plan and annual operating plan. We face risks in many different areas, including business strategy; government regulation; financial condition; credit and liquidity; product innovation; competition for talent; executive development; operational efficiency; quality assurance; environmental, health and safety; supply chain management; information technology and security; intellectual property; and legal compliance, among many others. The Board believes that oversight of risk management is the responsibility of the full Board.

In carrying out this critical responsibility, the Board meets with key members of management with primary responsibility for management of risk in their respective areas of responsibility, including our CEO, Chief Financial Officer, Chief Human Resources Officer, General Counsel, Head of Internal Audit, and the presidents of each of our three divisions. Each year, management compiles a comprehensive risk assessment report and reviews that report with the Board during regular Board meetings. The report identifies the material business risks for our company, indicates the senior management owners of such risks, and identifies factors that respond to and mitigate those risks. Throughout the year, the Board dedicates a portion of each meeting to review and discuss specific risk topics in greater detail.

### ***Executive Succession Planning***

The Board and our CEO have developed a comprehensive program for emergency and long-term executive succession, which the Board reviews with our CEO annually. Consistent with our culture, our goal is to always be in a position to appoint our most competent senior executives from within our company. Individuals who are identified as having potential for senior executive positions are evaluated by the Board. The careers of such persons are developed to ensure that over time they have appropriate assignments, exposure to the Board and exposure to our diverse global business. These individuals interact with the Board in various ways, including through participation in certain Board meetings and other Board-related activities and meetings with individual directors, both in connection with director visits to our business units around the world and otherwise.

We believe that the Board fully understands our culture and strategic needs and that our succession program should ensure a smooth transition with respect to senior executive appointments.

### ***Director Nominees***

The Nominating Committee utilizes a variety of methods for identifying and evaluating director nominees. The committee may consider candidates recommended by our directors, members of management, professional search firms or stockholders. These candidates may be considered at any point during the year.

### ***Qualifications***

The Board has charged the Nominating Committee to make recommendations regarding an appropriate board composition to support and adjust to our company's strategy and operations over time. The Nominating Committee reviews annually with the Board the size, function and needs of the Board and our company. In evaluating nominees for election as a director, the Nominating Committee considers a number of factors, including the following:

personal and professional qualities, characteristics, attributes, accomplishments and reputation in the business community and otherwise;

reputation in a particular field or area of expertise;

current knowledge and contacts in the markets in which we do business and in our industry and other industries relevant to our business;

the ability and willingness to participate fully in Board activities, including attendance at, and active participation in, Board and committee meetings;

the skills and personality of the nominee and how the Nominating Committee perceives the nominee will fit with the existing directors and other nominees in maintaining a board that is collegial and responsive to the needs of our company and our stockholders;

the willingness to represent the best interests of all of our stockholders and not just one particular constituency;

age of the nominee; and

diversity of viewpoints, culture, gender, background and experience, compared to those of existing directors and other nominees. The Board also seeks men and women that have a wide range of experiences at policy-making levels in business, government, education and technology and in areas that are relevant to our company's global activities. The Nominating Committee also endeavors to ensure that the Board includes a number of financially literate directors and at least one director who qualifies as a financial expert.

The Nominating Committee will also consider other criteria for director candidates included in our Corporate Governance Guidelines or as may be established from time to time by the Board.

We believe that our current Board is well-qualified to lead our company's efforts to achieve our long-term strategy. The combined experience of our directors covers all areas of expertise and competency identified by the Nominating Committee.

#### *Stockholder Recommendations*

The Nominating Committee will evaluate director candidates recommended by a stockholder in the same manner as candidates otherwise identified by the Nominating Committee. We have never received any recommendations for director candidates from stockholders. In considering director candidates recommended by our stockholders, the Nominating Committee will also take into account such factors as it considers relevant, including the length of time that the submitting stockholder has been a stockholder of our company and the aggregate amount of the submitting stockholder's investment in our company.

Stockholders may recommend candidates at any time but to be considered by the Nominating Committee for inclusion in our proxy statement for the next annual meeting of stockholders, recommendations must be submitted in writing no later than 120 days before the first anniversary of the date the proxy statement was mailed to stockholders in connection with the previous year's annual meeting. A stockholder's notice must contain, among other information, the following:

the name of the director candidate, the name of the stockholder recommending the director candidate for consideration, and the written consent of the director candidate and stockholder to be publicly identified;

a written statement by the director candidate agreeing to be named in our proxy materials and to serve as a member of the Board if nominated and elected;

a written statement by the director candidate and the recommending stockholder agreeing to make available to the Nominating Committee all information reasonably requested in connection with the Nominating Committee's consideration of the director candidate; and

the director candidate's name, age, business and residential addresses, principal occupation or employment, number of shares of Common Stock and other securities of our company beneficially owned, a curriculum vitae or similar document detailing personal and professional experiences and accomplishments, and all other information relating to the director candidate that would be required to be disclosed in a proxy statement or other filing made in connection with the solicitation of proxies for the election of directors by SEC regulations and the New York Stock Exchange listing standards.

The stockholder's notice must be signed by the stockholder recommending the director candidate for consideration and sent to the following address: Harman International Industries, Incorporated, 400 Atlantic Street, Suite 1500, Stamford, Connecticut 06901, Attn: Corporate Secretary (Nominating and Governance Committee Communication/Director Candidate Recommendation).

**COMPENSATION DISCUSSION AND ANALYSIS**

This Compensation Discussion and Analysis ( CD&A ) provides a detailed description of our executive compensation philosophy and programs, the compensation decisions the Compensation Committee has made under those programs and the factors considered in making those decisions. This CD&A focuses on the compensation of our named executive officers ( NEOs ) for fiscal 2014, who were:

| <b>Name</b>       | <b>Title</b>  |
|-------------------|---|
| Dinesh C. Paliwal | Chairman, Chief Executive Officer, and President (the CEO )     |
| Herbert K. Parker | Executive Vice President and Chief Financial Officer (the CFO ) |
| Blake Augsburg    | Executive Vice President and President Professional Division    |
| Sachin Lawande    | Executive Vice President and President Infotainment Division    |
| Michael Mauser    | Executive Vice President and President Lifestyle Division       |

**Performance Context**

Fiscal year 2014 was a record breaking year for our company. Net sales in fiscal year 2014 were \$5.348 billion, an increase of 24 percent from the prior fiscal year, as all three of our company s divisions reported sales increases. Some of our significant accomplishments during fiscal year 2014 included:

we delivered fiscal 2014 non-GAAP earnings per share ( EPS ) of \$4.41, an increase of 43% over fiscal 2013;

we doubled our annual dividend from \$0.60 per share to \$1.20 per share and announced that in fiscal 2015 we would increase our annual dividend from \$1.20 per share to \$1.32 per share;

we recorded a company record automotive awarded business of \$20.5 billion; and

through the end of fiscal 2014, we generated a return to our stockholders of 101% over a one-year period and a compounded annual return of 35% over a three-year period.

**Compensation Program Summary**

Our compensation program is designed to:

Reward for performance against goals that we believe are the key drivers of long-term stockholder value;

Align executives directly with our stockholders; and

Attract, retain, and motivate top executive talent.

In order to achieve these objectives, compensation is delivered through a mix of fixed and variable pay elements, summarized below and discussed further in the Compensation Program Details section of this CD&A.



*Overview of Fiscal 2014 Program and Changes for Fiscal 2015*

| Element          | Description   | Objective   | Key Changes for Fiscal 2015  |
|------------------|---|---|--|
| Base salary      | Set based on each executive's role, responsibilities and performance<br><br>Data on comparable positions in the market used as context  | Provide a competitive level of fixed compensation to achieve attraction and retention objectives  | 3% increase for the CEO<br><br>No change for CFO   |
| Annual incentive | Annual cash incentive opportunity<br><br>Can range from 0% to 150% of the target award for the CEO and from 0% to 200% of the target award for the other NEOs, based on performance | Align executives with the operating performance of our company<br><br>Drive profitable growth through a combination of revenue and earnings | 3% to 5% salary increases for each of the other NEOs<br>Change EBIT financial performance measure to Earnings before interest, taxes and depreciation ( EBITDA )<br><br>Change division/total company weights for the division head NEOs from 70/30 to 50/50 |
|                  | Financial performance measures:   | Use free cash flow to measure our ability to generate cash and reinvest in growth initiatives   |  |
|                  | Revenue (weighted 30%)  | Achieve pay for performance   |  |
|                  | Earnings before interest and taxes ( EBIT , weighted 40%)   |   |  |
|                  | Free Cash Flow (weighted 30%)   |   |  |
|                  | NEOs who are division heads weighted 70% on division results and 30% on total company results   |   |  |
|                  | The CEO is tied 100% to company financial performance measures; awards for other NEOs may be adjusted to reflect their individual performance                                       |   |  |

Goals are set by the Compensation Committee in the first quarter each year, and are set considering guidance provided to investors

|                             |   |  |  |
|-----------------------------|---|--|--|
| Long-term incentive ( LTI ) | Performance-based restricted share units ( Performance RSUs ): 60% of target LTI (75% of maximum LTI)   | Align management with stockholders by delivering a significant portion of compensation in equity   | No changes to design                                       |
|                             | Can range from 0 to 200% of the target award based on three-year performance:   | Achieve pay-for-performance and retention objectives through a blend of Performance RSUs and Time RSUs   | Slight increases in grant amounts based on benchmark data. |
|                             | Cumulative EPS against a stated goal (weighted 50%)   | The performance metrics, in combination with the annual incentive plan metrics, focus on key drivers of long-term stockholder value; use of TSR aligns payouts directly with stockholder value |  |
|                             | Relative Total Shareholder Return ( TSR , weighted 50%)   |  |  |
|                             | Average Return on Invested Capital ( ROIC , applied as a modifier, rather than a weighted factor, such that the award will be reduced if ROIC is below a specified threshold) |  |  |
|                             | Time-vested restricted share units ( Time RSUs ): 40% of target LTI (25% of maximum LTI)  |  |  |
| Other Policies              | Stock ownership guidelines  | See further discussion of each policy in the Compensation Program Details section  |  |
|                             | Clawback policy   |  |  |
|                             | Insider trading (anti-hedging) policy   |  |  |
|                             | Supplemental Executive Retirement Plan ( SERP ) for Mr. Paliwal and Mr. Augsburger  |  |  |

Termination and change-in-control  
provisions

## **Process for Determining Compensation**

### ***The Role of the Compensation Committee***

The Compensation Committee meets throughout the year to assess, review, and ultimately approve the compensation program and pay levels for all of our executive committee members, which includes all NEOs, except for our CEO. The Compensation Committee makes recommendations to the Board regarding our CEO's compensation, and the full Board (without the CEO) makes all final decisions regarding CEO compensation. The Compensation Committee retains an independent compensation consultant (described below under *The Role of the Committee's Independent Consultant*) to provide advice in connection with its assessment of the compensation program.

### ***Consideration of Stockholder Feedback in Light of the Results of the 2013 Say-on-Pay Vote***

The Compensation Committee highly values stockholder feedback on our company's compensation program. At the 2013 Annual Meeting, we held an advisory vote to approve compensation of the NEOs, which resulted in approximately 95.5% of the votes cast in favor of our executive compensation program. Because a substantial majority of our stockholders approved the compensation program described in our 2013 Proxy Statement, the Compensation Committee did not implement extensive changes to our company's compensation program for fiscal year 2015.

### ***The Role of the CEO***

Our CEO is included in discussions and makes recommendations to the Compensation Committee on compensation for our executive committee members, including our NEOs (except with respect to his own compensation). The Compensation Committee reviews the recommendations from the CEO and makes all final compensation decisions, except with respect to the CEO's compensation which is ultimately decided by the Board in executive session without the CEO's participation. Our CEO also provides his evaluation of each executive officer's performance, including our NEOs except for himself, against their individual objectives for the Compensation Committee's consideration and approval as part of his recommendation for appropriate compensation awards under the annual incentive program. Our CEO does not participate in discussions, either with the Compensation Committee or the Board, regarding his own compensation.

### ***The Role of the Committee's Independent Consultant***

In fiscal 2014, the Compensation Committee retained ClearBridge as its independent compensation consultant. ClearBridge reports directly to the Compensation Committee, and provides advice and recommendations regarding executive compensation design for the CEO and executive committee members, as well as assistance in benchmarking executive compensation levels. ClearBridge does not provide any other services, beyond the services provided to the Compensation Committee, for our company or management.

### ***The Role of Benchmarking***

In assessing and determining total compensation opportunities for the NEOs, the Compensation Committee considers market data as an input to the process. As there is no well-defined group of comparable publicly-traded companies in the United States operating in the same industries as our company's, the Compensation Committee considers multiple external perspectives as an input to the process.

Specifically, the Committee uses a Pay Benchmarking Peer Group that consists of companies in automotive and technology related sectors, with revenue generally ranging from one-half to two times our company's revenue. The Compensation Committee supplements that data with compensation survey data from the Towers Watson Compensation Data Bank® Executive Compensation Survey (the Towers Watson Survey), which is a published third-party survey. The Compensation Committee has no input into determining the companies in the Towers Watson Survey and does not consider the survey companies to be a peer group. Companies in each group are shown below:

**Companies in the Pay Benchmarking Peer Group (n=23)**

|                                   |                           |                              |                                |
|-----------------------------------|---------------------------|------------------------------|--------------------------------|
| Advanced Micro Devices, Inc.      | Autoliv, Inc.             | Borgwarner, Inc.             | Cooper-Standard Holdings, Inc. |
| Dana Holding Corp.                | Dolby Laboratories, Inc.  | Federal-Mogul Holdings Corp. | Freescale Semiconductor Ltd.   |
| Garmin Ltd.                       | Juniper Networks Inc.     | Lexmark International, Inc.  | Logitech International S.A.    |
| Marvell Technology Group Ltd.     | Molex Inc.                | Moog Inc.                    | Netgear, Inc.                  |
| Nvidia Corp.                      | Rockwell Automation, Inc. | Rockwell Collins Inc.        | Sandisk Corp.                  |
| Sensata Technologies Holding N.V. | Tenneco, Inc.             | Visteon Corp.                |                                |

**Companies in the Towers Watson Survey (Not a Peer Group)**

|                              |                                    |                         |                           |
|------------------------------|------------------------------------|-------------------------|---------------------------|
| Agilent Technologies         | Dow Corning                        | Level 3 Communications  | ROHM Semiconductor USA    |
| Allergan                     | Ecolab                             | Lexmark International   | Sabre                     |
| American Sugar Refining      | Endo Health Solutions              | Life Technologies       | SAS Institute             |
| AMETEK                       | Essilor of America                 | Lincoln Electric        | Schreiber Foods           |
| AMSTED Industries            | Exelis                             | Lorillard Tobacco       | Schwann's                 |
| Anixter International        | Expedia                            | Manitowoc               | Scotts Miracle-Gro        |
| Arby's Restaurant Group      | Experian Americas                  | Mary Kay                | Sealed Air                |
| Armstrong World Industries   | Exterran                           | Mattel                  | ServiceMaster Company     |
| Ashland                      | Forest Laboratories                | McGraw-Hill             | Shire Pharmaceuticals     |
| Avaya                        | GAF Materials                      | MeadWestvaco            | Snap-On                   |
| Avis Budget Group            | Gates                              | Molson Coors Brewing    | Sonoco Products           |
| Big Lots                     | Green Mountain                     | Mylan                   | SPX                       |
| Booz Allen Hamilton          | GTECH                              | Nash Finch              | Starwood Hotels & Resorts |
| Brunswick                    | Hanes Brands                       | NBTY                    | Terex                     |
| CA                           | Harman International Industries    | NewPage                 | Trepp                     |
| CareFusion                   | Harsco                             | Omnicare                | Trinity Industries        |
| Carlson                      | Hasbro                             | OSI Restaurant Partners | Tupperware Brands         |
| Catalyst Health Solutions    | Hershey                            | Owens Corning           | Unisys                    |
| Celanese Americas            | Hunt Consolidated                  | Pall                    | United Rentals            |
| CGI Technologies & Solutions | International Data Group           | Parsons                 | United States Cellular    |
| CH2M HILL                    | International Flavors & Fragrances | PCL Constructors        | Valmont Industries        |
| Chemtura                     | J.M. Smucker                       | Pitney Bowes            | Vulcan Materials          |
| Chiquita Brands              | J.R. Simplot                       | Polaris Industries      | VWR International         |
| Cintas                       | JetBlue Airways                    | PolyOne                 | Warner Chilcott           |
| Clear Channel Communications | Kelly Services                     | Pulte Homes             | Watson Pharmaceuticals    |
| Cliffs Natural Resources     | Keystone Foods                     | Purdue Pharma           | Westlake Chemical         |
| COACH                        | Kinross Gold                       | Quintiles               | Weyerhaeuser              |
| Cooper Industries            | Kohler                             | Ralcorp Holdings        | Xylem                     |
| Dollar Tree                  | Legett & Platt                     | Rockwell Automation     | YRC Worldwide             |
| Domtar                       | Leprino Foods                      | Rockwell Collins        |                           |

**The Role of Tally Sheets**

The Compensation Committee reviews tally sheets, which include all components of compensation paid to our executive committee members, including all NEOs, in the most recent fiscal year. The tally sheets also provide information on potential payouts to the executive committee members upon various termination scenarios. The Compensation Committee considered the information presented in the tally sheets in determining the compensation program for our executive committee members for fiscal 2014.

**Compensation Program Details**

This section sets forth the specific details of the executive compensation program, as previously summarized in the Compensation Program Summary above.

**NEO Target Pay Levels for Fiscal 2014**

The Compensation Committee determines target compensation opportunities for the NEOs in the first quarter of each fiscal year, considering all of the inputs described above under Process for Determining Compensation. The table below provides a summary of target compensation opportunities for each of the NEOs, which differs from the disclosure provided in the Summary Compensation Table as described in the footnotes below.

| Name              | Title                        | Base Salary(1) | Target Annual Incentive (% of salary)(2) | Target Total Cash Compensation | Target Long-Term Incentive Value(3) | Target Total Direct Compensation |
|-------------------|------------------------------|----------------|--|--------------------------------|-------------------------------------|----------------------------------|
| Dinesh Paliwal    | Chairman,<br>President & CEO | \$ 1,193,513   | 200%                                     | \$ 3,580,539                   | \$ 4,476,000                        | \$ 8,056,539                     |
| Herbert Parker    | EVP & CFO                    | \$ 560,000     | 75%                                      | \$ 980,000                     | \$ 1,100,000                        | \$ 2,080,000                     |
| Blake Augsburg    | EVP & Pres., Professional    | \$ 478,000     | 75%                                      | \$ 836,500                     | \$ 900,000                          | \$ 1,736,500                     |
| Sachin Lawande    | EVP & Pres., Infotainment    | \$ 510,000     | 75%                                      | \$ 892,500                     | \$ 1,100,000                        | \$ 1,992,500                     |
| Michael Mauser(4) | EVP & Pres., Lifestyle       | \$ 518,990     | 75%                                      | \$ 911,761                     | \$ 1,000,000                        | \$ 1,911,761                     |

- (1) Represents salary rate effective as of September 1, 2013. Salary provided in the Summary Compensation Table represents actual earned amount during fiscal 2014.
- (2) Represents award opportunity earned at target performance. Non-Equity Incentive Plan Compensation provided in the Summary Compensation Table represents the actual annual incentive award paid for fiscal 2014.
- (3) Represents targeted dollar amount of LTI. Based on this dollar amount, the number of RSUs to be granted is determined based on the ten-trading day average closing stock price of our Common Stock prior to the grant date. Amount reported in the Summary Compensation Table is different from this amount since it is based on the actual stock price of our Common Stock on the date of grant, as well as the required accounting valuation for the Performance RSUs.
- (4) Mr. Mauser's compensation is paid in Euros and has been translated into U.S. Dollars at the exchange rate in effect on June 30, 2014 in the case of bonus payment, and at the average exchange rate for the 12 months ended June 30, 2014 in the case of salary and other compensation amounts.

**Annual Incentive Plan Design****Fiscal 2014 Annual Incentive Plan Design and Payouts**

The Compensation Committee reviews and approves all aspects of the annual incentive plan design, as described in this section, in the first quarter of each fiscal year.

**Performance Measures.** The Compensation Committee selected the performance measures for fiscal 2014 in order to emphasize profitable growth, and to measure our ability to generate cash and reinvest in growth initiatives. Bonus payouts for the NEOs are determined primarily based on financial goals: Revenue, EBIT and Free Cash Flow. If the financial goals are achieved, awards for NEOs other than the CEO can be adjusted downward based on performance against their individual goals. Financial goals for the CEO and CFO are based on total company results, and financial goals for the other NEOs are based 70% on the performance of their respective divisions and 30% on the performance of the total company.

**Performance Goals.** Performance goals for the annual incentive plan are reviewed and approved in the first quarter of each fiscal year, which are set considering our company's financial guidance as of that date. During the course of fiscal 2014, we updated our guidance by increasing our projected results to reflect our fiscal year forecast. However, the bonus goals remained at the levels at which they were initially set in September 2013, and were not adjusted. Goals are set on a currency-adjusted basis (constant currency) such that bonuses are not impacted (positively or negatively) by foreign currency fluctuations throughout the course of the fiscal year. The Compensation Committee believes this approach is the most appropriate way to reward management for the annual operating results of the business.

**Non-GAAP measure.** Free Cash Flow is a non-GAAP measure which the Compensation Committee calculates as follows: operating income plus depreciation and amortization plus change in working capital. The change in working capital includes net accounts receivable from third parties plus net inventories less trade accounts payable to third parties.

**Calculation of Payout.** Payout with respect to each measure is calculated separately, and straight-line interpolation is applied for performance between points shown in the table. If performance falls below the threshold level, no award will be paid with respect to that performance measure.

(\$ in thousands)

**Performance Level Required to Achieve  
Payout at:**

| Business      | Metric         | Weight | Threshold          |              |              | Target<br>(100%) | Maximum<br>(150% for<br>CEO<br>200% for<br>other<br>NEOs) | Actual<br>Performance(1) | Resulting<br>Annual<br>Incentive<br>Achievement |
|---------------|----------------|--------|--------------------|--------------|--------------|------------------|---|--------------------------|---|
|               |                |        | (50% of<br>target) | (80%)        |              |                  |   |                          |   |
| Total Company | Revenue        | 30%    | \$ 4,435,000       | \$ 4,565,000 | \$ 4,700,000 | \$ 4,780,000     | \$ 5,234,000  | 200%                     |   |
|               | EBIT           | 40%    | \$ 296,000         | \$ 325,000   | \$ 360,000   | \$ 378,000       | \$ 424,000  | 200%                     |   |
|               | Free Cash Flow | 30%    | \$ 240,000         | \$ 267,000   | \$ 298,000   | \$ 312,000       | \$ 366,000  | 200%                     |   |
| Infotainment  | Revenue        | 30%    | \$ 2,300,000       | \$ 2,375,000 | \$ 2,460,000 | \$ 2,500,000     | \$ 2,745,000  | 200%                     |   |
|               | EBIT           | 40%    | \$ 161,000         | \$ 178,000   | \$ 195,000   | \$ 206,000       | \$ 244,000  | 200%                     |   |
|               | Free Cash Flow | 30%    | \$ 147,000         | \$ 164,000   | \$ 179,000   | \$ 189,000       | \$ 195,000  | 200%                     |   |
| Lifestyle     | Revenue        | 30%    | \$ 1,350,000       | \$ 1,390,000 | \$ 1,425,000 | \$ 1,450,000     | \$ 1,642,000  | 200%                     |   |
|               | EBIT           | 40%    | \$ 151,000         | \$ 157,000   | \$ 167,000   | \$ 176,000       | \$ 196,000  | 200%                     |   |
|               | Free Cash Flow | 30%    | \$ 137,000         | \$ 141,000   | \$ 151,000   | \$ 158,000       | \$ 199,000  | 200%                     |   |
| Professional  | Revenue        | 30%    | \$ 785,000         | \$ 800,000   | \$ 815,000   | \$ 830,000       | \$ 847,000  | 200%                     |   |
|               | EBIT           | 40%    | \$ 108,000         | \$ 112,000   | \$ 117,000   | \$ 124,000       | \$ 124,000  | 200%                     |   |
|               | Free Cash Flow | 30%    | \$ 86,000          | \$ 90,000    | \$ 93,000    | \$ 99,000        | \$ 95,000   | 133%                     |   |

- (1) As previously discussed, all amounts shown are on a constant currency basis and do not equal reported results. Also, the results of AMX LLC and AMX Holding Corporation, which we acquired in June 2014, were not included in our company or Professional Division results in accordance with our policy not to include acquisitions of greater than \$200,000,000 in our results in the fiscal year during which the acquisition is consummated.



*Individual Goals.* Like the corporate and division objectives, individual performance objectives are intended to challenge executives to achieve stretch goals that contribute to the achievement of the annual operating plan, improve our company's performance, and ensure that corporate and division financial goals are met or exceeded. Individual performance objectives are also designed to ensure successful execution of ongoing strategic objectives, such as reducing selling, general and administrative (SG&A) expense, achieving synergies from acquisitions, the growth of our headphone business, and timely delivering critical projects for BMW. Potential scores for achievement of individual performance objectives range from 0% to 100%. As approved by the Compensation Committee:

Mr. Parker's individual objectives included goals related to reducing our global SG&A expense as a percentage of sales (30% weight); improving the strength and diversity of our finance function (20% weight); reducing the amount of deficiencies reported by our internal audit department and our independent registered public accounting firm as a percentage of total controls (20% weight); and reducing our working capital as a percentage of sales (30% weight). Based on his efforts and achievements against these targets, Mr. Parker received an aggregate individual objective score of 100% out of a maximum of 100%.

Mr. Augsburg's individual objectives included goals related to consolidating our European manufacturing footprint (20% weight); increasing our sales in China (20% weight); reducing SG&A expense as a percentage of sales and increasing diversity in the Professional Division (40% weight); and achieving synergies from the acquisition of Martin Professional A/S (20% weight). Based on his efforts and achievements against these targets, Mr. Augsburg received an aggregate individual objective score of 99.0% out of a maximum of 100%.

Mr. Lawande's individual objectives included goals related to reducing employee headcount (30% weight); designing and developing a next-generation infotainment system (20% weight); reducing SG&A expense as a percentage of sales and increasing diversity in the Infotainment Division (30% weight); and timely delivering projects for infotainment programs for BMW (20% weight). Based on his efforts and achievements against these targets, Mr. Lawande received an aggregate individual objective score of 94.9% out of a maximum of 100%.

Mr. Mauser's individual objectives included goals related to growing car audio revenue (30% weight); reducing SG&A expense as a percentage of sales and increasing diversity in the Lifestyle Division (25% weight); increasing sales of headphones (30% weight); and growing sales of Lifestyle products in China (15% weight). Based on his efforts and achievements against these targets, Mr. Mauser received an aggregate individual objective score of 70.0% out of a maximum of 100%.

#### ***Long-Term Incentive Plan Design***

Our equity incentive plans are administered by the Compensation Committee and are designed to provide incentive compensation to executive officers and other key employees in the form of equity-based vehicles that align executives with stockholders. Generally, the Compensation Committee approves the annual equity awards under our incentive plans in September of each year. When making equity-based incentive awards, the Compensation Committee also takes into consideration the dates on which we expect to make public announcements regarding earnings as well as other events or circumstances that have not been publicly announced that may be deemed material to us, our stockholders and other investors.

The chart below provides a summary of our outstanding equity award cycles, which are discussed further throughout the remainder of this section:

| Grant Date                         | Vesting    | Vehicle/Mix<br>(at Target)            | Performance Measures<br>for Performance RSUs   | Actual Vesting of<br>Performance RSUs   |
|------------------------------------|------------|---------------------------------------|--|---|
| 09/07/2011<br><i>(Fiscal 2012)</i> | 09/07/2014 | 50% Performance RSUs<br>50% Time RSUs | 3-Year Cumulative EPS<br>(33 1/3%)<br>3-Year Relative TSR (33<br>1/3%)<br>Fiscal 2014 ROIC (33<br>1/3%)    | 156.7% of target                        |
| 09/10/2012<br><i>(Fiscal 2013)</i> | 09/10/2015 | 50% Performance RSUs<br>50% Time RSUs | 3-Year Cumulative EPS<br>(33 1/3%)<br>3-Year Relative TSR (33<br>1/3%)<br>3-Year Average ROIC (33<br>1/3%) | TBD following the end of<br>Fiscal 2015 |
| 09/10/2013<br><i>(Fiscal 2014)</i> | 09/10/2016 | 60% Performance RSUs<br>40% Time RSUs | 3-Year Cumulative EPS<br>(50%)<br>3-Year Relative TSR<br>(50%)<br>3-Year Average ROIC<br>(Modifier)        | TBD following the end of<br>Fiscal 2016 |
| 09/09/2014<br><i>(Fiscal 2015)</i> | 09/09/2017 | 60% Performance RSUs<br>40% Time RSUs | 3-Year Cumulative EPS<br>(50%)<br>3-Year Relative TSR<br>(50%)<br>3-Year Average ROIC<br>(Modifier)        | TBD following the end of<br>Fiscal 2017 |

*Achievement of September 2011 Performance RSUs (vested September 7, 2014)*

The Performance RSUs granted on September 7, 2011 were earned at 156.7% of target based on our company's achievement against the 3-Year Cumulative EPS, 3-Year Relative TSR and Fiscal 2014 ROIC goals established by the Compensation Committee at the time of the grant. The chart below provides the goals and actual performance results:

| Metric   | Weight  | Performance Level Required to Achieve Payout at: |                  |                   |          | Actual Performance | Resulting Performance<br>RSU Vesting<br>(% of target PRSUs) |
|--|---------|--|------------------|-------------------|----------|--------------------|---|
|  |         | Threshold<br>(50% of target)                     | Target<br>(100%) | Maximum<br>(200%) |          |                    |   |
| 3-Year Cumulative EPS: Fiscal 2012 Fiscal 2014 | 33 1/3% | \$ 9.89  | \$ 10.99         | \$ 12.09          | \$ 10.33 | 70%                |   |

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| 3-year Relative TSR Positioning                | 33 1/3% | 25 <sup>th</sup> | 50 <sup>th</sup> | 75 <sup>th</sup> | Above 75 <sup>th</sup> | 200%          |
|--|---------|------------------|------------------|------------------|------------------------|---------------|
|  |         | percentile       | percentile       | percentile       | percentile             |               |
| Fiscal 2014 ROIC                               | 33 1/3% | 14.0%            | 15.5%            | 17.0%            | 17.2%                  | 200%          |
| <b>Total Award Vesting (% of target PRSUs)</b> |         |                  |                  |                  |                        | <b>156.7%</b> |

*Grant of September 2012 Awards (Fiscal 2013 Grant)*

In September 2012, we granted equity to our NEOs as follows (the September 2012 Awards):

*Vehicles, Mix and Vesting.*

50% Performance RSUs (at target): Vest on the third anniversary of the grant date based on performance goals established by the Compensation Committee and presented in the table below (the 2012 Performance RSUs); and

50% Time RSUs: Vest on the third anniversary of the grant date subject to the executive's continued employment with our company. *Performance Measures.* The 2012 Performance RSUs are earned based on the achievement of the following financial and stockholder value goals: EPS, Relative TSR, and ROIC.

*Performance Goals.* Performance measures and goals are set by the Compensation Committee as of the date of grant. Payout with respect to each measure is calculated separately, and straight-line interpolation is applied for performance between points shown in the table below. If performance falls below the threshold level, no award will be paid with respect to that performance measure. No adjustments to goals or actual results are made for changes in currency rates. While the annual incentive plan goals use a constant currency approach to best reflect the annual operating results of the business, over the long-term management is held accountable to make business and investment decisions that account for changes in currency rates. Therefore, actual reported results are used for measuring performance for the Performance RSUs.

*Non-GAAP Measures.* EPS is a non-GAAP measure. ROIC is defined as net operating profit after tax divided by invested capital (which is defined as the sum of total debt and shareholder equity). Relative TSR is calculated as stock price appreciation plus reinvested dividends, where the stock price is defined as the 60-trading-day-average closing stock price immediately prior to the grant date and the vesting date.

| Metric   | Weight  | Performance Level Required to Achieve Payout at: |                  |                      |
|--|---------|--|------------------|----------------------|
|  |         | Threshold<br>(50%<br>of target)                  | Target<br>(100%) | Maximum<br>(200%)    |
| 3-Year Cumulative EPS: Fiscal 2013 Fiscal 2015 | 33 1/3% | \$ 12.55   | \$ 13.21         | <sup>3</sup> \$14.53 |
| 3-Year Relative TSR: 09/10/2012 09/10/2015     | 33 1/3% | 25 <sup>th</sup>                                 | 50 <sup>th</sup> | 75 <sup>th</sup>     |
|  |         | percentile                                       | percentile       | percentile           |
| 3-Year Average ROIC: Fiscal 2013 Fiscal 2015   | 33 1/3% | 14.5%  | 15%              | 15.5%                |

*Relative TSR Peer Group.* TSR is assessed relative to a group of companies shown below, which is different than the Pay Benchmarking Peer Group described in The Role of Benchmarking. The Compensation Committee selected this group of companies for the Relative TSR Peer Group because of the comparable nature of their business to our company's business. However, many of the companies are significantly larger or are not in the United States; as a result, many of these companies were not considered appropriate for assessing the target pay levels for the NEOs as part of the Pay Benchmarking Peer Group.

**Companies in the Relative TSR Peer Group (n=29)**

|                                     |                                 |                                 |                                |
|-------------------------------------|---------------------------------|---------------------------------|--------------------------------|
| Aisin Seiki Co.                     | Alpine Electronics, Inc.        | AU Optronics Corp.              | Audi AG                        |
| Bang & Olufsen A/S                  | Best Buy Co., Inc.              | BMW AG                          | Continental AG                 |
| Daimler AG                          | Denso Corporation               | Fiat Group Automobiles S.P.A.   | Flextronics International Ltd. |
| Fujikon Industrial Holdings Limited | Garmin Ltd.                     | Honda Motor Co. Ltd.            | Jabil Circuit, Inc.            |
| Johnson Controls, Inc.              | Live Nation Entertainment, Inc. | Media Markt                     | Nokia Corporation              |
| Panasonic Corporation               | Pioneer Electronics (USA), Inc. | Renesas Electronics Corporation | Texas Instruments Incorporated |
| Tom Tom International BV            | Toshiba Corporation             | Toyota Motor Corporation        | TRW Automotive Holdings Corp.  |

Yamaha Corp.

*Grant of September 2013 Awards (Fiscal 2014 Grant)*

In September 2013, we granted equity to our NEOs (the September 2013 Awards), which were structured in a largely similar way to the September 2012 Awards, with a few changes.

*Changes in Design.* In an effort to further enhance alignment with long-term stockholder value creation and to strengthen our pay-for-performance culture, the following changes were implemented for the September 2013 Awards as compared to the September 2012 Awards:

Increased the weighting of Performance RSUs from 50% of target LTI to 60% of target LTI, and decreased the weighting of Time RSUs from 50% of target LTI to 40% of target LTI; and

For the Performance RSUs (the 2013 Performance RSUs) we maintained the same three performance metrics (3-Year Cumulative EPS, 3-Year Relative TSR, and 3-Year Average ROIC), but determined that ROIC would be applied as a modifier, rather than a weighted factor, as further described below.

*Performance Measures.* The payout of the 2013 Performance RSUs will be determined as follows: EPS and Relative TSR will be equally weighted (50% each) to determine the initial payout. The initial payout will then be multiplied by a factor from 66.7% to 100% to determine the final payout. This factor will be determined based on our ROIC performance during the measurement period. The rationale for this change is to encourage management to pursue growth opportunities that are expected to produce returns above our cost of capital and are thus value-creating for stockholders.

*Performance Goals.* The 2013 Performance RSUs are subject to our company's achievement of the specified levels of performance shown in the table below. Straight-line interpolation is applied for performance between points shown in the table. If performance falls below the threshold level, no award will be paid with respect to that performance measure.

| Metric   | Weight | Performance Level Required to Achieve Initial Payout at: |                  |                      |
|--|--------|--|------------------|----------------------|
|  |        | Threshold<br>(50% of target)                             | Target<br>(100%) | Maximum<br>(200%)    |
| 3-Year Cumulative EPS: Fiscal 2014 Fiscal 2016 | 50%    | \$ 13.56   | \$ 15.07         | <sup>3</sup> \$15.82 |
| 3-Year Relative TSR: 09/10/2013 09/10/2016     | 50%    | 25 <sup>th</sup>   | 50 <sup>th</sup> | 75 <sup>th</sup>     |
|  |        | percentile   | percentile       | percentile           |

The Initial Payout is then multiplied by an ROIC modifier from 66.7% to 100% based on the following schedule:

| Metric                                       | Performance Level at Which Modifier will be Applied         |   |
|--|---|---|
|  | Multiply Initial Payout by 66.7%                            | Multiply Initial Payout by 100%   |
| 3-Year Average ROIC: Fiscal 2014 Fiscal 2016 | (33 1/3% reduction)<br>Less than 3-Year Average WACC<br>(1) | (No reduction)<br><sup>3</sup> (3-Year Average WACC + 1 percentage point) |

(1) 3-Year Average WACC is our company's weighted average cost of capital, calculated as the average WACC over the three-year measurement period.

We also modified the Relative TSR measurement approach to use the 40-trading-day-average closing stock price of our Common Stock at the beginning and end of the performance period rather than the 60-trading-day-average closing stock price of our Common Stock. All other terms of the September 2013 Awards not described in this section are consistent with the terms of the September 2012 Awards.



*Grant of September 2014 Awards (Fiscal 2015 Grant)*

In September 2014, we granted equity to our NEOs (the September 2014 Awards), which were structured the same way as the September 2013 Awards.

*Performance Measures.* The payout of the 2014 Performance RSUs will be determined as follows: EPS and Relative TSR will be equally weighted (50% each) to determine the initial payout. The initial payout will then be multiplied by a factor from 66.7% to 100% to determine the final payout. This factor will be determined based on our ROIC performance during the measurement period.

*Performance Goals.* The 2014 Performance RSUs are subject to our company's achievement of the specified levels of performance shown in the table below. Straight-line interpolation is applied for performance between points shown in the table. If performance falls below the threshold level, no award will be paid with respect to that performance measure.

| Metric   | Weight | Performance Level Required to Achieve Initial Payout at: |                  |                      |
|--|--------|--|------------------|----------------------|
|  |        | Threshold<br>(50% of target)                             | Target<br>(100%) | Maximum<br>(200%)    |
| 3-Year Cumulative EPS: Fiscal 2015 - Fiscal 2017 | 50%    | \$ 18.10   | \$ 20.11         | <sup>3</sup> \$21.12 |
| 3-Year Relative TSR: 09/9/2014 - 09/9/2017       | 50%    | 25 <sup>th</sup>   | 50 <sup>th</sup> | 75 <sup>th</sup>     |
|  |        | percentile   | percentile       | percentile           |

The Initial Payout is then multiplied by an ROIC modifier from 66.7% to 100% based on the following schedule:

| Metric   | Performance Level at Which Modifier will be Applied     |   |
|--|---|---|
|  | Multiply Initial Payout by 66.7%<br>(33 1/3% reduction) | Multiply Initial Payout by 100%<br>(No reduction)       |
| 3-Year Average ROIC: Fiscal 2015 - Fiscal 2017 | Less than 3-Year Average WACC                           | <sup>3</sup> (3-Year Average WACC + 1 percentage point) |

***Benefits, Perquisites, and Contracts***

*Employment Agreements and Offer Letters*

Since 2007, we have had an employment agreement in place with Mr. Paliwal. The employment agreement with Mr. Paliwal provides continuity and stability in leadership for the organization.

*Severance and Change in Control Arrangements*

In addition to the employment arrangement identified above, we also have entered into severance agreements with Mr. Paliwal and each of our other NEOs, which are detailed below under Executive Compensation Severance and Change in Control Benefits. These agreements provide for severance benefits in the event of a termination of employment under specified circumstances, including following a change in control of our company. The payout amounts under these agreements are as follows:

|                   | Severance Upon Qualifying Termination            |                               |
|-------------------|--|-------------------------------|
|                   | Not In Connection with a                         | Following a Change in Control |
| <b>CEO</b>        | Change in Control<br>Two times salary plus bonus | Three times salary plus bonus |
| <b>CFO</b>        | One times salary plus pro rata bonus             | Two times salary plus bonus   |
| <b>Other NEOs</b> | One times salary plus pro rata bonus             | One and one-half times salary |





If any severance payments or benefits provided to either Mr. Paliwal or Mr. Parker would be subject to the excise tax imposed on parachute payments by the Internal Revenue Code of 1986, we will gross-up his compensation for all such excise taxes and any federal, state and local taxes applicable to such gross-up payment. With respect to Mr. Paliwal and Mr. Parker, each will only receive this gross-up in the event his employment is terminated upon a change in control of our company. The Compensation Committee decided, in the exercise of its judgment, that our company would not provide this benefit to any of our other NEOs or any future executive officers.

Under the terms of our approved equity incentive plans and the related award agreements, unvested stock options, restricted shares and Time RSU awards become fully vested upon a change in control of our company. We adopted this treatment for our long-term compensation plan for the following reasons:

to fully align employees with stockholders in the event of a transaction that qualifies as a change in control;

to ensure that ongoing employees are treated the same as terminated employees with respect to outstanding equity grants; and

to retain key employees in the face of a potential change in control by providing a benefit if they remain with our company through the date of the change in control.

The Performance RSUs will partially vest upon a change in control of our company. If the change in control event occurs prior to the vesting date, the Performance RSUs will vest as follows:

60% vest automatically; and

a pro rata portion of the remaining 40% will vest based on the number of days lapsed from date of grant to the effective date of the change in control, divided by the three-year vesting period.

The Compensation Committee believes that these benefits are consistent with its objectives and are necessary and appropriate in order to attract and retain qualified senior executives.

#### *Employee Benefits*

We provide certain executive officers with supplemental retirement, termination and death benefits under our SERP. As of January 2008 we decided to suspend providing this benefit to newly hired or promoted executive officers. Mr. Mauser is entitled to an annual pension that is equal to two percent of eligible salary for every year of service, up to a maximum of 30%. This pension is payable at age 60 and is offset by a pension payable from the Harman/Becker Nokia plan in the amount of 3,396 Euro. The annual benefit will be increased by the cost of living rate, currently assumed to be 5.25%, every three years. We provide our executive officers employed in the United States, including our NEOs, with the opportunity to participate in our Deferred Compensation Plan ( DCP ). These plans are described below under the captions Executive Compensation Pension Benefits for Fiscal 2014 Supplemental Executive Retirement Plan and Executive Compensation Nonqualified Deferred Compensation.

Our NEOs are also eligible to participate in other company-sponsored benefit plans available to employees generally, including medical and life insurance. Employees, including executive officers that are employed in the United States, are eligible to participate in a company-sponsored 401(k) defined contribution plan.

The Compensation Committee believes that these benefits are necessary and appropriate in order to attract and retain qualified executive officers insofar as these benefits are generally made available by similarly situated companies.

#### *Executive Perquisites*

We provide our NEOs with certain perquisites that have historically been provided. These perquisites include the use of company owned or leased cars and reimbursement of car-related expenses, payment of insurance premiums, relocation expenses in the event an executive officer is asked to relocate at our request, reimbursement of legal fees, and rent for temporary housing.



The Compensation Committee has determined it is appropriate to provide these perquisites in order to attract and retain our NEOs by offering compensation opportunities that are competitive with those offered by similarly situated public companies. In determining the total compensation payable to our NEOs, the Compensation Committee considers perquisites in the context of the total compensation which our NEOs are eligible to receive, but is not materially influenced by the availability of these perquisites given the relatively minimal total amount of the perquisites provided. For a description of the perquisites received by our NEOs during fiscal 2014, see the information below under the caption Executive Compensation Summary Compensation Table All Other Compensation.

#### ***Clawback Policy***

Based on the Compensation Committee's recommendation and authorization, we adopted a new policy in fiscal 2013 addressing the adjustment or recovery of awards or payments if the relevant performance measures upon which they are based are restated or otherwise adjusted in a manner that would reduce the size of an award or payment. This policy, also known as a clawback policy, applies to all of our executive officers, including the NEOs. Under the policy, we may recover any incentive compensation paid to a current or former executive officer of our company in the event of a material negative accounting restatement of our financial statements due to material noncompliance by our company with any financial reporting requirement under the securities laws. If the Board determines that any current or former executive officer has engaged in fraud or intentional misconduct that caused the error that, directly or indirectly, resulted in the financial restatement, the Board may require reimbursement of all compensation granted, earned or paid under annual incentive and long-term incentive compensation plans, including cancellation of outstanding equity awards. We have not required any NEO to return any award or repay any payment received in any fiscal year.

#### ***Insider Trading (Anti-Hedging) Policy***

Our company has an insider trading policy, which includes an anti-hedging policy to ensure the desired stockholder alignment. The policy prohibits our directors and employees from trading in options, puts or similar instruments on our company's securities or selling our company's securities short.

#### ***Stock Ownership Guidelines***

The Board approved and adopted amended executive stock ownership guidelines in fiscal 2011 and further amended them in fiscal 2013. These guidelines encourage our executive officers to hold ownership in our company, recognizing that stock ownership directly aligns executive interests to those of our stockholders. The guidelines encourage ownership levels in our Common Stock generally equal to a multiple of each NEO's annual base salary depending on such executive's level within our company, and increases with greater responsibility. The executive officer stock ownership guidelines are as follows:

six times base salary for the CEO (increased from five times base salary in fiscal 2013); and

three times base salary for all other executive committee members, including our NEOs.

Our company's executive officers were expected to comply by December 21, 2013, or within five years of being appointed as an executive committee member of our company (Ownership Compliance Date). In the event that an executive officer does not satisfy the ownership guidelines by the Ownership Compliance Date, he or she will be required to retain any and all vested RSU shares, net of shares withheld for taxes, or shares received upon the exercise of stock options, net of shares withheld to cover taxes or the exercise price, until such time as he or she becomes compliant with these guidelines.

#### ***Internal Revenue Code Section 162(m)***

As applicable to our company, Section 162(m) of the Internal Revenue Code of 1986 (the Code) provides that compensation in excess of \$1 million paid to the chief executive officer or to any of the other three most

highly compensated executive officers (not including the chief financial officer) of a public company is not deductible for federal income tax purposes. There is an exception to this limitation for performance-based compensation under Section 162(m) of the Code. Bonus awards under our 2014 Key Executive Officers Bonus Plan (the 2014 Key Executive Plan ) and option grants and certain other awards under our equity incentive plans are intended to qualify as performance-based compensation under Section 162(m) of the Code. The Compensation Committee reviews on an annual basis the potential impact of this deduction limitation on executive compensation and intends to continue to evaluate our company's potential exposure to this deduction limitation. While we endeavor to use this exception to maximize the deductibility of our compensation, in order to maintain flexibility in compensating executives and to attract necessary leadership in certain circumstances, we have not adopted a policy that all compensation must be deductible. We do not believe that such a policy is in the best interests of our company or our stockholders.

### **Compensation Risk Assessment**

The Compensation Committee does not believe that any risks arising from our compensation policies and practices are reasonably likely to have a material adverse effect on our company. The Compensation Committee considered various factors that have the effect of mitigating risk and, with the assistance of ClearBridge, reviewed our compensation policies and practices for our employees, including the elements of our executive compensation programs, to determine whether any portion of such compensation encourages excessive risk taking. The Compensation Committee concluded that any such risks are mitigated by:

*Balanced Mix of Pay Components:* Compensation is not overly weighted toward annual incentive awards and represents a balance of cash and long-term equity based compensation vesting over three years.

*Balanced Approach to Performance-Based Awards:* Performance targets are tied to several financial metrics, including sales growth, operating profit, free cash flow, and return on invested capital.

*Performance Period and Vesting Schedules:* The performance period and vesting schedules for long-term incentives overlap and, therefore, reduce the motivation to maximize performance in any one period. RSUs vest three years from the grant date.

*Stock Ownership Guidelines:* Requires our CEO to directly or indirectly own equity in our company having a fair market value of six times his salary and other executive officers, including our NEOs, to own equity having a fair market value of three times their salary.

### **COMPENSATION AND OPTION COMMITTEE REPORT**

The Compensation and Option Committee has reviewed and discussed with management the Compensation Discussion and Analysis. Based on that review and discussion, the Compensation and Option Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and in our Annual Report on Form 10-K for the fiscal year ended June 30, 2014.

This report is submitted by the members of the Compensation and Option Committee.

#### *Members of the Compensation and Option Committee*

Edward H. Meyer (Chairman)

Adriane M. Brown

Hellene S. Runtagh

Frank S. Sklarsky

Gary G. Steel

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The foregoing report is not soliciting material, is not deemed filed with the SEC and is not to be incorporated by reference in any filing of our company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

## EXECUTIVE COMPENSATION

## Summary Compensation Table

The following table discloses all compensation earned for fiscal 2014, fiscal 2013 and fiscal 2012 by our Chairman, Chief Executive Officer and President, our Chief Financial Officer, and the three other most highly paid executive officers who were employed by us as of June 30, 2014. We refer to these individuals as our named executive officers or NEOs.

| Name and Principal Position   | Year | Salary       | Bonus | Stock Awards(1) | Option Awards(2) | Non-Equity Incentive Plan Compensation(3) | Change in Pension and Nonqualified Deferred Compensation(4) | All Other Compensation(4) | Total         |
|---|------|--------------|-------|-----------------|------------------|---|---|---------------------------|---------------|
|   |      |              |       |                 |                  |   | Compensation(4)   |                           |               |
| Dinesh Paliwal,<br>Chairman, CEO and President                                    | 2014 | \$ 1,193,513 | 0     | \$ 5,748,594    | \$ 0             | \$ 3,580,539                              | \$ 1,358,545  | \$ 84,330                 | \$ 11,965,521 |
|   | 2013 | 1,216,465    | 0     | 5,325,658       | 0                | 0   | 2,110,951   | 110,337                   | 8,763,411     |
|   | 2012 | 1,186,828    | 0     | 5,242,429       | 0                | 4,774,052                                 | 4,755,252   | 113,931                   | 16,072,492    |
| Herbert Parker,<br>Executive Vice President and Chief Financial Officer           | 2014 | 560,000      | 0     | 1,393,876       | 0                | 840,000                                   |   | 34,657                    | 2,828,533     |
|   | 2013 | 565,086      | 0     | 1,108,117       | 0                | 0   |   | 34,507                    | 1,707,710     |
|   | 2012 | 527,479      | 0     | 1,000,627       | 0                | 784,536                                   |   | 34,357                    | 2,346,999     |
| Blake Augsburger,<br>Executive Vice President and President Professional Division | 2014 | 484,500      | 0     | 1,140,379       | 0                | 660,142                                   | 225,942   | 30,570                    | 2,541,533     |
|   | 2013 | 461,477      | 0     | 886,453         | 0                | 0   | 69,195  | 30,107                    | 1,447,232     |
|   | 2012 | 465,194      | 0     | 817,600         | 0                | 238,911                                   | 406,290   | 31,856                    | 1,959,851     |
| Sachin Lawande,<br>Executive Vice President and President Infotainment Division   | 2014 | 501,154      | 0     | 1,393,876       | 0                | 725,985                                   |   | 37,338                    | 2,658,353     |
|   | 2013 | 461,730      | 0     | 1,019,491       | 0                | 0   |   | 37,338                    | 1,518,559     |
|   | 2012 | 451,977      | 0     | 1,000,627       | \$ 1,347,216     | 664,539                                   |   | 33,410                    | 3,497,769     |
| Michael Mauser,<br>Executive Vice President and President Lifestyle Division(5)   | 2014 | 518,990      | 0     | 1,267,129       | 0                | 549,879                                   | 310,098   | 43,596                    | 2,689,692     |
|   | 2013 | 492,539      | 0     | 1,019,491       | 0                | 0   | 78,480  | 42,430                    | 1,632,940     |
|   | 2012 | 495,014      | 0     | 817,600         | 0                | 705,518                                   | 245,605   | 38,891                    | 2,302,628     |

- (1) For all stock awards (other than the Performance RSUs), we calculated the fair value of such stock awards under FASB ASC Topic 718 by multiplying the closing price of our Common Stock on the date of grant by the number of shares subject to such stock award. We assume zero anticipated forfeitures in connection with valuing such stock awards for purposes of FASB ASC Topic 718. For the Performance RSUs, we estimated fair value based on a model that considers the closing price of our Common Stock on the date of grant, the number of shares subject to such stock award, and the estimated probabilities of vesting outcomes. For a description of the assumptions used in determining the fair value of equity awards under FASB ASC Topic 718, see Note 14, *Shareholders' Equity and Share-Based Compensation*, to our consolidated financial statements in our Form 10-K for the fiscal year ended June 30, 2014. Performance RSUs are displayed assuming target performance. The following amounts represent the maximum potential Performance RSU value by individual for the awards made in fiscal 2014: Mr. Paliwal \$5,445,781; Mr. Parker \$1,338,459; Mr. Augsburger \$1,095,079; Mr. Lawande \$1,338,459; and Mr. Mauser \$1,216,769.
- (2) The amounts reported as option awards reflect the grant date fair value calculated in accordance with FASB ASC Topic 718 of options granted in the applicable fiscal year but without giving effect to anticipated forfeitures. For a description of the assumptions used in determining the fair value of equity awards under FASB ASC Topic 718, see Note 14, *Shareholders' Equity and Share-Based Compensation*, to our consolidated financial statements in our Form 10-K for the fiscal year ended June 30, 2014.
- (3) The amount reflected in this column represents an award under the 2014 Key Executive Plan for fiscal year 2014 and the 2008 Key Executive Officers Bonus Plan (the 2008 Key Executive Plan) for fiscal years 2012 and 2013.
- (4) Includes compensation as described under the caption All Other Compensation below.
- (5) Mr. Mauser's compensation was paid in Euros and has been translated into U.S. Dollars at the exchange rate in effect on June 30, 2014 in the case of bonus payment, and at the average exchange rate for the 12 months ended June 30, 2014 in the case of salary and other compensation amounts.

**All Other Compensation**

The following table provides information regarding each component of compensation included in the All Other Compensation column in the Summary Compensation Table for fiscal 2014.

| Name           | Company 401(k) Contributions(1) | Value of Insurance Premiums(2) | Automobile Related Expenses(3) | Other(4) | Total     |
|----------------|---------------------------------|--------------------------------|--------------------------------|----------|-----------|
| Dinesh Paliwal | \$ 7,800                        | \$ 43,200                      | \$ 28,355                      | \$ 4,975 | \$ 84,330 |
| Herbert Parker | 7,800                           | 972                            | 24,793                         | 1,092    | 34,657    |
| Blake Augsburg | 8,136                           | 922                            | 21,512                         | 0        | 30,570    |
| Sachin Lawande | 8,110                           | 955                            | 25,308                         | 1,842    | 37,338    |
| Michael Mauser | 0                               | 5,210                          | 29,346                         | 9,040    | 43,596    |

- (1) Represents our contributions on behalf of each named executive officer, to our 401(k) defined contribution plan.
- (2) For Messrs. Parker, Augsburg and Lawande the amount in this column represents life insurance premiums paid by us for coverage in excess of \$50,000. For Mr. Paliwal, represents life insurance premiums paid by us for coverage in excess of \$50,000 and premiums paid for a life insurance policy, an accidental death and dismemberment insurance policy and a long-term disability insurance policy. For Mr. Mauser, represents accident and health insurance premiums.
- (3) Includes reimbursement of car payments or lease payments made on behalf of our NEOs, reimbursement of gasoline, repair and maintenance costs, taxes, insurance and parking.
- (4) For Mr. Paliwal, represents imputed income covering gas allowance and spouse/guest travel on the corporate jet. For Mr. Parker, represents imputed income covering gas allowance. For Mr. Lawande, represents imputed income covering gas allowance and spouse/guest travel on the corporate jet and a bonus for an issued patent under our company's patent bonus program. For Mr. Mauser, represents the employer's contribution to a German pension insurance fund.

**Fiscal 2014 Grants of Plan-Based Awards**

The following table shows all plan-based awards granted to the NEOs in fiscal 2014.

| Name           | Grant Date | Date of Board or Committee Action | Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1) |            |             | Estimated Future Payouts Under Equity Incentive Plan Awards(2) |        |         | All Other Stock Awards; Number of Shares of Stock or Units(3) | Grant Date Fair Value of Stock and Option Awards(\$) |
|----------------|------------|-----------------------------------|--|------------|-------------|--|--------|---------|---|--|
|                |            |                                   | Threshold(\$)  | Target(\$) | Maximum(\$) | Threshold  | Target | Maximum |   |  |
| Dinesh Paliwal | 9/10/2013  | 9/10/2013                         |  |            |             |  |        |         | 27,462  | 1,815,238(4)   |
|                | 9/10/2013  | 9/10/2013                         |  |            |             | 20,597   | 41,194 | 82,387  |   | 3,933,356(5)   |
|                | 9/10/2013  | 9/10/2013                         | 1,193,513  | 2,387,026  | 3,580,539   |  |        |         |   |  |
| Herbert Parker | 9/10/2013  | 9/10/2013                         |  |            |             |  |        |         | 6,750   | 446,175(4)   |
|                | 9/10/2013  | 9/10/2013                         |  |            |             | 5,062  | 10,125 | 20,249  |   | 947,701(5)   |
|                | 9/10/2013  | 9/10/2013                         | 210,000  | 420,000    | 840,000     |  |        |         |   |  |
| Blake Augsburg | 9/10/2013  | 9/10/2013                         |  |            |             |  |        |         | 5,522   | 365,004(4)   |
|                | 9/10/2013  | 9/10/2013                         |  |            |             | 4,142  | 8,284  | 16,567  |   | 775,375(5)   |
|                | 9/10/2013  | 9/10/2013                         | 179,250  | 358,500    | 717,000     |  |        |         |   |  |
| Sachin Lawande | 9/10/2013  | 9/10/2013                         |  |            |             |  |        |         | 6,750   | 446,175(4)   |
|                | 9/10/2013  | 9/10/2013                         |  |            |             | 5,062  | 10,125 | 20,249  |   | 947,701(5)   |
|                | 9/10/2013  | 9/10/2013                         | 191,250  | 382,500    | 765,000     |  |        |         |   |  |
| Michael Mauser | 9/10/2013  | 9/10/2013                         |  |            |             |  |        |         | 6,136   | 405,590(4)   |
|                | 9/10/2013  | 9/10/2013                         |  |            |             | 4,602  | 9,204  | 18,408  |   | 861,539(5)   |
|                | 9/10/2013  | 9/10/2013                         | 196,385  | 392,771    | 785,541     |  |        |         |   |  |



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- (1) Represents the possible range of awards payable under the 2014 Key Executive Plan to all our NEOs. For additional information regarding these awards, see Compensation Discussion and Analysis Compensation Program Details Annual Incentive Plan Design.
- (2) Represents the possible range of Performance RSUs that vest on September 10, 2016 if certain performance goals are achieved. The determination of the number of Performance RSUs that will vest is more fully described above under Compensation Discussion and Analysis Compensation Program Details Long-Term Incentive Plan Design Grant of September 2013 Awards (Fiscal 2014 Grant).
- (3) Represents Time RSUs that vest on September 10, 2016.
- (4) Represents the grant date fair value of the equity awards reported in the previous column calculated pursuant to FASB ASC Topic 718 based upon the assumptions set forth in Note 14, *Shareholders Equity and Share-Based Compensation*, to our consolidated financial statements in our Form 10-K for the fiscal year ended June 30, 2014.
- (5) Represents the grant date fair value of the Performance RSUs based upon the probable outcome of the performance conditions, excluding the effect of estimated forfeitures. Assuming that the maximum performance threshold is achieved, the grant date fair value of the award would be as follows: Mr. Paliwal \$5,445,781; Mr. Parker \$1,338,459; Mr. Augsburger \$1,095,079; Mr. Lawande \$1,338,459; and Mr. Mauser \$1,216,769.

**Employment Agreements and Other Employment Arrangements**

Mr. Paliwal serves as our Chairman, Chief Executive Officer and President pursuant to a letter agreement with our company entered into in May 2007. The letter agreement, as amended, provides for an annual base salary of no less than \$1,125,000, and a target annual incentive award of 200% of his base salary, with a maximum annual incentive award opportunity of 400% of his base salary, which maximum annual incentive award opportunity was decreased to 300% of his base salary as of fiscal 2013.

Mr. Paliwal is also permitted to participate in our employee benefit plans and programs. For a description of severance compensation payable to Mr. Paliwal under this agreement and his severance agreement, see below under Executive Compensation Severance and Change in Control Benefits Severance and Employment Agreements.

**Outstanding Equity Awards at 2014 Fiscal Year-End**

The following table provides information regarding stock options, restricted shares and RSUs held by our NEOs that were outstanding at June 30, 2014.

| Name             | Option Grant Date | Option Awards                               |  |                       |                        | Stock Awards  |  |
|------------------|-------------------|---|--|-----------------------|------------------------|---|--|
|                  |                   | Number of Securities Underlying Unexercised | Number of Securities Underlying Unexercised Option | Option Exercise Price | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested | Market Value of Shares or Units of Stock That Have Not Vested(2) |
| Dinesh Paliwal   | 07/02/2007        | 100,000                                     | 0  | \$ 116.65             | 07/02/2017             |   |  |
|                  |                   |   |  |                       |                        | 68,622(3)   | \$ 7,372,061   |
|                  |                   |   |  |                       |                        | 137,274(4)  | 14,747,346   |
|                  |                   |   |  |                       |                        | 51,814(5)   | 5,566,378  |
|                  |                   |   |  |                       |                        | 103,658(6)  | 11,135,979   |
|                  |                   |   |  |                       |                        | 27,462(7)   | 2,950,243  |
|                  |                   |   |  |                       |                        | 82,387(8)   | 8,850,835  |
| Herbert Parker   |                   |   |  |                       |                        | 13,091(3)   | 1,406,366  |
|                  |                   |   |  |                       |                        | 26,212(4)   | 2,815,955  |
|                  |                   |   |  |                       |                        | 10,845(5)   | 1,165,078  |
|                  |                   |   |  |                       |                        | 21,720(6)   | 2,333,380  |
|                  |                   |   |  |                       |                        | 6,750(7)  | 725,153  |
|                  |                   |   |  |                       |                        | 20,249(8)   | 2,175,350  |
| Blake Augsburger | 08/16/2005        | 6,000                                       | 0  | 82.00                 | 08/16/2015             |   |  |
|                  | 06/01/2006        | 10,000                                      | 0  | 85.36                 | 06/01/2016             |   |  |
|                  | 05/01/2007        | 25,000                                      | 0  | 120.83                | 05/01/2017             |   |  |
|                  |                   |   |  |                       |                        | 10,695(3)   | 1,148,964  |
|                  |                   |   |  |                       |                        | 21,420(4)   | 2,301,151  |
|                  |                   |   |  |                       |                        | 8,674(5)  | 931,848  |
|                  |                   |   |  |                       |                        | 17,378(6)   | 1,866,919  |
|                  |                   |   |  |                       |                        | 5,522(7)  | 593,228  |
|                  |                   |   |  |                       |                        | 16,567(8)   | 1,779,793  |
| Sachin Lawande   | 05/01/2007        | 6,000                                       | 0  | 120.83                | 05/01/2017             |   |  |
|                  | 03/29/2012        | 0   | 20,758   | 46.74                 | 03/29/2022             |   |  |
|                  |                   |   |  |                       |                        | 13,091(3)   | 1,406,366  |
|                  |                   |   |  |                       |                        | 26,212(4)   | 2,815,955  |
|                  |                   |   |  |                       |                        | 9,977(5)  | 1,071,829  |
|                  |                   |   |  |                       |                        | 19,984(6)   | 2,146,881  |
|                  |                   |   |  |                       |                        | 6,750(7)  | 725,153  |
|                  |                   |   |  |                       |                        | 20,249(8)   | 2,175,350  |
| Michael Mauser   | 05/01/2007        | 5,000                                       | 0  | 120.83                | 05/01/2017             |   |  |
|                  |                   |   |  |                       |                        | 10,695(3)   | 1,148,964  |
|                  |                   |   |  |                       |                        | 21,420(4)   | 2,301,151  |
|                  |                   |   |  |                       |                        | 9,977(5)  | 1,071,829  |
|                  |                   |   |  |                       |                        | 19,984(6)   | 2,146,881  |
|                  |                   |   |  |                       |                        | 6,136(7)  | 659,190  |
|                  |                   |   |  |                       |                        | 18,408(8)   | 1,977,571  |

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- (1) All the non-performance-based stock options held by our NEOs that were granted prior to February 2, 2009, vest annually at a rate of 20% commencing on the first anniversary of the date of grant. Non-performance-based stock options held by our NEOs that were granted after February 2, 2009 vest annually at a rate of  $33\frac{1}{3}\%$  commencing on the first anniversary of the date of grant.

- (2) Based upon a market value per share of \$107.43, the closing market price of our Common Stock on June 30, 2014, the last trading day of our fiscal year ended June 30, 2014.
- (3) The RSUs vest on September 7, 2014.
- (4) The Performance RSUs vest on September 7, 2014. The number of Performance RSUs that will vest is subject to adjustment based on our achievement of pre-established performance goals. The performance measures for the Performance RSUs are earnings per share ( EPS ), return on invested capital ( ROIC ) and relative total shareholder return ( TSR ). The number of Performance RSUs that will vest with respect to each performance measure will be determined as follows: (i) no Performance RSUs will be earned for performance below the threshold level for the measure, (ii) 50% of the target Performance RSUs will be earned upon achievement of the threshold level for the measure, (iii) 200% of the target Performance RSUs will be earned upon achievement of the maximum level for the measure, and (iv) for performance between threshold and target and target and maximum, the number of Performance RSUs earned for each measure will be determined by straight-line interpolation. Number of Performance RSUs shown in the table above represents the maximum number of Performance RSUs (200% of target).
- (5) The RSUs vest on September 10, 2015.
- (6) The Performance RSUs vest on September 10, 2015. The number of Performance RSUs that will vest is subject to adjustment based on our achievement of pre-established performance goals. The performance measures for the Performance RSUs are EPS, ROIC and relative TSR. The number of Performance RSUs that will vest with respect to each performance measure will be determined as follows: (i) no Performance RSUs will be earned for performance below the threshold level for the measure, (ii) 50% of the target Performance RSUs will be earned upon achievement of the threshold level for the measure, (iii) 200% of the target Performance RSUs will be earned upon achievement of the maximum level for the measure, and (iv) for performance between threshold and target and target and maximum, the number of Performance RSUs earned for each measure will be determined by straight-line interpolation. Number of Performance RSUs shown in the table above represents the maximum number of Performance RSUs (200% of target).
- (7) The RSUs vest on September 10, 2016.
- (8) The Performance RSUs vest on September 10, 2016 if certain performance goals are achieved. The determination of the number of Performance RSUs that will vest is more fully described above under Compensation Discussion and Analysis Compensation Program Details Long-Term Incentive Plan Design Grant of September 2013 Awards (Fiscal 2014 Grant).

**Option Exercises and Stock Vested in Fiscal 2014**

The following table provides information regarding the acquisition of Common Stock by Messrs. Paliwal, Parker, Augsburger, Lawande and Mauser upon the vesting of RSUs and the exercise of stock options during fiscal 2014.

| Name             | Option Awards                         |                            | Stock Awards                         |                              |
|------------------|---------------------------------------|----------------------------|--------------------------------------|------------------------------|
|                  | Number of Shares Acquired on Exercise | Value Realized on Exercise | Number of Shares Acquired on Vesting | Value Realized on Vesting(1) |
| Dinesh Paliwal   | 100,000                               | \$ 1,630,879.86            | 175,086                              | \$ 11,209,005.72             |
| Herbert Parker   | 122,298                               | 2,920,501.92               | 32,862                               | 2,103,825.24                 |
| Blake Augsburger | 6,000                                 | 159,502.36                 | 28,970                               | 1,854,659.40                 |
| Sachin Lawande   | 52,520                                | 2,371,500.42               | 28,970                               | 1,854,659.40                 |
| Michael Mauser   | 5,800                                 | 140,152.00                 | 28,970                               | 1,854,659.40                 |

- (1) Includes (i) for Mr. Paliwal, 175,086 RSUs that vested on September 1, 2013, for which the amount realized on vesting is based on a value per share of \$64.02, the closing price of our Common Stock on August 30, 2013; (ii) for Mr. Parker, 32,862 RSUs that vested on September 1, 2013, for which the amount realized on vesting is based on a value per share of \$64.02, the closing price of our Common Stock on August 30, 2013; (iii) for Mr. Augsburger, 28,970 RSUs that vested on September 1, 2013, for which the amount realized on vesting is based on a value per share of \$64.02, the closing price of our Common Stock on August 30, 2013; (iv) for Mr. Lawande, 28,970 RSUs that vested on September 1, 2013, for which the amount realized on vesting is based on a value per share of \$64.02, the closing price of our Common Stock on August 30, 2013; and (v) for Mr. Mauser, 28,970 RSUs that vested on September 1, 2013, for which the amount realized on vesting is based on a value per share of \$64.02, the closing price of our Common Stock on August 30, 2013.

**Pension Benefits for Fiscal 2014**

The following table provides information for our NEOs regarding the present value of benefits as of June 30, 2014 under our SERP and a German pension plan.

| Name                | Plan Name      | Number of Years Credited Service | Present Value of Accumulated Benefit(4) | Payments During Last Fiscal Year |
|---------------------|----------------|----------------------------------|---|----------------------------------|
| Dinesh Paliwal(1)   | SERP           | 28                               | \$ 12,965,956                           | \$ 0                             |
| Blake Augsburger(2) | SERP           | 12                               | 1,297,714                               | 0                                |
| Michael Mauser(3)   | German Pension | 9                                | 1,159,207                               | 0                                |

- (1) As of June 30, 2014, Mr. Paliwal had seven years of service with our company. Under his letter agreement, Mr. Paliwal was credited with service, which reflected his tenure at his previous employer. The present value of Mr. Paliwal's pension benefits at June 30, 2014 increased by \$1,358,545 as compared to the previous year.
- (2) Mr. Augsburger is not yet eligible for this benefit because he has 12 years of service and the SERP balance vests after the completion of 15 years of service.
- (3) Mr. Mauser is entitled to an annual pension that is equal to two percent of eligible salary for every year of service, up to a maximum of 30%. The annual benefit will be increased by the cost of living rate, currently assumed to be 5.25%, every three years.
- (4) Amounts reported comprise the actuarial present value of the NEO's accumulated benefit under the SERP as of June 30, 2014. See Note 17, *Retirement Benefits*, to our consolidated financial statements in our Form 10-K for the fiscal year ended June 30, 2014, for information regarding the assumptions made in determining these values.

**Supplemental Executive Retirement Plan**

The SERP provides supplemental retirement, termination and death benefits to certain executive officers and key employees designated by the Board. Benefits under the SERP payable upon termination or death are



described below under the caption Executive Compensation Severance and Change in Control Benefits Supplemental Executive Retirement Plan. The Compensation Committee administers the SERP. Of the NEOs, only Mr. Paliwal and Mr. Augsburgberger have been designated as participants. All SERP benefits are subject to deductions for social security and federal, state and local taxes.

Retirement benefits are based on the average of the participant's highest cash compensation (base salary and bonus) during any five consecutive years of employment by our company (Average Cash Compensation). Participants retiring at age 65 or older receive an annual retirement benefit equal to either (a)  $3\frac{1}{3}\%$  of Average Cash Compensation per year of service up to a maximum of 50%, or (b) 2% of Average Cash Compensation per year of service up to a maximum of 30%, as designated by our company. Mr. Paliwal has been designated as a participant entitled to receive an annual retirement benefit of up to 50% of Average Cash Compensation, and Mr. Augsburgberger has been designated as a participant entitled to receive an annual retirement benefit of up to 30% of Average Cash Compensation. Unless another form of payment is approved by the administrative committee for the SERP, benefits are payable monthly in the form of a life annuity. If the participant dies after benefits have commenced but prior to receiving ten years of benefits, they are paid to the participant's beneficiary for the remainder of that period.

Mr. Mauser is entitled to an annual pension that is equal to two percent of eligible salary for every year of service, up to a maximum of 30%. This pension is payable at age 60 and is offset by a pension payable from the Harman/Becker Nokia plan in the amount of 3,396 Euro. The annual benefit will be increased by the cost of living rate, currently assumed to be 5.25%, every three years.

### **Nonqualified Deferred Compensation**

Our DCP provides supplemental retirement benefits for executive officers designated by the Compensation Committee. Prior to the beginning of each fiscal year, each plan participant may elect to defer up to 100% of his or her annual base salary and bonus on a pre-tax basis to a deferral account. These amounts are always fully vested and subject to a 10% penalty on any unscheduled withdrawals. We may decide to make contributions on a pre-tax basis to a plan participant's account, subject to a vesting schedule. In the event of a change in control of our company, any unvested amounts vest immediately and we indemnify the plan participant for any expense incurred in enforcing his or her rights under the DCP.

Plan participants specify that portion of their accounts to be deemed invested in designated benchmark funds. This may be changed once in any calendar month by the plan participant. We credit earnings to the accounts based on the rate of return of the designated funds. For fiscal 2014, the designated funds produced returns ranging from 0.01% to 30.06%. Upon retirement or termination of employment other than due to death, plan participants may receive their account balances in the form of a lump-sum payment or in annual installments. In the event of death prior to the commencement of benefits or during payment of installments, the balances in a plan participant's vested accounts as of the date of death are payable to the plan participant's beneficiaries.

None of our NEOs made contributions to our DCP in fiscal 2014, and none of our NEOs has made contributions to such plan in the past.

### **Severance and Change in Control Benefits**

We provide benefits to each of our NEOs in the event his employment is terminated. We provide these benefits through our SERP, 2014 Key Executive Plan and employment and severance agreements we have entered into with our NEOs.

*Severance and Employment Agreements*

We have entered into severance agreements with each of Messrs. Paliwal, Parker, Augsburger, Lawande and Mauser (CIC Agreement). Mr. Paliwal's CIC Agreement provides that if, within six months prior to or two years following a change in control, as defined below, of our company, Mr. Paliwal is terminated without cause, as defined below, or under certain circumstances terminates his own employment, he is entitled to receive a severance payment. The CIC Agreements for the other NEOs, as amended, provide that if within two years following a change in control a NEO is terminated without cause or under certain circumstances terminates his own employment, he is entitled to receive a severance payment. For Mr. Paliwal, the severance payment is equal to three times the sum of Mr. Paliwal's highest annual base salary during any period prior to his termination plus his highest annual cash incentive pay during the three fiscal years preceding the change in control. For Mr. Parker, the severance payment is equal to two times the sum of Mr. Parker's highest annual base salary during any period prior to his termination plus his highest annual cash incentive pay during the three fiscal years preceding the change in control. For each of Messrs. Augsburger, Lawande and Mauser, the severance payment is equal to one and one-half times his highest annual base salary during any period prior to his termination.

Each of Mr. Paliwal and Mr. Parker is deemed to have been terminated without cause if he is terminated by us for any reason other than:

conviction of a felony; or

willful gross neglect or willful gross misconduct with respect to employment duties which results in material economic harm to us. Each of our other NEOs is deemed to have been terminated without cause if he is terminated by us for any reason other than:

conviction of a criminal violation involving fraud, embezzlement or theft in connection with his duties or in the course of his employment with us;

intentional wrongful damage to property of our company or of any subsidiary;

intentional wrongful disclosure of secret processes or confidential information of our company or of any subsidiary; or

intentional wrongful engagement in any competitive activity;  
and any such act shall have been demonstrably and materially harmful to our company.

Each of our NEOs is entitled to severance compensation if he terminates his employment within two years following a change in control (and for Mr. Paliwal, six months prior to or two years following a change in control) under the following circumstances:

failure to maintain his position (or one substantially equivalent) with our company;

significant adverse change in authority, power, function, responsibilities or duties;

reduction in base salary and bonus;

termination or reduction in employee benefits;



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a subsequent change in control of our company in which the successor company does not assume all of our duties and obligations under the severance agreement;

relocation of his principal place of work of more than 50 miles or that requires him to travel away from his office 20% or more than was required in any of the three years immediately prior to the change in control; or

as to Mr. Paliwal only, for any reason in the thirteenth month following the change in control after a one year transition period.

In addition, each of Mr. Paliwal and Mr. Parker is entitled to severance compensation if he terminates his employment within six months prior to the change in control for good reason, which includes the following circumstances:

reduction in base salary and bonus;

as to Mr. Paliwal only, failure by our stockholders to elect or reelect him as a member of the Board;

diminution in any titles or a material diminution in duties or responsibilities; or

change in reporting relationship.

A change in control is defined as:

the acquisition by any person, entity or group of 25% or more of our voting stock, other than an acquisition by us or our subsidiaries or a company benefit plan, other than in a transaction that is not deemed a change in control as defined in the next bullet;

a reorganization, merger, consolidation, sale or other disposition of all or substantially all of our assets, or any other transaction having a similar effect unless:

the holders of our voting stock immediately prior to the transaction beneficially own more than 50% of the combined voting power of the surviving entity;

no person, entity or group beneficially owns 25% or more of the combined voting power of the surviving entity;

a majority of the directors of the surviving entity were directors of our company prior to the transaction;

when a majority of our directors (a) have not been approved by two-thirds of our then directors or (b) were elected or appointed as a result of an actual or threatened election contest; or

approval by our stockholders of a complete liquidation or dissolution of our company.

Each of the severance agreements for Mr. Paliwal and Mr. Parker also provides that we will pay an additional amount for Section 4999 excise taxes, subject to a limitation based on the overall cost of the severance agreement, including any additional gross-up payment for excise taxes, if applicable.

We have also entered into a letter agreement with Mr. Paliwal ( Paliwal Agreement ) and severance agreements with Messrs. Parker, Augsburg and Lawande ( Severance Agreement ). The provisions of the Paliwal Agreement provide for severance compensation if he is terminated without cause or if he terminates his employment for good reason. Mr. Paliwal is entitled to receive a severance payment equal to (1) two times the sum of his annual base salary plus his target annual bonus at the time of his termination, (2) a pro rata annual bonus based on actual performance for the portion of the fiscal year he was employed, (3) any unpaid bonus for the fiscal year preceding the year of termination, and (4) accelerated vesting of a pro rata number of any unvested restricted shares of the restricted stock award, inducement stock award and stock option award he received upon joining our company. The provisions of the Severance Agreements provide for severance compensation if the NEO is terminated without cause, or terminates his employment for good reason. Each NEO is entitled to receive a severance payment equal to (1) one time his annual base salary plus (2) a pro rata annual bonus based on actual performance for the portion of the fiscal year he was employed. The terms

cause, good reason and change in control under the Paliwal Agreement and Severance Agreements are defined in the same manner as they are defined in the CIC Agreements. Additionally, the terms of these severance arrangements for each of our NEOs provides that the NEO shall not engage in any competitive activity, as defined in such agreements, without our written consent, during the term of such agreement and for a period of one year after his employment is terminated.

### ***Supplemental Executive Retirement Plan***

Mr. Paliwal and Mr. Augsburger are eligible for benefits under the SERP in the event of a change in control of our company or termination of employment under certain circumstances. Benefits payable under the SERP are based on the average of the participant's highest Average Cash Compensation during any five consecutive years of employment by our company.

A participant whose employment is terminated prior to age 65 with at least 15 years of service, and who is not otherwise entitled to retirement benefits under the SERP, is entitled to an annual termination benefit equal to either (a) 30% of Average Cash Compensation, increased by 4% for each year of service over 15 years, up to a maximum of 50%, or (b) 15% of Average Cash Compensation, increased by 3% for each year of service over 15 years, up to a maximum of 30%, as designated by our company. The termination benefit commences upon the later of termination of the participant's employment, other than due to death, or the participant reaching age 55, except that with respect to Mr. Paliwal, the full termination benefit commences upon the later of termination of the participant's employment, other than due to death, or Mr. Paliwal reaching age 65. Mr. Paliwal will be entitled to receive a partial termination benefit if his employment terminates between the ages of 55 and 65. Mr. Paliwal has been designated as a participant entitled to receive an annual termination benefit of up to 50% of Average Cash Compensation and Mr. Augsburger has been designated as a participant entitled to receive an annual termination benefit of up to 30% of Average Cash Compensation.

Additionally, if a participant's employment is terminated for any reason other than death within three years after a change in control of our company, the participant vests with the maximum designated retirement benefit regardless of age or years of service and we indemnify the participant for any expense incurred in enforcing the participant's rights in the retirement benefit under the SERP. Under the SERP, a change in control is defined in the same manner as under Mr. Paliwal's severance agreement, as described above.

A pre-retirement death benefit equal to two or three times the highest annual cash compensation earned by a participant during his or her employment with our company is paid to the beneficiaries of a participant who dies prior to the commencement of benefits under the SERP. Mr. Paliwal has been designated as a participant entitled to receive a death benefit equal to three times his highest annual cash compensation, and Mr. Augsburger has been designated as a participant entitled to receive a death benefit equal to two times his highest annual cash compensation. The benefit is paid to the participant's designated beneficiary in a single lump sum or, at the request of the beneficiary and with the consent of the SERP's administrative committee, the benefit may be paid in another form providing the actuarial equivalent of the lump-sum payment.

### ***2014 Key Executive Officers Bonus Plan***

In the event of a change in control of our company, each participant in the 2014 Key Executive Plan is entitled to the pro-rated award amount of the executive's target award amount for that fiscal year, provided that he or she is employed by us at the time of the change in control or, if the plan participant is no longer employed by us, the participant's employment is terminated after commencement of discussions that resulted in a change in control of our company but within 180 days prior to the change in control. Under this plan, a change in control is defined in the same manner as under Mr. Paliwal's severance agreement, as described above.

### ***Summary of Benefits***

The following tables quantify potential compensation that would become payable to each of Messrs. Paliwal, Parker, Augsburger, Lawande and Mauser, under the agreements and our plans and policies discussed above, if his employment had terminated on June 30, 2014, given his base salary as of that date and, if applicable, the closing price of our Common Stock on June 30, 2014.

Due to the factors that may affect the amount of any benefits provided upon the events described below, any actual amounts paid or payable may be different than those shown in these tables. Factors that could affect these amounts include the date the termination event occurs, the base salary of an executive officer on the date of termination of employment and the price of our Common Stock when the termination event occurs.

**Dinesh Paliwal**

|  | Cash Severance<br>Payments(\$) | Tax Gross Up<br>Payments (\$) | Acceleration<br>of Equity<br>Awards\$(1) | Pension<br>Benefits\$(2) | Total(\$)     |
|--|--------------------------------|-------------------------------|--|--------------------------|---------------|
| Voluntary Termination                    | \$ 0                           | \$ 0                          | \$ 0                                     | \$ 12,966,000            | \$ 12,966,000 |
| Termination With Cause                   | 0                              | 0                             | 0  | 12,966,000               | 12,966,000    |
| Termination Without Cause/Good<br>Reason | 10,742,000(3)                  | 0                             | 33,256,000                               | 18,747,000               | 62,745,000    |
| Death                                    | 0                              | 0                             | 33,256,000                               | 17,972,000               | 51,228,000    |
| Disability                               | 0                              | 0                             | 33,256,000                               | 18,747,000               | 52,003,000    |
| Retirement                               | 0                              | 0                             | 0  | 12,966,000               | 12,966,000    |
| Change in Control(4)                     | 20,290,000(5)                  | 25,767,000                    | 38,879,000                               | 18,747,000               | 103,653,000   |

- (1) Under the terms of Mr. Paliwal's agreements representing awards of stock options, restricted shares and RSUs, a specified amount of unvested awards become vested upon a change in control, termination without cause or for good reason, and upon Mr. Paliwal's death or disability, as such terms are defined in the award agreements. The amounts shown represent the value of the unvested stock options, restricted shares and RSUs on June 30, 2014, the last trading day of our fiscal year ended June 30, 2014, at \$107.43 per share, the closing price of our Common Stock on that date.
- (2) Includes death benefit and present value of accumulated retirement benefits, as applicable, that Mr. Paliwal would be entitled to under our SERP.
- (3) Represents the amount payable under the Paliwal Agreement.
- (4) To receive these benefits under his CIC Agreement, a qualifying termination of Mr. Paliwal's employment must occur within six months prior to or within two years following a change in control.
- (5) Represents the amount payable under Mr. Paliwal's CIC Agreement. Also includes the award for fiscal 2014 that Mr. Paliwal is entitled to under the 2014 Key Executive Plan upon a change in control of our company.

**Herbert Parker**

|   | Cash<br>Severance<br>Payments | Tax Gross<br>Up<br>Payments | Acceleration<br>of Equity<br>Awards(1) | Total      |
|---|-------------------------------|-----------------------------|--|------------|
| Voluntary Termination                       | \$ 0                          | \$ 0                        | \$ 0                                   | \$ 0       |
| Termination With Cause                      | 0                             | 0                           | 0                                      | 0          |
| Termination Without Cause/Good<br>Reason(2) | 1,400,000                     | 0                           | 0                                      | 1,400,000  |
| Death                                       | 0                             | 0                           | 3,297,000                              | 3,297,000  |
| Disability                                  | 0                             | 0                           | 3,297,000                              | 3,297,000  |
| Retirement                                  | 0                             | 0                           | 0                                      | 0          |
| Change in Control(3)                        | 3,109,000                     | 3,677,000                   | 8,204,000                              | 14,990,000 |

- (1) Under the terms of Mr. Parker's agreements representing awards of stock options, restricted shares and RSUs, any unvested awards become vested upon a change in control, as defined in the award agreements and a certain amount of unvested awards become vested upon his death or disability. The amount shown represents the value of unvested stock options, RSUs and unvested restricted shares on June 30, 2014, the last trading day of our fiscal year ended June 30, 2014, at \$107.43 per share, the closing price of our Common Stock on that date.
- (2) Represents the amount payable under his Severance Agreement.
- (3) To receive these benefits under the 2014 Key Executive Plan and his CIC Agreement, a qualifying termination of Mr. Parker's employment must occur six months prior to or within two years following a change in control.

**Blake Augsburg**

|   | Cash<br>Severance<br>Payments | Acceleration<br>of Equity<br>Awards(1) | Pension<br>Benefits(2) | Total      |
|---|-------------------------------|--|------------------------|------------|
| Voluntary Termination                       | \$ 0                          | \$ 0                                   | \$ 0                   | \$ 0       |
| Termination With Cause                      | 0                             | 0                                      | 0                      | 0          |
| Termination Without<br>Cause/Good Reason(3) | 1,151,000                     | 0                                      | 0                      | 1,151,000  |
| Death                                       | 0                             | 2,674,000                              | 1,868,520              | 4,542,520  |
| Disability                                  | 0                             | 2,674,000                              | 1,495,000              | 4,169,000  |
| Retirement                                  | 0                             | 0                                      | 0                      | 0          |
| Change in Control(4)                        | 1,390,000                     | 6,652,000                              | 3,244,000              | 11,286,000 |

- (1) Under the terms of Mr. Augsburg's agreements representing awards of stock options and RSUs, any unvested awards become vested upon a change in control, as defined in the award agreements and a certain amount of unvested awards become vested upon his death or disability. The amount shown represents the value of unvested stock options and RSUs on June 30, 2014, the last trading day of our fiscal year ended June 30, 2014, at \$107.43 per share, the closing price of our Common Stock on that date.
- (2) Represents the death benefit that Mr. Augsburg is entitled to under our SERP and the present value of accumulated retirement benefits, as applicable, that Mr. Augsburg would be entitled to under our SERP due to accelerated vesting of his benefit.
- (3) Represents the amount payable under his Severance Agreement.
- (4) To receive these benefits under the 2014 Key Executive Plan and his CIC Agreement, a qualifying termination of Mr. Augsburg's employment must occur within two years following a change in control.

**Sachin Lawande**

|  | Cash<br>Severance<br>Payments | Acceleration<br>of Equity<br>Awards(1) | Total      |
|--|-------------------------------|--|------------|
| Voluntary Termination                    | \$ 0                          | \$ 0                                   | \$ 0       |
| Termination With Cause                   | 0                             | 0                                      | 0          |
| Termination Without Cause/Good Reason(2) | 1,236,000                     | 0                                      | 1,236,000  |
| Death                                    | 0                             | 4,463,000                              | 4,463,000  |
| Disability                               | 0                             | 4,463,000                              | 4,463,000  |
| Retirement                               | 0                             | 0                                      | 0          |
| Change in Control(3)                     | 1,491,000                     | 9,213,000                              | 10,704,000 |

- (1) Under the terms of Mr. Lawande's agreements representing awards of stock options, RSUs and restricted shares, any unvested awards become vested upon a change in control, as defined in the award agreements and a certain amount of unvested awards become vested upon his death or disability. The amount shown represents the value of unvested stock options, RSUs and restricted shares on June 30, 2014, the last trading day of our fiscal year ended June 30, 2014, at \$107.43 per share, the closing price of our Common Stock on that date.
- (2) Represents amount payable under his Severance Agreement.
- (3) To receive these benefits under the 2014 Key Executive Plan and his CIC Agreement, a qualifying termination of Mr. Lawande's employment must occur within two years following a change in control.

*Michael Mauser*

|   | Cash<br>Severance<br>Payments | Acceleration<br>of Equity<br>Awards(1) | Pension<br>Benefits(2) | Total     |
|---|-------------------------------|--|------------------------|-----------|
| Voluntary Termination                       | \$ 0                          | \$ 0                                   | \$ 0                   | \$ 0      |
| Termination With Cause                      | 0                             | 0                                      | 0                      | 0         |
| Termination Without Cause/Good<br>Reason(3) | 1,097,000                     | 0                                      | 0                      | 1,097,000 |
| Death                                       | 0                             | 2,880,000                              | 1,037,980              | 3,917,980 |
| Disability                                  | 0                             | 2,880,000                              | 0                      | 2,880,000 |
| Retirement                                  | 0                             | 0                                      | 0                      | 0         |
| Change in Control(4)                        | 1,364,500                     | 7,233,000                              | 0                      | 8,435,500 |

- (1) Under the terms of Mr. Mauser's agreements representing awards of stock options and RSUs, any unvested awards become vested upon a change in control, as defined in the award agreements and a certain amount of unvested awards become vested upon his death or disability. The amount shown represents the value of unvested stock options and RSUs on June 30, 2014, the last trading day of our fiscal year ended June 30, 2014, at \$107.43 per share, the closing price of our Common Stock on that date.
- (2) Includes death benefit and present value of accumulated retirement benefits, as applicable, that Mr. Mauser would be entitled to under a German Pension Plan.
- (3) Represents amount payable under his employment agreement.
- (4) To receive these benefits under the 2014 Key Executive Plan and his CIC Agreement, a qualifying termination of Mr. Mauser's employment must occur within two years following a change in control.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

### Company Policies Regarding Related Party Transactions

The Board has not adopted a formal written policy regarding a transaction or series of transactions involving our company and a related party. A related party is one of our executive officers, a director, a person owning more than five percent of any class of our securities, an entity in which any of such persons is employed or is a partner or principal, or an immediate family member of such a person. The Board may consider the desirability of adopting a formal written policy during fiscal 2015. However, given our history and past practice, the Board may decide that such action is unnecessary.

While the Board has not adopted a formal written policy, directors are typically made aware of any transaction or transactions involving our company and a related party. On an annual basis, we request that each of our directors and executive officers identify potential related party transactions involving the director or executive officer and his or her family. If such transactions are discovered, they must be approved by either the Audit Committee or the Board. In addition, our Code of Business Conduct provides that employees are to avoid situations or activities where their personal interests are, or may appear to be, in competition with or in opposition to our interests.

### Certain Relationships

#### Neusoft

Dr. Liu, one of our directors, is the chairman and chief executive officer of Neusoft Corporation ( Neusoft ). In fiscal 2009, we entered into a three-year agreement with Neusoft for engineering and software development services. In fiscal 2010, we entered into a five-year agreement with a subsidiary of Neusoft for engineering and software development services. Payments to Neusoft under these agreements in fiscal 2014, fiscal 2013 and fiscal 2012 totaled, in the aggregate, approximately \$42.5 million, \$42.5 million and \$33.8 million, respectively.

The terms of these transactions were negotiated on an arms-length basis and were fair and in the best interests of our company. Dr. Liu does not have a material interest in these transactions.



**PROPOSAL NO. 2****RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

*The Board of Directors recommends that stockholders vote FOR ratification of KPMG LLP as our company's independent registered public accounting firm for the fiscal year ending June 30, 2015.*

The Audit Committee of the Board has appointed KPMG LLP as our independent registered public accounting firm to examine our company's consolidated financial statements for the fiscal year ending June 30, 2015 and to render other professional services as required.

The Audit Committee is submitting the appointment of KPMG LLP to stockholders for ratification. If the appointment is not ratified by our stockholders, the Audit Committee may reconsider whether it should appoint another independent registered public accounting firm.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM****Selection**

KPMG LLP served as our company's independent registered public accounting firm for fiscal year 2014.

**Audit and Non-Audit Fees**

The following table presents fees for professional audit services rendered by KPMG LLP for the audit of our annual financial statements for fiscal years 2014 and 2013, and fees billed for other services rendered by KPMG LLP.

| Type of Fees          | Fiscal Year<br>2014 | Fiscal Year<br>2013 |
|-----------------------|---------------------|---------------------|
| Audit fees(1)         | \$ 6,015,000        | \$ 5,052,000        |
| Audit-related fees(2) | 142,000             | 172,000             |
| Tax fees(3)           | 925,000             | 980,000             |
| All other fees(4)     | 16,500              | 38,000              |
| <b>Total</b>          | <b>\$ 7,098,500</b> | <b>\$ 6,242,000</b> |

- (1) Audit fees consist principally of fees for the audit of our annual financial statements, including the audit of our internal controls over financial reporting, review of our financial statements included in our quarterly reports on Form 10-Q for those years and foreign statutory audits.
  - (2) Audit-related fees consist principally of the audit of our retirement savings plan and pension schemes, as well as other attestation and compliance services.
  - (3) Tax fees consist principally of fees for tax compliance and preparation, tax advice and tax planning.
  - (4) All other fees consist principally of fees for advisory services, training and subscription services to professional literature databases.
- The Audit Committee's policy is to pre-approve all audit and non-audit services provided to our company by our independent registered public accounting firm. All audit and non-audit services for fiscal year 2014 were pre-approved by the Audit Committee.

**AUDIT COMMITTEE REPORT**

The Audit Committee is currently composed of four directors who are neither officers nor employees of Harman International Industries, Incorporated ( Harman ). All members of the Audit Committee are independent as that term is defined by the New York Stock Exchange listing standards. The committee operates under a written charter approved by the Board.

In connection with its review of the audited financial statements appearing in Harman s Annual Report on Form 10-K for the fiscal year ended June 30, 2014, the Audit Committee:

discussed these financial statements with Harman s management and KPMG LLP, its independent registered public accounting firm;

discussed with KPMG LLP those matters related to the conduct of the audit that are required to be communicated by the independent registered public accounting firm to the Audit Committee under the Rules adopted by the Public Company Accounting Oversight Board ( PCAOB ), including KPMG LLP s judgments as to the quality, not just the acceptability of Harman s accounting principles; and

received and reviewed the written disclosures and the letter from KPMG LLP regarding its independence from Harman, as set forth in the applicable requirements of the PCAOB, and has discussed with KPMG LLP their independence.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board that the audited financial statements be included in Harman s Annual Report on Form 10-K for the fiscal year ended June 30, 2014, as filed with the SEC.

This report is submitted by the members of the Audit Committee.

*Members of the Audit Committee*

Kenneth M. Reiss (Chair)

John W. Diercksen

Hellene S. Runtagh

Frank S. Sklarsky

The foregoing report is not soliciting material, is not deemed filed with the SEC and is not to be incorporated by reference in any filing of our company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

**PROPOSAL NO. 3**

**STOCKHOLDER ADVISORY VOTE ON EXECUTIVE COMPENSATION**

*The Board of Directors recommends that stockholders vote FOR approval of the compensation paid to the named executive officers.*

As required by Section 14A of the Securities Exchange Act of 1934, we are submitting to stockholders an advisory vote to approve the compensation of our named executive officers as disclosed pursuant to the compensation disclosure rules of the SEC in the Compensation Discussion and Analysis section beginning on page 19 of this Proxy Statement, and the related compensation tables and narratives. The Compensation Committee values the opinions of our stockholders and will consider the outcome of the vote when making future compensation decisions.

As discussed in the CD&A, our Compensation Committee is guided by its philosophy that our compensation programs must achieve the following objectives: (i) paying for performance; (ii) attracting, retaining and motivating top talent; (iii) achieving alignment with stockholders and creating sustainable long-term stockholder value; and (iv) driving achievement of our strategic plan. The Compensation Committee believes that the program is competitive in the marketplace, highly incentive-based to align interests of executives with those of our stockholders, and balanced across incentives to appropriately mitigate risk.

To achieve our philosophy, the Compensation Committee has continued to strengthen pay-for-performance principles by incorporating strong governance practices over time, including (i) reducing the mix of time-vested RSUs versus Performance RSUs as components of our long-term equity incentive program, (ii) modifying the metrics for the vesting of the Performance RSUs to link them to stockholder return and (iii) reducing our CEO's maximum bonus potential as of fiscal year 2013 down from four times to three times his annual base salary.

The Compensation Committee and the Board believe that our executive compensation program is designed appropriately and is working to ensure that management's interests are aligned with our stockholders' interests to maximize long-term stockholder returns.

Because your vote is advisory, it will not be binding on the Board; however, the Board values stockholder opinion, and the Compensation Committee will take into account the outcome of the vote when considering future executive compensation arrangements.

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**EQUITY COMPENSATION PLAN INFORMATION**

As of June 30, 2014, the 2002 Incentive Plan and the 2012 Incentive Plan were the only compensation plans under which securities of our company were authorized for issuance. These plans, including amendments thereto, were approved by our stockholders. The table provides information as of June 30, 2014:

| <b>Plan Category</b>                                       | <b>Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)</b> | <b>Weighted-average exercise price of outstanding options, warrants and rights</b> | <b>Number of securities remaining available for future issuance under existing equity compensation plans(2)</b> |
|--|---|--|---|
| Equity compensation plans approved by security holders     | 2,978,672   | \$ 55.48   | 4,542,735   |
| Equity compensation plans not approved by security holders | 0   |  | 0   |
| <b>Total</b>   | <b>2,978,672</b>  | <b>\$ 55.48</b>  | <b>4,542,735</b>  |

(1) Includes 563,426 RSUs issued under the 2002 Incentive Plan and 983,131 RSUs issued under the 2012 Incentive Plan.

(2) Represents 4,542,735 shares of Common Stock available for issuance under the 2012 Incentive Plan. No further awards may be made under the 2002 Incentive Plan.

Including the awards granted through September 30, 2014, (1) 560,046 shares of Common Stock may be issued upon exercise of outstanding stock options under the 2002 Incentive Plan, (2) 711,067 shares of Common Stock may be issued upon exercise of outstanding stock options under the 2012 Incentive Plan, (3) our company's outstanding stock options have a weighted-average exercise price of \$67.89 and a weighted-average remaining term of 6.35 years, (4) 13,520 shares underlying Stock Appreciation Rights (SARs), that have a weighted-average exercise price of \$59.04 and a weighted-average remaining term of 8.46 years, (5) the number of outstanding unvested full-value shares, which are in the form of RSUs, is 1,368,042 and (6) 3,994,618 shares of Common Stock are available for issuance under the 2012 Incentive Plan as RSUs, restricted stock awards, dividend equivalents, stock options and SARs.

### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows, as of October 7, 2014, the beneficial ownership of shares of our Common Stock for (a) all stockholders known by us to beneficially own more than five percent of the shares of our Common Stock, (b) each of our current directors, (c) our named executive officers and (d) all of our directors and executive officers as a group. Unless otherwise noted, these persons have sole voting and investment power over the shares listed below. Some of the information in the table is based on information included in filings made by the beneficial owners with the SEC.

| Name   | Amount and Nature of<br>Beneficial Ownership(1) | Percentage(2) |
|--|---|---------------|
| T. Rowe Price Associates, Inc.(3)                            | 6,603,778                                       | 9.64%         |
| Waddell & Reed Financial, Inc.(4)                            | 4,702,010                                       | 6.86%         |
| The Vanguard Group, Inc.(5)                                  | 4,821,413                                       | 7.04%         |
| Dinesh C. Paliwal  | 290,455   | *             |
| Ann McLaughlin Korologos                                     | 43,320  | *             |
| Dr. Jiren Liu  | 3,611   | *             |
| Edward H. Meyer  | 65,559  | *             |
| Kenneth M. Reiss   | 22,696  | *             |
| Hellene S. Runtagh   | 24,892  | *             |
| Frank S. Sklarsky  | 4,105   | *             |
| Gary G. Steel  | 24,678  | *             |
| John W. Diercksen  | 1,365   | *             |
| Adriane M. Brown   | 1,365   | *             |
| Herbert K. Parker  | 35,020  | *             |
| Blake Augsburg   | 58,443  | *             |
| Sachin Lawande   | 28,301  | *             |
| Michael Mauser   | 36,669  | *             |
| All directors and executive officers as a group (19 persons) | 714,021   | 1.04%         |

\* Less than 1%

- (1) As required by the rules of the SEC, the table includes shares of our Common Stock that may be acquired pursuant to stock options exercisable and RSUs that will vest within 60 days from October 7, 2014 as follows: Mr. Paliwal (100,000 shares), Ms. Korologos (29,552 shares), Dr. Liu (1,552 shares), Mr. Meyer (29,552 shares), Mr. Reiss (9,552 shares), Ms. Runtagh (1,552 shares), Mr. Sklarsky (512 shares), Mr. Steel (9,552 shares), Mr. Augsburg (41,000 shares), Mr. Lawande (6,000 shares), Mr. Mauser (5,000 shares), and all directors and executive officers as a group (263,824 shares). The table also includes shares of Common Stock held in the 401(k) retirement savings plan by all executive officers as a group (20,962 shares). The table does not reflect acquisitions or dispositions of shares of our Common Stock, including grants or exercises of stock options, after October 7, 2014.
- (2) Based on 68,506,141 shares of our Common Stock outstanding as of October 7, 2014.
- (3) Information with respect to T. Rowe Price Associates, Inc. ( T. Rowe ) is based on the Schedule 13G/A (Amendment No. 3) filed with the SEC on February 11, 2014 by T. Rowe. T. Rowe has sole dispositive power with respect to 6,603,778 shares of our Common Stock and sole voting power with respect to 1,487,623 shares of our Common Stock as of December 31, 2013. The address of T. Rowe is 100 E. Pratt Street, Baltimore, Maryland 21202.
- (4) Information is based on the Schedule 13G/A (Amendment No. 2) filed with the SEC on July 10, 2014 jointly by Waddell & Reed Financial, Inc., Waddell & Reed Financial Services, Inc., Waddell and Reed, Inc., Waddell & Reed Investment Management Company and Ivy Investment Management Company. As of June 30, 2014, (a) each of Waddell & Reed Financial Services, Inc., Waddell & Reed, Inc. and Waddell & Reed Investment Management Company is deemed to have sole voting and dispositive power with respect to 2,931,054 shares of our Common Stock, (b) Waddell & Reed Financial, Inc. is deemed to have sole voting and dispositive power with respect to 4,702,010 shares of our Common Stock and (c) Ivy Investment

Management Company is deemed to have sole voting and dispositive power with respect to 1,770,956 shares of our Common Stock. The address of Waddell & Reed Financial, Inc. is 6300 Lamar Avenue, Overland Park, KS 66202.

- (5) Information with respect to The Vanguard Group, Inc. ( Vanguard ) is based on the Schedule 13G/A (Amendment No. 2) filed with the SEC on February 11, 2014 by Vanguard. Vanguard has sole dispositive power with respect to 4,735,438 shares of our Common Stock and sole voting power with respect to 90,975 shares of our Common Stock as of December 31, 2013. The address of Vanguard is 100 Vanguard Blvd., Malvern, Pennsylvania 19355.

#### **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers and persons who beneficially own more than 10% of our Common Stock to file initial reports of ownership and reports of changes in ownership with the SEC. Based solely on a review of the copies of such forms furnished to us and written representations from our directors and executive officers, we believe that all Section 16(a) filing requirements applicable to our directors and executive officers were complied with during fiscal 2014, except that Mr. Lawande inadvertently filed one late Form 4 on June 4, 2014.

#### **STOCKHOLDER PROPOSALS FOR 2015 ANNUAL MEETING OF STOCKHOLDERS**

In order to be included in our proxy materials for the 2015 Annual Meeting of Stockholders, a stockholder proposal must be received in writing by us at 400 Atlantic Street, Suite 1500, Stamford, CT 06901 by June 26, 2015 and otherwise comply with all requirements of the SEC for stockholder proposals.

Our Bylaws provide that any stockholder who desires to bring a proposal before an annual meeting must give timely written notice of the proposal to our company's Corporate Secretary. To be timely, the notice must be delivered to the above address not less than 60 nor more than 90 days before the first anniversary of the date on which we first mailed our proxy materials for the immediately preceding annual meeting. Stockholder proposals for the 2015 Annual Meeting of Stockholders must be received not earlier than July 26, 2015 and not later than August 25, 2015. However, our Bylaws also provide that if an annual meeting is called for a date that is not within 30 days before or after the anniversary of the prior year's annual meeting, then stockholder proposals for that annual meeting must be received no later than the close of business on the tenth day following the day on which public announcement is first made of the date of the upcoming annual meeting. The notice must also describe the stockholder proposal in reasonable detail and provide certain other information required by the Bylaws. A copy of the Bylaws is available upon request from our company's Corporate Secretary.

Our Bylaws provide that notice of a stockholder's intent to make a nomination for director at the 2015 Annual Meeting of Stockholders must be received by our company's Corporate Secretary 90 days in advance of the annual meeting. The notice must include certain information regarding the nominees as required by the Bylaws. Stockholders may also submit recommendations for director candidates to the Nominating Committee by following the procedures described above under the caption "The Board, Its Committees and Its Compensation - Stockholder Recommendations."

**OTHER MATTERS**

The Board does not intend to present any other matter of business at the Meeting. However, if any other matter is properly presented at the Meeting, the shares represented by your proxy will be voted in accordance with the best judgment of the proxy holders.

By Order of the Board of Directors,

Dinesh C. Paliwal

*Chairman, Chief Executive Officer and President*

Stamford, CT

October 22, 2014

**VOTE BY INTERNET**

*Before The Meeting* - Go to [www.proxyvote.com](http://www.proxyvote.com)

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

*During The Meeting* - Go to  
[www.virtualshareholdermeeting.com/HAR2014](http://www.virtualshareholdermeeting.com/HAR2014)

You may attend the Meeting via the Internet and vote during the Meeting. Have the information that is printed in the box marked by the arrow available and follow the instructions.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

M78471-P55889

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

**HARMAN INTERNATIONAL INDUSTRIES,  
INCORPORATED**

**The Board of Directors recommends you vote  
FOR the following proposals:**



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1. Election of Directors

| Nominees:              | For | Against | Abstain |  | For | Against | Abstain |
|------------------------|-----|---------|---------|--|-----|---------|---------|
| 1a. Adriane M. Brown   | ..  | ..      | ..      |  |     |         |         |
| 1b. John W. Diercksen  | ..  | ..      | ..      | 2. Ratify the appointment of KPMG LLP for fiscal 2015.   | ..  | ..      | ..      |
| 1c. Ann M. Korologos   | ..  | ..      | ..      | 3. To approve, by non-binding vote, executive compensation.  | ..  | ..      | ..      |
| 1d. Edward H. Meyer    | ..  | ..      | ..      | <b>NOTE:</b> Such other business as may properly come before the meeting or any adjournment thereof. |     |         |         |
| 1e. Dinesh C. Paliwal  | ..  | ..      | ..      |  |     |         |         |
| 1f. Kenneth M. Reiss   | ..  | ..      | ..      |  |     |         |         |
| 1g. Hellene S. Runtagh | ..  | ..      | ..      |  |     |         |         |
| 1h. Frank S. Sklarsky  | ..  | ..      | ..      |  |     |         |         |
| 1i. Gary G. Steel      | ..  | ..      | ..      |  |     |         |         |

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer.

Signature [PLEASE SIGN WITHIN BOX]Date

Signature (Joint Owners)

Date

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:**

The Notice and Proxy Statement, Annual Report and Brochure are available at [www.proxyvote.com](http://www.proxyvote.com).

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**HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED**

**Annual Meeting of Stockholders**

**December 3, 2014 11:00 AM**

**This proxy is solicited by the Board of Directors**

The undersigned hereby appoints Todd A. Suko and Herbert K. Parker, and each of them, with power to act without the other and with power of substitution, as proxies and attorneys-in-fact and hereby authorizes them to represent and vote, as provided on the other side, all the shares of Harman International Industries, Incorporated Common Stock which the undersigned is entitled to vote, and, in their discretion, to vote upon such other business, as may properly come before the Annual Meeting of Stockholders of the Company to be held December 3, 2014, or any adjournment thereof, with all powers which the undersigned would possess if present at the Meeting.

**This proxy card, when properly executed, will be voted in the manner directed herein by the undersigned. If no such direction is made but the card is signed, this proxy card will be voted for the election of all nominees under Proposal 1, For Proposal 2, and For Proposal 3, and in the discretion of the proxies with respect to such other business as may properly come before the Meeting.**

**Continued and to be signed on reverse side**