

HARMAN INTERNATIONAL INDUSTRIES INC /DE/
Form 10-K
August 29, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended June 30, 2008
Commission File Number 001-09764

Harman International Industries, Incorporated
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation or
Organization)

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

1101 Pennsylvania Ave., N.W., Suite 1010,
Washington, D.C.
(Address of Principal Executive Offices)

20004
(Zip Code)

Registrants telephone number, including area code: (202) 393-1101

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

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

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

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

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

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

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

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

Large accelerated filer T Accelerated filer Non-accelerated filer Smaller reporting company

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of December 31, 2007 (the last business day of the registrants most recently completed second fiscal quarter) was \$4,086,996,306 based upon the closing price of the shares on the New York Stock Exchange on that date.

Indicate the number of shares outstanding of each of the registrants classes of common stock, as of the latest practicable date: 58,530,066 shares of common stock, par value \$.01 per share, as of August 28, 2008

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrants definitive Proxy Statement relating to the 2008 Annual Meeting of Stockholders are incorporated by reference into Part III.

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

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ForwardLooking Statements

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

You should carefully consider the risks described below and the other information in this report. Our operating results may fluctuate significantly and may not meet our expectations or those of securities analysts or investors. The price of our stock would likely decline if this occurs. Factors that may cause fluctuations in our operating results include, but are not limited to, the following:

our ability to successfully implement our strategic initiatives and to achieve the intended benefits of those initiatives;

automobile industry sales and production rates and the willingness of automobile purchasers to pay for the option of a premium audio system and/or a multi-function infotainment system;

changes in consumer confidence and spending;

changes in interest rates and the availability of financing affecting consumer spending;

fluctuations in currency exchange rates and other risks inherent in international trade and business transactions;

warranty obligations for defects in our products;

our ability to satisfy contract performance criteria, including our ability to meet technical specifications and due dates on our new automotive platforms;

our ability to design, engineer and manufacture our products profitably under our long-term supply arrangements with automakers;

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

competition in the automotive, consumer or professional markets in which we operate, including pricing pressure in the market for personal navigation devices (PNDs);

our ability to achieve cost reductions and other benefits in connection with our restructuring program of our manufacturing, engineering and administrative organizations;

model-year changeovers in the automotive industry;

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

our ability to maintain a competitive technological advantage within the systems, services and products we provide into the market place;

our ability to effectively integrate acquisitions made by our Company or manage restructuring and cost migration initiatives;

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Forward Looking Statements (continued)

strikes, work stoppages and labor negotiations at our facilities, or at a facility of one of our significant customers; or work stoppages at a common carrier or a major shipping location;

commodity price fluctuations;

the outcome of pending or future litigation and other claims, including, but not limited to the current stockholder and ERISA lawsuits or any claims or litigation arising out of our business, labor disputes at our facilities and those of our customers or common carriers;

changes in general economic conditions; and

world political stability.

Although we believe that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual financial results, results of operations and could cause actual results to differ materially from those expressed in the forward-looking statements. As a result, the foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this and other reports we file with the Securities and Exchange Commission. For additional information regarding certain factors that may cause our actual results to differ from those expected or anticipated, see the information under the caption Risk Factors which is located in Item 1A of Part I of this report.

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Part I

Item 1. Business

We believe we are a worldwide leader in the development, manufacture and marketing of high-quality, high fidelity audio products and electronic systems. We have developed, both internally and through a series of strategic acquisitions, a broad range of product offerings sold under renowned brand names in our principal markets. We also believe that we are a leader in digitally integrated infotainment systems for the automotive industry. Our JBL, Infinity, Harman/Kardon, Mark Levinson and Becker brand names are well known worldwide for premium quality and performance. We have built these brands by developing our engineering, manufacturing and marketing competences and have employed these resources to establish our Company as a worldwide leader in the markets we serve.

We report our business on the basis of three segments: Automotive, Consumer and Professional. For additional information about these segments, see Managements Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of Part II of this report and Note 17, Business Segment Data, to our consolidated financial statements located in Item 8 of Part II of this report.

Our Automotive segment designs, manufactures and markets audio, electronic and infotainment systems for vehicle applications primarily to be installed as original equipment by automotive manufacturers. Our automotive products are marketed worldwide under brand names including JBL, Infinity, Mark Levinson, Harman/Kardon, Logic 7, Lexicon and Becker. Through engineering and supply arrangements, our premium audio systems and infotainment product offerings are sold to a number of global automotive manufacturers including Daimler, the BMW Group, Toyota/Lexus, Audi/VW, Chrysler, Porsche, Land Rover, Hyundai, and PSA Peugeot Citron. We also produce a Harman/Kardon branded infotainment system for Harley-Davidson touring motorcycles. Our infotainment systems are a combination of information and entertainment components that may include or control GPS navigation, traffic information, voice-activated telephone and climate control, rear seat entertainment, wireless Internet access, hard disk recording, MP3 playback and a high-end branded audio system. Our Automotive segment also produces personal navigation devices (PNDs) that are primarily sold in Europe.

Our Consumer segment designs, manufactures and markets audio and electronic systems for home, mobile and multimedia applications. Our Consumer home products and systems are marketed worldwide under brand names including JBL, Infinity, Harman/Kardon, Lexicon, Mark Levinson, Revel and AKG. Our audio and electronic systems are recognized throughout the world for superior sound quality and high performance. Our home product applications include systems to provide high-quality audio throughout the home and our mobile products include an array of aftermarket systems to deliver audio entertainment and navigation in the vehicle. Our home and mobile audio and electronic products are offered primarily through audio/video specialty stores and retail chain stores such as Best Buy, MediaMarkt and Fnac. Our branded audio products for multimedia applications are primarily designed to enhance sound for Apples iPods and iPhones, computers and other MP3 players and are sold in retail stores such as the Apple stores, Best Buy, Target and MediaMarkt.

Our Professional segment designs, manufactures and markets loudspeakers and electronic systems used by audio professionals in concert halls, stadiums, airports, houses of worship and other public spaces. We also design products for recording, broadcast, cinema and music reproduction applications, and we provide high-quality products to the sound reinforcement, music instrument support and broadcast and recording segments of the professional audio market. Our Professional products are marketed worldwide under brand names including JBL Professional, AKG, Crown, Soundcraft, Lexicon, DigiTech, dbx and Studer.

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We offer complete systems solutions for professional installations and users around the world. Our products can be linked by our HiQnet™ network protocol providing a central digital network for audio professionals to control different aspects of a complex system. We believe that we are uniquely equipped to provide turnkey systems solutions for professional audio applications that offer the customer improved performance, reliability, ease of installation and reduced cost.

Our results of operations depend on our sales of audio products and electronic systems in the automotive, consumer and professional markets. Our products are sold worldwide, with the largest markets being the United States and Germany. A significant portion of our net sales are denominated in Euros.

We believe growth opportunities continue to exist with automotive manufacturers through an increase in the number of models offering our audio, navigation and infotainment systems, supply agreements with additional automakers, increases in per-vehicle content through the provision of integrated infotainment and premium branded audio systems, higher penetration levels of audio and infotainment systems within existing models and providing systems that will include additional functionality such as driver assist safety measures. We believe growth opportunities exist in the consumer electronics market due to expansion in emerging markets, such as China, India and Russia, and through opportunities to leverage brand strength in growing categories in home installations. We also believe growth opportunities exist in the professional markets as we expect our HiQnet system protocol to allow us to capitalize on these opportunities as this technology simplifies the interaction of our products and provides users with an incentive to purchase complete HiQnet compatible systems.

Harman International Industries, Incorporated was incorporated in Delaware in 1980.

Products

Automotive

We believe that we are a leader in developing and manufacturing high-quality, high fidelity, digitally-integrated infotainment systems and premium branded audio systems for automobiles.

The automotive market is currently experiencing strong demand for information and entertainment in the car. We have developed leading technical competencies to address this demand. Our infotainment systems are a combination of information and entertainment components that may include or control GPS navigation, traffic information, voice-activated telephone and climate control, rear seat entertainment, wireless Internet access, hard disk recording, MP3 playback and a high-end branded audio system. In fiscal 2008, we supplied infotainment systems for vehicles manufactured by Mercedes-Benz, BMW, Porsche, Audi, Hyundai, Chrysler and SsangYong Motor. Our business objective is to maintain our leadership position in the infotainment business.

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We continue to leverage our expertise in the design and manufacture of premium branded audio systems, as well as the reputation for quality associated with our JBL, Infinity, Harman/Kardon, Mark Levinson and Lexicon brand names. As a result of our well-established relationships with automobile manufacturers, our engineers are engaged early in the vehicle design process to develop systems that optimize acoustic performance and minimize weight and space requirements. Our Infinity branded car audio systems are offered by Chrysler. Daimlers Mercedes-Benz division, the BMW Group, Land Rover, Porsche, GM and Saab provide Harman/Kardon branded audio systems in their vehicles. Our premium Mark Levinson digital audio system is offered by Lexus. Lexicon branded audio systems are standard on Rolls Royce vehicles and offered as an option on Hyundais new Genesis sedan. Toyota and PSA Peugeot Citron offer our JBL branded audio systems. Hyundai Motor Company and Kia Motor Company also offer our JBL and Infinity branded audio systems in the Korean and United States markets, respectively.

In the future, we expect our infotainment systems will also provide driver assist capabilities such as pre-crash emergency braking, full speed adaptive cruise control, sleep guarding, lane departure warnings and night vision.

Consumer

We manufacture loudspeakers under the JBL, Infinity, Harman/Kardon and Revel brand names for the consumer home audio market. These loudspeaker lines include models designed for two-channel stereo and multi-channel surround sound applications for the home and in a wide range of performance choices, including floor standing, bookshelf, powered, low frequency, in-wall, wireless and all-weather as well as in styles and finishes ranging from high gloss lacquers to genuine wood veneers. The JBL and Infinity product lines also include car loudspeakers, amplifiers and subwoofers sold in the aftermarket as well as marine speakers intended for use on boats.

We also offer a broad range of consumer audio electronics under the Harman/Kardon, Mark Levinson and Lexicon brand names. Our Harman/Kardon home electronics line includes audio/video receivers featuring Logic 7, Dolby Digital and DTS surround sound processing capabilities and multi-channel amplifiers, DVD players and CD players. We design high-end electronics, including amplifiers, digital signal processors, compact disc players and transports and surround sound processors that we market under the renowned Mark Levinson brand. We believe that we are a leader in the design and manufacture of high-quality home theater surround sound processors and amplifiers under the Lexicon name. Lexicon was a pioneer in the development of digital signal processors for the professional audio market. We have successfully leveraged Lexicons professional audio expertise to produce premier consumer products.

In the multimedia market, we offer branded iPod docking devices such as JBL On Stage TM , JBL Onstage TM Micro, JBL Radial TM, Harman/Kardon Go +Play TM, and PC related devices such as JBL Creature TM II, JBL Duet TM, and Harman/Kardon Soundsticks II. We also offer a variety of headphone devices. Our products add greater functionality for computers and the Apple iPod, iPhone and other MP3 players.

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Professional

Our Professional products include loudspeakers and electronic equipment that are marketed under what we believe are some of the most respected brand names in the industry, including JBL Professional, Crown, Soundcraft, Lexicon, DigiTech, AKG, BSS, dbx and Studer.

The Professional market is increasingly moving to digital technology. We believe that we are a leader in this market. Our Professional segment derives value from our ability to share research and development, engineering talent and other digital resources among its business units. Soundcraft, Studer, Crown, Lexicon, DigiTech, dbx and BSS each have substantial digital engineering resources and work together to achieve common goals by sharing resources and technical expertise.

Our Professional loudspeakers are well known for high-quality and superior sound. JBL Professional branded products include studio monitors, loudspeaker systems, powered loudspeakers, sound reinforcement systems, cinema systems, surround sound systems and industrial loudspeakers.

Our Professional electronic products are recognized for high quality and reliability. We market these products on a worldwide basis under various trade names, including Crown, Soundcraft, Lexicon, DigiTech, AKG, BSS, dbx and Studer. These products are often sold in conjunction with our JBL Professional loudspeakers and certain products, such as Crown amplifiers, are integrated into JBL loudspeakers.

We produce sound mixing consoles ranging from automated multi-track consoles for professional recording studios to compact professional mixers for personal recording, home studios and sound reinforcement. Our consoles are sold to four main market areas: sound reinforcement, recording studios, broadcast studios and musical instrument dealers. Our mixing consoles are sold primarily under the Soundcraft and Studer brands. We produce many types of signal processing products, equalizers, and special effects devices that are used in live sound applications and in recording studios to produce sound effects and refine final mixes. These products are sold under the Lexicon, DigiTech, dbx and BSS brand names.

We produce microphones, audio headphones, surround-sound headphones and other professional audio products, which are marketed under the AKG brand name.

We also produce professional amplifiers and powered loudspeakers under the Crown and JBL brand names. We believe the integration of loudspeakers and electronics enhances our ability to provide complete systems solutions to the professional audio market. Our other professional products include switching systems, digital audio workstations and turnkey broadcasting studio installations marketed primarily under the Studer brand name.

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

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Manufacturing

We believe that our manufacturing capabilities are essential to maintaining and improving product quality and performance. Our manufacturing facilities are located in North America, Europe and Asia.

Our Automotive manufacturing facilities in Europe are located in Germany, the United Kingdom, Sweden, France and Hungary. Our European facilities are primarily used to manufacture infotainment systems and automotive navigation and audio systems. In North America, we manufacture loudspeakers in Kentucky and Mexico and manufacture electronics in California, Kentucky and Missouri. In addition, we are ramping up a new facility in Suzhou, China where we began production of amplifiers and loudspeakers in June 2008.

Our Consumer manufacturing facilities are located in California, Mexico and China. Our loudspeaker manufacturing capabilities include the production of high-gloss lacquer and wooden veneer loudspeaker enclosures, wire milling, voice coil winding and the use of computer controlled lathes and other machine tools to produce precision components.

In North America, our principal Professional manufacturing facilities for loudspeakers are located in California and Mexico, and for electronic products, including amplifiers and effects devices, are located in Utah and Indiana. European Professional electronics manufacturing includes mixing consoles in the United Kingdom and Switzerland, and microphones and headphones in Austria.

Our facilities have been designed to emphasize worker safety and compliance with environmental and safety regulations.

Suppliers

We use externally sourced microchips in many of our products. A significant disruption in our microchip supply chain and an inability to obtain alternative sources would have a material impact on our consolidated results of operations.

Several independent suppliers manufacture Consumer and Professional loudspeakers and electronic products and personal navigation devices. We do not believe the loss of any one of these suppliers would have a material impact on our consolidated results of operations or consolidated financial position.

Trademarks and Patents

We market our products under numerous brand names that are protected by both pending and registered trademarks around the world. Our brands include JBL, Infinity, Harman/Kardon, Lexicon, Mark Levinson, Revel, Crown, Becker, Soundcraft, Spirit, DigiTech, AKG, Studer, BSS and dbx. Our trademark registrations cover use of trademark rights in connection with various products, such as loudspeakers, speaker systems, speaker system components and other electrical and electronic devices. We have registered or taken other protective measures for many of these trademarks in substantially all major industrialized countries.

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As of June 30, 2008 we had 1,868 trademark registrations and 307 pending trademark applications around the world. On that date, we also had 2,029 United States and foreign patents and 2,085 pending patent applications covering various audio, infotainment and software products.

Seasonality

We experience seasonal fluctuations in sales and earnings. Historically, our first fiscal quarter ended September 30 is generally the weakest due to automotive model year changeovers and the summer holidays in Europe. Our sales and earnings may also vary due to customer acceptance of our products, product offerings by our competitors and general economic conditions, including fluctuations in foreign currency exchange rates.

Customers/Industry Concentration

We are subject to various risks related to our dependence on key customers. Sales to Daimler accounted for 18 percent and sales to Audi/VW accounted for 11 percent of our total consolidated net sales for the fiscal year ended June 30, 2008. The majority of the Daimler sales were to the Mercedes-Benz division. Accounts receivable due from Daimler accounted for 8 percent and accounts receivable due from Audi/VW accounted for 11 percent of total consolidated accounts receivable at June 30, 2008. We anticipate that Daimler and Audi/VW will continue to account for a significant portion of our net sales and accounts receivables for the foreseeable future.

For the fiscal year ended June 30, 2008, approximately 72 percent of our sales were to automobile manufacturers. Our automotive customers are not obligated to any long-term purchase of our products. The loss of Daimler, Audi/VW or any of our other significant automotive customers would have a material adverse effect on our total consolidated net sales, earnings and financial position.

Backlog Orders

We manufacture automotive products and systems on a just-in-time basis and maintain sufficient inventories of finished goods to meet Consumer and Professional customer orders promptly. As a result, we do not consider the level of backlog to be an important indication of our future performance. Our backlog was approximately \$69 million at June 30, 2008. We expect to deliver these products within the next twelve months. Our backlog was approximately \$27 million at June 30, 2007.

Warranty Liabilities

We warrant our products to be free from defects in materials and workmanship for periods ranging from six months to six years from the date of purchase, depending on the business segment and product. The warranty is a limited warranty, and it may impose certain shipping costs on the customer and exclude deficiencies in appearance except for those evident when the product is delivered. Dealers and warranty service providers normally perform warranty service for loudspeakers and electronics in the field, using parts we supply on an exchange basis. Estimated warranty liabilities are based upon past experience with similar types of products, the technological complexity of certain products, replacement cost and other factors. We take these factors into consideration when assessing the adequacy of our warranty provisions for periods still open to claim.

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Competition

The audio industry is fragmented and competitive and includes numerous manufacturers offering audio products that vary widely in price, quality and distribution methods. Consumer home, multimedia and mobile aftermarket products are offered through audio specialty stores, discount stores, department stores, mail order firms and Internet merchants. Automotive and computer manufacturers also offer branded audio products as options. Music instrument retailers, national electronics retailers, audio dealers, contractors and installers offer professional products and customers can also purchase these products on a contract bid basis. We concentrate primarily on the higher-quality, higher-priced segments of the audio market and compete based upon the strength of our brand names, the quality of our products, our ability to provide integrated systems and our comprehensive marketing, engineering and manufacturing resources.

In the automotive audio market, we compete with Bose, Pioneer ASK, Foster Electric and Panasonic in the sale of audio systems to automotive manufacturers and Alpine, Bosch, Panasonic, Continental, Visteon, Mitsubishi Electronics, Aisin Seiki and Denso in the sale of electronics and infotainment systems to automotive manufacturers. We compete based upon the strength of our brand names and the quality of our products.

We believe our competitive position is enhanced by our technical expertise in designing and integrating acoustics, navigation, speech recognition and human-machine interfaces into complete infotainment systems uniquely adapted to the specific requirements of each automobile model.

We believe that we currently have a significant share of the consumer market for loudspeakers, primarily as a result of the strength of our brand names and our technology. We believe JBL and Infinity are two of the most recognized loudspeaker brands in the world. Our high-end loudspeaker brand, Revel, extends our market position. Principal competitors in the consumer loudspeaker market include Bose, Klipsch, Polk Audio, B&W and Boston Acoustics.

Competition in the consumer home electronics market remains intense and is dominated by large Asian manufacturers. This market is characterized by the short life cycle of products and a need for continuous design and development efforts. Our competitive strategy is to compete in the higher-quality segments of this market and to continue to emphasize our ability to provide system solutions to customers, including a combination of loudspeakers, electronics products, integrated surround sound and home theater systems. Our principal electronic competitors include Yamaha, Sony, Denon, Onkyo, Pioneer and Marantz. We also compete in the luxury consumer electronics market with our Mark Levinson and Lexicon brands. Our principal competitors in this high-end market include Krell, McIntosh, Audio Research, Meridian, Linn and Classe.

In the multimedia market, we supply Apple stores and other retailers with JBL and Harman/Kardon speaker systems that serve Apples iPod and iPhone as well as other MP3 players. Our principal competitors for these products are Bose, Altec Lansing and Klipsch. We also offer Harman/Kardon and JBL speaker systems to personal computer retailers. In this market, our principal competitors are Creative Labs, Altec Lansing, Logitech, Klipsch and Cyber Acoustics. Additionally, Harman/Kardon audio technology is built into certain Toshiba laptop computers. The Harman/Kardon Drive + Play 2 mobile product provides full MP3 control and interface for Apples iPod and iPhone and includes a highly visible display. Our principal competitor in the MP3 mobile accessory market is Alpine. Our personal navigation devices range from simple navigation units to multi-functional units that encompass all-in-one navigation and entertainment systems for vehicle and personal use. Our principal competitors for these products are Garmin, TomTom, Magellan and Pioneer.

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

We compete in the sound reinforcement market using many of our brand names, including JBL Professional, AKG, Crown, Soundcraft, dbx and BSS. Our principal competitors in the sound reinforcement market include Telex, Electro Voice, Mackie, QSC, Meyer Sound Laboratories, Sennheiser, Peavey, Shure, Audio Technica, and Yamaha. Our Studer, AKG, Soundcraft, JBL Professional and Lexicon branded products compete in the recording and broadcast markets. Principal competitors in these markets include Yamaha, Sennheiser, Loud Technologies, Inc., Lawo, Harris Corporation, DigiDesign/M-Audio, Genelec, KRK, TC Electronics, Stagetec and Sony. In the music instrument market, competitors for our JBL Professional, DigiTech, dbx, Crown, Soundcraft and AKG products include Yamaha, Peavey, QSC, Shure, Sennheiser, Line 6, Dunlop, Zoom, Audio Technica and Roland. We also compete in the industrial and architectural sound market. Competitors within this market include Siemens, Peavey and Tannoy.

We are subject to various Federal, state, local and international environmental laws and regulations, including those governing the use, discharge and disposal of hazardous materials. We believe that our facilities are in substantial compliance with current laws and regulations. The cost of compliance with current environmental laws and regulations has not been, and is not expected to be, material.

Research and Development

Expenditures for research and development were \$395.9 million, \$356.7 million and \$302.0 million for the fiscal years ended June 30, 2008, 2007 and 2006, respectively.

Number of Employees

At June 30, 2008, we had 11,694 full-time employees, including 4,834 employees located in North America and 6,860 located outside of North America.

Website Information

Our corporate website is located at www.harman.com. Through our website we make available, free of charge, access to our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K that we file or furnish pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. Our website also provides access to reports filed by our directors, executive officers and certain significant stockholders pursuant to Section 16 of the Securities Exchange Act of 1934. In addition, our Corporate Governance Guidelines, Ethics Code and charters for three committees of our Board of Directors are available on our website. The information on our website is not incorporated by reference into this report. In addition, the Securities and Exchange Commission (SEC) maintains a website, www.sec.gov, that contains reports, proxy and information statements and other information that we file electronically with the SEC.

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Item 1A. Risk Factors

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

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

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

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

We anticipate that our automotive customers, including Daimler and Audi/VW, will continue to account for a significant portion of our sales for the foreseeable future. However, neither Daimler, Audi/VW, nor our other automotive customers are obligated to any long-term purchases of our products. The loss of sales to Daimler, Audi/VW, or to any of our other significant automotive customers, would have a material adverse effect on our consolidated sales, earnings and financial position. In recent years, we held a majority of Daimlers infotainment and audio system business. Automakers customarily maintain dual sourcing arrangements, so our supply relationship with Daimler exceeded expectations. Daimler made strategic decisions in 2006 and 2007 to move to dual sourcing, and as a result, our share of Mercedes business has declined in fiscal 2008 and will further decline in fiscal 2009. Thereafter, the production volume reaches a stable level which is still substantial. However, it is lower than the peak levels of 2006 and 2007. This change in Daimler volume reduces our single customer dependence. Sales increases with other automotive customers have offset the reduction in sales at Daimler.

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Our products may not satisfy shifting consumer demand or compete successfully with competitors products.

Our business is based on the demand for audio and video products and our ability to introduce distinctive new products that anticipate changing consumer demands and capitalize upon emerging technologies. If we fail to introduce new products, misinterpret consumer preferences or fail to respond to changes in the marketplace, consumer demand for our products could decrease and our brand image could suffer. In addition, our competitors may introduce superior designs or business strategies, impairing our distinctive image and our products desirability. If any of these events occur, our sales could decline.

A decrease in discretionary spending would likely reduce our sales.

Our sales are dependent on discretionary spending by consumers, which may be adversely impacted by economic conditions affecting disposable consumer income and retail sales. In addition, our sales of audio, electronic and infotainment products to automotive customers are dependent on the overall success of the automobile industry, as well as the willingness of automobile purchasers to pay for the option of a premium branded automotive audio system or a multi-function digital infotainment system.

Our business could be adversely affected if we are unable to obtain raw materials and components from our suppliers on favorable terms.

We are dependent upon third party suppliers, both in the United States and other countries, for various components, parts, raw materials and finished products. Some of our suppliers may produce products that compete with our products. We use externally sourced microchips in many of our products. A significant disruption in our supply chain and an inability to obtain alternative sources could have a material impact on our consolidated results of operations.

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

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

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

Certain of our automotive customers are unionized and may incur work stoppages or strikes. A work stoppage at our facilities or those of our automotive customers could have a material adverse effect on our consolidated sales, earnings and financial condition. In addition, a work stoppage at a common carrier or a major shipping location could also have a material adverse effect on our consolidated sales, earnings and financial condition.

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Obligations to correct product defects covered by our warranties could adversely affect our financial results.

We warrant our products to be free from defects in materials and workmanship for periods ranging from six months to six years. Costs to correct product defects may exceed our estimates and adversely affect our results of operations and financial condition.

Bankruptcy of a significant customer could have a material adverse effect on our liquidity, financial position and results of operations.

A significant portion of our revenues are derived from sales to customers in the automotive industry, where companies have experienced financial difficulties. As part of the bankruptcy process, our pre-petition receivables may not be realized, customer manufacturing sites may be closed or contracts voided. The bankruptcy of a major customer could have a material adverse effect on the Companys liquidity, financial position, and results of operations.

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

The audio and video product markets that we serve are fragmented, highly competitive, rapidly changing and characterized by intense price competition.

Many manufacturers, large and small, domestic and foreign, offer audio and video systems that vary widely in price and quality and are marketed through a variety of channels, including audio and video specialty stores, discount stores, department stores, mail order firms, and the Internet. Some of our competitors have financial and other resources greater than ours. We cannot assure you that we will continue to compete effectively against existing or new competitors that may enter our markets. We also compete indirectly with automobile manufacturers that may improve the quality of original equipment audio and electronic systems, reducing demand for our aftermarket mobile audio products, or change the designs of their cars to make installation of our aftermarket products more difficult or expensive.

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

In order to increase sales in current markets and gain entry into new markets, we must maintain and improve existing products, while successfully developing and introducing new products. Our new and enhanced products must respond to technological developments and changing consumer preferences. We may experience difficulties that delay or prevent the development, introduction or market acceptance of new or enhanced products. Furthermore, we may be unable to detect and correct defects in some of our products before we ship them. Delays or defects in new product introduction may result in loss of sales or delays in market acceptance. Even after introduction, our new or enhanced products may not satisfy consumer preferences and product failures may cause consumers to reject our products. As a result, these products may not achieve market acceptance. In addition, our competitors new products and product enhancements may cause consumers to defer or forego purchases of our products.

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Our operations could be harmed by factors including political instability, natural disasters, fluctuations in currency exchange rates and changes in regulations that govern international transactions.

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

changes in tariff regulations;

political instability, war, terrorism and other political risks;

foreign currency exchange rate fluctuations;

establishing and maintaining relationships with local distributors and dealers;

lengthy shipping times and accounts receivable payment cycles;

import and export licensing requirements;

compliance with foreign laws and regulations, including unexpected changes in taxation and regulatory requirements;

greater difficulty in safeguarding intellectual property than in the United States; and

difficulty in staffing and managing geographically diverse operations.

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

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

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

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Covenants in our existing debt agreements could restrict our operations.

Our existing revolving credit facility and the indenture for our convertible senior notes contain provisions that could restrict our operating and financing activities. Together, they restrict our ability to, among other things:

- incur debt;
- create or assume liens;
- enter into sale-leaseback transactions; and
- engage in mergers or consolidations.

Because of the restrictions on our ability to create or assume liens, we may have difficulty securing additional financing in the form of additional indebtedness. In addition, our revolving credit facility contains other and more restrictive covenants, including financial covenants that will require us to achieve specified financial and operating results and maintain compliance with specified financial ratios. We may have to curtail some of our operations to maintain compliance with these covenants.

If we fail to comply with the covenants contained in our existing debt agreements, the related debt incurred under those agreements could be declared immediately due and payable, which could also trigger a default under other agreements.

Our ability to meet the covenants or requirements in our credit facilities and the indenture for our convertible senior notes may be affected by events beyond our control, and we cannot assure you that we will satisfy these covenants and requirements. A breach of these covenants or our inability to comply with the financial ratios, tests or other restrictions could result in an event of default under the applicable agreement. Upon the occurrence of an event of default under the applicable agreement, the lenders could elect to declare all amounts outstanding under the applicable agreement, together with accrued interest, to be immediately due and payable. If the payment of our indebtedness is accelerated, we cannot assure you that we will be able to make those payments or borrow sufficient funds from alternative sources to make those payments. Even if we were to obtain additional financing, that financing may be on unfavorable terms.

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

As more fully described in Part II, Item 3 Legal Proceedings, of this report, we are currently involved in litigation arising out of or relating to the events leading up to the termination of the proposed acquisition of the Company in October 2007 or any earnings guidance provided by the Company. In addition, similar litigation has been and may be initiated against us and others based on the alleged activities and disclosures at issue in the pending litigation. We cannot predict the outcome of any such proceeding or the likelihood that further proceedings will be instituted against us. In the event that there is an adverse ruling in any legal proceeding, we may be required to make payments to third parties that could harm our business or financial results. Furthermore, regardless of the merits of any claim, the continued maintenance of these legal proceedings may result in substantial legal expense and could also result in the diversion of our managements time and attention away from our business.

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Harman International is a holding company with no operations of its own and therefore our cash flow and ability to service debt is dependent upon distributions from our subsidiaries.

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

Any of the foregoing factors could have a material adverse effect on our business, results of operations and financial condition. In light of these risks and uncertainties, there can be no assurance that the results and events contemplated by the forward-looking statements contained in this report will in fact transpire.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

Our corporate headquarters are located at 1101 Pennsylvania Avenue, N.W., Washington, D.C. 20004. We expect to relocate our corporate headquarters to Stamford, Connecticut in the second fiscal quarter of fiscal year 2009. Certain information regarding our principal facilities are described in the table below.

Location	Segments	Size (Sq. Ft.)	Owned or Leased	Percentage Utilization
Atlanta, Georgia	Consumer	635,000	Leased	100%
Northridge, California	Automotive Consumer Professional	589,000	Leased	82%
Ittersbach, Germany	Automotive	565,000	Owned	100%
Moreno, California	Consumer Professional	301,000	Leased	100%
Straubing, Germany	Automotive	235,000	Owned	100%
Elkhart, Indiana	Professional	223,000	Owned	86%
Chateau du Loir, France	Automotive Consumer	221,000	Owned	75%
Martinsville, Indiana	Automotive	221,000	Owned	40%
Rancho Cucamonga, California	Professional	212,000	Leased	100%
Worth-Schaidt, Germany	Automotive	204,000	Owned	100%
Tijuana, Mexico	Consumer Professional	198,000	Leased	78%
Vienna, Austria	Professional	193,000	Leased	100%
Bridgend, United Kingdom	Automotive	168,000	Leased	100%
Potters Bar, United Kingdom	Professional	160,000	Leased	100%
Franklin, Kentucky	Automotive	152,000	Owned	96%
Suzhou, China	Automotive	145,000	Owned	50%
Sandy, Utah	Professional	127,000	Leased	100%
Szekesfehervar, Hungary	Automotive	117,000	Owned	100%

Juarez, Mexico	Automotive	109,000	Leased	100%
Regensdorf, Switzerland	Professional	108,000	Leased	93%
Washington, Missouri	Automotive	101,000	Owned	100%

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

Item 3. Legal Proceedings

In re Harman International Industries, Inc. Securities Litigation

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

The complaint alleged that defendants omitted to disclose material adverse facts about the Companys financial condition and business prospects. The complaint contended that had these facts not been concealed at the time the merger agreement with KKR and GSCP was entered, there would not have been a merger agreement, or it would have been at a much lower price, and the price of the Companys common stock therefore would not have been artificially inflated during the Class Period. The Kim Plaintiff alleged that, following the reports that the proposed merger was not going to be completed, the price of the Companys common stock declined causing the plaintiff class significant losses.

On November 30, 2007, the Boca Raton General Employees Pension Plan (the Boca Raton Plaintiff) filed a purported class action lawsuit against the Company and certain of its officers in the United States District Court for the District of Columbia seeking compensatory damages and costs on behalf of all persons who purchased the Companys common stock between April 26, 2007 and September 24, 2007. The allegations in the Boca complaint are essentially identical to the allegations in the original Kim complaint, and like the original Kim complaint, the Boca complaint alleges claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

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

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

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

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

On July 3, 2008, defendants moved to dismiss the Consolidated Complaint in its entirety.

We believe the lawsuit, which is still in its earliest stages, is without merit and we intend to vigorously defend against it.

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

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

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

Defendants moved to dismiss the complaint in its entirety on August 5, 2008.

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We believe the lawsuit, which is still in its earliest stages, is without merit and we intend to vigorously defend against it.

Siemens vs. Harman Becker Automotive Systems GmbH.

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

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

Despite the pending appeal, Siemens AG provisionally enforced the ruling against Harman Becker. Accordingly, Harman Becker ceased selling aftermarket products covered by the patent in Germany, and submitted the required data to Siemens AG.

On June 4, 2008 the German Federal Patent Court nullified all relevant claims of Siemens patent. As a result, Harman Becker resumed selling the affected products, and Siemens suspended further attempts to enforce the patent. Siemens also requested that Harman Becker suspend its appeal of the Dsseldorf courts ruling of infringement until the German Federal Patent Courts nullity ruling has become final. Harman has consented to this suspension. The written decision of the German Federal Patent Court has not been issued. Upon receipt of the written decision, Siemens will have one month to appeal.

We intend to continue defending this lawsuit.

While the outcome of any of the legal proceedings described above cannot at this time be predicted with certainty, we do not expect these matters will materially affect our financial condition or results of operations.

Other Legal Actions

At June 30, 2008, we were involved in several other legal actions. The outcome of these legal actions cannot be predicted with certainty; however, management, based upon advice from legal counsel, believes such actions are either without merit or will not have a material adverse effect on our financial position or results of operations.

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Item 4. Submission of Matters to a Vote of Security Holders and Executive Officers of the Registrant

Submission of Matters to a Vote of Security Holders

None.

Executive Officers of the Registrant

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

Name	Position	Age
Dinesh Paliwal	Chairman and Chief Executive Officer	50
Herbert Parker	Executive Vice President and Chief Financial Officer	50
Helmut Schinagel	Executive Vice President and Chief Technology Officer	55
Klaus Blickle	President Automotive	53
Richard Sorota	President Consumer	45
Blake Augsburg	President Professional	45
John Stacey	Vice President and Chief Human Resources Officer	43
David Karch	Vice President, Operational Excellence	47
Edwin Summers	Vice President General Counsel and Secretary	61

Dinesh Paliwal became Chairman and Chief Executive Officer on July 1, 2008. Mr. Paliwal joined our Company on July 1, 2007 as President, Chief Executive Officer and Vice Chairman and was elected a director on August 13, 2007. Prior to joining our Company, Mr. Paliwal served as President of Global Markets and Technology of ABB Ltd from January 2006 until June 2007 and as President and CEO of ABB North America from January 2004 until June 2007. He was President and CEO of ABB Automation from October 2002 to December 2005.

Herbert Parker joined our Company in June 2008 as Executive Vice President and Chief Financial Officer. On August 15, 2008, Mr. Parker assumed the additional position of principal accounting officer. Prior to joining our Company, he served as Chief Financial Officer of ABB North America, a power automation company, from 2006 to May 2008. Mr. Parker also served as CFO, Automation Technologies division of ABB North America, from 2002 through 2005.

Helmut Schinagel became Chief Technology Officer of our Company in July 2008. Mr. Schinagel previously served as the Chief Executive Officer of our Automotive division from October 2006 through June 2008. Prior to joining our Company, Mr. Schinagel served as Senior Vice President of the BMW Group, an automotive manufacturer, from 1999 to 2006.

Klaus Blickle joined the Company in July 2008 as President Automotive. Prior to joining our Company, Mr. Blickle was President and Chief Executive Officer of EDAG Group from 2005 through 2008. Mr. Blickle has also served as President of Tesma International Inc. (Magna Group) from 2004 to 2005 and as President and Chief Technology Office of American Special Cars, Inc.

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Richard Sorota joined the Company in January 2008 as President Consumer. He previously served as Senior Vice President at The Scotts Miracle-Gro Company from 2004 through 2007 and as Senior Vice President at Royal Philips Electronics from 2000 through 2004.

Blake Augsburger joined our Company in 2001 as the President of Crown International. In 2006, Mr. Augsburger was promoted to President of our Professional division. Mr. Augsburger also serves as Regional Manager for North America. Prior to joining our Company, he was Corporate Vice President and General Manager for Hubbell High Voltage Test Businesses from 1999 to 2001.

John Stacey joined our Company in February 2008 as Vice President and Chief Human Resources Officer. Prior to joining our Company, he was Vice President, People for InBev North America, Inbev Central and Eastern Europe from 2005 through January 2008. He also served as Vice President, Human Resources for Labatt USA from 2000 to 2005.

David Karch has served as Vice President, Operational Excellence since May 2008. From 1998 to May 2008, Mr. Karch served in various positions with Harman/Becker Automotive Systems, most recently as Senior Vice President, Manufacturing and Quality.

Edwin Summers has been employed with our Company as Vice President, General Counsel since July 1998. He became Secretary in November 2005.

Part II

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

Our common stock is listed on the New York Stock Exchange and is reported on the New York Stock Exchange Composite Tape under the symbol HAR. As of August 28, 2008, there were approximately 123 record holders of our common stock.

The table below sets forth the reported high and low sales prices for our common stock, as reported on the New York Stock Exchange, for each quarterly period for fiscal years ended June 30, 2008 and 2007.

Market Price	Fiscal 2008		Fiscal 2007	
	High	Low	High	Low
First quarter ended September 30	\$ 118.15	75.52	87.03	74.65
Second quarter ended December 31	89.64	69.48	108.29	82.64
Third quarter ended March 31	73.75	35.74	105.68	92.40
Fourth quarter ended June 30	46.90	37.60	125.13	96.12

We paid cash dividends during fiscal 2008 and 2007 of \$.05 per share, with a dividend of \$.0125 per share paid in each quarter.

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The following table provides information about shares acquired from employees during the fourth quarter in connection with the surrender of shares to pay option exercise prices.

Period	Total Number of Shares Acquired During Period	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
April 1 April 30	---	---	---	---
May 1 May 31	286,604	\$ 43.09	---	---
June 1 June 30	---	---	---	---
Total	286,604	\$ 43.09	---	---

Since inception of our share repurchase program in June 1998 and through September 30, 2007, we had acquired and placed in treasury a total of 18,198,082 shares of our common stock at a cost of \$639.6 million. Our program was suspended upon the announcement in April 2007 of our proposed merger with a company formed by investment funds affiliated with Kohlberg Kravis Roberts & Co. L.P. (KKR), GS Capital Partners VI Fund, L.P. and its related funds, which are sponsored by Goldman, Sachs & Co. (GSCP). On October 22, 2007, we announced the termination of our agreement with KKR and GSCP and companies formed by investment funds affiliated with KKR and GSCP. In connection with the termination agreement, the Company entered into a note purchase agreement under which it sold \$400 million aggregate principal amount of its 1.25 percent Convertible Notes due 2012 (the Notes) to affiliates of KKR, GSCP, Citibank, N.A. and HSBC USA, Inc. On October 30, 2007, the Company used the proceeds from the issuance and sale of the Notes to repurchase 4,775,549 shares of the Company's common stock at a cost of \$400.3 million. We received an additional 2,449,230 shares upon settlement of the October 2007 repurchase. The total number of shares purchased and retired as a result of the October 2007 repurchase was 7,224,779. The total number of shares repurchased through June 30, 2008 was 25,422,861.

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

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Item 6. Selected Financial Data

The following table presents selected historical financial data derived from the audited Consolidated Financial Statements for each of the five years presented. The information should be read in conjunction with Managements Discussion and Analysis of Financial Condition and Results of Operations and the audited Consolidated Financial Statements and the Notes thereto.

(In thousands except per share data)	For the Years Ended June 30,				
	2008	2007	2006	2005	2004
Net sales	\$ 4,112,503	3,551,144	3,247,897	3,030,889	2,711,374
Operating income	\$ 138,501	386,387	397,241	350,981	254,465
Income before income taxes	\$ 124,484	382,205	376,187	335,337	227,520
Net income	\$ 107,786	313,963	255,295	232,848	157,883
Diluted earnings per share	\$ 1.73	4.72	3.75	3.31	2.27
Weighted average shares outstanding diluted	62,182	66,449	68,105	70,399	69,487
Total assets	\$ 2,826,925	2,508,868	2,375,752	2,201,983	1,999,875
Total debt	\$ 427,952	76,528	197,554	333,917	394,925
Shareholders equity	\$ 1,339,846	1,494,041	1,228,164	1,060,948	874,996
Dividends per share	\$ 0.05	0.05	0.05	0.05	0.05

Item 7. Managements Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the information presented in other sections of this Annual Report on Form 10-K, including Item 1. Business, Item 6. Selected Financial Data, and Item 8. Financial Statements and Supplementary Data. This discussion contains forward-looking statements which are based on our current expectations and experience and our perception of historical trends, current market conditions, including customer acceptance of our new products, current economic data, expected future developments, including foreign currency exchange rates, and other factors that we believe are appropriate under the circumstances. These statements involve risks and uncertainties that could cause actual results to differ materially from those suggested in the forward-looking statements. See Risk Factors included in Item 1A of Part I of this report.

We begin this discussion with an overview of our company to give you an understanding of our business and the markets we serve. We then discuss our critical accounting policies. This is followed by a discussion of our results of operations for the fiscal years ended June 30, 2008, 2007 and 2006. We include in this discussion an analysis of certain significant year-to-year variances included in our results of operations and an analysis of our restructuring program. We also provide specific information regarding our three reportable business segments: Automotive, Consumer and Professional. We then discuss our financial condition at June 30, 2008 with a comparison to June 30, 2007. This section contains information regarding our liquidity, capital resources and cash flows from operating, investing and financing activities. We complete our discussion with an update on recent developments and a business outlook for future periods.

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Overview

We design, manufacture and market high-quality, high-fidelity audio products and electronic systems for the automotive, consumer and professional markets. We have developed, both internally and through a series of strategic acquisitions, a broad range of product offerings sold under renowned brand names in our principal markets. These brand names have a heritage of technological leadership and product innovation. Our three reportable business segments, Automotive, Consumer and Professional, are based on the end-user markets we serve.

Automotive designs, manufactures and markets audio, electronic and infotainment systems for vehicle applications. Our systems are generally shipped directly to our automotive customers for factory installation. Infotainment systems are a combination of information and entertainment components that may include or control GPS navigation, traffic information, voice-activated telephone and climate control, rear seat entertainment, wireless Internet access, hard disk recording, MP3 playback and a premium branded audio system. We expect future infotainment systems to also provide driver safety capabilities such as lane guidance, pre-crash emergency braking, adaptive cruise control, and night vision. Automotive also provides aftermarket products such as personal navigation devices (PNDs) to customers primarily in Europe.

Consumer designs, manufactures and markets audio, video and electronic systems for multimedia, home and mobile applications. Multimedia applications include innovative accessories for portable electronic devices including music-enabled cell phones such as the iPhone, and MP3 players including the iPod. Our multimedia applications also include audio systems for personal computers. Home applications include systems to provide high-quality audio throughout the home and to enhance video systems such as home theatres. Aftermarket mobile products include speakers and amplifiers that deliver audio entertainment in the vehicle. Consumer products are primarily distributed through retail outlets.

Professional designs, manufactures and markets loudspeakers and electronic systems used by audio professionals in concert halls, stadiums, airports, houses of worship and other public spaces. We also develop products for recording, broadcast, cinema, touring and music reproduction applications. In addition, we have leading products in both the portable PA market and musician vertical markets serving small bands, DJs and other performers. A growing number of our products are enabled by our proprietary HiQnet protocol which provides centralized monitoring and control of both complex and simple professional audio systems.

Our products are sold worldwide, with the largest markets being the United States and Germany. In the United States, our primary manufacturing facilities are located in California, Kentucky, Missouri, Indiana and Utah. Outside of the United States, we have significant manufacturing facilities in Germany, Austria, the United Kingdom, Mexico, Hungary, France and China. During fiscal 2008, we announced a restructuring program that will reduce our manufacturing footprint and result in the closure of our Automotive manufacturing facilities in California and Indiana. We include further information regarding our restructuring program later in this discussion.

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

On October 22, 2007, we announced that we had entered into an agreement with KKR and GSCP and companies formed by investment funds affiliated with KKR and GSCP, to terminate the merger agreement we had entered into with these parties in April 2007, without litigation or payment of a termination fee. In connection with the settlement, we sold \$400 million of our 1.25 percent Convertible Senior Notes due 2012 (Notes).

The Board determined that this settlement would permit us to better focus our time and attention on operations and ongoing restructuring efforts by avoiding the cost and distraction involved in potentially protracted litigation with KKR and GSSP regarding the termination of the merger agreement. The proceeds from the sale of the Notes were used to repurchase an aggregate of 7,224,779 shares of our common stock through an accelerated share repurchase program.

In addition to terminating the merger agreement, we appointed new members to the executive management team and Board of Directors during fiscal year 2008. One of our primary focal points during the year was to develop a strategic plan that would optimize our manufacturing, engineering and administrative organizations. This plan also includes more aggressive penetration of emerging markets and matching our technology efforts with evolving market trends.

Our profitability was down in fiscal year 2008 due to lower gross profit margin, restructuring charges, higher warranty costs, continued high R&D to support the record number of launches in our Automotive division, and expenses related to the merger termination. The decrease in gross profit margin was primarily related to several new Automotive platform launches, called Start of Production (SOPs), which typically start their life cycle at their lowest margins, higher Automotive warranty costs and lower Consumer margins. We were also adversely affected by weakening economies in the U.S. and Europe. We believe fiscal 2009 will be a challenging year as we execute our strategic plan. However, we feel these initiatives are necessary to return our company to long-term profitable growth.

Critical Accounting Policies

The methods, estimates and judgments we use in applying our accounting policies, in conformity with generally accepted accounting principles in the United States (GAAP), have a significant impact on the results we report in our financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. The estimates affect the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. Our accounting policies are more fully described in Note 1, Summary of Significant Accounting Policies, of our consolidated financial statements located in Item 8 of Part II. However, we believe the following policies merit discussion due to their higher degree of judgment, estimation, or complexity.

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Allowance for Doubtful Accounts

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

Inventory Valuation

The valuation of inventory requires us to make judgments and estimates regarding excess, obsolete or damaged inventories including raw materials, finished goods and spare parts. Our determination of adequate reserves requires us to analyze the aging of inventories and the demand for parts and to work closely with our sales and marketing staff to determine future demand and pricing for our products. We make these evaluations on a regular basis and adjustments are made to the reserves as needed. These estimates and the methodologies that we use have an impact on our financial statements.

Goodwill

We perform a goodwill impairment test on an annual basis. At June 30, 2008, our goodwill balance of \$436.4 million was not impaired. We made this determination based upon a valuation of our reporting units, as defined by Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. The valuation took into consideration various factors such as our historical performance, future discounted cash flows, performance of our competitors, market conditions and current market valuations of Harman and peer companies. We cannot predict the occurrence of events that might adversely affect the reported value of goodwill. These events may include, but are not limited to, strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on our customer base, or a material negative change in our relationships with significant customers. Please refer to Note 4, Goodwill, of our consolidated financial statements for additional information regarding our goodwill balance and annual impairment test.

Pre-Production and Development Costs

We incur pre-production and development costs related to infotainment systems that we develop for automobile manufacturers pursuant to long-term supply arrangements. Portions of these costs are reimbursable under separate agreements and are recorded as unbilled costs on our balance sheet in other current assets and other assets. We believe that the terms of our supply contracts and established relationship with these automobile manufacturers reasonably assure that we will collect the reimbursable portions of these contracts. Accounting for development costs under the percentage of completion method requires us to make estimates of costs to complete projects. We review these estimates on a quarterly basis. Unforeseen cost overruns or difficulties experienced during development could cause losses on these contracts. Such losses are recorded once a determination is made that a loss will occur.

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Warranty Liabilities

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

Income Taxes

Deferred income tax assets or liabilities are computed based on the temporary differences between the financial statement and income tax basis of assets and liabilities using the statutory marginal income tax rate in effect for the years in which the differences are expected to reverse. Deferred income tax expenses or credits are based on the changes in the deferred income tax assets or liabilities from period to period. We record a valuation allowance to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. In determining the need for, and amount of, a valuation allowance, we consider our ability to forecast earnings, future taxable income, carryback losses, if any, and tax planning strategies. We believe the estimate of our income tax assets, liabilities and expense are critical accounting estimates because if the actual income tax assets, liabilities and expenses differ from our estimates the outcome could have a material impact on our results of operations.

Effective July 1, 2007, we adopted FIN 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing rules for recognition, measurement and classification in our consolidated financial statements of tax positions taken or expected to be taken in a tax return. For tax benefits to be recognized under FIN 48, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon settlement. The cumulative effect of applying the recognition and measurement provisions upon adoption of FIN 48 resulted in a decrease of \$7.2 million of unrealized tax benefits to our balance of \$31.2 million. This reduction was included as an increase to the July 1, 2007 balance of retained earnings.

Severance and Exit Costs

We recognize liabilities for severance and exit costs based upon the nature of the liability incurred. For involuntary separation programs that are conducted according to the guidelines of our written involuntary separation plan, we record the liability when it is probable and reasonably estimable in accordance with SFAS No. 112, Employers Accounting for Postemployment Benefits. For involuntary separation programs that are conducted according to the provisions of collective bargaining agreements or statutes, we record the liability when it is probable and reasonably estimable in accordance with SFAS No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits. For one-time termination benefits, such as additional severance pay, and other exit costs, such as lease and other contract termination costs, the liability is measured and originally recognized at fair value in the period in which the liability is incurred, with subsequent changes recognized in the period of change, in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities.

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Stock-Based Compensation

On July 1, 2005, we adopted SFAS No. 123R, Share-Based Payment, using the modified prospective method. Prior to fiscal 2006, we used a fair value based method of accounting for share-based compensation provided to our employees in accordance with SFAS No. 123. The adoption of this revised standard did not have a material impact on our results of operations as we have recorded share-based compensation expense on a fair value basis for all awards granted on or after July 1, 2002. See Note 12, Stock Option and Incentive Plan, to our consolidated financial statements included in this report for additional information regarding our share-based compensation.

Results of Operations

Net Sales

Fiscal 2008 net sales were \$4.113 billion, an increase of 16 percent compared to the prior year. The effects of foreign currency translation contributed approximately \$275 million to the increase in net sales. Each of our three reportable business segments had higher net sales in fiscal 2008 compared to the prior year. The strong growth in net sales was primarily due to full production of an infotainment system for Chrysler, higher infotainment systems sales to European automakers, and higher sales of professional audio products.

In fiscal 2007, net sales increased 9 percent to \$3.551 billion when compared to the prior year. The effects of foreign currency translation contributed approximately \$144 million during the year. The growth in net sales was primarily due to higher sales of infotainment systems to automotive customers, strong sales of multimedia products, and increased sales in the professional market.

We present below a summary of our net sales by reportable business segment:

(\$000s omitted)	Fiscal 2008		Fiscal 2007		Fiscal 2006	
Automotive	\$ 2,970,139	72%	2,492,815	70%	2,237,632	69%
Consumer	531,283	13%	497,673	14%	492,977	15%
Professional	611,081	15%	560,656	16%	517,288	16%
Total	\$ 4,112,503	100%	3,551,144	100%	3,247,897	100%

Automotive Automotive net sales increased 19 percent in fiscal 2008 compared to the prior year. Foreign currency translation contributed approximately \$229 million to the net sales increase compared to the prior year. Since a significant percentage of our sales are to customers in Europe, the majority of our foreign currency exposure is in the automotive segment. Net sales were higher in North America due to a full year of producing the MyGig infotainment system for Chrysler, our first infotainment system launch in North America. We also had higher infotainment system sales to Hyundai/Kia in support of their Genesis launch and we began producing infotainment systems for SsangYong during the year. Audio system sales to Toyota were higher than last year and we had increased shipments of Mark Levinson premium audio systems to Lexus. Additionally, we began a new relationship with Subaru late in fiscal 2008 providing the automaker with acoustic systems. Excluding foreign currency translation, sales in Europe were higher due to increased shipments of infotainment systems to Audi for the new A4 and A5 models. We also had higher sales to BMW supporting several mid-level platforms. These sales increases were partially offset by lower sales to Mercedes due to reduced E-Class production and price reductions. Aftermarket sales of PNDs in fiscal 2008 were also lower than the prior year and may continue to decline as a result of our decision to focus exclusively on the automotive aftermarket premium sector.

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In fiscal 2007, Automotive net sales increased 11 percent compared to fiscal 2006. Foreign currency translation contributed approximately \$122 million to the net sales increase compared to the prior year. The growth in net sales was primarily due to higher shipments of audio systems to Lexus for the LS460 and to Toyota for the Camry. We also had higher sales of infotainment system to Audi due to a full year of production of the Q7 platform. Infotainment system sales to Daimler were higher than the prior year due primarily to supplying the Mercedes-Benz GL Class. Automotive reported lower sales to BMW, Landrover, Renault, Porsche and PSA Peugeot Citron compared to the prior year. Sales of aftermarket products, particularly PNDs, were very strong during fiscal 2007.

Consumer Consumer net sales increased 7 percent in fiscal 2008 compared to last year. Foreign currency translation contributed approximately \$33 million to the net sales increase compared to the prior year. Sales were adversely affected by general economic weakness in North America and Europe. We also experienced significant competition in North America across multiple product categories including multimedia, which contributed to lower sales of iPod docking stations. In Europe, sales excluding foreign currency translation were higher than last year due to the popularity of certain Harman/Kardon electronic systems and increased sales of multimedia products.

Consumer net sales were 1 percent higher in fiscal 2007 compared to the prior year. Consumer reported higher multimedia sales in Europe, partially offset by lower multimedia sales in the United States. Multimedia products include popular accessories for the iPod such as the JBL OnStage and OnTime. Sales in the United States were adversely affected by substantial competition in this market. Sales of Harman/Kardon home electronic products were also higher in Europe but lower in the United States. Sales of traditional home loudspeakers were lower in both Europe and the United States. The decrease in U.S. sales was primarily due to our decision to exit distribution through a major North American retailer.

Professional Professional net sales were 9 percent higher than fiscal 2007. Foreign currency translation contributed approximately \$13 million to the net sales increase compared to the prior year. Sales growth was supported by an increasing number of HiQnet enabled products that provide audio professionals with a centralized point to monitor and control complex audio systems. JBL Pro had strong sales of products supporting the install, portable and tour sound markets. Harman Music Group had higher sales due to new product introductions. AKG sales of headphones and microphones were higher than year. Additionally, sales of Soundcraft and Studer mixing consoles were above last year, reflecting successful new product introductions.

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In fiscal 2007, Professional net sales were 8 percent higher than fiscal 2006. Foreign currency translation contributed approximately \$8 million to the net sales increase compared to the prior year. Professional sales growth was driven by new JBL Pro and Crown products as well as the introduction of new digital audio mixing consoles.

Gross Profit

Gross profit margin in fiscal 2008 was 27.0 percent, a decrease of 7.1 percentage points compared to the prior year. The decrease in gross profit margin was primarily related to several automotive platform launches, increased shipments of lower margin mid-level infotainment systems to automotive customers, higher Automotive warranty costs, and lower Consumer margins in multiple product categories. Accelerated depreciation of \$3.8 million related to restructuring programs contributed to the decrease in gross profit margin.

Fiscal 2007 gross profit margin decreased 1.4 percentage points from the prior year to 34.1 percent. The decline was primarily due to competition in the Consumer multimedia market. Automotive product mix and higher manufacturing costs also contributed to the decrease in gross profit margin. These lower margins were partially offset by increased margins in our Professional business.

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

(\$000s omitted)	Fiscal 2008	Percent of net Sales	Fiscal 2007	Percent of net sales	Fiscal 2006	Percent of net sales
Automotive	\$ 746,429	25.1%	872,838	35.0%	805,152	36.0%
Consumer	124,478	23.4%	126,392	25.4%	160,212	32.5%
Professional	243,499	39.8%	216,976	38.7%	193,129	37.3%
Other/Unallocated	(5,000)	---	(5,000)	---	(5,923)	---
Total	\$ 1,109,406	27.0%	1,211,206	34.1%	1,152,570	35.5%

Automotive Automotive gross profit margin declined 9.9 percentage points in fiscal 2008. The decrease is primarily related to several platform launches, a higher portion of our sales for lower margin mid-level infotainment systems, higher warranty costs, and lower margins on PND sales. Automotive platform launches begin their life cycles at their lowest gross margins. As previously stated, sales growth was driven by infotainment system sales to Chrysler and BMW primarily for their mid-level vehicles. We also had lower sales to Mercedes due to a decrease in production for the E-Class and price reductions. Historically, sales of these high-level infotainment systems generated higher margins for our Automotive division. In fiscal 2008, our warranty liabilities increased \$77.5 million partially due to an engineering change made on a product that has been in production for a number of years. Due to a supplier discontinuation, we implemented a new memory chip with existing software during the products life cycle. The software and memory chip combination developed an incompatibility over time.

In fiscal 2007, automotive gross profit margin decreased 1.0 percentage points compared to fiscal 2006. The decrease primarily resulted from higher manufacturing costs and product mix.

Consumer In fiscal 2008, Consumer gross profit margin decreased 2.0 percentage points compared to the prior year. The gross profit margin was adversely affected by competitive pricing pressure, particularly in the multimedia market, and general economic weakness in North America and Europe. The mobile market has also become increasingly competitive and gross margins on PNDs and in-vehicle iPod adapters were pressured downward during the fiscal year.

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Consumer gross profit margin declined 7.1 percentage points in fiscal 2007 compared to the prior year. Gross profit margins in fiscal 2006 were particularly high due to the success of high-margin multimedia products, including the JBL OnStage and OnTour. In fiscal 2007, increased competition in the multimedia market resulted in lower prices and margins compared to the prior year.

Professional Professional gross profit margin improved 1.1 percentage points in fiscal 2008. The improvement was primarily due to higher sales of products enabled with the HiQnet protocol and manufacturing efficiency improvements. We have been able to lower certain costs on HiQnet products as we achieve economies of scale with additional product generations. Further initiatives to reduce manufacturing costs include the migration of some production from our Northridge, California facility to our expanded facility in Tijuana, Mexico.

Gross profit margin in fiscal 2007 was 1.4 percentage points higher than fiscal 2006. The improvement was due primarily to leveraging fixed costs against an increase in net sales. The introduction of high-margin products enabled with the HiQnet protocol in fiscal 2007 also contributed to the improvement in gross profit margin. In particular, Soundcraft/Studer introduced new digital mixing consoles that are produced in more efficient factories after significant investments in new technologies over the past few years. Professionals overall gross profit margin improvement was partially offset by higher than expected material costs at Crown.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses, as a percent of net sales, were 23.6 percent in fiscal 2008 compared to 23.2 percent in the prior year. Research and Development (R&D) costs are the largest component of our SG&A expenses. In fiscal 2008, R&D costs were \$395.9 million or 9.6 percent of net sales. These costs were \$356.7 million or 10.0 percent of net sales in fiscal 2007. R&D costs were higher in fiscal 2008 to support infotainment system programs for automotive customers. We expect R&D costs as a percent of net sales to be approximately the same in fiscal 2009 as we continue to develop a record number of infotainment system programs in our Automotive division. Employee compensation and benefit costs are also included in SG&A expenses. We have recorded stock-based compensation expense under the fair value based method since fiscal 2003, including \$23.7 million, \$15.4 million and \$16.6 million in fiscal years 2008, 2007 and 2006, respectively.

Our fiscal 2007 SG&A expenses were 23.2 percent of net sales, essentially flat to fiscal 2006. R&D costs were higher due to new infotainment systems development for automotive customers. However, SG&A as a percentage of sales was lower due to sales growth.

We incurred costs associated with restructuring programs in each of the past three fiscal years. These programs are designed to address our global footprint, cost structure, technology portfolio, human resources and internal processes. These costs are described under the caption Restructuring Programs later in this discussion.

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Below is a summary of our SG&A expenses by reportable business segment:

(\$000s omitted)	Fiscal 2008	Percent of net sales	Fiscal 2007	Percent of net sales	Fiscal 2006	Percent of net sales
Automotive	\$ 625,963	21.1%	532,722	21.4%	468,357	20.9%
Consumer	131,932	24.8%	112,805	22.7%	109,399	22.2%
Professional	151,944	24.9%	136,008	24.3%	133,851	25.9%
Other/Unallocated	61,066	---	43,284	---	43,722	---
Total	\$ 970,905	23.6%	824,819	23.2%	755,329	23.3%

Automotive Automotive SG&A expenses were 21.1 percent of sales in fiscal 2008, a decrease of 0.3 percentage points compared to the prior year. R&D costs are the largest component of SG&A expenses. In fiscal 2008, Automotive R&D costs were \$322.5 million or 10.9 percent of sales. During the prior year, R&D costs were \$286.5 million or 11.5 percent of sales. Higher costs were incurred to develop and support 13 infotainment system launches occurring in fiscal years 2008 and 2009, a record number for the division. Automotive SG&A expenses also include restructuring charges of \$24.7 million, \$5.7 million and \$7.3 million in fiscal years 2008, 2007 and 2006, respectively.

Consumer SG&A expenses were 24.8 percent of Consumer sales in fiscal 2008, an increase of 2.1 percentage points compared to the prior year. Selling expenses and R&D costs are the most significant components of SG&A expenses. Selling expenses were 0.7 percentage points higher in fiscal 2008 primarily due to increased marketing efforts for multimedia products in response to general economic weakness and a competitive market. R&D costs were \$36.1 million, \$34.2 million and \$36.3 million during fiscal years 2008, 2007 and 2006, respectively. Consumer SG&A expenses also include restructuring charges of \$8.7 million, \$1.0 million and \$0.4 million in fiscal years 2008, 2007 and 2006, respectively.

Professional Professional SG&A expenses as a percentage of sales were 24.9 percent in fiscal 2008, an increase of 0.6 percentage points compared to the prior year. Selling expenses and R&D costs are the most significant components of SG&A expenses. Selling expenses are incurred to support a broad range of branded audio products. These products are marketed to audio professionals for use in public places such as concert halls, stadiums and houses of worship. Selling expenses were \$54.4 million, \$49.6 million and \$49.3 million in fiscal 2008, 2007 and 2006, respectively. A significant amount of R&D costs have been incurred to develop our HiQnet networking protocol and include it on new products. This protocol simplifies and centralizes the monitoring and control of complex professional audio systems. R&D costs in fiscal 2008, 2007 and 2006 were \$36.9 million, \$35.7 million and \$33.2 million, respectively. Professional SG&A expenses include restructuring charges of \$6.0 million, \$0.4 million and \$1.7 million in fiscal years 2008, 2007 and 2006, respectively.

Other Other SG&A expenses primarily include compensation, benefit and occupancy costs for corporate employees. In fiscal 2008, we also had \$13.8 million of legal and advisory expenses associated with the termination of our proposed merger with a company formed by investment funds affiliated with KKR and GSCP. Additionally, we had \$2.8 million of restructuring expenses related to the consolidation of our corporate headquarters in Stamford, Connecticut.

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Restructuring Program

We announced a restructuring program in June 2006 designed to increase efficiency in our manufacturing, engineering and administrative organizations. The implementation of this program continued through fiscal years 2007 and 2008.

During the third quarter of fiscal 2008, we expanded our restructuring actions to improve global footprint, cost structure, technology portfolio, human resources, and internal processes. These programs will reduce the number of our manufacturing, engineering and operating locations. We also expect significant cost reductions through moves to low cost countries and optimization of various processes including quality and risk management.

We have announced plant closings in Northridge, California and Martinsville, Indiana. We have also closed a plant in South Africa and a small facility in Massachusetts. Our corporate headquarters is currently transitioning to Stamford, Connecticut.

In fiscal 2008, SG&A expenses included \$42.2 million for our restructuring program. Cash paid for these initiatives was \$14.1 million. In addition, we have recorded \$3.8 million of accelerated depreciation in cost of sales.

Below is a rollforward of our restructuring accrual for fiscal years 2008, 2007 and 2006:

(\$000s omitted)	June 30, 2008	June 30, 2007	June 30, 2006
Beginning accrued liability	\$ 7,527	8,533	---
Expense	42,192	7,071	9,499
Utilization	(14,118)	(8,077)	(966)
Ending accrued liability	\$ 35,601	7,527	8,533

Please also see Note 14, Restructuring Program for additional information.

Operating Income

Fiscal 2008 operating income was \$138.5 million or 3.4 percent of net sales. This represents a decrease of 7.5 percentage points compared to the prior year. The decrease in operating income was primarily due to lower gross profit margin, restructuring costs, and expenses related to the merger termination.

Our fiscal 2007 operating income was \$386.4 million or 10.9 percent of net sales. This represented a decrease of 1.3 percentage points below fiscal 2006. The decrease in operating income was primarily driven by lower gross profit margin partially offset by lower SG&A, as a percentage of sales.

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We present below a summary of our operating income by reportable business segment:

(\$000s omitted)	Fiscal 2008	Percent of net sales	Fiscal 2007	Percent of net sales	Fiscal 2006	Percent of net Sales
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