

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

OR

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

For the Transition Period from _____ to _____

Commission File Number: 001-9764

Harman International Industries, Incorporated

(Exact name of registrant as specified in its charter)

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

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(Address of principal executive offices) (Zip code)

(203) 328-3500

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

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

HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

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

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

Forward-Looking Statements

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

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

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

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

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

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

See accompanying Notes to the Condensed Consolidated Financial Statements.

HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except earnings per share data)	Three Months Ended		Nine months ended	
	March 31, 2016	2015	March 31, 2016	2015
Net sales	\$1,628,082	\$1,464,193	\$5,031,127	\$4,476,664
Cost of sales	1,135,215	1,046,063	3,505,770	3,150,736
Gross profit	492,867	418,130	1,525,357	1,325,928
Selling, general and administrative expenses	357,514	326,623	1,099,384	969,881
Operating income	135,353	91,507	425,973	356,047
Other expenses:				
Interest expense, net	8,633	3,001	24,558	7,861
Foreign exchange losses (gains), net	3,570	(3,406)	2,612	(4,366)
Miscellaneous, net	2,912	2,294	11,262	6,932
Income before income taxes	120,238	89,618	387,541	345,620
Income tax expense, net	31,419	19,346	98,019	76,250
Equity in loss of unconsolidated subsidiaries	-	23	-	23
Net income	88,819	70,249	289,522	269,347
Net (loss) income attributable to noncontrolling interest	(5)	(46)	702	(156)
Net income attributable to Harman International Industries,				
Incorporated	\$88,824	\$70,295	\$288,820	\$269,503
Earnings per share:				
Basic	\$1.23	\$1.00	\$4.01	\$3.87
Diluted	\$1.22	\$0.99	\$3.98	\$3.83
Weighted average shares outstanding:				
Basic	72,020	69,946	72,046	69,557
Diluted	72,642	70,795	72,524	70,322

See accompanying Notes to the Condensed Consolidated Financial Statements.

HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

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

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

HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

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

See accompanying Notes to the Condensed Consolidated Financial Statements.

HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

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

(Unaudited)

Note 1 – Basis of Presentation

Basis of Presentation

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

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

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

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

Note 2 – New Accounting Standards

Recently Adopted Accounting Standards

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

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

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

Recently Issued Accounting Standards

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

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

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

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

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

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

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

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

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

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

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

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

Note 3 – Allowance for Doubtful Accounts

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

Note 4 – Inventories

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

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

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

Note 5 – Property, Plant and Equipment, net

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

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

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

Note 6 – Accrued Warranties

Details of our accrued warranties are as follows:

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

⁽¹⁾Other primarily represents foreign currency translation.

Note 7 – Earnings Per Share

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

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

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

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

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

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

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

Note 8 – Goodwill and Intangible Assets, Net

Goodwill

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

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

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

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

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

⁽¹⁾The realignment adjustments reallocate our goodwill based on our new reporting structure based on the relative fair value of each reporting unit.

⁽²⁾Refer to Note 22—Acquisitions for more information.

⁽³⁾The other adjustments to goodwill primarily consist of foreign currency translation adjustments.

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

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

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

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Intangible Assets, Net

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

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

⁽¹⁾Includes \$55.7 million and \$18.5 million of indefinite-lived intangible assets related to the acquisition of AMX

LLC and AMX Holding Corporation (collectively "AMX") and Martin Professional A/S, respectively.

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

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

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

Note 9 – Debt

Short Term Borrowings

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

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

Issuance of 2.000 Percent Senior Notes

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

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

Issuance of 4.150 Percent Senior Notes

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

2015 Credit Agreement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 10 – Income Taxes

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

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

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

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

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

Note 11 – Shareholders’ Equity

Preferred Stock

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

Common Stock

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

Share Buyback Program

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

Changes in Equity:

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

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

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

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

⁽¹⁾Refer to Note 22 – Acquisitions for more information.

Note 12 – Share-Based Compensation

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

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

Fair Value Determination

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

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

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

Stock Option Activity

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

Shares	Weighted Average Exercise Price Per	Weighted Average Remaining Contractual	Aggregate Intrinsic Value
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		Share	Term (Years)	
Outstanding at June 30, 2015	837,398	\$ 70.40	5.62	\$ 40,864
Granted	0	0.00		
Exercised	(120,677)	53.25		
Forfeited or expired	(27,128)	88.44		
Outstanding at March 31, 2016	689,593	\$ 72.69	4.89	\$ 16,878
Exercisable at March 31, 2016	571,466	\$ 73.94	4.36	\$ 14,167

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

Modification of Certain Stock Option Awards

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

Restricted Stock Units

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

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

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

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

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

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

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

Restricted Stock

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

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

Stock Appreciation Rights

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

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

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

Note 13 – Derivatives

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

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

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

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

Foreign Exchange Risk Management

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

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

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

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

Cash Flow Hedges

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

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

Economic Hedges

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

Interest Rate Risk Management

Interest Rate Lock

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

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

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

Derivative Activity:

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

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

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

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

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

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

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

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

Note 14 – Fair Value Measurements

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

Fair Value Hierarchy

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

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 15 – Other Comprehensive Income (Loss)

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

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

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

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

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

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

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

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

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

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

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

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

Note 16 – Restructuring Program

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

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

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

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

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

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

noted above.

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

Restructuring expenses by reporting business segment are presented below:

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

Note 17 – Retirement Benefits

Plan Descriptions

Retirement savings plan

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

Pension benefits

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

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

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

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