



**U.S. DEPARTMENT OF THE TREASURY
OFFICE OF FOREIGN ASSETS CONTROL**



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**Harman International Industries, Inc. Settles with OFAC for \$1,454,145
Related to Apparent Violations of Iranian Transactions and Sanctions Regulations**

Harman International Industries, Inc. (Harman), a Connecticut-based multinational audio electronics company, has agreed to pay \$1,454,145 to settle its potential civil liability for 11 apparent violations of OFAC sanctions on Iran. Over a period of more than two years, overseas employees of a U.S. subsidiary of Harman enabled the diversion of its products from its United Arab Emirates (UAE) distributor to Iran. The settlement amount reflects OFAC's determination that Harman's apparent violations were egregious and voluntarily self-disclosed, and further reflects the remedial measures implemented by Harman upon discovery of the apparent violations.

Description of the Apparent Violations

From at least May 22, 2018 through October 27, 2020, Harman's longtime UAE distributor (the "Distributor") sold Harman products to customers in Iran, with the knowledge and support of 13 British employees (the "British Sales Team") employed directly by Harman's U.S. subsidiary, Harman Professional, Inc. ("Harman Pro"). These employees, all middle level managers, included a Sales Director, a Director of Sales Operations, a Senior Director for Finance, a Senior Commercial Director, a Regional Director, a Technical Director, and an Account Manager.

Harman Pro shipped goods to the Distributor on an "ex works" basis. This method of distribution involved the Distributor collecting products from Harman's Danish distribution center, after which the Distributor assumed responsibility for onward shipment and export. For shipments such as those at issue, for example, the Distributor would file export declarations with the Danish customs authorities, ship the products to the Distributor warehouses in Dubai, and pay any tariffs due to the Emirati Government.

British Sales Team Members' Obfuscation of Iran

While Harman Pro had no direct visibility into the disposition of the goods once the Distributor obtained them from the Danish warehouse, members of Harman Pro's British Sales Team understood the Distributor's practice of channeling Harman goods it received in Denmark to Iran. Some suspected that such dealings may be prohibited or unauthorized, and at least one end user was the Iranian government. Seeking to obscure references to Iran in internal emails and sales presentations, from at least December 2016 to July 2019, members of the British Sales Team used deceptive terms such as "the northern region," "North Dubai," and "up north" in an apparent reference to Iran's geographical location directly north of the UAE.

On August 22, 2017, for example, the Europe, Middle East, and Africa (EMEA) Vice President and General Manager approved a request for a discount on Harman products that the Distributor planned to ship to the "northern region." On September 29, 2017, the EMEA Regional Director reported that most of the Distributor's business is in "North Dubai" ("[The f]act is, [the Distributor] is a North Dubai business"). And on July 10, 2019, the Senior Director for EMEA Regional Sales

Operations told the EMEA Regional Director that a particular Harman product was for an end-user “up north.”

On November 5, 2019, following a series of disputes, Harman Pro sent a formal termination notice to the Distributor, and terminated its relationship with the Distributor on October 27, 2020.

Compliance Deficiencies that Contributed to the Apparent Violations

Harman had no formal system for monitoring or auditing sanctions-related risks. Instead, the Legal Department usually relied on business units to identify potential issues. Indeed, Harman, a large electronics company that operates worldwide, had only one employee—the Senior Director of Supply Chain & Global Trade Compliance—responsible for managing U.S. economic sanctions and export control risks, and this person lacked the expertise and screening tools to adequately perform their duties. Similarly, Harman’s in-house attorneys did not have the training, time, or resources to develop adequate expertise on OFAC sanctions and export controls. As a result, Harman also did not extend its policies and controls sufficiently throughout its organization, including to overseas employees of its U.S. subsidiaries.

Summary of Apparent Violations

Because of the dearth of records and the British Sales Team’s efforts to obfuscate its sales to Iran, the total value of the Distributor’s Iran diversions could not be definitively determined. Accordingly, OFAC extrapolated the total value of goods Harman sold to Iran to be approximately \$148,261 across 11 shipments between May 22, 2018 and October 27, 2020.

Section 560.204(a) of the Iranian Transactions and Sanctions Regulations (ITSR) generally prohibits the exportation, reexportation, sale, or supply, directly or indirectly, from the United States, or by a United States person, wherever located, of any goods, technology, or services to Iran or the Government of Iran. The British Sales Team’s employees were directly employed by Harman Pro, a U.S. person, and their conduct is attributable to Harman. Harman’s exportations to the Distributor with the knowledge that some of those products were then being sold to Iran between May 22, 2018 and October 27, 2020 were apparent violations of the ITSR, 31 C.F.R. § 560.204(a) (the “Apparent Violations”).

Penalty Calculations and General Factors Analysis

The statutory maximum civil monetary penalty applicable in this matter is \$4,154,700, reflecting the applicable statutory civil monetary penalty under the International Emergency Economic Powers Act (IEEPA) for the 11 Apparent Violations. OFAC determined that Harman self-disclosed the Apparent Violations and that the Apparent Violations constitute an egregious case. Accordingly, under OFAC’s Economic Sanctions Enforcement Guidelines (“Enforcement Guidelines”), 31 C.F.R. part 501, app. A, the base civil monetary penalty applicable in this matter equals one-half of the statutory maximum, which is \$2,077,350.

The settlement amount of \$1,454,145 reflects OFAC’s consideration of the General Factors under the Enforcement Guidelines.

OFAC determined the following to be **aggravating factors**:

- (1) Members of the British Sales Team willfully engaged in efforts to sell Harman products to Iran, and to obscure such dealings. The frequent use of euphemisms in reference to Iran clearly reflects an understanding that the activity was not allowed and therefore should not be explicitly described in email communications. The length of time that efforts to intentionally sell and obscure sales to Iran took place and remained unaddressed reflect a longstanding practice of disregard for applicable law.
- (2) Members of the British Sales Team, including middle level managers, had actual knowledge of the sales to Iran.
- (3) The export of Harman products to Iran, caused in part by the lack of an adequate compliance program at Harman, harmed program objectives related to Iran by allowing, without authorization, access to goods from a U.S. company by persons in Iran, including, on at least one occasion, the Government of Iran.
- (4) Harman is a large and sophisticated electronics company that operates worldwide.

OFAC determined the following to be **mitigating factors**:

- (1) Harman has not received a penalty notice or Finding of Violation from OFAC in the five years preceding the earliest date of the transactions giving rise to the Apparent Violations.
- (2) Harman undertook a rigorous internal investigation by hiring outside counsel to investigate and an auditor to assess internal controls, auditing capabilities, and compliance functions. Harman also made substantial investments in enhanced sanctions compliance resources, adopted new internal reporting guidelines for sanctions-related risks, provided greater authority, autonomy, and resources for the Legal Department and Global Trade Compliance Department, and implemented training for select employees.
- (3) Harman, through outside counsel, has been highly cooperative and responsive to OFAC's requests for information. Harman also entered into a tolling agreement.

As partial satisfaction of the settlement amount, Harman has agreed to invest \$400,000 in additional sanctions compliance controls.

Compliance Considerations

This case demonstrates the risks that foreign employees of U.S. companies can create for their employers in the absence of controls sufficient to prevent noncompliance. Geographic distance of employees from a company's U.S. headquarters or offices should not result in diminished oversight, even if those employees are based in a third country.

Moreover, failure to invest in strengthening compliance functions and relying on business units to identify potential sanctions issues, as Harman did, may not be prudent, particularly in the absence of robust policies and controls to ensure such units are able to competently undertake those functions. The challenges may be particularly acute in a sales-driven corporate culture that prioritizes revenue generation over compliance. Risks can be reduced for global companies by having strong, independent compliance programs with appropriate resources in place.

Finally, distributors in high-risk jurisdictions may warrant dedicated attention and monitoring to ensure U.S. companies do not deal with sanctioned jurisdictions. This is particularly so when U.S. company employees dealing with such distributors are themselves located in third countries.

OFAC Enforcement and Compliance Resources

On May 2, 2019, OFAC published [A Framework for OFAC Compliance Commitments](#) in order to provide organizations subject to U.S. jurisdiction, as well as foreign entities that conduct business in or with the United States or U.S. persons, or that use goods or services exported from the United States, with OFAC's perspective on the essential components of a sanctions compliance program. The *Framework* also outlines how OFAC may incorporate these components into its evaluation of apparent violations and resolution of investigations resulting in settlements. The *Framework* includes an appendix that offers a brief analysis of some of the root causes of apparent violations of U.S. economic and trade sanctions programs OFAC has identified during its investigative process.

OFAC makes available on its website a variety of resources designed to assist with sanctions implementation and compliance, including [industry-specific guidance](#), [instructive videos](#), [answers to frequently asked questions](#), and [tools for searching OFAC's sanctions lists](#).

Information concerning the civil penalties process can be found in the OFAC regulations governing each sanctions program; the Reporting, Procedures, and Penalties Regulations, 31 C.F.R. part 501; and the Enforcement Guidelines. These references, as well as recent civil penalties and enforcement information, can be found on OFAC's website at <https://ofac.treasury.gov/civil-penalties-and-enforcement-information>.

Whistleblower Program

The U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) maintains a whistleblower incentive program for violations of OFAC-administered sanctions, in addition to other violations of IEEPA and violations of the Bank Secrecy Act. Individuals located in the United States or abroad who provide information may be eligible for awards, if the information they provide leads to a successful enforcement action that results in monetary penalties exceeding \$1,000,000 and the statutory requirements in 31 U.S.C. 5323 are otherwise met. The incentive program is available for whistleblowers providing information relating to potential violations at any type of enterprise in any commercial sector. FinCEN is currently accepting whistleblower tips.

For more information regarding OFAC regulations, please go to: <https://ofac.treasury.gov/>.