

HARMAN INTERNATIONAL INDUSTRIES INC /DE/
Form 10-Q
January 30, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2013

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: 1-9764

Harman International Industries, Incorporated
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
400 Atlantic Street, Suite 1500

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

Stamford, CT
(Address of principal executive offices)

06901
(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

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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 January 23, 2014, 67,781,797 shares of common stock, par value \$.01, were outstanding.

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HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

Form 10-Q

December 31, 2013

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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.

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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 and uncertainties, we cannot assure you that the results and events contemplated by the forward-looking statements contained in, or incorporated by reference into, this report will in fact transpire.

You should carefully consider the risks described below and the other information in this report 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 in our infotainment segment if there are delays in our product launches which may give rise to significant penalties and increased engineering expense;

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

fluctuations in currency exchange rates, particularly with respect to the value of the U.S. Dollar and the Euro;

our ability to successfully implement our global footprint initiative, including achieving cost reductions and other benefits in connection with the restructuring of our manufacturing, engineering, procurement and administrative organizations;

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; 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, 2013. 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. We update our estimated awarded business quarterly by adding the value of new awards received and subtracting sales recorded during the quarter. These quarterly updates do not include any assumptions for increased take rates, revisions to product life cycle, or any other factors.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

(In thousands)	December 31, 2013	June 30, 2013
Assets		
Current assets		
Cash and cash equivalents	\$ 518,556	\$ 454,258
Short-term investments	0	10,008
Receivables, net	757,006	722,711
Inventories	655,907	549,831
Other current assets	376,618	352,244
Total current assets	2,308,087	2,089,052
Property, plant and equipment, net	437,653	425,182
Goodwill	251,370	234,342
Deferred tax assets, long-term, net	240,380	260,749
Other assets	248,446	226,360
Total assets	\$ 3,485,936	\$ 3,235,685
Liabilities and Shareholders Equity		
Current liabilities		
Current portion of long-term debt	\$ 30,000	\$ 30,000
Short-term debt	21,632	4,930
Accounts payable	616,521	498,055
Accrued liabilities	435,623	402,704
Accrued warranties	146,697	128,411
Income taxes payable	21,944	13,414
Total current liabilities	1,272,417	1,077,514
Long-term debt	240,038	255,043
Pension liability	171,888	167,687
Other non-current liabilities	120,664	90,570
Total liabilities	1,805,007	1,590,814
Commitments and contingencies		
Preferred stock	0	0

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Common stock	980	970
Additional paid-in capital	1,001,975	971,748
Accumulated other comprehensive income	35,314	21,800
Retained earnings	1,904,022	1,827,267
Less: Common stock held in treasury	(1,261,362)	(1,176,914)
Total shareholders equity	1,680,929	1,644,871
Total liabilities and shareholders equity	\$ 3,485,936	\$ 3,235,685

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents**HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

(In thousands, except earnings per share data)	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2013	2012	2013	2012
Net sales	\$ 1,328,024	\$ 1,055,642	\$ 2,499,829	\$ 2,053,835
Cost of sales	948,574	783,849	1,798,730	1,503,795
Gross profit	379,450	271,793	701,099	550,040
Selling, general and administrative expenses	277,594	203,411	529,861	402,567
Operating income	101,856	68,382	171,238	147,473
Other expenses:				
Interest expense, net	1,855	3,687	3,825	9,682
Foreign exchange losses, net	3,110	988	3,971	1,139
Miscellaneous, net	1,792	1,430	3,121	2,609
Income before income taxes	95,099	62,277	160,321	134,043
Income tax expense, net	23,470	14,788	42,146	31,999
Equity in net loss of unconsolidated subsidiaries	0	0	94	0
Net income	\$ 71,629	\$ 47,489	\$ 118,081	\$ 102,044
Earnings per share:				
Basic	\$ 1.04	\$ 0.69	\$ 1.71	\$ 1.48
Diluted	\$ 1.03	\$ 0.68	\$ 1.69	\$ 1.47
Weighted average shares outstanding:				
Basic	68,715	69,009	69,131	68,846
Diluted	69,578	69,734	69,947	69,582

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents**HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

(In thousands)	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2013	2012	2013	2012
Net income	\$ 71,629	\$ 47,489	\$ 118,081	\$ 102,044
Other comprehensive income (loss) ⁽¹⁾ :				
Foreign currency translation	8,096	15,264	42,181	24,470
Unrealized losses on hedging derivatives	(18,421)	(19,367)	(38,977)	(38,678)
Pension liability adjustment	658	1,172	677	2,082
Unrealized gains on available for sale securities	165	242	175	351
Other comprehensive (loss) income before taxes	(9,502)	(2,689)	4,056	(11,775)
Income taxes benefit	(4,322)	(4,871)	(9,458)	(10,508)
Other comprehensive (loss) income, net of taxes	(5,180)	2,182	13,514	(1,267)
Comprehensive income, net of taxes	\$ 66,449	\$ 49,671	\$ 131,595	\$ 100,777

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

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(In thousands)	Six Months Ended December 31,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 118,081	\$ 102,044
Adjustments to reconcile net income to net cash provided by (used in) operating activities, net of acquired businesses:		
Depreciation and amortization	64,239	58,843
Deferred income taxes	12,916	20,487
Loss (gain) on disposition of assets	735	(1,698)
Share-based compensation	15,322	10,227
Non-cash interest expense	1,090	7,405
Non-cash reduction in contingent liabilities	0	(12,500)
Changes in operating assets and liabilities, net of acquired businesses:		
(Increase) decrease in:		
Receivables, net	(17,900)	(30,073)
Inventories	(92,374)	(110,128)
Other current assets	148	(17,255)
Pre-production and development costs	(6,997)	(16,769)
Increase (decrease) in:		
Accounts payable	105,112	(36,116)
Accrued warranties	11,769	9,125
Accrued other liabilities	7,952	(36,475)
Income taxes payable	8,039	(3,776)
Net change in derivative assets and liabilities	11,524	1,578
Other operating activities	(5,742)	2,268
Net cash provided by (used in) operating activities	233,914	(52,813)
Cash flows from investing activities:		
Purchases of short-term investments	0	(60,830)
Maturities of short-term investments	10,008	182,302
Acquisitions, net of cash received	(21,274)	(8,836)
Proceeds from asset dispositions	0	3,668
Capital expenditures	(60,829)	(42,608)
Other items, net	254	0
Net cash (used in) provided by investing activities	(71,841)	73,696
Cash flows from financing activities:		
Net increase (decrease) in short-term borrowings	17,250	(26)
Borrowings under new credit agreement	0	300,000
Repayment of long-term debt	(15,000)	(400,000)

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Debt issuance costs	0	(6,094)
Cash dividends to shareholders	(41,212)	(20,522)
Repurchase of common stock	(84,448)	