HARMAN INTERNATIONAL INDUSTRIES INC /DE/
Form 10-Q
November 03, 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 September 30, 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

(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 October 31, 2016 69,698,878 shares of common stock, par value $.01, were outstanding.

HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

Form 10-Q

September 30, 2016

Table of Contents

The page numbers in this Table of Contents reflect actual page numbers, not EDGAR page tag numbers.

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:

- 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;
- our ability to maintain a competitive technological advantage through innovation and leading product designs;
- our ability to maintain profitability if there are delays in our product launches or increased pricing pressure from our customers;
- fluctuations in currency exchange rates, particularly with respect to the value of the U.S. Dollar and the Euro;
- the inability of our suppliers to deliver materials, parts and components including, without limitation, microchips and displays, at the scheduled rate and disruptions arising in connection therewith;
- 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;
- our failure to protect the security of our products and systems against cyber crime; 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, 2016. 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 our automotive customers. Our 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. The term “take rate” represents the number of units sold by us divided by an estimate of the total number of vehicles of a specific vehicle line produced during the same timeframe. The assumptions we use to validate these awards are updated and reported externally on an annual basis.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands)	September 30, 2016	June 30, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 511,705	$ 602,300
Receivables, net	1,162,461	1,122,920
Inventories	831,900	706,084
Other current assets	527,048	487,151
Total current assets	3,033,114	2,918,455
Property, plant and equipment, net	595,256	593,290
Intangible assets, net	461,843	476,284
Goodwill	1,511,380	1,510,279
Deferred tax assets, net	135,643	140,181
Other assets	426,614	409,380
Total assets	$ 6,163,850	$ 6,047,869
Liabilities and Equity		
Current liabilities		
Current portion of long-term debt	$ 59,715	$ 86,641
Short-term debt	1,226	-
Accounts payable	940,389	867,279
Accrued liabilities	708,210	670,746
Accrued warranties	185,124	178,367
Income taxes payable	37,223	28,773
Total current liabilities	1,931,887	1,831,806
Borrowings under revolving credit facility	483,000	523,000
Long-term debt	791,568	787,333
Pension liability	217,657	216,016
Other non-current liabilities	230,978	237,241
Total liabilities	3,655,090	3,595,396
Commitments and contingencies	-	-
Preferred stock	-	-
Common stock	1,015	1,012
Additional paid-in capital	1,436,847	1,410,765
Accumulated other comprehensive income	(90,168)	(77,241)
Retained earnings	2,568,863	2,490,570
Less: Common stock held in treasury	(1,407,797)	(1,372,633)
Total equity	2,508,760	2,452,473
Total liabilities and equity	$ 6,163,850	$ 6,047,869

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 September 30, 2016	2015
Net sales	$1,759,522	$1,630,888
Cost of sales	1,218,251	1,143,490
Gross profit	541,271	487,398
Selling, general and administrative expenses	390,460	355,931
Operating income	150,811	131,467
Other expenses:		
Interest expense, net	9,324	8,259
Foreign exchange gains, net	(967)	(1,845)
Miscellaneous, net	2,895	3,987
Income before income taxes	139,559	121,066
Income tax expense, net	37,423	33,549
Equity in income of unconsolidated subsidiaries	(981)	-
Net income	103,117	87,517
Net income attributable to non-controlling interest	-	418
Net income attributable to Harman International Industries, Incorporated	$103,117	$87,099
Earnings per share:		
Basic	$1.45	$1.21
Diluted	$1.45	$1.20
Weighted average shares outstanding:		
Basic	70,889	72,032
Diluted	71,358	72,556

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 September 30, 2016	2015
Net income	$103,117	$87,517
Net income attributable to non-controlling interest	-	418
Net income attributable to Harman International Industries, Incorporated	$103,117	$87,099
Other comprehensive loss, net of taxes[1]:		
Foreign currency translation	3,391	(33,342)
Change in hedging derivatives, net of taxes	(17,799)	(9,583)
Pension liability adjustment, net of taxes	465	(683)
Unrealized gains (losses) on available for sale securities	1,016	(85)
Other comprehensive loss, net of taxes attributable to Harman International Industries, Incorporated	(12,927)	(43,693)
Comprehensive income, net of taxes	90,190	43,824
Comprehensive income, net of taxes attributable to non-controlling interest	-	418
Comprehensive income, net of taxes attributable to Harman International Industries, Incorporated	$90,190	$43,406

[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)	Three Months Ended September 30, 2016	2015
Cash flows from operating activities:		
Net income	$103,117	$87,517
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	51,188	56,819
Deferred income taxes	3,378	10,524
Loss on disposition of assets	771	170
Share-based compensation	10,160	8,392
Excess tax benefit from share-based compensation	(25,911)	(1,882)
Non-cash interest expense	705	711
Non-cash increase in contingent consideration	11,586	457
Changes in operating assets and liabilities, exclusive of impact of acquisitions:		
(Increase) decrease in:		
Receivables, net	(37,722)	(31,115)
Inventories	(122,767)	(160,001)
Other current assets	(1,515)	(21,926)
Pre-production and development costs	(29,914)	(14,652)
Increase (decrease) in:		
Accounts payable	68,783	(45,934)
Accrued warranties	5,079	6,000
Accrued other liabilities	30,544	12,223
Income taxes payable	8,742	2,474
Net change in derivative assets and liabilities	(1,933)	(9,737)
Other operating activities	(4,720)	(12,223)
Net cash provided by (used in) operating activities	69,571	(112,183)
Cash flows from investing activities:		
Acquisitions, net of cash received	1,015	491
Capital expenditures	(33,549)	(37,799)
Proceeds from asset dispositions	1,512	32
Purchase of convertible debt security	(15,000)	-
Other items, net	(2,996)	2,527
Net cash used in investing activities	(49,018)	(34,749)
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	1,229	(542)
Repayments of long-term debt	(40,533)	(26,082)
Cash dividends to shareholders	(24,783)	(24,916)
Repurchase of common stock	(35,164)	(37,097)
Exercise of stock options	1,136	2,546
Repurchases related to share-based compensation arrangements	(11,122)	(11,716)

Excess tax benefit from share-based compensation	25,911	1,882
Payment of contingent consideration	(30,170)	(327)
Other items, net	271	(1,358)
Net cash used in financing activities	(113,225)	(97,610)
Effect of exchange rate changes on cash	2,077	(2,810)
Net decrease in cash and cash equivalents	(90,595)	(247,352)
Cash and cash equivalents at beginning of period	602,300	649,513
Cash and cash equivalents at end of period	$511,705	$402,161
Supplemental disclosure of cash flow information:		
Interest paid, net	$2,654	$1,650
Income taxes paid	$30,917	$9,252
Non-cash investing activities:		
Accrued and contingent acquisition-related liabilities	$-	$(5,800)

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, 2016 (our "2016 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 months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2017 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. We have identified an immaterial error in the Condensed Consolidated Statement of Cash Flows for the quarter ended September 30, 2015. We have corrected this prior period immaterial error in the Condensed Consolidated Statement of Cash Flows in this Quarterly Report on Form 10-Q. The correction impacted the financial statement line items Cash flows provided by (used in) operating activities and the Effect of exchange rate changes on cash in the Condensed Consolidated Statement of Cash Flows for the three months ended September 30, 2015 and resulted in a decrease in the Net change in derivative assets and liabilities and Cash flows provided by (used in) operating activities in the amount of $40.1 million with an equal and offsetting decrease to the financial statement line item Effect of exchange rate changes on cash. There was no other impact on our Condensed Consolidated Financial Statements presented. These unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and accompanying notes included in our 2016 Annual Report.

Effective July 1, 2016, 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

Imputation of Interest: In August 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 adopted the provisions of this new guidance on July 1, 2016 on a retrospective basis. The adoption of the new provisions did not have any 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 adopted the provisions of this new guidance on July 1, 2016 on a retrospective basis. The adoption of the new provisions resulted in a reclassification of $6.2 million which reduced both Other assets and Long-term debt in our Condensed Consolidated Balance Sheets. The adoption of the new provision did not have any impact on our 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 adopted the provisions of this new guidance on July 1, 2016. The adoption of the new provisions did not have any impact on our financial condition or results of operations.

Recently Issued Accounting Standards

Cash Flows: In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows: Clarification of Certain Cash Receipts and Cash Payments,” which eliminates the diversity in practice related to the classification of certain cash receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues. 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. The provisions in this guidance will be applied on a retrospective basis. We are currently assessing the impact the adoption of the new provisions will have on our statement of cash flows.

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.

Financial Instruments: In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments,” which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2019. Early adoption is permitted for fiscal years and interim periods within those years beginning after December 15, 2018. We expect to adopt the provisions of this new guidance on July 1, 2020. We are currently assessing the impact the adoption of the new provisions will have on our financial condition and results of operations.

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.

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.

Revenue Recognition: 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. ASU No. 2014-09, as amended by ASU No. 2015-14, ASU No. 2016-08, ASU No. 2016-10, and ASU No. 2016-12 is effective for fiscal years beginning after December 15, 2017. 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.

Revenue Recognition and Derivatives: In May 2016, the FASB issued ASU No. 2016-11, “Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting,” which rescinds certain SEC comments that are codified in Topic 605 and Topic 815. These rescissions include changes to accounting for shipping and handling fees and costs, accounting for consideration given by a vendor to a customer, and accounting to determine the nature of a host contract related to a hybrid financial instrument issued in the form of a share. ASU No. 2016-11 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 do not expect the adoption of the new provisions to have a material impact on our financial condition or results of operations.

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 September 30, 2016 and June 30, 2016, we had $19.5 million and $20.2 million, respectively, reserved for possible uncollectible accounts receivable.

Note 4 – Inventories

At September 30, 2016 and June 30, 2016, inventories consisted of the following:

	September 30, 2016	June 30, 2016
Finished goods	$ 388,759	$ 303,271
Work in process	87,054	80,972
Raw materials	356,087	321,841
Inventories	$ 831,900	$ 706,084

At September 30, 2016 and June 30, 2016, our inventory reserves were $98.2 million and $93.9 million, respectively.

Note 5 – Property, Plant and Equipment, net

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

	Estimated Useful Lives (in Years)	September 30, 2016	June 30, 2016
Land		$ 9,550	$ 9,504
Buildings and improvements	1-50	273,630	269,619
Machinery and equipment	3-20	1,374,491	1,341,816
Furniture and fixtures	3-10	28,967	28,251
Property, plant and equipment, gross		1,686,638	1,649,190
Less accumulated depreciation and amortization		(1,091,382)	(1,055,900)
Property, plant and equipment, net		$ 595,256	$ 593,290

Depreciation expense for the three months ended September 30, 2016 and 2015 was $35.7 million.

Note 6 – Accrued Warranties

Details of our accrued warranties are as follows:

	Three Months Ended September 30,	
	2016	2015
Accrued warranties, June 30,	$178,367	$163,331
Warranty expense	24,341	17,066
Warranty payments (cash or in-kind)	(20,892)	(11,648)
Other[1]	3,308	802
Accrued warranties, September 30,	$185,124	$169,551

[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 September 30,			
	2016		2015	
	Basic	Diluted	Basic	Diluted
Numerator for Basic and Diluted Earnings per Share:				
Net income	$103,117	$103,117	$87,517	$87,517
Net income attributable to non-controlling interest	-	-	418	418
Net income attributable to Harman International Industries, Incorporated	$103,117	$103,117	$87,099	$87,099
Denominator for Basic and Diluted Earnings per Share:				
Weighted average shares outstanding	70,889	70,889	72,032	72,032
Employee stock options	-	469	-	524
Total weighted average shares outstanding	70,889	71,358	72,032	72,556
Earnings per Share:				
Earnings per share	$1.45	$1.45	$1.21	$1.20

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 189,556 and 191,515 shares of our common stock at September 30, 2016 and 2015, respectively, were outstanding and were excluded from the computation of diluted earnings per share as they would have been antidilutive. In addition, 320,586 and 263,066 restricted stock units at September 30, 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 $1.511 billion at September 30, 2016 compared with $1.510 billion at June 30, 2016. The increase in goodwill in the three months ended September 30, 2016 versus June 30, 2016 was primarily associated with favorable foreign currency translation of $1.2 million partially offset by a decrease of $0.1 million in connection with the acquisition of TowerSec Ltd. (“TowerSec”).

As discussed in Note 18 – Business Segment Data, we revised our segment and reporting unit structure effective July 1, 2016. Under this new structure, our Lifestyle Audio segment will now contain our car audio aftermarket services business which was previously included in our Connected Services segment. Our reporting units are the same as our reportable segments with the exception of Lifestyle Audio, which consists of two reporting units, car audio and consumer audio. In connection with this realignment, we reallocated our goodwill to our new reporting unit based on each reporting unit's relative fair value. We also performed a goodwill impairment test as of July 1, 2016 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 three months ended September 30, 2016 were as follows:

	Connected Car	Lifestyle Audio	Professional Solutions	Connected Services	Total
Balance, June 30, 2016	$ 164,771	$ 147,977	$ 385,609	$ 811,922	$1,510,279
Realignment adjustments[1]	-	9,623	-	(9,623)	-
Balance, June 30, 2016 – adjusted	164,771	157,600	385,609	802,299	1,510,279
Acquisitions and adjustments[2]	(100)	-	1	-	(99)
Other adjustments[3]	1,081	108	184	(173)	1,200
Balance, September 30, 2016	$ 165,752	$ 157,708	$ 385,794	$ 802,126	$1,511,380

[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 months ended September 30, 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.

On June 22, 2016, we executed an agreement with certain parties that previously owned 80.05% of IS (the "80.05% Shareholders") to settle the remaining disputed matters with the 80.05% Shareholders that had been submitted to arbitration related to the contingent purchase price associated with our acquisition of IS. Under the terms of the agreement, we will pay the 80.05% Shareholders €76.8 million (the "IS Obligation"), with an initial payment of €24.8 million which was paid in July 2016 and four installment payments of €13 million due every July 1st from 2017 through 2020. In fiscal year 2016, we recorded approximately $74.5 million of additional contingent purchase price for this IS Obligation as an increase to goodwill. The agreement includes an option that, if exercised by the 80.05% Shareholders, would require us to make selected installment payments early, subject to an eight percent discount rate. The existence of this option effectively makes this obligation due on demand and it has therefore been included in our Condensed Consolidated Balance Sheets in Current portion of long-term debt. Until such time as the disputed matters with the remaining shareholders that previously owned 19.95% of IS are resolved, we cannot calculate the contingent purchase price related to the acquisition of IS. Refer to Note 9—Debt for more information.

Intangible Assets, Net

Net intangible assets were $461.8 million and $476.3 million at September 30, 2016 and June 30, 2016, respectively, and were comprised of the following:

		September 30, 2016			June 30, 2016		
	Weighted Average Amortization	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer relationships	12 Years	$386,686	$ (85,328)	$301,358	$386,787	$ (75,957)	$310,830
Technology	6 Years	75,543	(30,361)	45,182	75,431	(27,645)	47,786
Patents	15 Years	7,205	(1,584)	5,621	7,256	(1,584)	5,672
Trade names[(1)]	-	100,618	(26,339)	74,279	100,617	(26,231)	74,386
Non-compete agreement	4 Years	3,146	(2,186)	960	3,146	(2,060)	1,086
Software	5 Years	44,950	(13,023)	31,927	45,682	(11,945)	33,737
Other	4 Years	10,490	(7,974)	2,516	10,490	(7,703)	2,787
Total		$628,638	$ (166,795)	$461,843	$629,409	$ (153,125)	$476,284

(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 $15.5 million and $21.1 million for the three months ended September 30, 2016 and 2015, respectively.

Amortization expense in each of the next five fiscal years and thereafter is expected to approximate the following:

2017	$48,690
2018	62,120
2019	56,964
2020	52,320
2021	48,576
Thereafter	118,894
Total	$387,564

Note 9 – Debt

Short Term Borrowings

At September 30, 2016 and June 30, 2016 we had $1.2 million and $0 of short-term borrowings outstanding, respectively. At September 30, 2016 and June 30, 2016, we maintained lines of credit of $53.3 million and $53.4 million, respectively, primarily in India, China, Brazil, Denmark and Israel.

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 September 30, 2016 and June 30, 2016, there was approximately $483.0 million and $523.0 million, respectively, of outstanding borrowings, which are included in our Condensed Consolidated Balance Sheets as Borrowings under revolving credit facility. At September 30, 2016 and June 30, 2016 there were $4.1 million of outstanding letters of credit under the 2015 Credit Agreement. At September 30, 2016 and June 30, 2016, unused available credit under the 2015 Credit Agreement was $712.9 million and $672.9 million, respectively. In connection with the 2015 Credit Agreement, we incurred $3.0 million of fees and other expenses which are being 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.

IS Obligation

On June 22, 2016, we executed an agreement with the 80.05% Shareholders to settle with them the disputed matters related to the contingent purchase price associated with our acquisition of IS that had been submitted to arbitration. Under the terms of the agreement, we will pay the IS Obligation in accordance with the following schedule: an initial payment of €24.8 million which was paid in July 2016 and four installment payments of €13 million due every July 1st from 2017 through 2020. The agreement includes an option that, if exercised by the 80.05% Shareholders, would require us to make selected installment payments early, subject to an eight percent discount rate. The existence of this option effectively makes this obligation due on demand and it has therefore been included in our Condensed Consolidated Balance Sheets in Current portion of long-term debt. Until such time as the disputed matters with the remaining shareholders that previously owned 19.95% of IS are resolved, we cannot calculate the contingent purchase price related to the IS acquisition. Refer to Note 8-Goodwill and Intangible Assets, Net for more information.

At September 30, 2016 and June 30, 2016, total debt consisted of the following:

	Fair Value at September 30, 2016 (1)	Book Value at September 30, 2016	Fair Value at June 30, 2016 (1)	Book Value at June 30, 2016
Short-term debt	$ 1,226	$ 1,226	$ -	$ -
4.150 Percent Senior Notes	413,640	400,000	417,440	400,000
2.000 Percent Senior Notes	408,797	393,223	390,654	388,710
Borrowings under revolving credit facility	483,000	483,000	523,000	523,000
IS Obligation (2)	56,095	56,095	82,805	82,805
Capital lease obligations	11,523	11,523	12,322	12,322
Unamortized debt discount on 4.150 Percent Senior Notes	(2,349)	(2,349)	(2,407)	(2,407)
Unamortized debt discount on 2.000 Percent Senior Notes	(1,245)	(1,245)	(1,283)	(1,283)
Unamortized Senior Note Issuance Costs	(5,964)	(5,964)	(6,173)	(6,173)
Total debt	1,364,723	1,335,509	1,416,358	1,396,974
Short-term debt	(1,226)	(1,226)	-	-
Current portion of long-term debt (2)	(59,715)	(59,715)	(86,641)	(86,641)
Total long-term debt	$ 1,303,782	$ 1,274,568	$ 1,329,717	$ 1,310,333

(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.

(2) Amounts due under the IS Obligation have been recorded at their present value and will be accreted to the ultimate settlement amount through the effective-interest method (Level 2). We are required to make payments of €13 million due every July 1st from 2017 through 2020. Because the IS Obligation has an option, which if exercised requires us to make selected installment payments on demand, it has been included as Current portion of long-term debt. Refer to Note 8-Goodwill and Intangible Assets, Net for more information.

At September 30, 2016, total debt maturing in each of the next five fiscal years and thereafter is as follows:

2017	$60,164
2018	3,008
2019	2,121
2020	484,638
2021	1,481
Thereafter	