

HARMAN INTERNATIONAL INDUSTRIES INC /DE/
Form 10-Q
May 10, 2005

**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, 2005**

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)*

11-2534306

(IRS Employer Identification Number)

**1101 Pennsylvania Avenue, NW
Washington, DC**

(Address of principal executive offices)

20004

(Zip code)

(202) 393-1101

(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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The registrant had 67,354,462 shares of common stock, par value \$.01, outstanding at April 29, 2005.

Harman International Industries, Incorporated and Subsidiaries
Form 10-Q
For the Quarterly Period Ended March 31, 2005

TABLE OF CONTENTS

	Page Number
PART I – FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	
Condensed Consolidated Balance Sheets March 31, 2005 and June 30, 2004	3
Condensed Consolidated Statements of Operations Three and nine months ended March 31, 2005 and 2004	4
Condensed Consolidated Statements of Cash Flows Nine months ended March 31, 2005 and 2004	5
Notes to Condensed Consolidated Financial Statements	6
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3. Quantitative and Qualitative Disclosures about Market Risk	25
Item 4. Controls and Procedures	26
Part II – OTHER INFORMATION	
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	27
Item 6. Exhibits	28
Signatures	29

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

Part I: FINANCIAL INFORMATION**Item 1. Financial Statements**

Harman International Industries, Incorporated and Subsidiaries
 Condensed Consolidated Balance Sheets
 (\$000s omitted except share amounts)
 (Unaudited)

	March 31, 2005	June 30, 2004
Assets		
Current assets		
Cash and cash equivalents	\$ 282,661	286,708
Investments	6,651	91,000
Receivables (less allowance for doubtful accounts of \$8,499 at March 31, 2005 and \$8,657 at June 30, 2004)	430,085	426,211
Inventories	340,522	291,710
Other current assets	116,335	108,406
Total current assets	1,176,254	1,204,035
Property, plant and equipment, net	477,027	434,091
Goodwill	372,441	251,722
Other assets	117,439	98,962
Total assets	\$ 2,143,161	1,988,810
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings	\$ 2,997	3,898
Current portion of long-term debt	699	3,411
Accounts payable	198,370	238,663
Accrued liabilities	356,584	294,168
Income taxes payable	105,758	122,214
Total current liabilities	664,408	662,354
Senior long-term debt	329,527	387,616
Other non-current liabilities	76,690	63,844
Shareholders' equity		
Preferred stock, \$.01 par value. Authorized 5,000,000 shares; none issued and outstanding	---	---
Common stock, \$.01 par value. Authorized 200,000,000 shares; issued 80,671,294 at March 31, 2005 and 78,871,604 at June 30, 2004	806	789
Additional paid-in capital	393,452	355,477
Accumulated other comprehensive income (loss):		
Unrealized loss on hedging derivatives	(848)	(7,821)
Minimum pension liability adjustment	(7,380)	(7,379)
Cumulative foreign currency translation adjustment	85,993	43,179
Retained earnings	822,702	662,602
Less common stock held in treasury (13,317,082 shares at March 31, 2005 and 12,781,582 at June 30, 2004)	(222,189)	(171,851)
Total shareholders' equity	1,072,536	874,996
Total liabilities and shareholders' equity	\$ 2,143,161	1,988,810

See accompanying notes to condensed consolidated financial statements.

Harman International Industries, Incorporated and Subsidiaries
Condensed Consolidated Statements of Operations
(000s omitted except per share amounts)
(Unaudited)

	Three months ended		Nine months ended	
	March 31,		March 31,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Net sales	\$ 742,564	690,432	2,222,857	1,979,337
Cost of sales	<u>492,572</u>	<u>461,481</u>	<u>1,472,976</u>	<u>1,350,201</u>
Gross profit	249,992	228,951	749,881	629,136
Selling, general and administrative expenses	<u>161,235</u>	<u>160,969</u>	<u>499,687</u>	<u>461,982</u>
Operating income	88,757	67,982	250,194	167,154
Other expense:				
Interest expense, net	2,314	4,384	8,281	13,820
Miscellaneous, net	<u>318</u>	<u>499</u>	<u>4,532</u>	<u>2,359</u>
Income before income taxes	86,125	63,099	237,381	150,975
Income tax expense, net	<u>22,609</u>	<u>19,434</u>	<u>74,768</u>	<u>46,061</u>
Net income	\$ <u><u>63,516</u></u>	<u><u>43,665</u></u>	<u><u>162,613</u></u>	<u><u>104,914</u></u>
Basic earnings per share	\$ 0.94	0.66	2.42	1.60
Diluted earnings per share	\$ 0.90	0.63	2.30	1.51
Weighted average shares – basic	67,743	65,951	67,095	65,687
Weighted average shares – diluted	70,831	69,707	70,679	69,352

See accompanying notes to condensed consolidated financial statements.

Harman International Industries, Incorporated and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(\$000s omitted)
(Unaudited)

	Nine months ended March 31,	
	2005	2004
Cash flows from operating activities:		
Net income	\$ 162,613	104,914
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	91,224	81,250
Loss on disposition of assets	416	778
Stock option expense	11,163	6,893
Changes in working capital, net of acquisition/disposition effects:		
Decrease (increase) in:		
Receivables	18,357	(26,952)
Inventories	(38,841)	64,005
Other current assets	(8,286)	2,635
Increase (decrease) in:		
Accounts payable	(49,086)	(11,944)
Accrued liabilities	58,674	17,123
Income taxes payable	(26,939)	66,429
Other operating activities	12,888	5,251
Net cash provided by operating activities	<u>\$ 232,183</u>	<u>310,382</u>
Cash flows from investing activities:		
Payment for purchase of companies, net of cash acquired	\$ (144,312)	(27,545)
Capital expenditures	(107,106)	(95,850)
Investments	84,349	(52,100)
Proceeds from asset dispositions	893	9,278
Other items, net	3,091	3,871
Net cash used in investing activities	<u>\$ (163,085)</u>	<u>(162,346)</u>
Cash flows from financing activities:		
Net decrease in short-term borrowings	\$ (1,324)	(291)
Net decrease in long-term debt	(6,695)	(31,245)
Repayment of long-term debt	(49,921)	---
Repurchase of common stock	(50,338)	---
Dividends paid to shareholders	(2,513)	(2,463)
Exercise of stock options	26,830	9,439
Net cash flow used in financing activities	<u>\$ (83,961)</u>	<u>(24,560)</u>
Effect of exchange rate changes on cash	<u>10,816</u>	<u>4,126</u>
Net increase (decrease) in cash and cash equivalents	\$ (4,047)	127,602
Cash and cash equivalents at beginning of period	<u>286,708</u>	<u>109,361</u>
Cash and cash equivalents at end of period	<u>\$ 282,661</u>	<u>236,963</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 9,832	16,530
Income taxes paid (refunds received)	\$ 97,437	(1,619)
Supplemental schedule of non-cash investing activities:		
Fair value of assets acquired	\$ 155,939	35,678
Cash paid for the assets	<u>144,312</u>	<u>27,545</u>

Edgar Filing: HARMAN INTERNATIONAL INDUSTRIES INC /DE/ - Form 10-Q

Liabilities assumed

\$ 11,627

8,133

See accompanying notes to condensed consolidated financial statements.

5

HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIESNotes to Condensed Consolidated Financial Statements
Unaudited**Note 1. Basis of Presentation**

Our unaudited, condensed consolidated financial statements at March 31, 2005 and for the three and nine months ended March 31, 2005 and 2004, have been prepared pursuant to rules and regulations of the Securities and Exchange Commission. These unaudited condensed consolidated financial statements 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 position, results of operations and cash flows for the periods presented. Operating results for the three and nine months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2005 due to seasonal, economic and other factors.

Where necessary, information for prior periods has been reclassified to conform to the consolidated financial statement presentation for the corresponding periods in the current fiscal year. We have reclassified \$6.7 million and \$91.0 million of auction rate securities from cash and cash equivalents to investments at March 31, 2005 and June 30, 2004, respectively, to conform with a recent SEC staff accounting clarification.

These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2004.

Note 2. Inventories

Inventories consist of the following:

(\$000s omitted)	March 31, 2005	June 30, 2004
Finished goods	\$ 139,052	104,705
Work in process	56,213	44,738
Raw materials	145,257	142,267
Total	\$ 340,522	291,710

Inventories are stated at the lower of cost or market. The cost of inventories is based on the first-in, first-out (FIFO) method. Cost elements included in inventory are materials, labor, variable overhead and fixed factory overhead. General and administrative expenses are not included as a component of inventory. We periodically review and revise, if necessary, the costs included in inventory and expense these costs if we determine there is no longer a future benefit. The valuation of inventory requires us to make judgments and estimates regarding obsolete, damaged or excess inventory as well as current and future demand for our products. The estimates of future demand along with analysis of usage data are the basis for our inventory reserves. We calculate our inventory reserves by analyzing the aging of inventories, the demand for spare parts and by working closely with our sales and marketing staff to determine future demand for our products.

Note 3. Warranty Liabilities

We warrant our products to be free from defects in materials and workmanship for periods ranging from 90 days to five years from the date of purchase, depending on the product. Estimated warranty liabilities are based upon past experience with similar types of products and the historical incidence of known failure rates for specific production periods. We take these factors into consideration when assessing the adequacy of our warranty provision for periods still open to claim. Depending on the type of product, warranty may be fulfilled by scrapping in the field, repair by dealer or service center, or by an advance replacement system under which customer products are returned to our own facilities for repair.

Details of the estimated warranty liability are as follows:

(\$000s omitted)	Nine months ended	
	March 31,	
	2005	2004
Beginning balance (June 30)	\$ 40,745	21,122
Warranty provisions	41,049	30,486
Warranty payments (cash or in-kind)	<u>(33,192)</u>	<u>(16,991)</u>
Ending balance	<u>\$ 48,602</u>	<u>34,617</u>

Note 4. Comprehensive Income

The components of comprehensive income are as follows:

(\$000s omitted)	Three months ended		Nine months ended	
	March 31,		March 31,	
	2005	2004	2005	2004
Net income	\$ 63,516	43,665	162,613	104,914
Other comprehensive income (loss):				
Foreign currency translation	(30,237)	(6,871)	42,814	40,582
Unrealized gains (losses) on hedging	2,965	4,935	6,973	(203)
Minimum pension liability adjustment	---	2	(1)	(5)
Total other comprehensive income	<u>\$ 36,244</u>	<u>41,731</u>	<u>212,399</u>	<u>145,288</u>

The components of accumulated other comprehensive income (loss) as of March 31, 2005 and June 30, 2004 and the activity for the nine months ended March 31, 2005 are presented below:

<u>(\$000s omitted)</u>	Unrealized loss on hedging Derivatives	Minimum Pension Liability adjustment	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income (loss)
-------------------------	---	---	--	--