

HARMAN INTERNATIONAL INDUSTRIES INC /DE/
Form 10-Q
November 09, 2007

**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 **September 30, 2007**

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

*(I.R.S. Employer
Identification No.)*

**1101 Pennsylvania Avenue, NW, Suite
1010**

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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, 2007, 60,475,102 shares of common stock, par value \$.01, were outstanding.

**Harman International Industries, Incorporated and Subsidiaries
Form 10-Q**

TABLE OF CONTENTS

Part I	FINANCIAL INFORMATION	Page Number
Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets <i>September 30, 2007 (unaudited) and June 30, 2007</i>	4
	Condensed Consolidated Statements of Operations (unaudited) <i>Three months ended September 30, 2007 and 2006</i>	5
	Condensed Consolidated Statements of Cash Flows (unaudited) <i>Three months ended September 30, 2007 and 2006</i>	6
	Notes to Condensed Consolidated Financial Statements (unaudited)	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	27
Item 4.	Controls and Procedures	28
Part II	OTHER INFORMATION	
Item 1.	Legal Proceedings	28
Item 1A.	Risk Factors	29
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	30
Item 6.	Exhibits	31
	Signatures	33

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

References to "Harman International," 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.

2

Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). You should not place undue reliance on these statements. Forward-looking statements include information concerning possible or assumed future results of operations, capital expenditures, the outcome of pending legal proceedings and claims, including environmental matters, 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" 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, there can be no assurance 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. 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:

- automobile industry sales and production rates and the willingness of automobile purchasers to pay for the option of a premium audio system and/or a multi-functional infotainment system;
- changes in consumer confidence and spending;
- fluctuations in currency exchange rates and other risks inherent in international trade and business transactions;
- our ability to satisfy contract performance criteria, including technical specifications and due dates;
- our ability to design and manufacture our products profitably under our long-term contractual commitments;
- the loss of one or more significant customers, including our automotive manufacturer customers;
- competition in the automotive, consumer or professional markets in which we operate;
- model-year changeovers in the automotive industry;
- our ability to enforce or defend our ownership and use of intellectual property;
- our ability to effectively integrate acquisitions made by our company;
- strikes, work stoppages and labor negotiations at our facilities, or at a facility of one of our significant customers; or work stoppages at a common carrier or a major shipping location;
- the outcome of pending or future litigation and administrative claims, including the outcome of any litigation that has been

or may be instituted against our company and others relating to the formerly proposed acquisition of our company by KHI

Parent Inc., a company formed by investment funds affiliated with Kohlberg Kravis Roberts & Co. L.P. and GS Capital

Partners VI Fund, L.P. and its related funds, which are sponsored by Goldman, Sachs & Co.;

- changes in general economic conditions and specific market conditions; and
- world political stability.

Although we believe that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual financial results or results of operations and could cause actual results to differ materially from those expressed in the forward-looking statements. As a result, the forgoing 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, including the information in Item 1A, "Risk Factors" of Part I to our Annual Report on Form 10-K for the fiscal year ended June 30, 2007 and Item 1A, "Risk Factors" of this report.

Part I. FINANCIAL INFORMATION**Item 1. Financial Statements****Condensed Consolidated Balance Sheets**

Harman International Industries, Incorporated and Subsidiaries

(\$000s omitted except share amounts)

	September 30, 2007 (Unaudited)	June 30, 2007
Assets		
Current assets		
Cash and cash equivalents	\$ 77,126	106,141
Receivables (less allowance for doubtful accounts of \$7,078 at September 30, 2007 and \$6,040 at June 30, 2007)	580,167	486,557
Inventories	475,155	453,156
Other current assets	186,798	187,299
Total current assets	1,319,246	1,233,153
Property, plant and equipment, net	605,641	591,976
Goodwill	415,386	403,749
Other assets	281,554	279,990
Total assets	\$ 2,621,827	2,508,868
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings	\$ ----	1,838
Current portion of long-term debt	573	17,029
Accounts payable	325,676	356,763
Accrued liabilities	385,565	350,164
Income taxes payable	8,884	90,187
Total current liabilities	720,698	815,981
Borrowings under revolving credit facility	179,869	55,000
Senior debt	2,591	2,661
Minority interest	87	878
Other non-current liabilities	142,472	140,307
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 and outstanding 83,448,733 at September 30, 2007 and 83,436,983 at June 30, 2007	834	834
Additional paid-in capital	601,632	595,853

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

Accumulated other comprehensive income (loss):		
Unrealized loss on hedging derivatives	(3,790)	(510)
Pension benefits	(15,787)	(15,778)
Cumulative foreign currency translation adjustment	135,126	98,479
Retained earnings	1,497,703	1,454,771
Less common stock held in treasury (18,198,082 shares at September 30, 2007 and June 30, 2007)	(639,608)	(639,608)
Total shareholders' equity	1,576,110	1,494,041
Total liabilities and shareholders' equity	\$ 2,621,827	2,508,868

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended September 30,	
	2007	2006
Net sales	\$ 946,962	825,543
Cost of sales	682,387	538,254
Gross profit	264,575	287,289
Selling, general and administrative expenses	223,134	200,371
Operating income	41,441	86,918
Other expenses:		
Interest expense, net	1,410	139
Miscellaneous, net	671	861
Income before income taxes and minority interest	39,360	85,918
Income tax expense, net	3,657	29,635
Minority interest	(826)	(325)
Net income	\$ 36,529	56,608
Basic earnings per share	\$ 0.56	0.86
Diluted earnings per share	\$ 0.55	0.85
Weighted average shares outstanding – basic	65,242	65,517
Weighted average shares outstanding – diluted	66,363	66,676

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended September 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 36,529	56,608
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	34,149	29,863
Loss on disposition of assets	81	1,378
Stock option expense	4,946	3,697
Changes in working capital, net of acquisition/disposition effects:		
Decrease (increase) in:		
Receivables	(76,602)	(18,940)
Inventories	(6,790)	(36,464)
Other current assets	2,658	(12,874)
Increase (decrease) in:		
Accounts payable	(40,871)	(67,214)
Accrued liabilities	19,875	(10,755)
Income taxes payable	(75,499)	8,468
Other operating activities	(89)	2,710
Net cash used in operating activities	\$ (101,613)	(43,523)
Cash flows from investing activities:		
Contingent purchase price consideration	\$ (3,347)	(2,130)
Proceeds from asset dispositions	164	389
Capital expenditures	(27,469)	(12,430)
Other items, net	(1,910)	1,055
Net cash used in investing activities	\$ (32,562)	(13,116)
Cash flows from financing activities:		
Net (decrease) increase in short-term borrowings	\$ (1,838)	1,053
Net borrowings under revolving credit facility	120,532	(8,567)
Repayment of long-term debt	(16,486)	(13,168)
Other decrease in long-term debt	(529)	(2,397)
Repurchase of common stock	---	(73,024)
Dividends paid to shareholders	(816)	(819)
Exercise of stock options	833	634
Net cash flow provided by (used in) financing activities	\$ 101,696	(96,288)
Effect of exchange rate changes on cash	3,464	(3,848)
Net decrease in cash and cash equivalents	(29,015)	(156,775)
Cash and cash equivalents at beginning of period	\$ 106,141	291,758
Cash and cash equivalents at end of period	\$ 77,126	134,983

Supplemental disclosure of cash flow information:

Interest paid	\$	2,194	2,109
Income taxes paid	\$	73,377	20,877

See accompanying notes to consolidated financial statements.

6

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

Our unaudited, condensed consolidated financial statements at September 30, 2007 and for the three months ended September 30, 2007 and 2006, have been prepared pursuant to rules and regulations of the Securities and Exchange Commission (“SEC”). 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 months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2008 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.

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.

These unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2007.

Note 2. Inventories

Inventories consist of the following:

(\$000s omitted)	September 30, 2007	June 30, 2007
Finished goods	\$ 224,940	235,736
Work in process	61,607	52,682
Raw materials	188,608	164,738
Total	\$ 475,155	453,156

Inventories are stated at the lower of cost or market. Cost is determined principally by the first-in, first-out method. 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 that we use in the valuation of inventory are the basis for our inventory reserves and have an effect on our results of operations. We calculate inventory reserves using a combination of a lower of cost or market analysis, analysis of historical usage data, forecast demand data and historical disposal rates. Lower of cost or market

analysis is typically applied to those items of inventory that represent a

7

substantial portion of the total value of inventory on-hand. The high-value units typically represent a small percentage of the total inventory items, so identification of obsolescence or valuation reserve requirements for the balance of the inventory on-hand is accomplished using either historical or forecast usage to identify slow-moving or obsolete items.

Note 3. Property, Plant and Equipment

Property, plant and equipment are composed of the following:

(\$000s omitted)	September 30, 2007	June 30, 2007
Land	\$ 13,664	14,738
Buildings and improvements	272,881	269,968
Machinery and equipment	965,484	905,293
Furniture and fixtures	43,601	41,386
	1,295,630	1,231,385
Less accumulated depreciation and amortization	(689,989)	(639,409)
Property, plant and equipment, net	\$ 605,641	591,976

Note 4. Warranty Liabilities

We warrant our products to be free from defects in materials and workmanship for periods ranging from six months to six years from the date of purchase, depending on the business segment and product. The warranty is a limited warranty, and it may impose certain shipping costs on the customer and exclude deficiencies in appearance except for those evident when the product is delivered. Our dealers and warranty service providers normally perform warranty service for loudspeakers and electronics in the field, using parts supplied on an exchange basis by our company. Estimated warranty liabilities are based upon past experience with similar types of products, the technological complexity of certain products, replacement cost and other factors. We take these factors into consideration when assessing the adequacy of our warranty provisions for periods still open to claim.

Details of the estimated warranty liabilities are as follows:

(\$000s omitted)	Three months ended September 30,	
	2007	2006
Beginning balance (June 30)	\$ 48,148	60,768
Warranty provisions	20,579	12,545
Warranty payments (cash or in-kind)	(6,874)	(9,830)
Ending balance	\$ 61,853	63,483

The warranty liabilities are included in accrued liabilities.

Note 5. Comprehensive Income

The components of comprehensive income are as follows:

(\$000s omitted)	Three months ended September 30,	
	2007	2006
Net income	\$ 36,529	56,608
Other comprehensive income (loss):		
Foreign currency translation	36,647	(5,912)
Unrealized gains on hedging	(3,280)	1,438
Change in pension benefits	(9)	4
Total comprehensive income	\$ 69,887	52,138

The components of accumulated other comprehensive income (loss) as of September 30, 2007 and June 30, 2007 and the activity for the three months ended September 30, 2007 are presented below:

(\$000s omitted)	Unrealized loss on hedging derivatives	Pension benefits	Cumulative	Accumulated
			foreign currency translation adjustment	other comprehensive income (loss)
June 30, 2007	\$ (510)	(15,778)	98,479	82,191
Foreign currency translation adjustments	---	---	36,647	36,647
Change in fair value of foreign currency cash flow hedges	(3,280)	---	---	(3,280)
Change in pension benefits	---	(9)	---	(9)
September 30, 2007	\$ (3,790)	(15,787)	135,126	115,549

Note 6. Earnings Per Share

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

(000s omitted except per share amounts)	Three months ended September 30, 2007
---	--