

HARMAN INTERNATIONAL INDUSTRIES INC /DE/
Form 10-Q
February 09, 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 **December 31, 2004**

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 67,769,784 shares of common stock, par value \$.01, outstanding at January 31, 2005.

Harman International Industries, Incorporated and Subsidiaries
Form 10-Q
For the Quarterly Period Ended December 31, 2004

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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)

	December 31, 2004	June 30, 2004
Assets		
Current assets		
Cash and cash equivalents	\$ 299,938	377,708
Receivables (less allowance for doubtful accounts of \$8,577 at December 31, 2004 and \$8,657 at June 30, 2004)	402,351	426,211
Inventories	326,331	291,710
Other current assets	108,467	108,406
Total current assets	<u>1,137,087</u>	<u>1,204,035</u>
Property, plant and equipment, net	495,220	434,091
Goodwill	376,618	251,722
Other assets	130,792	98,962
Total assets	<u>\$ 2,139,717</u>	<u>1,988,810</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings	\$ 3,548	3,898
Current portion of long-term debt	865	3,411
Accounts payable	170,103	238,663
Accrued liabilities	340,540	294,168
Income taxes payable	128,262	122,214
Total current liabilities	<u>643,318</u>	<u>662,354</u>
Senior long-term debt	335,450	387,616
Other non-current liabilities	79,010	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 80,527,766 at December 31, 2004 and 78,871,604 at June 30, 2004	805	789
Additional paid-in capital	388,545	355,477
Accumulated other comprehensive income (loss):		
Unrealized loss on hedging derivatives	(3,813)	(7,821)
Minimum pension liability adjustment	(7,380)	(7,379)
Cumulative foreign currency translation adjustment	116,230	43,179
Retained earnings	760,034	662,602
Less common stock held in treasury (12,786,582 shares at December 31, 2004 and 12,781,582 at June 30, 2004)	(172,482)	(171,851)
Total shareholders' equity	<u>1,081,939</u>	<u>874,996</u>
Total liabilities and shareholders' equity	<u>\$ 2,139,717</u>	<u>1,988,810</u>

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		Six months ended	
	December 31,		December 31,	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Net sales	\$ 788,587	691,611	1,480,293	1,288,905
Cost of sales	<u>510,097</u>	<u>472,297</u>	<u>980,404</u>	<u>888,720</u>
Gross profit	278,490	219,314	499,889	400,185
Selling, general and administrative expenses	<u>178,978</u>	<u>153,423</u>	<u>338,452</u>	<u>301,013</u>
Operating income	99,512	65,891	161,437	99,172
Other expense:				
Interest expense	2,600	4,546	5,967	9,436
Miscellaneous, net	<u>699</u>	<u>1,324</u>	<u>4,214</u>	<u>1,860</u>
Income before income taxes	96,213	60,021	151,256	87,876
Income tax expense, net	<u>30,788</u>	<u>18,549</u>	<u>52,159</u>	<u>26,627</u>
Net income	\$ <u><u>65,425</u></u>	<u><u>41,472</u></u>	<u><u>99,097</u></u>	<u><u>61,249</u></u>
Basic earnings per share	\$ 0.97	0.63	1.48	0.93
Diluted earnings per share	\$ 0.92	0.60	1.40	0.89
Weighted average shares - basic	67,361	65,584	66,777	65,556
Weighted average shares - diluted	70,942	69,330	70,592	69,172

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended December 31,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 99,097	61,249
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	61,498	51,542
(Gain) loss on disposition of assets	246	(298)
Stock option expense	8,226	4,268
Changes in working capital, net of acquisition/disposition effects:		
Decrease (increase) in:		
Receivables	57,999	(1,055)
Inventories	(14,911)	52,641
Other current assets	729	2,365
Increase (decrease) in:		
Accounts payable	(81,925)	(41,315)
Accrued liabilities	30,067	22,565
Income taxes payable	(10,196)	22,708
Other operating activities	13,168	1,218
Net cash provided by operating activities	\$ 163,998	175,888
Cash flows from investing activities:		
Payment for purchase of companies, net of cash	\$ (142,703)	(27,545)
Proceeds from asset dispositions	732	3,744
Capital expenditures	(84,002)	(62,160)
Other items, net	4,115	1,045
Net cash used in investing activities	\$ (221,858)	(84,916)
Cash flows from financing activities:		
Net increase (decrease) in short-term borrowings	\$ (848)	(161)
Net increase (decrease) in long-term debt	(13,452)	(30,697)
Repayment of long-term debt	(49,921)	---
Debt issuance costs	(4)	(94)
Repurchase of common stock	(631)	---
Dividends paid to shareholders	(1,665)	(1,639)
Exercise of stock options	24,857	7,261
Net cash flow used in financing activities	\$ (41,664)	(25,330)
Effect of exchange rate changes on cash	21,754	4,376
Net increase (decrease) in cash and cash equivalents	\$ (77,770)	70,018
Cash and cash equivalents at beginning of period	\$ 377,708	147,911
Cash and cash equivalents at end of period	\$ 299,938	217,929
Supplemental disclosure of cash flow information:		
Interest paid	\$ 9,582	9,319
Income taxes paid (refunds received)	\$ 56,419	(2,949)
Supplemental schedule of non-cash investing activities:		
Fair value of assets acquired	\$ 155,939	35,678

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Cash paid for the assets	<u>142,703</u>	<u>27,545</u>
Liabilities assumed	<u>\$ 13,236</u>	<u>8,133</u>

See accompanying notes to condensed consolidated financial statements.

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

Our unaudited, condensed consolidated financial statements at December 31, 2004 and for the three and six months ended December 31, 2004 and 2003, 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 the 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 six months ended December 31, 2004 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.

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)	December 31, 2004	June 30, 2004
Finished goods	\$ 128,618	104,705
Work in process	55,374	44,738
Raw materials and supplies	142,339	142,267
Total	\$ 326,331	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. 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. 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. We periodically review and revise, if necessary, our estimate of the future benefit of costs included in inventory and expense these costs if we deem there is no longer a future benefit.

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)	Six months ended	
	December 31,	
	2004	2003
Beginning balance (June 30)	\$ 40,745	21,122
Warranty provisions	28,903	22,042
Warranty payments (cash or in-kind)	<u>(23,996)</u>	<u>(15,619)</u>
Ending balance	<u>\$ 45,652</u>	<u>27,545</u>

At December 31, 2004, our accrued warranty liability was \$45.6 million compared to \$27.5 million at December 31, 2003, an increase of \$18.1 million. The increase is due to the \$191 million increase in sales for the six months ended December 31, 2004 compared to the six months ended December 31, 2003 and a change in our contractual warranty obligations to certain key customers from one year to two years. This change was the result of a change in government legislation extending certain applicable warranty periods in Europe. Also contributing to the increased warranty provision is currency translation of approximately \$2.8 million. We expect that our warranty provision will increase as sales increase.

Note 4. Comprehensive Income

The components of comprehensive income are as follows:

(\$000s omitted)	Three months ended		Six months ended	
	December 31,		December 31,	
	2004	2003	2004	2003
Net income	\$ 65,425	41,472	99,097	61,249
Other comprehensive income (loss):				
Foreign currency translation	61,715	39,354	73,051	47,453
Unrealized gains (losses) on hedging	2,133	(4,708)	4,008	(5,138)
Minimum pension liability adjustment	---	(7)	(1)	(7)
Total other comprehensive income	<u>\$ 129,273</u>	<u>76,111</u>	<u>176,155</u>	<u>103,557</u>

The components of accumulated other comprehensive income as of December 31, 2004 and June 30, 2004 and the activity for the six months ended December 31, 2004 are presented below:

Cumulative foreign	Unrealized	Minimum	Accumulated
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