

HARMAN INTERNATIONAL INDUSTRIES INC /DE/
Form 10-Q
October 29, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2009

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from _____ to _____

Commission File Number: 1-9764

Harman International Industries, Incorporated

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

400 Atlantic Street, Suite 1500
Stamford, CT
(Address of principal executive offices)

06901
(Zip code)

(203) 328-3500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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, or a non-accelerated filer. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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 12, 2009, 69,360,878 shares of common stock, par value \$.01, were outstanding.

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HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

Form 10-Q

September 30, 2009

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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.

Harman International, the Harman International logo, and the Harman International products and brand names referred to herein are either the trademarks or the registered trademarks of Harman International. All other trademarks are the property of their respective owners.

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Forward Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 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, 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, similar expressions. We base these statements on particular assumptions that we have made in light of our industry experience, as well as our perception of historical trends, current conditions, expected future developments and other factors that we believe are appropriate under the circumstances. As you read and consider the information in this report, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties and assumptions. In light of these risks and uncertainties, we cannot assure you that the results and events contemplated by the forward-looking statements contained in, or incorporated by reference into, this report will in fact transpire.

You should carefully consider the risks described below and the other information in this report because they identify important factors that could cause actual results to differ materially from those predicted in any such forward-looking statements. Our operating results may fluctuate significantly and may not meet our expectations or those of securities analysts or investors. The price of our stock would likely decline if this occurs. Factors that may cause fluctuations in our operating results include, but are not limited to, the following:

our ability to successfully implement our strategic initiatives, including our STEP Change cost reduction program, and to achieve the intended benefits and anticipated savings of those initiatives;

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-function infotainment system;

changes in consumer confidence and spending and worsening economic conditions worldwide;

customer acceptance of our consumer and professional products;

the bankruptcy or financial deterioration of one or more of our major customers or suppliers;

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

changes in interest rates and the availability of financing affecting corporate and consumer spending, including the effects of continued volatility and further deterioration in the financial and credit markets;

fluctuations in currency exchange rates, particularly with respect to the value of the U.S. dollar and the Euro, and other risks inherent in international trade and business transactions;

warranty obligations for defects in our products;

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our ability to satisfy contract performance criteria, including our ability to meet technical specifications and due dates on new platforms, at expected profit margins;

competition in the automotive, consumer or professional markets in which we operate, including pricing pressure in the market for personal navigation devices;

our ability to achieve cost reductions and other benefits in connection with the restructuring of our manufacturing, engineering and administrative organizations;

model-year changeovers and customer acceptance in the automotive industry;

our ability to enforce or defend our ownership and use of intellectual property;

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Forward Looking Statements (continued)

our ability to maintain a competitive technological advantage within the systems, services and products we provide into the marketplace;

our ability to effectively integrate acquisitions made by us or manage restructuring and cost migration initiatives;

our ability to comply with the financial or other covenants in our long-term debt agreements;

limitations on our ability to borrow funds under our existing credit facilities;

the valuation of certain assets, including goodwill, investments and deferred tax assets, considering recent market conditions and operating results;

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;

commodity price fluctuations;

availability of key components for the products we manufacture; and

the outcome of pending or future litigation and other claims, including, but not limited to the current stockholder and ERISA lawsuits.

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 including the information in Item 1A, under the caption **Risk Factors** of Part I to our Annual Report on Form 10-K for the fiscal year ended June 30, 2009 and Item 1A, **Risk Factors** of Part II of this report. We undertake no obligation to publicly update or revise any forward-looking statement (except as required by law).

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

(in thousands)

	September 30, 2009 (Unaudited)	June 30, 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 540,163	\$ 590,568
Receivables, net	510,224	415,837
Inventories, net	364,619	333,704
Other current assets	171,870	170,422
Total current assets	1,586,876	1,510,531
Property, plant and equipment, net	501,284	518,596
Goodwill	81,411	81,877
Deferred tax assets, long-term	282,594	274,312
Other assets	103,619	88,181
Total Assets	\$ 2,555,784	\$ 2,473,497
Liabilities and Equity		
Current liabilities		
Current portion of long-term debt	\$ 637	\$ 605
Accounts payable	283,114	241,420
Accrued liabilities	391,896	362,781
Accrued warranties	99,502	116,673
Income taxes payable	11,285	22,051
Total current liabilities	786,434	743,530
Borrowings under revolving credit facility	224,656	227,319
Convertible senior notes	351,581	347,837
Other senior debt	1,382	1,535
Other non-current liabilities	164,703	145,358
Total Liabilities	1,528,756	1,465,579
Preferred stock		
Common stock	950	949
Additional paid-in capital	875,180	869,609
Accumulated other comprehensive income	78,535	57,198
Retained earnings	1,117,472	1,126,946
Less: Common stock held in treasury	(1,047,570)	(1,047,570)

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Total Harman International Industries, Incorporated Shareholders Equity	1,024,567	1,007,132
Noncontrolling Interest	2,461	786
Total Equity	1,027,028	1,007,918
Total Liabilities and Equity	\$ 2,555,784	\$ 2,743,497

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES**

(in thousands, except per share data)

	Three Months Ended September 30,	
	2009	2008
Net sales	\$ 757,368	\$ 869,190
Cost of sales	557,826	627,260
Gross profit	199,542	241,930
Selling, general and administrative expenses	201,041	209,473
Operating (loss) income	(1,499)	32,457
Other expenses:		
Interest expense, net	9,557	3,402
Miscellaneous, net	1,319	989
(Loss) income before income taxes	(12,375)	28,066
Income tax (benefit) expense, net	(4,577)	7,111
Net (loss) income	(7,798)	20,955
Less: Net income (loss) attributable to noncontrolling interest	1,675	(34)
Net (loss) income attributable to Harman International Industries, Incorporated	\$ (9,473)	\$ 20,989
(Loss) earnings per share:		
Basic	\$ (0.14)	\$ 0.36
Diluted	\$ (0.14)	\$ 0.36
Weighted average shares outstanding:		
Basic	69,254	58,658
Diluted	69,254	58,828

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES**

(in thousands)	Three Months Ended September 30,	
	2009	2008
Cash Flows from Operating Activities:		
Net (loss) income attributable to Harman International Industries, Incorporated	\$ (9,473)	\$ 20,989
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	36,885	42,191
Deferred income tax benefit	(8,282)	(1,825)
(Gain) loss on disposition of assets	(20)	65
Share-based compensation	5,155	(3,448)
Non-cash interest expense	4,393	3,497
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	(82,490)	5,838
Inventories	(22,435)	(43,841)
Other current assets	(496)	20,423
Increase (decrease) in:		
Accounts payable	36,176	(22,697)
Accrued warranties	10,873	(5,275)
Accrued other liabilities	(17,171)	3,752
Income taxes payable	(11,211)	224
Other operating activities	2,272	(2,545)
Net cash (used by) provided by operating activities	(55,824)	17,348
Cash flows from investing activities:		
Contingent purchase price consideration		(2,925)
Proceeds from asset dispositions	242	58
Capital expenditures	(3,776)	(22,782)
Other items, net	2,229	3,186
Net cash used in investing activities	(1,305)	(22,463)
Cash flows from financing activities:		
Net borrowings under revolving credit facility	(6,700)	
Other increase in long-term debt	1,780	145
Dividends paid to shareholders		(732)
Share-based payment arrangements	407	9
Net cash used in financing activities	(4,513)	(578)
Effect of exchange rate changes on cash		