

HARMAN INTERNATIONAL INDUSTRIES INC /DE/
Form 10-Q
April 28, 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 March 31, 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

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(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 April 26, 2016 70,554,695 shares of common stock, par value \$.01, were outstanding.

HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

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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:

- our ability to maintain profitability if there are delays in our product launches or increased pricing pressure from our customers;
- 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;
- fluctuations in currency exchange rates, particularly with respect to the value of the U.S. Dollar and the Euro;
- 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;
- the inability of our suppliers to deliver products at the scheduled rate and disruptions arising in connection therewith;
- our ability to maintain a competitive technological advantage through innovation and leading product designs;
- our ability to integrate successfully our recently completed and future acquisitions;
- our ability to attract and retain qualified senior management and to prepare and implement an appropriate succession plan for our critical organizational positions; 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, 2015. 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 customers. Our future 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. These assumptions are updated and reported externally on an annual basis.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands)	March 31, 2016	June 30, 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 360,420	\$ 649,513
Receivables, net	1,087,327	1,024,139
Inventories	840,216	693,574
Other current assets	502,943	461,366
Total current assets	2,790,906	2,828,592
Property, plant and equipment, net	576,788	552,421
Intangible assets, net	496,289	669,667
Goodwill	1,426,202	1,287,180
Deferred tax assets, net	116,212	100,032
Other assets	382,000	428,008
Total assets	\$ 5,788,397	\$ 5,865,900
Liabilities and Equity		
Current liabilities		
Current portion of long-term debt	\$ 4,227	\$ 4,550
Short-term debt	812	1,021
Accounts payable	781,962	918,910
Accrued liabilities	673,371	907,024
Accrued warranties	173,479	163,331
Income taxes payable	29,022	76,131
Total current liabilities	1,662,873	2,070,967
Borrowings under revolving credit facility	483,000	283,125
Long-term debt	803,809	797,542
Pension liability	189,259	186,662
Other non-current liabilities	174,865	134,778
Total liabilities	3,313,806	3,473,074
Commitments and contingencies	-	-
Preferred stock	-	-
Common stock	1,011	1,007
Additional paid-in capital	1,397,492	1,365,257
Accumulated other comprehensive income	(59,324)	11,434
Retained earnings	2,442,713	2,229,517
Less: Common stock held in treasury	(1,307,319)	(1,232,602)
Total Harman International Industries, Incorporated shareholders' equity	2,474,573	2,374,613
Noncontrolling interest	18	18,213

Total equity	2,474,591	2,392,826
Total liabilities and equity	\$5,788,397	\$5,865,900

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		Nine months ended	
	March 31, 2016	2015	March 31, 2016	2015
Net sales	\$1,628,082	\$1,464,193	\$5,031,127	\$4,476,664
Cost of sales	1,135,215	1,046,063	3,505,770	3,150,736
Gross profit	492,867	418,130	1,525,357	1,325,928
Selling, general and administrative expenses	357,514	326,623	1,099,384	969,881
Operating income	135,353	91,507	425,973	356,047
Other expenses:				
Interest expense, net	8,633	3,001	24,558	7,861
Foreign exchange losses (gains), net	3,570	(3,406)	2,612	(4,366)
Miscellaneous, net	2,912	2,294	11,262	6,932
Income before income taxes	120,238	89,618	387,541	345,620
Income tax expense, net	31,419	19,346	98,019	76,250
Equity in loss of unconsolidated subsidiaries	-	23	-	23
Net income	88,819	70,249	289,522	269,347
Net (loss) income attributable to noncontrolling interest	(5)	(46)	702	(156)
Net income attributable to Harman International Industries,				
Incorporated	\$88,824	\$70,295	\$288,820	\$269,503
Earnings per share:				
Basic	\$1.23	\$1.00	\$4.01	\$3.87
Diluted	\$1.22	\$0.99	\$3.98	\$3.83
Weighted average shares outstanding:				
Basic	72,020	69,946	72,046	69,557
Diluted	72,642	70,795	72,524	70,322

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		Nine months ended	
	March 31, 2016	2015	March 31, 2016	2015
Net income	\$88,819	\$70,249	\$289,522	\$269,347
Net (loss) income attributable to noncontrolling interest	(5)	(46)	702	(156)
Net income attributable to Harman International Industries, Incorporated	\$88,824	\$70,295	\$288,820	\$269,503
Other comprehensive (loss) income, net of taxes ⁽¹⁾ :				
Foreign currency translation	33,583	(82,855)	(19,664)	(210,530)
Unrealized (losses) gains on hedging derivatives, net of taxes	(57,574)	100,583	(50,856)	218,749
Pension liability adjustment, net of taxes	(1,340)	3,436	(5)	6,704
Unrealized (losses) gains on available for sale securities	(182)	38	(233)	90
Other comprehensive (loss) income, net of taxes attributable to Harman International Industries, Incorporated	(25,513)	21,202	(70,758)	15,013
Comprehensive income, net of taxes	63,306	91,451	218,764	284,360
Comprehensive (loss) income, net of taxes attributable to noncontrolling interest	(5)	(46)	702	(156)
Comprehensive income, net of taxes attributable to Harman International Industries, Incorporated	\$63,311	\$91,497	\$218,062	\$284,516

⁽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)	Nine months ended	
	March 31, 2016	2015
Cash flows from operating activities:		
Net income	\$ 289,522	\$ 269,347
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	165,841	114,809
Deferred income taxes	37,094	29,767
Loss (gain) on disposition of assets	1,274	(890)
Share-based compensation	32,908	27,707
Excess tax benefit from share-based compensation	(3,693)	(3,204)
Non-cash interest expense	2,097	2,242
Non-cash (decrease) increase in contingent consideration		