HARMAN INTERNATIONAL INDUSTRIES INC /DE/
Form 10-Q
January 30, 2014

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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 December 31, 2013

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	**11-2534306**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
400 Atlantic Street, Suite 1500 Stamford, CT	**06901**
(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. x 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). x 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 x	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 x No

As of January 23, 2014, 67,781,797 shares of common stock, par value $.01, were outstanding.

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HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

Form 10-Q

December 31, 2013

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

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.

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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, 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 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 maintain profitability in our infotainment segment if there are delays in our product launches which may give rise to significant penalties and increased engineering expense;
- the loss of one or more significant customers, or the loss of a significant platform with an automotive customer;
- fluctuations in currency exchange rates, particularly with respect to the value of the U.S. Dollar and the Euro;
- our ability to successfully implement our global footprint initiative, including achieving cost reductions and other benefits in connection with the restructuring of our manufacturing, engineering, procurement and administrative organizations;
- 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; 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, 2013. 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. We update our estimated awarded business quarterly by adding the value of new awards received and subtracting sales recorded during the quarter. These quarterly updates do not include any assumptions for increased take rates, revisions to product life cycle, or any other factors.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands)	December 31, 2013	June 30, 2013
Assets		
Current assets		
Cash and cash equivalents	$ 518,556	$ 454,258
Short-term investments	0	10,008
Receivables, net	757,006	722,711
Inventories	655,907	549,831
Other current assets	376,618	352,244
Total current assets	2,308,087	2,089,052
Property, plant and equipment, net	437,653	425,182
Goodwill	251,370	234,342
Deferred tax assets, long-term, net	240,380	260,749
Other assets	248,446	226,360
Total assets	**$ 3,485,936**	**$ 3,235,685**
Liabilities and Shareholders Equity		
Current liabilities		
Current portion of long-term debt	$ 30,000	$ 30,000
Short-term debt	21,632	4,930
Accounts payable	616,521	498,055
Accrued liabilities	435,623	402,704
Accrued warranties	146,697	128,411
Income taxes payable	21,944	13,414
Total current liabilities	1,272,417	1,077,514
Long-term debt	240,038	255,043
Pension liability	171,888	167,687
Other non-current liabilities	120,664	90,570
Total liabilities	**1,805,007**	**1,590,814**
Commitments and contingencies		
Preferred stock	0	0

Common stock	980	970
Additional paid-in capital	1,001,975	971,748
Accumulated other comprehensive income	35,314	21,800
Retained earnings	1,904,022	1,827,267
Less: Common stock held in treasury	(1,261,362)	(1,176,914)
Total shareholders equity	**1,680,929**	**1,644,871**
Total liabilities and shareholders equity	**$ 3,485,936**	**$ 3,235,685**

See accompanying Notes to the Condensed Consolidated Financial Statements.

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HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except earnings per share data)	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Six Months Ended December 31, 2013	Six Months Ended December 31, 2012
Net sales	$ 1,328,024	$ 1,055,642	$ 2,499,829	$ 2,053,835
Cost of sales	948,574	783,849	1,798,730	1,503,795
Gross profit	379,450	271,793	701,099	550,040
Selling, general and administrative expenses	277,594	203,411	529,861	402,567
Operating income	101,856	68,382	171,238	147,473
Other expenses:				
Interest expense, net	1,855	3,687	3,825	9,682
Foreign exchange losses, net	3,110	988	3,971	1,139
Miscellaneous, net	1,792	1,430	3,121	2,609
Income before income taxes	95,099	62,277	160,321	134,043
Income tax expense, net	23,470	14,788	42,146	31,999
Equity in net loss of unconsolidated subsidiaries	0	0	94	0
Net income	$ 71,629	$ 47,489	$ 118,081	$ 102,044
Earnings per share:				
Basic	$ 1.04	$ 0.69	$ 1.71	$ 1.48
Diluted	$ 1.03	$ 0.68	$ 1.69	$ 1.47
Weighted average shares outstanding:				
Basic	68,715	69,009	69,131	68,846
Diluted	69,578	69,734	69,947	69,582

See accompanying Notes to the Condensed Consolidated Financial Statements.

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HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Six Months Ended December 31, 2013	Six Months Ended December 31, 2012
Net income	$ 71,629	$ 47,489	$ 118,081	$ 102,044
Other comprehensive income (loss) [1]:				
Foreign currency translation	8,096	15,264	42,181	24,470
Unrealized losses on hedging derivatives	(18,421)	(19,367)	(38,977)	(38,678)
Pension liability adjustment	658	1,172	677	2,082
Unrealized gains on available for sale securities	165	242	175	351
Other comprehensive (loss) income before taxes	(9,502)	(2,689)	4,056	(11,775)
Income taxes benefit	(4,322)	(4,871)	(9,458)	(10,508)
Other comprehensive (loss) income, net of taxes	(5,180)	2,182	13,514	(1,267)
Comprehensive income, net of taxes	$ 66,449	$ 49,671	$ 131,595	$ 100,777

(1) Refer to Note 15 *Other Comprehensive Income (Loss)* for more information.

See accompanying Notes to the Condensed Consolidated Financial Statements.

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HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended December 31,	
(In thousands)	**2013**	**2012**
Cash flows from operating activities:		
Net income	$ 118,081	$ 102,044
Adjustments to reconcile net income to net cash provided by (used in) operating activities, net of acquired businesses:		
Depreciation and amortization	64,239	58,843
Deferred income taxes	12,916	20,487
Loss (gain) on disposition of assets	735	(1,698)
Share-based compensation	15,322	10,227
Non-cash interest expense	1,090	7,405
Non-cash reduction in contingent liabilities	0	(12,500)
Changes in operating assets and liabilities, net of acquired businesses:		
(Increase) decrease in:		
Receivables, net	(17,900)	(30,073)
Inventories	(92,374)	(110,128)
Other current assets	148	(17,255)
Pre-production and development costs	(6,997)	(16,769)
Increase (decrease) in:		
Accounts payable	105,112	(36,116)
Accrued warranties	11,769	9,125
Accrued other liabilities	7,952	(36,475)
Income taxes payable	8,039	(3,776)
Net change in derivative assets and liabilities	11,524	1,578
Other operating activities	(5,742)	2,268
Net cash provided by (used in) operating activities	233,914	(52,813)
Cash flows from investing activities:		
Purchases of short-term investments	0	(60,830)
Maturities of short-term investments	10,008	182,302
Acquisitions, net of cash received	(21,274)	(8,836)
Proceeds from asset dispositions	0	3,668
Capital expenditures	(60,829)	(42,608)
Other items, net	254	0
Net cash (used in) provided by investing activities	(71,841)	73,696
Cash flows from financing activities:		
Net increase (decrease) in short-term borrowings	17,250	(26)
Borrowings under new credit agreement	0	300,000
Repayment of long-term debt	(15,000)	(400,000)

Debt issuance costs		0		(6,094)
Cash dividends to shareholders		(41,212)		(20,522)
Repurchase of common stock		(84,448)		(5,398)
Share-based compensation		14,085		7,480
Excess tax benefit from share-based compensation		1,404		0
Other items, net		397		(1,246)
Net cash used in financing activities		(107,524)		(125,806)
Effect of exchange rate changes on cash		9,749		13,818
Net increase (decrease) in cash and cash equivalents		64,298		(91,105)
Cash and cash equivalents at beginning of period		454,258		617,356
Cash and cash equivalents at end of period	$	518,556	$	526,251
Supplemental disclosure of cash flow information:				
Interest paid, net	$	3,127	$	4,198
Income taxes paid	$	4,325	$	14,122
Non-cash investing activities:				
Accrued and contingent acquisition-related liabilities	$	6,476	$	288

See accompanying Notes to the Condensed Consolidated Financial Statements.

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HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(In thousands, except per-share data and where otherwise noted)

(Unaudited)

Note 1 Basis of Presentation

Basis of Presentation

References to we, us, our, the company and Harman refer to Harman International Industries, Incorporated and i consolidated subsidiaries unless the context specifically requires otherwise.

Our unaudited, condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). These unaudited condensed consolidated financial statements have been prepared in accordance with the accounting policies described in our audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013 (our 2013 Annual Report) and 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 condition, results of operations and cash flows for the periods presented. Operating results for the three and six months ended December 31, 2013 are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2014 due to seasonal, economic and other factors. Where necessary, information for prior periods has been reclassified to conform to the consolidated financial statement presentation in the current fiscal year. These unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and accompanying notes included in our 2013 Annual Report.

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.

Note 2 New Accounting Standards

Recently Adopted Accounting Standards

Comprehensive Income: In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which amends Accounting Standards Codification 220, Comprehensive Income. The new guidance requires the disclosure of amounts reclassified out of accumulated other comprehensive income by component and by net income line item. The disclosure may be provided either parenthetically on the face of the financial statements or in the notes. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2012. We adopted the provisions of this new guidance on July 1, 2013. The adoption of the new provisions did not have a material impact on our financial condition or results of operations.

Intangible Assets: In July 2012, the FASB issued ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment, which allows companies to perform a qualitative assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary, similar in approach to the goodwill impairment test. The new guidance allows an entity the option to first assess qualitatively whether it is more likely than not (that is, a likelihood of more than 50 percent) that an indefinite-lived intangible asset is impaired, thus necessitating that it perform the quantitative impairment test. An entity is not required to calculate the fair value of an indefinite-lived intangible asset and perform the quantitative impairment test unless the entity determines that it is more likely than not that the asset is impaired. The new guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted for annual and interim impairment tests performed as of a date before July 27, 2012, if the financial statements for the most recent annual or interim period have not yet been issued. We adopted the provisions of this new guidance on July 1, 2013. The adoption of the new provisions did not have a material impact on our financial condition or results of operations.

Balance Sheet: In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities, which requires companies to disclose information about financial instruments that have been offset and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial condition. Companies will be required to provide both net (offset amounts) and gross information in the notes to the financial statements for relevant assets and liabilities that are offset. The new guidance is effective retrospectively for fiscal years and interim periods within those fiscal years beginning on or after January 1, 2013. We adopted the provisions of this new guidance on July 1, 2013. The adoption of the new provisions did not have a material impact on our financial condition or results of operations.

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Recently Issued Accounting Standards

Income Taxes: In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The new guidance requires that unrecognized tax benefits be presented on a net basis with the deferred tax assets for such carryforwards. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2013. We will adopt the provisions of this new guidance on July 1, 2014. We do not expect the adoption of the new provisions to have a material impact on our financial condition or results of operations.

Note 3 Allowance for Doubtful Accounts

We reserve an estimated amount for accounts receivable that may not be collected. Methodologies for estimating the allowance for doubtful accounts are based primarily on specific identification of uncollectible accounts. Historical collection rates and customer credit worthiness are considered in determining specific reserves. At December 31, 2013 and June 30, 2013, we had $11.4 million and $11.2 million, respectively, reserved for possible uncollectible accounts receivable.

Note 4 Inventories

Inventories consist of the following:

	December 31, 2013	June 30, 2013
Finished goods	$ 304,659	$ 234,770
Work in process	88,243	92,640
Raw materials	263,005	222,421
Inventories	$ 655,907	$ 549,831

At December 31, 2013 and June 30, 2013, our inventory reserves were $81.9 million and $72.9 million, respectively.

Note 5 Property, Plant and Equipment, net

Property, plant and equipment, net consist of the following:

	Estimated Useful Lives (in Years)	December 31, 2013	June 30, 2013
Land		$ 7,071	$ 6,859
Buildings and improvements	1-50	249,320	247,758
Machinery and equipment	3-20	1,192,498	1,113,228
Furniture and fixtures	3-10	34,117	33,175
Property, plant and equipment, gross		1,483,006	1,401,020

Less accumulated depreciation and amortization	(1,045,353)	(975,838)
Property, plant and equipment, net	$ 437,653	$ 425,182

Depreciation expense for the three months ended December 31, 2013 and 2012 was $29.1 million and $27.7 million, respectively, and was $57.9 million and $54.2 million in the six months ended December 31, 2013 and 2012, respectively.

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Note 6 Accrued Warranties

Details of our accrued warranties are as follows:

	Six Months Ended December 31, 2013	Six Months Ended December 31, 2012
Accrued warranties, June 30,	$ 128,411	$ 97,289
Warranty expense	39,405	33,184
Warranty payments (cash or in-kind)	(26,704)	(24,286)
Other[(1)]	5,585	4,070
Accrued warranties, December 31,	$ 146,697	$ 110,257

(1) Other primarily represents foreign currency translation.

Note 7 Earnings Per Share

We apply the two-class method when computing earnings per share, which requires that net income per share for each class of shares entitled to dividends be calculated assuming all of our net income is distributed as dividends to these shareholders based on their contractual rights.

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

	Three Months Ended December 31, 2013		Three Months Ended December 31, 2012	
	Basic	Diluted	Basic	Diluted
Numerator for Basic and Diluted Earnings per Share:				
Net income	$ 71,629	$ 71,629	$ 47,489	$ 47,489
Denominator for Basic and Diluted Earnings per Share:				
Weighted average shares outstanding	68,715	68,715	69,009	69,009
Employee stock options	0	863	0	725
Total weighted average shares outstanding	68,715	69,578	69,009	69,734
Earnings per Share:				
Earnings per share	$ 1.04	$ 1.03	$ 0.69	$ 0.68

	Six Months Ended December 31,			
	2013		2012	
	Basic	**Diluted**	**Basic**	**Diluted**
Numerator for Basic and Diluted Earnings per Share:				
Net income	$ 118,081	$ 118,081	$ 102,044	$ 102,044
Denominator for Basic and Diluted Earnings per Share:				
Weighted average shares outstanding	69,131	69,131	68,846	68,846
Employee stock options	0	816	0	736
Total weighted average shares outstanding	69,131	69,947	68,846	69,582
Earnings per Share:				
Earnings per share	$ 1.71	$ 1.69	$ 1.48	$ 1.47

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are considered participating securities, as defined under GAAP, and are included in the computation of earnings per share pursuant to the two-class method.

Certain options were outstanding and not included in the computation of diluted net earnings per share because the assumed exercise of these options would have been antidilutive. Options to purchase 943,458 and 1,642,862 shares of our common stock were outstanding for the three months ended December 31, 2013 and 2012, respectively, and were excluded from the computation of diluted earnings per share because they would have been antidilutive. No restricted shares and restricted stock units were outstanding for the three months ended December 31, 2013 and 2012, respectively, that were excluded from the computation of diluted earnings per share as they also would have been antidilutive. Options to purchase 1,014,125 and 1,542,575 shares of our common stock were outstanding for the six months ended December 31, 2013 and 2012, respectively, and were excluded from the computation of diluted earnings per share because they would have been antidilutive. In addition 177,489 and 59,352 of restricted shares and restricted stock units were outstanding for the six months ended December 31, 2013 and 2012, respectively, that were excluded from the computation of diluted earnings per share as they also would have been antidilutive.

In October 2012, we repaid our $400.0 million of 1.25 percent convertible senior notes due October 15, 2012 (the Convertible Senior Notes), and therefore the Convertible Senior Notes had no impact on our calculation of earnings per share for the three and six months ended December 31, 2013. For the three and six months ended December 31, 2012, the conversion terms of the Convertible Senior Notes would have affected the calculation of diluted earnings per share if the price of our common stock exceeded the conversion price of the Convertible Senior Notes. The initial conversion price of the Convertible Senior Notes was approximately $104 per share, subject to adjustment in specified circumstances as described in the indenture governing the Convertible Senior Notes, as amended (the Indenture). Upon conversion, a holder of the Convertible Senior Notes would have received an amount in cash per $1,000 principal amount of Convertible Senior Notes equal to the lesser of $1,000 or the conversion value of the Convertible Senior Notes, determined in the manner set forth in the Indenture. If the conversion value exceeded $1,000, we would have delivered $1,000 in cash and, at our option, cash or common stock or a combination of cash and common stock for the conversion price in excess of $1,000. The conversion option would not have resulted in an adjustment to net income in calculating diluted earnings per share. The dilutive effect of the conversion option was calculated using the treasury stock method. Therefore, conversion settlement shares would have been included in diluted shares outstanding if the price of our common stock exceeded the conversion price of the Convertible Senior Notes. Refer to Note 9 *Debt* for more information.

Note 8 Goodwill

During the three and six months ended December 31, 2013, we recorded $15.9 million of goodwill in our Professional segment associated with the acquisition of Duran Audio BV (Duran). During the three and six months ended December 31, 2012, we recorded $0.6 million of goodwill in our Infotainment segment associated with the acquisition of certain assets of Interchain Solution Private Limited (Interchain). Refer to Note 23 *Acquisitions* for more information.

We did not recognize any goodwill impairment charges in our Condensed Consolidated Statements of Income in the three and six months ended December 31, 2013 and 2012.

The contingent purchase price associated with the acquisition of innovative Systems GmbH (IS) is calculated pursuant to the terms of an agreement between the parties. Certain terms of the agreement are currently subject to a dispute between the parties and the matter has been submitted to arbitration. On November 5, 2013, the arbitration panel reached a partial judgment on some of the disputed matters covering the period from February 2009 through January 2012 in the amount of 16.3 million. We are contesting the enforcement of the partial award. Until such time as the dispute is resolved, we cannot calculate the contingent purchase price.

Note 9 Debt

Short Term Borrowings

At December 31, 2013 and June 30, 2013, we had $21.6 million and $4.9 million of short-term borrowings outstanding, respectively. At December 31, 2013, we maintained lines of credit of $63.3 million primarily in Germany, Hungary, China, Brazil, the U.S., India and Denmark. At June 30, 2013, we maintained lines of credit of

$55.7 million primarily in Denmark, Hungary, the U.S., Austria, Brazil and India.

We classify our debt based on the contractual maturity dates of the underlying debt instruments. We defer costs associated with debt issuance over the applicable term of the debt. These costs are amortized to Interest expense, net in our Condensed Consolidated Statements of Income.

New Credit Agreement

On October 10, 2012, we and Harman Holding GmbH & Co. KG (Harman KG), entered into a Multi-Currency Credit Agreement (the New Credit Agreement) with a group of banks. At December 31, 2013 and June 30, 2013 there were no outstanding borrowings and approximately $6.0 million and $6.8 million of outstanding letters of credit, respectively, under the new revolving credit facility (New Revolving Credit Facility) and $270.0 million and $285.0 million of outstanding borrowings under the term facility (the Term Facility), respectively, of which $30.0 million is included in each period in our Condensed Consolidated Balance Sheet as Current portion of long-term debt and $240.0 million and $255.0 million, respectively, is classified as Long-term debt. At December 31, 2013 and June 30, 2013, unused available credit under the New Revolving Credit Facility was $744.0 million and $743.2 million, respectively. If we do not meet the forecast in our budgets, we could violate our debt covenants and, absent a waiver from our lenders or an amendment to the New Credit Agreement, we could be in default under the New Credit Agreement. As a result, our debt under the New Credit Agreement could become due, which would have a material adverse effect on our financial condition and results of operations. As of December 31, 2013, we were in compliance with all the covenants of the New Credit Agreement.

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Long-Term Debt and Current Portion of Long-Term-Debt

At December 31, 2013 and June 30, 2013, long-term debt and current portion of long-term debt consisted of the following:

	Fair Value at December 31, 2013	Book Value at December 31, 2013	Fair Value at June 30, 2013	Book Value at June 30, 2013
Term facility	$ 270,000	$ 270,000	$ 285,000	$ 285,000
Other obligations	38	38	43	43
Total debt	270,038	270,038	285,043	285,043
Less: current portion of long-term debt	(30,000)	(30,000)	(30,000)	(30,000)
Total long-term debt	$ 240,038	$ 240,038	$ 255,043	$ 255,043

At December 31, 2013, long-term debt maturing in each of the next five fiscal years and thereafter is as follows:

2014	$ 15,000
2015	35,625
2016	43,125
2017	135,000
2018	41,288
Thereafter	0
Total	$ 270,038

Interest expense is reported net of interest income in our Condensed Consolidated Statements of Income. Interest expense, net was $1.9 million and $3.7 million for the three months ended December 31, 2013 and 2012, respectively. Gross interest expense was $2.6 million and $4.3 million for the three months ended December 31, 2013 and 2012, respectively. The non-cash portion of gross interest expense was $0.5 million and $2.5 million for the three months ended December 31, 2013 and 2012, respectively, associated with the amortization of debt issuance costs on the New Credit Agreement in the three months ended December 31, 2013 and the amortization of the debt discount on the Convertible Senior Notes and the amortization of debt issuance costs on the New Credit Agreement, the Convertible Senior Notes and the Multi-Currency Credit Agreement entered into on December 1, 2010 (the Old Credit Agreement) in the three months ended December 31, 2012. The cash portion of gross interest expense was $2.1 million and $1.8 million for the three months ended December 31, 2013 and 2012, respectively. Interest income was $0.7 million and $0.6 million for the three months ended December 31, 2013 and 2012, respectively.

Interest expense, net was $3.8 million and $9.7 million for the six months ended December 31, 2013 and 2012, respectively. Gross interest expense was $4.9 million and $11.0 million for the six months ended December 31, 2013 and 2012, respectively. The non-cash portion of gross interest expense was $1.1 million and $7.4 million for the six months ended December 31, 2013 and 2012, respectively, associated with the amortization of debt issuance costs on the New Credit Agreement in the six months ended December 31, 2013 and the amortization of the debt discount on the Convertible Senior Notes and the amortization of debt issuance costs on the New Credit Agreement, the Convertible Senior Notes and the Old Credit Agreement in the six months ended December 31, 2012. The cash portion of gross interest expense was $3.8 million and $3.6 million for the six months ended December 31, 2013 and 2012, respectively. Interest income was $1.1 million and $1.3 million for the six months ended December 31, 2013 and 2012, respectively.

Note 10 Income Taxes

Our provision for income taxes is based on an estimated annual tax rate for the year applied to federal, state and foreign income. Income tax expense for the three months ended December 31, 2013 and 2012 was $23.5 million and $14.8 million, respectively. The effective tax rate for the three months ended December 31, 2013 and 2012 was 24.7 percent and 23.7 percent, respectively. The change in the effective tax rate for the three months ended December 31, 2013 compared to the same period in the prior year was primarily due to higher income in the U.S. that is subject to a tax rate higher than those in our key foreign jurisdictions.

Income tax expense for the six months ended December 31, 2013 and 2012 was $42.1 million and $32.0 million, respectively. The effective tax rate for the six months ended December 31, 2013 and 2012 was 26.3 percent and 23.9 percent, respectively. The change in the effective tax rate for the six months ended December 31, 2013 compared to the same period in the prior year was primarily due to higher income in the U.S. that is subject to a tax rate higher than those in our key foreign jurisdictions.

As of December 31, 2013 unrecognized tax benefits and the related interest were $36.1 million and $2.6 million, respectively; all of which would affect the tax rate if recognized. During the three and six months ended December 31, 2013, we recorded tax reserves on uncertain tax positions in the amount of $0.2 million and $1.0 million, respectively. During the three and six months ended December 31, 2013, we recorded additional interest expense on uncertain tax positions of $0.4 million and $0.5 million, respectively.

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Note 11 Shareholders Equity

Preferred Stock

As of December 31, 2013 and June 30, 2013, we had no shares of preferred stock outstanding. We are authorized to issue 5 million shares of preferred stock, $0.01 par value.

Common Stock

We have 200 million authorized shares of common stock, $0.01 par value. At December 31, 2013 and June 30, 2013, we had 98,006,017 and 97,044,572 shares issued; 30,261,508 and 28,992,092 shares in treasury stock and 67,744,509 and 68,052,480 shares outstanding (net of treasury stock), respectively.

Share Buy-Back Program

On October 26, 2011, our Board of Directors authorized the repurchase of up to $200 million of our common stock (the Buyback Program). The Buyback Program allows us to purchase shares of our common stock in accordance with applicable securities laws on the open market, or through privately negotiated transactions. We entered into an agreement with an external broker that provided the structure under which the program was facilitated, which expired on October 25, 2012. The Buyback Program was set to expire on October 26, 2012, but on October 23, 2012 our Board of Directors approved an extension of the Buyback Program through October 25, 2013. On June 19, 2013 we entered into a new agreement with an external broker which expired on October 25, 2013 (the 10b5-1 Plan). On June 26, 2013, our Board of Directors authorized the repurchase of up to an additional $200 million of our common stock (the New Buyback Program) which expires on June 26, 2014. On August 26, 2013 we amended the 10b5-1 Plan to incorporate both board authorizations up until each of their respective expiration dates (the Amended 10b5-1 Plan). The Amended 10b5-1 Plan expires on June 25, 2014. During the three and six months ended December 31, 2013, we repurchased 868,110 shares and 1,268,110 shares, respectively, at a cost of $58.1 million and $84.4 million, respectively, for a total cumulative buyback of 4,660,385 shares at a cost of $213.8 million under the Buyback Program and the New Buyback Program.

The New Buyback Program may be suspended or discontinued at any time. We will determine the timing and the amount of any repurchases based on an evaluation of market conditions, share price and other factors.

Changes in Equity:

The following is a summary of the changes in Accumulated Other Comprehensive Income (AOCI) and changes in equity for the six months ended December 31, 2013 and 2012:

	Preferred Stock	Common Stock	Additional Paid-in Capital	AOCI	Retained Earnings	Treasury Stock	Total Equity
Balance at June 30, 2013	$ 0	$ 970	$ 971,748	$ 21,800	$ 1,827,267	$ (1,176,914)	$ 1,644,871
Net income	0	0	0	0	118,081	0	118,081
Other comprehensive income, net of tax	0	0	0	13,514	0	0	13,514
	0	0	0	0	0	(84,448)	(84,448)

Treasury stock repurchases							
Exercise of stock options, net of shares received	0	10	14,075	0	0	0	14,085
Share-based compensation, net of tax	0	0	16,152	0	0	0	16,152
Dividends ($1.20 per share)	0	0	0	0	(41,326)	0	(41,326)
Balance at December 31, 2013	$ 0	$ 980	$ 1,001,975	$ 35,314	$ 1,904,022	$ (1,261,362)	$ 1,680,929

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	Preferred Stock	Common Stock	Additional Paid-in Capital	AOCI	Retained Earnings	Treasury Stock	Total Equity
Balance at June 30, 2012	$ 0	$ 961	$ 943,971	$ 29,709	$ 1,726,486	$ (1,171,516)	$ 1,529,611
Net income	0	0	0	0	102,044	0	102,044
Other comprehensive loss, net of tax	0	0	0	(1,267)	0	0	(1,267)
Treasury stock repurchases	0	0	0	0	0	(5,398)	(5,398)
Exercise of stock options, net of shares received	0	7	7,473	0	0	0	7,480
Share-based compensation, net of tax	0	0	7,621	0	0	0	7,621
Dividends ($0.60 per share)	0	0	0	0	(20,794)	0	(20,794)
Balance at December 31, 2012	$ 0	$ 968	$ 959,065	$ 28,442	$ 1,807,736	$ (1,176,914)	$ 1,619,297

Note 12 Share-Based Compensation

On December 7, 2011 (the Effective Date), our shareholders approved the 2012 Stock Option and Incentive Plan (the 2012 Plan), which is effective through December 7, 2021. As of the Effective Date, no further grants may be granted under our former plan, the Amended and Restated 2002 Stock Option and Incentive Plan, as amended (the 2002 Plan and together with the 2012 Plan, the Plans). On December 4, 2013, we amended the 2012 Plan to (1) increase the number of shares available under the 2012 Plan for the grant of future awards by 2,869,821 shares to an aggregate amount not to exceed 7,269,821 shares of our common stock and (2) modified certain share counting provisions related to the definition of a full-value grant from 1.71 to 1.5 (Full-Value Grant). The 2012 Plan provides for two types of awards: (1) a Full-Value Grant under which one award shall reduce the shares available for grant under the 2012 Plan by 1.71 shares if granted prior to December 4, 2013 or 1.5 shares if granted on or after December 4, 2013, and (2) an option or stock appreciation right grant, under which one award shall reduce the shares available for grant under the 2012 Plan by one share. During the six months ended December 31, 2013, 449,704 options to purchase shares of our common stock, 447,434 stock-settled restricted stock units, 613 cash-settled restricted stock units and 5,515 cash-settled stock appreciation rights were granted under the 2012 Plan. As of December 31, 2013, there were 4,493,099 shares availab