

HARLEY DAVIDSON INC  
Form 10-Q  
November 06, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

FORM 10-Q

Q QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended September 28, 2014

£ 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 1-9183

Harley-Davidson, Inc.  
(Exact name of registrant as specified in its charter)

Wisconsin 39-1382325  
(State of organization) (I.R.S. Employer Identification No.)

3700 West Juneau Avenue 53208  
Milwaukee, Wisconsin  
(Address of principal executive offices) (Zip code)

Registrants telephone number: (414) 342-4680

None  
(Former name, former address and former fiscal year, if changed since last report)

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 requirements for the past 90 days. Yes Q 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 Q 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.

Large accelerated filer Q Accelerated filer £

Non-accelerated filer £ 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 Q

Number of shares of the registrant's common stock outstanding at October 31, 2014: 214,268,152 shares

Harley-Davidson, Inc.

Form 10-Q

For The Quarter Ended September 28, 2014

Part I	<u>Financial Information</u>	<u>3</u>
Item 1.	<u>Financial Statements</u>	<u>3</u>
	<u>Condensed Consolidated Statements of Operations</u>	<u>3</u>
	<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>4</u>
	<u>Condensed Consolidated Balance Sheets</u>	<u>5</u>
	<u>Condensed Consolidated Statements of Cash Flows</u>	<u>7</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>40</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>59</u>
Item 4.	<u>Controls and Procedures</u>	<u>59</u>
Part II	<u>Other Information</u>	<u>60</u>
Item 1.	<u>Legal Proceedings</u>	<u>60</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>60</u>
Item 6.	<u>Exhibits</u>	<u>60</u>
	<u>Signatures</u>	<u>61</u>

---

Table of Contents

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## HARLEY-DAVIDSON, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three months ended		Nine months ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Revenue:				
Motorcycles and Related Products	\$ 1,130,558	\$ 1,180,284	\$ 4,536,531	\$ 4,225,998
Financial Services	171,046	163,434	491,820	483,240
Total revenue	1,301,604	1,343,718	5,028,351	4,709,238
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	735,958	763,969	2,825,661	2,688,371
Financial Services interest expense	40,141	39,944	119,739	126,004
Financial Services provision for credit losses	21,497	14,604	57,789	39,011
Selling, administrative and engineering expense	279,935	273,016	842,512	825,899
Restructuring expense (benefit)	—	646	—	(1,713 )
Total costs and expenses	1,077,531	1,092,179	3,845,701	3,677,572
Operating income	224,073	251,539	1,182,650	1,031,666
Investment income	1,509	1,161	4,940	4,546
Interest expense	77	11,369	4,147	33,998
Income before provision for income taxes	225,505	241,331	1,183,443	1,002,214
Provision for income taxes	75,439	78,615	413,307	343,630
Net income	\$ 150,066	\$ 162,716	\$ 770,136	\$ 658,584
Earnings per common share:				
Basic	\$0.70	\$0.73	\$3.54	\$2.95
Diluted	\$0.69	\$0.73	\$3.52	\$2.93
Cash dividends per common share	\$0.275	\$0.210	\$0.825	\$0.630

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

HARLEY-DAVIDSON, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three months ended		Nine months ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Net Income	\$150,066	\$ 162,716	\$770,136	\$ 658,584
Other comprehensive (loss) income, net of tax				
Foreign currency translation adjustments	(32,529 )	9,232	(23,848 )	(12,642 )
Derivative financial instruments	12,595	(6,500 )	15,518	4,011
Marketable securities	(148 )	(187 )	(264 )	(814 )
Pension and postretirement benefit plans	6,069	10,239	18,206	30,717
Total other comprehensive (loss) income, net of tax	\$(14,013 )	\$ 12,784	\$9,612	\$ 21,272
Comprehensive income	\$136,053	\$ 175,500	\$779,748	\$ 679,856

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

## HARLEY-DAVIDSON, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	(Unaudited) September 28, 2014	December 31, 2013	(Unaudited) September 29, 2013
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$979,866	\$1,066,612	\$1,029,955
Marketable securities	57,579	99,009	122,234
Accounts receivable, net	286,256	261,065	290,158
Finance receivables, net	2,012,466	1,773,686	1,829,612
Inventories	460,958	424,507	401,199
Restricted cash	142,286	144,807	194,329
Deferred income taxes	54,962	103,625	113,367
Other current assets	208,105	115,492	111,821
Total current assets	4,202,478	3,988,803	4,092,675
Finance receivables, net	4,653,034	4,225,877	4,355,278
Property, plant and equipment, net	826,764	842,477	795,235
Prepaid pension costs	261,983	244,871	—
Goodwill	28,638	30,452	30,041
Deferred income taxes	2,559	3,339	143,047
Other long-term assets	50,050	69,221	67,732
	\$10,025,506	\$9,405,040	\$9,484,008
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$329,288	\$239,794	\$326,713
Accrued liabilities	507,006	427,335	539,227
Short-term debt	352,430	666,317	394,460
Current portion of long-term debt	1,518,320	1,176,140	721,316
Total current liabilities	2,707,044	2,509,586	1,981,716
Long-term debt	3,573,118	3,416,713	4,067,733
Pension liability	38,594	36,371	144,563
Postretirement healthcare liability	204,890	216,165	267,919
Deferred income taxes	42,326	49,499	—
Other long-term liabilities	175,171	167,220	140,230
Commitments and contingencies (Note 16)			
Shareholders' equity:			
Preferred stock, none issued	—	—	—
Common stock	3,439	3,432	3,429
Additional paid-in-capital	1,242,676	1,175,052	1,152,822
Retained earnings	8,443,005	7,852,729	7,824,236
Accumulated other comprehensive loss	(323,064)	(332,676)	(586,406)
Treasury stock, at cost	(6,081,693)	(5,689,051)	(5,512,234)
Total shareholders' equity	3,284,363	3,009,486	2,881,847
	\$10,025,506	\$9,405,040	\$9,484,008



Table of Contents

HARLEY-DAVIDSON, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

(In thousands)

	(Unaudited) September 28, 2014	December 31, 2013	(Unaudited) September 29, 2013
Balances held by consolidated variable interest entities (Note 6)			
Current finance receivables, net	\$336,520	\$352,899	\$419,892
Other assets	\$3,845	\$4,149	\$5,456
Non-current finance receivables, net	\$1,279,917	\$1,184,441	\$1,460,834
Restricted cash	\$129,828	\$133,053	\$181,231
Current portion of long-term debt	\$378,190	\$334,630	\$378,472
Long-term debt	\$1,096,958	\$922,002	\$1,068,184

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

## HARLEY-DAVIDSON, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine months ended	
	September 28, 2014	September 29, 2013
Net cash provided by operating activities (Note 3)	\$966,868	\$825,103
Cash flows from investing activities:		
Capital expenditures	(120,316	) (111,690
Origination of finance receivables	(2,918,881	) (2,617,100
Collections on finance receivables	2,308,237	2,170,919
Purchases of marketable securities	—	(4,998
Sales and redemptions of marketable securities	41,010	17,105
Other	275	6,721
Net cash used by investing activities	(689,675	) (539,043
Cash flows from financing activities:		
Repayments of senior unsecured notes	(303,000	) —
Proceeds from issuance of medium-term notes	594,431	—
Repayments of medium-term notes	(7,220	) (27,858
Proceeds from securitization debt	847,126	647,516
Repayments of securitization debt	(631,302	) (650,424
Net (decrease) increase in credit facilities and unsecured commercial paper	(315,278	) 99,416
Borrowings of asset-backed commercial paper	57,669	69,555
Repayments of asset-backed commercial paper	(58,717	) (58,990
Net change in restricted cash	2,521	(6,321
Dividends paid	(179,860	) (140,772
Purchase of common stock for treasury	(393,459	) (302,196
Excess tax benefits from share-based payments	8,873	18,444
Issuance of common stock under employee stock option plans	28,850	39,145
Net cash used by financing activities	(349,366	) (312,485
Effect of exchange rate changes on cash and cash equivalents	(14,573	) (11,758
Net decrease in cash and cash equivalents	\$(86,746	) \$(38,183
Cash and cash equivalents:		
Cash and cash equivalents—beginning of period	\$1,066,612	\$1,068,138
Net decrease in cash and cash equivalents	(86,746	) (38,183
Cash and cash equivalents—end of period	\$979,866	\$1,029,955

The accompanying notes are an integral part of the consolidated financial statements.



Table of Contents

HARLEY-DAVIDSON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation and Use of Estimates

The condensed consolidated financial statements include the accounts of Harley-Davidson, Inc. and its wholly-owned subsidiaries (the Company), including the accounts of the group of companies doing business as Harley-Davidson Motor Company (HDMC) and Harley-Davidson Financial Services (HDFS). In addition, certain variable interest entities (VIEs) related to secured financing are consolidated as the Company is the primary beneficiary. All intercompany accounts and material intercompany transactions are eliminated.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the condensed consolidated balance sheets as of September 28, 2014 and September 29, 2013, the condensed consolidated statements of operations for the three and nine month periods then ended, the condensed consolidated statements of comprehensive income for the three and nine month periods then ended and the condensed consolidated statements of cash flows for the nine month periods then ended.

Certain information and footnote disclosures normally included in complete financial statements have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and U.S. generally accepted accounting principles (U.S. GAAP) for interim financial reporting. These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

The Company operates in two business segments: Motorcycles & Related Products (Motorcycles) and Financial Services (Financial Services).

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

2. New Accounting Standards

Accounting Standards Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09 Revenue from Contracts with Customers (ASU No. 2014-09). ASU No. 2014-09 is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The Company is required to adopt ASU No. 2014-09 for fiscal years beginning after December 15, 2016 and for interim periods therein. The Company is currently evaluating the impact of adoption.

Accounting Standards Recently Adopted

In July 2013, the FASB issued ASU No. 2013-11 Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU No. 2013-11). ASU No. 2013-11 amends the guidance within Accounting Standards Codification (ASC) Topic 740, "Income Taxes", to require entities to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The Company adopted ASU No. 2013-11 on January 1, 2014. There were no material presentation changes resulting from the adoption of ASU No. 2013-11.

Table of Contents

## 3. Additional Balance Sheet and Cash Flow Information

## Marketable Securities

The Company's marketable securities consisted of the following (in thousands):

	September 28, 2014	December 31, 2013	September 29, 2013
Available-for-sale: Corporate bonds	\$57,579	\$99,009	\$122,234
Trading securities: Mutual funds	32,727	30,172	23,277
	\$90,306	\$129,181	\$145,511

The Company's available-for-sale securities are carried at fair value with any unrealized gains or losses reported in other comprehensive income. During the first nine months of 2014 and 2013, the Company recognized gross unrealized losses of approximately \$0.4 million and \$1.3 million, respectively, or \$0.3 million and \$0.8 million net of taxes, respectively, to adjust amortized cost to fair value. The marketable securities have contractual maturities that generally come due over the next 6 to 20 months.

The Company's trading securities relate to investments held by the Company to fund certain deferred compensation obligations. The trading securities are carried at fair value with gains and losses recorded in net income and investments are included in other long-term assets on the consolidated balance sheets.

## Inventories

Inventories are valued at the lower of cost or market. Substantially all inventories located in the United States are valued using the last-in, first-out (LIFO) method. Other inventories are valued at the lower of cost or market using the first-in, first-out (FIFO) method. Inventories consist of the following (in thousands):

	September 28, 2014	December 31, 2013	September 29, 2013
Components at the lower of FIFO cost or market			
Raw materials and work in process	\$148,267	\$140,302	\$130,510
Motorcycle finished goods	242,133	205,416	181,239
Parts and accessories and general merchandise	119,284	127,515	135,339
Inventory at lower of FIFO cost or market	509,684	473,233	447,088
Excess of FIFO over LIFO cost	(48,726)	) (48,726	) (45,889
	\$460,958	\$424,507	\$401,199

Table of Contents

## Operating Cash Flow

The reconciliation of net income to net cash provided by operating activities is as follows (in thousands):

	Nine months ended	
	September 28, 2014	September 29, 2013
Cash flows from operating activities:		
Net income	\$770,136	\$658,584
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	130,688	122,658
Amortization of deferred loan origination costs	70,330	63,548
Amortization of financing origination fees	6,405	6,994
Provision for employee long-term benefits	25,281	50,158
Contributions to pension and postretirement plans	(22,528)	(197,243)
Stock compensation expense	27,862	31,030
Net change in wholesale finance receivables related to sales	(194,711)	(71,869)
Provision for credit losses	57,789	39,011
Loss on debt extinguishment	1,145	4,947
Deferred income taxes	(12,030)	—
Foreign currency adjustments	12,948	12,874
Other, net	11,535	(63)
Changes in current assets and liabilities:		
Accounts receivable, net	(40,015)	(65,835)
Finance receivables—accrued interest and other	(2,077)	937
Inventories	(48,095)	(19,233)
Accounts payable and accrued liabilities	191,354	142,277
Restructuring reserves	—	(24,521)
Derivative instruments	(1,813)	(1,818)
Other	(17,336)	72,667
Total adjustments	196,732	166,519
Net cash provided by operating activities	\$966,868	\$825,103

## 4. Restructuring Expense

In 2013, the Company completed the activities related to its 2009, 2010, and 2011 Restructuring Plans.

## 2011 Restructuring Plans

In December 2011, the Company made a decision to cease operations at New Castalloy, its Australian subsidiary and producer of cast motorcycle wheels and wheel hubs, and source those components through other existing suppliers by the end of 2013 (2011 New Castalloy Restructuring Plan). Under this plan, the Company successfully transitioned a significant amount of wheel production to other existing suppliers. However, during the second quarter of 2013, the Company made a decision to retain limited operations at New Castalloy focused on the production of certain complex, high-finish wheels in a cost-effective and competitive manner. At that time, the Company also entered into a new agreement with the unionized labor force at New Castalloy.

In connection with the modified 2011 New Castalloy Restructuring Plan, the New Castalloy workforce was reduced by approximately 100 employees, leaving approximately 100 remaining employees to support the ongoing operations. The original plan would have resulted in a workforce reduction of approximately 200 employees.

Table of Contents

Under the modified 2011 New Castalloy Restructuring Plan, restructuring expenses consisted of employee severance and termination costs, accelerated depreciation and other related costs. On a cumulative basis, the Company incurred \$22.1 million of restructuring expense under the modified 2011 New Castalloy Restructuring Plan, of which approximately 35% was non-cash. This includes a benefit related to restructuring reserves released in the second quarter of 2013 in connection with the decision to retain a limited operation at the New Castalloy facility, as described above.

In February 2011, the Company's unionized employees at its facility in Kansas City, Missouri ratified a new seven-year labor agreement. The new agreement took effect on August 1, 2011. The new contract is similar to the labor agreements ratified at the Company's Wisconsin facilities in September 2010 and its York, Pennsylvania production facility in December 2009 and allows for similar flexibility, increased production efficiency and the addition of a flexible workforce component.

The actions to implement the new ratified labor agreement (2011 Kansas City Restructuring Plan) resulted in approximately 145 fewer full-time hourly unionized employees in its Kansas City facility than would have been required under the previous contract.

Under the 2011 Kansas City Restructuring Plan, restructuring expenses consisted of employee severance and termination costs and other related costs. On a cumulative basis, the Company incurred \$6.0 million of restructuring expense under the 2011 Kansas City Restructuring Plan, of which approximately 10% was non-cash.

The following table summarizes the Motorcycles segment's 2011 Kansas City Restructuring Plan and modified 2011 New Castalloy Restructuring Plan reserve activity and balances as recorded in accrued liabilities as of September 29, 2013 (in thousands):

	Nine months ended September 29, 2013							Consolidated
	Kansas City Employee Severance and Termination Costs	Other	Total	New Castalloy Employee Severance and Termination Costs	Accelerated Depreciation	Other	Total	
Balance, beginning of period	\$2,259	\$—	\$2,259	\$9,306	\$—	\$145	\$9,451	\$ 11,710
Restructuring expense	—	—	—	1,361	2,093	590	4,044	4,044
Utilized—cash	(1,283 )	—	(1,283 )	(5,360 )	—	(602 )	(5,962 )	(7,245 )
Utilized—non-cash	—	—	—	—	(2,093 )	—	(2,093 )	(2,093 )
Non-cash reserve release	(976 )	—	(976 )	(5,250 )	—	—	(5,250 )	(6,226 )
Balance, end of period	\$—	\$—	\$—	\$57	\$—	\$133	\$190	\$ 190

**2010 Restructuring Plan**

In September 2010, the Company's unionized employees in Wisconsin ratified three separate new seven-year labor agreements which took effect in April 2012 when the prior contracts expired. The new contracts are similar to the labor agreement ratified at the Company's York, Pennsylvania production facility in December 2009 and allow for similar flexibility, increased production efficiency and the addition of a flexible workforce component.

The actions to implement the new ratified labor agreements (2010 Restructuring Plan) resulted in approximately 250 fewer full-time hourly unionized employees in its Milwaukee-area facilities than would have been required under the previous contracts and approximately 75 fewer full-time hourly unionized employees in its Tomahawk, Wisconsin facility than would have been required under the previous contract.

Under the 2010 Restructuring Plan, restructuring expenses consisted of employee severance and termination costs and other related costs. On a cumulative basis, the Company incurred \$59.2 million of restructuring expense under the 2010 Restructuring Plan, of which approximately 45% was non-cash.

Table of Contents

The following table summarizes the Motorcycles segment's 2010 Restructuring Plan reserve activity and balances as recorded in accrued liabilities as of September 29, 2013 (in thousands):

	Nine months ended September 29, 2013
Balance, beginning of period	Employee Severance and Termination Costs \$10,156
Restructuring expense	—
Utilized—cash	(9,710 )
Non-cash reserve release	(446 )
Balance, end of period	\$—

**2009 Restructuring Plan**

During 2009, in response to the U.S. economic recession and worldwide slowdown in consumer demand, the Company committed to a volume reduction and a combination of restructuring actions (2009 Restructuring Plan) expected to be completed at various dates between 2009 and 2013. The actions were designed to reduce administrative costs, eliminate excess capacity and exit non-core business operations. The Company's announced actions included the restructuring and transformation of its York, Pennsylvania production facility including the implementation of a new more flexible unionized labor agreement which allows for the addition of a flexible workforce component; consolidation of facilities related to engine and transmission production; outsourcing of certain distribution and transportation activities and exiting the Buell product line. In addition, the Company implemented projects under this plan involving the outsourcing of select information technology activities and the consolidation of an administrative office in Michigan into its corporate headquarters in Milwaukee, Wisconsin.

The 2009 Restructuring Plan resulted in a reduction of approximately 2,900 hourly production positions and approximately 800 non-production, primarily salaried positions within the Motorcycles segment and approximately 100 salaried positions in the Financial Services segment.

Under the 2009 Restructuring Plan, restructuring expenses consisted of employee severance and termination costs, accelerated depreciation on the long-lived assets that were exited as part of the 2009 Restructuring Plan and other related costs. On a cumulative basis, the Company incurred \$393.8 million of restructuring and impairment expense under the 2009 Restructuring Plan, of which approximately 30% was non-cash.

The following table summarizes the Company's 2009 Restructuring Plan reserve activity and balances recorded in accrued liabilities as of September 29, 2013 (in thousands):

	Nine months ended September 29, 2013			
	Motorcycles & Related Products			
	Employee Severance and Termination Costs	Accelerated Depreciation	Other	Total
Balance, beginning of period	\$5,196	\$—	\$161	\$5,357
Restructuring expense	—	—	2,446	2,446
Utilized—cash	(1,620 )	—	(2,607 )	(4,227 )
Non-cash reserve release	(1,531 )	—	—	(1,531 )
Balance, end of period	\$2,045	\$—	\$—	\$2,045

Other restructuring costs included items such as the exit costs for terminating supply contracts, lease termination costs and moving costs.

Table of Contents

## 5. Finance Receivables

HDFS provides retail financial services to customers of the Company's independent dealers in the United States and Canada. The origination of retail loans is a separate and distinct transaction between HDFS and the retail customer, unrelated to the Company's sale of product to its dealers. Retail finance receivables consist of secured promissory notes and secured installment sales contracts. HDFS holds either titles or liens on titles to vehicles financed by promissory notes and installment sales contracts.

HDFS offers wholesale financing to the Company's independent dealers. Wholesale loans to dealers are generally secured by financed inventory or property and are originated in the U.S. and Canada.

Finance receivables, net, consisted of the following (in thousands):

	September 28, 2014	December 31, 2013	September 29, 2013
Retail	\$5,757,927	\$5,265,044	\$5,405,670
Wholesale	1,033,576	845,212	891,141
	6,791,503	6,110,256	6,296,811
Allowance for credit losses	(126,003)	(110,693)	(111,921)
	\$6,665,500	\$5,999,563	\$6,184,890

A provision for credit losses on finance receivables is charged or credited to earnings in amounts that the Company believes are sufficient to maintain the allowance for credit losses at a level that is adequate to cover losses of principal inherent in the existing portfolio. The allowance for credit losses represents management's estimate of probable losses inherent in the finance receivable portfolio as of the balance sheet date. However, due to the use of projections and assumptions in estimating the losses, the amount of losses actually incurred by the Company could differ from the amounts estimated.

Table of Contents

Changes in the allowance for credit losses on finance receivables by portfolio were as follows (in thousands):

	Three months ended September 28, 2014		
	Retail	Wholesale	Total
Balance, beginning of period	\$114,899	\$7,456	\$122,355
Provision for credit losses	23,612	(2,115)	) 21,497
Charge-offs	(26,093)	) —	(26,093)
Recoveries	8,244	—	8,244
Balance, end of period	\$120,662	\$5,341	\$126,003
	Three months ended September 29, 2013		
	Retail	Wholesale	Total
Balance, beginning of period	\$103,770	\$7,554	\$111,324
Provision for credit losses	16,168	(1,564)	) 14,604
Charge-offs	(23,708)	) —	(23,708)
Recoveries	9,701	—	9,701
Balance, end of period	\$105,931	\$5,990	\$111,921
	Nine months ended September 28, 2014		
	Retail	Wholesale	Total
Balance, beginning of period	\$106,063	\$4,630	\$110,693
Provision for credit losses	57,078	711	57,789
Charge-offs	(72,454)	) —	(72,454)
Recoveries	29,975	—	29,975
Balance, end of period	\$120,662	\$5,341	\$126,003
	Nine months ended September 29, 2013		
	Retail	Wholesale	Total
Balance, beginning of period	\$101,442	\$6,225	\$107,667
Provision for credit losses	39,246	(235)	) 39,011
Charge-offs	(67,117)	) —	(67,117)
Recoveries	32,360	—	32,360
Balance, end of period	\$105,931	\$5,990	\$111,921

Finance receivables are considered impaired when management determines it is probable that the Company will be unable to collect all amounts due according to the terms of the loan agreement. Portions of the allowance for credit losses are established to cover estimated losses on finance receivables specifically identified for impairment. The unspecified portion of the allowance for credit losses covers estimated losses on finance receivables which are collectively reviewed for impairment.

The retail portfolio primarily consists of a large number of small balance, homogeneous finance receivables. HDFS performs a periodic and systematic collective evaluation of the adequacy of the retail allowance for credit losses. HDFS utilizes loss forecast models which consider a variety of factors including, but not limited to, historical loss trends, origination or vintage analysis, known and inherent risks in the portfolio, the value of the underlying collateral, recovery rates, and current economic conditions including items such as unemployment rates. Retail finance receivables are not evaluated individually for impairment prior to charge-off and therefore are not reported as impaired loans.

The wholesale portfolio is primarily composed of large balance, non-homogeneous loans. The Company's evaluation for the wholesale allowance for credit losses is first based on a loan-by-loan review. A specific allowance for credit losses is established for wholesale finance receivables determined to be individually impaired when management concludes that the borrower will not be able to make full payment of the contractual amounts due based on the original terms of the loan agreement. The impairment is determined based on the cash that the Company expects to receive discounted at the loan's original interest rate or the fair value of the collateral, if the loan is collateral-dependent. Finance receivables in the wholesale portfolio that are not considered impaired on an individual basis are segregated, based on similar risk characteristics, according to the Company's internal risk rating system and

collectively evaluated for impairment. The related allowance for credit losses



Table of Contents

is based on factors such as the specific borrower's financial performance and ability to repay, the Company's past loan loss experience, current economic conditions, and the value of the underlying collateral.

Generally, it is the Company's policy not to change the terms and conditions of finance receivables. However, to minimize the economic loss, the Company may modify certain finance receivables in troubled debt restructurings.

Total restructured finance receivables are not significant.

The allowance for credit losses and finance receivables by portfolio, segregated by those amounts that are individually evaluated for impairment and those that are collectively evaluated for impairment, was as follows (in thousands):

	September 28, 2014		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	\$—	\$—	\$—
Collectively evaluated for impairment	120,662	5,341	126,003
Total allowance for credit losses	\$120,662	\$5,341	\$126,003
Finance receivables, ending balance:			
Individually evaluated for impairment	\$—	\$—	\$—
Collectively evaluated for impairment	5,757,927	1,033,576	6,791,503
Total finance receivables	\$5,757,927	\$1,033,576	\$6,791,503
	December 31, 2013		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	\$—	\$—	\$—
Collectively evaluated for impairment	106,063	4,630	110,693
Total allowance for credit losses	\$106,063	\$4,630	\$110,693
Finance receivables, ending balance:			
Individually evaluated for impairment	\$—	\$—	\$—
Collectively evaluated for impairment	5,265,044	845,212	6,110,256
Total finance receivables	\$5,265,044	\$845,212	\$6,110,256
	September 29, 2013		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	\$—	\$—	\$—
Collectively evaluated for impairment	105,931	5,990	111,921
Total allowance for credit losses	\$105,931	\$5,990	\$111,921
Finance receivables, ending balance:			
Individually evaluated for impairment	\$—	\$—	\$—
Collectively evaluated for impairment	5,405,670	891,141	6,296,811
Total finance receivables	\$5,405,670	\$891,141	\$6,296,811

There were no wholesale finance receivables at September 28, 2014, December 31, 2013, or September 29, 2013 that were individually deemed to be impaired under ASC Topic 310, "Receivables."

Retail finance receivables are contractually delinquent if the minimum payment is not received by the specified due date. Retail finance receivables are generally charged-off when the receivable is 120 days or more delinquent, the related asset is repossessed or the receivable is otherwise deemed uncollectible. All retail finance receivables accrue interest until either collected or charged-off. Accordingly, as of September 28, 2014, December 31, 2013 and September 29, 2013, all retail finance receivables were accounted for as interest-earning receivables, of which \$20.3 million, \$24.6 million and \$17.8 million, respectively, were 90 days or more past due.

Table of Contents

Wholesale finance receivables are delinquent if the minimum payment is not received by the contractual due date. Interest continues to accrue on past due finance receivables until the date the finance receivable becomes uncollectible and the finance receivable is placed on non-accrual status. HDFS will resume accruing interest on these accounts when payments are current according to the terms of the loans and future payments are reasonably assured. While on non-accrual status, all cash received is applied to principal or interest as appropriate. Wholesale finance receivables are written down once management determines that the specific borrower does not have the ability to repay the loan in full. There were no wholesale receivables on non-accrual status at September 28, 2014, December 31, 2013 or September 29, 2013. At September 28, 2014, December 31, 2013 and September 29, 2013, \$0.2 million, \$0.2 million, and \$0.6 million of wholesale finance receivables were 90 days or more past due and accruing interest, respectively. An analysis of the aging of past due finance receivables was as follows (in thousands):

## September 28, 2014

	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Finance Receivables
Retail	\$5,607,089	\$99,489	\$31,006	\$20,343	\$150,838	\$5,757,927
Wholesale	1,032,846	496	77	157	730	1,033,576
Total	\$6,639,935	\$99,985	\$31,083	\$20,500	\$151,568	\$6,791,503

## December 31, 2013

	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Finance Receivables
Retail	\$5,094,615	\$109,806	\$36,029	\$24,594	\$170,429	\$5,265,044
Wholesale	844,033	791	181	207	1,179	845,212
Total	\$5,938,648	\$110,597	\$36,210	\$24,801	\$171,608	\$6,110,256

## September 29, 2013

	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Finance Receivables
Retail	\$5,260,125	\$99,255	\$28,531	\$17,759	\$145,545	\$5,405,670
Wholesale	889,531	681	302	627	1,610	891,141
Total	\$6,149,656	\$99,936	\$28,833	\$18,386	\$147,155	\$6,296,811

A significant part of managing HDFS' finance receivable portfolios includes the assessment of credit risk associated with each borrower. As the credit risk varies between the retail and wholesale portfolios, HDFS utilizes different credit risk indicators for each portfolio.

HDFS manages retail credit risk through its credit approval policy and ongoing collection efforts. HDFS uses FICO scores, a standard credit rating measurement, to differentiate the expected default rates of retail credit applicants enabling the Company to better evaluate credit applicants for approval and to tailor pricing according to this assessment. Retail loans with a FICO score of 640 or above at origination are considered prime, and loans with a FICO score below 640 are considered sub-prime. These credit quality indicators are determined at the time of loan origination and are not updated subsequent to the loan origination date.

The recorded investment of retail finance receivables, by credit quality indicator, was as follows (in thousands):

	September 28, 2014	December 31, 2013	September 29, 2013
Prime	\$4,550,126	\$4,141,559	\$4,249,780
Sub-prime	1,207,801	1,123,485	1,155,890
Total	\$5,757,927	\$5,265,044	\$5,405,670

HDFS' credit risk on the wholesale portfolio is different from that of the retail portfolio. Whereas the retail portfolio represents a relatively homogeneous pool of retail finance receivables that exhibit more consistent loss patterns, the wholesale portfolio exposures are less consistent. HDFS utilizes an internal credit risk rating system to manage credit

risk exposure consistently across wholesale borrowers and individually evaluates credit risk factors for each borrower.

Table of Contents

HDFS uses the following internal credit quality indicators, based on the Company's internal risk rating system, listed from highest level of risk to lowest level of risk for the wholesale portfolio: Doubtful, Substandard, Special Mention, Medium Risk and Low Risk. Based upon management's review, the dealers classified in the Doubtful category are the dealers with the greatest likelihood of being charged off, while the dealers classified as Low Risk are least likely to be charged off. The internal rating system considers factors such as the specific borrowers' ability to repay and the estimated value of any collateral. Dealer risk rating classifications are reviewed and updated on a quarterly basis. The recorded investment of wholesale finance receivables, by internal credit quality indicator, was as follows (in thousands):

	September 28, 2014	December 31, 2013	September 29, 2013
Doubtful	\$ 1,297	\$—	\$3,966
Substandard	6,682	8,383	10,486
Special Mention	—	2,076	—
Medium Risk	5,714	5,205	6,914
Low Risk	1,019,883	829,548	869,775
Total	\$ 1,033,576	\$845,212	\$891,141

#### 6. Asset-Backed Financing

HDFS participates in asset-backed financing through both term asset-backed securitization transactions and through asset-backed commercial paper conduit facilities. HDFS treats these transactions as secured borrowing because either they are transferred to consolidated variable interest entities (VIEs) or HDFS maintains effective control over the assets and does not meet the accounting sale requirements under ASC Topic 860, "Transfers and Servicing" (ASC Topic 860). In HDFS' asset-backed financing programs, HDFS transfers retail motorcycle finance receivables to special purpose entities (SPE), which are considered VIEs under U.S. GAAP. Each SPE then converts those assets into cash, through the issuance of debt.

HDFS is required to consolidate any VIE in which it is deemed to be the primary beneficiary through having power over the significant activities of the entity and having an obligation to absorb losses or the right to receive benefits from the VIE which are potentially significant to the VIE. HDFS is considered to have the power over the significant activities of its term asset-backed securitization and asset-backed U.S. commercial paper conduit facility VIEs due to its role as servicer. Servicing fees are typically not considered potentially significant variable interests in a VIE. However, HDFS retains a residual interest in the VIEs in the form of a debt security, which gives HDFS the right to receive benefits that could be potentially significant to the VIE. Therefore, the Company is the primary beneficiary and consolidates all of these VIEs within its consolidated financial statements.

HDFS is not the primary beneficiary of the asset-backed Canadian commercial paper conduit facility VIE; therefore, HDFS does not consolidate this VIE. However, HDFS treats the conduit facility as a secured borrowing as it maintains effective control over the assets transferred to the VIE and therefore does not meet the requirements for sale accounting under ASC Topic 860. As such, the Company retains the transferred assets and the related debt within its Consolidated Balance Sheet.

Servicing fees paid by VIEs to HDFS are eliminated in consolidation and therefore are not recorded on a consolidated basis. HDFS is not required, and does not currently intend, to provide any additional financial support to its VIEs. Investors and creditors only have recourse to the assets held by the VIEs.

Table of Contents

The following table shows the assets and liabilities related to the asset-backed financings that were included in the financial statements (in thousands):

	September 28, 2014					
	Finance receivables	Allowance for credit losses	Restricted cash	Other assets	Total assets	Asset-backed debt
On-balance sheet assets and liabilities						
Consolidated VIEs						
Term asset-backed securitizations	\$1,651,552	\$(35,115 )	\$129,828	\$3,313	\$1,749,578	\$1,475,148
Asset-backed U.S. commercial paper conduit facility	—	—	—	532	532	—
Unconsolidated VIEs						
Asset-backed Canadian commercial paper conduit facility	203,933	(3,259 )	12,458	213	213,345	165,166
Total on-balance sheet assets and liabilities	\$1,855,485	\$(38,374 )	\$142,286	\$4,058	\$1,963,455	\$1,640,314

	December 31, 2013					
	Finance receivables	Allowance for credit losses	Restricted cash	Other assets	Total assets	Asset-backed debt
On-balance sheet assets and liabilities						
Consolidated VIEs						
Term asset-backed securitizations	\$1,569,118	\$(31,778 )	\$133,053	\$3,720	\$1,674,113	\$1,256,632
Asset-backed U.S. commercial paper conduit facility	—	—	—	429	429	—
Unconsolidated VIEs						
Asset-backed Canadian commercial paper conduit facility	204,092	(3,361 )	11,754	589	213,074	174,241
Total on-balance sheet assets and liabilities	\$1,773,210	\$(35,139 )	\$144,807	\$4,738	\$1,887,616	\$1,430,873

	September 29, 2013					
	Finance receivables	Allowance for credit losses	Restricted cash	Other assets	Total assets	Asset-backed debt
On-balance sheet assets and liabilities						
Consolidated VIEs						
Term asset-backed securitizations	\$1,918,447	\$(37,721 )	\$181,231	\$4,866	\$2,066,823	\$1,446,656
Asset-backed U.S. commercial paper conduit facility	—	—	—	590	590	—
Unconsolidated VIEs						
Asset-backed Canadian commercial paper conduit facility	204,828	(3,424 )	13,098	93	214,595	180,584
Total on-balance sheet assets and liabilities	\$2,123,275	\$(41,145 )	\$194,329	\$5,549	\$2,282,008	\$1,627,240

## Term Asset-Backed Securitization VIEs

The Company transfers U.S. retail motorcycle finance receivables to SPEs which in turn issue secured notes to investors, with various maturities and interest rates, secured by future collections of the purchased U.S. retail

motorcycle finance receivables. Each term asset-backed securitization SPE is a separate legal entity and the U.S. retail motorcycle finance receivables included in the term asset-backed securitizations are only available for payment of the secured debt and other obligations arising from the term asset-backed securitization transaction and are not available to pay other obligations or claims of the Company's creditors until the associated secured debt and other obligations are satisfied. Restricted cash balances held by the SPEs are used only to support the securitizations. There are no amortization schedules for the secured notes; however, the debt is reduced monthly as available collections on the related U.S. retail motorcycle finance receivables are applied to outstanding principal. The secured notes' contractual lives have various maturities ranging from 2014 to 2021.

## Table of Contents

During 2012, the Company issued \$89.5 million of secured notes through the sale of notes that had been previously retained as part of certain 2009 and 2011 term asset-backed securitization transactions. These notes were sold at a premium. The unaccreted premium associated with the issuance of these secured notes was \$0.3 million and \$0.5 million at September 28, 2014 and September 29, 2013, respectively.

During the second quarter of 2014, the Company issued \$850.0 million of secured notes through one term asset-backed securitization transaction. During the second quarter of 2013, the Company issued \$650.0 million of secured notes through one term asset-backed securitization transaction. There were no other term asset-backed securitization transactions during the nine months ended September 28, 2014 or September 29, 2013.

### Asset-Backed U.S. Commercial Paper Conduit Facility VIE

In September 2014, the Company amended and restated its facility (U.S. Conduit) with a third-party bank sponsored asset-backed commercial paper conduit, which provides for a total aggregate commitment of \$600.0 million based on, among other things, the amount of eligible U.S. retail motorcycle loans held by a SPE as collateral. Under the facility, HDFS may transfer U.S. retail motorcycle finance receivables to a SPE, which in turn may issue debt to third-party bank-sponsored asset-backed commercial paper conduits.

The assets of the SPE are restricted as collateral for the payment of the debt or other obligations arising in the transaction and are not available to pay other obligations or claims of the Company's creditors. The terms for this debt provide for interest on the outstanding principal generally based on prevailing commercial paper rates plus a program fee based on outstanding principal, or LIBOR plus a specified margin to the extent the advance is not funded by a conduit lender through the issuance of commercial paper. The U.S. Conduit also provides for an unused commitment fee based on the unused portion of the total aggregate commitment of \$600.0 million. There is no amortization schedule; however, the debt is reduced monthly as available collections on the related finance receivables are applied to outstanding principal. Upon expiration of the U.S. Conduit, any outstanding principal will continue to be reduced monthly through available collections. Unless earlier terminated or extended by mutual agreement of HDFS and the lenders, the U.S. Conduit has an expiration date of October 30, 2015.

The SPE had no borrowings outstanding under the U.S. Conduit at September 28, 2014, December 31, 2013 or September 29, 2013; therefore, U.S. Conduit assets are restricted as collateral for the payment of fees associated with the unused portion of the total aggregate commitment.

### Asset-Backed Canadian Commercial Paper Conduit Facility

In June 2014, HDFS amended its facility agreement (Canadian Conduit) with a Canadian bank-sponsored asset-backed commercial paper conduit. Under the agreement, the Canadian Conduit is contractually committed, at HDFS' option, to purchase from HDFS eligible Canadian retail motorcycle finance receivables for proceeds up to C\$200.0 million. The transferred assets are restricted as collateral for the payment of the debt. The terms for this debt provide for interest on the outstanding principal based on prevailing market interest rates plus a specified margin. The Canadian Conduit also provides for a program fee and an unused commitment fee based on the unused portion of the total aggregate commitment of C\$200.0 million. There is no amortization schedule; however, the debt is reduced monthly as available collections on the related finance receivables are applied to outstanding principal. Upon expiration of the Canadian Conduit, any outstanding principal will continue to be reduced monthly through available collections. Unless earlier terminated or extended by mutual agreement of HDFS and the lenders, the Canadian Conduit has an expiration date of June 30, 2015. The contractual maturity of the debt is approximately 5 years.

As HDFS participates in and does not consolidate the Canadian bank-sponsored, multi-seller conduit VIE, the maximum exposure to loss associated with this VIE, which would only be incurred in the unlikely event that all the finance receivables and underlying collateral have no residual value, was \$48.2 million at September 28, 2014. The maximum exposure is not an indication of the Company's expected loss exposure.

During the third quarter of 2014, HDFS transferred \$24.4 million of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of \$21.4 million. During the first nine months of 2014, HDFS transferred \$66.5 million of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of \$58.2 million.

During the third quarter of 2013, HDFS transferred \$26.3 million of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of \$23.1 million. During the first nine months of 2013, HDFS transferred \$80.2 million of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of \$70.1 million.





## Table of Contents

### 7. Fair Value Measurements

Certain assets and liabilities are recorded at fair value in the financial statements; some of these are measured on a recurring basis while others are measured on a non-recurring basis. Assets and liabilities measured on a recurring basis are those that are adjusted to fair value each time a financial statement is prepared. Assets and liabilities measured on a non-recurring basis are those that are adjusted to fair value when a significant event occurs. In determining fair value of assets and liabilities, the Company uses various valuation techniques. The availability of inputs observable in the market varies from instrument to instrument and depends on a variety of factors including the type of instrument, whether the instrument is actively traded, and other characteristics particular to the transaction. For many financial instruments, pricing inputs are readily observable in the market, the valuation methodology used is widely accepted by market participants, and the valuation does not require significant management discretion. For other financial instruments, pricing inputs are less observable in the market and may require management judgment.

The Company assesses the inputs used to measure fair value using a three-tier hierarchy. The hierarchy indicates the extent to which inputs used in measuring fair value are observable in the market. Level 1 inputs include quoted prices for identical instruments and are the most observable.

Level 2 inputs include quoted prices for similar assets and observable inputs such as interest rates, foreign currency exchange rates, commodity rates and yield curves. The Company uses the market approach to derive the fair value for its level 2 fair value measurements. Foreign currency exchange contracts are valued using publicly quoted spot and forward prices; commodity contracts are valued using publicly quoted prices, where available, or dealer quotes; interest rate swaps were valued using publicized swap curves; and investments in marketable securities and cash equivalents are valued using publicly quoted prices.

Level 3 inputs are not observable in the market and include management's judgments about the assumptions market participants would use in pricing the asset or liability. The use of observable and unobservable inputs is reflected in the hierarchy assessment disclosed in the following tables.

Table of Contents

## Recurring Fair Value Measurements

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis (in thousands):

September 28, 2014				
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$687,259	\$ 366,942	\$320,317	\$—
Marketable securities	90,306	32,727	57,579	—
Derivatives	24,908	—	24,908	—
	\$802,473	\$ 399,669	\$402,804	\$—
Liabilities:				
Derivatives	\$441	\$ —	\$441	\$—
December 31, 2013				
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$836,387	\$ 516,173	\$320,214	\$—
Marketable securities	129,181	30,172	99,009	—
Derivatives	1,932	—	1,932	—
	\$967,500	\$ 546,345	\$421,155	\$—
Liabilities:				
Derivatives	\$3,925	\$ —	\$3,925	\$—
September 29, 2013				
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$809,067	\$ 483,515	\$325,552	\$—
Marketable securities	145,511	23,277	122,234	—
Derivatives	1,733	—	1,733	—
	\$956,311	\$ 506,792	\$449,519	\$—
Liabilities:				
Derivatives	\$1,152	\$ —	\$1,152	\$—

Table of Contents

## 8. Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, marketable securities, trade receivables, finance receivables, net, trade payables, debt, and foreign currency exchange and commodity contracts (derivative instruments are discussed further in Note 9).

The following table summarizes the fair value and carrying value of the Company's financial instruments (in thousands):

	September 28, 2014		December 31, 2013		September 29, 2013	
	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value
Assets:						
Cash and cash equivalents	\$979,866	\$ 979,866	\$1,066,612	\$ 1,066,612	\$1,029,955	\$ 1,029,955
Marketable securities	\$90,306	\$ 90,306	\$129,181	\$ 129,181	\$145,511	\$ 145,511
Accounts receivable, net	\$286,256	\$ 286,256	\$261,065	\$ 261,065	\$290,158	\$ 290,158
Derivatives	\$24,908	\$ 24,908	\$1,932	\$ 1,932	\$1,733	\$ 1,733
Finance receivables, net	\$6,760,096	\$ 6,665,500	\$6,086,441	\$ 5,999,563	\$6,266,406	\$ 6,184,890
Restricted cash	\$142,286	\$ 142,286	\$144,807	\$ 144,807	\$194,329	\$ 194,329
Liabilities:						
Accounts payable	\$329,288	\$ 329,288	\$239,794	\$ 239,794	\$326,713	\$ 326,713
Derivatives	\$441	\$ 441	\$3,925	\$ 3,925	\$1,152	\$ 1,152
Unsecured commercial paper	\$352,430	\$ 352,430	\$666,317	\$ 666,317	\$394,460	\$ 394,460
Asset-backed Canadian commercial paper conduit facility	\$165,166	\$ 165,166	\$174,241	\$ 174,241	\$180,584	\$ 180,584
Medium-term notes	\$3,641,946	\$ 3,451,124	\$3,087,852	\$ 2,858,980	\$3,092,947	\$ 2,858,809
Senior unsecured notes	\$—	\$ —	\$305,958	\$ 303,000	\$315,927	\$ 303,000
Term asset-backed securitization debt	\$1,476,300	\$ 1,475,148	\$1,259,314	\$ 1,256,632	\$1,447,710	\$ 1,446,656

Cash and Cash Equivalents, Restricted Cash, Accounts Receivable, Net and Accounts Payable – With the exception of certain cash equivalents, the carrying values of these items in the financial statements are based on historical cost. The historical cost basis for these amounts is estimated to approximate their respective fair values due to the short maturity of these instruments. Fair value is based on Level 1 or Level 2 inputs.

Marketable Securities – The carrying value of marketable securities in the financial statements is based on fair value. The fair value of marketable securities is determined primarily based on quoted prices for identical instruments or on quoted market prices of similar financial assets. Fair value is based on Level 1 or Level 2 inputs.

Finance Receivables, Net – The carrying value of retail and wholesale finance receivables in the financial statements is amortized cost less an allowance for credit losses. The fair value of retail finance receivables is generally calculated by discounting future cash flows using an estimated discount rate that reflects current credit, interest rate and prepayment risks associated with similar types of instruments. Fair value is determined based on Level 3 inputs. The amortized cost basis of wholesale finance receivables approximates fair value because they either are short-term or have interest rates that adjust with changes in market interest rates.

Derivatives – Foreign currency exchange contracts and commodity contracts are derivative financial instruments and are carried at fair value on the balance sheet. The fair value of foreign currency exchange and commodity contracts is determined using publicly quoted prices. Fair value is calculated using Level 2 inputs.

Debt – The carrying value of debt in the financial statements is generally amortized cost. The carrying value of unsecured commercial paper approximates fair value due to its short maturity. Fair value is calculated using Level 2 inputs.

The carrying value of debt provided under the Canadian Conduit approximates fair value since the interest rates charged under the facility are tied directly to market rates and fluctuate as market rates change. Fair value is calculated using Level 2 inputs.

The fair values of the medium-term notes are estimated based upon rates currently available for debt with similar terms and remaining maturities. Fair value is calculated using Level 2 inputs.

Table of Contents

The fair value of the senior unsecured notes was estimated based upon rates then available for debt with similar terms and remaining maturities. Fair value was calculated using Level 2 inputs.

The fair value of the debt related to term asset-backed securitization transactions is estimated based on pricing currently available for transactions with similar terms and maturities. Fair value is calculated using Level 2 inputs.

9. Derivative Instruments and Hedging Activities

The Company is exposed to certain risks such as foreign currency exchange rate risk, interest rate risk and commodity price risk. To reduce its exposure to such risks, the Company selectively uses derivative financial instruments. All derivative transactions are authorized and executed pursuant to regularly reviewed policies and procedures, which prohibit the use of financial instruments for speculative trading purposes.

All derivative instruments are recognized on the balance sheet at fair value (see Note 7). In accordance with ASC Topic 815, "Derivatives and Hedging," the accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. Changes in the fair value of derivatives that are designated as fair value hedges, along with the gain or loss on the hedged item, are recorded in current period earnings. For derivative instruments that are designated as cash flow hedges, the effective portion of gains and losses that result from changes in the fair value of derivative instruments is initially recorded in other comprehensive income (OCI) and subsequently reclassified into earnings when the hedged item affects income. The Company assesses, both at the inception of each hedge and on an on-going basis, whether the derivatives that are used in its hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. Any ineffective portion is immediately recognized in earnings. No component of a hedging derivative instrument's gain or loss is excluded from the assessment of hedge effectiveness. Derivative instruments that do not qualify for hedge accounting are recorded at fair value, and any changes in fair value are recorded in current period earnings.

The Company sells its products internationally and in most markets those sales are made in the foreign country's local currency. As a result, the Company's earnings can be affected by fluctuations in the value of the U.S. dollar relative to foreign currency. The Company's most significant foreign currency risk relates to the Euro, the Australian dollar, the Japanese yen and the Brazilian real. The Company utilizes foreign currency exchange contracts to mitigate the effects of certain currencies' fluctuations on earnings. The foreign currency exchange contracts are entered into with banks and allow the Company to exchange a specified amount of foreign currency for U.S. dollars at a future date, based on a fixed exchange rate.

The Company utilizes commodity contracts to hedge portions of the cost of certain commodities consumed in the Company's motorcycle production and distribution operations.

The Company's foreign currency exchange contracts and commodity contracts generally have maturities of less than one year.

The Company's earnings are affected by changes in interest rates. HDFS previously utilized interest rate swaps to reduce the impact of fluctuations in interest rates on its unsecured commercial paper by converting a portion from a floating rate basis to a fixed rate basis. The swaps expired during the second quarter of 2013, and as of September 28, 2014, HDFS had no interest rate swaps outstanding.

Table of Contents

The following table summarizes the fair value of the Company's derivative financial instruments (in thousands):

	September 28, 2014			December 31, 2013			September 29, 2013		
Derivatives									
Designated As									
Hedging									
Instruments Under									
ASC Topic 815									
Foreign currency	Notional	Asset	Liability	Notional	Asset	Liability	Notional	Asset	Liability
contracts <sup>(c)</sup>	Value	Fair	Fair	Value	Fair	Fair	Value	Fair	Fair
		Value <sup>(a)</sup>	Value <sup>(b)</sup>		Value <sup>(a)</sup>	Value <sup>(b)</sup>		Value <sup>(a)</sup>	Value <sup>(b)</sup>
Commodity									
contracts <sup>(c)</sup>	1,599	—	100	1,286	76	—	1,784	—	52
Total	\$367,077	\$24,908	\$—	\$299,550	\$1,672	\$3,842	\$335,172	\$1,714	\$771
	\$368,676	\$24,908	\$100	\$300,836	\$1,748	\$3,842	\$336,956	\$1,714	\$823
	September 28, 2014			December 31, 2013			September 29, 2013		
Derivatives Not									
Designated As									
Hedging									
Instruments Under									
ASC Topic 815									
Commodity contracts	Notional	Asset	Liability	Notional	Asset	Liability	Notional	Asset	Liability
	Value	Fair	Fair	Value	Fair	Fair	Value	Fair	Fair
		Value <sup>(a)</sup>	Value <sup>(b)</sup>		Value <sup>(a)</sup>	Value <sup>(b)</sup>		Value <sup>(a)</sup>	Value <sup>(b)</sup>
	\$7,711	\$—	\$341	\$9,855	\$184	\$83	\$11,250	\$19	\$329
	\$7,711	\$—	\$341	\$9,855	\$184	\$83	\$11,250	\$19	\$329

(a) Included in other current assets

(b) Included in accrued liabilities

(c) Derivative designated as a cash flow hedge

The following tables summarize the amount of gains and losses related to derivative financial instruments designated as cash flow hedges (in thousands):

	Amount of Gain/(Loss) Recognized in OCI, before tax			
	Three months ended		Nine months ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Cash Flow Hedges				
Foreign currency contracts	\$26,941	\$(10,324)	\$29,434	\$6,120
Commodity contracts	(100)	) 27	91	(46)
Interest rate swaps	—	—	—	(2)
Total	\$26,841	\$(10,297)	\$29,525	\$6,072

	Amount of Gain/(Loss) Reclassified from AOCL into Income				Expected to be Reclassified
	Three months ended		Nine months ended		Over the Next Twelve Months
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013	
Cash Flow Hedges					
Foreign currency contracts <sup>(a)</sup>	\$6,852	\$47	\$4,611	\$61	\$ 22,079
Commodity contracts <sup>(a)</sup>	(17)	) (21)	) 266	(8)	) 100
Interest rate swaps <sup>(b)</sup>	—	—	—	(345)	) —
Total	\$6,835	\$26	\$4,877	\$(292)	) \$ 22,179

(a) Gain/(loss) reclassified from accumulated other comprehensive loss (AOCL) to income is included in cost of goods sold.

(b) Gain/(loss) reclassified from AOCL to income is included in financial services interest expense.

Table of Contents

The following tables summarize the amount of gains and losses related to derivative financial instruments not designated as hedging instruments (in thousands):

	Amount of Gain/(Loss) Recognized in Income on Derivative			
	Three months ended		Nine months ended	
Derivatives Not Designated As Hedges	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Commodity contracts <sup>(a)</sup>	\$ (426 )	\$ (135 )	\$ (570 )	\$ (743 )
Total	\$ (426 )	\$ (135 )	\$ (570 )	\$ (743 )

(a) Gain/(loss) recognized in income is included in cost of goods sold.

For the three and nine months ended September 28, 2014 and September 29, 2013, the cash flow hedges were highly effective and, as a result, the amount of hedge ineffectiveness was not material. No amounts were excluded from effectiveness testing.

The Company is exposed to credit loss risk in the event of non-performance by counterparties to these derivative financial instruments. Although no assurances can be given, the Company does not expect any of the counterparties to these derivative financial instruments to fail to meet its obligations. To manage credit loss risk, the Company evaluates counterparties based on credit ratings and, on a quarterly basis, evaluates each hedge's net position relative to the counterparty's ability to cover its position.

#### 10. Accumulated Other Comprehensive Loss

The following tables set forth the changes in accumulated other comprehensive loss (AOCL) (in thousands):

	Three months ended September 28, 2014				
	Foreign currency translation adjustments	Marketable securities	Derivative financial instruments	Pension and postretirement benefit plans	Total
Balance, beginning of period	\$42,007	\$ (392 )	\$ 1,243	\$ (351,909 )	\$ (309,051 )
Other comprehensive (loss) income before reclassifications	(34,202 )	(235 )	26,841	—	(7,596 )
Income tax	1,673	87	(9,942 )	—	(8,182 )
Net other comprehensive (loss) income before reclassifications	(32,529 )	(148 )	16,899	—	(15,778 )
Reclassifications:					
Realized (gains) losses - foreign currency contracts <sup>(a)</sup>	—	—	(6,852 )	—	(6,852 )
Realized (gains) losses - commodities contracts <sup>(a)</sup>	—	—	17	—	17
Prior service credits <sup>(c)</sup>	—	—	—	(684 )	(684 )
Actuarial losses <sup>(c)</sup>	—	—	—	10,323	10,323
Total before tax	—	—	(6,835 )	9,639	2,804
Income tax expense (benefit)	—	—	2,531	(3,570 )	(1,039 )
Net reclassifications	—	—	(4,304 )	6,069	1,765
Other comprehensive (loss) income	(32,529 )	(148 )	12,595	6,069	(14,013 )
Balance, end of period	\$9,478	\$ (540 )	\$ 13,838	\$ (345,840 )	\$ (323,064 )



Table of Contents

	Three months ended September 29, 2013				
	Foreign currency translation adjustments	Marketable securities	Derivative financial instruments	Pension and postretirement benefit plans	Total
Balance, beginning of period	\$29,461	\$50	\$6,674	\$(635,375 )	\$(599,190 )
Other comprehensive income (loss) before reclassifications	10,040	(297 )	(10,297 )	—	(554 )
Income tax	(808 )	110	3,813	—	3,115
Net other comprehensive income (loss) before reclassifications	9,232	(187 )	(6,484 )	—	2,561
Reclassifications:					
Realized (gains) losses - foreign currency contracts <sup>(a)</sup>	—	—	(47 )	—	(47 )
Realized (gains) losses - commodities contracts <sup>(a)</sup>	—	—	21	—	21
Prior service credits <sup>(c)</sup>	—	—	—	(526 )	(526 )
Actuarial losses <sup>(c)</sup>	—	—	—	16,789	16,789
Total before tax	—	—	(26 )	16,263	16,237
Income tax expense (benefit)	—	—	10	(6,024 )	(6,014 )
Net reclassifications	—	—	(16 )	10,239	10,223
Other comprehensive income (loss)	9,232	(187 )	(6,500 )	10,239	12,784
Balance, end of period	\$38,693	\$(137 )	\$174	\$(625,136 )	\$(586,406 )
	Nine months ended September 28, 2014				
	Foreign currency translation adjustments	Marketable securities	Derivative financial instruments	Pension and postretirement benefit plans	Total
Balance, beginning of period	\$33,326	\$(276 )	\$(1,680 )	\$(364,046 )	\$(332,676 )
Other comprehensive (loss) income before reclassifications	(25,502 )	(419 )	29,525	—	3,604
Income tax	1,654	155	(10,936 )	—	(9,127 )
Net other comprehensive (loss) income before reclassifications	(23,848 )	(264 )	18,589	—	(5,523 )
Reclassifications:					
Realized (gains) losses - foreign currency contracts <sup>(a)</sup>	—	—	(4,611 )	—	(4,611 )
Realized (gains) losses - commodities contracts <sup>(a)</sup>	—	—	(266 )	—	(266 )
Prior service credits <sup>(c)</sup>	—	—	—	(2,052 )	(2,052 )
Actuarial losses <sup>(c)</sup>	—	—	—	30,968	30,968
Total before tax	—	—	(4,877 )	28,916	24,039
Income tax expense (benefit)	—	—	1,806	(10,710 )	(8,904 )
Net reclassifications	—	—	(3,071 )	18,206	15,135
Other comprehensive (loss) income	(23,848 )	(264 )	15,518	18,206	9,612
Balance, end of period	\$9,478	\$(540 )	\$13,838	\$(345,840 )	\$(323,064 )



Table of Contents

	Nine months ended September 29, 2013					
	Foreign currency translation adjustments	Marketable securities	Derivative financial instruments	Pension and postretirement benefit plans	Total	
Balance, beginning of period	\$51,335	\$677	\$(3,837	) \$(655,853	)	\$(607,678 )
Other comprehensive (loss) income before reclassifications	(13,812	) (1,293	) 6,072	—		(9,033 )
Income tax	1,170	479	(2,248	) —		(599 )
Net other comprehensive (loss) income before reclassifications	(12,642	) (814	) 3,824	—		(9,632 )
Reclassifications:						
Realized (gains) losses - foreign currency contracts <sup>(a)</sup>	—	—	(61	) —		(61 )
Realized (gains) losses - commodities contracts <sup>(a)</sup>	—	—	8	—		8
Realized (gains) losses - interest rate swaps <sup>(b)</sup>	—	—	345	—		345
Prior service credits <sup>(c)</sup>	—	—	—	(1,580	)	(1,580 )
Actuarial losses <sup>(c)</sup>	—	—	—	50,368		50,368
Total before tax	—	—	292	48,788		49,080
Income tax benefit	—	—	(105	) (18,071	)	(18,176 )
Net reclassifications	—	—	187	30,717		30,904
Other comprehensive (loss) income	(12,642	) (814	) 4,011	30,717		21,272
Balance, end of period	\$38,693	\$(137	) \$174	\$(625,136	)	\$(586,406 )

(a) Amounts reclassified to net income are included in motorcycles and related products cost of goods sold.

(b) Amounts reclassified to net income are presented in financial services interest expense.

(c) Amounts reclassified are included in the computation of net periodic period cost. See note 14 for information related to pension and postretirement benefit plans.

#### 11. Income Taxes

The Company's 2014 income tax rate for the nine months ended September 28, 2014 was 34.9% compared to 34.3% for the same period last year. The higher effective tax rate in 2014 primarily reflects the absence of the U.S. Federal Research and Development tax credit that expired at the end of 2013 and a favorable valuation allowance adjustment on certain deferred tax assets in the third quarter of 2013. The effective tax rate for the first nine months of 2013 also included the full-impact of the 2012 U.S. Federal Research and Development tax credit due to the timing of the enactment of the American Taxpayer Relief Act.

#### 12. Product Warranty and Safety Recall Campaigns

The Company currently provides a standard two-year limited warranty on all new motorcycles sold worldwide, except for Japan, where the Company currently provides a standard three-year limited warranty on all new motorcycles sold. In addition, the Company provides a one-year warranty for Parts & Accessories (P&A). The warranty coverage for the retail customer generally begins when the product is sold to a retail customer. The Company maintains reserves for future warranty claims using an estimated cost, which is based primarily on historical Company claim information. Additionally, the Company has from time to time initiated certain voluntary safety recall campaigns. The Company reserves for all estimated costs associated with safety recalls in the period that the safety recalls are announced.



Table of Contents

Changes in the Company's warranty and safety recall liability were as follows (in thousands):

	Three months ended		Nine months ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Balance, beginning of period	\$76,037	\$70,406	\$64,120	\$60,263
Warranties issued during the period	12,518	12,008	49,704	46,529
Settlements made during the period	(22,260)	(16,898)	(50,754)	(45,238)
Recalls and changes to pre-existing warranty liabilities	14,033	77	17,258	4,039
Balance, end of period	\$80,328	\$65,593	\$80,328	\$65,593

The liability for safety recall campaigns was \$15.7 million, \$4.0 million and \$2.5 million as of September 28, 2014, December 31, 2013 and September 29, 2013, respectively.

## 13. Earnings Per Share

The following table sets forth the computation for basic and diluted earnings per share (in thousands, except per share amounts):

	Three months ended		Nine months ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Numerator:				
Net income used in computing basic and diluted earnings per share	\$150,066	\$162,716	\$770,136	\$658,584
Denominator:				
Denominator for basic earnings per share - weighted-average common shares	215,572	221,936	217,429	223,134
Effect of dilutive securities - employee stock compensation plan	1,321	1,550	1,409	1,562
Denominator for diluted earnings per share - adjusted weighted-average shares outstanding	216,893	223,486	218,838	224,696
Earnings per common share:				
Basic	\$0.70	\$0.73	\$3.54	\$2.95
Diluted	\$0.69	\$0.73	\$3.52	\$2.93

Outstanding options to purchase 0.6 million and 0.9 million shares of common stock for the three months ended September 28, 2014 and September 29, 2013, respectively, and 0.5 million and 1.1 million shares of common stock for the nine months ended September 28, 2014 and September 29, 2013, respectively, were not included in the Company's computation of dilutive securities because the exercise price was greater than the market price and therefore the effect would have been anti-dilutive.

The Company has a share-based compensation plan under which employees may be granted share-based awards including shares of restricted stock and restricted stock units (RSUs). Non-forfeitable dividends are paid on unvested shares of restricted stock and non-forfeitable dividend equivalents are paid on unvested RSUs. As such, shares of restricted stock and RSUs are considered participating securities under the two-class method of calculating earnings per share as described in ASC Topic 260, "Earnings per Share." The two-class method of calculating earnings per share did not have a material impact on the Company's earnings per share calculation for the three and nine month periods ended September 28, 2014 and September 29, 2013, respectively.

Table of Contents

## 14. Employee Benefit Plans

The Company has a defined benefit pension plan and postretirement healthcare benefit plans that cover certain employees of the Motorcycles segment. The Company also has unfunded supplemental employee retirement plan agreements (SERPA) with certain employees which were instituted to replace benefits lost under the Tax Revenue Reconciliation Act of 1993. Net periodic benefit costs are allocated among selling, administrative and engineering expense, cost of goods sold and inventory. Amounts capitalized in inventory are not significant. Components of net periodic benefit costs were as follows (in thousands):

	Three months ended		Nine months ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
<b>Pension and SERPA Benefits</b>				
Service cost	\$7,874	\$8,997	\$23,623	\$26,990
Interest cost	21,731	19,812	65,193	59,436
Expected return on plan assets	(34,184)	(31,832)	(102,551)	(95,496)
Amortization of unrecognized:				
Prior service cost	279	437	838	1,310
Net loss	9,141	14,652	27,422	43,956
Net periodic benefit cost	\$4,841	\$12,066	\$14,525	\$36,196
<b>Postretirement Healthcare Benefits</b>				
Service cost	\$1,754	\$1,965	\$5,262	\$5,894
Interest cost	4,220	3,900	12,659	11,699
Expected return on plan assets	(2,607)	(2,384)	(7,822)	(7,153)
Amortization of unrecognized:				
Prior service credit	(963)	(963)	(2,890)	(2,890)
Net loss	1,182	2,137	3,546	6,412
Net periodic benefit cost	\$3,586	\$4,655	\$10,755	\$13,962

During the first nine months of 2013, the Company voluntarily contributed \$175 million in cash to further fund its pension plans. No pension contributions to qualified plans are required in 2014. The Company expects it will continue to make on-going contributions related to current benefit payments for SERPA and postretirement healthcare plans.

## 15. Business Segments

The Company operates in two business segments: Motorcycles & Related Products (Motorcycles) and Financial Services. The Company's reportable segments are strategic business units that offer different products and services. They are managed separately based on the fundamental differences in their operations. Selected segment information is set forth below (in thousands):

	Three months ended		Nine months ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Motorcycles net revenue	\$1,130,558	\$1,180,284	\$4,536,531	\$4,225,998
Gross profit	394,600	416,315	1,710,870	1,537,627
Selling, administrative and engineering expense	248,286	240,198	743,608	729,443
Restructuring expense (benefit)	—	646	—	(1,713)
Operating income from Motorcycles	146,314	175,471	967,262	809,897
Financial Services revenue	171,046	163,434	491,820	483,240
Financial Services expense	93,287	87,366	276,432	261,471
Operating income from Financial Services	77,759	76,068	215,388	221,769
Operating income	\$224,073	\$251,539	\$1,182,650	\$1,031,666



## Table of Contents

### 16. Commitments and Contingencies

The Company is subject to lawsuits and other claims related to environmental, product and other matters. In determining required reserves related to these items, the Company carefully analyzes cases and considers the likelihood of adverse judgments or outcomes, as well as the potential range of possible loss. The required reserves are monitored on an ongoing basis and are updated based on new developments or new information in each matter.

#### Environmental Protection Agency Notice

In December 2009, the Company received formal, written requests for information from the United States Environmental Protection Agency (EPA) regarding: (i) certificates of conformity for motorcycle emissions and related designations and labels, (ii) aftermarket parts, and (iii) warranty claims on emissions related components. The Company promptly submitted written responses to the EPA's inquiry and has engaged in discussions with the EPA. Since that time, the EPA has delivered various additional requests for information to which the Company has responded. It is possible that a result of the EPA's investigation will be some form of enforcement action by the EPA that will seek a fine or other relief. However, at this time the Company does not know and cannot reasonably estimate the impact of any remedies the EPA might seek, if any.

#### York Environmental Matters:

The Company is involved with government agencies and groups of potentially responsible parties in various environmental matters, including a matter involving the cleanup of soil and groundwater contamination at its York, Pennsylvania facility. The York facility was formerly used by the U.S. Navy and AMF prior to the purchase of the York facility by the Company from AMF in 1981. Although the Company is not certain as to the full extent of the environmental contamination at the York facility, it has been working with the Pennsylvania Department of Environmental Protection (PADEP) since 1986 in undertaking environmental investigation and remediation activities, including an ongoing site-wide remedial investigation/feasibility study (RI/FS). In January 1995, the Company entered into a settlement agreement (the Agreement) with the Navy, and the parties amended the Agreement in 2013 to address ordnance and explosive waste. The Agreement calls for the Navy and the Company to contribute amounts into a trust equal to 53% and 47%, respectively, of future costs associated with environmental investigation and remediation activities at the York facility (Response Costs). The trust administers the payment of the Response Costs incurred at the York facility as covered by the Agreement.

As of September 28, 2014, the Company estimates that its share of the future Response Costs at the York facility will be approximately \$2.9 million and has established a reserve for this amount which is included in accrued liabilities in the Condensed Consolidated Balance Sheets. As noted above, the RI/FS is still underway and given the uncertainty that exists concerning the nature and scope of additional environmental investigation and remediation that may ultimately be required under the RI/FS or otherwise at the York facility, the Company is unable to make a reasonable estimate of those additional costs, if any, that may result.

The estimate of the Company's future Response Costs that will be incurred at the York facility is based on reports of independent environmental consultants retained by the Company, the actual costs incurred to date and the estimated costs to complete the necessary investigation and remediation activities. Response Costs are expected to be paid primarily over a period of several years ending in 2017 although certain Response Costs may continue for some time beyond 2017.

#### Product Liability Matters:

The Company is involved in product liability suits related to the operation of its business. The Company accrues for claim exposures that are probable of occurrence and can be reasonably estimated. The Company also maintains insurance coverage for product liability exposures. The Company believes that its accruals and insurance coverage are adequate and that product liability suits will not have a material adverse effect on the Company's consolidated financial statements.



Table of Contents

## 17. Supplemental Consolidating Data

The supplemental consolidating data for the periods noted is presented for informational purposes. The supplemental consolidating data may be different than segment information presented elsewhere due to the allocation of intercompany eliminations to reporting segments. All supplemental data is presented in thousands.

Three months ended September 28, 2014				
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations	Consolidated
Revenue:				
Motorcycles and Related Products	\$1,133,369	\$ —	\$(2,811)	) \$1,130,558
Financial Services	—	171,429	(383)	) 171,046
Total revenue	1,133,369	171,429	(3,194)	) 1,301,604
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	735,958	—	—	735,958
Financial Services interest expense	—	40,141	—	40,141
Financial Services provision for credit losses	—	21,497	—	21,497
Selling, administrative and engineering expense	248,669	34,460	(3,194)	) 279,935
Total costs and expenses	984,627	96,098	(3,194)	) 1,077,531
Operating income	148,742	75,331	—	224,073
Investment income	1,509	—	—	1,509
Interest expense	77	—	—	77
Income before provision for income taxes	150,174	75,331	—	225,505
Provision for income taxes	47,801	27,638	—	75,439
Net income	\$102,373	\$ 47,693	\$—	\$150,066
Nine months ended September 28, 2014				
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations	Consolidated
Revenue:				
Motorcycles and Related Products	\$4,544,310	\$ —	\$(7,779)	) \$4,536,531
Financial Services	—	493,078	(1,258)	) 491,820
Total revenue	4,544,310	493,078	(9,037)	) 5,028,351
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	2,825,661	—	—	2,825,661
Financial Services interest expense	—	119,739	—	119,739
Financial Services provision for credit losses	—	57,789	—	57,789
Selling, administrative and engineering expense	744,866	106,683	(9,037)	) 842,512
Total costs and expenses	3,570,527	284,211	(9,037)	) 3,845,701
Operating income	973,783	208,867	—	1,182,650
Investment income	124,940	—	(120,000)	) 4,940
Interest expense	4,147	—	—	4,147
Income before provision for income taxes	1,094,576	208,867	(120,000)	) 1,183,443
Provision for income taxes	336,677	76,630	—	413,307

Edgar Filing: HARLEY DAVIDSON INC - Form 10-Q

Net income	\$757,899	\$ 132,237	\$(120,000 )	\$770,136
------------	-----------	------------	--------------	-----------

31

---

Table of Contents

Three months ended September 29, 2013				
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations	Consolidated
Revenue:				
Motorcycles and Related Products	\$ 1,183,016	\$ —	\$(2,732 )	\$ 1,180,284
Financial Services	—	163,829	(395 )	163,434
Total revenue	1,183,016	163,829	(3,127 )	1,343,718
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	763,969	—	—	763,969
Financial Services interest expense	—	39,944	—	39,944
Financial Services provision for credit losses	—	14,604	—	14,604
Selling, administrative and engineering expense	240,593	35,550	(3,127 )	273,016
Restructuring expense	646	—	—	646
Total costs and expenses	1,005,208	90,098	(3,127 )	1,092,179
Operating income	177,808	73,731	—	251,539
Investment income	1,161	—	—	1,161
Interest expense	11,369	—	—	11,369
Income before provision for income taxes	167,600	73,731	—	241,331
Provision for income taxes	51,721	26,894	—	78,615
Net income	\$ 115,879	\$ 46,837	\$—	\$ 162,716
Nine months ended September 29, 2013				
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations	Consolidated
Revenue:				
Motorcycles and Related Products	\$ 4,233,990	\$ —	\$(7,992 )	\$ 4,225,998
Financial Services	—	484,461	(1,221 )	483,240
Total revenue	4,233,990	484,461	(9,213 )	4,709,238
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	2,688,371	—	—	2,688,371
Financial Services interest expense	—	126,004	—	126,004
Financial Services provision for credit losses	—	39,011	—	39,011
Selling, administrative and engineering expense	730,664	104,448	(9,213 )	825,899
Restructuring benefit	(1,713 )	—	—	(1,713 )
Total costs and expenses	3,417,322	269,463	(9,213 )	3,677,572
Operating income	816,668	214,998	—	1,031,666
Investment income	189,546	—	(185,000 )	4,546
Interest expense	33,998	—	—	33,998
Income before provision for income taxes	972,216	214,998	(185,000 )	1,002,214
Provision for income taxes	265,278	78,352	—	343,630
Net income	\$ 706,938	\$ 136,646	\$(185,000 )	\$ 658,584



Table of Contents

	September 28, 2014			
	Motorcycles & Related	Financial		
	Products	Services	Eliminations	Consolidated
	Operations	Operations		
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$630,134	\$ 349,732	\$—	\$979,866
Marketable securities	57,579	—	—	57,579
Accounts receivable, net	967,140	—	(680,884	) 286,256
Finance receivables, net	—	2,012,466	—	2,012,466
Inventories	460,958	—	—	460,958
Restricted cash	—	142,286	—	142,286
Deferred income taxes	43,900	46,724	(35,662	) 54,962
Other current assets	172,483	35,622	—	208,105
Total current assets	2,332,194	2,586,830	(716,546	) 4,202,478
Finance receivables, net	—	4,653,034	—	4,653,034
Property, plant and equipment, net	793,256	33,508	—	826,764
Prepaid pension costs	261,983	—	—	261,983
Goodwill	28,638	—	—	28,638
Deferred income taxes	2,559	—	—	2,559
Other long-term assets	111,249	15,972	(77,171	) 50,050
	\$3,529,879	\$ 7,289,344	\$(793,717	) \$10,025,506
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Current liabilities:				
Accounts payable	\$265,764	\$ 744,408	\$(680,884	) \$329,288
Accrued liabilities	411,953	132,717	(37,664	) 507,006
Short-term debt	—	352,430	—	352,430
Current portion of long-term debt	—	1,518,320	—	1,518,320
Total current liabilities	677,717	2,747,875	(718,548	) 2,707,044
Long-term debt	—	3,573,118	—	3,573,118
Pension liability	38,594	—	—	38,594
Postretirement healthcare benefits	204,890	—	—	204,890
Deferred income taxes	36,381	3,943	2,002	42,326
Other long-term liabilities	151,367	23,804	—	175,171
Shareholders' equity	2,420,930	940,604	(77,171	) 3,284,363
	\$3,529,879	\$ 7,289,344	\$(793,717	) \$10,025,506

Table of Contents

	December 31, 2013			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations	Consolidated
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$718,912	\$ 347,700	\$—	\$ 1,066,612
Marketable securities	99,009	—	—	99,009
Accounts receivable, net	850,248	—	(589,183	) 261,065
Finance receivables, net	—	1,773,686	—	1,773,686
Inventories	424,507	—	—	424,507
Restricted cash	—	144,807	—	144,807
Deferred income taxes	70,557	33,068	—	103,625
Other current assets	82,717	34,573	(1,798	) 115,492
Total current assets	2,245,950	2,333,834	(590,981	) 3,988,803
Finance receivables, net	—	4,225,877	—	4,225,877
Property, plant and equipment, net	808,005	34,472	—	842,477
Prepaid pension costs	244,871	—	—	244,871
Goodwill	30,452	—	—	30,452
Deferred income taxes	3,339	—	—	3,339
Other long-term assets	126,940	17,360	(75,079	) 69,221
	\$3,459,557	\$ 6,611,543	\$(666,060	) \$9,405,040
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Current liabilities:				
Accounts payable	\$203,786	\$ 625,191	\$(589,183	) \$239,794
Accrued liabilities	353,618	77,774	(4,057	) 427,335
Short-term debt	—	666,317	—	666,317
Current portion of long-term debt	303,000	873,140	—	1,176,140
Total current liabilities	860,404	2,242,422	(593,240	) 2,509,586
Long-term debt	—	3,416,713	—	3,416,713
Pension liability	36,371	—	—	36,371
Postretirement healthcare benefits	216,165	—	—	216,165
Deferred income taxes	44,584	2,656	2,259	49,499
Other long-term liabilities	146,686	20,534	—	167,220
Shareholders' equity	2,155,347	929,218	(75,079	) 3,009,486
	\$3,459,557	\$ 6,611,543	\$(666,060	) \$9,405,040

Table of Contents

	September 29, 2013 Motorcycles & Related Products Operations	Financial Services Operations	Eliminations	Consolidated
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$652,961	\$ 376,994	\$—	\$1,029,955
Marketable securities	122,234	—	—	122,234
Accounts receivable, net	1,228,320	—	(938,162 )	290,158
Finance receivables, net	—	1,829,612	—	1,829,612
Inventories	401,199	—	—	401,199
Restricted cash	—	194,329	—	194,329
Other current assets	160,538	64,650	—	225,188
Total current assets	2,565,252	2,465,585	(938,162 )	4,092,675
Finance receivables, net	—	4,355,278	—	4,355,278
Property, plant and equipment, net	763,469	31,766	—	795,235
Goodwill	30,041	—	—	30,041
Other long-term assets	272,490	14,804	(76,515 )	210,779
	\$3,631,252	\$ 6,867,433	\$(1,014,677 )	\$9,484,008
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Current liabilities:				
Accounts payable	\$276,197	\$ 988,678	\$(938,162 )	\$326,713
Accrued liabilities	455,393	86,003	(2,169 )	539,227
Short-term debt	—	394,460	—	394,460
Current portion of long-term debt	303,000	418,316	—	721,316
Total current liabilities	1,034,590	1,887,457	(940,331 )	1,981,716
Long-term debt	—	4,067,733	—	4,067,733
Pension liability	144,563	—	—	144,563
Postretirement healthcare liability	267,919	—	—	267,919
Other long-term liabilities	121,003	19,227	—	140,230
Shareholders' equity	2,063,177	893,016	(74,346 )	2,881,847
	\$3,631,252	\$ 6,867,433	\$(1,014,677 )	\$9,484,008

Table of Contents

	Nine months ended September 28, 2014			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations & Adjustments	Consolidated
Cash flows from operating activities:				
Net income	\$ 757,899	\$ 132,237	\$ (120,000 )	\$ 770,136
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation	125,005	5,683	—	130,688
Amortization of deferred loan origination costs	—	70,330	—	70,330
Amortization of financing origination fees	59	6,346	—	6,405
Provision for employee long-term benefits	25,281	—	—	25,281
Contributions to pension and postretirement plans	(22,528 )	—	—	(22,528 )
Stock compensation expense	25,770	2,092	—	27,862
Net change in wholesale finance receivables related to sales	—	—	(194,711 )	(194,711 )
Provision for credit losses	—	57,789	—	57,789
Loss on debt extinguishment	—	1,145	—	1,145
Deferred income taxes	(1,317 )	(10,713 )	—	(12,030 )
Foreign currency adjustments	12,948	—	—	12,948
Other, net	6,246	5,289	—	11,535
Change in current assets and current liabilities:				
Accounts receivable	(231,716 )	—	191,701	(40,015 )
Finance receivables—accrued interest and other	—	(2,077 )	—	(2,077 )
Inventories	(48,095 )	—	—	(48,095 )
Accounts payable and accrued liabilities	104,795	275,994	(189,435 )	191,354
Derivative instruments	(1,813 )	—	—	(1,813 )
Other	(15,341 )	(1,995 )	—	(17,336 )
Total adjustments	(20,706 )	409,883	(192,445 )	196,732
Net cash provided by operating activities	737,193	542,120	(312,445 )	966,868



Table of Contents

	Nine months ended September 28, 2014			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations & Adjustments	Consolidated
Cash flows from investing activities:				
Capital expenditures	(115,596 )	(4,720 )	—	(120,316 )
Origination of finance receivables	—	(6,417,038 )	3,498,157	(2,918,881 )
Collections of finance receivables	—	5,613,949	(3,305,712 )	2,308,237
Sales and redemptions of marketable securities	41,010	—	—	41,010
Other	275	—	—	275
Net cash used by investing activities	(74,311 )	(807,809 )	192,445	(689,675 )
Cash flows from financing activities:				
Repayments of senior unsecured notes	(303,000 )	—	—	(303,000 )
Proceeds from issuance of medium-term notes	—	594,431	—	594,431
Repayments of medium-term notes	—	(7,220 )	—	(7,220 )
Intercompany borrowing activity	100,000	(100,000 )	—	—
Proceeds from securitization debt	—	847,126	—	847,126
Repayments of securitization debt	—	(631,302 )	—	(631,302 )
Net decrease in credit facilities and unsecured commercial paper	—	(315,278 )	—	(315,278 )
Borrowings of asset-backed commercial paper	—	57,669	—	57,669
Repayments of asset-backed commercial paper	—	(58,717 )	—	(58,717 )
Net change in restricted cash	—	2,521	—	2,521
Dividends paid	(179,860 )	(120,000 )	120,000	(179,860 )
Purchase of common stock for treasury	(393,459 )	—	—	(393,459 )
Excess tax benefits from share-based payments	8,873	—	—	8,873
Issuance of common stock under employee stock option plans	28,850	—	—	28,850
Net cash (used by) provided by financing activities	(738,596 )	269,230	120,000	(349,366 )
Effect of exchange rate changes on cash and cash equivalents	(13,064 )	(1,509 )	—	(14,573 )
Net (decrease) increase in cash and cash equivalents	\$(88,778 )	\$2,032	\$ —	\$(86,746 )
Cash and cash equivalents:				
Cash and cash equivalents—beginning of period	\$718,912	\$347,700	\$ —	\$1,066,612
Net (decrease) increase in cash and cash equivalents	(88,778 )	2,032	—	(86,746 )
Cash and cash equivalents—end of period	\$630,134	\$349,732	\$ —	\$979,866

Table of Contents

	Nine months ended September 29, 2013			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations & Adjustments	Consolidated
Cash flows from operating activities:				
Net income	\$ 706,938	\$ 136,646	\$ (185,000 )	\$ 658,584
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation	118,224	4,434	—	122,658
Amortization of deferred loan origination costs	—	63,548	—	63,548
Amortization of financing origination fees	355	6,639	—	6,994
Provision for employee long-term benefits	50,158	—	—	50,158
Contributions to pension and postretirement plans	(197,243 )	—	—	(197,243 )
Stock compensation expense	28,886	2,144	—	31,030
Net change in wholesale finance receivables related to sales	—	—	(71,869 )	(71,869 )
Provision for credit losses	—	39,011	—	39,011
Loss on extinguishment of debt	—	4,947	—	4,947
Foreign currency adjustments	12,874	—	—	12,874
Other, net	207	(270 )	—	(63 )
Change in current assets and current liabilities:				
Accounts receivable	(302,434 )	—	236,599	(65,835 )
Finance receivables—accrued interest and other	—	937	—	937
Inventories	(19,233 )	—	—	(19,233 )
Accounts payable and accrued liabilities	113,902	264,974	(236,599 )	142,277
Restructuring reserves	(24,521 )	—	—	(24,521 )
Derivative instruments	(1,790 )	(28 )	—	(1,818 )
Other	74,205	(1,538 )	—	72,667
Total adjustments	(146,410 )	384,798	(71,869 )	166,519
Net cash provided by operating activities	560,528	521,444	(256,869 )	825,103

Table of Contents

	Nine months ended September 29, 2013			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations & Adjustments	Consolidated
Cash flows from investing activities:				
Capital expenditures	(107,886 )	(3,804 )	—	(111,690 )
Origination of finance receivables	—	(5,832,489 )	3,215,389	(2,617,100 )
Collections of finance receivables	—	5,314,439	(3,143,520 )	2,170,919
Purchases of marketable securities	(4,998 )	—	—	(4,998 )
Sales and redemptions of marketable securities	17,105	—	—	17,105
Other	6,721	—	—	6,721
Net cash used by investing activities	(89,058 )	(521,854 )	71,869	(539,043 )
Cash flows from financing activities:				
Repayments of medium-term notes	—	(27,858 )	—	(27,858 )
Intercompany borrowing activity	(150,000 )	150,000	—	—
Proceeds from securitization debt	—	647,516	—	647,516
Repayments of securitization debt	—	(650,424 )	—	(650,424 )
Borrowings of asset-backed commercial paper	—	69,555	—	69,555
Repayments of asset-backed commercial paper	—	(58,990 )	—	(58,990 )
Net increase in credit facilities and unsecured commercial paper	—	99,416	—	99,416
Net change in restricted cash	—	(6,321 )	—	(6,321 )
Dividends paid	(140,772 )	(185,000 )	185,000	(140,772 )
Purchase of common stock for treasury	(302,196 )	—	—	(302,196 )
Excess tax benefits from share-based payments	18,444	—	—	18,444
Issuance of common stock under employee stock option plans	39,145	—	—	39,145
Net cash (used by) provided by financing activities	(535,379 )	37,894	185,000	(312,485 )
Effect of exchange rate changes on cash and cash equivalents	(10,846 )	(912 )	—	(11,758 )
Net (decrease) increase in cash and cash equivalents	\$(74,755 )	\$36,572	\$ —	\$(38,183 )
Cash and cash equivalents:				
Cash and cash equivalents—beginning of period	\$727,716	\$340,422	\$ —	\$1,068,138
Net (decrease) increase in cash and cash equivalents	(74,755 )	36,572	—	(38,183 )
Cash and cash equivalents—end of period	\$652,961	\$376,994	\$ —	\$1,029,955

## Table of Contents

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Harley-Davidson, Inc. is the parent company of the groups of companies doing business as Harley-Davidson Motor Company (HDMC) and Harley-Davidson Financial Services (HDFS). HDMC produces heavyweight cruiser and touring motorcycles. HDMC currently manufactures six platforms of motorcycles: Touring, Dyna®, Softail®, Sportster®, V-Rod®, and Street. HDFS provides wholesale and retail financing and insurance programs primarily to Harley-Davidson dealers and customers.

The Company operates in two business segments: Motorcycles & Related Products (Motorcycles) and Financial Services (Financial Services). The Company's reportable segments are strategic business units that offer different products and services. They are managed separately based on the fundamental differences in their operations.

The "% Change" figures included in the "Results of Operations" section were calculated using unrounded dollar amounts and may differ from calculations using the rounded dollar amounts presented.

#### Overview

As anticipated, the Company's third quarter key financial metrics were down versus last year's third quarter. This was the result of the planned shipment reduction that the Company announced early in the quarter to address retail inventory that increased behind soft retail sales in the second quarter of 2014. Despite the impact of the Company's shipment adjustment, its business continued to perform well behind new product momentum, strong productivity and focused spending.

The Company's net income was \$150.1 million, or \$0.69 per diluted share, for the third quarter of 2014 compared to \$162.7 million, or \$0.73 per diluted share, in the third quarter of 2013. Operating income from Motorcycles decreased \$29.2 million or 16.6% compared to last year's third quarter driven by a 4.2% decrease in revenue behind a 6.2% decrease in wholesale shipments of Harley-Davidson motorcycles. Motorcycles segment operating income was also impacted by a lower gross margin percentage and higher year-over-year selling, general and administrative and engineering expenses. Operating income from Financial Services in the third quarter of 2014 was \$77.8 million, up 2.2% compared to \$76.1 million in the year-ago quarter. The Company's net income benefited from lower year-over-year interest expense due to the retirement of its high interest debt in the first quarter of 2014.

During the third quarter of 2014, worldwide independent dealer retail sales of new Harley-Davidson motorcycles increased 3.8% over a strong prior year third quarter which increased 15.5% over 2012. The third quarter of 2014 retail sales results were driven by increases in both the U.S. and International markets. The Company believes that the strong third quarter 2014 worldwide retail sales reflected the continued strength of its 2014 model-year motorcycles and the successful retail reception of its 2015 model-year motorcycles.

#### (1) Note Regarding Forward-Looking Statements

The Company intends that certain matters discussed in this report are "forward-looking statements" intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such by reference to this footnote or because the context of the statement will include words such as the Company "believes," "anticipates," "expects," "plans," or "estimates" or words of similar meaning. Similarly, statements that describe future plans, objectives, outlooks, targets, guidance or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this report. Certain of such risks and uncertainties are described in close proximity to such statements or elsewhere in this report, including under the caption "Cautionary Statements" and in Item 1A "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2013. Shareholders, potential investors, and other readers are urged to consider these factors in evaluating the forward-looking statements and cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in this report are only made as of the date of the filing of this report (November 6, 2014), and the Company disclaims any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.



Table of Contents

Outlook<sup>(1)</sup>

On October 21, 2014, the Company provided the following information concerning its expectations for the remainder of 2014.

The Company continues to expect to ship 270,000 to 275,000 Harley-Davidson motorcycles to dealers and distributors worldwide in 2014, an increase of 3.7% to 5.6% over 2013. In addition, the Company announced that its full-year shipment estimate includes expected shipments of 46,500 to 51,500 motorcycles in the fourth quarter of 2014 compared to 46,618 motorcycles shipped in the fourth quarter of 2013. The Company continues to believe that it is critical for it to support a healthy retail channel and protect its premium brand by aggressively managing supply in line with demand, as it has consistently done over the past several years.

The Company expects continued retail sales momentum resulting from the reintroduction of Road Glide models, customer interest in the complete line of Project Rushmore motorcycles and increased availability of its new Street models. The Company believes that it can continue to realize international growth opportunities by expanding its dealer network and increasing its brand relevance by delivering new products such as Street.

The Company continues to expect 2014 operating margin percent for the Motorcycles segment to be between 17.5% and 18.5% compared to 16.6% in 2013. The Company believes operating margin percent improvement will be driven by a modest increase in gross margin, as well as lower selling, administrative and engineering expenses as a percent of revenue. The Company expects selling, administrative and engineering expenses to grow in 2014 as it continues to invest in future growth opportunities but that they will decrease as a percent of revenue as the Company leverages its current spending. Going forward, the Company will remain focused on a cost structure that the Company believes will enable growth and continuous improvement to drive its business to be stronger, more flexible and more profitable.

The Company continues to expect operating income for the Financial Services segment to be down modestly in 2014 as compared to 2013. Going forward, the Company continues to expect pressure on Financial Services operating income as a result of modestly higher credit losses and tightening net interest margins due to increasing competition and rising borrowing costs.

The Company continues to estimate capital expenditures for 2014 to be between \$215 million and \$235 million. The Company anticipates it will have the ability to fund all capital expenditures in 2014 with cash flows generated by operations.

The Company has lowered its expected full year 2014 effective income tax rate from approximately 35.5% to approximately 35.0% due to a higher projected benefit from the U.S. manufacturing deduction. This guidance excludes the effect of any potential future adjustments such as changes in tax legislation or audit settlements which are recorded as discrete items in the period in which they are settled.

Table of Contents

Results of Operations for the Three Months Ended September 28, 2014  
 Compared to the Three Months Ended September 29, 2013  
 Consolidated Results

(in thousands, except earnings per share)	Three months ended		Increase (Decrease)	% Change	
	September 28, 2014	September 29, 2013			
Operating income from Motorcycles & Related Products	\$146,314	\$175,471	\$(29,157)	(16.6)	)%
Operating income from Financial Services	77,759	76,068	1,691	2.2	
Operating income	224,073	251,539	(27,466)	(10.9)	)
Investment income	1,509	1,161	348	30.0	
Interest expense	77	11,369	(11,292)	(99.3)	)
Income before income taxes	225,505	241,331	(15,826)	(6.6)	)
Provision for income taxes	75,439	78,615	(3,176)	(4.0)	)
Net income	\$150,066	\$162,716	\$(12,650)	(7.8)	)%
Diluted earnings per share	\$0.69	\$0.73	\$(0.04)	(5.5)	)%

Consolidated operating income was down 10.9% in the third quarter of 2014 due to a decrease in operating income from the Motorcycles & Related Products segment which declined by \$29.2 million, or 16.6%, compared to the third quarter of 2013. Operating income from the Financial Services segment was higher during the third quarter of 2014 compared to the third quarter of 2013, increasing \$1.7 million or 2.2%. Please refer to the "Motorcycles and Related Products Segment" and "Financial Services Segment" discussions following for a more detailed discussion of the factors affecting operating income.

Interest expense was lower in the third quarter of 2014 compared to the third quarter of 2013 due to the repayment of \$303 million of senior unsecured long-term debt in February 2014.

The effective income tax rate for the third quarter of 2014 was 33.5% compared to 32.6% for the third quarter of 2013. Diluted earnings per share was \$0.69 in the third quarter of 2014, down 5.5% compared to the same period in the prior year. The decrease in diluted earnings per share was driven primarily by the 7.8% decrease in net income, but benefited from lower diluted weighted average shares outstanding. Diluted weighted average shares outstanding decreased from 223.5 million in the third quarter of 2013 to 216.9 million in the third quarter of 2014, driven by the Company's repurchase of common stock. Please refer to "Liquidity and Capital Resources" for additional information concerning the Company's share repurchase activity.

#### Harley-Davidson Motorcycle Worldwide Retail Sales<sup>(a)</sup>

Worldwide independent dealer retail sales of Harley-Davidson motorcycles during the third quarter of 2014 increased 3.8% compared to the third quarter of 2013. Retail sales of Harley-Davidson motorcycles increased 3.4% in the United States and 4.8% internationally in the third quarter of 2014.

The Company believes the factors that benefited U.S. retail sales were:

- The original eight Rushmore models launched in 2013 continue to be highly successful.

A strong 2015 model-year launch in late August 2014, including the return of the Road Glide. The initial Road Glide motorcycle inventory at dealers has turned over quickly. Retail sales of 2015 model-year Road Glide motorcycles represented approximately 4% of U.S. retail sales in the third quarter of 2014. In the third quarter of 2013, model-year 2013 Road Glide motorcycles, which were available throughout the entire quarter, represented approximately 8% of U.S. retail sales. Also in the third quarter of 2014, there was a very positive response to the Company's new 2015 model-year Low Touring models, the Freewheeler trike and CVO Street Glide.

Improved availability of Harley-Davidson Street motorcycles in the third quarter of 2015. Early purchaser surveys suggest Street motorcycles are attracting Outreach customers that are new to the Harley-Davidson brand. This is in line with the Company's product strategy and supports its expectations that a majority of Street sales will be incremental<sup>(1)</sup>.





Table of Contents

As anticipated, a rebound in Sportster® sales following retail softness in the first half of 2014. The Company believes its pre-announcement of Street may have caused customers to delay their purchases until they could compare the varying features and benefits of Street and Sportster®. The Company believes that each of these platforms addresses varying customer needs evidenced by the fact that Sportster® retail sales grew in the third quarter compared to the prior year despite Street selling very well.

Retail sales in Canada were 5.8% lower in the third quarter of 2014 compared to the third quarter of 2013 which the Company believes is due to currency-driven price increases that have negatively impacted retail sales.

In the EMEA region, retail sales of Harley-Davidson motorcycles in the third quarter of 2014 increased 1.7% compared to the prior year driven by growth in the United Kingdom, Spain and France.

Third quarter 2014 retail sales in the Asia Pacific region were up 12.8% compared to the third quarter of 2013. Strong retail sales in emerging markets were partially offset by a 7.1% decline in Japan. The strong emerging market growth was driven by India as a result of a demand for Street motorcycles.

The Latin America region retail sales were up 7.0% in the third quarter of 2014 compared to the prior year driven by strong growth in Mexico, partially offset by a modest decline in Brazil. The Company remains cautious regarding the Brazil market as it continues to be impacted by a slowing economy, consumer uncertainty and very aggressive price competition.

The following table includes retail unit sales of Harley-Davidson motorcycles:

	Three months ended				
	September 30, 2014	September 30, 2013	Increase (Decrease)	% Change	
North America Region					
United States	50,167	48,529	1,638	3.4	%
Canada	2,598	2,759	(161)	(5.8)	%
Total North America Region	52,765	51,288	1,477	2.9	%
Europe, Middle East and Africa Region (EMEA)					
Europe <sup>(b)</sup>	8,255	8,071	184	2.3	%
Other	1,541	1,558	(17)	(1.1)	%
Total EMEA Region	9,796	9,629	167	1.7	%
Asia Pacific Region					
Japan	2,621	2,821	(200)	(7.1)	%
Other	4,852	3,805	1,047	27.5	%
Total Asia Pacific Region	7,473	6,626	847	12.8	%
Latin America Region	3,183	2,974	209	7.0	%
Total Worldwide Retail Sales	73,217	70,517	2,700	3.8	%
Total International Retail Sales	23,050	21,988	1,062	4.8	%

Data source for retail sales figures shown above is new sales warranty and registration information provided by (a) Harley-Davidson dealers and compiled by the Company. The Company must rely on information that its dealers supply concerning retail sales and this information is subject to revision.

(b) Includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

Table of Contents

## Motorcycles &amp; Related Products Segment

## Motorcycle Unit Shipments

The following table includes wholesale motorcycle unit shipments for the Motorcycles segment:

	Three months ended September 28, 2014		September 29, 2013		Unit Increase (Decrease)		Unit % Change	
	Units	Mix %	Units	Mix %				
United States	28,106	55.5	% 32,061	59.3	% (3,955	)	(12.3	)%
International	22,564	44.5	% 21,964	40.7	% 600		2.7	
Harley-Davidson motorcycle units	50,670	100.0	% 54,025	100.0	% (3,355	)	(6.2	)%
Touring motorcycle units	22,844	45.1	% 23,011	42.6	% (167	)	(0.7	)%
Custom motorcycle units <sup>(a)</sup>	14,722	29.1	% 19,111	35.4	% (4,389	)	(23.0	)
Sportster® / Street motorcycle units <sup>(b)</sup>	13,104	25.8	% 11,903	22.0	% 1,201		10.1	
Harley-Davidson motorcycle units	50,670	100.0	% 54,025	100.0	% (3,355	)	(6.2	)%

(a) Custom motorcycle units, as used in this table, include Dyna®, Softail®, V-Rod® and CVO models.

(b) Initial shipments of Street motorcycle units began during the first quarter of 2014.

The Company shipped 50,670 Harley-Davidson motorcycles worldwide during the third quarter of 2014, which was 6.2% lower than the third quarter of 2013 and in line with Company expectations as it adjusted production and shipments after softer-than-expected second quarter 2014 retail sales.

Shipments of Touring and Sportster® / Street motorcycles as a percentage of total shipments increased in the third quarter of 2014 compared to the prior year while shipments of custom motorcycles as a percentage of total shipments decreased. The mix of Touring motorcycle shipments increased as a percentage of total shipments as Rushmore motorcycles continued to create demand in the market. The higher shipment mix of Sportster® / Street motorcycles was driven by shipments of the Company's new Street models. The Company continues to expect a significantly higher shipment mix of Sportster® / Street motorcycles in the fourth quarter of 2014 compared to the third quarter of 2014 as the Company has largely resolved its Street start-up issues and it has reached its expected production run rate.<sup>(1)</sup>

U.S. dealer retail inventory of Harley-Davidson motorcycles was approximately 4,000 units higher at the end of the third quarter of 2014 compared to the same time last year, due in part to the initial dealer fill of Street models for retail. The Company continues to expect 2014 year-end retail inventory in the U.S. to be moderately higher than year-end 2013 levels primarily driven by the addition of the new Street models.<sup>(1)</sup>

Table of Contents

## Segment Results

The following table includes the condensed statements of operations for the Motorcycles segment (in thousands):

	Three months ended				
	September 28, 2014	September 29, 2013	Increase (Decrease)	% Change	
Revenue:					
Motorcycles	\$815,375	\$857,029	\$(41,654)	(4.9)	)%
Parts & Accessories	239,731	250,153	(10,422)	(4.2)	)
General Merchandise	69,282	66,134	3,148	4.8	)
Other	6,170	6,968	(798)	(11.5)	)
Total revenue	1,130,558	1,180,284	(49,726)	(4.2)	)
Cost of goods sold	735,958	763,969	(28,011)	(3.7)	)
Gross profit	394,600	416,315	(21,715)	(5.2)	)
Selling & administrative expense	215,965	204,514	11,451	5.6	)
Engineering expense	32,321	35,684	(3,363)	(9.4)	)
Restructuring expense	—	646	(646)	(100.0)	)
Operating expense	248,286	240,844	7,442	3.1	)
Operating income from Motorcycles	\$146,314	\$175,471	\$(29,157)	(16.6)	)%

The following table includes the estimated impact of significant factors affecting the comparability of net revenue, cost of goods sold and gross profit from the third quarter of 2013 to the third quarter of 2014 (in millions):

	Net Revenue	Cost of Goods Sold	Gross Profit		
Three months ended September 29, 2013	\$1,180.3	\$764.0	\$416.3		
Volume	(77.6)	(51.6)	(26.0)	)	)
Motorcycle price, net of related cost	17.9	12.0	5.9	)	)
Foreign currency exchange rates and hedging	(1.8)	9.7	(11.5)	)	)
Shipment mix	11.8	(1.9)	13.7	)	)
Raw material prices	—	0.5	(0.5)	)	)
Manufacturing and other costs	—	3.3	(3.3)	)	)
Total	(49.7)	(28.0)	(21.7)	)	)
Three months ended September 28, 2014	\$1,130.6	\$736.0	\$394.6		

The following factors affected the comparability of net revenue, cost of goods sold and gross profit from the third quarter of 2013 to the third quarter of 2014:

• Volume decreases were driven by the planned decrease in wholesale motorcycle shipments and lower parts and accessories sales, partially offset by higher sales volumes for general merchandise.

On average, wholesale prices for the Company's 2014 and 2015 model-year motorcycles are higher than the prior model-year resulting in the favorable impact on revenue during the period. The impact of revenue favorability resulting from model-year price increases on gross profit was partially offset by an increase in cost related to the additional content added to the 2014 and 2015 model-year motorcycles. The 2015 model-year wholesale and manufacturer's suggested retail price have increased by an average of approximately 1%. After adjusting for the cost of new content, pricing net of cost was up approximately 0.5% as a percent of revenue.

Revenue was negatively impacted primarily by a weaker Euro and Japanese yen when compared to the third quarter of 2013. Cost of goods sold was also negatively impacted by a devaluation of the Euro, Japanese yen, Brazilian real and Australian dollar during the quarter that resulted in an unfavorable revaluation of foreign-denominated assets on the balance sheet. The Company believes that if currencies remain unchanged from the third quarter of 2014, it will result in a negative year-over-year impact on revenue, partially offset by gains from foreign currency exchange contracts, in the fourth quarter of 2014 and into 2015.<sup>(1)</sup>



Table of Contents

Shipment mix changes positively impacted net revenue and gross profit in the third quarter of 2014 primarily as a result of a favorable mix within motorcycles families as customers continued to trade-up to higher content models, and favorable mix within the parts and accessories and general merchandise product lines. This favorability was partially offset by unfavorable mix between motorcycle families, primarily due to the increase in Street motorcycle shipments. The Company continues to expect shipment mix to be unfavorable in the fourth quarter of 2014 as Street motorcycle shipments increase as a percent of total shipments.<sup>(1)</sup>

Raw material prices were slightly higher in the third quarter of 2014 relative to the third quarter of 2013.

Higher manufacturing costs in the third quarter of 2014 were driven by lost absorption on lower year-over-year production volumes, partially offset by strong productivity gains.

The net increase in operating expenses was primarily due to two recalls announced during the third quarter of 2014 which resulted in an expense of approximately \$14 million. Selling and administrative expenses other than recall costs during the third quarter of 2014 were lower on a year-over-year basis driven primarily by the timing of expenses, which the Company expects to shift from the third quarter to the fourth quarter of 2014.<sup>(1)</sup>

## Financial Services Segment

## Segment Results

The following table includes the condensed statements of operations for the Financial Services segment (in thousands):

	Three months ended		Increase (Decrease)	% Change	
	September 28, 2014	September 29, 2013			
Interest income	\$153,236	\$148,164	\$5,072	3.4	%
Other income	17,810	15,270	2,540	16.6	
Financial Services revenue	171,046	163,434	7,612	4.7	
Interest expense	40,141	39,944	197	0.5	
Provision for credit losses	21,497	14,604	6,893	47.2	
Operating expenses	31,649	32,818	(1,169)	(3.6)	)
Financial Services expense	93,287	87,366	5,921	6.8	
Operating income from Financial Services	\$77,759	\$76,068	\$1,691	2.2	%

Interest income for the third quarter of 2014 increased primarily due to higher average receivables in the wholesale and retail portfolios, partially offset by lower yields primarily on retail finance receivables due to increased competition. Interest expense for the third quarter of 2014 increased slightly due to higher average outstanding debt, partially offset by a lower cost of funds.

The provision for credit losses increased \$6.9 million in third quarter of 2014 as compared to the third quarter of 2013. The retail motorcycle provision increased \$7.7 million in the third quarter of 2014 primarily as a result of higher credit losses, portfolio growth, and an increase in the retail motorcycle reserve rate. Credit losses were impacted by lower recovery values of repossessed motorcycles, changing consumer behavior, and lower recoveries as a result of fewer charge-offs in prior periods. The wholesale provision decreased by \$0.6 million due to a decrease in receivables and lower reserve rates.

Changes in the allowance for credit losses on finance receivables were as follows (in thousands):

	Three months ended	
	September 28, 2014	September 29, 2013
Balance, beginning of period	\$122,355	\$111,324
Provision for finance credit losses	21,497	14,604
Charge-offs	(26,093)	(23,708)
Recoveries	8,244	9,701
Balance, end of period	\$126,003	\$111,921



Table of Contents

Results of Operations for the Nine Months Ended September 28, 2014  
 Compared to the Nine Months Ended September 29, 2013  
 Consolidated Results

(in thousands, except earnings per share)	Nine months ended		Increase (Decrease)	% Change	
	September 28, 2014	September 29, 2013			
Operating income from Motorcycles & Related Products	\$967,262	\$809,897	\$157,365	19.4	%
Operating income from Financial Services	215,388	221,769	(6,381)	(2.9)	)
Operating income	1,182,650	1,031,666	150,984	14.6	
Investment income	4,940	4,546	394	8.7	
Interest expense	4,147	33,998	(29,851)	(87.8)	)
Income before income taxes	1,183,443	1,002,214	181,229	18.1	
Provision for income taxes	413,307	343,630	69,677	20.3	
Net income	\$770,136	\$658,584	\$111,552	16.9	%
Diluted earnings per share	\$3.52	\$2.93	\$0.59	20.1	%

Consolidated operating income was up 14.6% in the first nine months of 2014 led by an increase in operating income from the Motorcycles segment which improved by \$157.4 million, or 19.4%, compared to the first nine months of 2013. Operating income for the Financial Services segment declined in the first nine months of 2014 compared to the first nine months of 2013. Please refer to the “Motorcycles and Related Products Segment” and “Financial Services Segment” discussions following for a more detailed discussion of the factors affecting operating income.

Interest expense was lower in the first nine months of 2014 compared to the first nine months of 2013 due to the repayment of \$303 million of senior unsecured long-term debt in February 2014.

The effective income tax rate for the first nine months of 2014 was 34.9% compared to 34.3% for the first nine months of 2013. The higher effective tax rate in the first nine months of 2014 primarily reflects the absence of the U.S. Federal Research and Development tax credit that expired at the end of 2013. The effective tax rate for the first nine months of 2013 also included the full-impact of the 2012 U.S. Federal Research and Development tax credit due to the timing of the enactment of the American Taxpayer Relief Act.

Diluted earnings per share was \$3.52 in the first nine months of 2014, up 20.1% over the same period in the prior year. The increase in diluted earnings per share was driven primarily by the 16.9% increase in net income, but also benefited from lower diluted weighted average shares outstanding. Diluted weighted average shares outstanding decreased from 224.7 million in the first nine months of 2013 to 218.8 million in the first nine months of 2014, driven by the Company's repurchase of common stock. Please refer to "Liquidity and Capital Resources" for additional information concerning the Company's share repurchase activity.

#### Motorcycles Retail Sales and Registration Data

Worldwide independent dealer retail sales of Harley-Davidson motorcycles increased 2.7% during the first nine months of 2014 compared to the first nine months of 2013. Retail sales of Harley-Davidson motorcycles increased 1.9% in the United States and increased 4.4% internationally in the first nine months of 2014.

The Company believes that U.S. retail sales were positively impacted by the sustained momentum of the 2014 model-year Rushmore models, the launch of its 2015 model-year motorcycles, which included the return of the popular Road Glide, and the introduction of Street motorcycles. The Company also believes that prolonged poor weather conditions across parts of the U.S., and soft Sportster® sales, negatively impacted U.S. retail sales in the first six months of 2014. The Company believes Sportster® sales were adversely impacted during the first half of 2014 by the pre-announced introduction of the Company's Street motorcycles. The Company believes some customers waited to compare the two product offerings first-hand; however, start-up delays resulted in slower-than-expected shipments of Street motorcycles to dealers for sales to customers in the second quarter of 2014.

Retail sales in the first nine months of 2014 in the EMEA region were up 5.9% compared to the first nine months of 2013 driven by growth across most of the European countries. The increase was aided by favorable year-over-year weather





Table of Contents

comparisons across most of Europe. Emerging markets within the EMEA region continued to grow, reflecting the Company's investment in its distribution network.

In the Asia-Pacific region, retail sales increased 11.0% in the first nine months of 2014 compared to the same period last year driven by strong growth in emerging markets within the region. The emerging market retail sales increases were primarily driven by India where there is strong demand for the Company's Street 750 motorcycles.

Latin America region retail sales in the first nine months of 2014 were up 1.2% compared to the first nine months of 2013 primarily due to growth in Mexico, partially offset by a decline in Brazil. The Company believes retail sales in Brazil in the first nine months of 2014 were negatively impacted by difficult economic conditions, consumer uncertainty and aggressive price competition.

Retail sales in Canada were down 11.4% in the first nine months of 2014 compared to the same period last year. The Company believes the decrease was primarily due to the poor weather conditions in the market and currency-driven price increases that have negatively impacted retail sales.

On an industry-wide basis, retail sales of 601+cc street-legal motorcycles were up 2.1% in the United States and up 13.2% in Europe for the nine months ended September 30, 2014 when compared to the same period in 2013.

#### Worldwide Harley-Davidson Motorcycle Retail Sales<sup>(a)</sup>

The following table includes retail unit sales of Harley-Davidson motorcycles:

	Nine months ended				
	September 30, 2014	September 30, 2013	Increase (Decrease)	% Change	
North America Region					
United States	144,122	141,476	2,646	1.9	%
Canada	8,753	9,876	(1,123)	(11.4)	)
Total North America Region	152,875	151,352	1,523	1.0	
Europe, Middle East and Africa Region (EMEA)					
Europe <sup>(b)</sup>	32,376	30,440	1,936	6.4	
Other	5,124	4,970	154	3.1	
Total EMEA Region	37,500	35,410	2,090	5.9	
Asia Pacific Region					
Japan	8,024	8,168	(144)	(1.8)	)
Other	13,929	11,609	2,320	20.0	
Total Asia Pacific Region	21,953	19,777	2,176	11.0	
Latin America Region	8,522	8,425	97	1.2	
Total Worldwide Retail Sales	220,850	214,964	5,886	2.7	%
Total International Retail Sales	76,728	73,488	3,240	4.4	%

Data source for retail sales figures shown above is new sales warranty and registration information provided by (a) Harley-Davidson dealers and compiled by the Company. The Company must rely on information that its dealers supply concerning retail sales and this information is subject to revision.

(b) Includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

Table of ContentsMotorcycle Registration Data<sup>(a)</sup>

The following table includes industry retail motorcycle registration data:

	Nine months ended		Increase	% Change	
	September 30, 2014	September 30, 2013			
United States <sup>(b)</sup>	261,851	256,476	5,375	2.1	%
Europe <sup>(c)</sup>	284,382	251,280	33,102	13.2	%

Data includes on-road 601+cc models. On-road 601+cc models include on-highway, dual purpose models and (a) three-wheeled vehicles. Registration data for Harley-Davidson Street 500™ motorcycles are not included in this table.

(b) United States industry data is derived from information provided by Motorcycle Industry Council (MIC). This third party data is subject to revision and update.

Europe data includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom. Industry retail motorcycle (c) registration data includes 601+cc models derived from information provided by Association des Constructeurs

Europeens de Motocycles (ACEM), an independent agency. This third-party data is subject to revision and update. Motorcycles & Related Products Segment

## Motorcycle Unit Shipments

The following table includes wholesale motorcycle unit shipments for the Motorcycles segment:

	Nine months ended			September 29, 2013		Unit	Unit	
	September 28, 2014					Increase	%	
	Units	Mix %		Units	Mix %	(Decrease)	Change	
United States	145,440	65.1	%	139,814	65.4	% 5,626	4.0	%
International	78,129	34.9	%	74,039	34.6	% 4,090	5.5	
Harley-Davidson motorcycle units	223,569	100.0	%	213,853	100.0	% 9,716	4.5	%
Touring motorcycle units	100,117	44.8	%	86,727	40.5	% 13,390	15.4	%
Custom motorcycle units <sup>(a)</sup>	76,102	34.0	%	84,728	39.6	% (8,626	) (10.2	)
Sportster® / Street motorcycle units <sup>(b)</sup>	47,350	21.2	%	42,398	19.9	% 4,952	11.7	
Harley-Davidson motorcycle units	223,569	100.0	%	213,853	100.0	% 9,716	4.5	%

(a) Custom motorcycle units, as used in this table, include Dyna®, Softail®, V-Rod® and CVO models.

(b) Initial shipments of Street motorcycle units began during the first quarter of 2014.

The Company shipped 223,569 motorcycles worldwide during the first nine months of 2014, which was 4.5% higher than the first nine months of 2013. International shipments as a percent of total shipments increased from 34.6% in the first nine months of 2013 to 34.9% for first nine months of 2014. The shipment mix of Touring motorcycles in the first nine months of 2014 increased from the prior year. The Company believes 2014 Touring motorcycle shipments benefited from the launch of the Company's 2015 model-year motorcycles, which included seven new Project Rushmore Touring motorcycles, as well as the continued demand for the 2014 model-year Project Rushmore touring motorcycles. The shipment mix of Sportster® / Street motorcycles increased in the first nine months of 2014 compared to the same period last year. The increase was driven by shipments of the Company's new Street motorcycles.

Table of Contents

## Segment Results

The following table includes the condensed statements of operations for the Motorcycles segment (in thousands):

	Nine months ended				
	September 28, 2014	September 29, 2013	Increase (Decrease)	% Change	
Revenue:					
Motorcycles	\$3,601,328	\$3,285,738	\$315,590	9.6	%
Parts & Accessories	709,438	703,779	5,659	0.8	
General Merchandise	209,782	219,978	(10,196)	(4.6)	)
Other	15,983	16,503	(520)	(3.2)	)
Total revenue	4,536,531	4,225,998	310,533	7.3	
Cost of goods sold	2,825,661	2,688,371	137,290	5.1	
Gross profit	1,710,870	1,537,627	173,243	11.3	
Selling & administrative expense	645,550	619,409	26,141	4.2	
Engineering expense	98,058	110,034	(11,976)	(10.9)	)
Restructuring benefit	—	(1,713)	1,713	(100.0)	)
Operating expense	743,608	727,730	15,878	2.2	
Operating income from Motorcycles	\$967,262	\$809,897	\$157,365	19.4	%

The following table includes the estimated impact of significant factors affecting the comparability of net revenue, cost of goods sold and gross profit from the first nine months of 2013 to the first nine months of 2014 (in millions):

	Net Revenue	Cost of Goods Sold	Gross Profit
Nine months ended September 29, 2013	\$4,226.0	\$2,688.4	\$1,537.6
Volume	107.5	72.1	35.4
Motorcycle price, net of related costs	154.3	115.8	38.5
Foreign currency exchange rates and hedging	(4.7)	(15.7)	11.0
Shipment mix	53.4	(8.3)	61.7
Raw material prices	—	(1.7)	1.7
Manufacturing and other costs	—	(25.0)	25.0
Total	310.5	137.2	173.3
Nine months ended September 28, 2014	\$4,536.5	\$2,825.6	\$1,710.9

The following factors affected the comparability of net revenue, cost of goods sold and gross profit from the first nine months of 2013 to first nine months of 2014:

Volume increases were driven by the increase in wholesale motorcycle shipments and parts and accessories sales, partially offset by lower sales volumes for general merchandise.

On average, wholesale prices for the Company's 2014 and 2015 model-year motorcycles are higher than the prior model-year resulting in the favorable impact on revenue during the period. The impact of revenue favorability resulting from model-year price increases on gross profit was partially offset by increases in costs related to the significant additional content added to the 2014 and 2015 model-year motorcycles.

Gross profit benefited from changes in foreign currency exchange rates during the first nine months of 2014 compared to the first nine months of 2013. Revenue was negatively impacted by a devaluation in the Japanese yen, Brazilian real and Australian dollar that was partially offset by a strengthening of the Euro. The negative impact to revenue was more than offset by a positive impact to cost of goods sold primarily due to foreign exchange losses recorded in the prior year and the benefit of current year foreign currency exchange contracts.



Table of Contents

Shipment mix changes positively impacted net revenue and gross profit as a result of a higher mix of Touring motorcycles and a favorable model mix within motorcycle families compared to the first nine months of 2013. Raw material prices were lower in the first nine months of 2014 relative to the first nine months of 2013. Manufacturing costs in the first nine months of 2014 benefited from increased year-over-year production, restructuring savings, lower temporary inefficiencies and lower pension costs compared to last year's first nine months. The manufacturing cost benefits were partially offset by start-up costs of approximately \$12.8 million associated with the launch of the Company's new Street platform of motorcycles which are being produced at the Company's Kansas City, Missouri and India manufacturing facilities.

The net increase in operating expense was primarily due to higher selling and administrative expenses and the absence of the restructuring benefit recorded in the first nine months of 2013, partially offset by lower engineering expense. The higher selling and administrative expenses were primarily due to higher recall costs and higher spending in support of the Company's growth initiatives. For further information regarding the Company's completed restructuring activities, refer to Note 4 of Notes to Condensed Consolidated Financial Statements.

## Financial Services Segment

## Segment Results

The following table includes the condensed statements of operations for the Financial Services segment (in thousands):

	Nine months ended				
	September 28, 2014	September 29, 2013	Increase (Decrease)	% Change	
Interest income	\$443,142	\$436,895	\$6,247	1.4	%
Other income	48,678	46,345	2,333	5.0	
Financial Services revenue	491,820	483,240	8,580	1.8	
Interest expense	119,739	126,004	(6,265)	(5.0)	)
Provision for credit losses	57,789	39,011	18,778	48.1	
Operating expenses	98,904	96,456	2,448	2.5	
Financial Services expense	276,432	261,471	14,961	5.7	
Operating income from Financial Services	\$215,388	\$221,769	\$(6,381)	(2.9)	)%

Interest income was higher in the first nine months of 2014 due to higher average receivables in the retail and wholesale portfolios compared to the first nine months of 2013, partially offset by lower yields primarily on retail finance receivables due to increased competition. Interest expense decreased primarily due to lower cost of funds and a \$1.1 million loss on the extinguishment of medium-term notes in 2014 compared to a \$4.9 million loss on the extinguishment of medium-term notes in the first nine months of 2013.

The provision for credit losses increased \$18.8 million in the first nine months of 2014. The retail motorcycle provision increased \$19.0 million in the first nine months of 2014 primarily as a result of higher credit losses, portfolio growth, and an increase in the retail motorcycle reserve rate. Credit losses were impacted by lower recovery values of repossessed motorcycles, the impact of changing consumer behavior, and lower recoveries as a result of fewer charge-offs in prior periods. The wholesale provision was unfavorable by \$0.9 million due to smaller reserve rate decreases in 2014 as compared to 2013 and portfolio growth in the first nine months of 2014.

Annualized losses on HDFS' retail motorcycle loans were 1.08% through September 28, 2014 compared to 0.88% through September 29, 2013. The 30-day delinquency rate for retail motorcycle loans at September 28, 2014 was 3.00% compared to 3.11% at September 29, 2013.

Table of Contents

Changes in the allowance for credit losses on finance receivables were as follows (in thousands):

	Nine months ended	
	September 28, 2014	September 29, 2013
Balance, beginning of period	\$ 110,693	\$ 107,667
Provision for credit losses	57,789	39,011
Charge-offs	(72,454	) (67,117
Recoveries	29,975	32,360
Balance, end of period	\$ 126,003	\$ 111,921

## Other Matters

## Contractual Obligations

The Company has updated the contractual obligations table under the caption “Contractual Obligations” in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations of the Company’s Annual Report on Form 10-K for the year ended December 31, 2013 as of September 28, 2014 to reflect the new projected principal and interest payments for the remainder of 2014 and beyond as follows (in thousands):

	2014	2015 - 2016	2017 - 2018	Thereafter	Total
Principal payments on debt	\$949,821	\$1,845,503	\$1,951,986	\$696,558	\$5,443,868
Interest payments on debt	38,310	227,317	133,788	11,131	410,546
	\$988,131	\$2,072,820	\$2,085,774	\$707,689	\$5,854,414

Interest obligations for floating rate instruments, as calculated above, assume rates in effect at September 28, 2014 remain constant.

As of September 28, 2014, there have been no other material changes to the Company’s summary of expected payments for significant contractual obligations in the contractual obligations table.

## Commitments and Contingencies

The Company is subject to lawsuits and other claims related to environmental, product and other matters. In determining required reserves related to these items, the Company carefully analyzes cases and considers the likelihood of adverse judgments or outcomes, as well as the potential range of possible loss. The required reserves are monitored on an ongoing basis and are updated based on new developments or new information in each matter.

## Environmental Protection Agency Notice

In December 2009, the Company received formal, written requests for information from the United States Environmental Protection Agency (EPA) regarding: (i) certificates of conformity for motorcycle emissions and related designations and labels, (ii) aftermarket parts, and (iii) warranty claims on emissions related components. The Company promptly submitted written responses to the EPA’s inquiry and has engaged in discussions with the EPA. Since that time, the EPA has delivered various additional requests for information to which the Company has responded. It is possible that a result of the EPA’s investigation will be some form of enforcement action by the EPA that will seek a fine or other relief. However, at this time the Company does not know and cannot reasonably estimate the impact of any remedies the EPA might seek, if any.

## Table of Contents

### York Environmental Matters:

The Company is involved with government agencies and groups of potentially responsible parties in various environmental matters, including a matter involving the cleanup of soil and groundwater contamination at its York, Pennsylvania facility. The York facility was formerly used by the U.S. Navy and AMF prior to the purchase of the York facility by the Company from AMF in 1981. Although the Company is not certain as to the full extent of the environmental contamination at the York facility, it has been working with the Pennsylvania Department of Environmental Protection (PADEP) since 1986 in undertaking environmental investigation and remediation activities, including an ongoing site-wide remedial investigation/feasibility study (RI/FS). In January 1995, the Company entered into a settlement agreement (the Agreement) with the Navy, and the parties amended the Agreement in 2013 to address ordnance and explosive waste.

The Agreement calls for the Navy and the Company to contribute amounts into a trust equal to 53% and 47%, respectively, of future costs associated with environmental investigation and remediation activities at the York facility (Response Costs). The trust administers the payment of the Response Costs incurred at the York facility as covered by the Agreement.

As of September 28, 2014, the Company estimates that its share of the future Response Costs at the York facility will be approximately \$2.9 million and has established a reserve for this amount which is included in accrued liabilities in the Condensed Consolidated Balance Sheets.<sup>(1)</sup> As noted above, the RI/FS is still underway and given the uncertainty that exists concerning the nature and scope of additional environmental investigation and remediation that may ultimately be required under the RI/FS or otherwise at the York facility, the Company is unable to make a reasonable estimate of those additional costs, if any, that may result.

The estimate of the Company's future Response Costs that will be incurred at the York facility is based on reports of independent environmental consultants retained by the Company, the actual costs incurred to date and the estimated costs to complete the necessary investigation and remediation activities. Response Costs are expected to be paid primarily over a period of several years ending in 2017 although certain Response Costs may continue for some time beyond 2017.

### Product Liability Matters:

The Company is involved in product liability suits related to the operation of its business. The Company accrues for claim exposures that are probable of occurrence and can be reasonably estimated. The Company also maintains insurance coverage for product liability exposures. The Company believes that its accruals and insurance coverage are adequate and that product liability suits will not have a material adverse effect on the Company's consolidated financial statements.<sup>(1)</sup>

### Liquidity and Capital Resources as of September 28, 2014<sup>(1)</sup>

Over the long-term, the Company expects that its business model will continue to generate cash that will allow it to invest in the business, fund future growth opportunities and return value to shareholders. The Company believes the Motorcycles operations will continue to be primarily funded through cash flows generated by operations. The Financial Services operations have been funded with unsecured debt, unsecured commercial paper, asset-backed commercial paper conduit facilities, committed unsecured bank facilities, term asset-backed securitizations, and intercompany borrowings.

Table of Contents

The Company's strategy is to maintain a minimum of twelve months of its projected liquidity needs through a combination of cash and marketable securities and availability under credit facilities. The following table summarizes the Company's cash and marketable securities and availability under credit facilities (in thousands):

	September 28, 2014
Cash and cash equivalents	\$979,866
Current marketable securities	57,579
Total cash and cash equivalents and marketable securities	1,037,445
Global credit facilities	997,570
Asset-backed U.S. commercial paper conduit facility <sup>(a)</sup>	600,000
Asset-backed Canadian commercial paper conduit facility <sup>(b)</sup>	13,874
Total availability under credit facilities	1,611,444
Total	\$2,648,889

(a) The U.S. commercial paper conduit facility expires on October 30, 2015. The Company anticipates that it will renew this facility prior to expiration<sup>(1)</sup>.

(b) The Canadian commercial paper conduit facility expires on June 30, 2015 and is limited to Canadian denominated borrowings. The Company anticipates that it will renew this facility prior to expiration.<sup>(1)</sup>

The Company continues to monitor and adjust to changes in the lending environment for its Financial Services operations. The Company intends to continue with a diversified funding profile through a combination of short-term and long-term funding vehicles and to pursue a variety of sources to obtain cost-effective funding. The Financial Services operations could be negatively affected by higher costs of funding and increased difficulty of raising or potential unsuccessful efforts to raise, funding in the short-term and long-term capital markets. These negative consequences could in turn adversely affect the Company's business and results of operations in various ways, including through higher costs of capital, reduced funds available through its Financial Services operations to provide loans to independent dealers and their retail customers, and dilution to existing shareholders through the use of alternative sources of capital.

**Cash Flow Activity**

The following table summarizes the cash flow activity for the periods indicated (in thousands):

	Nine months ended	
	September 28, 2014	September 29, 2013
Net cash provided by operating activities	\$966,868	\$825,103
Net cash used by investing activities	(689,675)	) (539,043)
Net cash used by financing activities	(349,366)	) (312,485)
Effect of exchange rate changes on cash and cash equivalents	(14,573)	) (11,758)
Net decrease in cash and cash equivalents	\$(86,746)	) \$(38,183)

**Operating Activities**

The increase in cash provided by operating activities for the first nine months of 2014 compared to the first nine months of 2013 was due in part to increased earnings and favorable changes in working capital, partially offset by higher wholesale finance originations. In addition, operating cash flow in 2013 was adversely impacted by a \$175.0 million voluntary contribution to the Company's qualified pension plans. No contributions to qualified pension plans are required or planned in 2014<sup>(1)</sup>. The Company expects it will continue to make on-going contributions related to current benefit payments for SERPA and postretirement healthcare plans.

**Investing Activities**

The Company's investing activities consist primarily of capital expenditures, net changes in finance receivables and short-term investment activity. Capital expenditures were \$120.3 million in the first nine months of 2014 compared to \$111.7 million in the same period last year. Net cash outflows for finance receivables for the first nine months of 2014 were \$164.5 million higher than in the same period last year as a result of an increase in retail motorcycle loan



originations during the first

54

---

Table of Contents

nine months of 2014. A net decrease in marketable securities during the first nine months of 2014 resulted in higher investing cash flows of approximately \$28.9 million compared to the same period last year.

**Financing Activities**

The Company's financing activities consist primarily of share repurchases, dividend payments and debt activity. Cash outflows for share repurchases were \$393.5 million in the first nine months of 2014 compared to \$302.2 million for the same period last year. Share repurchases during the first nine months of 2014 included 5.9 million shares of common stock related to discretionary share repurchases as well as shares of common stock that employees surrendered to satisfy withholding taxes in connection with the vesting of restricted stock awards. As of September 28, 2014, there were 24.0 million shares remaining on board-approved share repurchase authorizations.

The Company paid dividends of \$0.825 and \$0.630 per share totaling \$179.9 million and \$140.8 million during the first nine months of 2014 and 2013, respectively.

Financing cash flows related to debt activity resulted in net cash inflows of \$183.7 million in the first nine months of 2014 compared to net cash inflows of \$79.2 million in the first nine months of 2013. During the third quarter of 2014, HDFS issued \$600.0 million of medium-term notes which mature in 2019 and have an annual interest rate of 2.40%. There were no medium-term note issuances during 2013. The Company repaid \$303.0 million of senior unsecured notes in the first half of 2014. The Company's total outstanding debt consisted of the following (in thousands):

	September 28, 2014	September 29, 2013
Unsecured commercial paper	\$352,430	\$394,460
Asset-backed Canadian commercial paper conduit facility	165,166	180,584
Medium-term notes	3,451,124	2,858,809
Senior unsecured notes	—	303,000
Term asset-backed securitization debt	1,475,148	1,446,656
Total debt	\$5,443,868	\$5,183,509

To access the debt capital markets, the Company relies on credit rating agencies to assign short-term and long-term credit ratings. Generally, lower credit ratings result in higher borrowing costs and reduced access to debt capital markets. A credit rating agency may change or withdraw the Company's ratings based on its assessment of the Company's current and future ability to meet interest and principal repayment obligations. The Company's short-term debt ratings affect its ability to issue unsecured commercial paper. The Company's short- and long-term debt ratings as of September 28, 2014 were as follows:

	Short-Term	Long-Term	Outlook
Moody's	P2	Baa1	Positive
Standard & Poor's	A2	A-	Stable
Fitch	F1	A	Stable

**Global Credit Facilities** – On April 7, 2014, the Company, along with HDFS, entered into a new \$675.0 million five-year credit facility to refinance and replace a \$675.0 million four-year credit facility that was due to mature in April 2015. The new five-year credit facility matures in April 2019. The Company and HDFS also have a \$675.0 million five-year credit facility which matures in April 2017. The new five-year credit facility and the existing five-year credit facility (together, the Global Credit Facilities) bear interest at various variable interest rates, which may be adjusted upward or downward depending on certain criteria, such as credit ratings. The Global Credit Facilities also require the Company to pay a fee based on the average daily unused portion of the aggregate commitments under the Global Credit Facilities. The Global Credit Facilities are committed facilities and primarily used to support HDFS' unsecured commercial paper program.

**Unsecured Commercial Paper** – Subject to limitations, HDFS could issue unsecured commercial paper of up to \$1.35 billion as of September 28, 2014 supported by the Global Credit Facilities, as discussed above. Outstanding unsecured commercial paper may not exceed the unused portion of the Global Credit Facilities. Maturities may range up to 365 days from the issuance date. HDFS intends to repay unsecured commercial paper as it matures with additional unsecured commercial paper or through other means, such as borrowing under the Global Credit Facilities, borrowing under its asset-backed U.S. commercial paper conduit facility or through the use of operating cash flow and cash on

hand.<sup>(1)</sup>

55

---

Table of Contents

Medium-Term Notes – The Company had the following medium-term notes (collectively, the Notes) issued and outstanding at September 28, 2014 (in thousands):

Principal Amount	Rate	Issue Date	Maturity Date
\$500,000	5.75%	November 2009	December 2014
\$600,000	1.15%	September 2012	September 2015
\$450,000	3.875%	March 2011	March 2016
\$400,000	2.70%	January 2012	March 2017
\$904,417	6.80%	May 2008	June 2018
\$600,000	2.40%	September 2014	September 2019

The Notes provide for semi-annual interest payments and principal due at maturity. Unamortized discounts on the Notes reduced the outstanding balance by \$3.3 million and \$1.7 million at September 28, 2014 and September 29, 2013, respectively.

During the third quarter of 2014, HDFS issued \$600.0 million of medium-term notes which mature in 2019 and have an annual interest rate of 2.40%. There were no medium-term note issuances made during 2013.

During the second quarter of 2014, HDFS repurchased an aggregate of \$6.1 million of its 6.80% medium-term notes which mature in June 2018. As a result, HDFS recognized in financial services interest expense \$1.1 million in loss on the extinguishment of debt, which included unamortized discounts and fees. During the second quarter of 2013, HDFS repurchased an aggregate of \$23.0 million of its 6.80% medium-term notes which mature in June 2018. As a result, HDFS recognized in financial services interest expense \$4.9 million in loss on the extinguishment of debt, which included unamortized discounts and fees. There were no other repurchases made during 2014 or 2013.

Senior Unsecured Notes – In February 2009, the Company issued \$600.0 million of senior unsecured notes in an underwritten offering. The senior unsecured notes provided for semi-annual interest payments and principal due at maturity. During the fourth quarter of 2010, the Company repurchased \$297.0 million of the \$600.0 million senior unsecured notes at a price of \$380.8 million. The senior unsecured notes matured in February 2014 and the Company repaid the remaining senior unsecured notes outstanding.

Asset-Backed Canadian Commercial Paper Conduit Facility –HDFS has a facility agreement (Canadian Conduit) with a Canadian bank-sponsored asset-backed commercial paper conduit. Under the agreement, the Canadian Conduit is contractually committed, at HDFS' option, to purchase from HDFS eligible Canadian retail motorcycle finance receivables for proceeds up to C\$200 million. The transferred assets are restricted as collateral for the payment of the debt. The terms for this facility provide for interest on the outstanding principal based on prevailing market interest rates plus a specified margin. The Canadian Conduit also provides for a program fee and an unused commitment fee based on the unused portion of the total aggregate commitment of C\$200 million. There is no amortization schedule; however, the debt is reduced monthly as available collections on the related finance receivables are applied to outstanding principal. Upon expiration of the Canadian Conduit, any outstanding principal will continue to be reduced monthly through available collections. Unless earlier terminated or extended by mutual agreement of HDFS and the lenders, as of September 28, 2014, the Canadian Conduit has an expiration date of June 30, 2015. The contractual maturity of the debt is approximately 5 years.

During the third quarter of 2014, HDFS transferred \$24.4 million of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of \$21.4 million. During the first nine months of 2014, HDFS transferred \$66.5 million of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of \$58.2 million. During the third quarter of 2013, HDFS transferred \$26.3 million of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of \$23.1 million. During the first nine months of 2013, HDFS transferred \$80.2 million of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of \$70.1 million.

Asset-Backed U.S. Commercial Paper Conduit Facility VIE – In September 2014, HDFS amended and restated its revolving facility (U.S. Conduit) with an asset-backed U.S. commercial paper conduit, which provides for a total aggregate commitment of \$600.0 million. At September 28, 2014 and September 29, 2013, HDFS had no outstanding borrowings under the U.S. Conduit.

This debt provides for interest on outstanding principal based generally on prevailing commercial paper rates plus a program fee based on outstanding principal, or LIBOR plus a specified margin to the extent the advance is not funded

by a conduit lender through the issuance of commercial paper. The U.S. Conduit also provides for an unused commitment fee based on the unused portion of the total aggregate commitment of \$600.0 million. There is no amortization schedule; however, the debt is reduced monthly as available collections on the related finance receivable collateral are applied to outstanding principal.

Table of Contents

Upon expiration of the U.S. Conduit, any outstanding principal will continue to be reduced monthly through available collections. Unless earlier terminated or extended by mutual agreement of HDFS and the lenders, as of September 28, 2014, the U.S. Conduit expires October 30, 2015.

**Term Asset-Backed Securitization VIEs** – For all of the term asset-backed securitization transactions, HDFS transferred U.S. retail motorcycle finance receivables to separate VIEs, which in turn issued secured notes with various maturities and interest rates to investors. All of the notes held by the VIEs are secured by future collections of the purchased U.S. retail motorcycle finance receivables. The U.S. retail motorcycle finance receivables included in the term asset-backed securitization transactions are not available to pay other obligations or claims of HDFS' creditors until the associated debt and other obligations are satisfied. Restricted cash balances held by the VIEs are used only to support the securitizations. There is no amortization schedule for the secured notes; however, the debt is reduced monthly as available collections on the related retail motorcycle finance receivables are applied to outstanding principal. The secured notes' contractual lives have various maturities ranging from 2014 to 2021.

During 2012, the Company issued \$89.5 million of secured notes through the sale of notes that had been previously retained as part of certain 2009 and 2011 term asset-backed securitization transactions. These notes were sold at a premium. The unaccreted premium associated with the issuance of these secured notes was \$0.3 million and \$0.5 million at September 28, 2014 and September 29, 2013, respectively.

During the second quarter of 2014, the Company issued \$850.0 million of secured notes through one term asset-backed securitization transaction. During the second quarter of 2013, the Company issued \$650.0 million of secured notes through one term asset-backed securitization transaction. There were no other term asset-backed securitization transactions during the nine months ended September 28, 2014 or September 29, 2013.

**Intercompany Borrowing** – During the first nine months ended September 28, 2014, HDFS and the Company had in effect the following term loan agreements under which HDFS borrowed from the Company (in thousands):

Principal Amount	Issue Date	Maturity Date
\$300,000	June 2013	April 2014 *
\$150,000	September 2013	April 2014 *
\$300,000	April 2014	April 2015
\$250,000	June 2014	September 2014 *
\$150,000	September 2014	April 2015 **

\* This loan was repaid in 2014 on or before the maturity date.

\*\* \$100.0 million of this loan was repaid in September 2014.

The term loans provide for monthly interest based on the prevailing commercial paper rates and principal due at maturity or upon demand by the Company. The outstanding intercompany term loan balance was \$350.0 million and \$550.0 million September 28, 2014 and September 29, 2013, respectively. The term loan balances and related interest are eliminated in the Company's consolidated financial statements.

**Support Agreement** - The Company has a support agreement with HDFS whereby, if required, the Company agrees to provide HDFS with financial support to maintain HDFS' fixed-charge coverage at 1.25 and minimum net worth of \$40.0 million. Support may be provided at the Company's option as capital contributions or loans. Accordingly, certain debt covenants may restrict the Company's ability to withdraw funds from HDFS outside the normal course of business. No amount has ever been provided to HDFS under the support agreement.

**Operating and Financial Covenants** – HDFS and the Company are subject to various operating and financial covenants related to the Global Credit Facilities and various operating covenants under the Notes and the U.S. and Canadian asset-backed commercial paper conduit facilities. The more significant covenants are described below.

The operational covenants limit the Company's and HDFS' ability to:

- assume or incur certain liens;
- participate in certain mergers, consolidations, liquidations or dissolutions; and
- purchase or hold margin stock.

Under the current financial covenants of the Global Credit Facilities, the consolidated debt to equity ratio of HDFS cannot exceed 10.0 to 1.0 as of the end of any fiscal quarter. In addition, the ratio of the Company's consolidated debt to the



## Table of Contents

Company's consolidated debt and equity, in each case excluding the debt of HDFS and its subsidiaries, cannot exceed 0.65 to 1.0 as of the end of any fiscal quarter.

No financial covenants are required under the Notes or the U.S. or Canadian asset-backed commercial paper conduit facilities.

At September 28, 2014, HDFS and the Company remained in compliance with all of the then existing covenants.

### Cautionary Statements

The Company's ability to meet the targets and expectations noted depends upon, among other factors, the Company's ability to:

- (i) execute its business strategy,
- (ii) adjust to fluctuations in foreign currency exchange rates, interest rates and commodity prices,
- (iii) manage through inconsistent economic conditions, including changing capital, credit and retail markets,
- (iv) manage through the effects inconsistent and unpredictable weather patterns may have on retail sales of motorcycles,
- (v) manage supply chain issues, including any unexpected interruptions or price increases caused by raw material shortages or natural disasters,
- (vi) manage changes and prepare for requirements in legislative and regulatory environments for its products, services and operations,
- (vii) develop and implement sales and marketing plans that retain existing retail customers and attract new retail customers in an increasingly competitive marketplace,
- (viii) implement and manage enterprise-wide information technology solutions, including solutions at its manufacturing facilities, and secure data contained in those systems,
- (ix) anticipate the level of consumer confidence in the economy,
- (x) continue to realize production efficiencies at its production facilities and manage operating costs including materials, labor and overhead,
- (xi) manage production capacity and production changes,
- (xii) provide products, services and experiences that are successful in the marketplace,
- (xiii) manage risks that arise through expanding international manufacturing, operations and sales,
- (xiv) manage the credit quality, the loan servicing and collection activities, and the recovery rates of HDFS' loan portfolio,
- (xv) continue to manage the relationships and agreements that it has with its labor unions to help drive long-term competitiveness,
- (xvi) adjust to healthcare inflation and reform, pension reform and tax changes,
- (xvii) retain and attract talented employees,
- (xviii) manage the risks that the Company's independent dealers may have difficulty obtaining capital and managing through changing economic conditions and consumer demand,
- (xix) continue to have access to reliable sources of capital funding and adjust to fluctuations in the cost of capital,
- (xx) continue to develop the capabilities of its distributor and dealer network, and
- (xxi) detect any issues with the Company's motorcycles or manufacturing processes to avoid delays in new model launches, recall campaigns, increased warranty costs or litigation.

In addition, the Company could experience delays or disruptions in its operations as a result of work stoppages, strikes, natural causes, terrorism or other factors. Other factors are described in risk factors that the Company has disclosed in documents previously filed with the Securities and Exchange Commission. Many of these risk factors are impacted by the current changing capital, credit and retail markets and the Company's ability to manage through inconsistent economic conditions.

The Company's ability to sell its motorcycles and related products and services and to meet its financial expectations also depends on the ability of the Company's independent dealers to sell its motorcycles and related products and services to retail customers. The Company depends on the capability and financial capacity of its independent dealers and distributors to develop and implement effective retail sales plans to create demand for the motorcycles and related products and services they purchase from the Company.



In addition, the Company's independent dealers and distributors may experience difficulties in operating their businesses and selling Harley-Davidson motorcycles and related products and services as a result of weather, economic conditions or other factors.

Table of Contents

In recent years, HDFS has experienced historically low levels of retail credit losses, but there is no assurance that this will continue. The Company believes that HDFS' retail credit losses may increase over time due to changing consumer credit behavior and HDFS' efforts to increase prudently structured loan approvals in the sub-prime lending environment.

Refer to "Risk Factors" under Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for a discussion of additional risk factors and a more complete discussion of some of the cautionary statements noted above.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for a complete discussion of the Company's market risk. There have been no material changes to the market risk information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q, the Company's management evaluated, with the participation of the Company's Chairman, President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer, the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based upon their evaluation of these disclosure controls and procedures, the Chairman, President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer have concluded that the disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange Commission rules and forms, and to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chairman, President and Chief Executive Officer and Senior Vice President and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure.

Changes in Internal Controls

There was no change in the Company's internal control over financial reporting during the quarter ended September 28, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**PART II – OTHER INFORMATION****Item 1 – Legal Proceedings**

The information required under this Item 1 of Part II is contained in Item 1 of Part I of this Quarterly report on Form 10-Q in Note 16 of the Notes to Condensed Consolidated Financial Statements, and such information is incorporated herein by reference in this Item 1 of Part II.

**Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds**

The following table contains detail related to the repurchase of common stock based on the date of trade during the quarter ended September 28, 2014:

2014 Fiscal Month	Total Number of Shares Purchased	Average Price Paid per Share (a)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
June 30 to August 3	987,862	67	987,862	25,634,823
August 4 to August 31	1,302,286	63	1,302,286	24,343,918
September 1 to September 28	349,553	64	349,553	24,004,000
Total	2,639,701	64	2,639,701	

(a) Includes discretionary share repurchases and shares of common stock that employees surrendered to satisfy withholding taxes in connection with the vesting of restricted stock awards

The Company has an authorization (originally adopted in December 1997) by its Board of Directors to repurchase shares of its outstanding common stock under which the cumulative number of shares repurchased, at the time of any repurchase, shall not exceed the sum of (1) the number of shares issued in connection with the exercise of stock options occurring on or after January 1, 2004 plus (2) one percent of the issued and outstanding common stock of the Company on January 1 of the current year, adjusted for any stock split. The Company made discretionary share repurchases of 35,737 shares during the quarter ended September 28, 2014 under this authorization. As of September 28, 2014, no shares remained under this authorization.

In December 2007, the Company's Board of Directors separately authorized the Company to buy back up to 20.0 million shares of its common stock with no dollar limit or expiration date. The Company made discretionary share repurchases of 2.6 million shares during the quarter ended September 28, 2014 under this authorization. As of September 28, 2014, 4.0 million shares remained under this authorization.

Additionally, in February 2014, the Company's Board of Directors authorized the Company to repurchase up to 20.0 million shares of its common stock with no dollar limit or expiration date. The Company made no discretionary share repurchases during the quarter ended September 28, 2014 under this authorization. As of September 28, 2014, 20.0 million shares remained under this authorization.

Under the share repurchase authorizations, the Company's common stock may be purchased through any one or more of a Rule 10b5-1 trading plan and discretionary purchases on the open market, block trades, accelerated share repurchases or privately negotiated transactions. The number of shares repurchased, if any, and the timing of repurchases will depend on a number of factors, including share price, trading volume and general market conditions, as well as on working capital requirements, general business conditions and other factors. The repurchase authority has no expiration date but may be suspended, modified or discontinued at any time.

The Harley-Davidson, Inc. 2009 Incentive Stock Plan and predecessor stock plans permit participants to satisfy all or a portion of the statutory federal, state and local withholding tax obligations arising in connection with plan awards by electing to (a) have the Company withhold shares otherwise issuable under the award, (b) tender back shares received in connection with such award or (c) deliver other previously owned shares, in each case having a value equal to the amount to be withheld. During the third quarter of 2014, the Company acquired 2,082 shares of common stock that employees presented to the Company to satisfy withholding taxes in connection with the vesting of restricted stock awards.

**Item 6 – Exhibits**

Refer to the Exhibit Index on page 62 of this report.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HARLEY-DAVIDSON, INC.

Date: 11/6/2014

/s/ John A. Olin  
John A. Olin  
Senior Vice President and  
Chief Financial Officer  
(Principal financial officer)

Date: 11/6/2014

/s/ Mark R. Kornetzke  
Mark R. Kornetzke  
Chief Accounting Officer  
(Principal accounting officer)

Table of Contents

Harley-Davidson, Inc.  
Exhibit Index to Form 10-Q

Exhibit No.	Description
31.1	Chief Executive Officer Certification pursuant to Rule 13a-14(a)
31.2	Chief Financial Officer Certification pursuant to Rule 13a-14(a)
32.1	Written Statement of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. §1350
101	Financial statements from the quarterly report on Form 10-Q of Harley-Davidson, Inc. for the quarter ended September 28, 2014, filed on November 6, 2014, formatted in XBRL: (i) the Condensed Consolidated Statements of Operations; (ii) the Condensed Consolidated Statements of Comprehensive Income; (iii) the Condensed Consolidated Balance Sheets; (iv) the Condensed Consolidated Statements of Cash Flows; and (v) the Notes to Condensed Consolidated Financial Statements.