

HARLEY DAVIDSON INC  
Form 10-Q  
May 07, 2015

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

FORM 10-Q

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

For the quarterly period ended March 29, 2015

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 (Zip code)  
(Address of principal executive offices)

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  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

Number of shares of the registrant's common stock outstanding at May 1, 2015: 208,135,149 shares

Harley-Davidson, Inc.

Form 10-Q

For The Quarter Ended March 29, 2015

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## HARLEY-DAVIDSON, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

(Unaudited)

|   | Three months ended |                   |
|---|--------------------|-------------------|
|   | March 29,<br>2015  | March 30,<br>2014 |
| Revenue:  |                    |                   |
| Motorcycles and Related Products                    | \$1,510,570        | \$1,571,688       |
| Financial Services                                  | 162,375            | 154,360           |
| Total revenue                                       | 1,672,945          | 1,726,048         |
| Costs and expenses:                                 |                    |                   |
| Motorcycles and Related Products cost of goods sold | 920,295            | 979,557           |
| Financial Services interest expense                 | 38,536             | 38,857            |
| Financial Services provision for credit losses      | 26,247             | 20,331            |
| Selling, administrative and engineering expense     | 277,749            | 276,421           |
| Total costs and expenses                            | 1,262,827          | 1,315,166         |
| Operating income                                    | 410,118            | 410,882           |
| Investment income                                   | 1,322              | 1,659             |
| Interest expense                                    | 9                  | 3,677             |
| Income before provision for income taxes            | 411,431            | 408,864           |
| Provision for income taxes                          | 141,577            | 142,947           |
| Net income  | \$269,854          | \$265,917         |
| Earnings per common share:                          |                    |                   |
| Basic   | \$1.28             | \$1.21            |
| Diluted   | \$1.27             | \$1.21            |
| Cash dividends per common share                     | \$0.310            | \$0.275           |

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

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HARLEY-DAVIDSON, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

|   | Three months ended |                   |
|---|--------------------|-------------------|
|   | March 29,<br>2015  | March 30,<br>2014 |
| Net income  | \$269,854          | \$265,917         |
| Other comprehensive (loss) income, net of tax       |                    |                   |
| Foreign currency translation adjustments            | (27,021 )          | 2,948             |
| Derivative financial instruments                    | 11,072             | (227 )            |
| Marketable securities                               | (67 )              | (42 )             |
| Pension and postretirement benefit plans            | 8,798              | 6,068             |
| Total other comprehensive (loss) income, net of tax | \$(7,218 )         | \$8,747           |
| Comprehensive income                                | \$262,636          | \$274,664         |

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

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HARLEY-DAVIDSON, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In thousands)

|   | (Unaudited)<br>March 29,<br>2015 | December 31,<br>2014 | (Unaudited)<br>March 30,<br>2014 |
|---|----------------------------------|----------------------|----------------------------------|
| <b>ASSETS</b>                               |                                  |                      |                                  |
| Current assets:                             |                                  |                      |                                  |
| Cash and cash equivalents                   | \$1,168,724                      | \$906,680            | \$935,820                        |
| Marketable securities                       | 57,219                           | 57,325               | 92,940                           |
| Accounts receivable, net                    | 280,497                          | 247,621              | 324,979                          |
| Finance receivables, net                    | 2,357,993                        | 1,916,635            | 2,223,199                        |
| Inventories                                 | 480,941                          | 448,871              | 449,044                          |
| Restricted cash                             | 120,428                          | 98,627               | 117,883                          |
| Deferred income taxes                       | 83,519                           | 89,916               | 89,070                           |
| Other current assets                        | 164,484                          | 182,420              | 127,536                          |
| Total current assets                        | 4,713,805                        | 3,948,095            | 4,360,471                        |
| Finance receivables, net                    | 4,490,599                        | 4,516,246            | 4,214,496                        |
| Property, plant and equipment, net          | 873,518                          | 883,077              | 823,061                          |
| Prepaid pension costs                       | —                                | —                    | 250,575                          |
| Goodwill                                    | 25,632                           | 27,752               | 30,427                           |
| Deferred income taxes                       | 72,176                           | 77,835               | 3,023                            |
| Other long-term assets                      | 88,094                           | 75,092               | 47,738                           |
|   | \$10,263,824                     | \$9,528,097          | \$9,729,791                      |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                                  |                      |                                  |
| Current liabilities:                        |                                  |                      |                                  |
| Accounts payable                            | \$440,920                        | \$196,868            | \$454,366                        |
| Accrued liabilities                         | 497,027                          | 449,317              | 566,755                          |
| Short-term debt                             | 70,329                           | 731,786              | 974,153                          |
| Current portion of long-term debt           | 1,500,611                        | 1,011,315            | 848,840                          |
| Total current liabilities                   | 2,508,887                        | 2,389,286            | 2,844,114                        |
| Long-term debt                              | 4,357,538                        | 3,761,528            | 3,271,648                        |
| Pension liability                           | 71,263                           | 76,186               | 37,261                           |
| Postretirement healthcare liability         | 199,645                          | 203,006              | 212,887                          |
| Deferred income taxes                       | —                                | —                    | 35,973                           |
| Other long-term liabilities                 | 190,651                          | 188,805              | 168,073                          |
| Commitments and contingencies (Note 16)     |                                  |                      |                                  |
| Shareholders' equity:                       |                                  |                      |                                  |
| Preferred stock, none issued                | —                                | —                    | —                                |
| Common stock                                | 3,445                            | 3,442                | 3,435                            |
| Additional paid-in-capital                  | 1,286,991                        | 1,265,257            | 1,198,655                        |
| Retained earnings                           | 8,663,427                        | 8,459,040            | 8,058,119                        |
| Accumulated other comprehensive loss        | (522,161 )                       | (514,943 )           | (323,929 )                       |
| Treasury stock, at cost                     | (6,495,862 )                     | (6,303,510 )         | (5,776,445 )                     |
| Total shareholders' equity                  | 2,935,840                        | 2,909,286            | 3,159,835                        |
|   | \$10,263,824                     | \$9,528,097          | \$9,729,791                      |



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## HARLEY-DAVIDSON, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

(In thousands)

|   | (Unaudited)<br>March 29,<br>2015 | December 31,<br>2014 | (Unaudited)<br>March 30,<br>2014 |
|---|----------------------------------|----------------------|----------------------------------|
| Balances held by consolidated variable interest entities (Note 5) |                                  |                      |                                  |
| Current finance receivables, net                                  | \$364,936                        | \$312,645            | \$274,797                        |
| Other assets  | \$3,754                          | \$3,409              | \$3,387                          |
| Non-current finance receivables, net                              | \$1,511,659                      | \$1,113,801          | \$922,060                        |
| Restricted cash - current and non-current                         | \$138,574                        | \$110,017            | \$105,536                        |
| Current portion of long-term debt                                 | \$414,665                        | \$366,889            | \$309,250                        |
| Long-term debt  | \$1,356,112                      | \$904,644            | \$787,383                        |

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

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## HARLEY-DAVIDSON, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

|   | Three months ended |                   |
|---|--------------------|-------------------|
|   | March 29,<br>2015  | March 30,<br>2014 |
| Net cash provided by operating activities (Note 3)                          | \$ 174,700         | \$ 203,586        |
| Cash flows from investing activities:                                       |                    |                   |
| Capital expenditures  | (38,069            | ) (25,881         |
| Origination of finance receivables  | (752,404           | ) (757,965        |
| Collections on finance receivables  | 729,666            | 707,431           |
| Sales and redemptions of marketable securities                              | —                  | 6,001             |
| Other   | 9                  | 51                |
| Net cash used by investing activities                                       | (60,798            | ) (70,363         |
| Cash flows from financing activities:                                       |                    |                   |
| Repayments of senior unsecured notes  | —                  | (303,000          |
| Proceeds from issuance of medium-term notes                                 | 595,386            | —                 |
| Proceeds from securitization debt   | 697,591            | —                 |
| Repayments of securitization debt   | (200,695           | ) (159,938        |
| Net (decrease) increase in credit facilities and unsecured commercial paper | (661,241           | ) 307,803         |
| Borrowings of asset-backed commercial paper                                 | 16,798             | 13,746            |
| Repayments of asset-backed commercial paper                                 | (15,744            | ) (16,981         |
| Net change in restricted cash   | (28,579            | ) 26,924          |
| Dividends paid  | (65,467            | ) (60,527         |
| Purchase of common stock for treasury                                       | (192,700           | ) (87,690         |
| Excess tax benefits from share-based payments                               | 2,207              | 4,763             |
| Issuance of common stock under employee stock option plans                  | 9,605              | 8,894             |
| Net cash provided by (used by) financing activities                         | 157,161            | (266,006          |
| Effect of exchange rate changes on cash and cash equivalents                | (9,019             | ) 1,991           |
| Net increase (decrease) in cash and cash equivalents                        | \$ 262,044         | \$ (130,792       |
| Cash and cash equivalents:  |                    |                   |
| Cash and cash equivalents—beginning of period                               | \$ 906,680         | \$ 1,066,612      |
| Net increase (decrease) in cash and cash equivalents                        | 262,044            | (130,792          |
| Cash and cash equivalents—end of period                                     | \$ 1,168,724       | \$ 935,820        |

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



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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 groups 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 March 29, 2015 and March 30, 2014, the condensed consolidated statements of income for the three month periods then ended, the condensed consolidated statements of comprehensive income for the three month periods then ended and the condensed consolidated statements of cash flows for the three 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, 2014.

The Company operates in two principal reportable segments: Motorcycles & Related Products (Motorcycles) and 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. In April 2015, the FASB proposed a one-year deferral of the effective date for its new revenue standard for public and nonpublic entities reporting under GAAP. Under the proposal, the standard would be effective for public entities for annual reporting periods beginning after December 15, 2017 and interim periods therein.

In February 2015, the FASB issued ASU No. 2015-02 Amendments to the Consolidation Analysis (ASU 2015-02). ASU No. 2015-02 amends the guidance within Accounting Standards Codification (ASC) Topic 810, "Consolidation," to change the analysis that a reporting entity must perform to determine whether it should consolidate certain legal entities. The Company is required to adopt ASU No. 2015-02 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. The Company believes the adoption of ASU No. 2015-02 will not have an impact its financial results, the adoption of ASU No. 2015-02 will only impact the content of the current disclosure.

In April 2015, the FASB issued ASU No. 2015-03 Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03). ASU No. 2015-03 amends the guidance within ASC Topic 835, "Interest", to require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt premiums and discounts. The Company is required to adopt ASU No. 2015-03 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015 on a retrospective basis. Upon adoption, the Company will reclassify its debt issuance costs from other assets to debt on the balance sheet. At March 29, 2015, the Company had \$19.1 million of debt issuance costs recorded as assets on the

balance sheet.

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## 3. Additional Balance Sheet and Cash Flow Information

## Marketable Securities

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

|                                     | March 29,<br>2015 | December 31,<br>2014 | March 30,<br>2014 |
|-------------------------------------|-------------------|----------------------|-------------------|
| Available-for-sale: Corporate bonds | \$57,219          | \$57,325             | \$92,940          |
| Trading securities: Mutual funds    | 37,667            | 33,815               | 33,182            |
|                                     | \$94,886          | \$91,140             | \$126,122         |

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 three months of 2015 and 2014, the Company recognized gross unrealized losses of approximately \$106,000 and \$67,000, respectively, or \$67,000 and \$42,000 net of taxes, respectively, to adjust amortized cost to fair value. The marketable securities have contractual maturities that generally come due over the next 1 to 25 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):

|  | March 29,<br>2015 | December 31,<br>2014 | March 30,<br>2014 |
|--|-------------------|----------------------|-------------------|
| Components at the lower of FIFO cost or market |                   |                      |                   |
| Raw materials and work in process              | \$153,734         | \$151,254            | \$141,381         |
| Motorcycle finished goods                      | 253,922           | 230,309              | 222,649           |
| Parts and accessories and general merchandise  | 123,187           | 117,210              | 133,740           |
| Inventory at lower of FIFO cost or market      | 530,843           | 498,773              | 497,770           |
| Excess of FIFO over LIFO cost                  | (49,902           | ) (49,902            | ) (48,726         |
|  | \$480,941         | \$448,871            | \$449,044         |

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## Operating Cash Flow

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

|   | Three months ended |                   |
|---|--------------------|-------------------|
|   | March 29,<br>2015  | March 30,<br>2014 |
| Cash flows from operating activities:   |                    |                   |
| Net income  | \$269,854          | \$265,917         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                    |                   |
| Depreciation  | 46,028             | 43,398            |
| Amortization of deferred loan origination costs                                   | 22,932             | 22,101            |
| Amortization of financing origination fees  | 2,215              | 2,085             |
| Provision for employee long-term benefits   | 12,318             | 8,425             |
| Contributions to pension and postretirement plans                                 | (6,627             | ) (6,879          |
| Stock compensation expense  | 8,046              | 9,239             |
| Net change in wholesale finance receivables related to sales                      | (465,598           | ) (439,422        |
| Provision for credit losses   | 26,247             | 20,331            |
| Deferred income taxes   | 2,820              | (474              |
| Foreign currency adjustments  | 18,154             | (4,172            |
| Other, net  | (2,507             | ) 3,055           |
| Changes in current assets and liabilities:  |                    |                   |
| Accounts receivable, net  | (49,936            | ) (61,217         |
| Finance receivables—accrued interest and other                                    | 2,067              | 793               |
| Inventories   | (51,934            | ) (20,317         |
| Accounts payable and accrued liabilities  | 305,102            | 356,430           |
| Derivative instruments  | 399                | 1,222             |
| Other   | 35,120             | 3,071             |
| Total adjustments   | (95,154            | ) (62,331         |
| Net cash provided by operating activities   | \$174,700          | \$203,586         |

## 4. Finance Receivables

The Company 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 the Company 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. The Company holds either titles or liens on titles to vehicles financed by promissory notes and installment sales contracts.

The Company 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):

|                             | March 29,<br>2015 | December 31,<br>2014 | March 30,<br>2014 |
|-----------------------------|-------------------|----------------------|-------------------|
| Retail                      | \$5,576,558       | \$5,607,924          | \$5,254,133       |
| Wholesale                   | 1,404,854         | 952,321              | 1,298,091         |
|                             | 6,981,412         | 6,560,245            | 6,552,224         |
| Allowance for credit losses | (132,820          | ) (127,364           | ) (114,529        |
|                             | \$6,848,592       | \$6,432,881          | \$6,437,695       |

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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.

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

|                              | Three months ended March 29, 2015 |           |           |
|------------------------------|-----------------------------------|-----------|-----------|
|                              | Retail                            | Wholesale | Total     |
| Balance, beginning of period | \$122,025                         | \$5,339   | \$127,364 |
| Provision for credit losses  | 22,543                            | 3,704     | 26,247    |
| Charge-offs                  | (32,733                           | ) —       | (32,733   |
| Recoveries                   | 11,942                            | —         | 11,942    |
| Balance, end of period       | \$123,777                         | \$9,043   | \$132,820 |
|                              | Three months ended March 30, 2014 |           |           |
|                              | Retail                            | Wholesale | Total     |
| Balance, beginning of period | \$106,063                         | \$4,630   | \$110,693 |
| Provision for credit losses  | 17,208                            | 3,123     | 20,331    |
| Charge-offs                  | (27,343                           | ) —       | (27,343   |
| Recoveries                   | 10,848                            | —         | 10,848    |
| Balance, end of period       | \$106,776                         | \$7,753   | \$114,529 |

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. The Company performs a periodic and systematic collective evaluation of the adequacy of the retail allowance for credit losses. The Company 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 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.



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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):

|  | March 29, 2015    |             |             |
|--|-------------------|-------------|-------------|
|  | Retail            | Wholesale   | Total       |
| Allowance for credit losses, ending balance: |                   |             |             |
| Individually evaluated for impairment        | \$—               | \$—         | \$—         |
| Collectively evaluated for impairment        | 123,777           | 9,043       | 132,820     |
| Total allowance for credit losses            | \$123,777         | \$9,043     | \$132,820   |
| Finance receivables, ending balance:         |                   |             |             |
| Individually evaluated for impairment        | \$—               | \$—         | \$—         |
| Collectively evaluated for impairment        | 5,576,558         | 1,404,854   | 6,981,412   |
| Total finance receivables                    | \$5,576,558       | \$1,404,854 | \$6,981,412 |
|  | December 31, 2014 |             |             |
|  | Retail            | Wholesale   | Total       |
| Allowance for credit losses, ending balance: |                   |             |             |
| Individually evaluated for impairment        | \$—               | \$—         | \$—         |
| Collectively evaluated for impairment        | 122,025           | 5,339       | 127,364     |
| Total allowance for credit losses            | \$122,025         | \$5,339     | \$127,364   |
| Finance receivables, ending balance:         |                   |             |             |
| Individually evaluated for impairment        | \$—               | \$—         | \$—         |
| Collectively evaluated for impairment        | 5,607,924         | 952,321     | 6,560,245   |
| Total finance receivables                    | \$5,607,924       | \$952,321   | \$6,560,245 |
|  | March 30, 2014    |             |             |
|  | Retail            | Wholesale   | Total       |
| Allowance for credit losses, ending balance: |                   |             |             |
| Individually evaluated for impairment        | \$—               | \$—         | \$—         |
| Collectively evaluated for impairment        | 106,776           | 7,753       | 114,529     |
| Total allowance for credit losses            | \$106,776         | \$7,753     | \$114,529   |
| Finance receivables, ending balance:         |                   |             |             |
| Individually evaluated for impairment        | \$—               | \$—         | \$—         |
| Collectively evaluated for impairment        | 5,254,133         | 1,298,091   | 6,552,224   |
| Total finance receivables                    | \$5,254,133       | \$1,298,091 | \$6,552,224 |

There were no wholesale finance receivables at March 29, 2015, December 31, 2014, or March 30, 2014 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 March 29, 2015, December 31, 2014 and March 30, 2014, all retail finance receivables were accounted for as interest-earning receivables, of which \$19.0 million, \$28.7 million and \$17.0 million, respectively, were 90 days or more past due.

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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. The Company 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 March 29, 2015, December 31, 2014 or March 30, 2014. At March 29, 2015, December 31, 2014 and March 30, 2014, \$0.1 million, \$0.2 million, and \$0.1 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):

|           | March 29, 2015    |                        |                        |                                     |                   |                                 |
|-----------|-------------------|------------------------|------------------------|-------------------------------------|-------------------|---------------------------------|
|           | Current           | 31-60 Days<br>Past Due | 61-90 Days<br>Past Due | Greater than<br>90 Days<br>Past Due | Total<br>Past Due | Total<br>Finance<br>Receivables |
| Retail    | \$5,451,248       | \$82,302               | \$24,013               | \$18,995                            | \$125,310         | \$5,576,558                     |
| Wholesale | 1,404,160         | 443                    | 107                    | 144                                 | 694               | 1,404,854                       |
| Total     | \$6,855,408       | \$82,745               | \$24,120               | \$19,139                            | \$126,004         | \$6,981,412                     |
|           | December 31, 2014 |                        |                        |                                     |                   |                                 |
|           | Current           | 31-60 Days<br>Past Due | 61-90 Days<br>Past Due | Greater than<br>90 Days<br>Past Due | Total<br>Past Due | Total<br>Finance<br>Receivables |
| Retail    | \$5,427,719       | \$113,007              | \$38,486               | \$28,712                            | \$180,205         | \$5,607,924                     |
| Wholesale | 951,660           | 383                    | 72                     | 206                                 | 661               | 952,321                         |
| Total     | \$6,379,379       | \$113,390              | \$38,558               | \$28,918                            | \$180,866         | \$6,560,245                     |
|           | March 30, 2014    |                        |                        |                                     |                   |                                 |
|           | Current           | 31-60 Days<br>Past Due | 61-90 Days<br>Past Due | Greater than<br>90 Days<br>Past Due | Total<br>Past Due | Total<br>Finance<br>Receivables |
| Retail    | \$5,134,053       | \$80,344               | \$22,767               | \$16,969                            | \$120,080         | \$5,254,133                     |
| Wholesale | 1,297,761         | 144                    | 96                     | 90                                  | 330               | 1,298,091                       |
| Total     | \$6,431,814       | \$80,488               | \$22,863               | \$17,059                            | \$120,410         | \$6,552,224                     |

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

The Company manages retail credit risk through its credit approval policy and ongoing collection efforts. The Company 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):

|           | March 29, 2015 | December 31,<br>2014 | March 30, 2014 |
|-----------|----------------|----------------------|----------------|
| Prime     | \$4,400,440    | \$4,435,352          | \$4,128,996    |
| Sub-prime | 1,176,118      | 1,172,572            | 1,125,137      |
| Total     | \$5,576,558    | \$5,607,924          | \$5,254,133    |

The Company's 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. The Company 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.

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The Company uses the following internal credit quality indicators, based on an 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):

|                 | March 29, 2015 | December 31,<br>2014 | March 30, 2014 |
|-----------------|----------------|----------------------|----------------|
| Doubtful        | \$ 1,523       | \$954                | \$5,508        |
| Substandard     | 21,854         | 7,025                | 3,888          |
| Special Mention | —              | —                    | 10,950         |
| Medium Risk     | 19,634         | 11,557               | 11,103         |
| Low Risk        | 1,361,843      | 932,785              | 1,266,642      |
| Total           | \$ 1,404,854   | \$952,321            | \$ 1,298,091   |

#### 5. Asset-Backed Financing

The Company participates in asset-backed financing through both term asset-backed securitization transactions and through asset-backed commercial paper conduit facilities. The Company treats these transactions as secured borrowings because either they are transferred to consolidated variable interest entities (VIEs) or the Company 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 the Company's asset-backed financing programs, the Company 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.

The Company 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. The Company 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, the Company retains a residual interest in the VIEs in the form of a debt security, which gives the Company 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. The Company is not the primary beneficiary of the asset-backed Canadian commercial paper conduit facility VIE; therefore, the Company does not consolidate this VIE. However, the Company 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 the Company are eliminated in consolidation and therefore are not recorded on a consolidated basis. The Company 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.

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

|   | March 29, 2015      |                             |                 |              |              |                   |
|---|---------------------|-----------------------------|-----------------|--------------|--------------|-------------------|
|   | 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                       | \$1,919,723         | \$(43,128 )                 | \$138,574       | \$3,443      | \$2,018,612  | \$1,770,777       |
| Asset-backed U.S. commercial paper conduit facility     | —                   | —                           | —               | 311          | 311          | —                 |
| Unconsolidated VIEs                                     |                     |                             |                 |              |              |                   |
| Asset-backed Canadian commercial paper conduit facility | 169,278             | (2,999 )                    | 12,057          | 398          | 178,734      | 154,035           |
| Total on-balance sheet assets and liabilities           | \$2,089,001         | \$(46,127 )                 | \$150,631       | \$4,152      | \$2,197,657  | \$1,924,812       |
|   | December 31, 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                       | \$1,458,602         | \$(32,156 )                 | \$110,017       | \$2,987      | \$1,539,450  | \$1,271,533       |
| Asset-backed U.S. commercial paper conduit facility     | —                   | —                           | —               | 422          | 422          | —                 |
| Unconsolidated VIEs                                     |                     |                             |                 |              |              |                   |
| Asset-backed Canadian commercial paper conduit facility | 185,099             | (2,965 )                    | 12,035          | 262          | 194,431      | 166,912           |
| Total on-balance sheet assets and liabilities           | \$1,643,701         | \$(35,121 )                 | \$122,052       | \$3,671      | \$1,734,303  | \$1,438,445       |
|   | March 30, 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                       | \$1,221,855         | \$(24,998 )                 | \$105,536       | \$3,083      | \$1,305,476  | \$1,096,633       |
| Asset-backed U.S. commercial paper conduit facility     | —                   | —                           | —               | 304          | 304          | —                 |
| Unconsolidated VIEs                                     |                     |                             |                 |              |              |                   |
| Asset-backed Canadian commercial paper conduit facility | 200,147             | (3,257 )                    | 12,347          | 238          | 209,475      | 164,704           |
| Total on-balance sheet assets and liabilities           | \$1,422,002         | \$(28,255 )                 | \$117,883       | \$3,625      | \$1,515,255  | \$1,261,337       |

## 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 2015 to 2022.

During the first quarter of 2015, the Company issued \$700.0 million of secured notes through one term asset-backed securitization transaction. There were no term asset-backed securitization transactions during the first quarter of 2014.

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### 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, the Company 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 the Company 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 March 29, 2015, December 31, 2014 or March 30, 2014; 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, the Company 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 the Company's option, to purchase 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 the Company 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 the Company 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 \$24.7 million at March 29, 2015. The maximum exposure is not an indication of the Company's expected loss exposure.

During the first quarter of 2015, the Company transferred \$19.2 million of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of \$16.8 million. During the first quarter of 2014, HDFS transferred \$15.7 million of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of \$13.8 million.

## 6. 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 required by particular events or circumstances. In determining the 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.

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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.

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## 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):

|                       | March 29, 2015    |  |   |   |
|-----------------------|-------------------|--|---|---|
|                       | 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      | \$975,411         | \$ 510,090   | \$465,321                                     | \$—                                       |
| Marketable securities | 94,886            | 37,667   | 57,219  | —   |
| Derivatives           | 49,290            | —  | 49,290  | —   |
|                       | \$1,119,587       | \$ 547,757   | \$571,830                                     | \$—                                       |
| Liabilities:          |                   |  |   |   |
| Derivatives           | \$1,886           | \$ —   | \$1,886                                       | \$—                                       |
|                       | December 31, 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      | \$737,024         | \$ 482,686   | \$254,338                                     | \$—                                       |
| Marketable securities | 91,140            | 33,815   | 57,325  | —   |
| Derivatives           | 32,244            | —  | 32,244  | —   |
|                       | \$860,408         | \$ 516,501   | \$343,907                                     | \$—                                       |
| Liabilities:          |                   |  |   |   |
| Derivatives           | \$2,027           | \$ —   | \$2,027                                       | \$—                                       |
|                       | March 30, 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      | \$602,421         | \$ 359,438   | \$242,983                                     | \$—                                       |
| Marketable securities | 126,122           | 33,182   | 92,940  | —   |
| Derivatives           | 105               | —  | 105   | —   |
|                       | \$728,648         | \$ 392,620   | \$336,028                                     | \$—                                       |
| Liabilities:          |                   |  |   |   |
| Derivatives           | \$3,681           | \$ —   | \$3,681                                       | \$—                                       |

## Nonrecurring Fair Value Measurements

Repossessed inventory is recorded at the lower of cost or net realizable value through a nonrecurring fair value measurement. The nonrecurring fair value measurement represents the loss recognized to adjust the related finance receivable to the fair value of the repossessed inventory. Repossessed inventory was \$14.5 million, \$13.4 million and \$15.2 million at March 29, 2015, December 31, 2014 and March 30, 2014, for which the fair value adjustment was \$3.5 million, \$5.0 million and \$3.5 million at March 29, 2015, December 31, 2014 and March 30, 2014, respectively. Fair value is estimated using Level 2 inputs based on the recent market values of repossessed inventory.





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## 7. 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 8).

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

|   | March 29, 2015 |                | December 31, 2014 |                | March 30, 2014 |                |
|---|----------------|----------------|-------------------|----------------|----------------|----------------|
|   | Fair Value     | Carrying Value | Fair Value        | Carrying Value | Fair Value     | Carrying Value |
| <b>Assets:</b>  |                |                |                   |                |                |                |
| Cash and cash equivalents                               | \$ 1,168,724   | \$ 1,168,724   | \$ 906,680        | \$ 906,680     | \$ 935,820     | \$ 935,820     |
| Marketable securities                                   | \$ 94,886      | \$ 94,886      | \$ 91,140         | \$ 91,140      | \$ 126,122     | \$ 126,122     |
| Derivatives   | \$ 49,290      | \$ 49,290      | \$ 32,244         | \$ 32,244      | \$ 105         | \$ 105         |
| Finance receivables, net                                | \$ 6,927,898   | \$ 6,848,592   | \$ 6,519,500      | \$ 6,432,881   | \$ 6,531,145   | \$ 6,437,695   |
| Restricted cash   | \$ 150,631     | \$ 150,631     | \$ 122,052        | \$ 122,052     | \$ 117,883     | \$ 117,883     |
| <b>Liabilities:</b>                                     |                |                |                   |                |                |                |
| Derivatives   | \$ 1,886       | \$ 1,886       | \$ 2,027          | \$ 2,027       | \$ 3,681       | \$ 3,681       |
| Unsecured commercial paper                              | \$ 70,329      | \$ 70,329      | \$ 731,786        | \$ 731,786     | \$ 974,153     | \$ 974,153     |
| Asset-backed Canadian commercial paper conduit facility | \$ 154,035     | \$ 154,035     | \$ 166,912        | \$ 166,912     | \$ 164,704     | \$ 164,704     |
| Medium-term notes                                       | \$ 4,176,254   | \$ 3,933,337   | \$ 3,502,536      | \$ 3,334,398   | \$ 3,060,408   | \$ 2,859,151   |
| Term asset-backed securitization debt                   | \$ 1,771,363   | \$ 1,770,777   | \$ 1,270,656      | \$ 1,271,533   | \$ 1,099,596   | \$ 1,096,633   |

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.

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.

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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.

## 8. 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 6). 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 these 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 following table summarizes the fair value of the Company's derivative financial instruments (in thousands):

|   | March 29, 2015 |                                 |                                     | December 31, 2014 |                                 |                                     | March 30, 2014 |                                 |                                     |
|---|----------------|---------------------------------|-------------------------------------|-------------------|---------------------------------|-------------------------------------|----------------|---------------------------------|-------------------------------------|
| Derivatives Designated As Hedging Instruments Under ASC Topic 815     | Notional Value | Asset Fair Value <sup>(a)</sup> | Liability Fair Value <sup>(b)</sup> | Notional Value    | Asset Fair Value <sup>(a)</sup> | Liability Fair Value <sup>(b)</sup> | Notional Value | Asset Fair Value <sup>(a)</sup> | Liability Fair Value <sup>(b)</sup> |
| Foreign currency contracts <sup>(c)</sup>                             | \$416,844      | \$49,290                        | \$12                                | \$339,077         | \$32,244                        | \$—                                 | \$269,342      | \$5                             | \$3,589                             |
| Commodity contracts <sup>(c)</sup>                                    | 1,432          | —                               | 220                                 | 1,728             | —                               | 414                                 | 1,167          | 94                              | —                                   |
| Total   | \$418,276      | \$49,290                        | \$232                               | \$340,805         | \$32,244                        | \$414                               | \$270,509      | \$99                            | \$3,589                             |
| Derivatives Not Designated As Hedging Instruments Under ASC Topic 815 | Notional Value | Asset Fair Value <sup>(a)</sup> | Liability Fair Value <sup>(b)</sup> | Notional Value    | Asset Fair Value <sup>(a)</sup> | Liability Fair Value <sup>(b)</sup> | Notional Value | Asset Fair Value <sup>(a)</sup> | Liability Fair Value <sup>(b)</sup> |

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|                     |          |     |         |          |     |         |         |     |      |
|---------------------|----------|-----|---------|----------|-----|---------|---------|-----|------|
| Commodity contracts | \$11,358 | \$— | \$1,654 | \$11,804 | \$— | \$1,613 | \$9,348 | \$6 | \$92 |
|                     | \$11,358 | \$— | \$1,654 | \$11,804 | \$— | \$1,613 | \$9,348 | \$6 | \$92 |

(a) Included in other current assets

(b) Included in accrued liabilities

(c) Derivative designated as a cash flow hedge

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

| Cash Flow Hedges    | Amount of Gain/(Loss)<br>Recognized in OCI, before tax<br>Three months ended |                   |
|---------------------|--|-------------------|
|                     | March 29,<br>2015  | March 30,<br>2014 |
|                     | Foreign currency contracts   | \$32,668          |
| Commodity contracts | (120 )   | 215 )             |
| Total               | \$32,548   | \$(1,223 )        |

| Cash Flow Hedges                          | Amount of Gain/(Loss)<br>Reclassified from AOCL into<br>Income |                   |  |
|---|--|-------------------|--|
|   | Three months ended   |                   | Expected to be Reclassified<br>Over the Next Twelve Months |
|   | March 29,<br>2015  | March 30,<br>2014 |  |
| Foreign currency contracts <sup>(a)</sup> | \$15,276   | \$(1,058 )        | \$ 48,050  |
| Commodity contracts <sup>(a)</sup>        | (315 )   | 196 )             | (220 )   |
| Total                                     | \$14,961   | \$(862 )          | \$ 47,830  |

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

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

| Derivatives Not Designated As Hedges | Amount of Gain/(Loss)<br>Recognized in Income on<br>Derivative |                   |
|--------------------------------------|--|-------------------|
|                                      | Three months ended   |                   |
|                                      | March 29,<br>2015  | March 30,<br>2014 |
| Commodity contracts <sup>(a)</sup>   | \$(540 )   | \$(328 )          |
| Total                                | \$(540 )   | \$(328 )          |

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

For the three months ended March 29, 2015 and March 30, 2014, 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.

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## 9. Accumulated Other Comprehensive Loss

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

|  | Three months ended March 29, 2015                 |                          |  |  |               |
|--|---|--------------------------|--|--|---------------|
|  | Foreign<br>currency<br>translation<br>adjustments | Marketable<br>securities | Derivative<br>financial<br>instruments | Pension and<br>postretirement<br>benefit plans | Total         |
| Balance, beginning of period   | \$ (3,482 )                                       | \$ (700 )                | \$ 19,042                              | \$ (529,803 )                                  | \$ (514,943 ) |
| Other comprehensive (loss)<br>income before reclassifications          | (29,991 )   | (106 )                   | 32,548                                 | —  | 2,451         |
| Income tax   | 2,970   | 39                       | (12,057 )                              | —  | (9,048 )      |
| Net other comprehensive (loss)<br>income before reclassifications      | (27,021 )   | (67 )                    | 20,491                                 | —  | (6,597 )      |
| Reclassifications:   |   |                          |  |  |               |
| Realized (gains) losses - foreign<br>currency contracts <sup>(a)</sup> | —   | —                        | (15,276 )                              | —  | (15,276 )     |
| Realized (gains) losses -<br>commodities contracts <sup>(a)</sup>      | —   | —                        | 315                                    | —  | 315           |
| Prior service credits <sup>(b)</sup>                                   | —   | —                        | —                                      | (695 )   | (695 )        |
| Actuarial losses <sup>(b)</sup>  | —   | —                        | —                                      | 14,670   | 14,670        |
| Total before tax   | —   | —                        | (14,961 )                              | 13,975   | (986 )        |
| Income tax expense (benefit)   | —   | —                        | 5,542                                  | (5,177 )                                       | 365           |
| Net reclassifications  | —   | —                        | (9,419 )                               | 8,798  | (621 )        |
| Other comprehensive (loss)<br>income                                   | (27,021 )   | (67 )                    | 11,072                                 | 8,798  | (7,218 )      |
| Balance, end of period   | \$ (30,503 )                                      | \$ (767 )                | \$ 30,114                              | \$ (521,005 )                                  | \$ (522,161 ) |
|  | Three months ended March 30, 2014                 |                          |  |  |               |
|  | Foreign<br>currency<br>translation<br>adjustments | Marketable<br>securities | Derivative<br>financial<br>instruments | Pension and<br>postretirement<br>benefit plans | Total         |
| Balance, beginning of period   | \$ 33,326   | \$ (276 )                | \$ (1,680 )                            | \$ (364,046 )                                  | \$ (332,676 ) |
| Other comprehensive income<br>(loss) before reclassifications          | 1,755   | (67 )                    | (1,223 )                               | —  | 465           |
| Income tax   | 1,193   | 25                       | 453                                    | —  | 1,671         |
| Net other comprehensive income<br>(loss) before reclassifications      | 2,948   | (42 )                    | (770 )                                 | —  | 2,136         |
| Reclassifications:   |   |                          |  |  |               |
| Realized (gains) losses - foreign<br>currency contracts <sup>(a)</sup> | —   | —                        | 1,058                                  | —  | 1,058         |
| Realized (gains) losses -<br>commodities contracts <sup>(a)</sup>      | —   | —                        | (196 )                                 | —  | (196 )        |
| Prior service credits <sup>(b)</sup>                                   | —   | —                        | —                                      | (684 )   | (684 )        |
| Actuarial losses <sup>(b)</sup>  | —   | —                        | —                                      | 10,322   | 10,322        |
| Total before tax   | —   | —                        | 862                                    | 9,638  | 10,500        |
| Income tax benefit   | —   | —                        | (319 )                                 | (3,570 )                                       | (3,889 )      |
| Net reclassifications  | —   | —                        | 543                                    | 6,068  | 6,611         |
| Other comprehensive income<br>(loss)                                   | 2,948   | (42 )                    | (227 )                                 | 6,068  | 8,747         |

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Balance, end of period                    \$36,274                    \$(318                    ) \$(1,907                    ) \$(357,978                    ) \$(323,929                    )

(a) Amounts reclassified to net income are included in Motorcycles and Related Products cost of goods sold.

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

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## 10. Debt

Debt with contractual terms less than one year is generally classified as short-term debt and consisted of the following (in thousands):

|                            | March 29,<br>2015 | December 31,<br>2014 | March 30,<br>2014 |
|----------------------------|-------------------|----------------------|-------------------|
| Unsecured commercial paper | \$70,329          | \$731,786            | \$974,153         |

Debt with a contractual term greater than one year is generally classified as long-term debt and consisted of the following (in thousands):

|   | March 29,<br>2015 | December 31,<br>2014 | March 30,<br>2014 |
|---|-------------------|----------------------|-------------------|
| Secured debt  |                   |                      |                   |
| Asset-backed Canadian commercial paper conduit facility         | \$154,035         | \$166,912            | \$164,704         |
| Term asset-backed securitization debt                           | 1,770,777         | 1,271,533            | 1,096,633         |
| Unsecured notes   |                   |                      |                   |
| 5.75% Medium-term notes due in 2014 (\$500.0 million par value) | —                 | —                    | 499,906           |
| 1.15% Medium-term notes due in 2015 (\$600.0 million par value) | 599,886           | 599,817              | 599,612           |
| 3.88% Medium-term notes due in 2016 (\$450.0 million par value) | 449,950           | 449,937              | 449,897           |
| 2.70% Medium-term notes due in 2017 (\$400.0 million par value) | 399,967           | 399,963              | 399,950           |
| 1.55% Medium-term notes due in 2017 (\$400.0 million par value) | 399,510           | 399,464              | —                 |
| 6.80% Medium-term notes due in 2018 (\$888.0 million par value) | 887,424           | 887,381              | 909,786           |
| 2.40% Medium-term notes due in 2019 (\$600.0 million par value) | 597,951           | 597,836              | —                 |
| 2.15% Medium-term notes due in 2020 (\$600.0 million par value) | 598,649           | —                    | —                 |
| Gross long-term debt  | 5,858,149         | 4,772,843            | 4,120,488         |
| Less: current portion of long-term debt                         | (1,500,611)       | (1,011,315)          | (848,840)         |
| Long-term debt  | \$4,357,538       | \$3,761,528          | \$3,271,648       |

During the first quarter of 2015, the Company issued \$700.0 million of secured notes through a term asset-backed securitization transaction. The term asset-backed securitization transactions are further discussed in Note 5. There were no term asset-backed securitization transactions during the first quarter of 2014.

During the first quarter of 2015, the Company issued \$600.0 million of medium-term notes which mature in February 2020 and have an annual interest rate of 2.15%. There were no medium-term notes issued during the first quarter of 2014.

## 11. Income Taxes

The Company's 2015 income tax rate for the three months ended March 29, 2015 was 34.4% compared to 35.0% for the same period last year.

## 12. Product Warranty and 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 recall campaigns. The Company reserves

for all estimated costs associated with recalls in the period that the recalls are announced.

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

|  | Three months ended |                   |
|--|--------------------|-------------------|
|  | March 29,<br>2015  | March 30,<br>2014 |
| Balance, beginning of period                             | \$69,250           | \$64,120          |
| Warranties issued during the period                      | 15,111             | 17,362            |
| Settlements made during the period                       | (13,565            | ) (11,573         |
| Recalls and changes to pre-existing warranty liabilities | 277                | (573              |
| Balance, end of period                                   | \$71,073           | \$69,336          |

The liability for recall campaigns was \$7.7 million, \$9.8 million and \$3.3 million as of March 29, 2015, December 31, 2014 and March 30, 2014, 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 |                   |
|---|--------------------|-------------------|
|   | March 29,<br>2015  | March 30,<br>2014 |
| Numerator:  |                    |                   |
| Net income used in computing basic and diluted earnings per share                         | \$269,854          | \$265,917         |
| Denominator:  |                    |                   |
| Denominator for basic earnings per share - weighted-average common shares                 | 210,629            | 218,986           |
| Effect of dilutive securities - employee stock compensation plan                          | 1,159              | 1,507             |
| Denominator for diluted earnings per share - adjusted weighted-average shares outstanding | 211,788            | 220,493           |
| Earnings per common share:  |                    |                   |
| Basic   | \$1.28             | \$1.21            |
| Diluted   | \$1.27             | \$1.21            |

Outstanding options to purchase 0.7 million and 0.6 million shares of common stock for the three months ended March 29, 2015 and March 30, 2014, 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 month periods ended March 29, 2015 and March 30, 2014, respectively.

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## 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 |                   |
|------------------------------------|--------------------|-------------------|
|                                    | March 29,<br>2015  | March 30,<br>2014 |
| Pension and SERPA Benefits         |                    |                   |
| Service cost                       | \$10,010           | \$7,874           |
| Interest cost                      | 21,836             | 21,731            |
| Expected return on plan assets     | (36,232)           | (34,184)          |
| Amortization of unrecognized:      |                    |                   |
| Prior service cost                 | 109                | 279               |
| Net loss                           | 13,677             | 9,140             |
| Net periodic benefit cost          | \$9,400            | \$4,840           |
| Postretirement Healthcare Benefits |                    |                   |
| Service cost                       | \$2,065            | \$1,754           |
| Interest cost                      | 3,541              | 4,220             |
| Expected return on plan assets     | (2,877)            | (2,607)           |
| Amortization of unrecognized:      |                    |                   |
| Prior service credit               | (804)              | (963)             |
| Net loss                           | 993                | 1,182             |
| Net periodic benefit cost          | \$2,918            | \$3,586           |

No pension contributions to qualified plans are required in 2015. 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

Harley-Davidson, Inc. is the parent company for the groups of companies doing business as Harley-Davidson Motor Company (HDMC) and Harley-Davidson Financial Services (HDFS). The Company operates in two segments: the Motorcycles & Related Products (Motorcycles) segment and the Financial Services segment. The Company's reportable segments are strategic business units that offer different products and services and are managed separately based on the fundamental differences in their operations. Selected segment information is set forth below (in thousands):

|   | Three months ended |                   |
|---|--------------------|-------------------|
|   | March 29,<br>2015  | March 30,<br>2014 |
| Motorcycles net revenue                         | \$1,510,570        | \$1,571,688       |
| Gross profit                                    | 590,275            | 592,131           |
| Selling, administrative and engineering expense | 244,821            | 244,439           |
| Operating income from Motorcycles               | 345,454            | 347,692           |
| Financial Services revenue                      | 162,375            | 154,360           |
| Financial Services expense                      | 97,711             | 91,170            |
| Operating income from Financial Services        | 64,664             | 63,190            |
| Operating income                                | \$410,118          | \$410,882         |

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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 probable that a result of the EPA's investigation will be some form of enforcement action by the EPA that will seek a fine and/or other relief. The Company has a reserve associated with this matter which is included in accrued liabilities in the Consolidated Balance Sheet. However, given the uncertainty that still exists concerning the resolution of this matter, there is a possibility that the actual loss incurred may be materially different than the Company's current reserve. At this time, the Company cannot reasonably estimate the impact of any remedies the EPA might seek beyond the Company's current reserve for this matter, 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.

The Company has a reserve for its estimate of its share of the future Response Costs at the York facility 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.



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## 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 March 29, 2015               |                                  |              |                |
|---|---|----------------------------------|--------------|----------------|
|   | Motorcycles & Related<br>Products<br>Operations | Financial<br>Services Operations | Eliminations | Consolidated   |
| Revenue:  |   |                                  |              |                |
| Motorcycles and Related Products                    | \$ 1,512,882                                    | \$ —                             | \$(2,312)    | ) \$ 1,510,570 |
| Financial Services                                  | —   | 162,690                          | (315)        | ) 162,375      |
| Total revenue                                       | 1,512,882                                       | 162,690                          | (2,627)      | ) 1,672,945    |
| Costs and expenses:                                 |   |                                  |              |                |
| Motorcycles and Related Products cost of goods sold | 920,295   | —                                | —            | ) 920,295      |
| Financial Services interest expense                 | —   | 38,536                           | —            | ) 38,536       |
| Financial Services provision for credit losses      | —   | 26,247                           | —            | ) 26,247       |
| Selling, administrative and engineering expense     | 245,135   | 35,241                           | (2,627)      | ) 277,749      |
| Total costs and expenses                            | 1,165,430                                       | 100,024                          | (2,627)      | ) 1,262,827    |
| Operating income                                    | 347,452   | 62,666                           | —            | ) 410,118      |
| Investment income                                   | 101,322   | —                                | (100,000)    | ) 1,322        |
| Interest expense                                    | 9   | —                                | —            | ) 9            |
| Income before provision for income taxes            | 448,765   | 62,666                           | (100,000)    | ) 411,431      |
| Provision for income taxes                          | 121,516   | 20,061                           | —            | ) 141,577      |
| Net income  | \$ 327,249                                      | \$ 42,605                        | \$(100,000)  | ) \$ 269,854   |
|   | Three months ended March 30, 2014               |                                  |              |                |
|   | Motorcycles & Related<br>Products<br>Operations | Financial<br>Services Operations | Eliminations | Consolidated   |
| Revenue:  |   |                                  |              |                |
| Motorcycles and Related Products                    | \$ 1,573,967                                    | \$ —                             | \$(2,279)    | ) \$ 1,571,688 |
| Financial Services                                  | —   | 154,686                          | (326)        | ) 154,360      |
| Total revenue                                       | 1,573,967                                       | 154,686                          | (2,605)      | ) 1,726,048    |
| Costs and expenses:                                 |   |                                  |              |                |
| Motorcycles and Related Products cost of goods sold | 979,557   | —                                | —            | ) 979,557      |
| Financial Services interest expense                 | —   | 38,857                           | —            | ) 38,857       |
| Financial Services provision for credit losses      | —   | 20,331                           | —            | ) 20,331       |
| Selling, administrative and engineering expense     | 244,765   | 34,261                           | (2,605)      | ) 276,421      |
| Total costs and expenses                            | 1,224,322                                       | 93,449                           | (2,605)      | ) 1,315,166    |
| Operating income                                    | 349,645   | 61,237                           | —            | ) 410,882      |
| Investment income                                   | 121,659   | —                                | (120,000)    | ) 1,659        |
| Interest expense                                    | 3,677   | —                                | —            | ) 3,677        |
| Income before provision for income taxes            | 467,627   | 61,237                           | (120,000)    | ) 408,864      |
| Provision for income taxes                          | 120,573   | 22,374                           | —            | ) 142,947      |

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|            |            |           |              |           |
|------------|------------|-----------|--------------|-----------|
| Net income | \$ 347,054 | \$ 38,863 | \$(120,000 ) | \$265,917 |
|------------|------------|-----------|--------------|-----------|

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|   | March 29, 2015                                  |                                  |              |                 |
|---|---|----------------------------------|--------------|-----------------|
|   | Motorcycles & Related<br>Products<br>Operations | Financial<br>Services Operations | Eliminations | Consolidated    |
| <b>ASSETS</b>                               |   |                                  |              |                 |
| Current assets:                             |   |                                  |              |                 |
| Cash and cash equivalents                   | \$764,175                                       | \$ 404,549                       | \$—          | \$ 1,168,724    |
| Marketable securities                       | 57,219  | —                                | —            | 57,219          |
| Accounts receivable, net                    | 784,268   | —                                | (503,771     | ) 280,497       |
| Finance receivables, net                    | —   | 2,357,993                        | —            | 2,357,993       |
| Inventories                                 | 480,941   | —                                | —            | 480,941         |
| Restricted cash                             | —   | 120,428                          | —            | 120,428         |
| Deferred income taxes                       | 42,819  | 40,700                           | —            | 83,519          |
| Other current assets                        | 128,579   | 35,905                           | —            | 164,484         |
| Total current assets                        | 2,258,001                                       | 2,959,575                        | (503,771     | ) 4,713,805     |
| Finance receivables, net                    | —   | 4,490,599                        | —            | 4,490,599       |
| Property, plant and equipment, net          | 840,354   | 33,164                           | —            | 873,518         |
| Goodwill                                    | 25,632  | —                                | —            | 25,632          |
| Deferred income taxes                       | 62,826  | 10,808                           | (1,458       | ) 72,176        |
| Other long-term assets                      | 117,760   | 48,943                           | (78,609      | ) 88,094        |
|   | \$3,304,573                                     | \$ 7,543,089                     | \$(583,838   | ) \$ 10,263,824 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |   |                                  |              |                 |
| Current liabilities:                        |   |                                  |              |                 |
| Accounts payable                            | \$369,143                                       | \$ 575,548                       | \$(503,771   | ) \$440,920     |
| Accrued liabilities                         | 398,922   | 99,563                           | (1,458       | ) 497,027       |
| Short-term debt                             | —   | 70,329                           | —            | 70,329          |
| Current portion of long-term debt           | —   | 1,500,611                        | —            | 1,500,611       |
| Total current liabilities                   | 768,065   | 2,246,051                        | (505,229     | ) 2,508,887     |
| Long-term debt                              | —   | 4,357,538                        | —            | 4,357,538       |
| Pension liability                           | 71,263  | —                                | —            | 71,263          |
| Postretirement healthcare benefits          | 199,645   | —                                | —            | 199,645         |
| Other long-term liabilities                 | 164,993   | 25,658                           | —            | 190,651         |
| Shareholders' equity                        | 2,100,607                                       | 913,842                          | (78,609      | ) 2,935,840     |
|   | \$3,304,573                                     | \$ 7,543,089                     | \$(583,838   | ) \$ 10,263,824 |

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|   | December 31, 2014                               |                                  |              |               |
|---|---|----------------------------------|--------------|---------------|
|   | Motorcycles & Related<br>Products<br>Operations | Financial<br>Services Operations | Eliminations | Consolidated  |
| <b>ASSETS</b>                               |   |                                  |              |               |
| Current assets:                             |   |                                  |              |               |
| Cash and cash equivalents                   | \$573,895                                       | \$ 332,785                       | \$—          | \$906,680     |
| Marketable securities                       | 57,325  | —                                | —            | 57,325        |
| Accounts receivable, net                    | 658,735   | —                                | (411,114     | ) 247,621     |
| Finance receivables, net                    | —   | 1,916,635                        | —            | 1,916,635     |
| Inventories                                 | 448,871   | —                                | —            | 448,871       |
| Restricted cash                             | —   | 98,627                           | —            | 98,627        |
| Deferred income taxes                       | 50,015  | 39,901                           | —            | 89,916        |
| Other current assets                        | 142,278   | 43,125                           | (2,983       | ) 182,420     |
| Total current assets                        | 1,931,119                                       | 2,431,073                        | (414,097     | ) 3,948,095   |
| Finance receivables, net                    | —   | 4,516,246                        | —            | 4,516,246     |
| Property, plant and equipment, net          | 848,661   | 34,416                           | —            | 883,077       |
| Goodwill                                    | 27,752  | —                                | —            | 27,752        |
| Deferred income taxes                       | 75,121  | 4,863                            | (2,149       | ) 77,835      |
| Other long-term assets                      | 113,727   | 39,309                           | (77,944      | ) 75,092      |
|   | \$2,996,380                                     | \$ 7,025,907                     | \$(494,190   | ) \$9,528,097 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |   |                                  |              |               |
| Current liabilities:                        |   |                                  |              |               |
| Accounts payable                            | \$171,098                                       | \$ 436,884                       | \$(411,114   | ) \$196,868   |
| Accrued liabilities                         | 370,652   | 83,797                           | (5,132       | ) 449,317     |
| Short-term debt                             | —   | 731,786                          | —            | 731,786       |
| Current portion of long-term debt           | —   | 1,011,315                        | —            | 1,011,315     |
| Total current liabilities                   | 541,750   | 2,263,782                        | (416,246     | ) 2,389,286   |
| Long-term debt                              | —   | 3,761,528                        | —            | 3,761,528     |
| Pension liability                           | 76,186  | —                                | —            | 76,186        |
| Postretirement healthcare benefits          | 203,006   | —                                | —            | 203,006       |
| Other long-term liabilities                 | 164,060   | 24,745                           | —            | 188,805       |
| Shareholders' equity                        | 2,011,378                                       | 975,852                          | (77,944      | ) 2,909,286   |
|   | \$2,996,380                                     | \$ 7,025,907                     | \$(494,190   | ) \$9,528,097 |

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|   | March 30, 2014                                  |                                  |              |               |
|---|---|----------------------------------|--------------|---------------|
|   | Motorcycles & Related<br>Products<br>Operations | Financial<br>Services Operations | Eliminations | Consolidated  |
| <b>ASSETS</b>                               |   |                                  |              |               |
| Current assets:                             |   |                                  |              |               |
| Cash and cash equivalents                   | \$548,292                                       | \$ 387,528                       | \$—          | \$935,820     |
| Marketable securities                       | 92,940  | —                                | —            | 92,940        |
| Accounts receivable, net                    | 1,240,820                                       | —                                | (915,841     | ) 324,979     |
| Finance receivables, net                    | —   | 2,223,199                        | —            | 2,223,199     |
| Inventories                                 | 449,044   | —                                | —            | 449,044       |
| Restricted cash                             | —   | 117,883                          | —            | 117,883       |
| Other current assets                        | 146,994   | 69,612                           | —            | 216,606       |
| Total current assets                        | 2,478,090                                       | 2,798,222                        | (915,841     | ) 4,360,471   |
| Finance receivables, net                    | —   | 4,214,496                        | —            | 4,214,496     |
| Property, plant and equipment, net          | 789,194   | 33,867                           | —            | 823,061       |
| Prepaid pension costs                       | 250,575   | —                                | —            | 250,575       |
| Goodwill                                    | 30,427  | —                                | —            | 30,427        |
| Deferred income taxes                       | 3,023   | —                                | —            | 3,023         |
| Other long-term assets                      | 110,763   | 12,743                           | (75,768      | ) 47,738      |
|   | \$3,662,072                                     | \$ 7,059,328                     | \$(991,609   | ) \$9,729,791 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |   |                                  |              |               |
| Current liabilities:                        |   |                                  |              |               |
| Accounts payable                            | \$377,780                                       | \$ 992,427                       | \$(915,841   | ) \$454,366   |
| Accrued liabilities                         | 466,685   | 101,807                          | (1,737       | ) 566,755     |
| Short-term debt                             | —   | 974,153                          | —            | 974,153       |
| Current portion of long-term debt           | —   | 848,840                          | —            | 848,840       |
| Total current liabilities                   | 844,465   | 2,917,227                        | (917,578     | ) 2,844,114   |
| Long-term debt                              | —   | 3,271,648                        | —            | 3,271,648     |
| Pension liability                           | 37,261  | —                                | —            | 37,261        |
| Postretirement healthcare liability         | 212,887   | —                                | —            | 212,887       |
| Deferred income taxes                       | 31,864  | 2,372                            | 1,737        | 35,973        |
| Other long-term liabilities                 | 146,641   | 21,432                           | —            | 168,073       |
| Shareholders' equity                        | 2,388,954                                       | 846,649                          | (75,768      | ) 3,159,835   |
|   | \$3,662,072                                     | \$ 7,059,328                     | \$(991,609   | ) \$9,729,791 |

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|  | Three months ended March 29, 2015                  |                                     |                               |              |
|--|--|-------------------------------------|-------------------------------|--------------|
|  | Motorcycles &<br>Related<br>Products<br>Operations | Financial<br>Services<br>Operations | Eliminations &<br>Adjustments | Consolidated |
| Cash flows from operating activities:  |  |                                     |                               |              |
| Net income   | \$327,249  | \$42,605                            | \$ (100,000 )                 | \$269,854    |
| Adjustments to reconcile net income to cash provided by<br>operating activities: |  |                                     |                               |              |
| Depreciation   | 43,947   | 2,081                               | —                             | 46,028       |
| Amortization of deferred loan origination costs                                  | —  | 22,932                              | —                             | 22,932       |
| Amortization of financing origination fees                                       | —  | 2,215                               | —                             | 2,215        |
| Provision for employee long-term benefits  | 12,318   | —                                   | —                             | 12,318       |
| Contributions to pension and postretirement plans                                | (6,627 )   | —                                   | —                             | (6,627 )     |
| Stock compensation expense   | 7,381  | 665                                 | —                             | 8,046        |
| Net change in wholesale finance receivables related to sales                     | —  | —                                   | (465,598 )                    | (465,598 )   |
| Provision for credit losses  | —  | 26,247                              | —                             | 26,247       |
| Deferred income taxes  | 6,594  | (3,774 )                            | —                             | 2,820        |
| Foreign currency adjustments   | 18,154   | —                                   | —                             | 18,154       |
| Other, net   | (1,893 )   | (614 )                              | —                             | (2,507 )     |
| Change in current assets and current liabilities:                                |  |                                     |                               |              |
| Accounts receivable  | (392,593 )   | —                                   | 342,657                       | (49,936 )    |
| Finance receivables—accrued interest and other                                   | —  | 2,067                               | —                             | 2,067        |
| Inventories  | (51,934 )  | —                                   | —                             | (51,934 )    |
| Accounts payable and accrued liabilities   | 241,052  | 406,607                             | (342,557 )                    | 305,102      |
| Derivative instruments   | 399  | —                                   | —                             | 399          |
| Other  | 27,082   | 8,038                               | —                             | 35,120       |
| Total adjustments  | (96,120 )  | 466,464                             | (465,498 )                    | (95,154 )    |
| Net cash provided by operating activities  | 231,129  | 509,069                             | (565,498 )                    | 174,700      |

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|  | Three months ended March 29, 2015                  |                                     |                               |              |
|--|--|-------------------------------------|-------------------------------|--------------|
|  | Motorcycles &<br>Related<br>Products<br>Operations | Financial<br>Services<br>Operations | Eliminations &<br>Adjustments | Consolidated |
| Cash flows from investing activities:                            |  |                                     |                               |              |
| Capital expenditures   | (37,240 )  | (829 )                              | —                             | (38,069 )    |
| Origination of finance receivables                               | —  | (2,008,170 )                        | 1,255,766                     | (752,404 )   |
| Collections of finance receivables                               | —  | 1,519,934                           | (790,268 )                    | 729,666      |
| Other  | 9  | —                                   | —                             | 9            |
| Net cash used by investing activities                            | (37,231 )  | (489,065 )                          | 465,498                       | (60,798 )    |
| Cash flows from financing activities:                            |  |                                     |                               |              |
| Proceeds from issuance of medium-term notes                      | —  | 595,386                             | —                             | 595,386      |
| Intercompany borrowing activity                                  | 250,000  | (250,000 )                          | —                             | —            |
| Proceeds from securitization debt                                | —  | 697,591                             | —                             | 697,591      |
| Repayments of securitization debt                                | —  | (200,695 )                          | —                             | (200,695 )   |
| Net decrease in credit facilities and unsecured commercial paper | —  | (661,241 )                          | —                             | (661,241 )   |
| Borrowings of asset-backed commercial paper                      | —  | 16,798                              | —                             | 16,798       |
| Repayments of asset-backed commercial paper                      | —  | (15,744 )                           | —                             | (15,744 )    |
| Net change in restricted cash                                    | —  | (28,579 )                           | —                             | (28,579 )    |
| Dividends paid   | (65,467 )  | (100,000 )                          | 100,000                       | (65,467 )    |
| Purchase of common stock for treasury                            | (192,700 )   | —                                   | —                             | (192,700 )   |
| Excess tax benefits from share-based payments                    | 2,207  | —                                   | —                             | 2,207        |
| Issuance of common stock under employee stock option plans       | 9,605  | —                                   | —                             | 9,605        |
| Net cash provided by financing activities                        | 3,645  | 53,516                              | 100,000                       | 157,161      |
| Effect of exchange rate changes on cash and cash equivalents     | (7,263 )   | (1,756 )                            | —                             | (9,019 )     |
| Net increase in cash and cash equivalents                        | \$190,280  | \$71,764                            | \$ —                          | \$262,044    |
| Cash and cash equivalents:                                       |  |                                     |                               |              |
| Cash and cash equivalents—beginning of period                    | \$573,895  | \$332,785                           | \$ —                          | \$906,680    |
| Net increase in cash and cash equivalents                        | 190,280  | 71,764                              | —                             | 262,044      |
| Cash and cash equivalents—end of period                          | \$764,175  | \$404,549                           | \$ —                          | \$1,168,724  |

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|   | Three months ended March 30, 2014                  |                                     |                               |              |
|---|--|-------------------------------------|-------------------------------|--------------|
|   | Motorcycles &<br>Related<br>Products<br>Operations | Financial<br>Services<br>Operations | Eliminations &<br>Adjustments | Consolidated |
| Cash flows from operating activities:   |  |                                     |                               |              |
| Net income  | \$347,054  | \$38,863                            | \$ (120,000 )                 | \$265,917    |
| Adjustments to reconcile net income to cash provided by operating activities: |  |                                     |                               |              |
| Depreciation  | 41,603   | 1,795                               | —                             | 43,398       |
| Amortization of deferred loan origination costs                               | —  | 22,101                              | —                             | 22,101       |
| Amortization of financing origination fees                                    | 59   | 2,026                               | —                             | 2,085        |
| Provision for employee long-term benefits                                     | 8,425  | —                                   | —                             | 8,425        |
| Contributions to pension and postretirement plans                             | (6,879 )   | —                                   | —                             | (6,879 )     |
| Stock compensation expense  | 8,550  | 689                                 | —                             | 9,239        |
| Net change in wholesale finance receivables related to sales                  | —  | —                                   | (439,422 )                    | (439,422 )   |
| Provision for credit losses   | —  | 20,331                              | —                             | 20,331       |
| Deferred income taxes   | 3,159  | (3,633 )                            | —                             | (474 )       |
| Foreign currency adjustments  | (4,172 )   | —                                   | —                             | (4,172 )     |
| Other, net  | (496 )   | 3,551                               | —                             | 3,055        |
| Change in current assets and current liabilities:                             |  |                                     |                               |              |
| Accounts receivable   | (387,875 )   | —                                   | 326,658                       | (61,217 )    |
| Finance receivables—accrued interest and other                                | —  | 793                                 | —                             | 793          |
| Inventories   | (20,317 )  | —                                   | —                             | (20,317 )    |
| Accounts payable and accrued liabilities                                      | 290,208  | 392,880                             | (326,658 )                    | 356,430      |
| Derivative instruments  | 1,222  | —                                   | —                             | 1,222        |
| Other   | 1,770  | 1,301                               | —                             | 3,071        |
| Total adjustments   | (64,743 )  | 441,834                             | (439,422 )                    | (62,331 )    |
| Net cash provided by operating activities                                     | 282,311  | 480,697                             | (559,422 )                    | 203,586      |
| Cash flows from investing activities:   |  |                                     |                               |              |
| Capital expenditures  | (24,691 )  | (1,190 )                            | —                             | (25,881 )    |
| Origination of finance receivables  | —  | (1,992,601 )                        | 1,234,636                     | (757,965 )   |
| Collections of finance receivables  | —  | 1,502,645                           | (795,214 )                    | 707,431      |
| Sales and redemptions of marketable securities                                | 6,001  | —                                   | —                             | 6,001        |
| Other   | 51   | —                                   | —                             | 51           |
| Net cash used by investing activities   | (18,639 )  | (491,146 )                          | 439,422                       | (70,363 )    |
| Cash flows from financing activities:   |  |                                     |                               |              |
| Repayments of senior unsecured notes  | (303,000 )   | —                                   | —                             | (303,000 )   |
| Repayments of securitization debt   | —  | (159,938 )                          | —                             | (159,938 )   |
| Net increase in credit facilities and unsecured commercial paper              | —  | 307,803                             | —                             | 307,803      |
| Borrowings of asset-backed commercial paper                                   | —  | 13,746                              | —                             | 13,746       |
| Repayments of asset-backed commercial paper                                   | —  | (16,981 )                           | —                             | (16,981 )    |
| Net change in restricted cash   | —  | 26,924                              | —                             | 26,924       |
| Dividends paid  | (60,527 )  | (120,000 )                          | 120,000                       | (60,527 )    |
| Purchase of common stock for treasury   | (87,690 )  | —                                   | —                             | (87,690 )    |
| Excess tax benefits from share-based payments                                 | 4,763  | —                                   | —                             | 4,763        |
| Issuance of common stock under employee stock option plans                    | 8,894  | —                                   | —                             | 8,894        |

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|  |              |           |         |              |
|--|--------------|-----------|---------|--------------|
| Net cash (used by) provided by financing activities          | (437,560 )   | 51,554    | 120,000 | (266,006 )   |
| Effect of exchange rate changes on cash and cash equivalents | 3,268        | (1,277 )  | —       | 1,991        |
| Net (decrease) increase in cash and cash equivalents         | \$(170,620 ) | \$39,828  | \$ —    | \$(130,792 ) |
| 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         | (170,620 )   | 39,828    | —       | (130,792 )   |
| Cash and cash equivalents—end of period                      | \$548,292    | \$387,528 | \$ —    | \$935,820    |

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### 18. Subsequent Events

On April 30, 2015, the Company entered into an Asset Purchase Agreement (the “Purchase Agreement”) with Fred Deeley Imports, Ltd. (“Deeley Imports”) and certain of its affiliates involving, among other things, the Company’s acquisition of the benefit of the exclusive right to distribute the Company’s motorcycles and other products in Canada (the “Transaction”). The consummation of the Transaction (the “Closing”) is expected to occur on or about August 4, 2015, subject to satisfaction or waiver of customary closing conditions.

Pursuant to the Purchase Agreement, upon the Closing, the Company will acquire the benefit of the exclusive right to distribute the Company’s motorcycles and other products in Canada under the Distributorship Agreement, dated as of February 20, 2008, between the Company and Deeley Imports (the “Distribution Agreement”) from the date of the Closing to July 31, 2017. The Distribution Agreement will be terminated immediately after the Closing with the effect that the Company will be the direct distributor of the Company’s motorcycles and other products in Canada following the Closing. In exchange, at the Closing, the Company will pay \$50 million to Deeley Imports. In addition, at the Closing, (i) the Company will purchase certain inventory and accounts receivable from Deeley Imports, net of related amounts due, for approximately \$15 million, (ii) the Company will assume certain specified liabilities of Deeley Imports, and (iii) the Company will indemnify Deeley Imports for certain expenses and liabilities, including employee severance costs.

The Purchase Agreement also contemplates that the Company will enter into certain other agreements and documents at the Closing, including, but not limited to, a non-competition agreement with each of Deeley Imports, Donald James, who is an equity owner of Deeley Imports and a member of the Board of Directors of the Company, and another equity owner of Deeley Imports. In the Purchase Agreement, Deeley Imports makes certain commitments regarding the operation of its business prior to the Closing, and failure to perform can directly impact the purchase price.

### 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). Unless the context otherwise requires, all references to the “Company” include Harley-Davidson, Inc. and all its subsidiaries. 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 and are managed separately based on the fundamental differences in their operations.

The Motorcycles segment consists of HDMC which designs, manufactures and sells at wholesale street-legal Harley-Davidson motorcycles as well as a line of motorcycle parts, accessories, general merchandise and related services. The Company’s products are sold to retail customers through a network of independent dealers. The Company conducts business on a global basis, with sales in North America, Europe/Middle East/Africa (EMEA), Asia-Pacific and Latin America.

The Financial Services segment consists of HDFS which provides wholesale and retail financing and provides insurance-related programs primarily to Harley-Davidson dealers and their retail customers. HDFS conducts business primarily in the United States and Canada.

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

The Company’s net income was \$269.9 million, or \$1.27 per diluted share, for the first quarter of 2015 compared to \$265.9 million, or \$1.21 per diluted share, in the first quarter of 2014. Operating income from Motorcycles decreased \$2.2 million or 0.6% compared to last year’s first quarter driven by unfavorable foreign currency exchange rates and a slight decrease in shipments partially offset by model year price increases and lower manufacturing costs. Operating income from Financial Services in the first quarter of 2015 was \$64.7 million, up 2.3% compared to \$63.2 million in the year-ago quarter. The Company’s net income also benefited from lower year-over-year interest expense due to the retirement of its high-interest debt in the first quarter of 2014 and a decrease in the effective tax rate.

During the first quarter of 2015, independent dealer retail sales of new Harley-Davidson motorcycles were lower compared to the prior year first quarter in both the U.S. and international markets. Worldwide retail sales of new Harley-Davidson motorcycles were down 1.3% in the first quarter of 2015 compared to the first quarter of 2014



during which worldwide retail sales increased 5.8% over 2013. Although retail sales were lower, the Company believes that the first quarter 2015 worldwide retail sales reflected a positive consumer response to its new motorcycle models, including its Street motorcycles which sold very well in the initial roll-out markets and in new markets that were added throughout the quarter.

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In the first quarter of 2015, U.S. retail sales were impacted by increased, aggressive competitive price discounting, adverse weather conditions in certain regions of the U.S., and a challenging prior year comparison due to the very enthusiastic consumer reception for the initial Project Rushmore™ models experienced in the first quarter of 2014. Internationally, retail sales comparisons were also impacted by strong performance in the first quarter of 2014. In the first quarter of 2014, international retail sales were positively impacted by favorable weather throughout Europe and a pull-forward of retail sales in Japan that occurred in advance of the April 2014 consumption tax increase in Japan. As the Company exits the first quarter of 2015, it believes its brand and core demand fundamentals remain strong. However, in the near-term, the U.S. business is under pressure from increased, very aggressive competitive discounting enabled by the dramatic shift in world currencies.

**(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, 2014. 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 the Outlook section are only made as of April 21, 2015, the forward-looking statements included in the Canada Distributor Transaction section are only made as of April 30, 2015 and the remaining forward looking statements in this report are only made as of the date of the filing of this report (May 7, 2015), and the Company disclaims any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

**Outlook<sup>(1)</sup>**

On April 21, 2015, the Company provided the following information concerning its expectations for the remainder of 2015, which did not reflect the potential impact of the "Canada Distributor Transaction" discussed below. Please refer to the "Canada Distributor Transaction" section for additional information concerning 2015 expectations.

In response to the 2015 first-quarter retail sales results, and the increased, aggressive price discounting in the U.S. by many of its competitors, which the Company expects will continue, the Company revised its 2015 shipment expectations and stated a new expectation to ship 276,000 to 281,000 Harley-Davidson motorcycles to dealers and distributors worldwide in 2015, an increase of approximately 2% to 4% over 2014. The Company's previous guidance was 282,000 to 287,000 motorcycles, an increase of approximately 4% to 6% over 2014. In addition, the Company announced that its full-year shipment estimate includes expected shipments of 83,000 to 88,000 motorcycles in the second quarter of 2015 compared to 92,217 motorcycles shipped in the second quarter of 2014.

The Company believes it is critical for it to support a healthy retail channel and protect its premium brand by aggressively managing supply in line with demand. The Company will not take a short-term view as a result of the current competitive situation and compete by price discounting; it will continue to manage the Harley-Davidson brand for the long-term.

The Company continues to expect 2015 operating margin percent for the Motorcycles segment to be between 18.0% and 19.0% compared to 18.0% in 2014. The Company expects gross margin to be flat to up modestly compared to 2014. The Company now expects gross margin to be favorably impacted by motorcycle pricing and productivity gains, partially offset by unfavorable foreign currency exchange, increased pension expense and unfavorable product mix. If foreign currency exchange rates on April 20, 2015 remained constant throughout the remainder of 2015, the Company estimates the adverse impact to its expected Motorcycles segment full-year revenue from currency exchange would be approximately 4.25%, which is one percentage point worse than it was, based on rates as of January 28, 2015. Taking into account the Company's natural hedges and the fact that it has a significant portion its 2015 foreign

currency exposure hedged at favorable rates, it expects about half of the unfavorable revenue dollar impact to translate into lower gross margin for the full year. The Company now expects selling, administrative and engineering expenses to be flat to down in 2015 as it works to mitigate the adverse impact of lower than expected revenues by reducing expenses. In addition, the Company continues to expect selling, administrative and engineering expenses to decline as a percent of revenue.

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The Company believes the impact of unfavorable foreign currency exchange rates on gross margin in the second quarter of 2015 will be considerably worse than the \$39.5 million reduction in the first quarter of 2015. If foreign currency exchange rates on April 20, 2015 remained constant throughout the second quarter of 2015, the Company estimates the adverse impact to its expected Motorcycles segment revenue from currency exchange in the second quarter to be approximately 5%, with approximately 60% of the revenue decline impacting its second quarter gross margin dollars taking into account the Company's natural hedges and the fact that it has a significant portion of its second quarter 2015 foreign currency exposure hedged at favorable rates. The Company believes its second quarter 2015 gross margin percent will be approximately 2.5 percentage points lower than the prior year quarter as a result of unfavorable currency, lower production due to lower shipment expectations and unfavorable product mix during the quarter compared to the prior year.

The Company continues to expect operating income for the Financial Services segment to be down modestly in 2015 as compared to 2014 as a result of higher credit losses and tightening net interest margins due to increasing competition and rising borrowing costs.

The Company continues to estimate capital expenditures for 2015 to be between \$240 million and \$260 million as it increases its investment in product development focused on bringing exciting new products to market, and as it continues to invest in its systems infrastructure. The Company anticipates it will have the ability to fund all capital expenditures in 2015 with cash flows generated by operations.

The Company continues to expect its full-year 2015 effective income tax rate will be approximately 35.5% compared to 34.2% in 2014. The higher effective tax rate in 2015 compared to 2014 primarily reflects the absence of the U.S. Federal Research and Development tax credit that expired at the end of 2014.

### Canada Distributor Transaction

On April 30, 2015, the Company entered into an Asset Purchase Agreement (the "Purchase Agreement") with Fred Deeley Imports, Ltd. ("Deeley Imports") and certain of its affiliates involving, among other things, the Company's acquisition of the benefit of the exclusive right to distribute the Company's motorcycles and other products in Canada (the "Transaction"). The consummation of the Transaction (the "Closing") is expected to occur on or about August 4, 2015, subject to satisfaction or waiver of customary closing conditions.

Pursuant to the Purchase Agreement, upon the Closing, the Company will acquire the benefit of the exclusive right to distribute the Company's motorcycles and other products in Canada under the Distributorship Agreement, dated as of February 20, 2008, between the Company and Deeley Imports (the "Distribution Agreement") from the date of the Closing to July 31, 2017. The Distribution Agreement will be terminated immediately after the Closing with the effect that the Company will be the distributor of the Company's motorcycles and other products in Canada following the Closing. In exchange, at the Closing, the Company will pay \$50 million to Deeley Imports. In addition, at the Closing, (i) the Company will purchase certain inventory and accounts receivable from Deeley Imports, net of related amounts due, for approximately \$15 million, (ii) the Company will assume certain specified liabilities of Deeley Imports, and (iii) the Company will indemnify Deeley Imports for certain expenses and liabilities, including employee severance costs.

The Purchase Agreement also contemplates that the Company will enter into certain other agreements and documents at the Closing, including, but not limited to, a non-competition agreement with each of Deeley Imports, Donald James, who is an equity owner of Deeley Imports and a member of the Board of Directors of the Company, and another equity owner of Deeley Imports. In the Purchase Agreement, Deeley Imports makes certain commitments regarding the operation of its business prior to the Closing, and failure to perform can directly impact the purchase price.

If the Closing occurs, as the direct distributor in Canada, the Company expects to record higher revenues based on dealer wholesale pricing and higher operating costs associated with the distributor operations.<sup>(1)</sup> Assuming the Closing occurs as is currently contemplated on or about August 4, 2015, the Company expects the financial impact of the Transaction and the new direct distribution model to be dilutive to 2015 earnings per share by approximately \$0.04, due to upfront transition costs.<sup>(1)</sup> The Company expects the impact of the new direct distribution model to be accretive to earnings per share beginning in 2016 and beyond.<sup>(1)</sup> The potential financial impact of the Transaction and the potential new direct distribution model in Canada was not reflected in the guidance that the Company provided on April 21, 2015 and included in the "Outlook" section above.



Table of ContentsResults of Operations for the Three Months Ended March 29, 2015  
Compared to the Three Months Ended March 30, 2014  
Consolidated Results

| (in thousands, except earnings per share)            | Three months ended |                   | (Decrease)<br>Increase | %<br>Change |    |
|--|--------------------|-------------------|------------------------|-------------|----|
|  | March 29,<br>2015  | March 30,<br>2014 |                        |             |    |
| Operating income from Motorcycles & Related Products | \$345,454          | \$347,692         | \$(2,238)              | (0.6)       | %) |
| Operating income from Financial Services             | 64,664             | 63,190            | 1,474                  | 2.3         |    |
| Operating income                                     | 410,118            | 410,882           | (764)                  | (0.2)       | )  |
| Investment income                                    | 1,322              | 1,659             | (337)                  | (20.3)      | )  |
| Interest expense                                     | 9                  | 3,677             | (3,668)                | (99.8)      | )  |
| Income before income taxes                           | 411,431            | 408,864           | 2,567                  | 0.6         |    |
| Provision for income taxes                           | 141,577            | 142,947           | (1,370)                | (1.0)       | )  |
| Net income   | \$269,854          | \$265,917         | \$3,937                | 1.5         | %) |
| Diluted earnings per share                           | \$1.27             | \$1.21            | \$0.06                 | 5.0         | %) |

Consolidated operating income was down 0.2% in the first three months of 2015 led by a decrease in operating income from the Motorcycles segment which declined by \$2.2 million, or 0.6%, compared to the first three months of 2014. Operating income for the Financial Services segment improved in the first three months of 2015 compared to the first three months of 2014. 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 three months of 2015 compared to the first three months of 2014 due to the repayment of \$303 million of senior unsecured long-term debt in February 2014.

Diluted earnings per share was \$1.27 in the first three months of 2015, up 5.0% over the same period in the prior year. The increase in diluted earnings per share was driven by the 1.5% increase in net income and diluted earnings per share also benefited from lower diluted weighted average shares outstanding. Diluted weighted average shares outstanding decreased from 220.5 million in the first three months of 2014 to 211.8 million in the first three months of 2015, driven by the Company's repurchases 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 decreased 1.3% during the first three months of 2015 compared to the first three months of 2014, during which retail sales were up 5.8% compared to 2013. Retail sales of Harley-Davidson motorcycles decreased 0.7% in the United States and decreased 2.4% internationally in the first three months of 2015.

U.S. retail sales were negatively impacted by continued pressure from significant price discounting by most of the Company's competition. Price discounting in the U.S. increased from the fourth quarter of 2014 and was significantly higher than the first quarter of 2014. The Company expects aggressive discounting from its competition to continue for some time based on levels of competitive inventories in the retail channel coupled with foreign exchange rates that are favorable for its competitors<sup>(1)</sup>. The Company believes adverse weather conditions in certain regions of the U.S. also negatively impacted retail sales in the first quarter of 2015. As the Company expected, it also believes that U.S. retail sales growth was negatively impacted by a challenging prior year comparison due to the very enthusiastic consumer reception for the initial Project Rushmore™ launch. Retail sales of non-Road Glide touring models in the first quarter of 2014 were up 35% compared to the first quarter of 2013.

The Company has continued to experience success from its latest Project Rushmore™ models launched in August of 2014 and with U.S. retail sales of its Street motorcycles. The combined retail sales of Sportster® / Street motorcycles grew by double digits in the first quarter of 2015 compared to the first quarter of 2014.

At the end of the first quarter of 2015, the Company's U.S. market share of 601+cc models was 51.3%, down 4.7 percentage points compared to the same period last year (Source: Motorcycle Industry Council). The Company anticipated some level of market share loss following the 13.4 percentage point increase in recent years; however, the

Company's market

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share in the first quarter of 2015 was more severely impacted than it expected, as a result of increased price discounting by its competition.

The Company intends to continue to protect its premium brand and not take a short-term view of the current competitive situation and compete by discounting its motorcycles. Rather, it intends to manage the Harley-Davidson brand for the long-term<sup>(1)</sup>.

Retail sales in the first three months of 2015 in the EMEA region were down 5.6% compared to the first three months of 2014 due to a strong increase in 2014 driven by the prior year's very favorable weather conditions across most of the European countries, as well as current soft economic conditions in some markets, and currency driven volume declines in markets where the Company does not sell in local currencies, such as in Russia. The Company's first quarter 2015 market share of 601+cc models in Europe was 9.8%, down 1.5 percentage points compared to the same period last year (Source: Association des Constructeurs Europeens de Motocycles). The Company believes the decline in its market share in Europe is due to the introduction of several low-priced models by some of its competition.

In the Asia-Pacific region, retail sales decreased 1.1% in the first three months of 2015 compared to the same period last year following prior year retail sales growth of 33.1% in Japan, as sales were pulled forward in advance of the Japan consumption tax increase in April 2014. Excluding Japan, first quarter 2015 retail sales in the Asia-Pacific region increased nearly 20%. Emerging markets within the region, especially India and China, continued to post strong growth.

Latin America region retail sales in the first three months of 2015 were up 0.3% compared to the first three months of 2014 primarily due to growth in Mexico, largely offset by a decline in Brazil. The Company believes retail sales in Brazil in the first three months of 2015 were negatively impacted by a slowing economy, consumer uncertainty and aggressive price competition.

Retail sales in Canada were up 5.7% in the first three months of 2015 compared to the same period last year. The Company believes the increase was primarily due to lower retail sales that began in the prior year following currency-driven retail price increases that the Canadian distributor implemented in the first quarter of 2014.

While the Company remains cautious in the near-term, given the economic challenges in some international markets, it is focused on its long-term growth strategies. Despite the volatility in global retail sales, the Company believes it can continue to realize strong international growth by prudently expanding its distribution network, building its brand experience across the world, and delivering exceptional products that inspire riders.<sup>(1)</sup>

On an industry-wide basis, retail sales of 601+cc street-legal motorcycles were up 9.0% in the United States and up 9.7% in Europe for the three months ended March 31, 2015 when compared to the same period in 2014.



Table of ContentsWorldwide Harley-Davidson Motorcycle Retail Sales<sup>(a)</sup>

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

|  | Three months ended |                   | (Decrease)<br>Increase | %<br>Change |    |
|--|--------------------|-------------------|------------------------|-------------|----|
|  | March 31,<br>2015  | March 31,<br>2014 |                        |             |    |
| North America Region                         |                    |                   |                        |             |    |
| United States                                | 35,488             | 35,730            | (242                   | ) (0.7      | )% |
| Canada                                       | 2,123              | 2,009             | 114                    | 5.7         |    |
| Total North America Region                   | 37,611             | 37,739            | (128                   | ) (0.3      | )  |
| Europe, Middle East and Africa Region (EMEA) |                    |                   |                        |             |    |
| Europe <sup>(b)</sup>                        | 8,129              | 8,395             | (266                   | ) (3.2      | )  |
| Other  | 1,259              | 1,545             | (286                   | ) (18.5     | )  |
| Total EMEA Region                            | 9,388              | 9,940             | (552                   | ) (5.6      | )  |
| Asia Pacific Region                          |                    |                   |                        |             |    |
| Japan  | 1,972              | 2,893             | (921                   | ) (31.8     | )  |
| Other  | 5,125              | 4,285             | 840                    | 19.6        |    |
| Total Asia Pacific Region                    | 7,097              | 7,178             | (81                    | ) (1.1      | )  |
| Latin America Region                         | 2,565              | 2,558             | 7                      | 0.3         |    |
| Total Worldwide Retail Sales                 | 56,661             | 57,415            | (754                   | ) (1.3      | )% |
| Total International Retail Sales             | 21,173             | 21,685            | (512                   | ) (2.4      | )% |

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.

Motorcycle Registration Data<sup>(a)</sup>

The following table includes industry retail motorcycle registration data:

|                              | Three months ended |                   | Increase | %<br>Change |   |
|------------------------------|--------------------|-------------------|----------|-------------|---|
|                              | March 31,<br>2015  | March 31,<br>2014 |          |             |   |
| United States <sup>(b)</sup> | 67,791             | 62,202            | 5,589    | 9.0         | % |
| Europe <sup>(c)</sup>        | 91,221             | 83,118            | 8,103    | 9.7         | % |

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 is 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.

(c) 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 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.

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## Motorcycles &amp; Related Products Segment

## Motorcycle Unit Shipments

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

|   | Three months ended |       |                |       | Unit<br>Increase<br>(Decrease) | Unit<br>%<br>Change |    |
|---|--------------------|-------|----------------|-------|--------------------------------|---------------------|----|
|   | March 29, 2015     |       | March 30, 2014 |       |                                |                     |    |
|   | Units              | Mix % | Units          | Mix % |                                |                     |    |
| United States                                       | 56,664             | 71.2  | % 54,291       | 67.3  | % 2,373                        | 4.4                 | %  |
| International                                       | 22,925             | 28.8  | % 26,391       | 32.7  | % (3,466 )                     | (13.1               | )  |
| Harley-Davidson motorcycle units                    | 79,589             | 100.0 | % 80,682       | 100.0 | % (1,093 )                     | (1.4                | )% |
| Touring motorcycle units                            | 38,797             | 48.7  | % 36,178       | 44.8  | % 2,619                        | 7.2                 | %  |
| Custom motorcycle units <sup>(a)</sup>              | 23,396             | 29.4  | % 29,149       | 36.1  | % (5,753 )                     | (19.7               | )  |
| Sportster® / Street motorcycle units <sup>(b)</sup> | 17,396             | 21.9  | % 15,355       | 19.1  | % 2,041                        | 13.3                |    |
| Harley-Davidson motorcycle units                    | 79,589             | 100.0 | % 80,682       | 100.0 | % (1,093 )                     | (1.4                | )% |

(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 79,589 motorcycles worldwide during the first three months of 2015, which was 1.4% lower than the first three months of 2014. International shipments as a percent of total shipments decreased from 32.7% in the first three months of 2014 to 28.8% for first three months of 2015. The Company continues to believe that international retail sales will grow at a faster rate than domestic retail sales over the next few years.<sup>(1)</sup>

The shipment mix of Touring motorcycles in the first three months of 2015 increased 3.9 percentage points from the prior year as Project Rushmore™ models continued to be in high demand. The shipment mix of Sportster® / Street motorcycles also increased in the first three months of 2015 compared to the same period last year. The increase was driven by shipments of Street motorcycles.

At the end of the first quarter of 2015, U.S. dealer retail inventory was up approximately 6,600 units over the prior year primarily due to dealer fill of Street motorcycles, but also due to the soft retail sales in the quarter.

## Segment Results

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

|                                   | Three months ended |                   |                        |             |
|-----------------------------------|--------------------|-------------------|------------------------|-------------|
|                                   | March 29,<br>2015  | March 30,<br>2014 | (Decrease)<br>Increase | %<br>Change |
| Revenue:                          |                    |                   |                        |             |
| Motorcycles                       | \$1,255,121        | \$1,305,039       | \$(49,918 )            | (3.8 )%     |
| Parts & Accessories               | 183,872            | 198,135           | (14,263 )              | (7.2 )      |
| General Merchandise               | 66,428             | 64,114            | 2,314                  | 3.6         |
| Other                             | 5,149              | 4,400             | 749                    | 17.0        |
| Total revenue                     | 1,510,570          | 1,571,688         | (61,118 )              | (3.9 )      |
| Cost of goods sold                | 920,295            | 979,557           | (59,262 )              | (6.0 )      |
| Gross profit                      | 590,275            | 592,131           | (1,856 )               | (0.3 )      |
| Selling & administrative expense  | 205,507            | 211,175           | (5,668 )               | (2.7 )      |
| Engineering expense               | 39,314             | 33,264            | 6,050                  | 18.2        |
| Operating expense                 | 244,821            | 244,439           | 382                    | 0.2         |
| Operating income from Motorcycles | \$345,454          | \$347,692         | \$(2,238 )             | (0.6 )%     |

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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 three months of 2014 to the first three months of 2015 (in millions):

|   | Net<br>Revenue | Cost of<br>Goods Sold | Gross<br>Profit |
|---|----------------|-----------------------|-----------------|
| Three months ended March 30, 2014           | \$1,571.7      | \$979.6               | \$592.1         |
| Volume                                      | (23.7          | ) (15.4               | ) (8.3          |
| Price, net of related costs                 | 18.2           | 2.2                   | 16.0            |
| Foreign currency exchange rates and hedging | (53.7          | ) (14.2               | ) (39.5         |
| Shipment mix                                | (1.9           | ) (11.0               | ) 9.1           |
| Raw material prices                         | —              | (2.1                  | ) 2.1           |
| Manufacturing and other costs               | —              | (18.8                 | ) 18.8          |
| Total                                       | (61.1          | ) (59.3               | ) (1.8          |
| Three months ended March 29, 2015           | \$1,510.6      | \$920.3               | \$590.3         |

The following factors affected the comparability of net revenue, cost of goods sold and gross profit from the first three months of 2014 to first three months of 2015:

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

On average, wholesale prices for the Company's 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 additional content added to the 2015 model-year motorcycles.

Gross profit was negatively impacted by changes in foreign currency exchange rates during the first three months of 2015 compared to the first three months of 2014. Revenue was negatively impacted by a devaluation in the Euro, Japanese yen, Brazilian real and Australian dollar. On a weighted average basis, these key currencies were weaker by 14% in the first quarter of 2015 compared to the first quarter of 2014. The negative impact to revenue was partially offset by a positive impact to cost of goods sold as a result of natural hedges and benefits of foreign currency exchange contracts, partially offset by an unfavorable impact due to the revaluation of foreign denominated assets on the balance sheet.

Shipment mix changes positively impacted gross profit largely driven by a positive mix of parts and accessories and general merchandise. As the Company expected, motorcycle family mix had an unfavorable impact on gross profit, driven by higher shipments of Street motorcycles. The mix of models within families was also slightly unfavorable compared to the prior year.

Raw material prices were lower in the first three months of 2015 relative to the first three months of 2014.

Manufacturing costs in the first three months of 2015 benefited from increased manufacturing efficiencies and the absence of Street motorcycle start-up costs that were incurred in the first three months of 2014.

The net increase in operating expense was primarily due to higher engineering expense partially offset by lower selling and administrative expenses.

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## 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<br>(Decrease) | %     | Change | % |
|--|--------------------|-------------------|------------------------|-------|--------|---|
|  | March 29,<br>2015  | March 30,<br>2014 |                        |       |        |   |
| Interest income                          | \$ 145,486         | \$ 141,397        | \$ 4,089               | 2.9   |        | % |
| Other income                             | 16,889             | 12,963            | 3,926                  | 30.3  |        |   |
| Financial Services revenue               | 162,375            | 154,360           | 8,015                  | 5.2   |        |   |
| Interest expense                         | 38,536             | 38,857            | (321)                  | (0.8) | )      | ) |
| Provision for credit losses              | 26,247             | 20,331            | 5,916                  | 29.1  |        |   |
| Operating expenses                       | 32,928             | 31,982            | 946                    | 3.0   |        |   |
| Financial Services expense               | 97,711             | 91,170            | 6,541                  | 7.2   |        |   |
| Operating income from Financial Services | \$ 64,664          | \$ 63,190         | \$ 1,474               | 2.3   |        | % |

Interest income was higher in the first three months of 2015 due to higher average receivables in the retail and wholesale portfolios compared to the first three months of 2014, partially offset by lower yields primarily due to increased competition. Other income was favorable primarily due to increased credit card licensing and insurance revenue. Interest expense decreased slightly primarily due to lower cost of funds, partially offset by higher average debt outstanding.

The provision for credit losses increased \$5.9 million in the first three months of 2015. The retail motorcycle provision increased \$5.4 million in the first three months of 2015 primarily as a result of higher credit losses and an increase in the retail motorcycle reserve rate. Credit losses were higher as a result of prudently increased sub-prime originations in recent years, as well as changing consumer credit behavior. The wholesale provision was unfavorable by \$0.6 million due to larger reserve rate increases in 2015 as compared to 2014 and portfolio growth in the first three months of 2015.

Annualized losses on HDFS' retail motorcycle loans were 1.56% through March 29, 2015 compared to 1.33% through March 30, 2014. The 30-day delinquency rate for retail motorcycle loans at March 29, 2015 was 2.64% compared to 2.66% at March 30, 2014.

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

|                              | Three months ended |                   |
|------------------------------|--------------------|-------------------|
|                              | March 29,<br>2015  | March 30,<br>2014 |
| Balance, beginning of period | \$ 127,364         | \$ 110,693        |
| Provision for credit losses  | 26,247             | 20,331            |
| Charge-offs                  | (32,733)           | (27,343)          |
| Recoveries                   | 11,942             | 10,848            |
| Balance, end of period       | \$ 132,820         | \$ 114,529        |

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## 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, 2014 as of March 29, 2015 to reflect the new projected principal and interest payments for the remainder of 2015 and beyond as follows (in thousands):

|                            | 2015         | 2016 - 2017  | 2018 - 2019  | Thereafter | Total        |
|----------------------------|--------------|--------------|--------------|------------|--------------|
| Principal payments on debt | \$ 1,120,990 | \$ 1,992,082 | \$ 2,165,801 | \$ 649,605 | \$ 5,928,478 |
| Interest payments on debt  | 116,360      | 227,729      | 90,477       | 1,774      | 436,340      |
|                            | \$ 1,237,350 | \$ 2,219,811 | \$ 2,256,278 | \$ 651,379 | \$ 6,364,818 |

Interest obligations for floating rate instruments, as calculated above, assume rates in effect at March 29, 2015 remain constant.

As of March 29, 2015, 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 probable that a result of the EPA’s investigation will be some form of enforcement action by the EPA that will seek a fine and/or other relief. The Company has a reserve associated with this matter which is included in accrued liabilities in the Consolidated Balance Sheet. However, given the uncertainty that still exists concerning the resolution of this matter, there is a possibility that the actual loss incurred may be materially different than the Company’s current reserve. At this time, the Company cannot reasonably estimate the impact of any remedies the EPA might seek beyond the Company’s current reserve for this matter, 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.

The Company has a reserve for its estimate of its share of the future Response Costs at the York facility 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.



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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 March 29, 2015<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 will evaluate opportunities to enhance value for its shareholders through increasing dividends and repurchasing shares. 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.

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):

|  | March 29, 2015 |
|--|----------------|
| Cash and cash equivalents  | \$1,168,724    |
| Current marketable securities  | 57,219         |
| Total cash and cash equivalents and marketable securities              | 1,225,943      |
| Global credit facilities   | 1,279,671      |
| Asset-backed U.S. commercial paper conduit facility <sup>(a)</sup>     | 600,000        |
| Asset-backed Canadian commercial paper conduit facility <sup>(b)</sup> | 3,438          |
| Total availability under credit facilities                             | 1,883,109      |
| Total  | \$3,109,052    |

(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.

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## Cash Flow Activity

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

|  | Three months ended |                |
|--|--------------------|----------------|
|  | March 29, 2015     | March 30, 2014 |
| Net cash provided by operating activities                    | \$ 174,700         | \$ 203,586     |
| Net cash used by investing activities                        | (60,798            | ) (70,363      |
| Net cash provided by (used by) financing activities          | 157,161            | (266,006       |
| Effect of exchange rate changes on cash and cash equivalents | (9,019             | ) 1,991        |
| Net increase (decrease) in cash and cash equivalents         | \$ 262,044         | \$ (130,792    |

## Operating Activities

The decrease in cash provided by operating activities for the first three months of 2015 compared to the first three months of 2014 was due in part to higher working capital and higher cash outflows related to net wholesale finance receivables. No contributions to qualified pension plans are required or planned in 2015<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 \$38.1 million in the first three months of 2015 compared to \$25.9 million in the same period last year. Net cash outflows for finance receivables for the first three months of 2015 were \$27.8 million higher than in the same period last year as a result of an increase in retail motorcycle loan originations during the first three months of 2014. A net decrease in marketable securities during the first three months of 2014 resulted in higher investing cash flows of approximately \$6.0 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 \$192.7 million in the first three months of 2015 compared to \$87.7 million in the same period last year. Share repurchases during the first three months of 2015 included 3.1 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 March 29, 2015, there were 18.6 million shares remaining on board-approved share repurchase authorizations.

The Company paid dividends of \$0.310 and \$0.275 per share totaling \$65.5 million and \$60.5 million during the first three months of 2015 and 2014, respectively.

Financing cash flows related to debt activity resulted in net cash inflows of \$432.1 million in the first three months of 2015 compared to net cash outflows of \$158.4 million in the first three months of 2014. During the first quarter of 2015, the Company issued \$600.0 million of medium-term notes which mature in 2020 and have an annual interest rate of 2.15%. Also during the first quarter of 2015, the Company issued \$700.0 million of secured notes through a term asset-backed securitization transaction. There were no medium-term notes or secured notes issued during the first quarter of 2014. The Company repaid \$303.0 million of senior unsecured notes in the first three months of 2014. The Company's total outstanding debt consisted of the following (in thousands):

|   | March 29,<br>2015 | March 30,<br>2014 |
|---|-------------------|-------------------|
| Unsecured commercial paper                              | \$ 70,329         | \$ 974,153        |
| Asset-backed Canadian commercial paper conduit facility | 154,035           | 164,704           |
| Medium-term notes                                       | 3,933,337         | 2,859,151         |
| Term asset-backed securitization debt                   | 1,770,777         | 1,096,633         |
| Total debt  | \$ 5,928,478      | \$ 5,094,641      |

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





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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 March 29, 2015 were as follows:

|                   | Short-Term | Long-Term | Outlook |
|-------------------|------------|-----------|---------|
| Moody's           | P2         | A3        | Stable  |
| Standard & Poor's | A2         | A-        | Stable  |
| Fitch             | F1         | A         | Stable  |

Global Credit Facilities – On April 7, 2014, the Company 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 also has 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 the Company's unsecured commercial paper program.

Unsecured Commercial Paper – Subject to limitations, the Company could issue unsecured commercial paper of up to \$1.35 billion as of March 29, 2015 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. The Company 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>

Medium-Term Notes – The Company had the following medium-term notes (collectively, the Notes) issued and outstanding at March 29, 2015 (in thousands):

| Principal Amount | Rate  | Issue Date     | Maturity Date  |
|------------------|-------|----------------|----------------|
| \$600,000        | 1.15% | September 2012 | September 2015 |
| \$450,000        | 3.88% | March 2011     | March 2016     |
| \$400,000        | 2.70% | January 2012   | March 2017     |
| \$400,000        | 1.55% | November 2014  | November 2017  |
| \$887,958        | 6.80% | May 2008       | June 2018      |
| \$600,000        | 2.40% | September 2014 | September 2019 |
| \$600,000        | 2.15% | February 2015  | February 2020  |

The Notes provide for semi-annual interest payments and principal due at maturity. Unamortized discounts on the Notes reduced the outstanding balance by \$4.6 million and \$1.4 million at March 29, 2015 and March 30, 2014, respectively.

During the first quarter of 2015, the Company issued \$600.0 million of medium-term notes which mature in 2020 and have an annual interest rate of 2.15%. There were no medium-term notes issued during the first quarter of 2014.

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 –The Company has a revolving facility agreement (Canadian Conduit) with a Canadian bank-sponsored asset-backed commercial paper conduit. Under the agreement, the Canadian Conduit is contractually committed, at the Company's option, to purchase from the Company 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 the Company and the lenders, as of March 29, 2015, the Canadian Conduit has an expiration date of June 30, 2015. The contractual maturity of the debt is approximately 5 years.

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During the first quarter of 2015, the Company transferred \$19.2 million of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of \$16.8 million. During the first quarter of 2014, the Company transferred \$15.7 million of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of \$13.8 million.

Asset-Backed U.S. Commercial Paper Conduit Facility VIE – In September 2014, the Company 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 March 29, 2015 and March 30, 2014, the Company 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. 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 the Company and the lenders, as of March 29, 2015, the U.S. Conduit expires October 30, 2015.

Term Asset-Backed Securitization VIEs – For all of the term asset-backed securitization transactions, the Company 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 the Company's 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 2015 to 2022.

During the first quarter of 2015, the Company issued \$700.0 million of secured notes through one term asset-backed securitization transaction. There were no term asset-backed securitization transactions completed during the first quarter of 2014.

Intercompany Borrowing – HDFS and the Company have had in effect term loan agreements under which HDFS borrowed from the Company, and the outstanding balance at December 31, 2014 was \$250.0 million. During the three months ended March 29, 2015, no additional intercompany loans were made and the outstanding balance of \$250.0 million was repaid, prior to the maturity date. As such, at March 29, 2015 there was no intercompany term loan outstanding. At March 30, 2014, the outstanding intercompany term loan balance was \$450 million. 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 operating 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 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 March 29, 2015, HDFS and the Company remained in compliance with all of the then existing covenants.

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### 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) manage through changes in general economic conditions, including changing capital, credit and retail markets, and political events,
- (iii) accurately estimate and adjust to fluctuations in foreign currency exchange rates, interest rates and commodity prices,
- (iv) balance production volumes for its new motorcycles with consumer demand, including in circumstances where competitors may be supplying new motorcycles to the market in excess of demand at reduced prices,
- (v) continue to develop the capabilities of its distributors and dealers and manage the risks that our independent dealers may have difficulty obtaining capital and managing through changing economic conditions and consumer demand,
- (vi) manage risks that arise through expanding international manufacturing, operations and sales,
- (vii) manage through the effects inconsistent and unpredictable weather patterns may have on retail sales of motorcycles,
- (viii) manage changes and prepare for requirements in legislative and regulatory environments for its products, services and operations,
- (ix) manage supply chain issues, including any unexpected interruptions or price increases caused by raw material shortages or natural disasters,
- (x) consummate the Canada Distributor Transaction and complete the transition to the new direct distribution model in Canada on the timing and for the costs currently contemplated.
- (xi) 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,
- (xii) develop and introduce products, services and experiences that are successful in the marketplace,
- (xiii) develop and implement sales and marketing plans that retain existing retail customers and attract new retail customers in an increasingly competitive marketplace,
- (xiv) implement and manage enterprise-wide information technology solutions, including solutions at its manufacturing facilities, and secure data contained in those systems,
- (xv) continue to realize production efficiencies at its production facilities and manage operating costs including materials, labor and overhead,
- (xvi) execute its flexible production strategy,
- (xvii) continue to manage the relationships and agreements that it has with its labor unions to help drive long-term competitiveness,
- (xviii) adjust to healthcare inflation and reform, pension reform and tax changes,
- (xix) retain and attract talented employees,
- (xx) continue to have access to reliable sources of capital funding and adjust to fluctuations in the cost of capital, and
- (xxi) manage the credit quality, the loan servicing and collection activities, and the recovery rates of HDFS' loan portfolio

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. Further, actual foreign currency exchange rates may vary from underlying assumptions. 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.

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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, 2014 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, 2014 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, 2014.

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 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 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 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 March 29, 2015 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.



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## 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 March 29, 2015:

| 2015 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 |
|-------------------------|----------------------------------|----------------------------------|--|--|
| January 1 to February 1 | 919,547                          | 64                               | 919,547  | 19,971,222   |
| February 2 to March 1   | 1,156,930                        | 63                               | 1,156,930  | 19,605,958   |
| March 2 to March 29     | 981,157                          | 62                               | 981,157  | 18,643,990   |
| Total                   | 3,057,634                        | 63                               | 3,057,634  |  |

(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 0.6 million shares during the quarter ended March 29, 2015 under this authorization. As of March 29, 2015, 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 0.9 million shares during the quarter ended March 29, 2015 under this authorization. As of March 29, 2015, no 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 discretionary share repurchases of 1.4 million shares during the quarter ended March 29, 2015 under this authorization. As of March 29, 2015, 18.6 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. 2014 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 first quarter of 2015, the Company acquired 160,704 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 52 of this report.



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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: 5/7/2015

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

Date: 5/7/2015

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

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

| Exhibit No. | Description   |
|-------------|---|
| 3.1         | Composite of Restated Articles of Incorporation of Harley-Davidson, Inc. as amended through April 27, 2015  |
| 3.2         | By-laws of Harley-Davidson, Inc. as amended through April 27, 2015  |
| 10.1        | Form of Notice of Grant Award of Stock Options and Stock Option Agreement (Standard) of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2014 Incentive Stock Plan   |
| 10.2        | Form of Notice of Grant Award of Stock Options and Stock Option Agreement (Transition Agreement) of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2014 Incentive Stock Plan   |
| 10.3        | Form of Notice of Grant Award of Restricted Stock Units and Restricted Stock Unit Agreement (Deferred) of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2014 Incentive Stock Plan   |
| 10.4        | Form of Notice of Grant Award of Restricted Stock Units and Restricted Stock Unit Agreement (International) of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2014 Incentive Stock Plan  |
| 10.5        | Form of Notice of Grant Award of Restricted Stock Units and Restricted Stock Unit Agreement (Special) of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2014 Incentive Stock Plan  |
| 10.6        | Form of Notice of Grant Award of Restricted Stock Units and Restricted Stock Unit Agreement (Standard) of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2014 Incentive Stock Plan   |
| 10.7        | Form of Notice of Grant Award of Restricted Stock Units and Restricted Stock Unit Agreement (Transition Agreement) of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2014 Incentive Stock Plan   |
| 10.8        | Form of Notice of Grant Award of Restricted Stock Units and Restricted Stock Unit Agreement (Deferred) of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2014 Incentive Stock Plan   |
| 10.9        | Form of Notice of Grant Award of Stock Appreciation Rights and Stock Appreciation Rights Agreement of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2014 Incentive Stock Plan   |
| 10.10       | Director Compensation Policy effective April 25, 2015   |
| 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 March 29, 2015, filed on May 7, 2015, formatted in XBRL: (i) the Condensed Consolidated Statements of Income; (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. |