

HARLEY DAVIDSON INC
Form 10-Q
November 06, 2014

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

FORM 10-Q

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

For the quarterly period ended September 28, 2014

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

For the transition period from to
Commission file number 1-9183

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

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

3700 West Juneau Avenue 53208
Milwaukee, Wisconsin (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 Q No £

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

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

Large accelerated filer Q Accelerated filer £

Non-accelerated filer £ Smaller reporting company £

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act. Yes £ No Q

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

Harley-Davidson, Inc.

Form 10-Q

For The Quarter Ended September 28, 2014

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

HARLEY-DAVIDSON, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

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

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

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HARLEY-DAVIDSON, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

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

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

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

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

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HARLEY-DAVIDSON, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

(In thousands)

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

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

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HARLEY-DAVIDSON, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

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

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

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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 group of companies doing business as Harley-Davidson Motor Company (HDMC) and Harley-Davidson Financial Services (HDFS). In addition, certain variable interest entities (VIEs) related to secured financing are consolidated as the Company is the primary beneficiary. All intercompany accounts and material intercompany transactions are eliminated.

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

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

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

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

2. New Accounting Standards

Accounting Standards Not Yet Adopted

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

Accounting Standards Recently Adopted

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

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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):

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

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

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

Inventories

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

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

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Operating Cash Flow

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

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

4. Restructuring Expense

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

2011 Restructuring Plans

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

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

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

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

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

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

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

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

2010 Restructuring Plan

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

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

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

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

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

2009 Restructuring Plan

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

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

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

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

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

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

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5. Finance Receivables

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

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

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

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

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

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

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

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

The retail portfolio primarily consists of a large number of small balance, homogeneous finance receivables. HDFFS performs a periodic and systematic collective evaluation of the adequacy of the retail allowance for credit losses. HDFFS 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

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

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

Total restructured finance receivables are not significant.

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

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

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

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

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

	September 28, 2014					Total	Total
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Finance Receivables	
Retail	\$5,607,089	\$99,489	\$31,006	\$20,343	\$150,838	\$5,757,927	
Wholesale	1,032,846	496	77	157	730	1,033,576	
Total	\$6,639,935	\$99,985	\$31,083	\$20,500	\$151,568	\$6,791,503	
	December 31, 2013					Total	Total
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Finance Receivables	
Retail	\$5,094,615	\$109,806	\$36,029	\$24,594	\$170,429	\$5,265,044	
Wholesale	844,033	791	181	207	1,179	845,212	
Total	\$5,938,648	\$110,597	\$36,210	\$24,801	\$171,608	\$6,110,256	
	September 29, 2013					Total	Total
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Finance Receivables	
Retail	\$5,260,125	\$99,255	\$28,531	\$17,759	\$145,545	\$5,405,670	
Wholesale	889,531	681	302	627	1,610	891,141	
Total	\$6,149,656	\$99,936	\$28,833	\$18,386	\$147,155	\$6,296,811	

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

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

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

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

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

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

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

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

6. Asset-Backed Financing

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

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

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

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

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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):

	September 28, 2014					
	Finance receivables	Allowance for credit losses	Restricted cash	Other assets	Total assets	Asset-backed debt
On-balance sheet assets and liabilities						
Consolidated VIEs						
Term asset-backed securitizations	\$1,651,552	\$(35,115)	\$129,828	\$3,313	\$1,749,578	\$1,475,148
Asset-backed U.S. commercial paper conduit facility	—	—	—	532	532	—
Unconsolidated VIEs						
Asset-backed Canadian commercial paper conduit facility	203,933	(3,259)	12,458	213	213,345	165,166
Total on-balance sheet assets and liabilities	\$1,855,485	\$(38,374)	\$142,286	\$4,058	\$1,963,455	\$1,640,314
	December 31, 2013					
	Finance receivables	Allowance for credit losses	Restricted cash	Other assets	Total assets	Asset-backed debt
On-balance sheet assets and liabilities						
Consolidated VIEs						
Term asset-backed securitizations	\$1,569,118	\$(31,778)	\$133,053	\$3,720	\$1,674,113	\$1,256,632
Asset-backed U.S. commercial paper conduit facility	—	—	—	429	429	—
Unconsolidated VIEs						
Asset-backed Canadian commercial paper conduit facility	204,092	(3,361)	11,754	589	213,074	174,241
Total on-balance sheet assets and liabilities	\$1,773,210	\$(35,139)	\$144,807	\$4,738	\$1,887,616	\$1,430,873
	September 29, 2013					
	Finance receivables	Allowance for credit losses	Restricted cash	Other assets	Total assets	Asset-backed debt
On-balance sheet assets and liabilities						
Consolidated VIEs						
Term asset-backed securitizations	\$1,918,447	\$(37,721)	\$181,231	\$4,866	\$2,066,823	\$1,446,656
Asset-backed U.S. commercial paper conduit facility	—	—	—	590	590	—
Unconsolidated VIEs						
Asset-backed Canadian commercial paper conduit facility	204,828	(3,424)	13,098	93	214,595	180,584
Total on-balance sheet assets and liabilities	\$2,123,275	\$(41,145)	\$194,329	\$5,549	\$2,282,008	\$1,627,240

Term Asset-Backed Securitization VIEs

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

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

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

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

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

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

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

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

Asset-Backed Canadian Commercial Paper Conduit Facility

In June 2014, HDFS amended its facility agreement (Canadian Conduit) with a Canadian bank-sponsored asset-backed commercial paper conduit. Under the agreement, the Canadian Conduit is contractually committed, at HDFS' option, to purchase from HDFS eligible Canadian retail motorcycle finance receivables for proceeds up to C\$200.0 million. The transferred assets are restricted as collateral for the payment of the debt. The terms for this debt provide for interest on the outstanding principal based on prevailing market interest rates plus a specified margin. The Canadian Conduit also provides for a program fee and an unused commitment fee based on the unused portion of the total aggregate commitment of C\$200.0 million. There is no amortization schedule; however, the debt is reduced monthly as available collections on the related finance receivables are applied to outstanding principal. Upon expiration of the Canadian Conduit, any outstanding principal will continue to be reduced monthly through available collections. Unless earlier terminated or extended by mutual agreement of HDFS and the lenders, the Canadian Conduit has an expiration date of June 30, 2015. The contractual maturity of the debt is approximately 5 years. As HDFS participates in and does not consolidate the Canadian bank-sponsored, multi-seller conduit VIE, the maximum exposure to loss associated with this VIE, which would only be incurred in the unlikely event that all the finance receivables and underlying collateral have no residual value, was \$48.2 million at September 28, 2014. The maximum exposure is not an indication of the Company's expected loss exposure.

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

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

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7. Fair Value Measurements

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

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

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

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

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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):

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

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8. Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

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

9. Derivative Instruments and Hedging Activities

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

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

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

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

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

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

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

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

(a) Included in other current assets

(b) Included in accrued liabilities

(c) Derivative designated as a cash flow hedge

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

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

Amount of Gain/(Loss) Reclassified from AOCL into Income

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

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

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

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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) Recognized in Income on Derivative			
	Three months ended		Nine months ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Commodity contracts ^(a)	\$ (426)	\$ (135)	\$ (570)	\$ (743)
Total	\$ (426)	\$ (135)	\$ (570)	\$ (743)

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

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

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

10. Accumulated Other Comprehensive Loss

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

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

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

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

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

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

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

11. Income Taxes

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

12. Product Warranty and Safety Recall Campaigns

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

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

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

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

13. Earnings Per Share

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

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

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

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

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

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

15. Business Segments

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

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

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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 possible that a result of the EPA's investigation will be some form of enforcement action by the EPA that will seek a fine or other relief. However, at this time the Company does not know and cannot reasonably estimate the impact of any remedies the EPA might seek, if any.

York Environmental Matters:

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

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

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

Product Liability Matters:

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

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

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Net income	\$757,899	\$ 132,237	\$(120,000)	\$770,136
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	Three months ended September 29, 2013			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations	Consolidated
Revenue:				
Motorcycles and Related Products	\$1,183,016	\$ —	\$(2,732)	) \$1,180,284
Financial Services	—	163,829	(395)	) 163,434
Total revenue	1,183,016	163,829	(3,127)	) 1,343,718
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	763,969	—	—	763,969
Financial Services interest expense	—	39,944	—	39,944
Financial Services provision for credit losses	—	14,604	—	14,604
Selling, administrative and engineering expense	240,593	35,550	(3,127)	) 273,016
Restructuring expense	646	—	—	646
Total costs and expenses	1,005,208	90,098	(3,127)	) 1,092,179
Operating income	177,808	73,731	—	251,539
Investment income	1,161	—	—	1,161
Interest expense	11,369	—	—	11,369
Income before provision for income taxes	167,600	73,731	—	241,331
Provision for income taxes	51,721	26,894	—	78,615
Net income	\$115,879	\$ 46,837	\$—	\$162,716
	Nine months ended September 29, 2013			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations	Consolidated
Revenue:				
Motorcycles and Related Products	\$4,233,990	\$ —	\$(7,992)	) \$4,225,998
Financial Services	—	484,461	(1,221)	) 483,240
Total revenue	4,233,990	484,461	(9,213)	) 4,709,238
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	2,688,371	—	—	2,688,371
Financial Services interest expense	—	126,004	—	126,004
Financial Services provision for credit losses	—	39,011	—	39,011
Selling, administrative and engineering expense	730,664	104,448	(9,213)	) 825,899
Restructuring benefit	(1,713)	) —	—	(1,713)
Total costs and expenses	3,417,322	269,463	(9,213)	) 3,677,572
Operating income	816,668	214,998	—	1,031,666
Investment income	189,546	—	(185,000)	) 4,546
Interest expense	33,998	—	—	33,998
Income before provision for income taxes	972,216	214,998	(185,000)	) 1,002,214
Provision for income taxes	265,278	78,352	—	343,630
Net income	\$706,938	\$ 136,646	\$(185,000)) \$658,584

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

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

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

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

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

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

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

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

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

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

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

Overview

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

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

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

(1) Note Regarding Forward-Looking Statements

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

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Outlook⁽¹⁾

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

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

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

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

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

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

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

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

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

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

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

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

Harley-Davidson Motorcycle Worldwide Retail Sales^(a)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Motorcycles & Related Products Segment

Motorcycle Unit Shipments

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

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