HARLEY DAVIDSON INC
Form 10-K
February 21, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-K
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2017
¨ 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 Milwaukee, Wisconsin	53208
(Address of principal executive offices)	(Zip code)

Registrants telephone number: (414) 342-4680
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
COMMON STOCK, $.01 PAR VALUE PER SHARE	NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act: NONE
Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
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 and (2) has been subject to such requirements for the past 90 days. Yes ý 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 ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
Emerging growth company	¨		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ¨

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

Aggregate market value of the voting stock held by non-affiliates of the registrant at June 25, 2017: $9,561,795,781

Number of shares of the registrant’s common stock outstanding at February 2, 2018: 168,413,679 shares

Documents Incorporated by Reference
Part III of this report incorporates information by reference from registrant's Proxy Statement for the annual meeting of its shareholders to be held on May 10, 2018.

Harley-Davidson, Inc.
Form 10-K
For The Year Ended December 31, 2017

PART I

(1) Note regarding forward-looking statements

The Company intends that certain matters discussed by the Company 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 because the context statement will include words such as the Company “believes,” “anticipates,” “expects,” “plans,” “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 “Risk Factors” in Item 1A of this report and under “Cautionary Statements” in Item 7 of this report. Shareholders, potential investors, and other readers are urged to consider these factors in evaluating the forward-looking statements and cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in the Overview and Outlook section of Management's Discussion and Analysis of Financial Condition and Results of Operations are only made as of January 30, 2018 and the remaining forward-looking statements in this report are made as of the date indicated or, if a date is not indicated, as of the date of the filing of this report (February 21, 2018), and the Company disclaims any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

Item 1. Business

General

Harley-Davidson Motor Company was founded in 1903. Harley-Davidson, Inc. was incorporated in 1981, at which time it purchased the Harley-Davidson® motorcycle business from AMF Incorporated in a management buyout. In 1986, Harley-Davidson, Inc. became publicly held. Unless the context otherwise requires, all references to the “Company” include Harley-Davidson, Inc. and all of its subsidiaries. Harley-Davidson, Inc. is the parent company for the groups of companies doing business as Harley-Davidson Motor Company (HDMC) and Harley-Davidson Financial Services (HDFS). The Company has two reportable segments: the Motorcycles & Related Products (Motorcycles) segment and the Financial Services segment.

See Note 18 of the Notes to Consolidated Financial Statements for financial information related to the Company’s reportable segments and revenue by geographic area.

Motorcycles and Related Products Segment

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

The following table includes Motorcycles segment revenue by product line as a percent of total revenue for the last three fiscal years:

	2017	2016	2015
Motorcycles	77.8 %	78.2 %	77.8 %
Parts & Accessories	16.4 %	16.0 %	16.2 %
General Merchandise	5.3 %	5.4 %	5.5 %
Other	0.5 %	0.4 %	0.5 %
	100.0 %	100.0 %	100.0 %

Motorcycles - The Company's Harley-Davidson motorcycles include cruiser and touring models that feature classic styling, innovative design, distinctive sound, and superior quality with the ability to customize. Harley-Davidson motorcycles generally have engines with displacements that are greater than 601cc's, up to a maximum displacement of approximately 1900cc's.

The Company's motorcycles compete in the cruiser and touring categories of the market which were pioneered by the Company. The total on-road motorcycle market is comprised of the following categories:

- Cruiser (emphasizes styling and owner customization);
- Touring (emphasizes rider comfort and load capacity and incorporates features such as fairings and luggage compartments);
- Standard (a basic motorcycle which usually features upright seating for one or two passengers);
- Sportbike (incorporates racing technology, aerodynamic styling, low handlebars with a “sport” riding position and high performance tires); and
- Dual (designed with the capability for use on public roads as well as for some off-highway recreational use).

Competition in the categories of the motorcycle market in which the Company competes is based upon a number of factors, including product capabilities and features, styling, price, quality, reliability, warranty, availability of financing, and quality of dealer network. The Company believes its motorcycles continue to generally command a premium price at retail relative to competitors’ motorcycles. The Company emphasizes remarkable styling, customization, innovation, sound, quality, and reliability in its products and generally offers a two-year warranty for its motorcycles. The Company considers the availability of a line of motorcycle parts and accessories and general merchandise, the availability of financing through HDFS and its global network of premium dealers to be competitive advantages.

In 2017, the U.S. and European markets accounted for approximately 77% of the total annual independent dealer retail sales of new Harley-Davidson motorcycles. The most significant other markets for the Company, based on the Company's 2017 retail sales data, were Australia, Japan and Canada.

Harley-Davidson has been the historical market share leader in the U.S. 601+cc portion of the motorcycle market. According to the Motorcycle Industry Council (MIC), the cruiser and touring categories accounted for approximately 73% of total 2017 601+cc retail unit registrations in the U.S. During 2017, the 601+cc portion of the market represented approximately 82% of the total U.S. motorcycle market in terms of new units registered.

The following chart includes U.S. retail registration data for 601+cc motorcycles for the years 2015 through 2017:

U.S. Motorcycle Registration Data[(a)(b)]

601+cc (Units in thousands)

	2017	2016	2015
Total new motorcycle registrations	288.8	311.7	328.8
Harley-Davidson new registrations	146.5	159.5	165.1
	50.7 %	51.2 %	50.2 %

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

(b) U.S. industry data is derived from information provided by the Motorcycle Industry Council (MIC). This third-party data is subject to revision and update. The retail registration data for Harley-Davidson motorcycles presented in this table will differ from the Harley-Davidson retail sales data presented in Item 7 of this report. The Company’s source for retail sales data in Item 7 of this report is sales and warranty registrations provided by Harley-Davidson dealers as compiled by the Company. The retail sales data in Item 7 includes sales of Harley-Davidson Street® 500 motorcycles which are excluded from the 601+cc units included in the retail registration data in this table. In addition, small differences may arise related to the timing of data submissions to the independent sources.

The European 601+cc motorcycle market is larger than the U.S. market and customer preferences differ from those of U.S. customers. The touring and cruiser categories represented approximately 52% of the European 601+cc market in 2017 compared to approximately 73% of the 601+ cc market in the U.S.

The following chart includes European retail registration data for 601+cc motorcycles for the years 2015 through 2017:

European Motorcycle Registration Data[(a)(b)]

601+cc (Units in thousands)

	2017	2016	2015
Total new motorcycle registrations	390.6	391.9	351.8
Harley-Davidson new registrations	38.1	42.3	37.0
	9.8 %	10.8 %	10.5 %

(a) On-road 601+cc models include dual purpose models, three-wheeled vehicles and autocycles. Registration data for Harley-Davidson Street® 500 motorcycles is not included in this table.
Europe data includes retail sales in Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom. Industry retail motorcycle registration data is derived from information provided by the Association des Constructeurs Europeens de Motocycles (ACEM), an independent agency. This third-party data is subject to revision and update.

(b) The retail registration data for Harley-Davidson motorcycles presented in this table will differ from the Harley-Davidson retail sales data presented in Item 7 of this report. The Company's source for retail sales data in Item 7 of this report is sales and warranty registrations provided by Harley-Davidson dealers as compiled by the Company. The retail sales data in Item 7 includes sales of Harley-Davidson Street® 500 motorcycles which are excluded from the 601+cc units included in the retail registration data in this table. In addition, some differences may arise related to the timing of data collected by the independent sources.

Parts and Accessories (P&A) and General Merchandise – The Company offers a complete line of Harley-Davidson P&A and General Merchandise. P&A products are comprised of replacement parts (Genuine Motor Parts) and mechanical and cosmetic accessories (Genuine Motor Accessories). General Merchandise includes MotorClothes® apparel and riding gear.

Licensing – The Company creates an awareness of the Harley-Davidson brand among its customers and the non-riding public through a wide range of products for enthusiasts by licensing the name "Harley-Davidson" and other trademarks owned by the Company. Royalty revenues from licensing, included in Motorcycles revenue, were $35.5 million, $38.1 million and $46.5 million in 2017, 2016 and 2015, respectively.

Patents and Trademarks – The Company strategically manages its portfolio of patents, trade secrets, copyrights, trademarks and other intellectual property.

The Company and its subsidiaries own, and continue to obtain, patent rights that relate to its motorcycles and related products and processes for their production. Certain technology-related intellectual property is also protected, where appropriate, by license agreements, confidentiality agreements or other agreements with suppliers, employees and other third parties. The Company diligently protects its intellectual property, including patents and trade secrets, and its rights to innovative and proprietary technology and designs. This protection, including enforcement, is important as the Company moves forward with investments in new products, designs and technologies. While the Company believes patents are important to its business operations and in the aggregate constitute a valuable asset, the success of the business is not dependent on any one patent or group of patents. The Company's active patent portfolio has an average age for patents of approximately seven and a half years. A patent review committee manages the patent strategy and portfolio of the Company.

Trademarks are important to the Company's motorcycle business and licensing activities. The Company has a vigorous worldwide program of trademark registration and enforcement to maintain and strengthen the value of the trademarks and prevent the unauthorized use of those trademarks. The HARLEY-DAVIDSON trademark and the Bar and Shield trademark are each highly recognizable to the public and are very valuable assets. Additionally, the Company uses numerous other trademarks, trade names and logos which are registered worldwide. The following are among the Company's trademarks: HARLEY-DAVIDSON, H-D, HARLEY, the Bar & Shield Logo, MOTORCLOTHES, the MotorClothes Logo, HARLEY OWNERS GROUP, H.O.G., the H.O.G. Logo, SOFTAIL, SPORTSTER and V-ROD. The HARLEY-DAVIDSON trademark has been used since 1903 and the Bar and Shield trademark since at least

1910. Substantially all of the Company’s trademarks are owned by H-D U.S.A., LLC, a subsidiary of the Company, which also manages the Company’s trademark strategy and portfolio.

Marketing and Customer Experiences – The Company’s products are marketed to retail customers worldwide primarily through digital and experiential activities as well as through more traditional promotional and advertising activities. Additionally, the Company's independent dealers engage in a wide range of local marketing and experiential activities in part supported by cooperative programs with the Company.

Customer experiences have traditionally been at the center of much of the Company’s marketing. To attract customers and achieve its goals, the Company participates in motorcycle rallies around the world and also in major motorcycle consumer shows, racing activities, music festivals, mixed martial arts activities and other special promotional events. The Harley Owners Group (H.O.G.®) also promotes Harley-Davidson products and the related lifestyle and sponsors motorcycle events, including rallies and rides for Harley-Davidson motorcycle enthusiasts throughout the world.
The Company's Harley-Davidson® Riding Academy offers a series of rider education experiences that provide both new and experienced riders with deeper engagement in the sport of motorcycling by teaching basic and advanced motorcycling skills and knowledge. The courses are conducted by a network of participating Harley-Davidson dealerships in the U.S., Canada, China, and Mexico, enabling students to experience the Harley-Davidson lifestyle, environment, people and products as they learn.
Through the Company's agreement with EagleRider, riders in the U.S. can rent Harley-Davidson motorcycles and participate in motorcycle tours. EagleRider is the exclusive provider of Harley-Davidson touring and cruiser motorcycle rentals and has locations throughout the U.S., including at select Harley-Davidson dealerships. Outside the U.S., riders can rent Harley-Davidson motorcycles from participating dealers through the Company's Authorized Rental Program and participate in tours through the Company's Harley-Davidson Authorized Tours Program.
The Company's Harley-Davidson Museum (Museum) in Milwaukee, Wisconsin is a unique destination that the Company believes builds and strengthens bonds between riders and Harley-Davidson and enhances the Harley-Davidson brand among the public at large.
Distribution – The Company’s products are retailed through a network of independent dealers, of which the majority sell Harley-Davidson motorcycles exclusively. These dealerships stock and sell the Company’s motorcycles, P&A, general merchandise and licensed products, and perform service on Harley-Davidson motorcycles. The Company believes the quality retail experience that its independent dealers provide is a differentiating and strategic advantage for the Company.
The Company distributes its motorcycles and related products to a network of independent dealers located in approximately 100 countries worldwide. The following table includes the number of worldwide Harley-Davidson independent dealerships by geographic location as of December 31, 2017:

	United States	Canada	Latin America	EMEA	Asia Pacific	Total
Dealerships	698	68	58	398	276	1,498

P&A, general merchandise and licensed products are also retailed through eCommerce channels in certain markets. In the U.S., the eCommerce model is operated by the Company through participating authorized U.S. Harley-Davidson dealers. In China and India, the eCommerce sites are operated by third-parties.
Retail Customer and Dealer Financing – The Company believes that HDFS, as well as other third-party financial institutions, provide access to financing for Harley-Davidson dealers and their retail customers. HDFS provides financing to Harley-Davidson independent dealers and retail customers of independent dealers in the U.S. and Canada. The Company’s independent dealers and their retail customers in EMEA, Asia Pacific and Latin America are not directly financed by HDFS, but have access to financing through other established financial services companies, some of which have licensing or branding agreements with HDFS.
Seasonality – The timing of retail sales made by the Company’s independent dealers tracks closely with regional riding seasons. The seasonality of the Company’s wholesale motorcycle shipments primarily correlates with the timing of retail sales. The Company utilizes flexible or surge manufacturing capabilities to help align the production and wholesale shipment of motorcycles with the retail selling season. This provides the Company the ability to optimize inventory levels in the U.S. and Canada. In EMEA, Asia Pacific and Latin America, the Company utilizes a distribution process whereby Company-owned inventory is maintained locally at a level sufficient to fulfill dealer orders as needed.
Motorcycle Manufacturing – The Company has a flexible manufacturing process designed to help ensure it is well-positioned to meet customer demand in a timely and cost-effective manner.(1) This flexible or surge manufacturing capability allows the Company to increase the production of motorcycles ahead of and during the peak retail selling season to more closely correlate the timing of production and wholesale shipments to the retail selling

season. It also allows the Company to respond to the desired model mix to meet customer demand.

The majority of the Company's motorcycles are manufactured at facilities located in the U.S. The Company's U.S. manufacturing facilities supply the U.S. market as well as certain international markets. Additionally, the Company operates facilities in Brazil, India and Australia. In Brazil, the Company operates a CKD (Complete Knock Down) assembly facility, which assembles motorcycles sold in Brazil from component kits sourced from the Company’s U.S. plants and its suppliers. In India, the Company operates a manufacturing facility that includes both CKD assembly of certain motorcycles for sale in India and production of the Company’s Street 750® motorcycles for distribution to markets outside of North America. Like its U.S. manufacturing facilities, the Company’s Brazil and India operations are focused on driving world-class performance. The motorcycles assembled at the Company's international facilities have the same authentic look, sound, feel and quality of a motorcycle manufactured by the Company's U.S. facilities. These international facilities enable the Company to be close to the customer, provide quality products at a competitive price and grow its overall international business. The Company also operates a manufacturing facility in Australia for the purpose of producing certain complex, high-finish wheels for its motorcycles.

Raw Materials and Purchased Components – The Company continues to establish and reinforce long-term, mutually beneficial relationships with its suppliers. Through these collaborative relationships, the Company gains access to technical and commercial resources for application directly to product design, development and manufacturing initiatives. In addition, through a continued focus on collaboration and strong supplier relationships, the Company believes it will be positioned to achieve strategic objectives and deliver cost and quality improvements over the long-term.(1)

The Company's principal raw materials that are purchased include steel and aluminum castings, forgings, steel sheet and bar. The Company also purchases certain motorcycle components, including, but not limited to, electronic fuel injection systems, batteries, certain wheels, tires, seats, electrical components and instruments. The Company closely monitors the overall viability of its supply base. At this time, the Company does not anticipate difficulties in obtaining raw materials or components.(1)

Research and Development – The Company incurred research and development expenses of $175.2 million, $172.3 million and $161.2 million during 2017, 2016 and 2015, respectively.

Regulation – International, federal, state and local authorities have various environmental control requirements relating to air, water and noise that affect the business and operations of the Company. The Company strives to ensure that its facilities and products comply with all applicable environmental regulations and standards.

The Company’s motorcycles and certain other products that are sold in the United States are subject to certification by the U.S. Environmental Protection Agency (EPA) and the California Air Resources Board (CARB) for compliance with applicable emissions and noise standards. Certain Harley-Davidson products are designed to comply with EPA and CARB standards and the Company believes it will comply with future requirements when they go into effect.(1)

Additionally, certain of the Company’s products must comply with the motorcycle emissions, noise and safety standards of Canada, the European Union, Japan, Brazil and certain other foreign markets where they are sold, and the Company believes its products currently comply with those standards. Because the Company expects that environmental standards will become more stringent over time, the Company will continue to incur research, development and production costs in this area for the foreseeable future.(1)

The Company, as a manufacturer of motorcycle products, is subject to the U.S. National Traffic and Motor Vehicle Safety Act, which is administered by the U.S. National Highway Traffic Safety Administration (NHTSA). The Company has certified to NHTSA that certain of its motorcycle products comply fully with all applicable federal motor vehicle safety standards and related regulations. The Company has from time to time initiated certain voluntary recalls. During the last three years, the Company has accrued $86.8 million associated with 12 voluntary recalls related to Harley-Davidson motorcycles. This includes $29.4 million recorded in 2017 associated with the previously disclosed NHTSA investigation opened in 2016 related to certain motorcycles equipped with anti-lock breaking systems.

Employees – As of December 31, 2017, the Motorcycles segment had approximately 5,200 employees.

Approximately 2,100 unionized employees at the U.S. manufacturing facilities are represented as follows:

- York, Pennsylvania - represented by International Association of Machinist and Aerospace Workers (IAM), and the collective bargaining agreement will expire on October 15, 2022
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- Kansas City, Missouri - represented by United Steelworkers of America (USW) and IAM, and the respective collective bargaining agreements will expire on July 31, 2018
- Milwaukee, Wisconsin - represented by USW and IAM, and the respective collective bargaining agreements will expire on March 31, 2019
- Tomahawk, Wisconsin - represented by USW, and the collective bargaining agreement will expire on March 31, 2019

Financial Services Segment

The Financial Services segment consists of HDFS which is engaged in the business of financing and servicing wholesale inventory receivables and retail consumer loans, primarily for the purchase of Harley-Davidson motorcycles. HDFS also works with certain unaffiliated insurance companies to provide motorcycle insurance and protection products to motorcycle owners. HDFS conducts business principally in the U.S. and Canada. The Company's independent dealers and their retail customers in EMEA, Asia Pacific and Latin America are not financed by HDFS, but have access to financing through other third-party financial institutions, some of which have licensing or branding agreements with the Company or HDFS.

Wholesale Financial Services – HDFS provides wholesale financial services to Harley-Davidson dealers, including floorplan and open account financing of motorcycles and motorcycle parts and accessories. HDFS offers wholesale financial services to Harley-Davidson dealers in the United States and Canada, and during 2017, all of such dealers utilized those services at some point during the year.

Retail Financial Services – HDFS provides retail financing to consumers, consisting primarily of installment lending for the purchase of new and used Harley-Davidson motorcycles. HDFS' retail financial services are available through most Harley-Davidson dealerships in the United States and Canada.

Insurance Services – HDFS works with certain unaffiliated insurance companies which offer point-of-sale protection products through most Harley-Davidson dealers in both the U.S. and Canada, including motorcycle insurance, extended service contracts and motorcycle maintenance protection. HDFS also direct-markets motorcycle insurance and extended service contracts to owners of Harley-Davidson motorcycles. In addition, HDFS markets a comprehensive package of business insurance coverages and services to owners of Harley-Davidson dealerships.

Licensing – HDFS has licensing arrangements with third-party financial institutions that issue credit cards bearing the Harley-Davidson brand in U.S. and international markets. Internationally, HDFS licenses the Harley-Davidson brand to local third-party financial institutions that offer products to the Company's retail customers such as financing and insurance.

Funding – The Company believes a diversified and cost-effective funding strategy is important to meet HDFS' goal of providing credit while delivering appropriate returns and profitability. Financial Services operations have been funded with unsecured debt, unsecured commercial paper, asset-backed commercial paper conduit facilities, committed unsecured bank facilities and asset-backed securitizations.

Competition – The Company regards its ability to offer a package of wholesale and retail financial services in the U.S. and Canada as a significant competitive advantage. Competitors in the financial services industry compete for business based largely on price and, to a lesser extent, service. HDFS competes on convenience, service, brand association, dealer relations, industry experience, terms and price.

In the United States, HDFS financed 61.2% of new Harley-Davidson motorcycles retailed by independent dealers during 2017, compared to 61.7% in 2016. In Canada, HDFS financed 41.9% of new Harley-Davidson motorcycles retailed by independent dealers during 2017, compared to 45.3% in 2016. Competitors for retail motorcycle finance business are primarily banks, credit unions and other financial institutions. In the motorcycle insurance business, competition primarily comes from national insurance companies and from insurance agencies serving local or regional markets. For insurance-related products such as extended service contracts, HDFS faces competition from certain regional and national industry participants as well as dealer in-house programs. Competition for the wholesale motorcycle finance business primarily consists of banks and other financial institutions providing wholesale financing to Harley-Davidson dealers in their local markets.

Trademarks – HDFS uses various trademarks and trade names for its financial services and products which are licensed from H-D U.S.A., LLC, including HARLEY-DAVIDSON, H-D and the Bar & Shield logo.

Seasonality – HDFS experiences seasonal variations in retail financing activities based on the timing of regional riding seasons in the U.S. and Canada. In general, from mid-March through August, retail financing volume is greatest. HDFS wholesale financing volume is affected by inventory levels at Harley-Davidson dealers. Dealers generally have higher inventory levels of new and used motorcycles in the winter than during the spring and summer riding season. As a result, wholesale financing volume is generally higher during the winter as compared to the rest of the year.

Regulation – Operations of HDFS (both U.S. and foreign) are subject, in certain instances, to supervision and regulation by state and federal administrative agencies and various foreign governmental authorities. Many of the requirements imposed by such entities are in place to provide consumer protection as it pertains to the selling and servicing of financial products and services. Therefore, HDFS operations may be subject to limitations imposed by regulations, laws and judicial and/or

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administrative decisions. In the U.S. for example, applicable laws include the federal Truth-in-Lending Act, Equal Credit Opportunity Act and Fair Credit Reporting Act.

Depending on the specific facts and circumstances involved, non-compliance with these laws may result in consequences such as limiting the ability of HDFS to collect all or part of the principal or interest on applicable loans, entitling the borrower to rescind the loan or to obtain a refund of amounts previously paid, or could subject HDFS to the payment of damages or penalties and administrative sanctions, including “cease and desist” orders, and could limit the number of loans eligible for HDFS securitization programs.

The Dodd-Frank Wall Street Reform and Consumer Protection Act granted the federal Consumer Financial Protection Bureau (CFPB) significant supervisory, enforcement, and rule-making authority in the area of consumer financial products and services. Certain CFPB actions and regulations will directly impact HDFS and its operations. For example, the CFPB has supervisory authority over non-bank larger participants in the vehicle financing market, which includes a non-bank subsidiary of HDFS.

Such regulatory requirements and associated supervision also could limit the discretion of HDFS in operating its business. Noncompliance with applicable statutes or regulations could result in the suspension or revocation of any charter, license or registration at issue, as well as the imposition of civil fines, criminal penalties and administrative sanctions.

A subsidiary of HDFS, Eaglemark Savings Bank (ESB), is a Nevada state thrift chartered as an Industrial Loan Company (ILC). The activities of this subsidiary are governed by federal laws and regulations as well as State of Nevada banking laws, and are subject to examination by the Federal Deposit Insurance Corporation (FDIC) and Nevada state bank examiners. ESB originates retail loans and sells the loans to a non-banking subsidiary of HDFS. This process allows HDFS to offer retail products with many common characteristics across the United States and to similarly service loans to U.S. retail customers.

Employees – As of December 31, 2017, the Financial Services segment had approximately 600 employees.

Internet Access

The Company’s website address for investor relations is http://investor.harley-davidson.com/.

The Company’s Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to those reports, are available on its website free of charge as soon as reasonably practicable after it electronically files such material with, or furnishes such material to, the United States Securities and Exchange Commission (SEC).

In addition, the Company makes available, through its website, the following corporate governance materials: (a) the Company’s Corporate Governance Policy; (b) Committee Charters approved by the Company’s Board of Directors for the Audit and Finance Committee, Human Resources Committee, Nominating and Corporate Governance Committee and Sustainability Committee; (c) the Company’s Financial Code of Ethics; (d) the Company’s Code of Business Conduct (the Code of Conduct) in nine languages including English; (e) the Conflict of Interest Process for Directors, Executive Officers and Other Employees (the Conflict Process); (f) a list of the Company’s Board of Directors; (g) the Company’s Bylaws; (h) the Company’s Environmental and Energy Policy; (i) the Company’s Policy for Managing Disclosure of Material Information; (j) the Company’s Supplier Code of Conduct in four languages including English; (k) the Sustainability Strategy Report; (l) the list of compensation survey participants used as market reference points for various components of compensation as reported in the Company’s Notice of Annual Meeting and Proxy Statement filed with the SEC on March 20, 2017, which compensation relates to the Company’s named executive officers; (m) the California Transparency in Supply Chain Act Disclosure; (n) Statement on Conflict Minerals; (o) Political Engagement and Contributions 2016-2017; and (p) the Company's Clawback Policy.

The Company satisfies the disclosure requirements under the Code of Conduct, the Conflict Process and applicable New York Stock Exchange listing requirements regarding waivers of the Code of Conduct or the Conflict Process by disclosing the information in the Company’s proxy statement for its annual meeting of shareholders or on the Company’s website. The Company is not including the information contained on or available through its website as a part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

Item 1A. Risk Factors

An investment in Harley-Davidson, Inc. involves risks, including those discussed below. These risk factors should be considered carefully before deciding whether to invest in the Company.

- The Company may not be able to successfully execute its long-term business strategy. There is no assurance that the Company will be able to drive growth and increase ridership to the extent desired through its focus of efforts and resources on its long-term business strategy and the Harley-Davidson brand, or to enhance productivity and profitability to the extent desired through pricing and continuous improvement.

- The Company's strategy to grow ridership may not be successful. The Company has been successful in marketing its products in large part by promoting the experience of Harley-Davidson motorcycling. To sustain and grow the business over the long-term, the Company must grow the sport of motorcycling and continue to be successful selling products and promoting the experience of motorcycling to new customers, including new riders, competitive riders and those who have motorcycle licenses but do not currently ride. The Company's efforts toward building two million riders in the U.S. between 2017 and 2027 and growing ridership internationally may not be successful, and achieving such growth in ridership may still not adequately meet the desired result of driving unit sales growth. Further, growing ridership in the U.S. may be challenging because the motorcycle market in the U.S. has been stagnant or declining, and the Company expects those conditions to continue. Failure to successfully drive demand for the Company's products may have a material adverse effect on the Company's business and results of operations.

- The Company must effectively execute its manufacturing optimization plan within expected costs and timing. In January 2018, the Company announced a multi-year manufacturing optimization plan anchored by the consolidation of its final assembly plant in Kansas City, Missouri, into its York, Pennsylvania plant, and the closure of its wheel operations in Australia. These actions are designed to eliminate excess capacity and reduce production costs and component supply costs. Effectively executing these plans within expected costs and realizing expected benefits will depend upon a number of factors, including the time required to complete planned actions and effective collaboration with the unions representing the Company's employees, the absence of material issues associated with workforce reductions, availability of and effective use of third-party service providers to assist in implementing the actions, the ability and effectiveness of current suppliers to take on additional component production volume, avoidance of unexpected disruptions in production, retention of key employees involved in implementing the restructuring plans and the ability of the Company to dispose of vacated facilities in a cost effective manner.

- The Company's ability to remain competitive is dependent upon its capability to develop and successfully introduce new, innovative and compliant products. The motorcycle market continues to change in terms of styling preferences and advances in new technology and, at the same time, be subject to increasing regulations related to safety and emissions. The Company must continue to distinguish its products from its competitors' products with unique styling and new technologies. The Company may not be able to achieve its goal of introducing 100 new, high-impact motorcycle models between 2017 and 2027, and introducing those models may still not lead to the desired result of driving unit sales growth. As the Company incorporates new and different features and technology into its products, the Company must protect its intellectual property from imitators and ensure its products do not infringe the intellectual property of other companies. In addition, these new products must comply with applicable regulations worldwide and satisfy the potential demand for products that produce lower emissions and achieve better fuel economy. The Company must make product advancements to respond to changing consumer preferences and market demands while maintaining the classic look, sound and feel associated with Harley-Davidson products, and development of electric vehicles will present challenges to the Company's ability to maintain such look, sound and feel. The Company must also be able to design and manufacture these products and deliver them to a global marketplace in an efficient and timely manner and at prices that are attractive to customers. There can be no assurances that the Company will be successful in these endeavors or that existing and prospective customers will like or want the Company's new products.

- Increased supply of and/or declining prices for used motorcycles and excess supply of new motorcycles may adversely impact retail sales of new motorcycles by the Company's independent dealers. The Company has observed that when the supply of used motorcycles increases or the prices for used Harley-Davidson motorcycles decline, there can be reduced demand among retail purchasers for new Harley-Davidson motorcycles (at or near manufacturer’s suggested retail prices). Further, the Company and its independent dealers can and do take actions that influence the markets for new and used Harley-Davidson motorcycles. For example, introduction of new motorcycle models with significantly different functionality, technology or other customer satisfiers can result in increased supply of used motorcycles, which could result in declining prices for used motorcycles and prior model-year new motorcycles. Also, while the Company has taken steps designed to balance production volumes for its new motorcycles with demand, those steps may not be effective, or the Company’s competitors could choose to supply new motorcycles to the market in excess of demand at reduced prices which could also have the effect of reducing demand for new Harley-Davidson motorcycles (at or near manufacturer’s suggested retail prices). Ultimately, reduced demand among retail purchasers for new Harley-Davidson motorcycles leads to reduced shipments by the Company.

- The motorcycle industry has become increasingly competitive. Many of the Company’s competitors are more diversified than the Company, and they may compete in all segments of the motorcycle market, other powersports markets and/or the automotive market. Certain competitors appear to be increasing their investment in products that compete with the Company's products. Also, the Company’s manufacturer’s suggested retail price for its motorcycles is generally higher than its competitors, and as price becomes a more important competitive factor for consumers in the markets in which the Company competes, the Company may be at a competitive disadvantage. Furthermore, many competitors headquartered outside the U.S. experience a financial benefit from a strengthening in the U.S. dollar relative to their home currency that can enable them to reduce prices to U.S. consumers. In addition, the Company’s financial services operations face competition from various banks, insurance companies and other financial institutions that may have access to additional sources of capital at more competitive rates and terms, particularly for borrowers in higher credit tiers. The Company's responses to these competitive pressures, or its failure to adequately address and respond to these competitive pressures, may have a material adverse effect on the Company’s business and results of operations.

- Changes in general economic and business conditions, tightening of credit and retail markets, political events or other factors may adversely impact dealers’ retail sales. The motorcycle industry is impacted by general economic conditions over which motorcycle manufacturers have little control. These factors can weaken the retail environment and lead to weaker demand for discretionary purchases such as motorcycles. Weakened economic conditions in certain business sectors and geographic areas, such as oil-dependent areas, can also result in reduced demand for the Company's products. Tightening of credit can limit the availability of funds from financial institutions and other lenders and sources of capital which could adversely affect the ability of retail consumers to obtain loans for the purchase of motorcycles from lenders, including HDFS. Should general economic conditions or motorcycle industry demand decline, the Company’s results of operations and financial condition may be substantially adversely affected. The motorcycle industry can also be affected by political conditions and other factors over which motorcycle manufacturers have little control.

- Expanding international sales and operations subjects the Company to risks that may have a material adverse effect on its business. Expanding international sales and operations is a part of the Company’s long-term business strategy, particularly in light of the U.S. market conditions. There is no assurance that the Company will accomplish this successfully. Further, to support that strategy, the Company must increase its presence outside the U.S., including additional employees and investment in business infrastructure and operations. International operations and sales are subject to various risks, including political and economic instability, local labor market conditions, the imposition of foreign tariffs and other trade barriers, the impact of foreign government laws and regulations and U.S. laws and regulations that apply to international operations, and the effects of income and withholding taxes, governmental expropriation and differences in business practices. The Company may incur increased costs and experience delays or disruptions in product deliveries and payments in connection with international operations and sales that could cause loss of revenues and earnings. Unfavorable changes in the political, regulatory and business climate could have a material adverse effect on the Company’s net sales, financial condition, profitability or cash flows. Business practices that may be accepted in other countries can violate U.S. or other laws that apply to the Company. Violations of laws that apply to the Company's foreign operations, such as the U.S. Foreign Corrupt Practices Act, could result in severe criminal or civil sanctions, could disrupt the Company's business and result in an adverse effect on the Company's reputation, business and results of operations.

- The Company may not be able to successfully execute its manufacturing strategy. The Company’s manufacturing strategy is designed to continuously improve product quality and increase productivity, while reducing costs and increasing flexibility to respond to ongoing changes in the marketplace. Based on the Company’s strategy, the Company may, from time to time, open, close, expand, contract or restructure one or more of its manufacturing facilities. The Company believes flexible manufacturing, including flexible supply chains and flexible labor agreements, is the key element to enable improvements in the Company's ability to respond to customers in a cost effective manner. To execute this strategy, the Company must be successful in its implementation of facility changes and in its continuous improvement efforts, all of which are dependent on the involvement of management, production employees and suppliers. To execute this strategy, the Company must be successful in its continuous improvement efforts which are dependent on the involvement of management, production employees and suppliers. Any inability to achieve these objectives could adversely impact the profitability of the Company's products and its ability to deliver the right product at the right time to the customer.

- The Company must prevent and detect issues with its products, components purchased from suppliers, and its suppliers' manufacturing processes to reduce the risk of recall campaigns, increased warranty costs or litigation, increased product liability claims or litigation, delays in new model launches, and inquiries or investigations by regulatory agencies. The Company must also complete any recall campaigns within cost expectations. The Company must continually improve and adhere to product development and manufacturing processes, and ensure that its suppliers and their sub-tier suppliers adhere to product development and manufacturing processes, to ensure high quality products are sold to retail customers. If product designs or manufacturing processes are defective, the Company could experience delays in new model launches, field actions such as product programs and product recalls, inquiries or investigations from regulatory agencies, warranty claims, and product liability claims, which may involve purported class actions. While the Company uses reasonable methods to estimate the cost of warranty, recall and product liability costs and appropriately reflects those in its financial statements, there is a risk the actual costs could exceed estimates and result in damages that are not covered by insurance. Further, selling products with poor quality, the announcement of recalls, and the filing of product liability claims (whether or not successful), may also adversely affect the Company’s reputation and brand strength.

- The Company’s Motorcycles segment is dependent upon unionized labor. Substantially all of the hourly production employees working in the Motorcycles segment are represented by unions and covered by collective bargaining agreements. Harley-Davidson Motor Company is currently a party to five collective bargaining agreements with local affiliates of the International Association of Machinists and Aerospace Workers and the United Steelworkers of America. Current collective bargaining agreements with hourly employees in Missouri, Wisconsin and Pennsylvania will expire in 2018, 2019 and 2022, respectively. There is no certainty that the Company will be successful in negotiating new agreements with these unions that extend beyond the current expiration dates or that these new agreements will be on terms that will allow the Company to be competitive or that allow the Company to execute its manufacturing optimization as planned. The Company’s decisions regarding opening, closing, expanding, contracting or restructuring its facilities may require changes to existing or new bargaining agreements. The Company will need to negotiate an extension of its bargaining agreements covering its Kansas City, Missouri facility as part of its manufacturing optimization plan. Failure to extend the KC bargaining agreements, or renew other agreements when they expire or to establish new collective bargaining agreements on terms acceptable to the Company and the unions could result in the relocation of production facilities, work stoppages or other labor disruptions which may have a material adverse effect on the Company’s business and results of operations.

- The Company is exposed to market risk from changes in foreign exchange rates, commodity prices and interest rates. The Company sells its products internationally and in most markets those sales are made in the foreign country’s local currency. As a result, a weakening in those foreign currencies relative to the U.S. dollar can adversely affect the Company's revenue and margin, and cause volatility in results of operations. Furthermore, many competitors headquartered outside the U.S. experience a financial benefit from a strengthening in the U.S. dollar relative to their home currency that can enable them to reduce prices to U.S. consumers. The Company is also subject to risks associated with changes in prices of commodities. Earnings from the Company’s financial services business are affected by changes in interest rates. Although the Company uses derivative financial instruments to some extent to attempt to manage a portion of its exposure to foreign currency exchange rates and commodity prices, the Company does not attempt to manage its entire expected exposure, and these instruments generally do not extend beyond one year and may expose the Company to credit risk in the event of counterparty default to the derivative financial instruments. There can be no assurance that in the future the Company will successfully manage these risks.

- The Financial Services operations are exposed to credit risk on its retail and wholesale receivables. Credit risk is the risk of loss arising from a failure by a customer, including the Company's independent dealers, to meet the terms of any contract with the Company’s financial services operations. Credit losses are influenced by general business and economic conditions, including unemployment rates, bankruptcy filings and other factors that negatively affect household incomes, as well as contract terms and customer credit profiles. Credit losses are also influenced by the markets for new and used motorcycles, and the Company and its independent dealers can and do take actions that impact those markets. For example, the introduction of new models by the Company that represent significant upgrades on previous models may result in increased supply or decreased demand in the market for used Harley-Davidson branded motorcycles, including those motorcycles that serve as collateral or security for credit that HDFS has extended. This in turn could adversely impact the prices at which those motorcycles may be sold, which may lead to increased credit losses for HDFS. Negative changes in general business, economic or market factors may have an additional adverse impact on the Company’s financial services credit losses and future earnings. The Company believes HDFS' retail credit losses may continue to increase over time due to changing consumer credit behavior and HDFS' efforts to increase prudently structured loan approvals to sub-prime borrowers, as well as actions that the Company has taken and could take that impact motorcycle values. Increases in the frequency of loss and decreases in the value of repossessed Harley-Davidson branded motorcycles also adversely impact credit losses. If there are adverse circumstances that involve a material decline in values of Harley-Davidson branded motorcycles, those circumstances or any related decline in resale values for Harley-Davidson branded motorcycles could contribute to increased delinquencies and credit losses.

- The Company's operations are dependent upon attracting and retaining skilled employees, including skilled labor, executive officers and other senior leaders. The Company's future success depends on its continuing ability to identify, hire, develop, motivate, retain and promote skilled personnel for all areas of its organization, and to effectively execute reorganization actions within expected costs and realize the expected benefits of those actions. The Company's current and future total compensation arrangements, which include benefits and incentive awards, may not be successful in attracting new employees and retaining and motivating the Company's existing employees. In addition, the Company must cultivate and sustain a work environment where employees are engaged and energized in their jobs to maximize their performance, and the Company must effectively execute reorganization actions. If the Company does not succeed in attracting new personnel, retaining existing personnel, implementing effective succession plans and motivating and engaging personnel, including executive officers, the Company may be unable to develop and distribute products and services and effectively execute its plans and strategies.

- A cybersecurity breach may adversely affect the Company's reputation, revenue and earnings. The Company and certain of its third-party service providers and vendors receive, store, and transmit digital personal information in connection with the Company's human resources operations, financial services operations, e-commerce, the Harley Owners Group, dealer management, and other aspects of its business. The Company's information systems, and those of its third-party service providers and vendors, are vulnerable to the increasing threat of continually evolving cybersecurity risks. Unauthorized parties have attempted to and may attempt in the future to gain access to these systems or the information the Company and its third-party service providers and vendors maintain and use through fraud or other means of deceiving our employees and third-party service providers and vendors. Hardware, software or applications the Company develops or obtains from third-parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security and/or the Company's operations. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving and may be difficult to anticipate or detect. The Company has implemented and regularly reviews and updates processes and procedures to protect against unauthorized access to or use of secured data and to prevent data loss. However, the ever-evolving threats mean the Company and third-party service providers and vendors must continually evaluate and adapt systems and processes, and there is no guarantee that they will be adequate to safeguard against all data security breaches or misuses of data. The Company has experienced information security attacks, but to date they have not compromised the Company's computing environment or resulted in a material impact on the Company's business or operations or the release of confidential information about employees, customers, dealers, suppliers or other third parties. Any future significant compromise or breach of the Company's data security, whether external or internal, or misuse of customer, employee, dealer, supplier or Company data could result in disruption to the Company's operations, significant costs, lost sales, fines and lawsuits, and/or damage to the Company's reputation. In addition, as the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and evolving requirements, compliance could also result in the Company being required to incur additional costs.

- The Company sells its products at wholesale and must rely on a network of independent dealers to manage the retail distribution of its products. The Company depends on the capability of its independent dealers to develop and implement effective retail sales plans to create demand among retail purchasers for the motorcycles and related products and services that the dealers purchase from the Company. If the Company's independent dealers are not successful in these endeavors, then the Company will be unable to maintain or grow its revenues and meet its financial expectations. Further, independent dealers may experience difficulty in funding their day-to-day cash flow needs and paying their obligations resulting from adverse business conditions such as weakened retail sales and tightened credit. If dealers are unsuccessful, they may exit or be forced to exit the business or, in some cases, the Company may seek to terminate relationships with certain dealerships. As a result, the Company could face additional adverse consequences related to the termination of dealer relationships. Additionally, liquidating a former dealer's inventory of new and used motorcycles can add downward pressure on new and used motorcycle prices. Further, the unplanned loss of any of the Company's independent dealers may lead to inadequate market coverage for retail sales of new motorcycles and for servicing previously sold motorcycles, create negative impressions of the Company with its retail customers, and adversely impact the Company's ability to collect wholesale receivables that are associated with that dealer.

- The Company must comply with governmental laws and regulations that are subject to change and involve significant costs. The Company's sales and operations in areas outside the U.S. may be subject to foreign laws, regulations and the legal systems of foreign courts or tribunals. These laws and policies governing operations of foreign-based companies may result in increased costs or restrictions on the ability of the Company to sell its products in certain countries. U.S. laws and policies affecting foreign trade and taxation may also adversely affect the Company's international sales operations.

The Company’s domestic sales and operations are subject to governmental policies and regulatory actions of agencies of the United States Government, including the Environmental Protection Agency (EPA), SEC, National Highway Traffic Safety Administration, Department of Labor and Federal Trade Commission. In addition, the Company’s sales and operations are also subject to laws and actions of state legislatures and other local regulators, including dealer statutes and licensing laws. Changes in regulations or the imposition of additional regulations may have a material adverse effect on the Company’s business and results of operations.

Tax - The Company is subject to income and non-income based taxes in the U.S. and in various foreign jurisdictions. Significant judgment is required in determining the Company's worldwide income tax liabilities and other tax liabilities including the impact of the 2017 Tax Cuts and Jobs Act (2017 Tax Act). The Company believes that it complies with applicable tax law. If the governing tax authorities have a different interpretation of the applicable law or if there is a change in tax law, the Company's financial condition and/or results of operations may be adversely affected. To the extent there are considerable changes to tax laws, the Company may need to readjust its tax strategy, and may not be able to take full advantage of such changes. Furthermore, given the complexity and timing of the 2017 Tax Act, future guidance, interpretations and pronouncements may add clarity to the numerous aspects of the 2017 Tax Act that impact the Company. Future clarifications may give rise to additional unanticipated matters that could impact the Company’s tax liabilities and effective tax rate that result in revisions to the Company’s provisional estimates related to the 2017 Tax Act included in the Company’s 2017 income tax provision, which could in turn adversely impact future operating results.

Environmental - The Company’s motorcycle products use internal combustion engines. These motorcycle products are subject to statutory and regulatory requirements governing emissions and noise, including standards imposed by the EPA, state regulatory agencies, such as California Air Resources Board, and regulatory agencies in certain foreign countries where the Company’s motorcycle products are sold. The Company is also subject to statutory and regulatory requirements governing emissions and noise in the conduct of the Company’s manufacturing operations. Any significant change to the regulatory requirements governing emissions and noise may substantially increase the cost of manufacturing the Company’s products. If the Company fails to meet existing or new requirements, then the Company may be unable to sell certain products or may be subject to fines or penalties. Further, in response to concerns about global climate changes and related changes in consumer preferences, the Company may face greater regulatory or customer pressure to develop products that generate less emissions. This may require the Company to spend additional funds on research, product development, and implementation costs and subject the Company to the risk that the Company’s competitors may respond to these pressures in a manner that gives them a competitive advantage.

Financial Services - The Company’s financial services operations are governed by a wide range of foreign, federal and state laws that regulate financial and lending institutions, and financial services activities. In the U.S. for example, these laws include the federal Truth-in-Lending Act, Equal Credit Opportunity Act and Fair Credit Reporting Act. The financial services operations originate the majority of its consumer loans through its subsidiary, Eaglemark Savings Bank, a Nevada state thrift chartered as an industrial loan company. Federal and state bodies may in the future impose additional laws, regulation and supervision over the financial services industry.

Violations of, or non-compliance with, relevant laws and regulations may limit the ability of HDFS to collect all or part of the principal or interest on applicable loans, may entitle the borrower to rescind the loan or obtain a refund of amounts previously paid, could subject HDFS to payment of damages, civil fines, or criminal penalties and administrative sanctions and could limit the number of loans eligible for HDFS securitizations programs. Such regulatory requirements and associated supervision also could limit the discretion of HDFS in operating its business, such as through the suspension or revocation of any charter, license or registration at issue, as well as the imposition of administrative sanctions, including "cease and desist" orders. The Company cannot assure that the applicable laws or regulations will not be amended or construed in ways that are adverse to HDFS, that new laws and regulations will not be adopted in the future, or that laws and regulations will not attempt to limit the interest rates charged by HDFS, any of which may adversely affect the business of HDFS or its results of operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) is a sweeping piece of legislation impacting financial services and the full effect will not be fully known for years, as regulations that are intended to implement the Dodd-Frank Act are adopted, and the text of the Dodd-Frank Act is analyzed by stakeholders and possibly the courts. The Dodd-Frank Act also created the Consumer Financial Protection Bureau (CFPB). The CFPB has significant enforcement and rule-making authority in the area of consumer financial products and services. The direction that the CFPB will take, the regulations it will adopt, and its interpretation of existing laws

and regulations are all elements that are not yet fully known. Compliance may be costly and could affect operating results as the implementation of new forms, processes, procedures and controls and infrastructure may be required. Compliance may create operational constraints and place limits on pricing. Failure to comply, as well as changes to laws and regulations, or the imposition of additional laws and regulations, could affect HDFS' earnings, limit its access to capital, limit the number of loans eligible for HDFS securitization programs and have a material adverse effect on HDFS' business and results of operations. The CFPB also has supervisory authority over certain non-bank larger participants in the vehicle financing market, which includes a non-bank subsidiary of HDFS, allowing the CFPB to conduct comprehensive and rigorous on-site examinations that could result in enforcement actions, fines, changes to processes and procedures, product-related changes or consumer refunds, or other actions.
U.S. Public Company - The Company is also subject to policies and actions of the SEC and New York Stock Exchange (NYSE). Many major competitors of the Company are not subject to the requirements of the SEC or the NYSE rules. As a result, the Company may be required to disclose certain information that may put the Company at a competitive disadvantage to its principal competitors.

- Weather may impact retail sales by the Company's independent dealers. The Company has observed that abnormally cold and/or wet conditions in a region, including impacts from hurricanes or unusual storms, could have the effect of reducing demand or changing the timing for purchases of new Harley-Davidson motorcycles. Reduced demand for new Harley-Davidson motorcycles ultimately leads to reduced shipments by the Company.

- The Company relies on third party suppliers to obtain raw materials and provide component parts for use in the manufacture of its motorcycles. The Company may experience supply problems relating to raw materials and components such as unfavorable pricing, poor quality, or untimely delivery. In certain circumstances, the Company relies on a single supplier to provide the entire requirement of a specific part, and a change in this established supply relationship may cause disruption in the Company's production schedule. In addition, the price and availability of raw materials and component parts from suppliers can be adversely affected by factors outside of the Company's control such as the supply of a necessary raw material or natural disasters. Further, Company suppliers may experience difficulty in funding their day-to-day cash flow needs because of tightening credit caused by financial market disruption. In addition, adverse economic conditions and related pressure on select suppliers due to difficulties in the global manufacturing arena could adversely affect their ability to supply the Company. Changes in laws and policies relating to trade and taxation may also adversely impact the Company's foreign suppliers. These supplier risks may have a material adverse effect on the Company's business and results of operations.

- The Company must invest in and successfully implement new information systems and technology. The Company is continually modifying and enhancing its systems and technology to increase productivity and efficiency and to mitigate failure risks from older/aged technologies currently in its portfolio. The Company has several large, strategic information system projects in process. As new systems and technologies (and related strategies) are implemented, the Company could experience unanticipated difficulties resulting in unexpected costs and adverse impacts to its manufacturing and other business processes. When implemented, the systems and technology may not provide the benefits anticipated and could add costs and complications to ongoing operations and older technologies may fail, which may have a material adverse effect on the Company's business and results of operations.

- The ability of the Company to expand international sales may be impacted by existing or new laws and regulations that impose motorcycle licensing restrictions and limit access to roads and highways. Expanding international sales is a part of the Company's long-term business strategy. A number of countries have tiered motorcycle licensing requirements that limit the ability of new and younger riders to obtain licenses to operate the Company's motorcycles, and many countries are considering the implementation of such requirements. These requirements only allow new and/or younger riders to operate smaller motorcycles for certain periods of time. Riders typically are only permitted to obtain a license to ride larger motorcycles upon reaching certain ages and/or having been licensed to ride smaller motorcycles for a certain period of time, and only after passing additional tests and paying additional fees. These requirements pose obstacles to large displacement motorcycle ownership. Other countries have laws and regulations that prohibit motorcycles from being operated on certain roads and highways. These types of laws and regulations could adversely impact the Company's plans to expand international sales.

- The Company is and may in the future become subject to legal proceedings and commercial or contractual disputes. The uncertainty associated with substantial unresolved claims and lawsuits may harm the Company's business, financial condition, reputation and brand. The defense of the lawsuits may result in the expenditures of significant financial resources and the diversion of management's time and attention away from business operations.

In addition, although the Company is unable to determine the amount, if any, that it may be required to pay in connection with the resolution of the lawsuits by settlement or otherwise, any such payment may have a material adverse effect on the Company’s business and results of operations. Refer to the Company’s disclosures concerning legal proceedings in this Form 10-K and in the other periodic reports that the Company files with the Securities and Exchange Commission (SEC) for additional detail regarding lawsuits and other claims against the Company.

- The Company, its suppliers, and its independent dealers must successfully accommodate a seasonal retail motorcycle sales pattern. The Company records the wholesale sale of a motorcycle when it is shipped to the Company’s independent dealers. The Company's flexible production capability allows it to more closely correlate motorcycle production and wholesale shipments with the retail selling season. Any difficulties in executing flexible production could result in lost production or sales. The Company, its suppliers, and its independent dealers must be able to successfully manage changes in production rates, inventory levels and other business processes associated with flexible production. Failure by the Company, its suppliers, or its independent dealers to make such adjustments may have a material adverse effect on the Company’s business and results of operations.

- The Financial Services operations rely on external sources to finance a significant portion of its operations. Liquidity is essential to the Company’s Financial Services business. Disruptions in financial markets may cause lenders and institutional investors to reduce or cease to loan money to borrowers, including financial institutions. The Company’s Financial Services operations may be negatively affected by difficulty in raising capital in the long-term and short-term capital markets. These negative consequences may in turn adversely affect the Company’s business and results of operations in various ways, including through higher costs of capital, reduced funds available through its financial services operations to provide loans to independent dealers and their retail customers, and dilution to existing share value through the use of alternative sources of capital.

- The Financial Services operations are highly dependent on accessing capital markets to fund their operations at competitive interest rates, the Company’s access to capital and its cost of capital are highly dependent upon its credit ratings, and any negative credit rating actions will adversely affect its earnings and results of operations. The ability of the Company and its Financial Services operations to access unsecured capital markets is influenced by their short-term and long-term credit ratings. If the Company’s credit ratings are downgraded or its ratings outlook is negatively changed, the Company’s cost of borrowing could increase, resulting in reduced earnings and interest margins, or the Company’s access to capital may be disrupted or impaired. The Company borrowed $750,000,000 in 2015 to fund the repurchase of its Common Stock, which increased the Company's leverage. Having increased leverage increases the risk of a downgrade in the Company's credit ratings.

- The Company incurs substantial costs with respect to employee pension and healthcare benefits. The Company’s cash funding requirements and its estimates of liabilities and expenses for pensions and healthcare benefits for both active and retired employees are based on several factors that are outside the Company’s control. These factors include funding requirements of the Pension Protection Act of 2006, the rate used to discount the future estimated liability, the rate of return on plan assets, current and projected healthcare costs, healthcare reform or legislation, retirement age and mortality. Changes in these factors can impact the expense, liabilities and cash requirements associated with these benefits which could have a material adverse effect on future results of operations, liquidity or shareholders’ equity. In addition, costs associated with these benefits put the Company under significant cost pressure as compared to its competitors that may not bear the costs of similar benefit plans. Furthermore, costs associated with complying with the Patient Protection and Affordable Care Act may produce additional cost pressure on the Company and its health care plans.

- The Company’s success depends upon the continued strength of the Harley-Davidson brand. The Company believes that the Harley-Davidson brand has significantly contributed to the success of its business and that maintaining and enhancing the brand is critical to expanding its customer base. Failure to protect the brand from infringers or to grow the value of the Harley-Davidson brand may have a material adverse effect on the Company's business and results of operations.

- The Company must maintain stakeholder confidence in its operating ethics and corporate governance practices. The Company believes it has a history of good corporate governance and operating ethics.The Company has a Code of Business Conduct that defines how employees interact with various Company stakeholders and addresses issues such as confidentiality, conflict of interest and fair dealing. Failure to maintain its reputation for good corporate governance and strong operating ethics may have a material adverse effect on the Company's business and results of operations.

- The Company’s operations may be affected by greenhouse emissions and climate change and related regulations. Climate change is receiving increasing attention worldwide. Many scientists, legislators and others attribute climate change to increased levels of greenhouse gases, including carbon dioxide, which has led to significant legislative and regulatory efforts to limit greenhouse gas emissions. Congress has previously considered and may in the future implement restrictions on greenhouse gas emissions. In addition, several states, including states where the Company has manufacturing plants, have previously considered and may in the future implement greenhouse gas registration and reduction programs. Energy security and availability and its related costs affect all aspects of the Company’s manufacturing operations in the United States, including the Company’s supply chain. The Company’s manufacturing plants use energy, including electricity and natural gas, and certain of the Company’s plants emit amounts of greenhouse gas that may be affected by these legislative and regulatory efforts. Greenhouse gas regulation could increase the price of the electricity the Company purchases, increase costs for use of natural gas, potentially restrict access to or the use of natural gas, require the Company to purchase allowances to offset the Company’s own emissions or result in an overall increase in costs of raw materials, any one of which could increase the Company’s costs, reduce competitiveness in a global economy or otherwise negatively affect the Company’s business, operations or financial results. Many of the Company’s suppliers face similar circumstances. Physical risks to the Company’s business operations as identified by the Intergovernmental Panel on Climate Change and other expert bodies include scenarios such as sea level rise, extreme weather conditions and resource shortages. Extreme weather may disrupt the production and supply of component parts or other items such as natural gas, a fuel necessary for the manufacture of motorcycles and their components. Supply disruptions would raise market rates and jeopardize the continuity of motorcycle production.

- Regulations related to conflict minerals and other materials that the Company purchases to use in its products will cause the Company to incur additional expenses and may have other adverse consequences. The SEC adopted inquiry, diligence and disclosure requirements related to certain minerals sourced from the Democratic Republic of Congo and surrounding countries, or "conflict minerals," that are necessary to the functionality of a product manufactured, or contracted to be manufactured, by an SEC reporting company. Compliance with the disclosure requirements could affect the sourcing and availability of some of the minerals that the Company uses in the manufacturing of its products. The Company's supply chain is complex, and if it is not able to determine the source and chain of custody for all conflict minerals used in its products that are sourced from the Democratic Republic of Congo and surrounding countries or determine that its products are "conflict free," then the Company may face reputational challenges with customers, investors or others. Additionally, as there may be only a limited number of suppliers offering "conflict free" minerals, if the Company chooses to use only conflict minerals that are "conflict free," the Company cannot be sure that it will be able to obtain necessary materials from such suppliers in sufficient quantities or at competitive prices. Further, other laws or regulations impacting our supply chain, such as the UK Modern Slavery Act, may have similar consequences. For example, many countries in which the Company distributes its products are beginning to introduce regulations that require knowledge and disclosure of virtually all materials and chemicals in the Company’s products. Accordingly, the Company could incur significant costs related to the process of complying with these laws, including potential difficulty or added costs in satisfying the disclosure requirements.

- The Company relies on third parties to perform certain operating and administrative functions for the Company. Similar to suppliers of raw materials and components, the Company may experience problems with outsourced services, such as unfavorable pricing, untimely delivery of services, or poor quality. Also, these suppliers may experience adverse economic conditions due to difficulties in the global economy that could lead to difficulties supporting the Company's operations. In light of the amount and types of functions that the Company has outsourced, these service provider risks may have a material adverse effect on the Company's business and results of operations.

The Company disclaims any obligation to update these Risk Factors or any other forward-looking statements. The Company assumes no obligation (and specifically disclaims any such obligation) to update these Risk Factors or any other forward-looking statements to reflect actual results, changes in assumptions or other factors affecting such forward-looking statements.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following is a summary of the principal operating properties of the Company as of December 31, 2017:

Motorcycles & Related Products Segment

Type of Facility	Location	Approximate Square Feet	Status
Corporate Office	Milwaukee, WI	515,000	Owned
Museum	Milwaukee, WI	130,000	Owned
Manufacturing(1)	Menomonee Falls, WI	915,000	Owned
Product Development Center	Wauwatosa, WI	409,000	Owned
Manufacturing(2)	Tomahawk, WI	226,000	Owned
Manufacturing(3)	York, PA	571,000	Owned
Manufacturing(4)	Kansas City, MO	456,000	Owned
Manufacturing(5)	Manaus, Brazil	108,000	Lease expiring 2019
Regional Office	Oxford, England	39,000	Lease expiring 2022
Manufacturing(6)	Bawal, India	68,000	Lease expiring 2019
Regional Office	Singapore	24,000	Lease expiring 2020
Manufacturing(7)	Adelaide, Australia	485,000	Lease expiring 2020

(1) Motorcycle powertrain production.
(2) Plastic parts production and painting.
(3) Motorcycle parts fabrication, painting and Softail® and touring model assembly.
(4) Motorcycle parts fabrication, painting and Dyna®, Sportster®, Softail® and Street platform assembly.
(5) Assembly of select models for the Brazilian market.
(6) Assembly of select models for the Indian market and production of the Street platform for non-North American markets.
(7) Motorcycle wheel production.

Financial Services Segment

Type of Facility	Location	Approximate Square Feet	Status
Office	Chicago, IL	26,000	Lease expiring 2022
Office	Plano, TX	69,000	Lease expiring 2025
Office	Carson City, NV	100,000	Owned

The Financial Services segment has three office facilities: Chicago, Illinois (corporate headquarters); Plano, Texas (wholesale and retail operations); and Carson City, Nevada (retail operations).

Item 3. Legal Proceedings

The Company is subject to lawsuits and other claims related to environmental, product and other matters. In determining costs to accrue 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. Any amounts accrued for these matters are monitored on an ongoing basis and are updated based on new developments or new information as it becomes available for 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 information exchanges and discussions with the EPA. In August 2016, the Company entered into a consent decree with the EPA regarding these issues, and the consent decree was subsequently revised in July 2017 (the Settlement). In the Settlement, the Company agreed to, among other things, pay a fine, and not sell tuning products unless they are approved by the EPA or California Air Resources Board. In December 2017, the EPA filed the Settlement with the U.S. District Court for the District of Columbia for the purpose of obtaining court approval of the Settlement. Three amicus briefs opposing portions of the Settlement were filed with the court by the deadline of January 31, 2018. The Company anticipates the court will make a decision whether or not to finalize the Settlement in the following months. The Company has an accrual associated with this matter which is included in accrued liabilities in the Consolidated Balance Sheets, and as a result, if it is finalized, the Settlement would not have a material adverse effect on the Company's financial condition or results of operations. The Settlement is not final until it is approved by the court, and if it is not approved by the court, the Company cannot reasonably estimate the impact of any remedies the EPA might seek beyond the Company's current reserve for this matter.
York Environmental Matters:
The Company is involved with government agencies and groups of potentially responsible parties related to 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 a 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 costs associated with environmental investigation and remediation activities at the York facility (Response Costs). The trust administers the payment of the Response Costs incurred at the York facility as covered by the Agreement.
The Company has an accrual for its estimate of its share of the future Response Costs at the York facility which is included in other long-term liabilities in the Consolidated Balance Sheets. While much of the work on the RI/FS is complete, it is still under agency review 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 that is finally approved 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.
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.
National Highway Traffic Safety Administration Matters:
In July 2016, the National Highway Traffic Safety Administration (NHTSA) began an investigation into certain of the Company's motorcycles equipped with anti-lock braking systems (ABS). NHTSA’s investigation is in response to rider complaints related to brake failures and applies to model-year 2008-2013 Touring and model-year 2008-2017

V-ROD® motorcycles. NHTSA noted that Harley-Davidson has a two-year brake fluid replacement interval that owners either are unaware of or ignore. During 2017, the Company estimated and recorded a $29.4 million accrual associated with the NHTSA matter which is included in accrued liabilities. On January 30, 2018, the Company announced a voluntary recall which offers a free brake fluid flush for model-year 2008-2011 Touring and V-ROD® motorcycles. The Company believes the accrued liability it has recorded will adequately cover the cost of the recall.

Item 4. Mine Safety Disclosures

Not Applicable

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities

Harley-Davidson, Inc. common stock is traded on the New York Stock Exchange, Inc. The high and low market prices for the common stock, reported as New York Stock Exchange, Inc. Composite Transactions, were as follows:

2017	Low	High	2016	Low	High
First quarter	$54.75	$63.40	First quarter	$36.36	$49.99
Second quarter	$51.61	$62.95	Second quarter	$42.99	$52.00
Third quarter	$45.53	$56.55	Third quarter	$41.63	$57.33
Fourth quarter	$44.52	$52.30	Fourth quarter	$48.55	$62.35

The Company paid the following dividends per share:

	2017	2016	2015
First quarter	$0.365	$0.350	$0.310
Second quarter	0.365	0.350	0.310
Third quarter	0.365	0.350	0.310
Fourth quarter	0.365	0.350	0.310
Total	$1.460	$1.400	$1.240

As of February 2, 2018, there were 72,285 shareholders of record of Harley-Davidson, Inc. common stock.

The Company’s share repurchases include discretionary share repurchases and shares of common stock that employees surrendered to satisfy withholding taxes in connection with the vesting of restricted stock awards. The following table contains detail related to the Company's repurchase of its common stock based on the date of trade during the quarter ended December 31, 2017:

2017 Fiscal Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
September 25 to October 29	635	$ 49	635	10,594,144
October 30 to November 26	731	$ 49	731	10,594,144
November 27 to December 31	619	$ 49	619	10,594,144
Total	1,985	$ 49	1,985	

In February 2016, the Company's Board of Directors authorized the Company to repurchase up to 20.0 million shares of its common stock with no dollar limit or expiration date. As of December 31, 2017, 10.6 million shares remained under this authorization. In February 2018, the Company's Board of Directors authorized the Company to repurchase up to 15.0 million additional shares of its common stock with no dollar limit or expiration date.

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

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

During the fourth quarter of 2017, the Company acquired 1,985 shares of common stock that employees presented to the Company to satisfy withholding taxes in connection with the vesting of restricted stock awards.

Item 12 of this Annual Report on Form 10-K contains certain information relating to the Company’s equity compensation plans.

The following information in this Item 5 is not deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates it by reference into such a filing: the SEC requires the Company to include a line graph presentation comparing cumulative five year Common Stock returns with a broad-based stock index and either a nationally recognized industry index or an index of peer companies selected by the Company. The Company has chosen to use the Standard & Poor’s 500 Index as the broad-based index and the Standard & Poor’s MidCap 400 Index as a more specific comparison. The Standard & Poor’s MidCap 400 Index was chosen because the Company does not believe that any other published industry or line-of-business index adequately represents the current operations of the Company. The graph assumes a beginning investment of $100 on December 31, 2012 and that all dividends are reinvested.

	2012 ($)	2013 ($)	2014 ($)	2015 ($)	2016 ($)	2017 ($)
Harley-Davidson, Inc.	100	144	139	98	130	116
Standard & Poor’s MidCap 400 Index	100	132	142	137	165	192
Standard & Poor’s 500 Index	100	132	151	153	171	208

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Item 6. Selected Financial Data

(In thousands, except per share amounts)	2017	2016	2015	2014	2013
Statement of income data:					
Revenue:					
Motorcycles & Related Products	$4,915,027	$5,271,376	$5,308,744	$5,567,681	$5,258,290
Financial Services	732,197	725,082	686,658	660,827	641,582
Total revenue	$5,647,224	$5,996,458	$5,995,402	$6,228,508	$5,899,872
Net income	$521,759	$692,164	$752,207	$844,611	$733,993
Weighted-average common shares:					
Basic	171,995	179,676	202,681	216,305	222,475
Diluted	172,932	180,535	203,686	217,706	224,071
Earnings per common share:					
Basic	$3.03	$3.85	$3.71	$3.90	$3.30
Diluted	$3.02	$3.83	$3.69	$3.88	$3.28
Dividends paid per common share	$1.46	$1.40	$1.24	$1.10	$0.84
Balance sheet data:					
Total assets[a]	$9,972,672	$9,890,240	$9,972,977	$9,515,870	$9,394,765
Total debt[a]	$6,988,009	$6,807,567	$6,872,198	$5,492,402	$5,248,895
Total equity	$1,844,277	$1,920,158	$1,839,654	$2,909,286	$3,009,486

(a) The Company adopted ASU No. 2015-03 and ASU No. 2015-15 on January 1, 2016. Upon adoption, the Company reclassified debt issuance cost, other than debt issuance costs related to line of credit arrangements (which include its asset-backed commercial paper and commercial paper programs and its credit facilities), from other assets to debt.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
Harley-Davidson, Inc. is the parent company of the groups of companies doing business as Harley-Davidson Motor Company (HDMC) and Harley-Davidson Financial Services (HDFS). Unless the context otherwise requires, all references to the "Company" include Harley-Davidson, Inc. and all its subsidiaries. The Company operates in two reportable segments: Motorcycles & Related Products (Motorcycles) and Financial Services.
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.

(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, unfavorably or favorably, 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 “Risk Factors” in Item 1A and under “Cautionary Statements” in Item 7 of this report. Shareholders, potential investors, and other readers are urged to consider these factors in evaluating the forward-looking statements and cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in the Outlook section are only made as of January 30, 2018 and the remaining forward-looking statements in this report are only made as of the date of the filing of this report (February 21, 2018), and the Company disclaims any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.
Overview[(1)]
The Company’s net income for 2017 was $521.8 million, or $3.02 per diluted share, compared to $692.2 million, or $3.83 per diluted share, in 2016. Operating income from the Motorcycles segment was down $157.4 million compared to 2016 primarily due to a 7.9% decrease in wholesale motorcycle shipments. Operating income from the Financial Services segment in 2017 was slightly lower than the prior year, decreasing $0.2 million, or 0.1%.
Worldwide independent dealer retail sales of new Harley-Davidson motorcycles decreased 6.7% in 2017 compared to the prior year. U.S. retail sales fell 8.5% and international retail sales decreased 3.9% compared to 2016. In the U.S., the 601+cc motorcycle industry continued to face significant challenges and international retail sales finished below the Company's expectations.

In 2017, the Company remained committed to a disciplined supply management approach focused on allowing U.S. dealers to achieve the right quantity and model-year mix of motorcycle inventory. The Company also focused on positioning its cost structure to better compete in the current environment. At the same time, the Company remained grounded in its long-term strategy and made good progress on its long-term objective to build riders globally. In 2017, the Company finished the year with a net increase of over 32,000 Harley-Davidson riders in the U.S. compared to the prior year. (Source: IHS Markit Motorcycles in Operation (MIO) data for On-Highway and Dual Purpose bikes in the U.S. as of January 1, 2018)

In 2018, the Company expects new Harley-Davidson motorcycle retail sales to grow internationally, but continues to expect challenges in the U.S. The Company's global retail expectations and disciplined supply strategy are reflected in its expectation for reduced wholesale shipments in 2018. In addition, to further improve its cost structure and maintain its world-class manufacturing operations, the Company is commencing a significant, multi-year manufacturing optimization plan anchored by the consolidation of its final assembly plant in Kansas City, Missouri into its plant in York, Pennsylvania. As the operations are consolidated, the Company expects approximately 800 jobs will be eliminated with the closure of Kansas City operations and approximately 450 jobs will be added in York by 2019. As part of this manufacturing optimization plan the Company will also close its wheel operations in Adelaide, Australia. Refer to the "Manufacturing Optimization Costs and Savings" below for further information.

As the Company looks forward, it will continue to focus on its long-term strategy of growing ridership in the U.S. and growing its reach and impact internationally, while growing market share and profitability globally. In 2018, the Company will continue to expand its independent dealer network outside the U.S. In addition, operations will begin at the Company's new facility in Thailand. This plant, like the Company's facility in Brazil, will support more competitive retail pricing in some of the emerging markets that this plant will serve by reducing the tax and tariff burden that fully assembled imports carry in those markets.

In 2018, the Company will also continue to invest in new products. A portion of the benefit from the 2017 Tax Cuts and Jobs Act (2017 Tax Act) enacted in the U.S. in late 2017 will support the Company's objective to invest in high-impact product by redefining product in traditional spaces and expanding into new spaces such as the rapidly evolving electric vehicle landscape. The Company plans to bring Project Livewire, an electric Harley-Davidson motorcycle, to market within 18 months and will increase its investment in electric motorcycle technology, products and infrastructure in 2018 and beyond. The Company expects its increased commitment and investment will help accelerate the development of this market and assure its leadership in electric motorcycles.

Outlook[1]
On January 30, 2018 the Company announced the following expectations for 2018.

The Company expects to ship between 231,000 and 236,000 motorcycles to dealers in 2018, which is down approximately 2% to 4% from 2017. The Company's shipment expectation assumes that U.S. dealer retail sales will be down, partially offset by growth in international retail sales. The Company expects 2018 year-end U.S. retail inventory to be flat to 2017 and flat to up in international markets as it continues to add new dealers.

During 2018, the Company expects retail sales to be positively impacted by:

- Increased focus and investment on growing global ridership
- New product momentum with model-year 2018 motorcycles and the addition of new high-impact models yet to be introduced
- A rebound in emerging-market retail sales performance
- Expansion of the international dealer network

However, these positive impacts are expected to be more than offset by strong headwinds including:

- A very weak U.S. industry for new motorcycles driven by flat to declining total demand for combined new and used motorcycles and soft, but improving, Harley-Davidson used motorcycle prices
- Competitive pressure from continued new product introductions throughout markets globally, particularly in lower price, smaller displacement motorcycles

Operating income as a percent of revenue for the Motorcycles segment is expected to be approximately 9.5% to 10.5% for the full year 2018. This reduction of approximately 2 to 3 percentage points compared to 2017, is primarily due to expected manufacturing optimization plan costs of $120 to $140 million. Also, operating margin will be reduced by approximately 0.2 percentage points due to the adoption of an accounting standard update that will require the Company to present the non-service cost components of its pension and postretirement plan expense as non-operating income. The Company estimates this will result in approximately $10 million of non-operating income in 2018 that would have been included in operating income under existing accounting standards. The new presentation will be applied retrospectively to prior periods in the Company's results for 2018 and forward.

Gross margin as a percent of revenue in 2018 is expected to benefit from pricing on model-year 2018 and 2019 motorcycles, a more favorable foreign currency exchange environment than 2017 and positive mix. However, the Company expects these positive impacts to be more than offset by rising steel and aluminum costs and increased manufacturing expense.

Manufacturing expense is expected to be higher than in 2017, due in part to increased depreciation from recent capital investments related to the new model-year 2018 Softail motorcycles. However, the larger driver of increased manufacturing costs in 2018, as compared to 2017, will be higher costs of $20 to $25 million due to temporary inefficiencies related to the manufacturing optimization plan.

The Company expects selling, administrative and engineering expense to be higher in 2018 compared to 2017, but level with 2017 when expressed as a percent of revenue. The Company expects selling, administrative and engineering expense to be up behind increased investments in marketing and product development as the Company works to grow ridership globally.

In the first quarter of 2018, the Company expects to ship 60,000 to 65,000 motorcycles to dealers, which is down approximately 8% to 15% percent from 2017. While the Company expects U.S. retail inventory will be tighter than in the first quarter of 2017, it believes the composition of previous and current model-year motorcycles will be considerably improved from last year. The Company expects Motorcycles segment operating income as a percent of revenue in the first quarter of

2018 to be down approximately 5 percentage points due to approximately $57 million of restructuring expense related to the manufacturing optimization plan, lost absorption from lower production and higher selling, administrative and engineering expense as marketing and product development expenses increase.

Additionally, as the Company increases its investment in electric motorcycle technology, products and infrastructure it expects to spend an incremental $25 to $50 million per year over the next several years.

The Company expects operating income from Financial Services to be down in 2018 compared to 2017 due to lower net interest income, partially offset by a lower provision for credit losses.

Capital expenditures in 2018 are expected to be $250 to $270 million, which includes approximately $50 million to support the manufacturing optimization plan. The Company anticipates it will have the ability to fund all capital expenditures in 2018 with cash flows generated by operations.

Finally, the Company expects its full year effective tax rate will be approximately 23.5% to 25%, down approximately 10 percentage points from the rate that would have been expected excluding the impact of the 2017 Tax Act. This guidance excludes the effect of potential future adjustments associated with revisions to the $53.1 million tax expense recorded in the fourth quarter of 2017 related to the 2017 Tax Act, other new tax legislation or audit settlements. Given the complexity and timing of the 2017 Tax Act, the Company has recorded the impact of the 2017 Tax Act in the fourth quarter of 2017 based on reasonable estimates and considers these estimates to be provisional under SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118). Future guidance, interpretations and pronouncements may add clarity to the numerous aspects of the 2017 Tax Act. This future clarification may give rise to additional unanticipated considerations and revisions to the Company’s provisional estimates related to the 2017 Tax Act included in the Company’s 2017 income tax provision. Any such adjustments will be recorded as discrete income tax expenses or benefits in future periods.

Manufacturing Optimization Plan Costs and Savings[1]

The following table summarizes the expected costs and savings associated with the Company's manufacturing optimization plan which is described in more detail in the "Overview" above. The restructuring costs relate to employee termination benefits, accelerated depreciation and other project implementation costs.

(in millions)	2018	2019	2020	Total
Cost related to temporary inefficiencies	$ 20 - $ 25	$15 - $20	n/a	$ 35 - $ 45
Restructuring expenses	$100 - $115	$35 - $40	n/a	$135 - $155
	$120 - $140	$50 - $60		$170 - $200
% cash	70%	75%		70%
	2018	2019	2020	Annual On-going
Annual cash savings	-	$25 - $30	$45 - $50	$65 - $75

The Company expects total capital expenditures of $75 million associated with the manufacturing optimization plan through 2019.

Results of Operations 2017 Compared to 2016
Consolidated Results

(in thousands, except earnings per share)	2017	2016	(Decrease) Increase	% Change
Operating income from Motorcycles & Related Products	$615,958	$773,406	$(157,448)	(20.4)%
Operating income from Financial Services	275,305	275,530	(225)	(0.1)
Operating income	891,263	1,048,936	(157,673)	(15.0)
Investment income	3,580	4,645	(1,065)	(22.9)
Interest expense	31,004	29,670	1,334	4.5
Income before income taxes	863,839	1,023,911	(160,072)	(15.6)
Provision for income taxes	342,080	331,747	10,333	3.1
Net income	$521,759	$692,164	$(170,405)	(24.6)%
Diluted earnings per share	$3.02	$3.83	$(0.81)	(21.1)%

Consolidated operating income was down 15.0% in 2017 driven by a decrease in operating income from the Motorcycles segment which was down $157.4 million compared to 2016. Operating income for the Financial Services segment decreased by $0.2 million during 2017 as compared to 2016. 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.

The effective income tax rate for 2017 was 39.6% compared to 32.4% for 2016. The higher effective income tax rate was primarily due to the impact of the 2017 Tax Act enacted in December 2017. The 2017 Tax Act reduces the federal corporate income tax rate beginning in 2018 from 35% to 21%; however, because the 2017 Tax Act was enacted in 2017, the Company was required to remeasure its net deferred tax assets in the fourth quarter. The impact of remeasuring the deferred tax asset balances combined with other adjustments related to the 2017 Tax Act resulted in a non-cash income tax charge of $53.1 million in the fourth quarter of 2017.

Diluted earnings per share were $3.02 in 2017, down 21.1% compared to 2016. Diluted earnings per share were adversely impacted by the 24.6% decrease in net income, but benefited from lower diluted weighted average shares outstanding. Diluted weighted average shares outstanding decreased from 180.5 million in 2016 to 172.9 million in 2017 driven by the Company's repurchases of common stock. Please refer to "Liquidity and Capital Resources" for additional information concerning the Company's share repurchase activity.

Motorcycle Retail Sales and Registration Data

Harley-Davidson Motorcycle Retail Sales[(a)]

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

	2017	2016	Decrease	% Change
United States	147,972	161,658	(13,686)	(8.5)%
Europe[(b)]	39,773	39,942	(169)	(0.4)
EMEA - Other	5,162	5,896	(734)	(12.4)
Total EMEA	44,935	45,838	(903)	(2.0)
Japan	9,506	10,279	(773)	(7.5)
Asia Pacific - Other	20,842	22,610	(1,768)	(7.8)
Total Asia Pacific	30,348	32,889	(2,541)	(7.7)
Latin America	9,452	9,701	(249)	(2.6)
Canada	10,081	10,203	(122)	(1.2)
Total International Retail Sales	94,816	98,631	(3,815)	(3.9)
Total Worldwide Retail Sales	242,788	260,289	(17,501)	(6.7)%

(a) Data source for retail sales figures shown above is new sales warranty and registration information provided by Harley-Davidson dealers and compiled by the Company. The Company must rely on information that its dealers supply concerning new retail sales, and the Company does not regularly verify the information that its dealers supply. 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.

In the U.S., retail sales of new Harley-Davidson motorcycles were lower than in 2016 driven by ongoing industry weakness and limited availability of model-year 2018 product. The Company believes the industry for new motorcycles continued to be adversely impacted by soft used motorcycle prices, although prices did improve in the fourth quarter of 2017 on a year-over-year basis. In addition, retail sales of used Harley-Davidson motorcycles in the U.S., which the Company believes is an important indicator of overall demand for the Company's motorcycles, were up through November 2017 year-to-date. Combined retail sales of new and used Harley-Davidson motorcycles in the U.S. were down slightly on a year-to-date basis through November 2017, as compared to the same period in 2016. However, the Company's 2017 November year-to-date share of combined new and used motorcycles registered increased for the ninth consecutive year. (Source for used data: IHS Markit Used Registrations for On-Highway and Dual Purpose motorcycles with engines 601 and greater in the U.S. from 2008 through November 2017).

Strong prices for used Harley-Davidson motorcycles in the U.S. are key to the Company's focus on driving value for its riders, dealers and the brand. In the fourth quarter of 2017, positive momentum in used motorcycle pricing continued from the third quarter. Used Harley-Davidson motorcycle wholesale prices at auction remained above year-ago levels, and third-party pricing services continued to publish higher retail values year-over-year for used Harley-Davidson motorcycles. Finally, for the second consecutive quarter, dealership data in the fourth quarter indicated that prices for used Harley-Davidson motorcycles in the broader used motorcycle market were up in aggregate, particularly in the Harley-Davidson dealer network.

The Company's U.S. market share of 601+cc motorcycles for 2017 was 50.7%, down 0.5 percentage points compared to 2016 (Source: Motorcycle Industry Council).

International retail sales in 2017 were below expectations; however, the Company continues to believe that its strong brand, products and expanded distribution will drive growth in international markets over time. In EMEA, retail sales in Europe were down slightly from 2016 while other EMEA markets decreased 12.4% behind softness in emerging markets including Russia, Middle East and South Africa. In Asia Pacific, retail sales were down compared to 2016 on softness in Japan and Australia and lower retail sales in emerging markets compared to 2016. Retail sales in Latin America during 2017 were down on softness in Mexico partially offset by an increase in Brazil. Canada retail sales were down slightly from the prior year.

Despite the difficult year in international markets, there were positive developments. The Company believes its new model-year 2018 Softail motorcycles are being very well received by customers internationally. In the fourth quarter of 2017, the Company experienced strong sell-through rates with limited availability throughout the quarter. The Company believes the strong customer response to the new Softail models, coupled with the fact that international retail sales generally include a greater mix of Softail models than in the U.S., is a good early indicator of the potential impact of these new models.[1] Additionally, in line with the Company's strategy to increase brand access internationally, it continued to expand the international dealer network. The Company added 57 and 40 new international dealers during 2017 and 2016, respectively. The Company plans to add a total of 150 to 200 new international dealerships from 2016 through 2020.[1] The Company remains committed to its long-term international growth strategy and expects to return to international retail sales growth in 2018.[1]

Motorcycle Registration Data - 601+cc[a]

The following table includes industry retail motorcycle registration data:

	2017	2016	Decrease	% Change
United States[b]	288,802	311,710	(22,908)	(7.3)%
Europe[c]	390,619	391,936	(1,317)	(0.3)%

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

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

(c) Europe data includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom. Industry retail motorcycle registration data includes 601+cc models derived from information provided by Association des Constructeurs Europeens de Motocycles (ACEM), an independent agency. This third-party data is subject to revision and update.

Motorcycles and Related Products Segment

Motorcycle Unit Shipments

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

	2017		2016		Unit	Unit
	Units	Mix %	Units	Mix %	Decrease	% Change
United States	144,893	60.0 %	161,839	61.7 %	(16,946)	(10.5)%
International	96,605	40.0 %	100,382	38.3 %	(3,777)	(3.8)
Harley-Davidson motorcycle units	241,498	100.0%	262,221	100.0%	(20,723)	(7.9)%
Touring motorcycle units	99,745	41.3 %	107,410	41.0 %	(7,665)	(7.1)%
Cruiser motorcycle units	87,344	36.2 %	93,422	35.6 %	(6,078)	(6.5)
Sportster® / Street motorcycle units	54,409	22.5 %	61,389	23.4 %	(6,980)	(11.4)
Harley-Davidson motorcycle units	241,498	100.0%	262,221	100.0%	(20,723)	(7.9)%

During 2017, wholesale shipments of Harley-Davidson motorcycles were down 7.9% compared to the prior year, slightly more than the 6.7% decrease in dealer retail sales of new Harley-Davidson motorcycles. International shipments as a percentage of the total were up slightly in 2017 as compared to 2016. Shipments of Cruiser motorcycles increased as a percentage of total shipments in 2017 behind the launch of the new model-year 2018 Softail motorcycles. The Softail motorcycle platform was completely redesigned for model-year 2018 and merged the former Softail and Dyna platforms.

Dealer inventory of new Harley-Davidson motorcycles in the U.S. at the end of 2017 was down approximately 3,000 motorcycles compared to the end of 2016. The Company believes its supply management discipline delivered the intended results and the dealer network is well-positioned for 2018.[1]

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Segment Results

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

	2017	2016	(Decrease) Increase	% Change
Revenue:				
Motorcycles	$3,825,206	$4,122,113	$(296,907)	(7.2)%
Parts & Accessories	804,363	842,637	(38,274)	(4.5)
General Merchandise	262,776	284,583	(21,807)	(7.7)
Other	22,682	22,043	639	2.9
Total revenue	4,915,027	5,271,376	(356,349)	(6.8)
Cost of goods sold	3,261,683	3,419,710	(158,027)	(4.6)
Gross profit	1,653,344	1,851,666	(198,322)	(10.7)
Selling & administrative expense	866,083	907,059	(40,976)	(4.5)
Engineering expense	171,303	171,201	102	0.1
Operating expense	1,037,386	1,078,260	(40,874)	(3.8)
Operating income from Motorcycles	$615,958	$773,406	$(157,448)	(20.4)%

The following table includes the estimated impact of significant factors affecting the comparability of net revenue, cost of goods sold and gross profit from 2016 to 2017 (in millions):

	Net Revenue	Cost of Goods Sold	Gross Profit
2016	$5,272	$3,420	$1,852
Volume	(435)	(264)	(171)
Price, net of related costs	120	59	61
Foreign currency exchange rates and hedging	13	(3)	16
Shipment mix	(55)	(18)	(37)
Raw material prices	—	17	(17)
Manufacturing and other costs	—	51	(51)
Total	(357)	(158)	(199)
2017	$4,915	$3,262	$1,653

The following factors affected the comparability of net revenue, cost of goods sold and gross profit from 2016 to 2017:

- The decrease in volume was due to lower wholesale motorcycle shipments, as well as lower P&A and general merchandise sales. P&A and general merchandise sales were down due in large part to lower motorcycle shipments and lower retail motorcycle sales.
- On average, wholesale prices for motorcycles shipped in 2017 were higher than in the prior year resulting in a favorable impact on revenue. The positive impact on revenue was partially offset by increased costs related to the additional content added to motorcycles shipped in 2017 as compared to last year.
- Revenue was positively impacted by slightly stronger weighted-average foreign currency rates, relative to the U.S. dollar, as compared to last year. In addition, cost was favorably impacted by a higher net gain resulting from the remeasurement of foreign-denominated balance sheet accounts net of losses incurred on hedging activities, as compared to last year.
- Shipment mix changes resulted in a negative impact on gross profit resulting from unfavorable changes in the mix of models within motorcycle families as well as changes in P&A product mix.
- Raw material prices were higher due primarily to increased steel and aluminum costs.
- Manufacturing costs were negatively impacted by lower fixed cost absorption due to lower production volumes, higher model-year startup costs and higher depreciation.

Operating expense which consists of selling, administrative and engineering expenses, was down compared to 2016. The decrease in spending was due in large part to aggressive cost management, lower employee costs following a

2016 reorganization and the non-recurrence of related employee termination costs recorded in the fourth quarter of 2016.

During the fourth quarter of 2017, the Company recorded a $29.4 million charge associated with the previously disclosed NHTSA investigation opened in 2016 related to certain motorcycles equipped with anti-lock breaking systems. In January 2018, the Company announced a voluntary recall of model-year 2008-2011 Touring and V-ROD® motorcycles which the Company believes addresses the NHTSA investigation. Despite this charge, overall warranty and recall costs in 2017 were favorable compared to 2016 driven by lower year-over-year warranty expense.

Financial Services Segment

Segment Results

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

	2017	2016	Increase (Decrease)	% Change
Interest income	$633,113	$628,432	$ 4,681	0.7 %
Other income	97,151	85,788	11,363	13.2
Securitization and servicing income	1,933	10,862	(8,929)	(82.2)
Financial services revenue	732,197	725,082	7,115	1.0
Interest expense	180,193	173,756	6,437	3.7
Provision for credit losses	132,444	136,617	(4,173)	(3.1)
Operating expenses	144,255	139,179	5,076	3.6
Financial Services expense	456,892	449,552	7,340	1.6
Operating income from Financial Services	$275,305	$275,530	$ (225)	(0.1)%

Interest income was favorable in 2017 due to higher average retail receivables partially offset by lower average wholesale receivables and lower average yields across the portfolios. Other income was favorable due to increased licensing revenue and investment income. Securitization and servicing income was lower primarily due to a $9.3 million gain on the sale of finance receivables recognized as a result of the second quarter 2016 off-balance sheet asset-backed securitization. There was no comparable transaction in the current year.

Interest expense increased due to a higher cost of funds, partially offset by lower average outstanding debt.

The provision for credit losses decreased $4.2 million compared to 2016. The retail motorcycle provision decreased $6.5 million during 2017 as a result of a smaller increase in the retail reserve rate and lower receivables partially offset by higher retail credit losses. Credit losses were higher as a result of unfavorable performance across the retail motorcycle portfolio. The wholesale provision increased $1.0 million due to a smaller decrease in the wholesale reserve rate compared to 2016.

Annual losses on the Company's retail motorcycle loans were 1.90% during 2017 compared to 1.83% in 2016. The 30-day delinquency rate for retail motorcycle loans at December 31, 2017 decreased to 4.21% from 4.25% at December 31, 2016.

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

	2017	2016
Balance, beginning of period	$173,343	$147,178
Provision for credit losses	132,444	136,617
Charge-offs, net of recoveries	(113,316)	(107,161)
Other [(a)]	—	(3,291)
Balance, end of period	$192,471	$173,343

(a) Related to the sale of finance receivables during the second quarter of 2016 with a principal balance of $301.8 million through an off-balance sheet asset-backed securitization transaction (see Note 10 of the Notes to Consolidated Financial Statements for additional information).

At December 31, 2017, the allowance for credit losses on finance receivables was $186.3 million for retail receivables and $6.2 million for wholesale receivables. At December 31, 2016, the allowance for credit losses on finance receivables was $166.8 million for retail receivables and $6.5 million for wholesale receivables.

The Company's periodic evaluation of the adequacy of the allowance for credit losses on finance receivables is generally based on the Company's past loan loss experience, known and inherent risks in the portfolio, current economic conditions and the estimated value of any underlying collateral. Please refer to Note 5 of the Notes to Consolidated Financial Statements for further discussion regarding the Company’s allowance for credit losses on finance receivables.

Results of Operations 2016 Compared to 2015

Consolidated Results

(in thousands, except earnings per share)	2016	2015	(Decrease) Increase	% Change
Operating income from Motorcycles & Related Products	$773,406	$875,490	$(102,084)	(11.7)%
Operating income from Financial Services	275,530	280,205	(4,675)	(1.7)
Operating income	1,048,936	1,155,695	(106,759)	(9.2)
Investment income	4,645	6,585	(1,940)	(29.5)
Interest expense	29,670	12,117	17,553	144.9
Income before income taxes	1,023,911	1,150,163	(126,252)	(11.0)
Provision for income taxes	331,747	397,956	(66,209)	(16.6)
Net income	$692,164	$752,207	$(60,043)	(8.0)%
Diluted earnings per share	$3.83	$3.69	$0.14	3.8 %

Consolidated operating income was down 9.2% in 2016 driven by a decrease in operating income from the Motorcycles segment which decreased by $102.1 million compared to 2015. Operating income for the Financial Services segment decreased by $4.7 million during 2016 as compared to 2015. 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.

Corporate interest expense was higher in 2016 compared to 2015 due to the issuance of corporate debt in the third quarter of 2015. The Company issued $750.0 million of senior unsecured notes in the third quarter of 2015 and utilized the proceeds to fund the repurchase of common stock in the third and fourth quarters of 2015.

The effective income tax rate for 2016 was 32.4% compared to 34.6% for 2015. The lower effective income tax rate was primarily driven by the successful closure of various tax audits in 2016.

Diluted earnings per share were $3.83 in 2016, up 3.8% compared to 2015. Diluted earnings per share were adversely impacted by the 8.0% decrease in net income, but benefited from lower diluted weighted average shares outstanding. Diluted weighted average shares outstanding decreased from 203.7 million in 2015 to 180.5 million in 2016 driven by the Company's repurchases of common stock. Please refer to "Liquidity and Capital Resources" for additional information concerning the Company's share repurchase activity.

Motorcycles Retail Sales and Registration Data

Harley-Davidson Motorcycle Retail Sales[(a)]

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

	2016	2015	(Decrease) Increase	% Change
United States	161,658	168,240	(6,582)	(3.9)%
Europe[(b)]	39,942	36,894	3,048	8.3
EMEA - Other	5,896	6,393	(497)	(7.8)
Total EMEA	45,838	43,287	2,551	5.9
Japan	10,279	9,700	579	6.0
Asia Pacific - Other	22,610	22,558	52	0.2
Total Asia Pacific	32,889	32,258	631	2.0
Latin America	9,701	11,173	(1,472)	(13.2)
Canada	10,203	9,669	534	5.5
Total International Retail Sales	98,631	96,387	2,244	2.3
Total Worldwide Retail Sales	260,289	264,627	(4,338)	(1.6)%

(a) Data source for retail sales figures shown above is new sales warranty and registration information provided by Harley-Davidson dealers and compiled by the Company. The Company must rely on information that its dealers supply concerning new retail sales and the Company does not regularly verify the information that its dealers supply. 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.

Worldwide independent dealer retail sales of Harley-Davidson motorcycles decreased 1.6% during 2016 compared to 2015. Retail sales of Harley-Davidson motorcycles decreased 3.9% in the United States and increased 2.3% internationally in 2016. The Company believes its spending to drive demand mitigated the effects of the intense global competitive environment, including the expanded price gaps to the competition in the U.S. and the impact of new product introductions. For example, the positive response to its Milwaukee-Eight™ engine drove significantly improved touring motorcycle sales and U.S. Harley-Davidson market share gains in the fourth quarter of 2016.

The Company believes 2016 U.S. retail sales of its motorcycles were negatively impacted by intense competitive activity behind discounting and new competitor products. The Company believes the U.S. industry was also adversely affected by weakness in oil-dependent areas and soft used motorcycle values, compounded by economic uncertainty. The Company also believes 2016 retail sales in the U.S. were negatively impacted by lower wholesale shipments of Harley-Davidson motorcycles in the fourth quarter. The Company's shipments of its model-year 2017 motorcycles were limited during the fourth quarter as U.S. dealers focused on selling model-year 2016 motorcycles.

The Company's U.S. market share of 601+cc motorcycles for 2016 was 51.2%, up 1.0 percentage point compared to 2015 (Source: Motorcycle Industry Council). The Company believes its U.S. market share growth was driven by its demand driving spending focused on growing product awareness and ridership and the favorable response to its model-year 2016 S-model cruisers and its new model-year 2017 motorcycles featuring the Milwaukee-Eight™ engine.

In EMEA, retail sales of Harley-Davidson motorcycles for 2016 increased 5.9% compared to the prior year due in part to a positive reception to its model-year 2016 S-model cruisers and its new model-year 2017 motorcycles featuring the Milwaukee-Eight™ engine.

In Asia Pacific, retail sales of Harley-Davidson motorcycles for 2016 increased 2.0% compared to the prior year. Overall growth in Asia Pacific was partially offset by lower sales in India and Indonesia. In India, the Company believes retail sales of Harley-Davidson motorcycles were negatively impacted by India's currency demonetization in the fourth quarter of 2016. In

Indonesia, retail sales of Harley-Davidson motorcycles were lower as the Company is reestablishing its dealer network in that market.

Retail sales of Harley-Davidson motorcycles in Latin America for 2016 decreased 13.2% compared to the prior year. The Company believes retail sales in Brazil continued to be negatively impacted by a price increase on its motorcycles initiated in the first quarter of 2016 and by a slowing economy, consumer uncertainty and aggressive price competition.

Retail sales of Harley-Davidson motorcycles in Canada increased 5.5% in 2016 compared to 2015. The Company believes the market responded favorably to the change to a direct distribution model implemented in July 2015 and pricing adjustments that were implemented with the model-year 2016 motorcycles.

International retail sales as a percent of total retail sales in 2016 were 37.9% compared to 36.4% in 2015.

Motorcycle Registration Data - 601+cc[(a)]

The following table includes industry retail motorcycle registration data:

	2016	2015	(Decrease) Increase	% Change
United States[(b)]	311,710	328,818	(17,108)	(5.2)%
Europe[(c)]	391,936	351,773	40,163	11.4 %

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

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

(c) Europe data includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom. Industry retail motorcycle registration data includes 601+cc models derived from information provided by Association des Constructeurs Europeens de Motocycles (ACEM), an independent agency. This third-party data is subject to revision and update.

Motorcycles and Related Products Segment

Motorcycle Unit Shipments

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

	2016		2015		Unit	Unit
	Units	Mix %	Units	Mix %	(Decrease) Increase	% Change
United States	161,839	61.7 %	170,688	64.1 %	(8,849)	(5.2)%
International	100,382	38.3 %	95,694	35.9 %	4,688	4.9
Harley-Davidson motorcycle units	262,221	100.0%	266,382	100.0%	(4,161)	(1.6)%
Touring motorcycle units	107,410	41.0 %	114,768	43.1 %	(7,358)	(6.4)%
Cruiser motorcycle units	93,422	35.6 %	89,207	33.5 %	4,215	4.7
Sportster® / Street motorcycle units	61,389	23.4 %	62,407	23.4 %	(1,018)	(1.6)
Harley-Davidson motorcycle units	262,221	100.0%	266,382	100.0%	(4,161)	(1.6)%

During 2016, wholesale shipments of Harley-Davidson motorcycles were down 1.6% compared to the prior year in line with the 1.6% decrease in dealer retail sales of new Harley-Davidson motorcycles. International shipments as a percentage of the total were up in 2016 as compared to 2015. In addition, shipments of Cruiser motorcycles as a percentage of total shipments increased in 2016 compared to the prior year driven by the strong acceptance of the model-year 2016 S-model motorcycles. Touring motorcycle shipments were down in 2016; however, in the fourth quarter of 2016, the shipment mix of Touring motorcycles increased reflecting the high demand for the new 2017 Touring motorcycles featuring the Milwaukee-Eight™ engine. Dealer retail inventory of new Harley-Davidson motorcycles in the U.S. at the end of 2016 was approximately flat compared to the end of 2015.

Segment Results

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

	2016	2015	(Decrease) Increase	% Change
Revenue:				
Motorcycles	$4,122,113	$4,127,739	$(5,626)	(0.1)%
Parts & Accessories	842,637	862,645	(20,008)	(2.3)
General Merchandise	284,583	292,310	(7,727)	(2.6)
Other	22,043	26,050	(4,007)	(15.4)
Total revenue	5,271,376	5,308,744	(37,368)	(0.7)
Cost of goods sold	3,419,710	3,356,284	63,426	1.9
Gross profit	1,851,666	1,952,460	(100,794)	(5.2)
Selling & administrative expense	907,059	916,669	(9,610)	(1.0)
Engineering expense	171,201	160,301	10,900	6.8
Operating expense	1,078,260	1,076,970	1,290	0.1
Operating income from Motorcycles	$773,406	$875,490	$(102,084)	(11.7)%

The following table includes the estimated impact of the significant factors affecting the comparability of net revenue, cost of goods sold and gross profit from 2015 to 2016 (in millions):

	Net Revenue	Cost of Goods Sold	Gross Profit
2015	$5,309	$3,357	$1,952
Volume	(109)	(62)	(47)
Price, net of related costs	93	39	54
Foreign currency exchange rates and hedging	(3)	45	(48)
Shipment mix	(18)	(5)	(13)
Raw material prices	—	(18)	18
Manufacturing and other costs	—	64	(64)
Total	(37)	63	(100)
2016	$5,272	$3,420	$1,852

The following factors affected the comparability of net revenue, cost of goods sold and gross profit from 2015 to 2016:

- Volume decreases were driven by lower wholesale motorcycle shipments, as well as decreases in sales of parts and accessories and general merchandise.
- On average, wholesale prices on the Company’s 2016 and 2017 model-year motorcycles are higher than the prior model-years resulting in the favorable impact on revenue during the period. The impact of revenue favorability resulting from model-year price increases on gross profit was partially offset by increases in cost related to the additional content added to the 2016 and 2017 model-year motorcycles.
- Gross profit was negatively impacted by foreign currency due to lower hedge gains, given the significant gains experienced in the prior year, and lower revenues behind a slightly stronger U.S. dollar relative to its foreign currency exposures.
- Shipment mix changes negatively impacted gross profit primarily due to changes in motorcycle family mix, driven by strong customer demand for the Company's model-year 2016 S-model cruiser motorcycles, and model mix within its motorcycle families.
- Manufacturing costs for 2016 were negatively impacted by higher costs related to retooling and start-up costs at its Pilgrim Road manufacturing facility associated with the Milwaukee-Eight™ engine, the implementation of the Company's ERP system at the Company's Kansas City manufacturing facility and a higher fixed cost per unit due to lower volumes, partially offset by favorable costs related to parts and accessories.

Operating expense, which consists of selling, administrative and engineering expenses, was largely flat in 2016 compared to 2015. In 2016, the Company significantly increased spending on marketing and product development to drive demand.

However, these expense increases were mostly offset by decreases related to other items, including lower employee costs on fewer employees and lower reorganization costs. Reorganization costs, included in selling and administrative expenses, in the fourth quarters of 2016 and 2015, were $18.2 million and $23.3 million, respectively.

Financial Services Segment

Segment Results

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

	2016	2015	Increase (Decrease)	% Change
Interest income	$628,432	$605,770	$22,662	3.7 %
Other income	85,788	80,888	4,900	6.1
Securitization and servicing income	10,862	—	10,862	—
Financial services revenue	725,082	686,658	38,424	5.6
Interest expense	173,756	161,983	11,773	7.3
Provision for credit losses	136,617	101,345	35,272	34.8
Operating expense	139,179	143,125	(3,946)	(2.8)
Financial Services expense	449,552	406,453	43,099	10.6
Operating income from Financial Services	$275,530	$280,205	$(4,675)	(1.7)%

Interest income was favorable in 2016 due to higher average receivables in the retail and wholesale portfolios. Other income was favorable primarily due to increased revenue from credit card licensing, insurance and protection products and international licensing revenue. Securitization and servicing income was higher primarily due to a $9.3 million gain on the sale of finance receivables with a principal balance of $301.8 million through an off-balance sheet asset-backed securitization during the second quarter of 2016. There was no comparable transaction in the prior year.

Interest expense increased due to a higher cost of funds and higher average debt outstanding, partially offset by a lower loss on the extinguishment of a portion of the Company's 6.80% medium-term notes than in 2015.

The provision for credit losses increased $35.3 million compared to 2015. The retail motorcycle provision increased $39.8 million during 2016 as a result of higher credit losses and increases in the retail reserve rate. Credit losses were higher as a result of deteriorating performance across the portfolio, lower used motorcycle values at auction, and continued unfavorable performance in oil-dependent areas.

Annual losses on the Company's retail motorcycle loans were 1.83% during 2016 compared to 1.42% in 2015. The 30-day delinquency rate for retail motorcycle loans at December 31, 2016 increased to 4.25% from 3.78% at December 31, 2015.

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

	2016	2015
Balance, beginning of period	$147,178	$127,364
Provision for credit losses	136,617	101,345
Charge-offs, net of recoveries	(107,161)	(81,531)
Other [(a)]	(3,291)	—
Balance, end of period	$173,343	$147,178

(a) Related to the sale of finance receivables during the second quarter of 2016 with a principal balance of $301.8 million through an off-balance sheet asset-backed securitization transaction (see Note 10 of the Notes to Consolidated Financial Statements for additional information).

At December 31, 2016, the allowance for credit losses on finance receivables was $166.8 million for retail receivables and $6.5 million for wholesale receivables. At December 31, 2015, the allowance for credit losses on finance receivables was $139.3 million for retail receivables and $7.9 million for wholesale receivables.

The Company's periodic evaluation of the adequacy of the allowance for credit losses on finance receivables is generally based on the Company's past loan loss experience, known and inherent risks in the portfolio, current economic conditions and the estimated value of any underlying collateral. Please refer to Note 5 of the Notes to Consolidated Financial Statements for further discussion regarding the Company’s allowance for credit losses on finance receivables.

Other Matters

New Accounting Standards Not Yet Adopted

Refer to Note 1. Summary of Significant Accounting Policies of the Notes to the Financial Statements for a discussion of new accounting standards that will become effective for the Company in 2018, 2019 and 2020.

Critical Accounting Estimates

The Company’s financial statements are based on the selection and application of significant accounting policies, which require management to make significant estimates and assumptions. Management believes that the following are some of the more critical judgment areas in the application of accounting policies that currently affect the Company’s financial condition and results of operations. Management has discussed the development and selection of these critical accounting estimates with the Audit and Finance Committee of the Board of Directors.

Allowance for Credit Losses on Finance Receivables – The allowance for uncollectible accounts is maintained at a level management believes is adequate to cover the losses of principal in the existing finance receivables portfolio. The retail portfolio consists of a large number of small balance, homogeneous finance receivables. The Company performs a periodic and systematic collective evaluation of the adequacy of the retail allowance. The Company utilizes loss forecast models which consider a variety of factors including, but not limited to, historical loss trends, origination or vintage analysis, known and inherent risks in the portfolio, the value of the underlying collateral, recovery rates and current economic conditions including items such as unemployment rates.

The wholesale portfolio is primarily composed of large balance, non-homogeneous finance receivables. The Company's wholesale allowance evaluation is first based on a loan-by-loan review. A specific allowance 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 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 individually evaluated for impairment are segregated, based on similar risk characteristics, according to the Company’s internal risk rating system and collectively evaluated for impairment. The related allowance is based on factors such as the Company’s past loan loss experience, the specific borrower’s financial performance as well as ability to repay, current economic conditions as well as the value of the underlying collateral.

Product Warranty and Recalls – Estimated warranty costs are accrued at the time of sale and are based on a combination of historical claim cost data and other known factors that may affect future warranty claims. The estimated costs associated with voluntary recalls are accrued in the period that management approves and commits to the recall. The accrued cost of a recall is based on an estimate of the cost to repair each affected motorcycle and the number of motorcycles expected to be repaired based on historical data concerning the percentage of affected customers that take advantage of recall offers. In the case of both warranty and recall costs, as actual experience becomes available it is used to update the accruals.

The factors affecting actual warranty and recall costs can be volatile. As a result, actual warranty claims experience and recall costs may differ from estimates, which could lead to material changes in the Company’s accrued warranty and recall costs. The Company’s warranty and recall liabilities are discussed further in Note 1 of the Notes to Consolidated Financial Statements.

Pensions and Other Postretirement Healthcare Benefits – The Company has a defined benefit pension plan and several postretirement healthcare benefit plans, which cover 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.

U.S. GAAP requires that companies recognize in their statement of financial position a liability for defined benefit pension and postretirement plans that are underfunded or an asset for defined benefit pension and postretirement benefit plans that are overfunded.

Pension, SERPA and postretirement healthcare obligations and costs are calculated through actuarial valuations. The valuation of benefit obligations and net periodic benefit costs relies on key assumptions including discount rates, mortality, long-term expected return on plan assets, future compensation and healthcare cost trend rates.
The Company determines its discount rate assumptions by referencing high-quality long-term bond rates that are matched to the duration of its own benefit obligations. Based on this analysis, the Company decreased the weighted-average discount rate for pension and SERPA obligations from 4.30% as of December 31, 2016 to 3.71% as of December 31, 2017. The Company decreased the weighted-average discount rate for postretirement healthcare obligations from 4.03% to 3.52%. The Company determines its healthcare trend assumption for the postretirement healthcare obligation by considering factors such as estimated healthcare inflation, the utilization of healthcare benefits and changes in the health of plan participants. Based on the Company’s assessment of this data as of December 31, 2017, the Company set its healthcare cost trend rate at 7.00% as of December 31, 2017. The Company expects the healthcare cost trend rate to reach its ultimate rate of 5.00% by 2026.(1) These assumption changes were reflected immediately in the benefit obligation and will be amortized into net periodic benefit costs over future periods.
Plan assets are measured at fair value and are subject to market volatility. In estimating the expected return on plan assets, the Company considers the historical returns on plan assets, adjusted to reflect the current view of the long-term investment market.
Changes in the funded status of defined benefit pension and postretirement benefit plans resulting from the difference between assumptions and actual results are initially recognized in other comprehensive income and amortized to expense over future periods. The following information is provided to illustrate the sensitivity of pension and postretirement healthcare obligations and costs to changes in these major assumptions (in thousands):

	Amounts based on current assumptions	Impact of a 1% decrease in the discount rate	Impact of a 1% decrease in the expected return on assets	Impact of a 1% increase in the healthcare cost trend rate
2017 Net periodic benefit costs				
Pension and SERPA	$ 20,286	$ 27,460	$ 19,507	n/a
Postretirement healthcare	$ 9,615	$ 1,162	$ 1,741	$ 1,687
2017 Benefit obligations				
Pension and SERPA	$ 2,201,021	$ 358,953	n/a	n/a
Postretirement healthcare	$ 338,488	$ 31,824	n/a	$ 11,984

This information should not be viewed as predictive of future amounts. The analysis of the impact of a 1% change in the table above does not take into account the cost related to special termination benefits. The calculation of pension, SERPA and postretirement healthcare obligations and costs is based on many factors in addition to those discussed here. This information should be considered in combination with the information provided in Note 12 of the Notes to Consolidated Financial Statements.
Income Taxes – The Company accounts for income taxes in accordance with ASC Topic 740, Income Taxes (Topic 740). Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and other loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.
The Company is subject to income taxes in the U.S. and numerous foreign jurisdictions. These tax laws and regulations are complex and significant judgment is required in determining the Company’s worldwide provision for income taxes and recording the related deferred tax assets and liabilities. In December 2017, the 2017 Tax Act was enacted into law introducing significant changes to the U.S. tax code including a reduction in the U.S. corporate income tax rate from 35% to 21%. In accordance with Topic 740, the Company's 2017 financial statements reflect the impacts of the 2017 Tax Act based on reasonable estimates, and the Company considers these estimates to be provisional under SAB 118. Future guidance, interpretations and pronouncements may add clarity to the numerous

aspects of the 2017 Tax Act that may impact the Company. Future clarifications may give rise to additional unanticipated impacts on the Company's tax liabilities or effective tax rate and revisions to the Company’s provisional estimates related to the 2017 Tax Act included in the Company’s 2017 income tax provision. Any such adjustments will be recorded as discrete income tax expenses or benefits in future periods. The provisional amount recorded in the 2017 provision for income taxes related to the enactment of the 2017 Tax Act was $53.1 million.

In the ordinary course of the Company's business, there are transactions and calculations where the ultimate tax determination is uncertain. Accruals for unrecognized tax benefits are provided for in accordance with the requirements of Topic 740. An unrecognized tax benefit represents the difference between the recognition of benefits related to items for income tax reporting purposes and financial reporting purposes. The unrecognized tax benefit is included within other long-term liabilities in the Consolidated Balance Sheets. The Company has a liability for interest and penalties on exposure items, if applicable, which is recorded as a component of the overall income tax provision. The Company is regularly audited by tax authorities as a normal course of business. Although the outcome of tax audits is always uncertain, the Company believes that it has appropriate support for the positions taken on its tax returns and that its annual tax provision includes amounts sufficient to pay any assessments. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year.

Contractual Obligations

A summary of the Company's expected payments for significant contractual obligations as of December 31, 2017 is as follows (in thousands):

	2018	2019-2020	2021-2022	Thereafter	Total
Principal payments on debt	$2,405,569	$2,693,007	$1,159,715	$750,000	$7,008,291
Interest payments on debt	160,265	182,093	79,803	366,375	788,536
Operating lease payments	15,074	23,826	14,715	8,379	61,994
	$2,580,908	$2,898,926	$1,254,233	$1,124,754	$7,858,821

Interest for floating rate instruments assumes December 31, 2017 rates remain constant.

As of December 31, 2017, the Company generally had no significant purchase obligations, other than those created in the ordinary course of business. Purchase orders issued for inventory and supplies used in product manufacturing generally do not become firm commitments until 90 days prior to expected delivery and can be modified to a certain extent until 30 days prior to expected delivery.

The Company has long-term obligations related to its pension, SERPA and postretirement healthcare plans at December 31, 2017. The Company's retirement plan obligations and expected future contributions and payments related to these plans are provided in Note 12 of the Notes to Consolidated Financial Statements.

As described in Note 11 of the Notes to Consolidated Financial Statements, the Company has unrecognized tax benefits of $72.2 million and accrued interest and penalties of $30.9 million as of December 31, 2017. However, the Company cannot make a reasonably reliable estimate of the period of cash settlement for either the liability for unrecognized tax benefits or accrued interest and penalties.

Commitments and Contingencies

The Company is subject to lawsuits and other claims related to environmental, product and other matters. In determining costs to accrue 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. Any amounts accrued for these matters are monitored on an ongoing basis and are updated based on new developments or new information as it becomes available for 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 information exchanges and discussions with the EPA. In August 2016, the Company entered into a consent decree with the EPA regarding these issues, and the consent decree was subsequently revised in July 2017 (the Settlement). In the Settlement, the Company agreed to, among other things, pay a fine, and not sell tuning products unless they are approved by the EPA or California Air Resources Board. In December 2017, the EPA filed the Settlement with the U.S. District Court for the District of Columbia for the purpose of obtaining court approval of the Settlement. Three amicus briefs opposing portions of the Settlement were filed with the court by the deadline of January 31, 2018. The Company anticipates the court will make a decision whether or not to finalize the Settlement in the following months. The Company has an accrual associated with this matter which is included in accrued liabilities in the Consolidated Balance Sheets, and as a result, if it is finalized, the Settlement would not have a material adverse effect on the Company's financial condition or results of operations. The Settlement is not final until it is approved by the court, and if it is not approved by the court, the Company cannot reasonably estimate the impact of any remedies the EPA might seek beyond the Company's current reserve for this matter.

York Environmental Matters:

The Company is involved with government agencies and groups of potentially responsible parties related to 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 a 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 costs associated with environmental investigation and remediation activities at the York facility (Response Costs). The trust administers the payment of the Response Costs incurred at the York facility as covered by the Agreement.

The Company has an accrual for its estimate of its share of the future Response Costs at the York facility which is included in other long-term liabilities in the Consolidated Balance Sheets. While much of the work on the RI/FS is complete, it is still under agency review 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 that is finally approved 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.

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.(1)

National Highway Traffic Safety Administration Matters:

In July 2016, the National Highway Traffic Safety Administration (NHTSA) began an investigation into certain of the Company's motorcycles equipped with anti-lock braking systems (ABS). NHTSA’s investigation is in response to rider complaints related to brake failures and applies to model-year 2008-2013 Touring and model-year 2008-2017

V-ROD® motorcycles. NHTSA noted that Harley-Davidson has a two-year brake fluid replacement interval that owners either are unaware of or ignore. During 2017, the Company estimated and recorded a $29.4 million accrual associated with the NHTSA matter which is included in accrued liabilities. On January 30, 2018, the Company announced a voluntary recall, which offers a free brake fluid flush for model-year 2008-2011 Touring and V-ROD® motorcycles. The Company believes the accrued liability it has recorded will adequately cover the cost of the recall.

Off-Balance Sheet Arrangements

The Company participates in asset-backed financing both through asset-backed securitization transactions and through asset-backed commercial paper conduit facilities. In the Company's asset-backed financing programs, the Company transfers retail motorcycle finance receivables to special purpose entities (SPE), which are considered Variable Interest Entities (VIE) under U.S. GAAP. Each SPE then converts those assets into cash, through the issuance of debt. The Company retains servicing rights for all of the retail motorcycle finance receivables transferred to SPEs as part of an asset-backed financing.

The SPEs are separate legal entities that assume the risks and rewards of ownership of the retail motorcycle finance receivables they hold. The assets of the VIEs are not available to pay other obligations or claims of the Company’s creditors. The Company’s economic exposure related to the VIEs is generally limited to restricted cash reserve accounts, retained interests and ordinary representations and warranties and related covenants. The VIEs have a limited life and generally terminate upon final distribution of amounts owed to investors.

The accounting treatment for asset-backed financings depends on the terms of the related transaction and the Company’s continuing involvement with the VIE. Most of the Company’s asset-backed financings do not meet the criteria to be treated as a sale for accounting purposes because, in addition to retaining servicing rights, the Company retains a financial interest in the VIE in the form of a debt security. These transactions are treated as secured borrowings. As secured borrowings, the retail motorcycle finance receivables remain on the balance sheet with a corresponding obligation reflected as debt.

During the second quarter of 2016, the Company sold finance receivables with a principal balance of $301.8 million into a securitization VIE. The transaction met the criteria to be treated as a sale for accounting purposes and resulted in an off-balance sheet arrangement because the Company did not retain any financial interest in the VIE beyond servicing rights and ordinary representations and warranties and related covenants. Upon sale, the retail motorcycle finance receivables were removed from the Company’s balance sheet and a gain of $9.3 million was recognized in Financial Services Revenue. For more information see Note 10 of the Notes to Consolidated Financial Statements.

Liquidity and Capital Resources as of December 31, 2017

Over the long-term, the Company expects that its business model will continue to generate cash that will allow it to invest in the business, fund future growth opportunities and return value to shareholders.[1] The Company believes the Motorcycles operations will continue to be primarily funded through cash flows generated by operations.[1] The Company’s Financial Services operations will continue to be funded with unsecured debt, unsecured commercial paper, asset-backed commercial paper conduit facilities, committed unsecured bank facilities and asset-backed securitizations.

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

	December 31, 2017
Cash and cash equivalents	$ 687,521
Credit facilities [a]	291,518
Asset-backed U.S. commercial paper conduit facilities [a]	620,543
Asset-backed Canadian commercial paper conduit facility [a]	491
Total availability under credit and conduit facilities	912,552
Total	$ 1,600,073

(a) Includes facilities expiring in the next twelve months some of which the Company expects to renew prior to expiration.[1]

The Company recognizes that it must continue to adjust its business to changes in the lending environment. The Company intends to continue with a diversified funding profile through a combination of short-term and long-term funding vehicles and to pursue a variety of sources to obtain cost-effective funding.[(1)] The Financial Services operations could be negatively affected by higher costs of funding and the increased difficulty of raising, or potential inability to raise, funding in the short-term and long-term capital markets.[(1)] These negative consequences could in turn adversely affect the Company's business and results of operations in various ways, including through higher costs of capital, reduced funds available through its Financial Services operations to provide loans to independent dealers and their retail customers, and dilution to existing shareholders through the use of alternative sources of capital.

Cash Flow Activity

The following table summarizes the cash flow activity of continuing operations for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Net cash provided by operating activities	$1,005,061	$1,174,339	$1,100,118
Net cash used by investing activities	(562,468)	(392,731)	(915,848)
Net cash used by financing activities	(541,803)	(734,390)	(354,064)
Effect of exchange rate changes on cash and cash equivalents	26,747	(9,443)	(14,677)
Net (decrease) increase in cash and cash equivalents	$(72,463)	$37,775	$(184,471)

Operating Activities

The decrease in operating cash flow in 2017 compared to 2016 was due primarily to lower net income, unfavorable changes in working capital and higher retirement plan contributions. These negative impacts were partially offset by lower net cash outflows for wholesale lending.

The increase in operating cash flow in 2016 compared to 2015 was due primarily to lower net cash outflows from wholesale lending and favorable changes in working capital driven by a reduction in inventory during 2016. These favorable impacts were partially offset by the impact of a retirement plan contribution and lower net income.

During 2017, the Company voluntarily contributed $25.0 million to its qualified pension plan and $15.0 million to its postretirement healthcare plans. This compares to a qualified pension plan contribution of $25.0 million in 2016 and no contributions in 2015. The Company expects that no qualified pension contributions will be required in 2018.(1) The Company also expects that 2018 postretirement healthcare plan benefits and benefits due under the SERPA will be paid by the Company or funded with plan assets.(1) The Company's expected future contributions and benefit payments related to these plans are provided in Note 12 of the Notes to Consolidated Financial Statements.(1)

Investing Activities

The Company's investing activities consist primarily of capital expenditures, net changes in retail finance receivables and short-term investment activity. Capital expenditures were $206.3 million, $256.3 million and $260.0 million during 2017, 2016 and 2015, respectively.

Net cash outflows for finance receivables in 2017, which consisted primarily of retail finance receivables, were $125.8 million lower than 2016 primarily as a result of a decrease in retail motorcycle loan originations during 2017. Similarly, 2016 net cash outflows for finance receivables were $125.5 million lower than 2015 primarily due to lower retail motorcycle loan originations during 2016.

Cash inflows from maturities of marketable securities were $6.9 million, $40.0 million and $11.5 million in 2017, 2016 and 2015, respectively.

During 2016, the Company completed a sale of finance receivables through an off-balance sheet asset-backed securitization. The proceeds from the sale of finance receivables, which positively impacted cash flow, were $312.6 million. There were no comparable transactions in 2017 or 2015.

During 2015, the Company purchased certain assets and liabilities from Fred Deeley Imports, Ltd. resulting in a $59.9 million cash outflow. There were no business acquisitions in 2017 or 2016.

Financing Activities

The Company's financing activities consist primarily of dividend payments, share repurchases and debt activity.

The Company paid dividends of $1.46 per share totaling $251.9 million during 2017, $1.40 per share totaling $252.3 million during 2016 and $1.24 per share totaling $249.3 million during 2015.

Cash outflows from share repurchases were $465.3 million, $465.3 million and $1,537.0 million for 2017, 2016 and 2015, respectively. Share repurchases during 2017, 2016 and 2015 included 8.8 million, 9.9 million and 28.0 million shares of common stock, respectively, related to discretionary share repurchases and shares of common stock that employees surrendered to satisfy withholding taxes in connection with the vesting of restricted stock awards. In February 2016, the Company's Board of Directors separately authorized the Company to buy back up to an additional 20.0 million shares of its common stock with no dollar limit or expiration date of which 10.6 million shares remained available at December 31, 2017. In February 2018, the Company's Board of Directors authorized the Company to repurchase up to 15.0 million additional shares of its common stock with no dollar limit or expiration date.

Financing cash flows related to debt activity resulted in net cash inflows / (outflows) of $155.5 million , ($78.3) million and $1.40 billion for 2017, 2016 and 2015 respectively. The Company’s total outstanding debt consisted of the following as of December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Unsecured commercial paper	$1,273,482	$1,055,708	$1,201,380
Asset-backed Canadian commercial paper conduit facility	174,779	149,338	153,839
Asset-backed U.S. commercial paper conduit facilities	279,457	—	—
Medium-term notes, net	4,165,706	4,064,940	3,316,949
Senior unsecured notes, net	741,961	741,306	740,653
Asset-backed securitization debt, net	352,624	796,275	1,459,377
Total debt	$6,988,009	$6,807,567	$6,872,198

To access the debt capital markets, the Company relies on credit rating agencies to assign short-term and long-term credit ratings. Generally, lower credit ratings result in higher borrowing costs and reduced access to debt capital markets. A credit rating agency may change or withdraw the Company’s ratings based on its assessment of the Company’s current and future ability to meet interest and principal repayment obligations. The Company’s short-term debt ratings affect its ability to issue unsecured commercial paper. The Company’s short- and long-term debt ratings as of January 2018 were as follows:

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

Credit Facilities – In May 2017, the Company entered into a $100.0 million 364-day credit facility which matures in April 2018. The Company also has a $675.0 million five-year credit facility which matures in April 2019 and a $765.0 million five-year credit facility which matures in April 2021. The new 364-day credit facility and the five-year credit facilities (together, the Global Credit Facilities) bear interest at variable interest rates, which may be adjusted upward or downward depending on certain criteria, such as credit ratings. The Global Credit Facilities also require the Company to pay a fee based on the average daily unused portion of the aggregate commitments under the Global Credit Facilities. The Global Credit Facilities are committed facilities primarily used to support the Company's unsecured commercial paper program. Additionally, during the second quarter of 2017, the Company renewed its $25.0 million credit facility which had expired in May 2017. The $25.0 million credit facility bears interest at variable interest rates, and the Company must pay a fee based on the unused portion of the $25.0 million commitment. The credit facility expires in May 2018.

Unsecured Commercial Paper – Subject to limitations, the Company could issue unsecured commercial paper of up to $1.54 billion as of December 31, 2017 supported by the Global Credit Facilities, as discussed above. Outstanding unsecured commercial paper may not exceed the unused portion of the Global Credit Facilities. Maturities may range up to 365 days from the issuance date. The Company intends to repay unsecured commercial paper as it matures with additional unsecured commercial paper or through other means, such as borrowing under the Global Credit Facilities, borrowing under its asset-backed U.S. commercial paper conduit facilities or through the use of operating cash flow and cash on hand.(1)

Medium-Term Notes – The Company has the following medium-term notes (collectively, the Notes) issued and outstanding at December 31, 2017 (in thousands):

Principal Amount	Rate	Issue Date	Maturity Date
$877,488	6.80%	May 2008	June 2018
$600,000	2.25%	January 2016	January 2019
$150,000	Floating-rate(a)	March 2017	March 2019
$600,000	2.40%	September 2014	September 2019
$600,000	2.15%	February 2015	February 2020
$350,000	2.40%	March 2017	June 2020
$600,000	2.85%	January 2016	January 2021
$400,000	2.55%	June 2017	June 2022

(a) Floating interest rate based on LIBOR plus 35 bps.

The Notes provide for semi-annual interest payments and principal due at maturity.

Senior Unsecured Notes – In July 2015, the Company issued $750.0 million of senior unsecured notes in an underwritten offering. The senior unsecured notes provide for semi-annual interest payments and principal due at maturity. $450.0 million of the senior unsecured notes mature in July 2025 and have an interest rate of 3.50%, and $300.0 million of the senior unsecured notes mature in July 2045 and have an interest rate of 4.625%. The Company used the proceeds from the debt to repurchase shares of its common stock in 2015.

On-Balance Sheet Asset-Backed Canadian Commercial Paper Conduit Facility – The Company has a revolving facility agreement (Canadian Conduit) with a Canadian bank-sponsored asset-backed commercial paper conduit. Under the agreement, the Canadian Conduit is contractually committed, at the Company's option, to purchase from the Company eligible Canadian retail motorcycle finance receivables for proceeds up to C$220.0 million. The transferred assets are restricted as collateral for the payment of the debt. The terms for this facility provide for interest on the outstanding principal based on prevailing market interest rates plus a specified margin. The Canadian Conduit also provides for a program fee and an unused commitment fee based on the unused portion of the total aggregate commitment of C$220.0 million. There is no amortization schedule; however, the debt is reduced monthly as available collections on the related finance receivables are applied to outstanding principal. Upon expiration of the Canadian Conduit, any outstanding principal will continue to be reduced monthly through available collections. Unless earlier terminated or extended by mutual agreement of the Company and the lenders, as of December 31, 2017, the Canadian Conduit has an expiration date of June 30, 2018. The contractual maturity of the debt is approximately 5 years.

During 2017 and 2016, the Company transferred $105.4 million and $71.1 million, respectively, of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of $87.0 million and $62.4 million, respectively.

On-Balance Sheet Asset-Backed U.S. Commercial Paper Conduit Facilities VIE – On December 13, 2017, the Company renewed its existing $300.0 million and $600.0 million revolving facility agreements with a third-party bank-sponsored asset-backed U.S. commercial paper conduit. Availability under the revolving facilities (together, the U.S. Conduit Facilities) is based on, among other things, the amount of eligible U.S. retail motorcycle receivables held by the relevant SPE as collateral.

During 2017, the Company transferred $429.7 million of U.S. retail motorcycle finance receivables to an SPE which, in turn, issued $383.3 million of debt under the U.S. Conduit Facilities. The VIE did not borrow under the U.S. Conduit Facilities during 2016 and did not have an outstanding balance at December 31, 2016. The contractual maturity of the debt is approximately 5 years.

The terms for this debt provide for interest on the outstanding principal based on prevailing commercial paper rates or LIBOR to the extent the advance is not funded by a conduit lender through the issuance of commercial paper plus, in each case, a program fee based on outstanding principal. The U.S. Conduit Facilities also provide for an unused commitment fee based on the unused portion of the total aggregate commitment of $900.0 million. There is no amortization schedule; however, the debt will be reduced monthly as available collections on the related finance receivables are applied to outstanding principal. Upon expiration of the U.S. Conduit Facilities, any outstanding principal will continue to be reduced monthly through available collections. Unless earlier terminated or extended by mutual agreement of the Company and the lenders, the U.S. Conduit Facilities have an expiration date of December 12, 2018.

Asset-Backed Securitization VIEs – For all of its asset-backed securitization transactions, the Company transfers U.S. retail motorcycle finance receivables to separate VIEs, which in turn issue secured notes with various maturities and interest rates to investors. All of the notes held by the VIEs are secured by future collections of the purchased U.S. retail motorcycle finance receivables. The U.S. retail motorcycle finance receivables included in the asset-backed securitization transactions are not available to pay other obligations or claims of the Company's creditors until the associated debt and other obligations are satisfied. Restricted cash balances held by the VIEs are used only to support the asset-backed securitizations.

The accounting treatment for asset-backed securitizations depends on the terms of the related transaction and the Company's continuing involvement with the VIE. Most of the Company's asset-backed securitizations do not meet the criteria to be accounted for as a sale because, in addition to retaining servicing rights, the Company retains a financial interest in the VIE in the form of a debt security. These transactions are treated as secured borrowings. As secured borrowings, the retail motorcycle finance receivables remain on the balance sheet with a corresponding obligation reflected as debt. There is no amortization schedule for the secured notes; however, the debt is reduced monthly as available collections on the related retail motorcycle finance receivables are applied to outstanding principal. The secured notes' contractual lives have various maturities ranging from 2019 to 2022.

There were no on or off-balance sheet asset-backed securitization transactions during 2017. During the second quarter 2016, the Company sold U.S. retail motorcycle finance receivables with a principal balance of $301.8 million into an asset-backed securitization VIE, and the transaction met the criteria to be accounted for as a sale because the Company did not retain any financial interest in the VIE beyond servicing rights and ordinary representations and warranties and related covenants. Upon the sale, the retail motorcycle finance receivables were removed from the Company's balance sheet and a gain of $9.3 million was recognized in Financial Services revenue.

For more information see Note 10 of the Notes to Consolidated Financial Statements.

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

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

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

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

Under the current financial covenants of the Global Credit Facilities, the consolidated debt to equity ratio of HDFS cannot exceed 10.00 to 1.00 as of the end of any fiscal quarter. In addition, the ratio of the Company's consolidated debt to the Company's consolidated debt and equity, in each case excluding the debt of HDFS and its subsidiaries, cannot exceed 0.70 to 1.00 as of the end of any fiscal quarter. No financial covenants are required under the Notes or the U.S. or Canadian asset-backed commercial paper conduit facilities.

At December 31, 2017, 2016 and 2015, HDFS and the Company remained in compliance with all of the then existing covenants.

Cautionary Statements

The Company's ability to meet the targets and expectations noted depends upon, among other factors, the Company's ability to (i) execute its business strategy, (ii) execute its strategy of growing ridership, globally, (iii) effectively execute its manufacturing optimization plan within expected costs and timing, (iv) develop and introduce products, services and experiences that are successful in the marketplace, (v) manage the impact that prices for and supply of used motorcycles may have on its business, including on retail sales of new motorcycles, (vi) balance production volumes for its new motorcycles with consumer demand, including in circumstances where competitors may be supplying new motorcycles to the market in excess of demand at reduced prices, (vii) manage through changes in general economic and business conditions, including changing capital, credit and retail markets, and the changing political environment, (viii) manage risks that arise through expanding international manufacturing, operations and sales, (ix) successfully execute the Company's manufacturing strategy, including its flexible production strategy, (x) prevent and detect any issues with its motorcycles or any associated manufacturing processes to avoid delays in new model launches, recall campaigns, regulatory agency investigations, increased warranty costs or litigation and adverse effects on its reputation and brand strength, and carry out any product programs or recalls within expected costs and timing, (xi) continue to manage the relationships and agreements that the Company has with its labor unions to help drive long-term competitiveness, (xii) accurately estimate and adjust to fluctuations in foreign currency exchange rates, interest rates and commodity prices, (xiii) manage the credit quality, the loan servicing and collection activities, and the recovery rates of HDFS' loan portfolio, (xiv) retain and attract talented employees, (xv) prevent a cybersecurity breach involving consumer, employee, dealer, supplier, or Company data and respond to evolving regulatory requirements regarding data security, (xvi) continue to develop the capabilities of its distributors and dealers and manage the risks that its independent dealers may have difficulty obtaining capital and managing through changing economic conditions and consumer demand, (xvii) adjust to tax reform, healthcare inflation and reform and pension reform, and successfully estimate the impact of any such reform on the Company's business, (xviii) manage through the effects inconsistent and unpredictable weather patterns may have on retail sales of motorcycles, (xix) manage supply chain issues, including quality issues and any unexpected interruptions or price increases caused by raw material shortages or natural disasters, (xx) implement and manage enterprise-wide information technology systems, including systems at its manufacturing facilities, (xxi) manage changes and prepare for requirements in legislative and regulatory environments for its products, services and operations, (xxii) manage its exposure to product liability claims and commercial or contractual disputes, and (xxiii) successfully access the capital and/or credit markets on terms (including interest rates) that are acceptable to the Company and within its expectations.

In addition, the Company could experience delays or disruptions in its operations as a result of work stoppages, strikes, natural causes, terrorism or other factors. Other factors are described in risk factors that the Company has disclosed in documents previously filed with the Securities and Exchange Commission.

The Company's ability to sell its motorcycles and related products and services and to meet its financial expectations also depends on the ability of the Company's independent dealers to sell its motorcycles and related products and services to retail customers. The Company depends on the capability and financial capacity of its independent dealers and distributors to develop and implement effective retail sales plans to create demand for the motorcycles and related products and services they purchase from the Company. In addition, the Company's independent dealers and distributors may experience difficulties in operating their businesses and selling Harley-Davidson motorcycles and related products and services as a result of weather, economic conditions or other factors.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk from changes in foreign exchange rates, commodity prices and interest rates. To reduce such risks, the Company selectively uses derivative financial instruments. All hedging transactions are authorized and executed pursuant to regularly reviewed policies and procedures, which prohibit the use of financial instruments for speculative trading purposes. Sensitivity analysis is used to manage and monitor foreign exchange and interest rate risk.

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 are 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, the Brazilian real, the Canadian dollar, the British pound and the Mexican peso. The Company utilizes foreign currency contracts to mitigate the effect of certain currencies' fluctuations on earnings. The foreign currency 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. At December 31, 2017 and December 31, 2016, the notional U.S. dollar value of outstanding Euro, Australian dollar, Japanese yen, Brazilian real, Canadian dollar and Mexican peso foreign currency contracts was $675.7 million and $554.6 million, respectively. The Company estimates that a uniform 10% weakening in the value of the U.S. dollar relative to the currencies underlying these contracts would result in a decrease in the fair value of the contracts of approximately $67.2 million and $52.2 million as of December 31, 2017 and December 31, 2016, respectively. Further disclosure relating to the fair value of derivative financial instruments is included in Note 7 of the Notes to Consolidated Financial Statements.

The Company's earnings are affected by changes in the prices of commodities used in the production of motorcycles. The Company uses derivative instruments on a limited basis to hedge the prices of certain commodities. At December 31, 2017, the notional value of these instruments was $5.4 million and their fair value was a net asset of $0.3 million. As of December 31, 2016, the notional value of these instruments was $6.0 million and their fair value was a net asset of $0.5 million. The potential decrease in fair value of these contracts from a 10% adverse change in the underlying commodity prices would not be significant.

HDFS' earnings are affected by changes in interest rates. HDFS' interest-rate sensitive financial instruments include finance receivables and debt. With the exception of short-term commercial paper and debt issued through the commercial paper conduit facilities, the majority of HDFS' debt instruments at December 31, 2017 have fixed interest rates. A one-percentage point increase in the interest rate on commercial paper and debt issued through the commercial paper conduit facilities would increase Financial Services interest expense in 2018 by approximately $15 million. This analysis does not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change in interest rates, HDFS may take actions to mitigate its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis does not account for these impacts.

Item 8. Consolidated Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Harley-Davidson, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Harley-Davidson, Inc.'s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Harley-Davidson, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Harley-Davidson, Inc. as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and financial statement schedule listed in the Index at item 15(a) and our report dated February 21, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definitions and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP
Milwaukee, Wisconsin
February 21, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Harley-Davidson, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Harley-Davidson, Inc. as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and financial statement schedule listed in the Index at item 15(a) (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Harley-Davidson, Inc. at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 21, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to fraud or error. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to fraud or error, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP
We have served as the Company’s auditor since 1982
Milwaukee, Wisconsin
February 21, 2018

HARLEY-DAVIDSON, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2017, 2016 and 2015
(In thousands, except per share amounts)

	2017	2016	2015
Revenue:			
Motorcycles and Related Products	$4,915,027	$5,271,376	$5,308,744
Financial Services	732,197	725,082	686,658
Total revenue	5,647,224	5,996,458	5,995,402
Costs and expenses:			
Motorcycles and Related Products cost of goods sold	3,261,683	3,419,710	3,356,284
Financial Services interest expense	180,193	173,756	161,983
Financial Services provision for credit losses	132,444	136,617	101,345
Selling, administrative and engineering expense	1,181,641	1,217,439	1,220,095
Total costs and expenses	4,755,961	4,947,522	4,839,707
Operating income	891,263	1,048,936	1,155,695
Investment income	3,580	4,645	6,585
Interest expense	31,004	29,670	12,117
Income before provision for income taxes	863,839	1,023,911	1,150,163
Provision for income taxes	342,080	331,747	397,956
Net income	$521,759	$692,164	$752,207
Earnings per common share:			
Basic	$3.03	$3.85	$3.71
Diluted	$3.02	$3.83	$3.69
Cash dividends per common share	$1.46	$1.40	$1.24

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

HARLEY-DAVIDSON, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2017, 2016 and 2015
(In thousands)

	2017	2016	2015
Net income	$521,759	$692,164	$752,207
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	46,280	(9,288)	(55,362)
Derivative financial instruments	(29,778)	6,638	(13,156)
Marketable securities	1,194	(100)	(394)
Pension and postretirement benefit plans	47,636	52,574	(31,350)
Total other comprehensive income (loss), net of tax	65,332	49,824	(100,262)
Comprehensive income	$587,091	$741,988	$651,945

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

HARLEY-DAVIDSON, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2017 and 2016
(In thousands, except share amounts)

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$687,521	$759,984
Marketable securities	—	5,519
Accounts receivable, net	329,986	285,106
Finance receivables, net	2,105,662	2,076,261
Inventories	538,202	499,917
Restricted cash	47,518	52,574
Other current assets	175,853	174,491
Total current assets	3,884,742	3,853,852
Finance receivables, net	4,859,424	4,759,197
Property, plant and equipment, net	967,781	981,593
Prepaid pension costs	19,816	—
Goodwill	55,947	53,391
Deferred income taxes	109,073	167,729
Other long-term assets	75,889	74,478
	$9,972,672	$9,890,240
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$227,597	$235,318
Accrued liabilities	529,822	486,652
Short-term debt	1,273,482	1,055,708
Current portion of long-term debt, net	1,127,269	1,084,884
Total current liabilities	3,158,170	2,862,562
Long-term debt, net	4,587,258	4,666,975
Pension liability	54,606	84,442
Postretirement healthcare liability	118,753	173,267
Other long-term liabilities	209,608	182,836
Commitments and contingencies (Note 14)		
Shareholders’ equity:		
Preferred stock, none issued	—	—
Common stock, 181,286,547 and 180,595,054 shares issued, respectively	1,813	1,806
Additional paid-in-capital	1,422,808	1,381,862
Retained earnings	1,607,570	1,337,673
Accumulated other comprehensive loss	(500,049)	(565,381)
Treasury stock (13,195,731 and 4,647,345 shares, respectively), at cost	(687,865)	(235,802)
Total shareholders’ equity	1,844,277	1,920,158
	$9,972,672	$9,890,240

HARLEY-DAVIDSON, INC.
CONSOLIDATED BALANCE SHEETS (continued)
December 31, 2017 and 2016
(In thousands, except share amounts)

	2017	2016
Balances held by consolidated variable interest entities (Note 10)		
Current finance receivables, net	$194,813	$225,289
Other assets	$2,148	$2,781
Non-current finance receivables, net	$521,940	$643,047
Restricted cash - current and non-current	$48,706	$57,057
Current portion of long-term debt, net	$209,247	$241,396
Long-term debt, net	$422,834	$554,879

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

HARLEY-DAVIDSON, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2017, 2016 and 2015
(In thousands)

	2017	2016	2015
Net cash provided by operating activities (Note 2)	$1,005,061	$1,174,339	$1,100,118
Cash flows from investing activities:			
Capital expenditures	(206,294)	(256,263)	(259,974)
Origination of finance receivables	(3,591,948)	(3,664,495)	(3,751,830)
Collections on finance receivables	3,228,311	3,175,031	3,136,885
Proceeds from finance receivables sold	—	312,571	—
Sales and redemptions of marketable securities	6,916	40,014	11,507
Acquisition of business	—	—	(59,910)
Other	547	411	7,474
Net cash used by investing activities	(562,468)	(392,731)	(915,848)
Cash flows from financing activities:			
Proceeds from issuance of medium-term notes	893,668	1,193,396	595,386
Repayments of medium-term notes	(800,000)	(451,336)	(610,331)
Proceeds from issuance of senior unsecured notes	—	—	740,385
Proceeds from securitization debt	—	—	1,195,668
Repayments of securitization debt	(444,671)	(665,400)	(1,008,135)
Borrowings of asset-backed commercial paper	469,932	62,396	87,442
Repayments of asset-backed commercial paper	(176,227)	(71,500)	(72,727)
Net increase (decrease) in credit facilities and unsecured commercial paper	212,809	(145,812)	469,473
Net change in restricted cash	8,458	43,495	11,410
Dividends paid	(251,862)	(252,321)	(249,262)
Purchase of common stock for treasury	(465,263)	(465,341)	(1,537,020)
Excess tax benefits from share-based payments	—	2,251	3,468
Issuance of common stock under employee stock option plans	11,353	15,782	20,179
Net cash used by financing activities	(541,803)	(734,390)	(354,064)
Effect of exchange rate changes on cash and cash equivalents	26,747	(9,443)	(14,677)
Net (decrease) increase in cash and cash equivalents	$(72,463)	$37,775	$(184,471)
Cash and cash equivalents:			
Cash and cash equivalents—beginning of period	$759,984	$722,209	$906,680
Net (decrease) increase in cash and cash equivalents	(72,463)	37,775	(184,471)
Cash and cash equivalents—end of period	$687,521	$759,984	$722,209

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

HARLEY-DAVIDSON, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years ended December 31, 2017, 2016 and 2015
(In thousands, except share amounts)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Balance	Total
	Issued Shares	Balance					
Balance December 31, 2014	344,174,653	$3,442	$1,265,257	$8,459,040	$ (514,943)	$(6,303,510)	$2,909,286
Net income	—	—	—	752,207	—	—	752,207
Total other comprehensive loss, net of tax (Note 8)	—	—	—	—	(100,262)	—	(100,262)
Dividends	—	—	—	(249,262)	—	—	(249,262)
Repurchase of common stock	—	—	—	—	—	(1,537,020)	(1,537,020)
Share-based compensation and 401(k) match made with Treasury shares	—	—	39,457	—	—	1,394	40,851
Issuance of nonvested stock	162,193	2	(2)	—	—	—	—
Exercise of stock options	518,858	5	20,174	—	—	—	20,179
Tax benefit of equity awards	—	—	3,675	—	—	—	3,675
Balance December 31, 2015	344,855,704	$3,449	$1,328,561	$8,961,985	$ (615,205)	$(7,839,136)	$1,839,654
Net income	—	—	—	692,164	—	—	692,164
Total other comprehensive income, net of tax (Note 8)	—	—	—	—	49,824	—	49,824
Dividends	—	—	—	(252,321)	—	—	(252,321)
Repurchase of common stock	—	—	—	—	—	(465,341)	(465,341)
Share-based compensation and 401(k) match made with Treasury shares	—	—	36,956	—	—	2,870	39,826
Issuance of nonvested stock	272,479	2	(2)	—	—	—	—
Exercise of stock options	466,871	5	15,777	—	—	—	15,782
Tax benefit of equity awards	—	—	570	—	—	—	570
Retirement of treasury stock	(165,000,000)	(1,650)	—	(8,064,155)	—	8,065,805	—

Balance December 31, 2016	180,595,054	$1,806	$1,381,862	$1,337,673	$(565,381)	$(235,802)	$1,920,158
Net income	—	—	—	521,759	—	—	521,759
Total other comprehensive income, net of tax (Note 8)	—	—	—	—	65,332	—	65,332
Dividends	—	—	—	(251,862)	—	—	(251,862)
Repurchase of common stock	—	—	—	—	—	(465,263)	(465,263)
Share-based compensation and 401(k) match made with Treasury shares	—	—	29,600	—	—	13,200	42,800
Issuance of nonvested stock	408,950	4	(4)	—	—	—	—
Exercise of stock options	282,543	3	11,350	—	—	—	11,353
Balance December 31, 2017	181,286,547	$1,813	$1,422,808	$1,607,570	$(500,049)	$(687,865)	$1,844,277

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

HARLEY-DAVIDSON, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
1. Summary of Significant Accounting Policies
Principles of Consolidation and Basis of Presentation – The consolidated financial statements include the accounts of Harley-Davidson, Inc. and its wholly-owned subsidiaries (the Company), including the accounts of the groups of companies doing business as Harley-Davidson Motor Company (HDMC) and Harley-Davidson Financial Services (HDFS). In addition, certain variable interest entities (VIEs) related to secured financing are consolidated as the Company is the primary beneficiary. All intercompany accounts and transactions are eliminated.
All of the Company’s subsidiaries are wholly owned and are included in the consolidated financial statements. Substantially all of the Company’s international subsidiaries use their respective local currency as their functional currency. Assets and liabilities of international subsidiaries have been translated at period-end exchange rates, and revenues and expenses have been translated using average exchange rates for the period. Monetary assets and liabilities denominated in a currency that is different from an entity's functional currency are remeasured from the transactional currency to the entity's functional currency on a monthly basis. The effect of this remeasurement is reported in Motorcycle and Related Products cost of goods sold. The pre-tax gain for foreign currency remeasurements was $15.0 million for the year ended 2017. The pre-tax loss for foreign currency remeasurements was $15.1 million and $21.5 million for the years ended 2016 and 2015, respectively.
The Company operates in two reportable segments: Motorcycles & Related Products (Motorcycles) and Financial Services.
Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.
Cash and Cash Equivalents – The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.
Marketable Securities – The Company’s marketable securities consisted of the following at December 31 (in thousands):

	2017	2016
Available-for-sale securities: corporate bonds	$—	$5,519
Trading securities: mutual funds	48,006	38,119
Total marketable securities	$48,006	$43,638

The Company’s available-for-sale securities were carried at fair value with any unrealized gains or losses reported in other comprehensive income. During 2017 and 2016, unrealized losses were not material. There were no available-for-sale securities outstanding at December 31, 2017.
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.
Accounts Receivable, Net – The Company’s motorcycles and related products are sold to independent dealers outside the U.S. and Canada generally on open account and the resulting receivables are included in accounts receivable in the Company’s consolidated balance sheets. The allowance for doubtful accounts deducted from total accounts receivable was $4.1 million and $2.7 million as of December 31, 2017 and 2016, respectively. Accounts receivable are written down once management determines that the specific customer does not have the ability to repay the balance in full. The Company’s sales of motorcycles and related products in the U.S. and Canada are financed by the purchasing dealers through HDFS and the related receivables are included in finance receivables in the consolidated balance sheets.
Finance Receivables, Net – Finance receivables include both retail and wholesale finance receivables, net, including amounts held by consolidated VIEs. Finance receivables are recorded in the financial statements at amortized cost net of an allowance for credit losses. The provision for credit losses on finance receivables is charged to earnings in amounts sufficient to maintain the allowance for credit losses at a level that is adequate to cover estimated losses of principal inherent in the existing portfolio. Portions of the allowance for credit losses are specified to cover estimated

losses on finance receivables specifically identified for impairment. The unspecified portion of the allowance covers estimated losses on finance receivables which are collectively reviewed for impairment. 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.

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

The wholesale portfolio is primarily composed of large balance, non-homogeneous loans. The Company’s wholesale allowance evaluation 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 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 individually evaluated for impairment are segregated, based on similar risk characteristics, according to the Company’s internal risk rating system and collectively evaluated for impairment. The related allowance is based on factors such as the Company’s past loan loss experience, the specific borrower’s financial performance as well as ability to repay, current economic conditions as well as the value of the underlying collateral.

Impaired finance receivables also include loans that have been modified in troubled debt restructurings as a concession to borrowers experiencing financial difficulty. 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 impaired finance receivables in troubled debt restructurings. Total restructured finance receivables are not significant.

Repossessed inventory representing recovered collateral on impaired finance receivables is recorded at the lower of cost or net realizable value. In the period during which the collateral is repossessed, the related finance receivable is adjusted to the fair value of the collateral through a charge to the allowance for credit losses and reclassified to repossessed inventory. Repossessed inventory is included in other current assets and was $19.6 million and $19.3 million at December 31, 2017 and 2016, respectively.

Asset-Backed Financing – The Company participates in asset-backed financing both through asset-backed securitization transactions and through asset-backed commercial paper conduit facilities. In the Company's asset-backed financing programs, the Company transfers retail motorcycle finance receivables to special purpose entities (SPE), which are considered VIEs under U.S. GAAP. Each SPE then converts those assets into cash, through the issuance of debt. The Company retains servicing rights for all of the retail motorcycle finance receivables transferred to SPEs as part of an asset-backed financing. The accounting treatment for asset-backed financings depends on the terms of the related transaction and the Company’s continuing involvement with the VIE.

In transactions where the Company has power over the significant activities of the VIE and has an obligation to absorb losses or the right to receive benefits from the VIE that are potentially significant to the VIE, the Company is the primary beneficiary of the VIE and consolidates the VIE within its consolidated financial statements. On a consolidated basis, the asset-backed financing is treated as a secured borrowing in this type of transaction and is referred to as an on-balance sheet asset-backed financing.

In transactions where the Company is not the primary beneficiary of the VIE, the Company must determine whether it can achieve a sale for accounting purposes under ASC Topic 860, "Transfers and Servicing." To achieve a sale for accounting purposes, the assets being transferred must be legally isolated, not be constrained by restrictions from further transfer, and be deemed to be beyond the Company’s control. If the Company does not meet all these criteria for sale accounting, then the transaction is accounted for as a secured borrowing and is referred to as an on-balance sheet asset-backed financing.

If the Company meets all three of the sale criteria above, the transaction is recorded as a sale for accounting purposes and is referred to as an off-balance sheet asset-backed financing. Upon sale, the retail motorcycle finance receivables are removed from the Company’s balance sheet and a gain or loss is recognized for the difference between the cash proceeds received, the assets derecognized, and the liabilities recognized as part of the transaction. The gain or loss on sale is included in Financial Services revenue in the Consolidated Statement of Income.

The Company is not required, and does not currently intend, to provide any additional financial support to the on or off-balance sheet VIEs associated with these transactions. Investors and creditors in these transactions only have recourse to the assets held by the VIEs.

Inventories – Substantially all inventories located in the United States are valued using the last-in, first-out (LIFO) method. Other inventories totaling $234.9 million at December 31, 2017 and $221.7 million at December 31, 2016 are valued at the lower of cost or net realizable value using the first-in, first-out (FIFO) method.

Property, Plant and Equipment – Property, plant and equipment is recorded at cost. Depreciation is determined on the straight-line basis over the estimated useful lives of the assets. The following useful lives are used to depreciate the various classes of property, plant and equipment: buildings – 30 years; building equipment and land improvements – 7 years; machinery and equipment – 3 to 10 years; furniture and fixtures – 5 years; and software – 3 to 7 years. Accelerated methods of depreciation are used for income tax purposes.

Goodwill – Goodwill represents the excess of acquisition cost over the fair value of the net assets purchased. Goodwill is tested for impairment, based on financial data related to the reporting unit to which it has been assigned, at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The impairment test involves comparing the estimated fair value of the reporting unit associated with the goodwill to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, goodwill must be adjusted to its implied fair value. During 2017 and 2016, the Company performed a quantitative test on its goodwill balances for impairment and no adjustments were recorded to goodwill as a result of those reviews.

Long-lived Assets – The Company periodically evaluates the carrying value of long-lived assets to be held and used when events and circumstances warrant such review. If the carrying value of a long-lived asset is considered impaired, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset for assets to be held and used. The Company also reviews the useful life of its long-lived assets when events and circumstances indicate that the actual useful life may be shorter than originally estimated. In the event that the actual useful life is deemed to be shorter than the original useful life, depreciation is adjusted prospectively so that the remaining book value is depreciated over the revised useful life.

Asset groups classified as held for sale are measured at the lower of carrying amount or fair value less cost to sell, and a loss is recognized for any initial adjustment required to reduce the carrying amount to the fair value less cost to sell in the period the held for sale criteria are met. The fair value less cost to sell must be assessed each reporting period the asset group remains classified as held for sale. Gains or losses not previously recognized resulting from the sale of an asset group will be recognized on the date of sale.

Product Warranty and Recall – The Company currently provides a standard two-year limited warranty on all new motorcycles sold worldwide, except for Japan, where the Company provides a standard three-year limited warranty on all new motorcycles sold. In addition, the Company offers 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 accrues for future warranty claims using an estimated cost based primarily on historical Company claim information. Additionally, the Company has from time to time initiated certain voluntary recall campaigns. The Company accrues for the estimated cost associated with voluntary recalls in the period that management approves and commits to the recall.

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

	2017	2016	2015
Balance, beginning of period	$79,482	$74,217	$69,250
Warranties issued during the period	57,834	60,215	59,259
Settlements made during the period	(82,554)	(99,298)	(96,529)
Recalls and changes to pre-existing warranty liabilities	39,438	44,348	42,237
Balance, end of period	$94,200	$79,482	$74,217

The liability associated with recalls, including the amount recorded in 2017 in connection with the NHTSA matter discussed in Note 14, was $35.3 million, $13.6 million and $10.2 million at December 31, 2017, 2016 and 2015, respectively.

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

All derivative instruments are recognized on the balance sheet at fair value (see Note 6). In accordance with ASC Topic 815, “Derivatives and Hedging,” the accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. Changes in the fair value of derivatives that are designated as fair value hedges, along with the gain or loss on the hedged item, are recorded in current period earnings. For derivative instruments that are designated as cash flow hedges, the effective portion of gains and losses that result from changes in the fair value of derivative instruments is initially recorded in other comprehensive income (OCI) and subsequently reclassified into earnings when the hedged item affects income. The Company assesses, at both 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. Refer to Note 7 for a detailed description of the Company's derivative instruments.

Motorcycles and Related Products Revenue Recognition – Sales are recorded when title and ownership is transferred, which is generally when products are shipped to wholesale customers (independent dealers). The Company may offer sales incentive programs to both wholesale and retail customers designed to promote the sale of motorcycles and related products. The total costs of these programs are generally recognized as revenue reductions and are accrued at the later of the date the related sales are recorded or the date the incentive program is both approved and communicated.

Financial Services Revenue Recognition – Interest income on finance receivables is recorded as earned and is based on the average outstanding daily balance for wholesale and retail receivables. Accrued and uncollected interest is classified with finance receivables. Certain loan origination costs related to finance receivables, including payments made to dealers for certain retail loans, are deferred and recorded within finance receivables, and amortized over the estimated life of the contract.

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 December 31, 2017 and 2016, all retail finance receivables are accounted for as interest-earning receivables.

Wholesale finance receivables are delinquent if the minimum payment is not received by the contractual due date. Wholesale finance receivables are written down once management determines that the specific borrower does not have the ability to repay the loan in full. Interest continues to accrue on past due finance receivables until the date the finance receivable becomes uncollectible and the finance receivable is placed on non-accrual status. The Company will resume accruing interest on these accounts when payments are current according to the terms of the loans and future payments are reasonably assured. While on non-accrual status, all cash received is applied to principal or interest as appropriate.

Insurance and protection product revenue, including revenue from the sale of extended service contracts, is recognized when contractually earned. Deferred revenue related to extended service contracts was $4.7 million and $4.5 million as of December 31, 2017 and 2016, respectively.

Research and Development Expenses – Expenditures for research activities relating to product development and improvement are charged against income as incurred and included within selling, administrative and engineering expenses in the consolidated statement of income. Research and development expenses were $175.2 million, $172.3 million and $161.2 million for 2017, 2016 and 2015, respectively.

Advertising Costs – The Company expenses the production cost of advertising the first time the advertising takes place. Advertising costs relate to the Company's efforts to promote its products and brands through the use of media. During 2017, 2016 and 2015, the Company incurred $135.5 million, $137.4 million and $119.8 million in advertising costs, respectively.

Shipping and Handling Costs – The Company classifies shipping and handling costs as a component of cost of goods sold.

Share-Based Award Compensation Costs – The Company recognizes the cost of its share-based awards in its statement of income. The cost of each share-based equity award is based on the grant date fair value and the cost of each share-based cash-settled award is based on the settlement date fair value. Share-based award expense is recognized on a straight-line basis over the service or performance periods of the awards. The expense recognized reflects the number of awards that are ultimately expected to vest based on the service and, if applicable, performance requirements of each award. Total share-based award compensation expense recognized by the Company during 2017, 2016 and 2015 was $32.5 million, $32.3 million and $29.4 million, respectively, or $20.5 million, $20.4 million and $18.5 million net of taxes, respectively.

Income Tax Expense – The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes.

New Accounting Standards

Accounting Standards Recently Adopted

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-09 Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). ASU 2016-09 amends the guidance on several aspects of accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, accounting for forfeitures, and classification on the statement of cash flows. The Company adopted ASU 2016-09 on January 1, 2017. The Company elected to apply the amendments related to the classification of excess tax benefits on the statement of cash flows on a prospective basis, and prior periods were not adjusted. The adoption of ASU 2016-09 did not have a material impact on the Company's consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11 Inventory (Topic 330): Simplifying the Measurement of Inventory (ASU 2015-11). ASU 2015-11 simplifies the subsequent measurement of inventory by using only the lower of cost or net realizable value. ASU 2015-11 does not apply to inventory measured using the last-in, first-out method. The Company adopted ASU 2015-11 on January 1, 2017. The adoption of ASU 2015-11 did not have a material impact on the Company’s consolidated financial statements.

Accounting Standards Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09 Revenue from Contracts with Customers (ASU 2014-09). ASU 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. In August 2015, the FASB issued ASU No. 2015-14 Revenue from Contracts with Customers: Deferral of Effective Date (ASU 2015-14) to defer the effective date of the new revenue recognition standard by one year to fiscal years beginning after December 15, 2017 and interim periods therein. The Company will adopt the new revenue recognition guidance on January 1, 2018 using the modified retrospective method by recording the cumulative effect of initially applying the new standard as an increase of approximately $6 million to the opening balance of retained earnings. The on-going application of the new guidance is not expected to have a material impact on the Company's financial statements.

In January 2016, the FASB issued ASU No. 2016-01 Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01). ASU 2016-01 enhances the existing financial instruments reporting model by modifying fair value measurement tools, simplifying impairment assessments for certain equity instruments and modifying overall presentation and disclosure requirements. The Company is required to adopt ASU 2016-01 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017 on a prospective basis. The Company does not expect the adoption of ASU 2016-01 to have a material impact on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02 Leases (Topic 842) (ASU 2016-02). ASU 2016-02 amends the existing lease accounting model by requiring a lessee to recognize the rights and obligations resulting from certain leases as assets and liabilities on the balance sheet. ASU 2016-02 also requires a company to disclose key information about their leasing arrangements. The Company is required to adopt ASU 2016-02 for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 using a modified retrospective approach. Early adoption is permitted. The Company is currently in the process of gathering and analyzing information necessary to quantify the impact of adopting ASU 2016-02 and evaluating the transition practical expedients it will apply upon adoption.

In July 2016, the FASB issued ASU No. 2016-13 Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13). ASU 2016-13 changes how to recognize expected credit losses on financial assets. The standard requires a more timely recognition of credit losses on loans and other financial assets and also provides additional transparency about credit risk. The current credit loss standard generally requires that a loss actually be incurred before it is recognized, while the new standard will require recognition of full lifetime expected losses upon initial recognition of the financial instrument. The Company is required to adopt ASU 2016-13 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019 on a modified retrospective basis. Early adoption is permitted for fiscal years beginning after December 15, 2018. An entity should apply the standard by recording a cumulative effect adjustment to retained earnings upon adoption. Adoption of this standard will impact how the Company recognizes credit losses on its financial instruments. The Company is currently evaluating the impact of adoption of ASU 2016-13 but anticipates the adoption of ASU 2016-13 will result in an increase in the annual provision for credit losses and the related allowance for credit losses.

In August 2016, the FASB issued ASU No. 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15). ASU 2016-15 addresses eight specific cash flow issues with the objective of

reducing diversity in practice regarding how certain cash receipts and cash payments are presented in the statement of cash flows. The standard provides guidance on the classification of the following items: (1) debt prepayment or debt extinguishment costs, (2) settlement of zero-coupon debt instruments, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from the settlement of corporate-owned life insurance policies, (6) distributions received from equity method investments, (7) beneficial interests in securitization transactions, and (8) separately identifiable cash flows. The Company is required to adopt ASU 2016-15 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017 on a retrospective basis. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of ASU 2016-15 to have a material impact on its financial statements.
In October 2016, the FASB issued ASU No. 2016-16 Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory (ASU 2016-16). ASU 2016-16 states that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Two common assets included in the scope of the ASU are intellectual property and property, plant and equipment. The Company is required to adopt ASU 2016-16 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017 using a modified retrospective approach with a cumulative-effect adjustment to retained earnings. The Company does not expect the adoption of ASU 2016-16 to have a material impact on its financial statements.

In November 2016, the FASB issued ASU No. 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. As such, restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company is required to adopt ASU 2016-18 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017 on a retrospective basis. Early adoption is permitted, including adoption in an interim period. Subsequent to the adoption of ASU 2016-18, the change in restricted cash will be excluded from financing activities and included in the change in total cash which will include restricted cash in addition to cash and cash equivalents.

In January 2017, the FASB issued ASU No. 2017-04 Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (ASU 2017-04). ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating the requirement to calculate the implied fair value of goodwill. Rather, the goodwill impairment is calculated by comparing the fair value of a reporting unit to its carrying value, and an impairment loss is recognized for the amount by which the carrying amount exceeds the fair value, limited to the total goodwill allocated to the reporting unit. All reporting units apply the same impairment test under the new standard. The Company is required to adopt ASU 2017-04 for its annual and any interim goodwill impairment tests in fiscal years beginning after December 15, 2019 on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

In March 2017, the FASB issued ASU No. 2017-07 Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASU 2017-07). ASU 2017-07 amends ASC 715, Compensation - Retirement Benefits by requiring employers to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Other components of the net periodic benefit cost will be presented separately from the line item that includes the service cost and outside of any subtotal of operating income. The guidance also limits the components that are eligible for capitalization in assets. The Company is required to adopt ASU 2017-07 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual period for which interim or annual financial statements have not been issued or made available for issuance. The amendments related to the presentation of the components of net periodic benefit cost should be applied retrospectively. The amendments related to the capitalization of certain components in assets should be applied prospectively. The Company's net periodic benefit cost components are disclosed in Note 12.

In August 2017, the FASB issued ASU No. 2017-12 Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12). ASU 2017-12 amends ASC 815, Derivatives and Hedging to improve the financial reporting of hedging relationships and to simplify the application of the hedge accounting guidance. The ASU makes various updates to the hedge accounting model, including changing the recognition and presentation of changes in the fair value of the hedging instrument and amending disclosure requirements, among other things. The Company is required to adopt ASU 2017-12 for fiscal years beginning after December 15, 2018, and for interim periods within those fiscal years. Early adoption is permitted in any interim period after issuance of the ASU. For cash flow and net investment hedges existing at the date of adoption, the Company must apply a cumulative-effect adjustment as of the beginning of the fiscal year in which the standard is adopted. The amendments related to presentation and disclosure are required prospectively. The Company is currently evaluating the impact of adoption of ASU 2017-12.

In February 2018, the FASB issued ASU No. 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (ASU 2018-02). Under existing U.S. GAAP, the effects of changes in tax rates and laws on deferred tax balances are recorded as a component of income tax expense in the period in which the law was enacted. When deferred tax balances related to items originally recorded in accumulated other comprehensive income are adjusted, certain tax effects become stranded in accumulated other comprehensive income. The amendments in ASU 2018-02 allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the 2017 Tax Cuts and Jobs Act. The amendments in this ASU also require certain disclosures about stranded tax effects. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption in any period is permitted. The Company's provisional adjustments recorded in 2017 to account for the impact of the 2017 Tax Cuts and Jobs Act resulted in stranded tax effects. The Company is currently evaluating the timing and impact of adopting ASU 2018-02.

2. Additional Balance Sheet and Cash Flow Information

The following information represents additional detail for selected line items included in the consolidated balance sheets at December 31, and the statements of cash flows for the years ended December 31.

Balance Sheet Information:

Inventories, net (in thousands):

	2017	2016
Raw materials and work in process	$161,664	$140,639
Motorcycle finished goods	289,530	285,281
Parts and accessories and general merchandise	139,363	122,264
Inventory at lower of FIFO cost or net realizable value	590,557	548,184
Excess of FIFO over LIFO cost	(52,355)	(48,267)
Total inventories, net	$538,202	$499,917

Inventory obsolescence reserves deducted from FIFO cost were $38.7 million and $39.9 million as of December 31, 2017 and 2016, respectively.

Property, plant and equipment, at cost (in thousands):

	2017	2016
Land and related improvements	$ 70,256	$ 65,533
Buildings and related improvements	464,454	464,200
Machinery and equipment	1,890,126	1,887,269
Software	660,090	630,114
Construction in progress	200,396	214,409