HARLEY DAVIDSON INC
Form 10-Q
August 06, 2015

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 28, 2015
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-9183

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

Wisconsin (State of organization)	39-1382325 (I.R.S. Employer Identification No.)
3700 West Juneau Avenue Milwaukee, Wisconsin (Address of principal executive offices)	53208 (Zip code)

Registrants telephone number: (414) 342-4680
None
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days. Yes x 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 x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act. Yes ¨ No x
Number of shares of the registrant's common stock outstanding at July 31, 2015: 205,966,792 shares

Harley-Davidson, Inc.

Form 10-Q

For The Quarter Ended June 28, 2015

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements
HARLEY-DAVIDSON, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(Unaudited)

	Three months ended		Six months ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Revenue:				
Motorcycles and Related Products	$1,650,783	$1,834,285	$3,161,353	$3,405,973
Financial Services	173,609	166,414	335,984	320,774
Total revenue	1,824,392	2,000,699	3,497,337	3,726,747
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	1,003,569	1,110,146	1,923,864	2,089,703
Financial Services interest expense	41,188	40,741	79,724	79,598
Financial Services provision for credit losses	15,175	15,961	41,422	36,292
Selling, administrative and engineering expense	301,944	286,156	579,693	562,577
Total costs and expenses	1,361,876	1,453,004	2,624,703	2,768,170
Operating income	462,516	547,695	872,634	958,577
Investment income	1,450	1,772	2,772	3,431
Interest expense	9	393	18	4,070
Income before provision for income taxes	463,957	549,074	875,388	957,938
Provision for income taxes	164,147	194,921	305,724	337,868
Net income	$299,810	$354,153	$569,664	$620,070
Earnings per common share:				
Basic	$1.44	$1.63	$2.72	$2.84
Diluted	$1.44	$1.62	$2.71	$2.82
Cash dividends per common share	$0.310	$0.275	$0.620	$0.550

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

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HARLEY-DAVIDSON, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three months ended		Six months ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Net income	$299,810	$354,153	$569,664	$620,070
Other comprehensive (loss) income, net of tax				
Foreign currency translation adjustments	4,251	5,733	(22,770)	8,681
Derivative financial instruments	(13,286)	3,150	(2,214)	2,923
Marketable securities	(128)	(74)	(195)	(116)
Pension and postretirement benefit plans	8,798	6,069	17,596	12,137
Total other comprehensive (loss) income, net of tax	$(365)	$14,878	$(7,583)	$23,625
Comprehensive income	$299,445	$369,031	$562,081	$643,695

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

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

	(Unaudited) June 28, 2015	December 31, 2014	(Unaudited) June 29, 2014
ASSETS			
Current assets:			
Cash and cash equivalents	$1,247,579	$906,680	$999,346
Marketable securities	52,516	57,325	57,814
Accounts receivable, net	277,569	247,621	289,940
Finance receivables, net	2,331,723	1,916,635	2,281,512
Inventories	395,044	448,871	371,597
Restricted cash	136,760	98,627	154,681
Deferred income taxes	94,778	89,916	90,348
Other current assets	160,421	182,420	128,460
Total current assets	4,696,390	3,948,095	4,373,698
Finance receivables, net	4,816,772	4,516,246	4,537,405
Property, plant and equipment, net	873,007	883,077	826,467
Prepaid pension costs	—	—	256,279
Goodwill	26,105	27,752	30,252
Deferred income taxes	66,755	77,835	2,915
Other long-term assets	85,843	75,092	49,280
	$10,564,872	$9,528,097	$10,076,296
LIABILITIES AND SHAREHOLDERS’ EQUITY			
Current liabilities:			
Accounts payable	$407,636	$196,868	$388,342
Accrued liabilities	448,737	449,317	500,769
Short-term debt	114,983	731,786	619,622
Current portion of long-term debt	1,551,368	1,011,315	944,915
Total current liabilities	2,522,724	2,389,286	2,453,648
Long-term debt	4,560,349	3,761,528	3,794,396
Pension liability	66,786	76,186	38,174
Postretirement healthcare liability	196,369	203,006	209,312
Deferred income taxes	—	—	38,919
Other long-term liabilities	195,017	188,805	175,587
Commitments and contingencies (Note 16)			
Shareholders’ equity:			
Preferred stock, none issued	—	—	—
Common stock	3,448	3,442	3,439
Additional paid-in-capital	1,304,855	1,265,257	1,231,913
Retained earnings	8,898,959	8,459,040	8,352,168
Accumulated other comprehensive loss	(522,526)	(514,943)	(309,051)
Treasury stock, at cost	(6,661,109)	(6,303,510)	(5,912,209)
Total shareholders' equity	3,023,627	2,909,286	3,366,260
	$10,564,872	$9,528,097	$10,076,296

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

	(Unaudited) June 28, 2015	December 31, 2014	(Unaudited) June 29, 2014
Balances held by consolidated variable interest entities (Note 5)			
Current finance receivables, net	$409,198	$312,645	$359,085
Other assets	$3,067	$3,409	$2,521
Non-current finance receivables, net	$1,740,420	$1,113,801	$1,495,171
Restricted cash - current and non-current	$149,418	$110,017	$141,146
Current portion of long-term debt	$462,008	$366,889	$403,891
Long-term debt	$1,555,071	$904,644	$1,308,964

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

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HARLEY-DAVIDSON, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six months ended June 28, 2015	June 29, 2014
Net cash provided by operating activities (Note 3)	$613,944	$570,592
Cash flows from investing activities:		
Capital expenditures	(85,180)	(74,523)
Origination of finance receivables	(1,976,563)	(1,904,577)
Collections on finance receivables	1,570,431	1,518,186
Sales and redemptions of marketable securities	4,500	41,010
Other	5,111	145
Net cash used by investing activities	(481,701)	(419,759)
Cash flows from financing activities:		
Repayments of senior unsecured notes	—	(303,000)
Proceeds from issuance of medium-term notes	595,386	—
Repayments of medium-term notes	—	(7,220)
Proceeds from securitization debt	1,195,668	847,126
Repayments of securitization debt	(454,332)	(393,655)
Net decrease in credit facilities and unsecured commercial paper	(616,586)	(48,134)
Borrowings of asset-backed commercial paper	40,209	36,800
Repayments of asset-backed commercial paper	(35,730)	(37,317)
Net change in restricted cash	(40,159)	(9,874)
Dividends paid	(129,745)	(120,631)
Purchase of common stock for treasury	(358,425)	(223,736)
Excess tax benefits from share-based payments	2,401	8,652
Issuance of common stock under employee stock option plans	15,664	27,907
Net cash provided by (used by) financing activities	214,351	(223,082)
Effect of exchange rate changes on cash and cash equivalents	(5,695)	4,983
Net increase (decrease) in cash and cash equivalents	$340,899	$(67,266)
Cash and cash equivalents:		
Cash and cash equivalents—beginning of period	$906,680	$1,066,612
Net increase (decrease) in cash and cash equivalents	340,899	(67,266)
Cash and cash equivalents—end of period	$1,247,579	$999,346

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

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HARLEY-DAVIDSON, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation and Use of Estimates

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

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the condensed consolidated balance sheets as of June 28, 2015 and June 29, 2014, the condensed consolidated statements of income for the three and six month periods then ended, the condensed consolidated statements of comprehensive income for the three and six month periods then ended and the condensed consolidated statements of cash flows for the six month periods then ended.

Certain information and footnote disclosures normally included in complete financial statements have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and U.S. generally accepted accounting principles (U.S. GAAP) for interim financial reporting. These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

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

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

2. New Accounting Standards

Accounting Standards Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09 Revenue from Contracts with Customers (ASU No. 2014-09). ASU No. 2014-09 is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In July 2015, the FASB decided to defer the effective date of the new revenue recognition standard by one year to fiscal years beginning after December 15, 2017 and for interim periods therein. The Company is currently evaluating the impact of adoption.

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

In April 2015, the FASB issued ASU No. 2015-03 Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03). ASU No. 2015-03 amends the guidance within ASC Topic 835, "Interest", to require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt premiums and discounts. The Company is required to adopt ASU No, 2015-03 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015 on a retrospective basis. Upon adoption, the Company will reclassify its debt issuance costs from other assets to debt on the balance sheet. At June 28, 2015, the Company had $18.4 million of debt issuance costs recorded as assets on the balance sheet.

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3. Additional Balance Sheet and Cash Flow Information

Marketable Securities

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

	June 28, 2015	December 31, 2014	June 29, 2014
Available-for-sale: Corporate bonds	$52,516	$57,325	$57,814
Trading securities: Mutual funds	37,698	33,815	33,567
	$90,214	$91,140	$91,381

The Company’s available-for-sale securities are carried at fair value with any unrealized gains or losses reported in other comprehensive income. During the first half of 2015 and 2014, the Company recognized gross unrealized losses of approximately $310,000 and $184,000, respectively, or $195,000 and $116,000 net of taxes, respectively, to adjust amortized cost to fair value. The marketable securities have contractual maturities that generally come due over the next 3 to 22 months.

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

Inventories

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

	June 28, 2015	December 31, 2014	June 29, 2014
Components at the lower of FIFO cost or market			
Raw materials and work in process	$137,151	$151,254	$118,720
Motorcycle finished goods	186,326	230,309	179,314
Parts and accessories and general merchandise	121,469	117,210	122,289
Inventory at lower of FIFO cost or market	444,946	498,773	420,323
Excess of FIFO over LIFO cost	(49,902)	(49,902)	(48,726)
	$395,044	$448,871	$371,597

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Operating Cash Flow

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

	Six months ended	
	June 28, 2015	June 29, 2014
Cash flows from operating activities:		
Net income	$569,664	$620,070
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	93,640	87,123
Amortization of deferred loan origination costs	47,524	45,713
Amortization of financing origination fees	4,820	4,284
Provision for employee long-term benefits	24,635	16,854
Contributions to pension and postretirement plans	(12,725)	(14,035)
Stock compensation expense	16,734	20,768
Net change in wholesale finance receivables related to sales	(418,969)	(510,200)
Provision for credit losses	41,422	36,292
Loss on debt extinguishment	—	1,145
Deferred income taxes	(1,195)	(3,894)
Foreign currency adjustments	11,041	(5,084)
Other, net	(1,964)	9,332
Changes in current assets and liabilities:		
Accounts receivable, net	(43,309)	(25,643)
Finance receivables—accrued interest and other	(270)	(993)
Inventories	38,012	58,741
Accounts payable and accrued liabilities	232,357	226,233
Derivative instruments	1,185	968
Other	11,342	2,918
Total adjustments	44,280	(49,478)
Net cash provided by operating activities	$613,944	$570,592

4. Finance Receivables

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

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

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

	June 28, 2015	December 31, 2014	June 29, 2014
Retail	$5,962,685	$5,607,924	$5,603,187
Wholesale	1,325,041	952,321	1,338,085
	7,287,726	6,560,245	6,941,272
Allowance for credit losses	(139,231)	(127,364)	(122,355)
	$7,148,495	$6,432,881	$6,818,917

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

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

	Three months ended June 28, 2015		
	Retail	Wholesale	Total
Balance, beginning of period	$123,777	$9,043	$132,820
Provision for credit losses	16,890	(1,715)	15,175
Charge-offs	(21,003)	—	(21,003)
Recoveries	12,239	—	12,239
Balance, end of period	$131,903	$7,328	$139,231

	Three months ended June 29, 2014		
	Retail	Wholesale	Total
Balance, beginning of period	$106,776	$7,753	$114,529
Provision for credit losses	16,258	(297)	15,961
Charge-offs	(19,018)	—	(19,018)
Recoveries	10,883	—	10,883
Balance, end of period	$114,899	$7,456	$122,355

	Six months ended June 28, 2015		
	Retail	Wholesale	Total
Balance, beginning of period	$122,025	$5,339	$127,364
Provision for credit losses	39,433	1,989	41,422
Charge-offs	(53,736)	—	(53,736)
Recoveries	24,181	—	24,181
Balance, end of period	$131,903	$7,328	$139,231

	Six months ended June 29, 2014		
	Retail	Wholesale	Total
Balance, beginning of period	$106,063	$4,630	$110,693
Provision for credit losses	33,466	2,826	36,292
Charge-offs	(46,361)	—	(46,361)
Recoveries	21,731	—	21,731
Balance, end of period	$114,899	$7,456	$122,355

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

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

The wholesale portfolio is primarily composed of large balance, non-homogeneous loans. The Company's evaluation for the wholesale allowance for credit losses is first based on a loan-by-loan review. A specific allowance for credit losses is established for wholesale finance receivables determined to be individually impaired when management concludes that the

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borrower will not be able to make full payment of the contractual amounts due based on the original terms of the loan agreement. The impairment is determined based on the cash that the Company expects to receive discounted at the loan's original interest rate or the fair value of the collateral, if the loan is collateral-dependent. Finance receivables in the wholesale portfolio that are not considered impaired on an individual basis are segregated, based on similar risk characteristics, according to the Company's internal risk rating system and collectively evaluated for impairment. The related allowance for credit losses is based on factors such as the specific borrower's financial performance and ability to repay, the Company's past loan loss experience, current economic conditions, and the value of the underlying collateral.

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

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

	June 28, 2015		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	$—	$—	$—
Collectively evaluated for impairment	131,903	7,328	139,231
Total allowance for credit losses	$131,903	$7,328	$139,231
Finance receivables, ending balance:			
Individually evaluated for impairment	$—	$—	$—
Collectively evaluated for impairment	5,962,685	1,325,041	7,287,726
Total finance receivables	$5,962,685	$1,325,041	$7,287,726

	December 31, 2014		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	$—	$—	$—
Collectively evaluated for impairment	122,025	5,339	127,364
Total allowance for credit losses	$122,025	$5,339	$127,364
Finance receivables, ending balance:			
Individually evaluated for impairment	$—	$—	$—
Collectively evaluated for impairment	5,607,924	952,321	6,560,245
Total finance receivables	$5,607,924	$952,321	$6,560,245

	June 29, 2014		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	$—	$—	$—
Collectively evaluated for impairment	114,899	7,456	122,355
Total allowance for credit losses	$114,899	$7,456	$122,355
Finance receivables, ending balance:			
Individually evaluated for impairment	$—	$—	$—
Collectively evaluated for impairment	5,603,187	1,338,085	6,941,272
Total finance receivables	$5,603,187	$1,338,085	$6,941,272

There were no wholesale finance receivables at June 28, 2015, December 31, 2014, or June 29, 2014 that were individually deemed to be impaired under ASC Topic 310, "Receivables."

Retail finance receivables are contractually delinquent if the minimum payment is not received by the specified due date. Retail finance receivables are generally charged-off when the receivable is 120 days or more delinquent, the related asset is repossessed or the receivable is otherwise deemed uncollectible. All retail finance receivables accrue interest until either

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collected or charged-off. Accordingly, as of June 28, 2015, December 31, 2014 and June 29, 2014, all retail finance receivables were accounted for as interest-earning receivables, of which $18.3 million, $28.7 million and $14.7 million, respectively, were 90 days or more past due.

Wholesale finance receivables are delinquent if the minimum payment is not received by the contractual due date. Interest continues to accrue on past due finance receivables until the date the finance receivable becomes uncollectible and the finance receivable is placed on non-accrual status. The Company will resume accruing interest on these accounts when payments are current according to the terms of the loans and future payments are reasonably assured. While on non-accrual status, all cash received is applied to principal or interest as appropriate. Wholesale finance receivables are written down once management determines that the specific borrower does not have the ability to repay the loan in full. There were no wholesale receivables on non-accrual status at June 28, 2015, December 31, 2014 or June 29, 2014. At June 28, 2015, December 31, 2014 and June 29, 2014, $0.2 million, $0.2 million, and $0.03 million of wholesale finance receivables were 90 days or more past due and accruing interest, respectively.

An analysis of the aging of past due finance receivables was as follows (in thousands):

	June 28, 2015					
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Finance Receivables
Retail	$5,819,279	$96,982	$28,150	$18,274	$143,406	$5,962,685
Wholesale	1,324,174	513	181	173	867	1,325,041
Total	$7,143,453	$97,495	$28,331	$18,447	$144,273	$7,287,726
	December 31, 2014					
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Finance Receivables
Retail	$5,427,719	$113,007	$38,486	$28,712	$180,205	$5,607,924
Wholesale	951,660	383	72	206	661	952,321
Total	$6,379,379	$113,390	$38,558	$28,918	$180,866	$6,560,245
	June 29, 2014					
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Finance Receivables
Retail	$5,469,796	$90,617	$28,088	$14,686	$133,391	$5,603,187
Wholesale	1,337,437	501	113	34	648	1,338,085
Total	$6,807,233	$91,118	$28,201	$14,720	$134,039	$6,941,272

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

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

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

	June 28, 2015	December 31, 2014	June 29, 2014
Prime	$4,718,363	$4,435,352	$4,407,364
Sub-prime	1,244,322	1,172,572	1,195,823
Total	$5,962,685	$5,607,924	$5,603,187

The Company's credit risk on the wholesale portfolio is different from that of the retail portfolio. Whereas the retail portfolio represents a relatively homogeneous pool of retail finance receivables that exhibit more consistent loss patterns, the

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wholesale portfolio exposures are less consistent. The Company utilizes an internal credit risk rating system to manage credit risk exposure consistently across wholesale borrowers and individually evaluates credit risk factors for each borrower.

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

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

	June 28, 2015	December 31, 2014	June 29, 2014
Doubtful	$—	$954	$4,916
Substandard	7,739	7,025	4,192
Special Mention	15,343	—	—
Medium Risk	3,245	11,557	16,202
Low Risk	1,298,714	932,785	1,312,775
Total	$1,325,041	$952,321	$1,338,085

5. Asset-Backed Financing

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

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

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

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

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

	June 28, 2015					
	Finance receivables	Allowance for credit losses	Restricted cash	Other assets	Total assets	Asset-backed debt
On-balance sheet assets and liabilities						
Consolidated VIEs						
Term asset-backed securitizations	$2,199,018	$(49,400)	$149,418	$2,857	$2,301,893	$2,017,079
Asset-backed U.S. commercial paper conduit facility	—	—	—	210	210	—
Unconsolidated VIEs						
Asset-backed Canadian commercial paper conduit facility	176,730	(2,657)	12,793	340	187,206	160,940
Total on-balance sheet assets and liabilities	$2,375,748	$(52,057)	$162,211	$3,407	$2,489,309	$2,178,019
	December 31, 2014					
	Finance receivables	Allowance for credit losses	Restricted cash	Other assets	Total assets	Asset-backed debt
On-balance sheet assets and liabilities						
Consolidated VIEs						
Term asset-backed securitizations	$1,458,602	$(32,156)	$110,017	$2,987	$1,539,450	$1,271,533
Asset-backed U.S. commercial paper conduit facility	—	—	—	422	422	—
Unconsolidated VIEs						
Asset-backed Canadian commercial paper conduit facility	185,099	(2,965)	12,035	262	194,431	166,912
Total on-balance sheet assets and liabilities	$1,643,701	$(35,121)	$122,052	$3,671	$1,734,303	$1,438,445
	June 29, 2014					
	Finance receivables	Allowance for credit losses	Restricted cash	Other assets	Total assets	Asset-backed debt
On-balance sheet assets and liabilities						
Consolidated VIEs						
Term asset-backed securitizations	$1,893,585	$(39,329)	$141,146	$2,342	$1,997,744	$1,712,855
Asset-backed U.S. commercial paper conduit facility	—	—	—	179	179	—
Unconsolidated VIEs						
Asset-backed Canadian commercial paper conduit facility	203,800	(3,235)	13,535	240	214,340	173,224
Total on-balance sheet assets and liabilities	$2,097,385	$(42,564)	$154,681	$2,761	$2,212,263	$1,886,079

Term Asset-Backed Securitization VIEs

The Company transfers U.S. retail motorcycle finance receivables to SPEs which in turn issue secured notes to investors, with various maturities and interest rates, secured by future collections of the purchased U.S. retail motorcycle finance receivables. Each term asset-backed securitization SPE is a separate legal entity and the U.S. retail motorcycle finance receivables included in the term asset-backed securitizations are only available for payment of the secured debt and other obligations arising from the term asset-backed securitization transaction and are not available to pay other obligations or claims of the Company's creditors until the associated secured debt and other obligations are satisfied. Restricted cash balances held by the SPEs are used only to support the securitizations. There are no amortization schedules for the secured notes; however, the debt is reduced monthly as available collections on the related U.S. retail motorcycle finance receivables are applied to outstanding principal. The secured notes' contractual lives have various maturities ranging from 2015 to 2022.

During the second quarter of 2015, the Company issued $500.0 million of secured notes through one term asset-backed securitization transaction. The Company also issued $700.0 million of secured notes through one term asset-backed securitization transaction during the first quarter of 2015. During the second quarter of 2014, the Company issued $850.0

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million of secured notes through one term asset-backed securitization transaction. There were no other term asset-backed securitization transactions during the six months ended June 29, 2014.

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

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

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

The SPE had no borrowings outstanding under the U.S. Conduit at June 28, 2015, December 31, 2014 or June 29, 2014; therefore, U.S. Conduit assets are restricted as collateral for the payment of fees associated with the unused portion of the total aggregate commitment.

Asset-Backed Canadian Commercial Paper Conduit Facility

In June 2014, the Company amended its facility agreement (Canadian Conduit) with a Canadian bank-sponsored asset-backed commercial paper conduit. Under the agreement, the Canadian Conduit is contractually committed, at the Company's option, to purchase eligible Canadian retail motorcycle finance receivables for proceeds up to C$200.0 million. The transferred assets are restricted as collateral for the payment of the debt. The terms for this debt provide for interest on the outstanding principal based on prevailing market interest rates plus a specified margin. The Canadian Conduit also provides for a program fee and an unused commitment fee based on the unused portion of the total aggregate commitment of C$200.0 million. There is no amortization schedule; however, the debt is reduced monthly as available collections on the related finance receivables are applied to outstanding principal. Upon expiration of the Canadian Conduit, any outstanding principal will continue to be reduced monthly through available collections. Unless earlier terminated or extended by mutual agreement of the Company and the lenders, as of June 28, 2015, the Canadian Conduit had an expiration date of June 30, 2015. The Canadian Conduit was renewed on June 30, 2015 with similar terms and a borrowing amount of up to C$240.0 million with an expiration date of June 30, 2016. The contractual maturity of the debt is approximately 5 years.

As the Company participates in and does not consolidate the Canadian bank-sponsored, multi-seller conduit VIE, the maximum exposure to loss associated with this VIE, which would only be incurred in the unlikely event that all the finance receivables and underlying collateral have no residual value, was $26.3 million at June 28, 2015. The maximum exposure is not an indication of the Company's expected loss exposure.

During the second and first quarters of 2015, the Company transferred $26.8 million and $19.2 million of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of $23.4 million and $16.8 million, respectively. During the second and first quarters of 2014, HDFS transferred $26.4 million and $15.7 million of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of $23.1 million and $13.8 million, respectively. The transferred assets are restricted as collateral for the payment of the debt.

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6. Fair Value Measurements

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

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

Level 2 inputs include quoted prices for similar assets and observable inputs such as interest rates, foreign currency exchange rates and commodity prices. The Company uses the market approach to derive the fair value for its level 2 fair value measurements. Forward contracts for foreign currency, commodities and interest rates are valued using current quoted forward rates and prices; and investments in marketable securities and cash equivalents are valued using publicly quoted prices.

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

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Recurring Fair Value Measurements

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

	June 28, 2015			
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$1,030,928	$ 558,660	$472,268	$—
Marketable securities	90,214	37,698	52,516	—
Derivatives	26,501	—	26,501	—
	$1,147,643	$ 596,358	$551,285	$—
Liabilities:				
Derivatives	$986	$ —	$986	$—

	December 31, 2014			
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$737,024	$ 482,686	$254,338	$—
Marketable securities	91,140	33,815	57,325	—
Derivatives	32,244	—	32,244	—
	$860,408	$ 516,501	$343,907	$—
Liabilities:				
Derivatives	$2,027	$ —	$2,027	$—

	June 29, 2014			
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$660,520	$ 482,780	$177,740	$—
Marketable securities	91,381	33,567	57,814	—
Derivatives	3,159	—	3,159	—
	$755,060	$ 516,347	$238,713	$—
Liabilities:				
Derivatives	$1,478	$ —	$1,478	$—

Nonrecurring Fair Value Measurements

Repossessed inventory is recorded at the lower of cost or net realizable value through a nonrecurring fair value measurement. The nonrecurring fair value measurement represents the loss recognized to adjust the related finance receivable to the fair value of the repossessed inventory. Repossessed inventory was $13.1 million, $13.4 million and $11.2 million at June 28, 2015, December 31, 2014 and June 29, 2014, for which the fair value adjustment was $1.9 million, $5.0 million and $2.4 million at June 28, 2015, December 31, 2014 and June 29, 2014, respectively. Fair value is estimated using Level 2 inputs based on the recent market values of repossessed inventory.

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7. Fair Value of Financial Instruments

The Company’s financial instruments consist primarily of cash and cash equivalents, marketable securities, trade receivables, finance receivables, net, trade payables, debt, and foreign currency exchange and commodity contracts (derivative instruments are discussed further in Note 8).

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

	June 28, 2015		December 31, 2014		June 29, 2014	
	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value
Assets:						
Cash and cash equivalents	$1,247,579	$ 1,247,579	$906,680	$ 906,680	$999,346	$ 999,346
Marketable securities	$90,214	$ 90,214	$91,140	$ 91,140	$91,381	$ 91,381
Derivatives	$26,501	$ 26,501	$32,244	$ 32,244	$3,159	$ 3,159
Finance receivables, net	$7,251,671	$ 7,148,495	$6,519,500	$ 6,432,881	$6,917,698	$ 6,818,917
Restricted cash	$162,211	$ 162,211	$122,052	$ 122,052	$154,681	$ 154,681
Liabilities:						
Derivatives	$986	$ 986	$2,027	$ 2,027	$1,478	$ 1,478
Unsecured commercial paper	$114,983	$ 114,983	$731,786	$ 731,786	$619,622	$ 619,622
Asset-backed Canadian commercial paper conduit facility	$160,940	$ 160,940	$166,912	$ 166,912	$173,224	$ 173,224
Medium-term notes	$4,077,952	$ 3,933,698	$3,502,536	$ 3,334,398	$3,049,735	$ 2,853,232
Term asset-backed securitization debt	$2,016,232	$ 2,017,079	$1,270,656	$ 1,271,533	$1,717,287	$ 1,712,855

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

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

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

Derivatives – Forward contracts for foreign currency exchange, interest rates and commodities are derivative financial instruments and are carried at fair value on the balance sheet. The fair value of these contracts is determined using quoted forward rates and prices. Fair value is calculated using Level 2 inputs.

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

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

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

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

8. Derivative Instruments and Hedging Activities

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

All derivative instruments are recognized on the balance sheet at fair value (see Note 6). In accordance with ASC Topic 815, "Derivatives and Hedging," the accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. Changes in the fair value of derivatives that are designated as fair value hedges, along with the gain or loss on the hedged item, are recorded in current period earnings. For derivative instruments that are designated as cash flow hedges, the effective portion of gains and losses that result from changes in the fair value of derivative instruments is initially recorded in other comprehensive income (OCI) and subsequently reclassified into earnings when the hedged item affects income. The Company assesses, both at the inception of each hedge and on an on-going basis, whether the derivatives that are used in its hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. Any ineffective portion is immediately recognized in earnings. No component of a hedging derivative instrument's gain or loss is excluded from the assessment of hedge effectiveness. Derivative instruments that do not qualify for hedge accounting are recorded at fair value, and any changes in fair value are recorded in current period earnings.

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

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

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

During the second quarter of 2015, the Company entered into treasury rate locks to hedge the underlying U.S. treasury rate related to its anticipated issuance of senior unsecured debt during the third quarter of 2015. To the extent effective, gains and losses on the fair value of the treasury rate locks will be deferred until the forecasted debt is issued and will be amortized to earnings over the life of the debt.

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

	June 28, 2015			December 31, 2014			June 29, 2014		
Derivatives Designated As Hedging Instruments Under ASC Topic 815	Notional Value	Asset Fair Value[(a)]	Liability Fair Value[(b)]	Notional Value	Asset Fair Value[(a)]	Liability Fair Value[(b)]	Notional Value	Asset Fair Value[(a)]	Liability Fair Value[(b)]
Foreign currency contracts[(c)]	$367,309	$23,136	$—	$339,077	$32,244	$—	$398,338	$3,091	$1,461
Commodity contracts[(c)]	1,166	—	98	1,728	—	414	1,411	—	17
Treasury rate locks[(c)]	300,000	3,365	—	—	—	—	—	—	—
Total	$668,475	$26,501	$98	$340,805	$32,244	$414	$399,749	$3,091	$1,478

	June 28, 2015			December 31, 2014			June 29, 2014		
Derivatives Not Designated As Hedging Instruments Under ASC Topic 815	Notional Value	Asset Fair Value[(a)]	Liability Fair Value[(b)]	Notional Value	Asset Fair Value[(a)]	Liability Fair Value[(b)]	Notional Value	Asset Fair Value[(a)]	Liability Fair Value[(b)]
Commodity contracts	$8,218	$—	$888	$11,804	$—	$1,613	$7,754	$68	$—
	$8,218	$—	$888	$11,804	$—	$1,613	$7,754	$68	$—

(a) Foreign currency and commodity contract fair value included in other current assets and Treasury rate lock fair value included in other long-term assets
(b) Included in accrued liabilities
(c) Derivative designated as a cash flow hedge

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

	Amount of Gain/(Loss) Recognized in OCI, before tax			
	Three months ended		Six months ended	
Cash Flow Hedges	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Foreign currency contracts	$(4,458)	$3,931	$28,210	$2,493
Commodity contracts	(3)	(24)	(123)	191
Treasury rate locks	3,365	—	3,365	—
Total	$(1,096)	$3,907	$31,452	$2,684

	Amount of Gain/(Loss) Reclassified from AOCL into Income				
	Three months ended		Six months ended		Expected to be Reclassified
Cash Flow Hedges	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014	Over the Next Twelve Months
Foreign currency contracts[(a)]	$20,131	$(1,183)	$35,407	$(2,241)	$ 23,461
Commodity contracts[(a)]	(125)	87	(439)	283	(98)
Treasury rate locks[(b)]	—	—	—	—	191
Total	$20,006	$(1,096)	$34,968	$(1,958)	$ 23,554

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

(b) Gain/(loss) reclassified from accumulated other comprehensive loss (AOCL) to income will be included in interest expense

For the three and six months ended June 28, 2015 and June 29, 2014, the cash flow hedges were highly effective and, as a result, the amount of hedge ineffectiveness was not material. No amounts were excluded from effectiveness testing.

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

	Amount of Gain/(Loss) Recognized in Income on Derivative			
	Three months ended		Six months ended	
Derivatives Not Designated As Hedges	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Commodity contracts[(a)]	$14	$184	$(526)	$(144)
Total	$14	$184	$(526)	$(144)

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

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

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9. Accumulated Other Comprehensive Loss

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

	Three months ended June 28, 2015				
	Foreign currency translation adjustments	Marketable securities	Derivative financial instruments	Pension and postretirement benefit plans	Total
Balance, beginning of period	$(30,503)	$(767)	$30,114	$(521,005)	$(522,161)
Other comprehensive income (loss) before reclassifications	5,040	(204)	(1,096)	—	3,740
Income tax	(789)	76	406	—	(307)
Net other comprehensive income (loss) before reclassifications	4,251	(128)	(690)	—	3,433
Reclassifications:					
Realized (gains) losses - foreign currency contracts[a]	—	—	(20,131)	—	(20,131)
Realized (gains) losses - commodities contracts[a]	—	—	125	—	125
Prior service credits[b]	—	—	—	(695)	(695)
Actuarial losses[b]	—	—	—	14,670	14,670
Total before tax	—	—	(20,006)	13,975	(6,031)
Income tax expense (benefit)	—	—	7,410	(5,177)	2,233
Net reclassifications	—	—	(12,596)	8,798	(3,798)
Other comprehensive income (loss)	4,251	(128)	(13,286)	8,798	(365)
Balance, end of period	$(26,252)	$(895)	$16,828	$(512,207)	$(522,526)

	Three months ended June 29, 2014				
	Foreign currency translation adjustments	Marketable securities	Derivative financial instruments	Pension and postretirement benefit plans	Total
Balance, beginning of period	$36,274	$(318)	$(1,907)	$(357,978)	$(323,929)
Other comprehensive income (loss) before reclassifications	6,945	(117)	3,907	—	10,735
Income tax	(1,212)	43	(1,448)	—	(2,617)
Net other comprehensive income (loss) before reclassifications	5,733	(74)	2,459	—	8,118
Reclassifications:					
Realized (gains) losses - foreign currency contracts[a]	—	—	1,183	—	1,183
Realized (gains) losses - commodities contracts[a]	—	—	(87)	—	(87)
Prior service credits[b]	—	—	—	(684)	(684)
Actuarial losses[b]	—	—	—	10,323	10,323
Total before tax	—	—	1,096	9,639	10,735
Income tax benefit	—	—	(405)	(3,570)	(3,975)
Net reclassifications	—	—	691	6,069	6,760
Other comprehensive income (loss)	5,733	(74)	3,150	6,069	14,878

Balance, end of period	$42,007	$(392)	$1,243	$(351,909)	$(309,051)

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	Six months ended June 28, 2015				
	Foreign currency translation adjustments	Marketable securities	Derivative financial instruments	Pension and postretirement benefit plans	Total
Balance, beginning of period	$(3,482)	$(700)	$19,042	$(529,803)	$(514,943)
Other comprehensive (loss) income before reclassifications	(24,951)	(310)	31,452	—	6,191
Income tax	2,181	115	(11,650)	—	(9,354)
Net other comprehensive (loss) income before reclassifications	(22,770)	(195)	19,802	—	(3,163)
Reclassifications:					
Realized (gains) losses - foreign currency contracts[a]	—	—	(35,407)	—	(35,407)
Realized (gains) losses - commodities contracts[a]	—	—	439	—	439
Prior service credits[b]	—	—	—	(1,390)	(1,390)
Actuarial losses[b]	—	—	—	29,340	29,340
Total before tax	—	—	(34,968)	27,950	(7,018)
Income tax expense (benefit)	—	—	12,952	(10,354)	2,598
Net reclassifications	—	—	(22,016)	17,596	(4,420)
Other comprehensive (loss) income	(22,770)	(195)	(2,214)	17,596	(7,583)
Balance, end of period	$(26,252)	$(895)	$16,828	$(512,207)	$(522,526)

	Six months ended June 29, 2014				
	Foreign currency translation adjustments	Marketable securities	Derivative financial instruments	Pension and postretirement benefit plans	Total
Balance, beginning of period	$33,326	$(276)	$(1,680)	$(364,046)	$(332,676)
Other comprehensive income (loss) before reclassifications	8,700	(184)	2,684	—	11,200
Income tax	(19)	68	(994)	—	(945)
Net other comprehensive income (loss) before reclassifications	8,681	(116)	1,690	—	10,255
Reclassifications:					
Realized (gains) losses - foreign currency contracts[a]	—	—	2,241	—	2,241
Realized (gains) losses - commodities contracts[a]	—	—	(283)	—	(283)
Prior service credits[b]	—	—	—	(1,368)	(1,368)
Actuarial losses[b]	—	—	—	20,645	20,645
Total before tax	—	—	1,958	19,277	21,235
Income tax benefit	—	—	(725)	(7,140)	(7,865)
Net reclassifications	—	—	1,233	12,137	13,370
Other comprehensive income (loss)	8,681	(116)	2,923	12,137	23,625
Balance, end of period	$42,007	$(392)	$1,243	$(351,909)	$(309,051)

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

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

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10. Debt

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

	June 28, 2015	December 31, 2014	June 29, 2014
Unsecured commercial paper	$114,983	$731,786	$619,622

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

	June 28, 2015	December 31, 2014	June 29, 2014
Secured debt			
Asset-backed Canadian commercial paper conduit facility	$160,940	$166,912	$173,224
Term asset-backed securitization debt	2,017,079	1,271,533	1,712,855
Unsecured notes			
5.75% Medium-term notes due in 2014 ($500.0 million par value)	—	—	499,946
1.15% Medium-term notes due in 2015 ($600.0 million par value)	599,954	599,817	599,680
3.88% Medium-term notes due in 2016 ($450.0 million par value)	449,964	449,937	449,910
2.70% Medium-term notes due in 2017 ($400.0 million par value)	399,972	399,963	399,955
1.55% Medium-term notes due in 2017 ($400.0 million par value)	399,557	399,464	—
6.80% Medium-term notes due in 2018 ($888.0 million par value)	887,467	887,381	903,741
2.40% Medium-term notes due in 2019 ($600.0 million par value)	598,066	597,836	—
2.15% Medium-term notes due in 2020 ($600.0 million par value)	598,718	—	—
Gross long-term debt	6,111,717	4,772,843	4,739,311
Less: current portion of long-term debt	(1,551,368)	(1,011,315)	(944,915)
Long-term debt	$4,560,349	$3,761,528	$3,794,396

During the first and second quarters of 2015, the Company issued $700.0 million and $500.0 million, respectively, of secured notes through term asset-backed securitization transactions. During the second quarter of 2014, the Company issued $850.0 million of secured notes through one term asset-backed securitization transaction. There were no other term asset-backed securitization transactions during the six months ended June 29, 2014. The term asset-backed securitization transactions are further discussed in Note 5.

There were no medium-term notes issued or repurchased during the second quarter of 2015. During the first quarter of 2015, the Company issued $600.0 million of medium-term notes which mature in February 2020 and have an annual interest rate of 2.15%. There were no medium-term notes issued during the six months ended June 29, 2014. During the second quarter of 2014, HDFS repurchased an aggregate of $6.1 million of its 6.80% medium-term notes which mature in June 2018. As a result, HDFS recognized in financial services interest expense $1.1 million of loss on the extinguishment of debt, which included unamortized discounts and fees.

11. Income Taxes

The Company’s 2015 income tax rate for the six months ended June 28, 2015 was 34.9% compared to 35.3% for the same period last year.

12. Product Warranty and Recall Campaigns

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

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

	Three months ended		Six months ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Balance, beginning of period	$71,073	$69,336	$69,250	$64,120
Warranties issued during the period	21,843	19,824	36,954	37,186
Settlements made during the period	(23,554)	(16,921)	(37,119)	(28,494)
Recalls and changes to pre-existing warranty liabilities	14,054	3,798	14,331	3,225
Balance, end of period	$83,416	$76,037	$83,416	$76,037

The liability for recall campaigns was $16.6 million, $9.8 million and $6.8 million as of June 28, 2015, December 31, 2014 and June 29, 2014, respectively.

13. Earnings Per Share

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

	Three months ended		Six months ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Numerator:				
Net income used in computing basic and diluted earnings per share	$299,810	$354,153	$569,664	$620,070
Denominator:				
Denominator for basic earnings per share - weighted-average common shares	207,650	217,762	209,115	218,367
Effect of dilutive securities - employee stock compensation plan	940	1,399	1,050	1,453
Denominator for diluted earnings per share - adjusted weighted-average shares outstanding	208,590	219,161	210,165	219,820
Earnings per common share:				
Basic	$1.44	$1.63	$2.72	$2.84
Diluted	$1.44	$1.62	$2.71	$2.82

Outstanding options to purchase 1.0 million and 0.4 million shares of common stock for the three months ended June 28, 2015 and June 29, 2014, respectively and 0.8 million and 0.5 million shares of common stock for the six months ended June 28, 2015 and June 29, 2014 were not included in the Company's computation of dilutive securities because the exercise price was greater than the market price and therefore the effect would have been anti-dilutive.

The Company has a share-based compensation plan under which employees may be granted share-based awards including shares of restricted stock and restricted stock units (RSUs). Non-forfeitable dividends are paid on unvested shares of restricted stock and non-forfeitable dividend equivalents are paid on unvested RSUs. As such, shares of restricted stock and RSUs are considered participating securities under the two-class method of calculating earnings per share as described in ASC Topic 260, "Earnings per Share." The two-class method of calculating earnings per share did not have a material impact on the Company's earnings per share calculation for the three and six month periods ended June 28, 2015 and June 29, 2014, respectively.

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14. Employee Benefit Plans

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

	Three months ended		Six months ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Pension and SERPA Benefits				
Service cost	$10,010	$7,874	$20,020	$15,748
Interest cost	21,836	21,731	43,672	43,462
Expected return on plan assets	(36,232)	(34,184)	(72,465)	(68,368)
Amortization of unrecognized:				
Prior service cost	109	279	218	558
Net loss	13,677	9,141	27,354	18,281
Net periodic benefit cost	$9,400	$4,841	$18,799	$9,681
Postretirement Healthcare Benefits				
Service cost	$2,065	$1,754	$4,130	$3,508
Interest cost	3,541	4,220	7,082	8,439
Expected return on plan assets	(2,877)	(2,607)	(5,754)	(5,215)
Amortization of unrecognized:				
Prior service credit	(804)	(963)	(1,608)	(1,927)
Net loss	993	1,182	1,986	2,364
Net periodic benefit cost	$2,918	$3,586	$5,836	$7,169

No pension contributions to qualified plans are required in 2015. The Company expects it will continue to make on-going contributions related to current benefit payments for SERPA and postretirement healthcare plans.

15. Business Segments

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

	Three months ended		Six months ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Motorcycles net revenue	$1,650,783	$1,834,285	$3,161,353	$3,405,973
Gross profit	647,214	724,139	1,237,489	1,316,270
Selling, administrative and engineering expense	266,611	250,883	511,432	495,322
Operating income from Motorcycles	380,603	473,256	726,057	820,948
Financial Services revenue	173,609	166,414	335,984	320,774
Financial Services expense	91,696	91,975	189,407	183,145
Operating income from Financial Services	81,913	74,439	146,577	137,629
Operating income	$462,516	$547,695	$872,634	$958,577

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16. Commitments and Contingencies

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

Environmental Protection Agency Notice

In December 2009, the Company received formal, written requests for information from the United States Environmental Protection Agency (EPA) regarding: (i) certificates of conformity for motorcycle emissions and related designations and labels, (ii) aftermarket parts, and (iii) warranty claims on emissions related components. The Company promptly submitted written responses to the EPA’s inquiry and has engaged in discussions with the EPA. Since that time, the EPA has delivered various additional requests for information to which the Company has responded. It is probable that a result of the EPA’s investigation will be some form of enforcement action by the EPA that will seek a fine and/or other relief. The Company has a reserve associated with this matter which is included in accrued liabilities in the Consolidated Balance Sheet. However, given the uncertainty that still exists concerning the resolution of this matter, there is a possibility that the actual loss incurred may be materially different than the Company’s current reserve. At this time, the Company cannot reasonably estimate the impact of any remedies the EPA might seek beyond the Company's current reserve for this matter, if any.

York Environmental Matters:

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

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

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

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

Product Liability Matters:

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

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17. Supplemental Consolidating Data

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

	Three months ended June 28, 2015			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations	Consolidated
Revenue:				
Motorcycles and Related Products	$1,653,759	$ —	$(2,976)	$1,650,783
Financial Services	—	174,147	(538)	173,609
Total revenue	1,653,759	174,147	(3,514)	1,824,392
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	1,003,569	—	—	1,003,569
Financial Services interest expense	—	41,188	—	41,188
Financial Services provision for credit losses	—	15,175	—	15,175
Selling, administrative and engineering expense	267,149	38,309	(3,514)	301,944
Total costs and expenses	1,270,718	94,672	(3,514)	1,361,876
Operating income	383,041	79,475	—	462,516
Investment income	1,450	—	—	1,450
Interest expense	9	—	—	9
Income before provision for income taxes	384,482	79,475	—	463,957
Provision for income taxes	134,633	29,514	—	164,147
Net income	$249,849	$ 49,961	$—	$299,810

	Six months ended June 28, 2015			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations	Consolidated
Revenue:				
Motorcycles and Related Products	$3,166,641	$ —	$(5,288)	$3,161,353
Financial Services	—	336,837	(853)	335,984
Total revenue	3,166,641	336,837	(6,141)	3,497,337
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	1,923,864	—	—	1,923,864
Financial Services interest expense	—	79,724	—	79,724
Financial Services provision for credit losses	—	41,422	—	41,422
Selling, administrative and engineering expense	512,284	73,550	(6,141)	579,693
Total costs and expenses	2,436,148	194,696	(6,141)	2,624,703
Operating income	730,493	142,141	—	872,634
Investment income	102,772	—	(100,000)	2,772
Interest expense	18	—	—	18
Income before provision for income taxes	833,247	142,141	(100,000)	875,388
Provision for income taxes	256,149	49,575	—	305,724

Net income	$577,098	$ 92,566	$(100,000)	$569,664

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	Three months ended June 29, 2014			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations	Consolidated
Revenue:				
Motorcycles and Related Products	$1,836,974	$ —	$(2,689)	$1,834,285
Financial Services	—	166,963	(549)	166,414
Total revenue	1,836,974	166,963	(3,238)	2,000,699
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	1,110,146	—	—	1,110,146
Financial Services interest expense	—	40,741	—	40,741
Financial Services provision for credit losses	—	15,961	—	15,961
Selling, administrative and engineering expense	251,432	37,962	(3,238)	286,156
Total costs and expenses	1,361,578	94,664	(3,238)	1,453,004
Operating income	475,396	72,299	—	547,695
Investment income	1,772	—	—	1,772
Interest expense	393	—	—	393
Income before provision for income taxes	476,775	72,299	—	549,074
Provision for income taxes	168,303	26,618	—	194,921
Net income	$308,472	$ 45,681	$—	$354,153

	Six months ended June 29, 2014			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations	Consolidated
Revenue:				
Motorcycles and Related Products	$3,410,941	$ —	$(4,968)	$3,405,973
Financial Services	—	321,649	(875)	320,774
Total revenue	3,410,941	321,649	(5,843)	3,726,747
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	2,089,703	—	—	2,089,703
Financial Services interest expense	—	79,598	—	79,598
Financial Services provision for credit losses	—	36,292	—	36,292
Selling, administrative and engineering expense	496,197	72,223	(5,843)	562,577
Total costs and expenses	2,585,900	188,113	(5,843)	2,768,170
Operating income	825,041	133,536	—	958,577
Investment income	123,431	—	(120,000)	3,431
Interest expense	4,070	—	—	4,070
Income before provision for income taxes	944,402	133,536		