

HARLEY DAVIDSON INC
Form 10-Q
November 03, 2010
[Table of Contents](#)

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 September 26, 2010

.. **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)

Edgar Filing: HARLEY DAVIDSON INC - Form 10-Q

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 No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Number of shares of the registrant's common stock outstanding at October 29, 2010: 235,535,660 shares

Table of Contents

Harley-Davidson, Inc.

Form 10-Q

For The Quarter Ended September 26, 2010

Part I	<u>Financial Information</u>	3
Item 1.	<u>Financial Statements</u>	3
	<u>Condensed Consolidated Statements of Operations</u>	3
	<u>Condensed Consolidated Balance Sheets</u>	4
	<u>Condensed Consolidated Statements of Cash Flows</u>	5
	<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	39
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	64
Item 4.	<u>Controls and Procedures</u>	64
Part II	<u>Other Information</u>	65
Item 1.	<u>Legal Proceedings</u>	65
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	67
Item 6.	<u>Exhibits</u>	68
	<u>Signatures</u>	69

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****HARLEY-DAVIDSON, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share amounts)****(Unaudited)**

	Three months ended		Nine months ended	
	September 26, 2010	September 27, 2009	September 26, 2010	September 27, 2009
Revenue:				
Motorcycles and related products	\$ 1,087,115	\$ 1,108,465	\$ 3,259,551	\$ 3,522,631
Financial services	172,845	136,993	516,387	365,627
Total revenue	1,259,960	1,245,458	3,775,938	3,888,258
Costs and expenses:				
Motorcycles and related products cost of goods sold	707,309	738,331	2,103,214	2,291,256
Financial services interest expense	62,780	80,174	213,104	212,992
Financial services provision for credit losses	28,049	56,445	69,117	137,831
Selling, administrative and engineering expense	241,976	219,450	720,755	690,836
Restructuring expense and other impairments	67,476	51,949	145,837	101,942
Goodwill impairment				28,387
Total costs and expenses	1,107,590	1,146,349	3,252,027	3,463,244
Operating income	152,370	99,109	523,911	425,014
Investment income	1,239	947	3,666	3,217
Interest expense	23,102	882	70,148	11,468
Income before provision for income taxes	130,507	99,174	457,429	416,763
Provision for income taxes	36,790	42,793	155,684	198,952
Income from continuing operations	93,717	56,381	301,745	217,811
Loss from discontinued operations, net of tax	(4,888)	(29,898)	(108,434)	(54,231)
Net income	\$ 88,829	\$ 26,483	\$ 193,311	\$ 163,580
Earnings per common share from continuing operations:				
Basic	\$ 0.40	\$ 0.24	\$ 1.29	\$ 0.94
Diluted	\$ 0.40	\$ 0.24	\$ 1.29	\$ 0.93
Loss per common share from discontinued operations:				
Basic	\$ (0.02)	\$ (0.13)	\$ (0.46)	\$ (0.23)
Diluted	\$ (0.02)	\$ (0.13)	\$ (0.46)	\$ (0.23)

Edgar Filing: HARLEY DAVIDSON INC - Form 10-Q

Earnings per common share:					
Basic	\$	0.38	\$	0.11	\$ 0.83 \$ 0.70
Diluted	\$	0.38	\$	0.11	\$ 0.82 \$ 0.70
Cash dividends per common share	\$	0.10	\$	0.10	\$ 0.30 \$ 0.30

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

Table of Contents**HARLEY-DAVIDSON, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands)**

	(Unaudited) September 26, 2010	December 31, 2009	(Unaudited) September 27, 2009
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,494,301	\$ 1,630,433	\$ 1,518,799
Marketable securities	55,229	39,685	
Accounts receivable, net	306,085	269,371	304,410
Finance receivables held for investment, net	1,065,103	1,436,114	1,525,164
Restricted finance receivables held by variable interest entities, net	674,371		
Inventories	319,101	323,029	398,852
Assets of discontinued operations		181,211	233,339
Restricted cash held by variable interest entities	287,613		
Other current assets	297,157	462,106	410,853
Total current assets	4,498,960	4,341,949	4,391,417
Finance receivables held for investment, net	2,045,249	3,621,048	3,652,987
Restricted finance receivables held by variable interest entities, net	2,425,788		
Property, plant and equipment, net	779,991	906,906	939,446
Goodwill	29,992	31,400	32,498
Other long-term assets	260,980	254,215	336,720
	\$ 10,040,960	\$ 9,155,518	\$ 9,353,068
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 243,840	\$ 162,515	\$ 276,789
Accrued liabilities	690,811	514,084	620,354
Liabilities of discontinued operations		69,535	71,058
Short-term debt	587,981	189,999	1,325,303
Current portion of long-term debt	201,426	1,332,091	668,205
Current portion of long-term debt held by variable interest entities	731,833		
Total current liabilities	2,455,891	2,268,224	2,961,709
Long-term debt	2,814,400	4,114,039	3,176,648
Long-term debt held by variable interest entities	1,801,537		
Pension liability	353,896	245,332	498,959
Postretirement healthcare liability	272,232	264,472	269,515
Other long-term liabilities	153,054	155,333	156,265
Commitments and contingencies (Note 18)			
Total shareholders' equity	2,189,950	2,108,118	2,289,972

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

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

	Nine months ended	
	September 26, 2010	September 27, 2009
Net cash provided by operating activities of continuing operations (Note 3)	\$ 1,169,502	\$ 561,338
Cash flows from investing activities of continuing operations:		
Capital expenditures	(77,559)	(76,601)
Origination of finance receivables held for investment	(1,841,403)	(943,557)
Collections on finance receivables held for investment	2,041,976	423,641
Collection of retained securitization interests		45,843
Purchases of marketable securities	(68,497)	
Sales and redemptions of marketable securities	54,579	
Net cash provided by (used by) investing activities of continuing operations	109,096	(550,674)
Cash flows from financing activities of continuing operations:		
Proceeds from issuance of senior unsecured notes		589,030
Proceeds from securitization debt		1,195,129
Repayments of securitization debt	(1,518,528)	(106,350)
Net increase (decrease) in credit facilities and unsecured commercial paper	145,687	(556,101)
Net borrowings of asset-backed commercial paper	(845)	56,691
Net change in restricted cash	78,928	(127,462)
Dividends	(70,480)	(70,329)
Purchase of common stock for treasury	(1,687)	(296)
Excess tax benefits from share-based payments	3,590	148
Issuance of common stock under employee stock option plans	7,466	11
Net cash (used by) provided by financing activities of continuing operations	(1,355,869)	980,471
Effect of exchange rate changes on cash and cash equivalents of continuing operations	4,921	11,829
Net (decrease) increase in cash and cash equivalents of continuing operations	(72,350)	1,002,964
Cash flows from discontinued operations:		
Cash flows from operating activities of discontinued operations	(68,650)	(50,044)
Cash flows from investing activities of discontinued operations		(18,010)
Effect of exchange rate changes on cash and cash equivalents of discontinued operations	(1,195)	(4,086)
	(69,845)	(72,140)
Net (decrease) increase in cash and cash equivalents	\$ (142,195)	\$ 930,824
Cash and cash equivalents:		
Cash and cash equivalents - beginning of period	\$ 1,630,433	\$ 568,894
Cash and cash equivalents of discontinued operations - beginning of period	6,063	24,664

Edgar Filing: HARLEY DAVIDSON INC - Form 10-Q

Net (decrease) increase in cash and cash equivalents	(142,195)	930,824
Less: Cash and cash equivalents of discontinued operations - end of period		(5,583)
Cash and cash equivalents - end of period	\$ 1,494,301	\$ 1,518,799

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

Table of Contents

HARLEY-DAVIDSON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation and Use of Estimates

The condensed consolidated financial statements include the accounts of Harley-Davidson, Inc. and its wholly-owned subsidiaries (the Company), including the accounts of the groups of companies doing business as Harley-Davidson Motor Company (HDMC), Buell Motorcycle Company (Buell) 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 transactions are eliminated.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the condensed consolidated balance sheets as of September 26, 2010 and September 27, 2009, the condensed consolidated statements of operations for the three and nine month periods then ended and the condensed consolidated statements of cash flows for the nine month periods then ended.

Certain information and footnote disclosures normally included in complete financial statements have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and U.S. generally accepted accounting principles (U.S. GAAP) for interim financial reporting. These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

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

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

During 2008, the Company acquired Italian motorcycle manufacturer MV Agusta (MV) and the results of MV were included in the Motorcycles segment. On October 15, 2009, the Company announced its intent to divest MV. The Motorcycles segment financial information has been adjusted to reflect MV as a discontinued operation for all periods presented. On August 6, 2010, the Company concluded the sale of MV to a company controlled by the former owner of MV.

2. New Accounting Standards

Accounting Standards Recently Adopted

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140. SFAS No. 166 amended the guidance within Accounting Standards Codification (ASC) Topic 860, Transfers and Servicing, primarily by removing the concept of a qualifying special purpose entity as well as removing the exception from applying FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities. Upon the effective adoption date, formerly qualifying special purpose entities (QSPEs) as defined under prior U.S. GAAP had to be evaluated for consolidation within an entity's financial statements. Additionally, the guidance within ASC Topic 860 requires enhanced disclosures about the transfer of financial assets as well as an entity's continuing involvement, if any, in transferred financial assets. In connection with term asset-backed securitization transactions prior to 2009, HDFS utilized QSPEs as defined under prior U.S. GAAP which were not subject to consolidation in the Company's financial statements.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R). SFAS No. 167 amended the guidance within ASC Topic 810, Consolidations, by adding formerly off-balance sheet QSPEs to its scope (the concept of these entities was eliminated by SFAS No. 166). In addition, companies must perform an analysis to determine whether the company's variable interest or interests give it a controlling financial interest in a variable interest entity (VIE). Companies must also reassess on an ongoing basis whether they are the primary beneficiary

of a VIE.

Table of Contents*Effects of Adoption on January 1, 2010*

The Company was required to adopt the new guidance within ASC Topic 810 and ASC Topic 860 as of January 1, 2010. The Company determined that the formerly unconsolidated QSPEs that HDFS utilized were VIEs, of which the Company was the primary beneficiary, and consolidated them into the Company's financial statements beginning January 1, 2010. In accordance with ASC Topic 810, the Company measured the initial carrying values of the assets and liabilities of the VIEs by determining what those values would have been on January 1, 2010 as if the new guidance had been in effect when the Company first met the conditions as the primary beneficiary. The Company's VIEs are discussed in further detail in Note 7.

The initial adoption of the new accounting guidance within ASC Topic 810 and ASC Topic 860 did not impact the Company's statement of operations. The following table summarizes the effects on the Company's balance sheet of adopting the new guidance within ASC Topic 810 and ASC Topic 860 on January 1, 2010 (in thousands):

	As of December 31, 2009	Effect of consolidation	As of January 1, 2010
Finance receivables held for investment ⁽¹⁾	\$ 4,961,894	\$ 1,922,833	\$ 6,884,727
Allowance for finance credit losses ⁽¹⁾	\$ (150,082)	\$ (49,424)	\$ (199,506)
Investment in retained securitization interests ⁽¹⁾	\$ 245,350	\$ (245,350)	\$
Restricted cash held by variable interest entities ⁽²⁾	\$	\$ 198,874	\$ 198,874
Other current assets ⁽²⁾	\$ 462,106	\$ 40,224	\$ 502,330
Accrued liabilities	\$ (514,084)	\$ (11,952)	\$ (526,036)
Long-term debt	\$ (5,446,130)	\$ (1,892,313)	\$ (7,338,443)
Retained earnings	\$ (6,324,268)	\$ 40,591	\$ (6,283,677)
Accumulated other comprehensive loss	\$ 417,898	\$ (3,483)	\$ 414,415

(1) These three lines items were reported together as finance receivables held for investment, net prior to January 1, 2010.

(2) At December 31, 2009, the Company had \$167.7 million of restricted cash related to its 2009 on-balance sheet term-asset backed securitization transactions and its asset-backed commercial paper conduit facility. These amounts were reported within Other current assets as of December 31, 2009.

Financial Statement Comparability to Prior Periods

The new accounting guidance within ASC Topic 810 and ASC Topic 860 is adopted on a prospective basis. Prior periods have not been restated and therefore will not be comparable to the current period as discussed below.

Under the new accounting guidance, the Company's securitization transactions are considered secured borrowings rather than asset sales. Beginning in 2010, the Company recognizes interest income and credit losses on the previously unconsolidated securitized receivables and interest expense on the related debt. The Company's statement of operations no longer includes income from securitizations which consisted of an initial gain or loss on new securitization transactions, income on the investment in retained securitization interests and servicer fees. In addition, the Company no longer incurs charges related to other-than-temporary impairments on its investment in retained securitization interests as that asset has been derecognized.

Finance receivables consolidated as part of the adoption of the new accounting guidance, as well as finance receivables securitized as part of the Company's 2009 on-balance sheet securitization transactions and finance receivables restricted as collateral under the Company's asset-backed commercial paper conduit facility, are reported on the Company's balance sheet as restricted finance receivables held for investment by VIEs. Prior to the adoption of the new accounting guidance, finance receivables held by VIEs were included in finance receivables held for investment. In addition, finance receivable securitization debt is now reported as debt held by VIEs.

Table of Contents

Historically, U.S. retail motorcycle finance receivables intended for securitization through off-balance sheet securitization transactions were initially classified as finance receivables held for sale. Accordingly, all of the related cash flows were classified as operating cash flows in the statement of cash flows. After the adoption of the new guidance within ASC Topic 810 and ASC Topic 860, all retail finance receivables are considered held for investment, as the Company has the intent and ability to hold the finance receivables for the foreseeable future, or until maturity. The adoption guidance within ASC Topic 810 and ASC Topic 860 requires the Company to apply the standards on a prospective basis as if they had always been in effect. Therefore, the Company has classified post-January 1, 2010 cash flows related to all of its retail motorcycle finance receivables as investing cash flows in the statement of cash flows.

Accounting Standards Not Yet Adopted

In July 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. ASU No. 2010-20 amends the guidance with ASC Topic 310, Receivables to facilitate financial statement users' evaluation of (1) the nature of credit risk inherent in the entity's portfolio of financing receivables; (2) how that risk is analyzed and assessed in arriving at the allowance for credit losses; and (3) the changes and reasons for those changes in the allowance for credit losses. The amendments in ASU No. 2010-20 also require an entity to provide additional disclosures such as a rollforward schedule of the allowance for credit losses on a portfolio segment basis, credit quality indicators of financing receivables and the aging of past due financing receivables. The Company is required to adopt ASU No. 2010-20 as of December 15, 2010 and is currently evaluating the impact the new disclosure requirements will have on its financials statements and notes.

3. Additional Balance Sheet and Cash Flow Information*Marketable Securities*

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

	September 26, 2010	December 31, 2009	September 27, 2009
Available-for-sale:			
Corporate bond investments	\$ 55,229	\$ 39,685	\$

The Company's available-for-sale securities have maturities of less than one year and are carried at fair value with any unrealized gains or losses reported in other comprehensive income. During the first nine months of 2010, the Company recognized gross unrealized gains of \$1.1 million, or \$0.7 million net of tax, to adjust amortized cost to fair value. There were no marketable securities held at September 27, 2009.

Table of Contents*Finance Receivables*

Finance receivables held for investment, net, including finance receivables held by VIEs, consisted of the following (in thousands):

	September 26, 2010	December 31, 2009	September 27, 2009
Wholesale	\$ 717,660	\$ 870,001	\$ 958,683
Retail	5,674,836	4,091,893	4,103,286
	6,392,496	4,961,894	5,061,969
Allowance for finance credit losses	(181,985)	(150,082)	(148,917)
	6,210,511	4,811,812	4,913,052
Investment in retained securitization interests		245,350	265,099
	\$ 6,210,511	\$ 5,057,162	\$ 5,178,151

At September 26, 2010, the allowance for finance credit losses on finance receivables held for investment was \$182.0 million which consisted of \$171.1 million for retail finance receivables and \$10.9 million for wholesale finance receivables. Of the \$171.1 million allowance for finance credit losses on retail finance receivables, \$96.8 million related to retail finance receivables held by VIEs.

As part of the January 1, 2010 adoption of the new accounting guidance within ASC Topic 810 and ASC Topic 860, the Company established an initial \$49.4 million allowance for credit losses related to the previously unconsolidated securitized finance receivables. The initial allowance was recorded through the adoption adjustment to retained earnings.

Inventories

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

	September 26, 2010	December 31, 2009	September 27, 2009
Components at the lower of FIFO cost or market			
Raw materials and work in process	\$ 103,916	\$ 104,641	\$ 104,153
Motorcycle finished goods	144,794	168,002	228,703
Parts and accessories and general merchandise	105,828	84,823	100,745
Inventory at lower of FIFO cost or market	354,538	357,466	433,601
Excess of FIFO over LIFO cost	(35,437)	(34,437)	(34,749)
	\$ 319,101	\$ 323,029	\$ 398,852

Table of Contents*Operating Cash Flow*

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

	Nine months ended	
	September 26, 2010	September 27, 2009
Cash flows from operating activities:		
Net income	\$ 193,311	\$ 163,580
Loss from discontinued operations	(108,434)	(54,231)
Income from continuing operations	301,745	217,811
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation	199,629	181,614
Provision for employee long-term benefits	64,331	59,225
Contributions to pension and postretirement plans	(28,138)	(14,820)
Stock compensation expense	21,486	12,689
Net change in wholesale finance receivables	148,646	243,531
Origination of retail finance receivables held for sale		(1,180,467)
Collections on retail finance receivables held for sale		725,042
Impairment of retained securitization interests		35,575
Lower of cost or fair market value adjustment on finance receivables held for sale		5,895
Provision for credit losses	69,117	137,831
Pension and postretirement healthcare plan curtailment and settlement expense	30,206	4,903
Goodwill and other impairments		42,562
Foreign currency adjustments	(18,481)	(20,835)
Other, net	115,799	70,558
Changes in current assets and liabilities:		
Accounts receivable, net	(38,603)	(24,234)
Finance receivables - accrued interest and other	9,825	(2,282)
Inventories	5,941	10,358
Accounts payable and accrued liabilities	306,173	16,501
Restructuring reserves	(18,332)	43,033
Derivative instruments	3,978	3,195
Other	(3,820)	(6,347)
Total adjustments	867,757	343,527
Net cash provided by operating activities of continuing operations	\$ 1,169,502	\$ 561,338

4. MV Divestiture

In October 2009, the Company unveiled a new business strategy to drive growth through a focus of efforts and resources on the unique strengths of the Harley-Davidson brand and to enhance productivity and profitability through continuous improvement. The Company's Board of Directors approved and the Company committed to the divestiture of MV as part of this strategy. The Company engaged a third party investment bank to assist with the marketing and sale of MV. As a result, MV is presented as a discontinued operation for all periods presented.

Table of Contents

On August 6, 2010, the Company concluded its sale of MV to MV Augusta Motor Holding S.r.l., a company controlled by the former owner of MV. Under the agreement relating to the sale, (1) the Company received nominal consideration in return for the transfer of MV and related assets; (2) the parties waived their respective rights under the stock purchase agreement and other documents related to the Company's purchase of MV in 2008, which included a waiver of the former owner's right to contingent earn-out consideration; and (3) the Company contributed 20.0 million Euros to MV as operating capital. The Company incurred an immaterial loss on the sale, which is included in loss from discontinued operations, net of tax, during the three and nine months ended September 26, 2010.

The following table summarizes the net revenue, pre-tax loss, net loss and loss per common share from discontinued operations for the periods noted (in thousands, except per share amounts):

	Three months ended		Nine months ended	
	September 26, 2010	September 27, 2009	September 26, 2010	September 27, 2009
Revenue	\$ 3,983	\$ 12,810	\$ 48,563	\$ 42,940
Loss before income taxes	\$ (5,645)	\$ (29,891)	\$ (131,034)	\$ (54,214)
Net loss	\$ (4,888)	\$ (29,898)	\$ (108,434)	\$ (54,231)
Loss per common share	\$ (0.02)	\$ (0.13)	\$ (0.46)	\$ (0.23)

During the first nine months of 2010, the Company incurred a \$131.0 million pre-tax loss from discontinued operations, or \$108.4 million net of tax. Included in the first nine months of 2010 operating loss were impairment charges of \$111.8 million, or \$90.2 million net of tax, which represented the excess of net book value of the held-for-sale assets over the fair value less selling costs. The impairment charges consisted of \$32.3 million accounts receivable valuation allowance; \$25.2 million inventory valuation allowance; \$26.9 million fixed asset impairment; \$15.8 million intangible asset impairment; \$2.6 million other asset valuation allowance; and \$9.0 million of currency translation adjustment. During the three and nine months ended September 27, 2009, the Company incurred an \$18.9 million goodwill impairment charge.

As of August 6, 2010, assets of discontinued operations that were sold consisted of \$0.6 million of accounts receivable, net; \$3.6 million of inventories; and \$14.3 million of other assets. As of August 6, 2010, liabilities of discontinued operations that were sold consisted \$41.7 million of accounts payable and accrued liabilities and \$16.6 million of other liabilities.

5. Restructuring Expense and Other Impairments

2010 Restructuring Plan

In September 2010, the Company's unionized employees at its facilities in Milwaukee and Tomahawk, Wisconsin ratified three separate new seven-year labor agreements which take effect in April 2012 when the current contracts expire. The new contracts are similar to the labor agreement ratified at the Company's York, Pennsylvania facility in December 2009 and allow for similar flexibility and increased production efficiency. Once the new contracts are implemented, the production system in Wisconsin, like York, will include the addition of a casual workforce component.

After taking actions to implement the new ratified labor agreements (2010 Restructuring Plan), the Company expects to have about 700 full-time hourly unionized employees in its Milwaukee facilities when the contracts are implemented in 2012, about 250 fewer than would be required under the existing contract. In Tomahawk, the Company expects to have a full-time hourly unionized workforce of about 200 when the contract is implemented, about 75 fewer than would be required under the current contract.

Under the 2010 Restructuring Plan, restructuring expenses consist of employee severance and termination costs and other related costs. The Company expects to incur approximately \$85 million in restructuring expenses related to the new contracts through 2012, of which approximately 35% are expected to be non-cash. During the third quarter of 2010, the Company recorded a \$40.7 million restructuring charge related to the 2010 Restructuring Plan.

Table of Contents

The following table summarizes the Company's 2010 Restructuring Plan reserve recorded in accrued liabilities as of September 26, 2010 (in thousands):

	Motorcycles & Related Products		
	Employee Severance and Termination Costs		Other
			Total
Restructuring expense	\$ 40,662	\$ 5	\$ 40,667
Utilized - cash	(2,141)	(5)	(2,146)
Utilized - noncash	(28,171)		(28,171)
Balance September 26, 2010	\$ 10,350	\$	\$ 10,350

For the three months ended September 26, 2010, restructuring expense included \$28.2 million of noncash curtailment losses related to the Company's pension and postretirement healthcare plans that cover employees of the affected facilities in Milwaukee and Tomahawk, Wisconsin.

2009 Restructuring Plan

During 2009, in response to the U.S. economic recession and worldwide slowdown in consumer demand, the Company committed to a volume reduction and a combination of restructuring actions (2009 Restructuring Plan) in the Motorcycles and Financial Services segments which are expected to be completed by 2012. The 2009 Restructuring Plan was designed to reduce administrative costs, eliminate excess capacity and exit non-core business operations. The Company's planned actions include:

consolidating its two engine and transmission plants in the Milwaukee area into its facility in Menomonee Falls, Wisconsin;

closing its distribution facility in Franklin, Wisconsin and consolidating Parts and Accessories and General Merchandise distribution through a third party;

discontinuing the domestic transportation fleet;

consolidating its vehicle test facilities from three locations in Alabama, Arizona and Florida into one location in Arizona;

restructuring its York, Pennsylvania motorcycle production facility to focus on the core operations of motorcycle assembly, metal fabrication and paint; and

exiting the Buell product line. The Company ceased production of Buell motorcycles at the end of October 2009 and the sale of remaining Buell motorcycle inventory to independent dealers and/or distributors is expected to be completed during 2010. The 2009 Restructuring Plan included a reduction of approximately 2,700 to 2,900 hourly production positions and approximately 720 non-production, primarily salaried positions within the Motorcycles segment and approximately 100 salaried positions in the Financial Services segment. These headcount reductions began in 2009 and are expected to be completed during 2011.

Under the 2009 Restructuring Plan, restructuring expenses consist of employee severance and termination costs, accelerated depreciation on the long-lived assets that will be exited as part of the 2009 Restructuring Plan and other related costs. The Company expects total costs related to the

Edgar Filing: HARLEY DAVIDSON INC - Form 10-Q

2009 Restructuring Plan to result in restructuring and impairment expenses of approximately \$420 million to \$450 million from 2009 to 2012 (compared to previous expected total costs of approximately \$430 million to \$460 million), of which approximately 30% are expected to be non-cash. On a cumulative basis, the Company has incurred \$329.4 million of restructuring and impairment expense under the 2009 Restructuring Plan as of September 26, 2010, of which \$105.2 million was incurred during the first nine months of 2010. Approximately 2,500 employees have left the Company under the 2009 Restructuring Plan as of September 26, 2010.

Table of Contents

The following table summarizes the Company's 2009 Restructuring Plan reserve recorded in accrued liabilities as of September 26, 2010 (in thousands):

	Motorcycles & Related Products				Financial Services			Consolidated Total
	Employee Severance and Termination Costs	Accelerated Depreciation	Asset Impairment	Other	Employee Severance and Termination Costs	Other	Total	
Restructuring expense	\$ 63,778	\$ 16,384	\$ 14,175	\$ 6,401	\$ 100,738	\$ 1,204	\$ 1,204	\$ 101,942
Utilized - cash	(18,963)			(6,401)	(25,364)	(836)	(836)	(26,200)
Utilized - noncash	(4,533)	(16,384)	(14,175)		(35,092)			(35,092)
Balance, September 27, 2009	\$ 40,282	\$	\$	\$	\$ 40,282	\$ 368	\$ 368	\$ 40,650
Restructuring expense	39,991	10,521	3,848	65,877	120,237	475	1,623	122,335
Utilized - cash	(10,922)			(34,455)	(45,377)	(624)	(1,197)	(47,198)
Utilized - noncash	(33,281)	(10,521)	(3,848)		(47,650)	(426)	(426)	(48,076)
Balance, December 31, 2009	\$ 36,070	\$	\$	\$ 31,422	\$ 67,492	\$ 219	\$ 219	\$ 67,711
Restructuring expense	31,948	44,245		28,977	105,170			105,170
Utilized - cash	(39,602)			(47,990)	(87,592)	(44)	(44)	(87,636)
Utilized - noncash	1,023	(44,245)		(2,819)	(46,041)	(175)	(175)	(46,216)
Balance, September 26, 2010	\$ 29,439	\$	\$	\$ 9,590	\$ 39,029	\$	\$	\$ 39,029

Other restructuring costs under the 2009 Restructuring Plan include items such as the exit costs for terminating supply contracts, lease termination costs and moving costs.

6. 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.

As a result of the Company's lower shipment volume projections and the decrease in operating performance at HDFS during 2009 due to significant write-downs of its loan portfolio and investment in retained securitization interests, the Company performed an impairment test of the goodwill balance associated with HDFS as of June 28, 2009. The results of the impairment test indicated the current fair value of HDFS had declined below its carrying value and as such the Company recorded an impairment charge of \$28.4 million during the second quarter of 2009. The impairment charge represented the Company's total goodwill balance associated with the Financial Services segment.

7. Asset-Backed Financing

HDFS participates in asset-backed financing through both term asset-backed securitization transactions and its asset-backed commercial paper conduit facility. In both types of asset-backed financing programs, HDFS transfers U.S. retail motorcycle finance receivables to a consolidated special purpose entity (SPE) while retaining the servicing rights. Each SPE then converts those assets into cash, through the issuance of debt.

Edgar Filing: HARLEY DAVIDSON INC - Form 10-Q

These SPEs are considered VIEs under U.S. GAAP. HDFS is required to consolidate any VIEs in which it is deemed to be the primary beneficiary through having power over the significant activities of the entity and having an obligation to absorb losses or the right to receive benefits from the VIE which are potentially significant to the VIE.

HDFS is considered to have the power over the significant activities of its term asset-backed securitization and asset-backed commercial paper conduit facility VIEs due to its role as servicer. Servicing fees are typically not considered potentially significant variable interests in a VIE. However, HDFS retains a residual interest in the VIEs in the form of a debt security, which gives HDFS the right to receive benefits that could be potentially significant to the VIE. Therefore, the Company is the primary beneficiary and consolidates all of its VIEs within its consolidated financial statements. Servicing fees paid by VIEs to HDFS are eliminated in consolidation and therefore no longer recorded on a consolidated basis.

HDFS is not required, and does not currently intend, to provide any additional financial support to its VIEs. Investors and creditors only have recourse to the assets held by the VIEs.

Table of Contents

The Company's VIEs have been aggregated on the balance sheet due to the similarity of the nature of the assets involved as well as the purpose and design of the VIEs.

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 transactions 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. Cash and cash equivalent 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 2010 to 2017.

At September 26, 2010, the assets of the consolidated term asset-backed securitization SPEs totaled \$3.37 billion and were primarily included in restricted finance receivables held by VIEs, net and restricted cash held by variable interest entities in the Company's Condensed Consolidated Balance Sheet. At September 26, 2010, the SPEs held U.S. retail motorcycle finance receivables of \$3.07 billion restricted as collateral for the payment of \$2.53 billion of obligations under the secured notes. The SPEs also held \$285.7 million of cash restricted for payment on the secured notes at September 26, 2010.

At September 27, 2009, the assets of the consolidated term asset-backed securitization SPE totaled \$1.49 billion and were primarily included in other current assets and finance receivables held for investment in the Company's Condensed Consolidated Balance Sheet. At September 27, 2009, the SPE held U.S. retail motorcycle finance receivables of \$1.39 billion restricted as collateral for the payment of \$1.09 billion of obligations under the secured notes. The SPE also held \$89.5 million of cash restricted for payment on the secured notes at September 27, 2009.

Asset-Backed Commercial Paper Conduit Facility VIE

On September 10, 2010, the Company amended and restated its third-party bank sponsored asset-backed commercial paper conduit facility which provides for a total aggregate commitment of up to \$600.0 million based on, among other things, the amount of eligible U.S. retail motorcycle loans held by the SPE as collateral. 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 based on prevailing commercial paper rates, 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 conduit facility 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 conduit facility, any outstanding principal will continue to be reduced monthly through available collections. Unless earlier terminated or extended by mutual agreement of HDFS and the lenders, the conduit facility has an expiration date of September 9, 2011.

At September 26, 2010, HDFS had no borrowings outstanding under the conduit facility. The SPE held \$33.1 million of finance receivables and \$1.9 million of cash collections restricted as collateral for the payment of fees associated with the unused portion of the total aggregate commitment of \$600.0 million. The assets of the SPE totaled \$36.9 million at September 26, 2010, and were primarily included in restricted finance receivables held by VIEs, net and restricted cash held by VIEs in the Company's Condensed Consolidated Balance Sheet.

At September 27, 2009, the SPE held finance receivables of \$759.2 million restricted as collateral for the payment of the \$570.1 million short-term asset-backed conduit facility debt, which was included in the Company's Condensed Consolidated Balance Sheet. The SPE also held \$38.0 million of cash collections from the finance receivables held by the SPE restricted for payment on the outstanding debt at September 27, 2009. The assets of the SPE totaled \$818.1 million at September 27, 2009 and were primarily included in finance receivables held for investment, net and other current assets in the Company's Condensed Consolidated Balance Sheet.

Table of Contents

8. Off-Balance Sheet Finance Receivable Securitizations

During 2009, the Company entered into term asset-backed securitization transactions that did not satisfy the requirements for accounting sale treatment under prior U.S. GAAP. As such, the 2009 term asset-backed securitization transactions were accounted for as secured financings and the related assets and liabilities were consolidated in the Company's consolidated financial statements.

The following disclosures apply to the Company's term asset-backed securitization activities prior to 2009, when pre-2009 term asset-backed securitization transactions utilized off-balance sheet QSPEs that qualified for accounting sale treatment under prior U.S. GAAP. As discussed in Note 2, the Company adopted new accounting guidance within ASC Topic 810 and ASC Topic 860 as of January 1, 2010 that ultimately required the Company to consolidate these formerly off-balance sheet QSPEs.

Prior to 2009, HDFS sold U.S. retail motorcycle finance receivables to securitization trusts through off-balance sheet term asset-backed securitization transactions. The securitization trust issued notes to investors, with various maturities and interest rates, secured by future collections of purchased retail loans. The proceeds from the issuance of the term asset-backed securities were utilized by the securitization trust to purchase U.S. retail motorcycle loans from HDFS.

Upon sale of the U.S. retail motorcycle loans to the securitization trust, HDFS received cash, recorded a gain or loss on the transaction and also retained an interest in excess cash flows, subordinated securities, and the right to receive cash reserve account deposits in the future, collectively referred to as investment in retained securitization interests. The investment in retained securitization interests was included with finance receivables held for investment, net in the Condensed Consolidated Balance Sheets. In conjunction with prior year sales, the Company had investments in retained securitization interests of \$265.1 million at September 27, 2009.

The interest in excess cash flows reflected the expected cash flows arising from U.S. retail motorcycle loans sold to the securitization trust less expected servicing fees, credit losses and contracted payment obligations owed to securitization trust investors.

Reserve account deposits represented interest-earning cash deposits which collateralized the trust securities. The funds were not available for use by HDFS until the reserve account balances exceeded thresholds specified in the securitization agreements.

HDFS retained servicing rights on the U.S. retail motorcycle loans that it sold to the securitization trust and received annual servicing fees approximating 1% of the outstanding securitized retail loans. HDFS serviced \$2.19 billion of U.S. retail motorcycle loans securitized in off-balance sheet term asset-backed securitization transactions as of September 27, 2009. The servicing fee paid to HDFS was considered adequate compensation for the services provided and was included in financial services revenue as earned. HDFS earned \$32.3 million from contractually specified servicing fees, late fees, and ancillary fees during the first nine months of 2009. These fees were recorded in financial services revenue.

Gains or losses on off-balance sheet term asset-backed securitizations from the sale of U.S. retail motorcycle loans were recognized in the period in which the sale occurred. The amount of the gain or loss depended on the proceeds received and the original carrying amount of the transferred U.S. retail motorcycle loans, allocated between the assets sold and the retained interests based on their relative fair values at the date of transfer.

Activities of the securitization trust were limited to acquiring U.S. retail motorcycle loans, issuing term asset-backed securities, making payments on securities to investors and other activities permissible under prior U.S. GAAP. Securitization trusts had a limited life and generally terminated upon final distribution of amounts owed to the investors in the term asset-backed securities. Historically, the lives of securitization trusts that purchased U.S. retail motorcycle loans from HDFS approximated four years.

Table of Contents

HDFS did not guarantee payments on the securities issued by the securitization trusts or the projected cash flows from the U.S. retail motorcycle loans purchased from HDFS. The Company's retained securitization interests, excluding servicing rights, were subordinate to the interests of securitization trust investors. Such investors had priority interests in the cash collections on the retail loans sold to the securitization trust (after payment of servicing fees) and in the cash reserve account deposits. Investors also did not have recourse to the assets of HDFS for failure of the obligors on the retail loans to pay when due.

The investment in retained securitization interests was measured in the same manner as an investment in debt securities that is classified as available-for-sale as defined by ASC Topic 320, Investments—Debt and Equity Securities. As such, the investment in retained securitization interests was recorded at fair value and periodically reviewed for impairment. Market quotes of fair value were generally not available for retained interests; therefore, HDFS estimated fair value based on the present value of future expected cash flows using HDFS' best estimates of key assumptions for credit losses, prepayments and discount rates that, in management's judgment, reflected the assumptions marketplace participants would use. If the fair value of the investment in retained securitization interests is less than the amortized cost, an unrealized loss exists which indicates that the investment is other-than-temporarily impaired.

On March 30, 2009, the Company adopted new guidance codified within ASC Topic 320 regarding the recognition and presentation of other-than-temporary impairments. In accordance with this guidance, if management has no intent to sell the other-than-temporarily impaired investment and it is more likely than not that it will not be required to sell, only the credit loss component of the impairment is recognized in earnings, while the rest of the impairment is recognized as an unrealized loss in other comprehensive income. The credit loss component recognized in earnings is identified as the amount of cash flows not expected to be received over the remaining life of the investment as projected using assumptions for credit losses, prepayments and discounts rates as discussed below. Upon adoption, the Company recorded an increase to the opening balance of retained earnings of \$22.5 million (\$14.4 million, net of tax) and a decrease to accumulated other comprehensive income of \$22.5 million (\$14.4 million, net of tax) to reclassify the non-credit component of \$52.2 million of previously recognized impairments on its investment in retained securitization interests. The credit component of previously recognized impairments on its investment in retained securitization interests was \$29.7 million. The fair value of the investment in retained securitization interests did not change.

During the three months ended September 27, 2009 and during the six months from the date of adoption to September 27, 2009, the Company recorded other-than-temporary impairments related to its investment in retained securitization interests. The impairments were due to higher actual and anticipated credit losses partially offset by a slowing in actual and expected prepayment speeds on certain securitization portfolios. As prescribed by the new guidance within ASC Topic 320, the Company recognized the credit component of the other-than-temporary impairment in earnings and the non-credit component in other comprehensive income as the Company did not intend to sell the investment and it was more likely than not that the Company would not be required to sell it prior to recovery of its cost basis. The components of the impairment were as follows (in thousands):

	Three months ended September 27, 2009	Six months ended September 27, 2009
Total other-than-temporary impairment losses	\$ 438	\$ 14,106
Portion of loss reclassified from other comprehensive income	2,972	4,338
Net impairment losses recognized in earnings	\$ 3,410	\$ 18,444

Table of Contents

The following activity only applied to other-than-temporary impairments on investment in retained securitization interests for which a component of the impairment was recognized in earnings and a component was recognized in other comprehensive income. The total credit component of other-than-temporary impairments recognized in earnings for all investment in retained securitization interests held as of September 27, 2009 was as follows (in thousands):

	Three months ended September 27, 2009	Six months ended September 27, 2009
Balance, beginning of period	\$ 44,329	\$ 29,686
Credit component recognized in earnings during the period	3,410	18,444
Reductions due to sale/repurchase ⁽¹⁾	(563)	(954)
Balance, end of period	\$ 47,176	\$ 47,176

(1) The Company exercised its 10% clean up call repurchase option for certain securitization trusts.

Prior to March 30, 2009, if an impairment existed and management deemed it to be other-than-temporary, the entire impairment was recorded in the consolidated statements of operations. During the three months ended March 29, 2009, the Company recorded an other-than-temporary impairment charge of \$17.1 million related to its investment in retained securitization interests which included both the credit and non-credit components.

The following table summarizes the amortized cost, fair value and gross unrealized gains and losses of the investment in retained securitization interests (in thousands):

	Total Investment in Retained Securitization Interests	September 27, 2009		
		Investment in Retained Securitization Interests Currently in a Loss Position for less than 12 Months	Investment in Retained Securitization Interests Currently in a Loss Position for more than 12 Months	Investment in Retained Securitization Interests Currently in a Gain Position
Amortized cost	\$ 275,916	\$ 207,491	\$ 53,072	\$ 15,353
Gross unrealized gains	274			274
Gross unrealized losses	(11,091)	(9,101)	(1,990)	
Fair value	\$ 265,099	\$ 198,390	\$ 51,082	\$ 15,627

The unrealized loss position was primarily due to a difference between the discount rate used to calculate fair value at September 27, 2009 and the initial rate used to value the retained securitization interests at their inception. The discount rate used in the third quarter of 2009 to calculate fair value was 16%. A discount rate of 12% was used to calculate the portion of unrealized gain/loss on the securitization and the initial value of the investment in retained securitization interests.

The investment in retained securitization interests had no stated contractual maturity date. Historically, the investment in retained securitization interests had a life of approximately four years.

As of September 27, 2009, the following weighted-average key assumptions were used to value the investment in retained securitization interests:

Prepayment speed (Single Monthly Mortality)	1.71%
Weighted-average life (in years)	2.08
Expected cumulative net credit losses	5.45%
Residual cash flows discount rate	15.82%

Expected cumulative net credit losses were a key assumption in the valuation of the investment in retained securitization interests. As of September 27, 2009, weighted-average expected net credit losses for all active securitizations were 5.45%. The table below summarizes, as of September 27, 2009, expected weighted-average cumulative net credit losses by year of securitization, expressed as a percentage of the original balance of loans securitized for all securitizations completed during the years noted:

Expected weighted-average cumulative net credit losses (%) as of :	Loans securitized in				
	2009	2008	2007	2006	2005
September 27, 2009		5.50%	5.78%	5.13%	4.86%

Table of Contents

The sensitivity of the fair value to immediate 10% and 20% adverse changes in the weighted-average key assumptions for the investment in retained securitization interests at September 27, 2009 was as follows (dollars in thousands):

Carrying amount/fair value of retained interests	\$ 265,099
Weighted-average life (in years)	2.08
Prepayment speed assumption (monthly rate)	1.71%
Impact on fair value of 10% adverse change	\$ (2,863)
Impact on fair value of 20% adverse change	\$ (5,652)
Expected cumulative net credit losses	5.45%
Impact on fair value of 10% adverse change	\$ (34,477)
Impact on fair value of 20% adverse change	\$ (68,467)
Residual cash flows discount rate (annual)	15.82%
Impact on fair value of 10% adverse change	\$ (5,526)
Impact on fair value of 20% adverse change	\$ (10,871)

These sensitivities are hypothetical and should not be considered to be predictive of future performance. Changes in fair value generally cannot be extrapolated because the relationship of change in assumption to change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated independently from any change in another assumption. In reality, changes in one factor may contribute to changes in another, which may magnify or counteract the sensitivities. Furthermore, the estimated fair values as disclosed should not be considered indicative of future earnings on these assets.

The following table provides information regarding certain cash flows received from and paid to all motorcycle loan securitization trusts during the nine months ended September 27, 2009 (in thousands):

Proceeds from new securitizations	\$
Servicing fees received	\$ 21,320
Other cash flows received on retained interests	\$ 56,978
10% clean-up call repurchase option	\$ 100,317

Prior to the adoption of the new accounting guidance discussed in Note 2, managed retail motorcycle loans consisted of all retail motorcycle installment loans serviced by HDFS including those held by off-balance sheet securitization trusts and those held by HDFS. As of September 27, 2009, managed retail motorcycle loans totaled \$5.88 billion, of which \$2.19 billion were securitized in off-balance sheet term asset-backed securitization transactions. The principal amount of managed retail motorcycle loans 30 days or more past due was \$302.3 million at September 27, 2009. The principal amount of securitized retail motorcycle loans 30 days or more past due was \$157.4 million at September 27, 2009. Managed loans 30 days or more past due exclude loans reclassified as repossessed inventory. Credit losses, net of recoveries, of the managed retail motorcycle loans were \$119.0 million during the first nine months of 2009 which included securitized retail motorcycle loan credit losses, net of recoveries, of \$60.2 million.

9. 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, foreign currency contracts and interest rate swaps (derivative instruments are discussed further in Note 11). Under U.S. GAAP, certain of these items are required to be recorded in the financial statements at fair value, while others are required to be recorded at historical cost.

Table of Contents

The following table summarizes the fair value and carrying value of the Company's financial instruments at September 26, 2010 (in thousands):

	September 26, 2010		September 27, 2009	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Assets:				
Cash and cash equivalents	\$ 1,494,301	\$ 1,494,301	\$ 1,518,799	\$ 1,518,799
Marketable securities	\$ 55,229	\$ 55,229	\$	\$
Accounts receivable, net	\$ 306,085	\$ 306,085	\$ 304,410	\$ 304,410
Derivatives	\$ 2,169	\$ 2,169	\$ 15,483	\$ 15,483
Finance receivables, net	\$ 6,236,095	\$ 6,210,511	\$ 4,885,118	\$ 4,913,052
Investment in retained securitization interests	\$	\$	\$ 265,099	\$ 265,099
Restricted cash held by variable interest entities	\$ 287,613	\$ 287,613	\$ 127,462	\$ 127,462
Liabilities:				
Accounts payable and accrued liabilities	\$ 914,727	\$ 914,727	\$ 869,011	\$ 869,011
Derivatives	\$ 19,924	\$ 19,924	\$ 28,132	\$ 28,132
Unsecured commercial paper	\$ 697,481	\$ 697,481	\$ 899,971	\$ 899,971
Asset-backed commercial paper conduit facility	\$	\$	\$ 570,132	\$ 570,132
Credit facilities	\$ 207,234	\$ 207,234	\$ 400,939	\$ 400,939
Medium-term notes	\$ 2,256,711	\$ 2,099,092	\$ 1,567,270	\$ 1,605,464
Senior unsecured notes	\$ 804,735	\$ 600,000	\$ 770,253	\$ 600,000
Finance receivable securitization debt	\$ 2,596,730	\$ 2,533,370	\$ 1,109,375	\$ 1,093,650

Cash and Cash Equivalents, Restricted Cash, Accounts Receivable, Net and Accounts Payable With the exception of certain money-market investments, these items are recorded in the financial statements at 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.

Marketable Securities Marketable securities are recorded in the financial statements at fair value. The fair value of marketable securities is based primarily on quoted market prices. Changes in fair value are recorded, net of tax, as other comprehensive income and included as a component of shareholders' equity.

Finance Receivables, Net Finance receivables, net includes finance receivables held for investment, net and restricted finance receivables held by VIEs, net. Retail and wholesale finance receivables are recorded in the financial statements at historical cost less an allowance for finance 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. The historical 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.

Debt Debt is generally recorded in the financial statements at historical cost. The carrying value of debt provided under credit facilities approximates fair value since the interest rates charged under the facilities are tied directly to market rates and fluctuate as market rates change. The carrying value of unsecured commercial paper approximates fair value due to its short maturity. The carrying value of debt provided under the asset-backed commercial paper conduit facility approximates the fair value since the interest rates charged on the outstanding portion are tied directly to market rates and fluctuate as market rates change.

The fair values of the Company's medium-term notes maturing in December 2012, December 2014 and June 2018 are estimated based upon rates currently available for debt with similar terms and remaining maturities. The medium-term notes maturing in December 2010 are carried at fair value and include a fair value adjustment due to the interest rate swap agreement, designated as a fair value hedge, which effectively converts a portion of the note from a fixed to a floating rate.

The fair value of the Company's senior unsecured notes is estimated based upon rates currently available for debt with similar terms and remaining maturities.

Table of Contents

The fair value of the debt related to finance receivable securitization transactions is estimated based on pricing currently available for transactions with similar terms and maturities.

10. Fair Value Measurements

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

The Company assesses the inputs used to measure fair value using a three-tier hierarchy. The hierarchy indicates the extent to which inputs used in measuring fair value are observable in the market. Level 1 inputs include quoted prices for identical instruments and are the most observable. Level 2 inputs include quoted prices for similar assets and observable inputs such as interest rates, foreign currency exchange rates, commodity rates and yield curves. 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.

Recurring Fair Value Measurements

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis as of September 26, 2010 and September 27, 2009 (in thousands):

	Balance as of September 26, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$ 1,091,200	\$ 1,091,200	\$	\$
Marketable securities	55,229		55,229	
Derivatives	2,169		2,169	
	\$ 1,148,598	\$ 1,091,200	\$ 57,398	\$
Liabilities:				
Derivatives	\$ 19,924	\$	\$ 19,924	\$

Table of Contents

	Balance as of September 27, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$ 1,260,544	\$ 1,260,544	\$	\$
Derivatives	15,483		15,483	
Investment in retained securitization interests	265,099			265,099
	\$ 1,541,126	\$ 1,260,544	\$ 15,483	\$ 265,099
Liabilities:				
Derivatives	\$ 28,132	\$	\$ 28,132	\$

The investment in retained securitization interests was valued using discounted cash flow methodologies incorporating assumptions that, in management's judgment, reflect assumptions marketplace participants would use at September 27, 2009. The following table presents additional information about the investment in retained securitization interests which was measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands):

	Three months ended September 27, 2009	Nine months ended September 27, 2009
Balance, beginning of period	\$ 276,227	\$ 330,674
Realized gains (losses) included in financial services income ^(a)	2,607	(9,205)
Unrealized gains included in other comprehensive income ^(b)	11,221	15,845
Sales, repurchases and settlements, net	(24,956)	(72,215)
Balance, end of period	\$ 265,099	\$ 265,099

(a) As discussed in Note 7, realized gains (losses) included in financial services income includes an impairment charge of \$3.4 and \$35.6 million for the three and nine months ended September 27, 2009, respectively.

(b) During the three and nine months ended September 27, 2009, \$3.0 million and \$4.3 million of net unrealized losses were reclassified out of accumulated other comprehensive income into financial services income.

As discussed in Note 2, upon adoption of the new guidance within ASC Topic 810 and ASC Topic 860, the Company derecognized its investment in retained securitization interests on January 1, 2010. The carrying value of the investment in retained securitization interests that was derecognized on that date was \$245.4 million.

11. 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 9). 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

Edgar Filing: HARLEY DAVIDSON INC - Form 10-Q

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.

Table of Contents

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 and the Japanese yen. The Company utilizes foreign currency contracts to mitigate the effects of these 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.

The Company utilizes natural gas contracts to hedge portions of the cost of natural gas consumed in the Company's motorcycle production operations.

The Company's earnings are affected by changes in interest rates. HDFS utilizes interest rate swaps to reduce the impact of fluctuations in interest rates on its unsecured commercial paper by converting a portion from a floating rate basis to a fixed rate basis. Similarly, HDFS utilizes interest rate swaps with its medium-term notes; however, the impact is to convert from a fixed rate basis to a floating rate basis. HDFS also entered into derivative contracts to facilitate its first quarter 2008 term asset-backed securitization transaction as well as its third quarter 2007 term asset-backed securitization transaction. These derivatives, which hedge assets held by VIEs, do not qualify for hedge accounting treatment. Additionally, to facilitate the asset-backed commercial paper conduit facility agreement that the Company entered into in April 2009, HDFS entered into derivative contracts, certain of which do not qualify for hedge accounting treatment.

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

Derivatives Designated As Hedging Instruments Under ASC Topic 815	September 26, 2010			September 27, 2009		
	Notional Value	Asset Fair Value ⁽¹⁾	Liability Fair Value ⁽²⁾	Notional Value	Asset Fair Value ⁽¹⁾	Liability Fair Value ⁽²⁾
Foreign currency contracts ⁽³⁾	\$ 340,411	\$	\$ 10,431	\$ 216,587	\$	\$ 16,707
Natural gas contracts ⁽³⁾	2,305		505	2,980		51
Interest rate swaps - unsecured commercial paper ⁽³⁾	144,800		8,988	190,300		11,374
Interest rate swaps - medium-term notes ⁽⁴⁾	150,000	1,427		150,000	7,436	
Total	\$ 637,516	\$ 1,427	\$ 19,924	\$ 559,867	\$ 7,436	\$ 28,132

Derivatives Not Designated As Hedging Instruments Under ASC Topic 815	September 26, 2010			September 27, 2009		
	Notional Value	Asset Fair Value ⁽¹⁾	Liability Fair Value ⁽²⁾	Notional Value	Asset Fair Value ⁽¹⁾	Liability Fair Value ⁽²⁾
Derivatives - securitization transactions	\$ 62,613	\$	\$	\$ 366,807	\$ 502	\$
Derivatives - conduit facility	476,489	742		603,738	7,545	
	\$ 539,102	\$ 742	\$	\$ 970,545	\$ 8,047	\$

(1) Included in other current assets

(2) Included in accrued liabilities

(3) Derivative designated as a cash flow hedge

(4) Derivative designated as a fair value hedge

Table of Contents

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

Cash Flow Hedges	Amount of Gain/(Loss) Recognized in OCI			
	Three months ended		Nine months ended	
	September 26, 2010	September 27, 2009	September 26, 2010	September 27, 2009
Foreign currency contracts	\$ (16,512)	\$ (12,769)	\$ (2,641)	\$ (4,053)
Natural gas contracts	(519)	(91)	(1,168)	(1,071)
Interest rate swaps - unsecured commercial paper	(910)	(2,075)	(4,391)	(1,004)
Interest rate swaps - conduit facility				(1,447)
Total	\$ (17,941)	\$ (14,935)	\$ (8,200)	\$ (7,575)

Cash Flow Hedges	Amount of Gain/(Loss) Reclassified from AOCI into Income				
	Three months ended		Nine months ended		Expected to be Reclassified Over the Next Twelve Months
	September 26, 2010	September 27, 2009	September 26, 2010	September 27, 2009	
Foreign currency contracts ⁽¹⁾	\$ (804)	\$ (4,596)	\$ 2,877	\$ 23,274	\$ (10,203)
Natural gas contracts ⁽¹⁾	(153)	(442)	(613)	(2,353)	(505)
Interest rate swaps - unsecured commercial paper ⁽²⁾	(1,703)	(2,306)	(5,047)	(6,846)	5,335
Interest rate swaps - conduit facility ⁽²⁾				(6,452)	
Total	\$ (2,660)	\$ (7,344)	\$ (2,783)	\$ 7,623	\$ (5,373)

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

(2) Gain/(loss) reclassified from AOCI to income is included in HDFS interest expense, a component of Financial Services expense

For the three and nine months ended September 26, 2010 and September 27, 2009, the cash flow hedges were highly effective and, as a result, the amount of hedge ineffectiveness was not material. No amounts were excluded from effectiveness testing.

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

Fair Value Hedges	Amount of Loss Recognized in Income on Derivative			
	Three months ended		Nine months ended	
	September 26, 2010	September 27, 2009	September 26, 2010	September 27, 2009
Interest rate swaps - medium-term notes ⁽¹⁾	\$ (1,491)	\$ (591)	\$ (4,645)	\$ (2,262)

Edgar Filing: HARLEY DAVIDSON INC - Form 10-Q

Fair Value Hedges	Amount of Gain			
	Recognized in Income on Hedged Debt			
	Three months ended		Nine months ended	
	September 26, 2010	September 27, 2009	September 26, 2010	September 27, 2009
Interest rate swaps - medium-term notes ⁽¹⁾	\$ 1,491	\$ 591	\$ 4,645	\$ 2,262

(1) Gain/(loss) recognized in income is included in HDFS interest expense, a component of Financial Services expense

Table of Contents

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

	Amount of Gain/(Loss) Recognized in Income on Derivative			
	Three months ended		Nine months ended	
	September 26, 2010	September 27, 2009	September 26, 2010	September 27, 2009
Derivatives not Designated as Hedges				
Derivatives - securitization transactions ⁽¹⁾	\$ (1)	\$ 311	\$ (8)	\$ 715
Derivatives - conduit facility ⁽¹⁾	(887)	(1,992)	(6,461)	(1,759)
	\$ (888)	\$ (1,681)	\$ (6,469)	\$ (1,044)

(1) Gain/(loss) recognized in income is included in HDFS other income, a component of Financial Services revenue. 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 selects 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.

12. Comprehensive Income

The following tables set forth the reconciliation of net income to comprehensive income (in thousands):

	Three months ended	
	September 26, 2010	September 27, 2009
Net income	\$ 88,829	\$ 26,483
Other comprehensive income, net of tax:		
Foreign currency translation adjustment	36,284	23,495
Investment in retained securitization interest:		
Unrealized net gains arising during the period		5,279
Less: net losses reclassified into net income		(1,902) 7,181
Derivative financial instruments:		
Unrealized net losses arising during period	(9,006)	(9,384)
Less: net gains (losses) reclassified into net income	401 (9,407)	(4,631) (4,753)
Marketable securities		
Unrealized gains on marketable securities	1,219 1,219	
Pension and postretirement benefit plans:		
Amortization of actuarial loss	4,969	2,534
Amortization of net prior service cost	318	693
Pension and postretirement plan funded status adjustment	(70,586)	
Less: actuarial loss reclassified into net income due to settlement	(300)	
Less: prior service cost reclassified into net income due to curtailment loss	(17,738) (47,261)	3,227

\$ 69,664

\$ 55,633

Table of Contents

	Nine months ended	
	September 26, 2010	September 27, 2009
Net income	\$ 193,311	\$ 163,580
Other comprehensive income, net of tax:		
Foreign currency translation adjustment	6,053	33,061
Investment in retained securitization interest:		
Unrealized net gains arising during the period		7,384
Less: net losses reclassified into net income		(2,778)
		10,162
Derivative financial instruments:		
Unrealized net losses arising during period	(2,936)	(3,673)
Less: net gains reclassified into net income	277	(3,213)
		4,596
		(8,269)
Marketable securities		
Unrealized gains on marketable securities	709	709
Pension and postretirement benefit plans:		
Amortization of actuarial loss	14,908	7,868
Amortization of net prior service cost	952	2,125
Pension and postretirement plan funded status adjustment	(70,586)	12,499
Less: actuarial loss reclassified into net income due to settlement	(1,925)	(232)
Less: net prior service cost reclassified into net income due to net curtailment loss	(17,094)	(35,707)
	(2,839)	25,563
	\$ 161,153	\$ 224,097

13. Income Taxes

During the first quarter of 2010, the Patient Protection and Affordable Care Act was signed into law. As a result of this Act, reimbursements the Company receives under Medicare Part D coverage for providing retiree prescription drug benefits would no longer be tax free beginning in 2011. At the beginning of second quarter of 2010, the Health Care and Education Reconciliation Act of 2010 delayed the impact of this change to 2013. On April 14, 2010, the SEC staff announced that the Office of the Chief Accountant would not object to a view that the two Acts should be considered together for accounting purposes. The Company accounted for both Acts in the first quarter of 2010 and recorded income tax expense of \$13.3 million associated with this change which affected the Company's first quarter 2010 income tax rate.

The Company's second quarter 2010 income tax rate was affected by the favorable conclusion of an Internal Revenue Service audit during the second quarter of 2010 and, in connection with the audit settlement, an adjustment to income taxes payable.

The Company's third quarter 2010 income tax rate was favorably affected by a domestic manufacturing benefit.

During the first quarter of 2009, an unanticipated change in Wisconsin tax law resulted in the Company establishing a valuation allowance of \$22.5 million related to net operating loss carryforwards with a corresponding charge to income tax expense.

During the second quarter of 2009, the Company incurred a \$28.4 million non-deductible goodwill impairment.

14. Product Warranty and Safety Recall Campaigns

The Company currently provides a standard two-year limited warranty on all new motorcycles sold worldwide, except for Japan, where the Company currently provides a standard three-year limited warranty on all new motorcycles sold. The warranty coverage for the retail customer includes parts and labor and generally begins when the motorcycle is sold to a retail customer. The Company maintains reserves for future warranty claims using an estimated cost per unit sold, which is based primarily on historical Company claim information. Additionally, the Company has from time to time initiated certain voluntary safety recall campaigns. The Company reserves for all estimated costs associated with

safety recalls in the period that the safety recalls are announced.

Table of Contents

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

	Three months ended		Nine months ended	
	September 26, 2010	September 27, 2009	September 26, 2010	September 27, 2009
Balance, beginning of period	\$ 62,569	\$ 60,935	\$ 68,044	\$ 64,543
Warranties issued during the period	10,865	12,384	27,547	36,195
Settlements made during the period	(16,077)	(20,688)	(44,150)	(53,625)
Recalls and changes to pre-existing warranty liabilities	(903)	778	5,013	6,296
Balance, end of period	\$ 56,454	\$ 53,409	\$ 56,454	\$ 53,409

The liability for safety recall campaigns was \$2.2 million and \$2.6 million as of September 26, 2010 and September 27, 2009, respectively.

15. Earnings Per Share

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 as of September 26, 2010 and September 27, 2009.

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

	Three months ended		Nine months ended	
	September 26, 2010	September 27, 2009	September 26, 2010	September 27, 2009
Numerator:				
Income from continuing operations used in computing basic and diluted earnings per share	\$ 93,717	\$ 56,381	\$ 301,745	\$ 217,811
Denominator:				
Denominator for basic earnings per share-weighted-average common shares	233,504	232,677	233,232	232,527
Effect of dilutive securities - employee stock compensation plan	1,282	1,198	1,395	830
Denominator for diluted earnings per share-adjusted weighted-average shares outstanding	234,786	233,875	234,627	233,357
Earnings per common share from continuing operations:				
Basic	\$ 0.40	\$ 0.24	\$ 1.29	\$ 0.94
Diluted	\$ 0.40	\$ 0.24	\$ 1.29	\$ 0.93

Outstanding options to purchase 4.1 million and 4.6 million shares of common stock for the three months ended September 26, 2010 and September 27, 2009, respectively, and 4.2 million and 5.2 million shares of common stock for the nine months ended September 26, 2010 and September 27, 2009, respectively, were not included in the Company's computation of dilutive securities because the exercise price was greater than the market price and therefore the effect would have been anti-dilutive.

Table of Contents**16. Employee Benefit Plans**

The Company has several defined benefit pension plans and several postretirement healthcare benefit plans, which cover substantially all 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. Components of net periodic benefit costs were as follows (in thousands):

	Three months ended		Nine months ended	
	September 26, 2010	September 27, 2009	September 26, 2010	September 27, 2009
<u>Pension and SERPA Benefits</u>				
Service cost	\$ 10,345	\$ 11,702	\$ 31,131	\$ 36,620
Interest cost	19,409	18,589	58,323	57,744
Expected return on plan assets	(24,392)	(21,885)	(73,080)	(67,740)
Amortization of unrecognized:				
Prior service cost	1,085	1,432	3,351	4,473
Net loss	5,594	2,764	16,878	8,855
Curtailement loss	15,505		15,505	4,164
Settlement loss	476		3,058	370
Net periodic benefit cost	\$ 28,022	\$ 12,602	\$ 55,166	\$ 44,486
<u>Postretirement Healthcare Benefits</u>				
Service cost	\$ 2,480	\$ 2,807	\$ 7,514	\$ 8,753
Interest cost	5,297	5,570	15,891	17,142
Expected return on plan assets	(2,445)	(2,724)	(7,335)	(8,376)
Amortization of unrecognized:				
Prior service credit	(629)	(283)	(1,887)	(867)
Net loss	2,251	1,357	6,753	4,223
Curtailement loss	12,666		11,643	369
Net periodic benefit cost	\$ 19,620	\$ 6,727	\$ 32,579	\$ 21,244

As disclosed in Note 5, the Company recorded restructuring expense of \$145.8 million related to its Motorcycles segment during the first nine months of 2010. The restructuring action resulted in a pension and postretirement healthcare plan net curtailment loss of \$27.1 million, which is included in the \$145.8 million restructuring expense, and a net increase to equity of \$27.1 million, or \$17.1 million net of tax, which is included in other comprehensive income, during the first nine months of 2010. The net curtailment loss of \$27.1 million consists of a \$28.2 million curtailment loss related to the 2010 Restructuring Plan and a \$1.1 million curtailment gain related to the 2009 Restructuring Plan. The net curtailment loss also resulted in a pension plan remeasurement using a discount rate of 5.0% and a postretirement healthcare plan remeasurement using a discount rate of 4.6%. At December 31, 2009, the discount rates used to measure the pension plans and the postretirement healthcare plans were 6.0% and 5.65%, respectively. All other significant assumptions remain unchanged from the December 31, 2009 measurement date. As a result of the remeasurements, the Company recognized a funded status adjustment consisting of a \$112.1 million increase to its pension and postretirement healthcare liabilities and a decrease to other comprehensive income of \$112.1 million, or \$70.6 million net of tax. During the first nine months of 2009, the Company recorded restructuring expense of \$50.0 million, which included a pension and postretirement healthcare plan curtailment loss of \$4.5 million, and an increase to equity of \$13.3 million.

Table of Contents

During the first nine months of 2010, the Company incurred a \$3.1 million settlement loss related to its SERPA plans compared to a settlement loss of \$0.4 million during the first nine months of 2009. The settlement losses were the result of benefit payments made to former executives who departed from the Company during 2009 and 2010.

The Company is currently evaluating a contribution during the fourth quarter of 2010 to further fund its pension plans.

17. Business Segments

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

	Three months ended		Nine months ended	
	September 26, 2010	September 27, 2009	September 26, 2010	September 27, 2009
Motorcycles net revenue	\$ 1,087,115	\$ 1,108,465	\$ 3,259,551	\$ 3,522,631
Gross profit	379,806	370,134	1,156,337	1,231,375
Selling, administrative and engineering expense	210,828	188,736	624,984	594,778
Restructuring expense and other impairments	67,476	50,745	145,837	100,738
Operating income from Motorcycles	101,502	130,653	385,516	535,859
Financial services income	172,845	136,993	516,387	365,627
Financial services expense	121,977	167,333	377,992	446,881
Goodwill impairment				28,387
Restructuring expense		1,204		1,204
Operating income (loss) from Financial Services	50,868	(31,544)	138,395	(110,845)
Operating income	\$ 152,370	\$ 99,109	\$ 523,911	\$ 425,014

As discussed in Note 2, Financial Services operating income for the three and nine months ended September 26, 2010 includes the effects of consolidating formerly unconsolidated QSPEs.

As discussed in Note 8, operating income from Financial Services for the three and nine months ended September 27, 2009 includes an other-than-temporary impairment charge of \$3.4 million and \$35.6 million, respectively, related to the investment in retained securitization interests.

Financial Services operating income for the nine months ended September 27, 2009 includes a \$72.7 million charge related to increased provision for credit losses resulting from the one-time reclassification of finance receivables held for sale to finance receivables held for investment.

18. Commitment 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.

Edgar Filing: HARLEY DAVIDSON INC - Form 10-Q

Environmental Protection Agency Notice

The Company has 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 has submitted written responses to the EPA's inquiry and has engaged in discussions with the EPA. It is possible that a result of the EPA's investigation will be some form of enforcement action by the EPA that will seek a fine or other relief. However, at this time the Company does not know and cannot reasonably estimate the impact of any remedies the EPA might seek.

Table of Contents

Shareholder Lawsuits:

In re Harley-Davidson, Inc. Securities Litigation was a consolidated shareholder securities class action lawsuit filed in the United States District Court for the Eastern District of Wisconsin. On October 2, 2006, the Lead Plaintiffs filed a Consolidated Class Action Complaint, which named the Company and certain former Company officers as defendants, that alleged securities law violations and sought unspecified damages relating generally to the Company's April 13, 2005 announcement that it was reducing short-term production growth and planned increases of motorcycle shipments. In 2006, the defendants filed a motion to dismiss the Consolidated Complaint. On October 8, 2009, the judge granted defendants motion to dismiss, and the clerk of court entered judgment dismissing the consolidated lawsuit. No appeal was taken from the final judgment and the dismissal of the case became final. Subsequently, on March 18, 2010, a group of individuals who appear to be inmates in a federal correctional institution filed a motion to intervene which was immediately dismissed by the District Court because judgment had already been entered. On April 5, 2010, two of the individuals filed notices of appeal of the dismissal. On May 27, 2010, the Court of Appeals for the Seventh Circuit dismissed the appeals for failure to pay the required docketing fees. The dismissal of the action again became final.

In 2005, three shareholder derivative lawsuits were filed in the United States District Court for the Eastern District of Wisconsin (one of which was later voluntarily dismissed), and two shareholder derivative lawsuits were filed in Milwaukee County Circuit Court on July 22, 2005 and November 16, 2005, against some or all of the following current or former directors and officers of the Company: Jeffrey L. Bleustein, James L. Ziemer, James M. Brostowitz, Barry K. Allen, Richard I. Beattie, George H. Conrades, Judson C. Green, Donald A. James, Sara L. Levinson, George L. Miles, Jr., James A. Norling, James A. McCaslin, Donna F. Zarcone, Jon R. Flickinger, Gail A. Lione, Ronald M. Hutchinson, W. Kenneth Sutton, Jr. and John A. Hevey. The lawsuits also name the Company as a nominal defendant. In general, the shareholder derivative complaints include factual allegations similar to those in the class action complaints and allege that officers and directors breached their fiduciary duties to the Company. In 2006, the state court consolidated the two state court derivative actions and appointed Lead Plaintiffs and Lead Plaintiffs' counsel, and the state court ordered that the consolidated state court derivative action be stayed until after motions to dismiss the federal securities class action were decided.

On November 24, 2009, both federal court derivative plaintiffs moved to voluntarily dismiss their lawsuits and all claims without prejudice. On November 30, 2009, the federal court entered orders granting the motions and dismissing the federal court derivative lawsuits without prejudice, and those cases are now closed. Lead plaintiffs in the consolidated state court derivative action filed an amended complaint on February 22, 2010 and defendants moved to dismiss the amended complaint in its entirety on April 26, 2010. The motion has been fully briefed, and the court is scheduled to hear arguments on the motion on November 18, 2010.

The Company believes the allegations in the state court derivative lawsuit are without merit and it intends to vigorously defend against the suit. The Company is unable to predict the scope or outcome or quantify their eventual impact, if any, on the Company. At this time, the Company is also unable to estimate associated expenses or possible losses. The Company maintains insurance that may limit its financial exposure for defense costs and liability for an unfavorable outcome, should it not prevail, for claims covered by the insurance coverage.

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. 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.

Table of Contents

In February 2002, the Company was advised by the EPA that it considers some of the Company's remediation activities at the York facility to be subject to the EPA's corrective action program under the Resource Conservation and Recovery Act (RCRA) and offered the Company the option of addressing corrective action under a RCRA facility lead agreement. In July 2005, the York facility was designated as the first site in Pennsylvania to be addressed under the One Cleanup Program. The program provides a more streamlined and efficient oversight of voluntary remediation by both PADEP and EPA and will be carried out consistent with the Agreement with the Navy. As a result, the RCRA facility lead agreement has been superseded.

Although the RI/FS is still underway and substantial uncertainty exists concerning the nature and scope of the additional environmental investigation and remediation that will ultimately be required at the York facility, the Company estimates that its share of the future Response Costs at the York facility will be approximately \$5.9 million. The Company has established reserves for this amount, which are included in accrued liabilities in the Condensed Consolidated Balance Sheets.

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 related to the remediation of soil are expected to be incurred over a period of several years ending in 2015. Response Costs related to ground water remediation may continue for some time beyond 2015.

Product Liability Matters:

Additionally, 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 will not have a material adverse effect on the Company's consolidated financial statements.

19. 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.

Table of Contents

	Three months ended September 26, 2010			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations	Consolidated
Revenue:				
Motorcycles and related products	\$ 1,088,961	\$	\$ (1,846)	\$ 1,087,115
Financial services		173,227	(382)	172,845
Total revenue	1,088,961	173,227	(2,228)	1,259,960
Costs and expenses:				
Motorcycles and related products cost of goods sold	707,309			707,309
Financial services interest expense		62,780		62,780
Financial services provision for credit losses		28,049		28,049
Selling, administrative and engineering expense	211,210	32,994	(2,228)	241,976
Restructuring expense	67,476			67,476
Total costs and expenses	985,995	123,823	(2,228)	1,107,590
Operating income	102,966	49,404		152,370
Investment income	1,239			1,239
Interest expense	23,102			23,102
Income before provision for income taxes	81,103	49,404		130,507
Provision for income taxes	19,004	17,786		36,790
Income from continuing operations	62,099	31,618		93,717
Loss from discontinued operations, net of tax	(4,888)			(4,888)
Net income	\$ 57,211	\$ 31,618	\$	\$ 88,829

	Nine months ended September 26, 2010			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations	Consolidated
Revenue:				
Motorcycles and related products	\$ 3,261,858	\$	\$ (2,307)	\$ 3,259,551
Financial services		517,079	(692)	516,387
Total revenue	3,261,858	517,079	(2,999)	3,775,938
Costs and expenses:				
Motorcycles and related products cost of goods sold	2,103,214			2,103,214
Financial services interest expense		213,104		213,104
Financial services provision for credit losses		69,117		69,117
Selling, administrative and engineering expense	625,676	98,078	(2,999)	720,755
Restructuring expense	145,837			145,837
Total costs and expenses	2,874,727	380,299	(2,999)	3,252,027
Operating income	387,131	136,780		523,911
Investment income	3,666			3,666
Interest expense	70,148			70,148

Edgar Filing: HARLEY DAVIDSON INC - Form 10-Q

Income before provision for income taxes	320,649	136,780	457,429
Provision for income taxes	106,442	49,242	155,684
Income from continuing operations	214,207	87,538	301,745
Loss from discontinued operations, net of tax	(108,434)		(108,434)
Net income	\$ 105,773	\$ 87,538	\$ 193,311

Table of Contents

	Three months ended September 27, 2009			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations	Consolidated
Revenue:				
Motorcycles and related products	\$ 1,108,465	\$	\$	\$ 1,108,465
Financial services		137,381	(388)	136,993
Total revenue	1,108,465	137,381	(388)	1,245,458
Costs and expenses:				
Motorcycles and related products cost of goods sold	738,331			738,331
Financial services interest expense		80,174		80,174
Financial services provision for credit losses		56,445		56,445
Selling, administrative and engineering expense	189,124	30,714	(388)	219,450
Restructuring expense and other impairments	50,745	1,204		51,949
Goodwill impairment				
Total costs and expenses	978,200	168,537	(388)	1,146,349
Operating income	130,265	(31,156)		99,109
Investment income	947			947
Interest expense	882			882
Income (loss) before provision for income taxes	130,330	(31,156)		99,174
Provision for (benefit from) income taxes	54,345	(11,552)		42,793
Income (loss) from continuing operations	75,985	(19,604)		56,381
Loss from discontinued operations, net of tax	(29,898)			(29,898)
Net income (loss)	\$ 46,087	\$ (19,604)	\$	\$ 26,483

	Nine months ended September 27, 2009			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations	Consolidated
Revenue:				
Motorcycles and related products	\$ 3,522,631	\$	\$	\$ 3,522,631
Financial services		366,652	(1,025)	365,627
Total revenue	3,522,631	366,652	(1,025)	3,888,258
Costs and expenses:				
Motorcycles and related products cost of goods sold	2,291,256			2,291,256
Financial services interest expense		212,992		212,992
Financial services provision for credit losses		137,831		137,831
Selling, administrative and engineering expense	595,803	96,058	(1,025)	690,836
Restructuring expense and other impairments	100,738	1,204		101,942
Goodwill impairment		28,387		28,387
Total costs and expenses	2,987,797	476,472	(1,025)	3,463,244
Operating income (loss)	534,834	(109,820)		425,014
Investment income	3,217			3,217

Edgar Filing: HARLEY DAVIDSON INC - Form 10-Q

Interest expense	11,468		11,468
Income (loss) before provision for income taxes	526,583	(109,820)	416,763
Provision for (benefit from) income taxes	228,336	(29,384)	198,952
Income (loss) from continuing operations	298,247	(80,436)	217,811
Loss from discontinued operations, net of tax	(54,231)		(54,231)
Net income (loss)	\$ 244,016	\$ (80,436)	\$ 163,580

Table of Contents

	September 26, 2010			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,278,025	\$ 216,276	\$	\$ 1,494,301
Marketable securities	55,229			55,229
Accounts receivable, net	600,209		(294,124)	306,085
Finance receivables held for investment, net		1,065,103		1,065,103
Restricted finance receivables held by variable interest entities, net		674,371		674,371
Inventories	319,101			319,101
Restricted cash held by variable interest entities		287,613		287,613
Other current assets	199,399	97,758		297,157
Total current assets	2,451,963	2,341,121	(294,124)	4,498,960
Finance receivables held for investment, net		2,045,249		2,045,249
Restricted finance receivables held by variable interest entities, net		2,425,788		2,425,788
Property, plant and equipment, net	749,498	30,493		779,991
Goodwill	29,992			29,992
Other long-term assets	304,467	25,120	(68,607)	260,980
	\$ 3,535,920	\$ 6,867,771	\$ (362,731)	\$ 10,040,960
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	\$ 207,236	\$ 330,728	\$ (294,124)	\$ 243,840
Accrued liabilities	616,574	77,266	(3,029)	690,811
Short-term debt		587,981		587,981
Current portion of long-term debt		201,426		201,426
Current portion of long-term debt held by variable interest entities		731,833		731,833
Total current liabilities	823,810	1,929,234	(297,153)	2,455,891
Long-term debt	600,000	2,214,400		2,814,400
Long-term debt held by variable interest entities		1,801,537		1,801,537
Pension liability	353,896			353,896
Postretirement healthcare benefits	272,232			272,232
Other long-term liabilities	140,681	12,373		153,054
Commitments and contingencies (Note 18)				
Total shareholders' equity	1,345,301	910,227	(65,578)	2,189,950
	\$ 3,535,920	\$ 6,867,771	\$ (362,731)	\$ 10,040,960

Table of Contents

	December 31, 2009			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,141,862	\$ 488,571	\$	\$ 1,630,433
Marketable securities	39,685			39,685
Accounts receivable, net	356,932		(87,561)	269,371
Finance receivables held for investment, net		1,436,114		1,436,114
Inventories	323,029			323,029
Assets of discontinued operations	181,211			181,211
Other current assets	191,748	270,358		462,106
Total current assets	2,234,467	2,195,043	(87,561)	4,341,949
Finance receivables held for investment, net		3,621,048		3,621,048
Property, plant and equipment, net	872,336	34,570		906,906
Goodwill	31,400			31,400
Other long-term assets	293,681	26,932	(66,398)	254,215
	\$ 3,431,884	\$ 5,877,593	\$ (153,959)	\$ 9,155,518
LIABILITIES AND SHAREHOLDERS EQUITY				
Current liabilities:				
Accounts payable	\$ 141,097	\$ 108,979	\$ (87,561)	\$ 162,515
Accrued liabilities	447,021	69,644	(2,581)	514,084
Liabilities of discontinued operations	69,535			69,535
Short-term debt		189,999		189,999
Current portion of long-term debt	204,959	1,127,132		1,332,091
Total current liabilities	862,612	1,495,754	(90,142)	2,268,224
Long-term debt	600,000	3,514,039		4,114,039
Pension liability	245,332			245,332
Postretirement healthcare benefits	264,472			264,472
Other long-term liabilities	143,905	11,428		155,333
Commitments and contingencies (Note 18)				
Total shareholders equity	1,315,563	856,372	(63,817)	2,108,118
	\$ 3,431,884	\$ 5,877,593	\$ (153,959)	\$ 9,155,518

Table of Contents

	September 27, 2009			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 667,226	\$ 851,573	\$	\$ 1,518,799
Accounts receivable, net	629,030		(324,620)	304,410
Note receivable from HDFS	600,000		(600,000)	
Finance receivables held for investment, net		1,525,164		1,525,164
Inventories	398,852			398,852
Assets of discontinued operations	233,339			233,339
Other current assets	161,910	248,943		410,853
Total current assets	2,690,357	2,625,680	(924,620)	4,391,417
Finance receivables held for investment, net		3,652,987		3,652,987
Property, plant and equipment, net	902,958	36,488		939,446
Goodwill	32,498			32,498
Other long-term assets	378,609	23,972	(65,861)	336,720
	\$ 4,004,422	\$ 6,339,127	\$ (990,481)	\$ 9,353,068
LIABILITIES AND SHAREHOLDERS EQUITY				
Current liabilities:				
Accounts payable	\$ 242,955	\$ 358,454	\$ (324,620)	\$ 276,789
Accrued liabilities	525,274	97,592	(2,512)	620,354
Liabilities of discontinued operations	71,058			71,058
Short-term debt		1,325,303		1,325,303
Current portion of long-term debt	154,242	513,963		668,205
Total current liabilities	993,529	2,295,312	(327,132)	2,961,709
Long-term debt	600,000	2,576,648		3,176,648
Note payable to HDMC		600,000	(600,000)	
Pension liability	498,959			498,959
Postretirement healthcare benefits	269,515			269,515
Other long-term liabilities	143,574	12,691		156,265
Commitments and contingencies (Note 18)				
Total shareholders equity	1,498,845	854,476	(63,349)	2,289,972
	\$ 4,004,422	\$ 6,339,127	\$ (990,481)	\$ 9,353,068

Table of Contents

	Nine months ended September 26, 2010			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations & Adjustments	Consolidated
Cash flows from operating activities:				
Net income	\$ 105,773	\$ 87,538	\$	\$ 193,311
Loss from discontinued operations	(108,434)			(108,434)
Income from continuing operations	214,207	87,538		301,745
Adjustments to reconcile income from continuing operations to cash provided by operating activities:				
Depreciation	194,440	5,189		199,629
Provision for employee long-term benefits	63,136	1,195		64,331
Contributions to pension and postretirement plans	(28,138)			(28,138)
Stock compensation expense	19,725	1,761		21,486
Net change in wholesale finance receivables			148,646	148,646
Curtailed and settlement expense	30,206			30,206
Provision for credit losses		69,117		69,117
Foreign currency adjustments	(18,481)			(18,481)
Other, net	15,196	100,603		115,799
Change in current assets and current liabilities:				
Accounts receivable	(245,167)		206,564	(38,603)
Finance receivables - accrued interest and other		9,825		9,825
Inventories	5,941			5,941
Accounts payable and accrued liabilities	292,579	220,184	(206,590)	306,173
Restructuring reserves	(18,113)	(219)		(18,332)
Derivative instruments	(1,499)	5,477		3,978
Other	(289)	(3,531)		(3,820)
Total adjustments	309,536	409,601	148,620	867,757
Net cash provided by operating activities of continuing operations	523,743	497,139	148,620	1,169,502
Cash flows from investing activities of continuing operations:				
Capital expenditures	(75,659)	(1,900)		(77,559)
Origination of finance receivables held for investment		(4,270,820)	2,429,417	(1,841,403)
Collections of finance receivables held for investment		4,620,039	(2,578,063)	2,041,976
Purchases of marketable securities	(68,497)			(68,497)
Sales and redemptions of marketable securities	54,579			54,579
Net cash (used by) provided by investing activities of continuing operations	(89,577)	347,319	(148,646)	109,096
Cash flows from financing activities of continuing operations:				
Repayments of securitization debt		(1,518,528)		(1,518,528)
Net (decrease) increase in credit facilities and unsecured commercial paper	(178,292)	323,979		145,687
Net borrowings of asset-backed commercial paper		(845)		(845)
Net change in restricted cash		78,928		78,928
Dividends paid	(70,480)			(70,480)
Purchase of common stock for treasury	(1,687)			(1,687)
Excess tax benefits from share based payments	3,590			3,590
	7,466			7,466

Edgar Filing: HARLEY DAVIDSON INC - Form 10-Q

Issuance of common stock under employee stock option plans

Net cash used by financing activities of continuing operations	(239,403)	(1,116,466)		(1,355,869)
Effect of exchange rate changes on cash and cash equivalents of continuing operations	5,182	(287)	26	4,921
Net increase (decrease) in cash and cash equivalents of continuing operations	199,945	(272,295)		(72,350)
Cash flows from discontinued operations:				
Cash flows from operating activities of discontinued operations	(68,650)			(68,650)
Effect of exchange rate changes on cash and cash equivalents of discontinued operations	(1,195)			(1,195)
	(69,845)			(69,845)
Net increase (decrease) in cash and cash equivalents	\$ 130,100	\$ (272,295)	\$	\$ (142,195)
Cash and cash equivalents:				
Cash and cash equivalents - beginning of period	\$ 1,141,862	\$ 488,571	\$	\$ 1,630,433
Cash and cash equivalents of discontinued operations - beginning of period	6,063			6,063
Net increase (decrease) in cash and cash equivalents	130,100	(272,295)		(142,195)
Less: Cash and cash equivalents of discontinued operations - end of period				
Cash and cash equivalents - end of period	\$ 1,278,025	\$ 216,276	\$	\$ 1,494,301

Table of Contents

	Nine months ended September 26, 2010			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations & Adjustments	Consolidated
Cash flows from operating activities:				
Net income	\$ 105,773	\$ 87,538	\$	\$ 193,311
Loss from discontinued operations	(108,434)			(108,434)
Income from continuing operations	214,207	87,538		301,745
Adjustments to reconcile income from continuing operations to cash provided by operating activities:				
Depreciation	194,440	5,189		199,629
Provision for employee long-term benefits	63,136	1,195		64,331
Contributions to pension and postretirement plans	(28,138)			(28,138)
Stock compensation expense	19,725	1,761		21,486
Net change in wholesale finance receivables			148,646	148,646
Curtailed and settlement expense	30,206			30,206
Provision for credit losses		69,117		69,117
Foreign currency adjustments	(18,481)			(18,481)
Other, net	15,196	100,603		115,799
Change in current assets and current liabilities:				
Accounts receivable	(245,167)		206,564	(38,603)
Finance receivables - accrued interest and other		9,825		9,825
Inventories	5,941			5,941
Accounts payable and accrued liabilities	292,579	220,184	(206,590)	306,173
Restructuring reserves	(18,113)	(219)		(18,332)
Derivative instruments	(1,499)	5,477		3,978
Other	(289)	(3,531)		(3,820)
Total adjustments	309,536	409,601	148,620	867,757
Net cash provided by operating activities of continuing operations	523,743	497,139	148,620	1,169,502
Cash flows from investing activities of continuing operations:				
Capital expenditures	(75,659)	(1,900)		(77,559)
Origination of finance receivables held for investment		(4,270,820)	2,429,417	(1,841,403)
Collections of finance receivables held for investment		4,620,039	(2,578,063)	2,041,976
Purchases of marketable securities	(68,497)			(68,497)
Sales and redemptions of marketable securities	54,579			54,579
Net cash (used by) provided by investing activities of continuing operations	(89,577)	347,319	(148,646)	109,096
Cash flows from financing activities of continuing operations:				
Repayments of securitization debt		(1,518,528)		(1,518,528)
Net (decrease) increase in credit facilities and unsecured commercial paper	(178,292)	323,979		145,687
Net borrowings of asset-backed commercial paper		(845)		(845)
Net change in restricted cash		78,928		78,928
Dividends paid	(70,480)			(70,480)

Edgar Filing: HARLEY DAVIDSON INC - Form 10-Q

Purchase of common stock for treasury	(1,687)			(1,687)
Excess tax benefits from share based payments	3,590			3,590
Issuance of common stock under employee stock option plans	7,466			7,466
Net cash used by financing activities of continuing operations	(239,403)	(1,116,466)		(1,355,869)
Effect of exchange rate changes on cash and cash equivalents of continuing operations	5,182	(287)	26	4,921
Net increase (decrease) in cash and cash equivalents of continuing operations	199,945	(272,295)		(72,350)
Cash flows from discontinued operations:				
Cash flows from operating activities of discontinued operations	(68,650)			(68,650)
Effect of exchange rate changes on cash and cash equivalents of discontinued operations	(1,195)			(1,195)
	(69,845)			(69,845)
Net increase (decrease) in cash and cash equivalents	\$ 130,100	\$ (272,295)	\$	\$ (142,195)
Cash and cash equivalents:				
Cash and cash equivalents - beginning of period	\$ 1,141,862	\$ 488,571	\$	\$ 1,630,433
Cash and cash equivalents of discontinued operations - beginning of period	6,063			6,063
Net increase (decrease) in cash and cash equivalents	130,100	(272,295)		(142,195)
Less: Cash and cash equivalents of discontinued operations - end of period				
Cash and cash equivalents - end of period	\$ 1,278,025	\$ 216,276	\$	\$ 1,494,301

Table of Contents

	Nine months ended September 27, 2009			Consolidated
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations & Adjustments	
Cash flows from operating activities:				
Net income (loss)	\$ 244,016	\$ (80,436)	\$	\$ 163,580
Loss from discontinued operations	(54,231)			(54,231)
Income (loss) from continuing operations	298,247	(80,436)		217,811
Adjustments to reconcile income from continuing operations to cash provided by operating activities:				
Depreciation	175,587	6,027		181,614
Provision for employee long-term benefits	59,519	(294)		59,225
Contributions to pension and postretirement plans	(14,820)			(14,820)
Stock compensation expense	11,906	783		12,689
Net change in wholesale finance receivables			243,531	243,531
Origination of retail finance receivables held for sale		(1,180,467)		(1,180,467)
Collections of retail finance receivables held for sale		725,042		725,042
Impairment of investment in retained securitization interests		35,575		35,575
Lower of cost or FMV adj. on finance receivables HFS		5,895		5,895
Provision for credit losses		137,831		137,831
Curtailment and settlement expense	4,903			4,903
Goodwill and other impairments	14,175	28,387		42,562
Foreign currency adjustments	(20,835)			(20,835)
Other, net	31,312	39,246		70,558
Change in current assets and current liabilities:				
Accounts receivable	(42,421)		18,187	(24,234)
Finance receivables -accrued interest and other		(2,282)		(2,282)
Inventories	10,358			10,358
Accounts payable and accrued liabilities	26,253	8,433	(18,185)	16,501
Restructuring reserves	42,665	368		43,033
Derivative instruments	9,562	(6,367)		3,195
Other	(4,562)	(1,785)		(6,347)
Total adjustments	303,602	(203,608)	243,533	343,527
Net cash provided by (used by) operating activities of continuing operations	601,849	(284,044)	243,533	561,338
Cash flows from investing activities:				
Capital expenditures	(72,001)	(4,600)		(76,601)
Origination of finance receivables held for investment		(3,648,820)	2,705,263	(943,557)
Collections of finance receivables held for investment		3,372,435	(2,948,794)	423,641
Collection of retained securitization interests		45,843		45,843
Net cash used by investing activities	(72,001)	(235,142)	(243,531)	(550,674)
Cash flows from financing activities:				
Proceeds from issuance of senior unsecured notes	589,030			589,030
Loan to HDFS	(600,000)	600,000		
Proceeds from securitization debt		1,195,129		1,195,129
Repayments of securitization debt		(106,350)		(106,350)

Edgar Filing: HARLEY DAVIDSON INC - Form 10-Q

Net decrease in credit facilities and unsecured commercial paper	(35,817)	(520,284)	(556,101)
Net borrowings of asset-backed commercial paper		56,691	56,691
Net change in restricted cash		(127,462)	(127,462)
Dividends paid	(70,329)		(70,329)
Purchase of common stock for treasury	(296)		(296)
Excess tax benefits from share based payments	148		148
Issuance of common stock under employee stock option plans	11		11
Net cash (used by) provided by financing activities of continuing operations	(117,253)	1,097,724	980,471
Effect of exchange rate changes on cash and cash equivalents of continuing operations	12,178	(347)	(2)
Net increase in cash and cash equivalents of continuing operations	424,773	578,191	1,002,964
Cash flows from discontinued operations:			
Cash flows from operating activities of discontinued operations	(50,044)		(50,044)
Cash flows from investing activities of discontinued operations	(18,010)		(18,010)
Effect of exchange rate changes on cash and cash equivalents of discontinued operations	(4,086)		(4,086)
	(72,140)		(72,140)
Net increase in cash and cash equivalents	\$ 352,633	\$ 578,191	\$ 930,824
Cash and cash equivalents:			
Cash and cash equivalents -beginning of period	\$ 295,512	\$ 273,382	\$ 568,894
Cash and cash equivalents of discontinued operations -beginning of period	24,664		24,664
Net increase in cash and cash equivalents	352,633	578,191	930,824
Less: Cash and cash equivalents of discontinued operations - end of period	(5,583)		(5,583)
Cash and cash equivalents - end of period	\$ 667,226	\$ 851,573	\$ 1,518,799

Table of Contents

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

Harley-Davidson, Inc. is the parent company for the groups of companies doing business as Harley-Davidson Motor Company (HDMC), Harley-Davidson Financial Services (HDFS) and Buell Motorcycle Company (Buell). HDMC produces heavyweight cruiser and touring motorcycles. HDMC manufactures five families of motorcycles: Touring, Dyna[®], Softail[®], Sportster[®] and VRSC. HDFS provides wholesale and retail financing and insurance programs primarily to Harley-Davidson and Buell dealers and customers.

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

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

Overview

Overall, third-quarter 2010 income from continuing operations was \$93.7 million, or \$0.40 per share, compared to \$56.4 million and \$0.24 per share in the same period last year. The Company's operating income was \$152.4 million for the third quarter of 2010, up \$53.3 million over prior year driven by higher operating income from Financial Services. Operating income for the Financial Services segment improved by \$82.4 million during the third quarter of 2010 compared to the third quarter of 2009 on higher net interest income and a lower provision for credit losses. Operating income from motorcycles and related products was down \$29.2 million in the third quarter of 2010 driven by higher selling, general and administrative expenses and restructuring expenses.

Retail sales of the Company's Harley-Davidson motorcycles continue to be affected by the difficult economic environment. Worldwide retail sales of new Harley-Davidson motorcycles declined 7.7% in the third quarter of 2010 compared to last year's third quarter. The rates of decline in retail sales for the preceding five quarters were 30.1%, 21.3%, 21.4%, 18.2% and 5.5% for the quarters ended June 2009, September 2009, December 2009, March 2010 and June 2010, respectively.

Please refer to the Results of Operations for the Three Months Ended September 26, 2010 and Results of Operations for the Nine Months Ended September 26, 2010 for a further discussion of results.

Outlook⁽¹⁾

On October 19, 2010, the Company narrowed its Harley-Davidson motorcycle wholesale shipment guidance for 2010 to 207,000 to 212,000 units from 201,000 to 212,000 units and announced its expectation to ship 41,000 to 46,000 Harley-Davidson motorcycles in the fourth quarter of 2010.

On October 19, 2010, the Company reiterated its expectation for gross margin to be between 32.5% and 34.0% for the full year of 2010. Gross margin for the first nine months of 2010 was 35.5%, which was up slightly compared to prior year and exceeds the Company's full year expectations. The Company expects gross margin in

(1) Note Regarding Forward-Looking Statements

The Company intends that certain matters discussed in this report are forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such by reference to this footnote or because the context of the statement will include words such as the Company believes, anticipates, expects, plans, or estimates or words of similar meaning. Similarly, statements that describe future plans, objectives, outlooks, targets, guidance or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this report. Certain of such risks and uncertainties are described in close proximity to such statements or elsewhere in this report, including under the caption Cautionary

Edgar Filing: HARLEY DAVIDSON INC - Form 10-Q

Statements and in Item 1A Risk Factors of the Company's Annual Report on Form 10-K for the year ended December 31, 2009. Shareholders, potential investors, and other readers are urged to consider these factors in evaluating the forward-looking statements and cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in this report are made only as of the date of the filing of this report (November 3, 2010), and the Company disclaims any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances. the fourth quarter of 2010 to be lower than in the first three quarters of 2010 primarily as a result of lower expected shipments compared to shipments in each of the first three quarters of 2010.

Table of Contents

The Company also announced on October 19, 2010 that it expects its 2010 full year effective income tax rate to be approximately 34.0% for continuing operations, down from its previous expectation of approximately 36.0%. The Company also refined its guidance for capital expenditures, which are now expected to be \$190 million to \$210 million for 2010, compared to prior guidance of \$235 million to \$255 million. Capital expenditure guidance for 2010 includes \$75 million to \$90 million to support restructuring activities, a revision from prior guidance of \$95 million to \$110 million for restructuring activities in 2010. The Company anticipates it will have the ability to fund all capital expenditures in 2010 with internally generated funds.

Restructuring Activities⁽¹⁾

2010 Restructuring Plan

In September 2010, the Company's unionized employees in Wisconsin ratified three separate new seven-year labor agreements which take effect in April 2012 when the current contracts expire. The new contracts are similar to the labor agreement ratified at the Company's York, Pennsylvania facility late last year and allow for similar flexibility and increased production efficiency. Once the new contracts are implemented, the production system in Wisconsin, like York, will include the addition of a casual workforce component.

Based on the new ratified labor agreements, the Company expects to have about 700 full-time hourly unionized employees in its Milwaukee-area facilities when the contracts are implemented in 2012, about 250 fewer than would be required under the existing contract. In Tomahawk, the Company expects to have a full-time hourly unionized workforce of about 200 when the contract is implemented, about 75 fewer than would be required under the current contract.

2009 Restructuring Plan

During 2009, in response to the U.S. economic recession and worldwide slowdown in consumer demand, the Company committed to a volume reduction and a combination of restructuring actions that are expected to be completed in 2012. The actions were designed to reduce administrative costs, eliminate excess capacity and exit non-core business operations. The Company's significant planned actions, which the Company believes are generally proceeding on schedule, include:

consolidating its two engine and transmission plants in the Milwaukee area into its facility in Menomonee Falls, Wisconsin;

closing its distribution facility in Franklin, Wisconsin and consolidating Parts and Accessories and General Merchandise distribution through a third party;

discontinuing the domestic transportation fleet;

consolidating its vehicle test facilities from three locations in Alabama, Arizona and Florida into one location in Arizona;

restructuring its York, Pennsylvania motorcycle production facility to focus on the core operations of motorcycle assembly, metal fabrication and paint; and

exiting the Buell product line. The Company ceased production of Buell motorcycles at the end of October 2009 and the sale of remaining Buell motorcycle inventory to independent dealers and/or distributors is expected to be completed during 2010.

The 2009 restructuring plans include a reduction of approximately 2,700 to 2,900 hourly production positions and approximately 720 non-production, primarily salaried positions within the Motorcycles segment and approximately 100 salaried positions in the Financial Services segment. These headcount reductions began in 2009 and are expected to be completed during 2011.

Restructuring Costs and Savings

During the first nine months of 2010, the Company incurred \$145.8 million in restructuring and impairment expense related to 2010 and 2009 restructuring plan activities. This is in addition to \$224.3 million in restructuring and impairment expense incurred in 2009. The Company expects total costs for 2010 and 2009

Table of Contents

restructuring plan activities to result in one-time restructuring and impairment expenses of \$505 million to \$535 million from 2009 through 2012 of which approximately 30% are expected to be non-cash. In 2010, the Company expects to incur restructuring expenses of \$190 million to \$210 million. The Company anticipates annual ongoing total savings from restructuring of approximately \$290 million to \$310 million upon completion of all announced restructuring activities. In the near-term, the Company has realized or estimates that it will realize savings from these restructuring activities, measured against 2008 spending, as follows:

2009 - \$91 million (91% operating expense and 9% cost of sales);

2010 - \$150 million to \$165 million (65-75% operating expense and 25-35% cost of sales);

2011 - \$210 million to \$230 million (45-55% operating expense and 45-55% cost of sales);

2012 - \$275 million to \$295 million (35-45% operating expense and 55-65% cost of sales); and

Ongoing annually upon completion - \$290 million to \$310 million (30-40% operating expense and 60-70% cost of sales).

Discontinued Operations

On August 6, 2010, the Company concluded the sale of MV Agusta to a company controlled by the former owner of MV Agusta. During the first nine months of 2010, the Company incurred a loss from discontinued operations, net of tax, of \$108.4 million, comprised of operating losses and impairment charges. The loss from discontinued operations, net of tax, was \$4.9 million during the third quarter of 2010.

Results of Operations for the Three Months Ended September 26, 2010

Compared to the Three Months Ended September 27, 2009

Consolidated Results

(in thousands, except earnings per share)	Three months ended		(Decrease)	%
	September 26, 2010	September 27, 2009	Increase	Change
Operating income from motorcycles & related products	\$ 101,502	\$ 130,653	\$ (29,151)	(22.3%)
Operating income (loss) from financial services	50,868	(31,544)	82,412	N/M
Operating income	152,370	99,109	53,261	53.7
Investment income	1,239	947	292	30.8
Interest expense	23,102	882	22,220	N/M
Income before income taxes	130,507	99,174	31,333	31.6
Provision for income taxes	36,790	42,793	(6,003)	(14.0)
Income from continuing operations	93,717	56,381	37,336	66.2
Loss from discontinued operations, net of income taxes	(4,888)	(29,898)	25,010	83.7
Net income	\$ 88,829	\$ 26,483	\$ 62,346	235.4%

Edgar Filing: HARLEY DAVIDSON INC - Form 10-Q

Diluted earnings per share from continuing operations	\$ 0.40	\$ 0.24	\$ 0.16	66.7%
Diluted loss per share from discontinued operations	\$ (0.02)	\$ (0.13)	\$ 0.11	84.6%
Diluted earnings per share	\$ 0.38	\$ 0.11	\$ 0.27	245.5%

Operating income for the Motorcycles segment during the third quarter of 2010 was adversely impacted by higher selling, general and administrative expenses and restructuring expenses. Operating income for the Financial Services segment improved by \$82.4 million during the third quarter of 2010 due to favorable net interest income and improved credit performance in the retail motorcycle loan portfolio. The favorable net interest income was primarily due to the increase in on-balance sheet finance receivables and a lower cost of funds. The lower cost of funds was due in part to HDFS repayment in the fourth quarter of 2009 of amounts related to the Company's \$600.0 million senior unsecured notes issued in February 2009.

Table of Contents

Interest expense for the third quarter of 2010 includes \$22.5 million related to the Company's \$600.0 million senior unsecured notes issued in February 2009. Prior to the end of the first quarter of 2009, the Company transferred the full proceeds from the issuance of the notes to HDFS to fund HDFS operations. As HDFS diversified its debt structure through a combination of actions during 2009, its funding profile improved. During the fourth quarter of 2009, HDFS transferred the full proceeds back to the Company. As a result, interest expense for 2009 includes interest on the notes only during the periods when the full proceeds were held at the Company. Interest expense for the periods during which the proceeds were held by HDFS is included in financial services interest expense.

The effective income tax rate for the third quarter of 2010 was 28.2% compared to 43.1% for the third quarter of 2009. The third quarter 2010 effective income tax rate was favorably impacted by a domestic manufacturing benefit.

Motorcycles & Related Products Segment

Harley-Davidson Motorcycle Retail Sales

Worldwide independent dealer retail sales of Harley-Davidson motorcycles decreased 7.7% during the third quarter of 2010 compared to the third quarter of 2009. Retail sales results continue to be impacted on a global basis by difficult economic conditions. Retail sales of Harley-Davidson motorcycles decreased 9.4% in the United States and 3.6% internationally in the quarter. On an industry-wide basis, the heavyweight (651+cc) portion of the market was down 14.4% in the United States for the three months ended September 30, 2010 and up 0.3% in Europe for the three months ended August 31, 2010 when compared to the same periods in 2009. The following table includes retail unit sales of Harley-Davidson motorcycles:

Table of Contents**Harley-Davidson Motorcycle Retail Sales^(a)****Heavyweight (651+cc)**

	Three months ended			
	September 30, 2010	September 30, 2009	(Decrease) Increase	% Change
<u>North America Region</u>				
United States	40,459	44,650	(4,191)	(9.4%)
Canada	2,562	3,494	(932)	(26.7)
Total North America Region	43,021	48,144	(5,123)	(10.6)
<u>Europe Region (Includes Middle East and Africa)</u>				
Europe ^(b)	7,973	7,228	745	10.3
Other	941	771	170	22.0
Total Europe Region	8,914	7,999	915	11.4
<u>Asia Pacific Region</u>				
Japan	3,199	3,948	(749)	(19.0)
Other	2,194	2,184	10	0.5
Total Asia Pacific Region	5,393	6,132	(739)	(12.1)
<u>Latin America Region</u>				
Total Worldwide Retail Sales	58,849	63,729	(4,880)	(7.7%)

(a) Data source for retail sales figures shown above is 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 retail sales and this information is subject to revision. Only Harley-Davidson motorcycles are included in the Harley-Davidson Motorcycle Retail Sales data.

(b) Data for Europe include Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

Table of Contents**Motorcycle Unit Shipments**

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

	Three months ended				(Decrease) Increase	% Change
	September 26, 2010	September 27, 2009				
United States	34,394	64.5%	36,524	67.3%	(2,130)	(5.8%)
International	18,899	35.5%	17,712	32.7%	1,187	6.7
Harley-Davidson motorcycle units	53,293	100.0%	54,236	100.0%	(943)	(1.7%)
Touring motorcycle units	20,042	37.6%	22,360	41.2%	(2,318)	(10.4%)
Custom motorcycle units*	22,581	42.4%	20,969	38.7%	1,612	7.7
Sportster motorcycle units	10,670	20.0%	10,907	20.1%	(237)	(2.2)
Harley-Davidson motorcycle units	53,293	100.0%	54,236	100.0%	(943)	(1.7%)
Buell motorcycle units	157		1,403		(1,246)	(88.8%)

* Custom motorcycle units, as used in this table, include Dyna, Softail, VRSC and CVO models.

The Company shipped 53,293 Harley-Davidson motorcycles worldwide during the third quarter of 2010, which was 1.7% lower than the third quarter of 2009. The third quarter 2010 shipment volume was in line with Company expectations and resulted in approximately 18,000 fewer new Harley-Davidson motorcycle units in U.S. dealer inventory at the end of the third quarter of 2010 compared to the end of the third quarter of 2009. The Company announced on October 19, 2010 that it anticipates shipping between 41,000 to 46,000 Harley-Davidson motorcycle units in the fourth quarter of 2010.⁽¹⁾ The Company expects Sportster mix in the fourth quarter of 2010 to be higher than the fourth quarter of 2009 mix of 12.9% and to be within the historical range of 18% to 22% for the full year 2010.⁽¹⁾

Table of Contents**Segment Results**

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

	Three months ended			
	September 26, 2010	September 27, 2009	Increase (Decrease)	% Change
Revenue:				
Harley-Davidson motorcycles	\$ 798,769	\$ 803,256	\$ (4,487)	(0.6%)
Buell motorcycles	828	9,200	(8,372)	(91.0)
	799,597	812,456	(12,859)	(1.6)
Parts & Accessories	218,975	221,648	(2,673)	(1.2)
General Merchandise	64,052	70,668	(6,616)	(9.4)
Other	4,491	3,693	798	21.6
Total revenue	1,087,115	1,108,465	(21,350)	(1.9)
Cost of goods sold	707,309	738,331	(31,022)	(4.2)
Gross profit	379,806	370,134	9,672	2.6
Selling & administrative expense	178,253	152,062	26,191	17.2
Engineering expense	32,575	36,674	(4,099)	(11.2)
Restructuring expense and other impairments	67,476	50,745	16,731	33.0
Operating expense	278,304	239,481	38,823	16.2
Operating income from motorcycles	\$ 101,502	\$ 130,653	\$ (29,151)	(22.3%)

The following table includes the estimated impact of significant factors affecting the comparability of revenues and gross profit from the third quarter of 2009 to the third quarter of 2010 (in millions):

	Net Revenue	Cost of Goods Sold	Gross Profit
September 27, 2009	\$ 1,108	\$ 738	\$ 370
Volume	(28)	(25)	(3)
Foreign currency exchange rates and hedging	(8)	(15)	7
Product mix	15	(15)	30
Raw material prices		4	(4)
Manufacturing costs		20	(20)
Total	(21)	(31)	10
September 26, 2010	\$ 1,087	\$ 707	\$ 380

Edgar Filing: HARLEY DAVIDSON INC - Form 10-Q

Foreign currency exchange rate changes, primarily due to a weakening Euro during the third quarter of 2010 relative to the third quarter 2009, resulted in a negative impact on net revenue. Gains and losses associated with the revaluation of foreign-denominated assets and liabilities and foreign

Table of Contents

currency hedging (included in cost of goods sold) were also favorable when compared to the same period last year and more than offset the negative impact of revenue resulting in an overall positive impact on gross margins.

Product mix benefited net revenue and gross profit primarily from product mix changes within the Company's motorcycle families.

Manufacturing costs increased partially as the result of a higher fixed cost per unit due to allocating fixed costs to fewer units. Higher manufacturing costs were also the result of increasing product cost associated with new models and increased product content, such as new features and options on the Company's motorcycles. Finally, manufacturing costs were also higher due to inefficiencies associated with the Company's restructuring activities at its York, Pennsylvania facility as non-core operations are outsourced. These increased costs were partially offset by productivity gains.

The net increase in operating expense was primarily due to the Company's previously announced restructuring activities, increased expense associated with the Company's variable incentive compensation programs and increased international spending partially offset by ongoing cost reduction initiatives. During the third quarter of 2010, the Company accrued for a potential payout of variable incentive compensation programs. The Company was accruing for a potential payout of variable incentive compensation programs during the first half of 2009; however, the Company reversed those accruals during the third quarter of 2009 when the Company determined the planned targets would not be met. For further information regarding the Company's previously announced restructuring activities, refer to Note 5 of Notes to Condensed Consolidated Financial Statements.

Financial Services Segment**Segment Results**

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

	Three months ended			
	September 26, 2010	September 27, 2009	Increase (Decrease)	% Change
Interest income	\$ 159,695	\$ 113,811	\$ 45,884	40.3%
Income from securitizations		2,609	(2,609)	N/M
Other income	13,150	20,573	(7,423)	(36.1)
Financial services revenue	172,845	136,993	35,852	26.2
Interest expense	62,780	80,174	(17,394)	(21.7)
Provision for credit losses	28,049	56,445	(28,396)	(50.3)
Operating expenses	31,148	30,714	434	1.4
Restructuring expense		1,204	(1,204)	N/M
Financial services expense	121,977	168,537	(46,560)	(27.6)
Operating income (loss) from financial services	\$ 50,868	\$ (31,544)	\$ 82,412	N/M

On January 1, 2010, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140 (codified within ASC Topic 860), and SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (codified in ASC Topic 810). As a result of the adoption of the new accounting guidance, the Company consolidated the assets and liabilities of its formerly unconsolidated QSPEs on January 1, 2010. Beginning on January 1, 2010, the Company began recognizing interest income and credit losses on the previously unconsolidated securitized receivables and interest expense on the related debt within its statements of operations. The Company's statement of operations no longer includes income from securitizations including the initial gain or loss previously recorded on off-balance

Table of Contents

sheet securitizations, income on the investment in retained securitization interests and servicer fees. In addition, the Company no longer incurs charges related to other-than-temporary impairments on its investment in retained securitization interests as that asset has been derecognized.

Interest income for the three months ended September 26, 2010 benefited primarily from higher average retail finance receivables, which was driven by the consolidation of formerly off-balance sheet QSPEs. Interest expense was lower due to more favorable cost of funds, partially offset by increased borrowings related to the newly consolidated securitization trusts.

There was no income or loss from securitizations during the third quarter of 2010 due to the elimination of the investment in retained securitization interests. During the third quarter of 2009, HDFS recorded \$6.0 million of income from the investment in retained securitization interests. Partially offsetting the income from the investment in retained securitization interests was a \$3.4 million other-than-temporary impairment of certain retained securitization interests due to higher actual and anticipated credit losses partially offset by a slowing in actual and expected prepayment speeds.

Other income decreased during the third quarter of 2010 compared to the third quarter of 2009 primarily due to no servicer fee income. As a result of the consolidation of the formerly off-balance sheet securitization trusts, the Company no longer records servicer fee income from servicing off-balance sheet finance receivables. During the third quarter of 2009, the Company earned \$5.9 million of servicer fee income.

The provision for credit losses related to retail and wholesale receivables decreased by \$23.3 million and \$6.9 million, respectively, in the third quarter of 2010 compared to the third quarter of 2009. During the third quarter of 2009, the Company increased the retail reserve by approximately \$28 million to reflect a higher expected incidence of loss and lower expected recovery values on repossessed motorcycles. The year over year decrease was partially offset by provision requirements for increased on-balance sheet receivables during the third quarter of 2010. The decrease in the provision for wholesale credit losses is primarily due to a net increase of approximately \$5 million in reserves during the third quarter of 2009. In addition, wholesale finance receivables outstanding are lower compared to the third quarter of 2009.

Changes in the allowance for finance credit losses on finance receivables held for investment, including finance receivables held by variable interest entities (VIEs), were as follows (in thousands):

	Three months ended	
	September 26, 2010	September 27, 2009
Balance, beginning of period	\$ 182,983	\$ 114,335
Provision for finance credit losses	28,049	56,445
Charge-offs, net of recoveries	(29,047)	(21,863)
Balance, end of period	\$ 181,985	\$ 148,917

At September 26, 2010, the allowance for finance credit losses on finance receivables held for investment was \$171.1 million for retail receivables, which includes \$96.8 million related to finance receivables held by VIEs, and \$10.9 million for wholesale receivables. See Note 7 of Notes to Condensed Consolidated Financial Statements for more information on the Company's VIEs. The allowance for finance credit losses on finance receivables held for investment was \$128.8 million for retail receivables and \$20.1 million for wholesale receivables at September 27, 2009.

HDFS' periodic evaluation of the adequacy of the allowance for finance credit losses on finance receivables held for investment is generally based on HDFS' past loan loss experience, known and inherent risks in the portfolio, current economic conditions and the estimated value of any underlying collateral.

Table of Contents**Results of Operations for the Nine Months Ended September 26, 2010****Compared to the Nine Months Ended September 27, 2009****Consolidated Results**

(in thousands, except earnings per share)	Nine months ended		(Decrease) Increase	% Change
	September 26, 2010	September 27, 2009		
Operating income from motorcycles & related products	\$ 385,516	\$ 535,859	\$ (150,343)	(28.1%)
Operating income (loss) from financial services	138,395	(110,845)	249,240	N/M
Operating income	523,911	425,014	98,897	23.3
Investment income	3,666	3,217	449	14.0
Interest expense	70,148	11,468	58,680	511.7
Income before income taxes	457,429	416,763	40,666	9.8
Provision for income taxes	155,684	198,952	(43,268)	(21.7)
Income from continuing operations	301,745	217,811	83,934	38.5
Loss from discontinued operations, net of income taxes	(108,434)	(54,231)	(54,203)	99.9
Net income	\$ 193,311	\$ 163,580	\$ 29,731	18.2%
Diluted earnings per share from continuing operations	\$ 1.29	\$ 0.93	\$ 0.36	38.7%
Diluted loss per share from discontinued operations	\$ (0.46)	\$ (0.23)	\$ (0.23)	(100.0%)
Diluted earnings per share	\$ 0.82	\$ 0.70	\$ 0.12	17.1%

Motorcycles operating income fell 28.1% during the first nine months of 2010 driven by a decrease in shipments of Harley-Davidson motorcycles and restructuring charges. Operating income for the Financial Services segment improved by \$249.2 million during the first nine months of 2010 primarily due to favorable net interest income, improved credit performance in the retail motorcycle loan portfolio and two non-recurring, non-cash charges totaling \$101.1 million that were incurred during the first nine months of 2009. The favorable net interest income was primarily due to the increase in on-balance sheet finance receivables and a lower cost of funds. The lower cost of funds was due in part to HDFS repayment in the fourth quarter of 2009 of amounts related to the Company's \$600.0 million senior unsecured notes issued in February 2009.

Interest expense for the first nine months of 2010 includes \$67.5 million related to the Company's senior unsecured notes, compared to \$8.0 million in the first nine months of 2009. Prior to the end of the first quarter of 2009, the Company transferred the full proceeds from the issuance of the notes to HDFS to fund HDFS operations. As HDFS diversified its debt structure through a combination of actions during 2009, its funding profile improved. During the fourth quarter of 2009, HDFS transferred the full proceeds back to the Company. As a result, interest expense for 2009 includes interest on the notes only during the periods when the full proceeds were held at the Company. Interest expense for the periods during which the proceeds were held by HDFS is included in financial services interest expense.

The effective income tax rate for the first nine months of 2010 was 34.0% compared to 47.7% for the first nine months of 2009. During the first quarter of 2010, the Patient Protection and Affordable Care Act was signed into law. As a result of this Act, reimbursements the Company receives under Medicare Part D coverage for providing retiree prescription drug benefits would no longer be tax free beginning in 2011. At the beginning of second quarter of 2010, the Health Care and Education Reconciliation Act of 2010 delayed the impact of this change to 2013. On April 14, 2010, the SEC staff announced that the Office of the Chief Accountant would not object to a view that the two Acts should be considered together for accounting purposes. The Company accounted for both Acts in the first quarter of 2010 and recorded income tax expense of \$13.3 million associated with this change. Also impacting the effective income tax rate for the first nine months of 2010 was a favorable

Edgar Filing: HARLEY DAVIDSON INC - Form 10-Q

impact from a domestic manufacturing benefit and the favorable conclusion of an Internal Revenue Service audit in the second quarter of 2010 and, in connection with the audit settlement, an adjustment to income taxes payable. The effective income tax rate for the first nine months of 2009 was impacted by a \$28.4 million non-deductible goodwill charge incurred during the second quarter of 2009 as well as an unanticipated change in Wisconsin tax law during the first quarter of 2009 which resulted in the Company establishing a valuation allowance of \$22.5 million related to net operating loss carryforwards.

Table of Contents**Motorcycles & Related Products Segment****Harley-Davidson Motorcycle Retail Sales**

Worldwide independent dealer retail sales of Harley-Davidson motorcycles decreased 9.8% during the first nine months of 2010 compared to the first nine months of 2009. Retail sales results continue to be impacted on a global basis by difficult economic conditions. Retail sales of Harley-Davidson motorcycles decreased 13.4% in the United States and 1.9% internationally in the first nine months of 2010 compared to the first nine months of 2009. On an industry-wide basis, the heavyweight (651+cc) portion of the market was down 14.6% in the United States for the nine months ended September 30, 2010 and down 2.4% in Europe for the eight months ended August 31, 2010 when compared to the same periods in 2009. The following table includes retail unit sales of Harley-Davidson motorcycles:

Harley-Davidson Motorcycle Retail Sales^(a)**Heavyweight (651+cc)**

	Nine months ended			
	September 26, 2010	September 27, 2009	(Decrease) Increase	% Change
North America Region				
United States	122,145	141,101	(18,956)	(13.4%)
Canada	9,354	10,376	(1,022)	(9.8)
Total North America Region	131,499	151,477	(19,978)	(13.2)
Europe Region (Includes Middle East and Africa)				
Europe ^(b)	31,440	30,122	1,318	4.4
Other	3,079	2,563	516	20.1
Total Europe Region	34,519	32,685	1,834	5.6
Asia Pacific Region				
Japan	8,454	10,240	(1,786)	(17.4)
Other	6,832	7,235	(403)	(5.6)
Total Asia Pacific Region	15,286	17,475	(2,189)	(12.5)
Latin America Region				
	4,416	4,243	173	4.1
Total Worldwide Retail Sales	185,720	205,880	(20,160)	(9.8%)

(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 this information is subject to revision. Only Harley-Davidson motorcycles are included in the Harley-Davidson Motorcycle Retail Sales data.

(b) Data for Europe include Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

Table of Contents

The following table includes industry retail motorcycle registration data:

Motorcycle Industry Retail Registrations**Heavyweight (651+cc)^(a)**

	Nine months ended		Decrease	% Change
	September 30, 2010	September 30, 2009		
United States ^(b)	222,935	261,107	(38,172)	(14.6%)

	Eight months ended		Decrease	% Change
	August 31, 2010	August 31, 2009		
Europe ^(c)	247,517	253,694	(6,177)	(2.4%)

(a) Heavyweight market data includes street legal 651+cc models. Street legal 651+cc models include both on-highway and dual purpose models and three-wheeled vehicles.

(b) U.S. industry data is derived from information provided by Motorcycle Industry Council (MIC). This data is subject to revision and update. Prior periods have been adjusted to include all on-highway and dual purpose models that were previously excluded due to classification changes made by MIC.

(c) Europe data includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom. Industry retail motorcycle registration data is derived from information provided by Giral S.A., an independent agency. Europe market data is reported on a one-month lag. This data is subject to revision and update.

Industry retail registration data for the remaining international markets has not been presented because the Company does not believe definitive and reliable registration data is available at this time.

Table of Contents**Motorcycle Unit Shipments**

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

	September 26, 2010		September 27, 2009		Decrease	% Change
	Units	%	Units	%		
United States	104,019	62.7%	124,428	66.5%	(20,409)	(16.4%)
International	61,994	37.3%	62,657	33.5%	(663)	(1.1)
Harley-Davidson motorcycle units	166,013	100.0%	187,085	100.0%	(21,072)	(11.3%)
Touring motorcycle units	63,413	38.2%	69,324	37.0%	(5,911)	(8.5%)
Custom motorcycle units*	69,323	41.8%	75,133	40.2%	(5,810)	(7.7)
Sportster motorcycle units	33,277	20.0%	42,628	22.8%	(9,351)	(21.9)
Harley-Davidson motorcycle units	166,013	100.0%	187,085	100.0%	(21,072)	(11.3%)
Buell motorcycle units	2,551		6,546		(3,995)	(61.0%)

* Custom motorcycle units, as used in this table, include Dyna, Softail, VRSC and CVO models.

The Company shipped 166,013 Harley-Davidson motorcycles worldwide during the first nine months of 2010, which was 11.3% lower than the first nine months of 2009. The first nine months 2010 shipment volume was in line with Company expectations and resulted in lower U.S. dealer inventory of new Harley-Davidson motorcycles at the end of the first nine months of 2010 compared to the end of the first nine months of 2009.

Table of Contents**Segment Results**

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

	Nine months ended			
	September 26, 2010	September 27, 2009	(Decrease) Increase	% Change
Revenue:				
Harley-Davidson motorcycles	\$ 2,439,206	\$ 2,622,774	\$ (183,568)	(7.0%)
Buell motorcycles	11,734	50,476	(38,742)	(76.8)
	2,450,940	2,673,250	(222,310)	(8.3)
Parts & Accessories	599,845	622,649	(22,804)	(3.7)
General Merchandise	197,667	215,458	(17,791)	(8.3)
Other	11,099	11,274	(175)	(1.6)
Total revenue	3,259,551	3,522,631	(263,080)	(7.5)
Cost of goods sold	2,103,214	2,291,256	(188,042)	(8.2)
Gross profit	1,156,337	1,231,375	(75,038)	(6.1)
Selling & administrative expense	532,793	485,442	47,351	9.8
Engineering expense	92,191	109,336	(17,145)	(15.7)
Restructuring expense and other impairments	145,837	100,738	45,099	44.8
Operating expense	770,821	695,516	75,305	10.8
Operating income from motorcycles	\$ 385,516	\$ 535,859	\$ (150,343)	(28.1%)

The following table includes the estimated impact of significant factors affecting the comparability of revenues and gross profit from the first nine months of 2009 to the first nine months of 2010 (in millions):

	Net Revenue	Cost of Goods Sold	Gross Profit
September 27, 2009	\$ 3,523	\$ 2,291	\$ 1,232
Volume	(380)	(251)	(129)
Foreign currency exchangerates and hedging	15	23	(8)
Product mix	102	(6)	108
Raw material prices		9	(9)
Manufacturing costs		37	(37)
Total	(263)	(188)	(75)
September 26, 2010	\$ 3,260	\$ 2,103	\$ 1,157

Edgar Filing: HARLEY DAVIDSON INC - Form 10-Q

Volume decreases were primarily the result of the 11.3% decrease in wholesale shipments of Harley-Davidson motorcycle units as well as lower volumes for Parts and Accessories and General Merchandise.

Table of Contents

Foreign currency exchange rate changes during the first nine months of 2010 relative to the first nine months of 2009 resulted in a positive impact on net revenue. Gains and losses associated with the revaluation of foreign-denominated assets and liabilities and foreign currency hedging (included in cost of goods sold) were unfavorable when compared to the same period last year which more than offset the positive impact of currency included in net revenue.

Product mix benefited revenue and gross profit due to a higher mix of the Company's higher margin touring motorcycles and changes in product mix within the Company's motorcycle families. Product mix changes were also impacted by motorcycle option offerings, shipment location and related products.

Manufacturing costs increased partially as the result of a higher fixed cost per unit due to allocating fixed costs to fewer units. Higher manufacturing costs were also the result of increasing product cost associated with new models and increased product content, such as new features and options on the Company's motorcycles. Finally, manufacturing costs were also higher due to inefficiencies associated with the Company's restructuring activities at its York, Pennsylvania facility as non-core operations are outsourced. These increased costs were partially offset by productivity gains.

The net increase in operating expense was primarily due to the Company's previously announced restructuring activities, increased expense associated with the Company's variable incentive compensation programs and increased international spending partially offset by ongoing cost reduction initiatives. During the first nine months of 2010, the Company accrued for a potential payout of variable incentive compensation programs. The Company was accruing for a potential payout of variable incentive compensation programs during the first half of 2009; however, the Company reversed those accruals during the third quarter of 2009 when the Company determined the planned targets would not be met. For further information regarding the Company's previously announced restructuring activities, refer to Note 5 of Notes to Condensed Consolidated Financial Statements.

Financial Services Segment**Segment Results**

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

	Nine months ended		Increase (Decrease)	% Change
	September 27, 2010	September 26, 2009		
Interest income	\$ 479,752	\$ 316,128	\$ 163,624	51.8%
Loss from securitizations		(9,203)	9,203	N/M
Other income	36,635	58,702	(22,067)	(37.6)
Financial services revenue	516,387	365,627	150,760	41.2
Interest expense	213,104	212,992	112	0.1
Provision for credit losses	69,117	137,831	(68,714)	(49.9)
Operating expenses	95,771	96,058	(287)	(0.3)
Goodwill impairment		28,387	(28,387)	N/M
Restructuring expense		1,204	(1,204)	N/M
Financial services expense	377,992	476,472	(98,480)	(20.7)
Operating income (loss) from financial services	\$ 138,395	\$ (110,845)	\$ 249,240	N/M

On January 1, 2010, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140 (codified within ASC

Table of Contents

Topic 860), and SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (codified in ASC Topic 810). As a result of the adoption of the new accounting guidance, the Company consolidated the assets and liabilities of its formerly unconsolidated QSPEs on January 1, 2010. Beginning on January 1, 2010, the Company began recognizing interest income and credit losses on the previously unconsolidated securitized receivables and interest expense on the related debt within its statements of operations. The Company's statement of operations no longer includes income from securitizations including the initial gain or loss previously recorded on off-balance sheet securitizations, income on the investment in retained securitization interests and servicer fees. In addition, the Company no longer incurs charges related to other-than-temporary impairments on its investment in retained securitization interests as that asset has been derecognized.

Interest income for the nine months ended September 26, 2010 benefited primarily from higher average retail finance receivables, which was driven by the consolidation of formerly off-balance sheet QSPEs. Interest expense was flat compared to 2009 as a result of the increased borrowings related to the newly consolidated securitization trusts offset by a lower cost of funds.

There was no income or loss from securitizations during the first nine months of 2010 due to the elimination of the investment in retained securitization interests. During the first nine months of 2009, HDFS recorded a \$35.6 million other-than-temporary impairment of certain retained securitization interests due to higher actual and anticipated credit losses partially offset by a slowing in actual and expected prepayment speeds. Partially offsetting the other-than-temporary impairment was \$26.4 million of income earned from the investment in the retained securitization interests.

Other income decreased during the first nine months of 2010 compared to the first nine months of 2009 primarily due to no servicer fee income partially offset by the benefit of no lower of cost or market valuation adjustment for finance receivables held for sale. As a result of the consolidation of the formerly off-balance sheet securitization trusts, the Company no longer records servicer fee income from servicing off-balance sheet finance receivables. During the first nine months of 2009, the Company earned \$20.4 million of servicer fee income. The Company recognized a \$5.9 million charge to earnings for a lower of cost or market valuation adjustment related to its finance receivables held for sale during the first nine months of 2009. The charge, which was the result of the determination that the cost exceeded the fair value of the finance receivables held for sale, was due to higher projected credit losses partially offset by lower funding costs. HDFS used discounted cash flow methodologies to estimate the fair value of finance receivables held for sale that incorporated appropriate assumptions for discount rate, funding costs and credit enhancement, as well as estimates concerning credit losses and prepayments that, in management's judgment, reflected assumptions that market participants would use. Other income for the first nine months of 2010 also includes a \$6.5 million derivative loss.

The provision for credit losses related to retail and wholesale receivables decreased by \$55.8 million and \$13.4 million, respectively in the first nine months of 2010 compared to the first nine months of 2009. The decrease in the provision for retail credit losses was primarily driven by the second quarter 2009 reclassification of \$3.14 billion of finance receivables held for sale to finance receivables held for investment. The reclassification resulted in a \$72.7 million increase in the allowance for finance credit losses during the first nine months of 2009. In addition, during the third quarter of 2009, the Company increased the retail reserve by approximately \$28 million to reflect a higher expected incidence of loss and lower expected recovery values on repossessed motorcycles. The year over year decrease was partially offset by provision requirements for increased on-balance sheet receivables during the first nine months of 2010. The decrease in the provision for wholesale credit losses is primarily due to an approximately \$8 million net increase in reserves during the first nine months of 2009. In addition, wholesale finance receivables outstanding are lower compared to the first nine months of 2009.

As part of the January 1, 2010 adoption of the new accounting guidance within ASC Topic 810 and ASC Topic 860, the Company established an initial allowance for credit losses of \$49.4 million related to the previously unconsolidated securitized finance receivables through an adjustment to retained earnings. Subsequent changes in the provision are included in the statement of operations.

Annualized losses on HDFS managed retail motorcycle loans were 2.04% during the first nine months of 2010 compared to 2.70% during the first nine months of 2009. The 30-day delinquency rate for managed retail

Table of Contents

motorcycle loans at September 26, 2010 decreased to 4.83% from 5.80% at September 27, 2009. At September 26, 2010, managed retail loans were comprised of all loans held by HDFFS, including those that were consolidated beginning January 1, 2010. Prior to January 1, 2010, managed retail loans include loans held by HDFFS as well as those sold through off-balance sheet securitization transactions. The decrease in credit losses from the first nine months of 2009 was due to a lower frequency of loss and improvement in the recovery values of repossessed motorcycles.

Changes in the allowance for finance credit losses on finance receivables held for investment, including finance receivables held by VIEs, were as follows (in thousands):

	Nine months ended	
	September 27, 2010	September 26, 2009
Balance, beginning of period	\$ 150,082	\$ 40,068
Allowance related to newly consolidated finance receivables ^(a)	49,424	
Provision for finance credit losses	69,117	137,830
Charge-offs, net of recoveries	(86,638)	(28,981)
Balance, end of period	\$ 181,985	\$ 148,917

(a) As part of the required consolidation of formerly off-balance sheet securitization trusts, the Company established a \$49.4 million allowance for finance credit losses related to the newly consolidated finance receivables.

At September 26, 2010, the allowance for finance credit losses on finance receivables held for investment was \$171.1 million for retail receivables, which includes \$96.8 million related to finance receivables held by VIEs, and \$10.9 million for wholesale receivables. See Note 7 of Notes to Condensed Consolidated Financial Statements for more information on the Company's VIEs. The allowance for finance credit losses on finance receivables held for investment was \$128.8 million for retail receivables and \$20.1 million for wholesale receivables at September 27, 2009.

HDFFS' periodic evaluation of the adequacy of the allowance for finance credit losses on finance receivables held for investment is generally based on HDFFS' past loan loss experience, known and inherent risks in the portfolio, current economic conditions and the estimated value of any underlying collateral.

As discussed in Note 6 of Notes to Condensed Consolidated Financial Statements, during the nine months ended September 27, 2009, the Company recorded an impairment charge of \$28.4 million related to the goodwill associated with HDFFS.

Other Matters**Contractual Obligations**

As described in Note 2 of Notes to Condensed Consolidated Financial Statements, the Company adopted new accounting guidance that resulted in the consolidation of formerly off-balance sheet securitization trusts. As a result of the newly consolidated securitization trusts, the amount of debt carried in the Company's consolidated financial statements has increased significantly since December 31, 2009. Accordingly, the Company has updated its Contractual Obligations table as of September 26, 2010 to reflect the new projected principal and interest payments for the remainder of 2010 and beyond as follows:

	2010	2011 - 2012	2013 - 2014	Thereafter	Total
Principal payments on debt	\$ 991,923	\$ 2,269,255	\$ 1,854,810	\$ 1,021,189	\$ 6,137,177
Interest payments on debt	78,322	538,820	301,982	235,442	1,154,566
	\$ 1,070,245	\$ 2,808,075	\$ 2,156,792	\$ 1,256,631	\$ 7,291,743

Table of Contents

Interest obligations include the impact of interest rate hedges outstanding as of September 26, 2010. Interest for floating rate instruments, as calculated above, assumes rates in effect at September 26, 2010 remain constant.

There have been no other material changes to the Company's summary of expected payments for significant contractual obligations under the caption "Contractual Obligations" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

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

The Company has 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 has submitted written responses to the EPA's inquiry and has engaged in discussions with the EPA. It is possible that a result of the EPA's investigation will be some form of enforcement action by the EPA that will seek a fine or other relief. However, at this time the Company does not know and cannot reasonably estimate the impact of any remedies the EPA might seek.

Shareholder Lawsuits:

In re Harley-Davidson, Inc. Securities Litigation was a consolidated shareholder securities class action lawsuit filed in the United States District Court for the Eastern District of Wisconsin. On October 2, 2006, the Lead Plaintiffs filed a Consolidated Class Action Complaint, which named the Company and certain former Company officers as defendants, that alleged securities law violations and sought unspecified damages relating generally to the Company's April 13, 2005 announcement that it was reducing short-term production growth and planned increases of motorcycle shipments. In 2006, the defendants filed a motion to dismiss the Consolidated Complaint. On October 8, 2009, the judge granted defendants motion to dismiss, and the clerk of court entered judgment dismissing the consolidated lawsuit. No appeal was taken from the final judgment and the dismissal of the case became final. Subsequently, on March 18, 2010, a group of individuals who appear to be inmates in a federal correctional institution filed a motion to intervene which was immediately dismissed by the District Court because judgment had already been entered. On April 5, 2010, two of the individuals filed notices of appeal of the dismissal. On May 27, 2010, the Court of Appeals for the Seventh Circuit dismissed the appeals for failure to pay the required docketing fees. The dismissal of the action again became final.

In 2005, three shareholder derivative lawsuits were filed in the United States District Court for the Eastern District of Wisconsin (one of which was later voluntarily dismissed), and two shareholder derivative lawsuits were filed in Milwaukee County Circuit Court on July 22, 2005 and November 16, 2005, against some or all of the following current or former directors and officers of the Company: Jeffrey L. Bleustein, James L. Ziemer, James M. Brostowitz, Barry K. Allen, Richard I. Beattie, George H. Conrades, Judson C. Green, Donald A. James, Sara L. Levinson, George L. Miles, Jr., James A. Norling, James A. McCaslin, Donna F. Zarcone, Jon R. Flickinger, Gail A. Lione, Ronald M. Hutchinson, W. Kenneth Sutton, Jr. and John A. Hevey. The lawsuits also name the Company as a nominal defendant. In general, the shareholder derivative complaints include factual allegations similar to those in the class action complaints and allege that officers and directors breached their

Table of Contents

fiduciary duties to the Company. In 2006, the state court consolidated the two state court derivative actions and appointed Lead Plaintiffs and Lead Plaintiffs' counsel, and the state court ordered that the consolidated state court derivative action be stayed until after motions to dismiss the federal securities class action were decided.

On November 24, 2009, both federal court derivative plaintiffs moved to voluntarily dismiss their lawsuits and all claims without prejudice. On November 30, 2009, the federal court entered orders granting the motions and dismissing the federal court derivative lawsuits without prejudice, and those cases are now closed. Lead plaintiffs in the consolidated state court derivative action filed an amended complaint on February 22, 2010 and defendants moved to dismiss the amended complaint in its entirety on April 26, 2010. The motion has been fully briefed, and the court is scheduled to hear arguments on the motion on November 18, 2010.

The Company believes the allegations in the state court derivative lawsuit are without merit and it intends to vigorously defend against the suit. The Company is unable to predict the scope or outcome or quantify their eventual impact, if any, on the Company. At this time, the Company is also unable to estimate associated expenses or possible losses. The Company maintains insurance that may limit its financial exposure for defense costs and liability for an unfavorable outcome, should it not prevail, for claims covered by the insurance coverage.

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. 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.

In February 2002, the Company was advised by the EPA that it considers some of the Company's remediation activities at the York facility to be subject to the EPA's corrective action program under the Resource Conservation and Recovery Act (RCRA) and offered the Company the option of addressing corrective action under a RCRA facility lead agreement. In July 2005, the York facility was designated as the first site in Pennsylvania to be addressed under the One Cleanup Program. The program provides a more streamlined and efficient oversight of voluntary remediation by both PADEP and EPA and will be carried out consistent with the Agreement with the Navy. As a result, the RCRA facility lead agreement has been superseded.

Although the RI/FS is still underway and substantial uncertainty exists concerning the nature and scope of the additional environmental investigation and remediation that will ultimately be required at the York facility, the Company estimates that its share of the future Response Costs at the York facility will be approximately \$5.9 million. The Company has established reserves for this amount, which are included in accrued liabilities in the Condensed Consolidated Balance Sheets.

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 related to the remediation of soil are expected to be incurred over a period of several years ending in 2015. Response Costs related to ground water remediation may continue for some time beyond 2015.

Product Liability Matters:

Additionally, 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 will not have a material adverse effect on the Company's consolidated financial statements.

Table of Contents**Liquidity and Capital Resources as of September 26, 2010**

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 internally-generated cash flows. The Company's Financial Services operations have been funded with unsecured debt, unsecured commercial paper, an asset-backed commercial paper conduit facility and committed unsecured bank facilities and through the term asset-backed securitization market. Any new capital market funding during the remainder of 2010 is expected to be used to pre-fund 2011 funding requirements.⁽¹⁾

The Company's strategy is to maintain a minimum of twelve months of its projected liquidity needs through a combination of cash and marketable securities and availability under credit facilities. The following table summarizes the Company's cash and marketable securities and availability under credit facilities as of September 26, 2010 (in thousands):

Cash and cash equivalents	\$ 1,494,301
Marketable securities	55,229
Total cash and cash equivalents and marketable securities	1,549,530
Global credit facilities	445,285
Asset-backed conduit facility	600,000
Total availability under credit facilities	1,045,285
Total	\$ 2,594,815

Although the Company has obtained the funding necessary to support HDFS operations for the remainder of 2010, 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. The Financial Services operations could be negatively affected by higher costs of funding and increased difficulty of raising, or potential unsuccessful efforts to raise, funding in the short-term and long-term capital markets.⁽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.

The Company is currently evaluating a contribution during the fourth quarter of 2010 to further fund its pension plans.

Table of Contents**Cash Flow Activity**

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

	Nine months ended	
	September 26, 2010	September 27, 2009
Net cash provided by operating activities	\$ 1,169,502	\$ 561,338
Net cash provided by (used by) investing activities	109,096	(550,674)
Net cash (used by) provided by financing activities	(1,355,869)	980,471
Effect of exchange rate changes on cash and cash equivalents	4,921	11,829
Net (decrease) increase in cash and cash equivalents of continuing operations	\$ (72,350)	\$ 1,002,964

Operating Activities of Continuing Operations

The increase in operating cash flow for the first nine months of 2010 compared to the first nine months of 2009 was due primarily to the changes in classification of the Company's retail lending activities and favorable movements in working capital.

Retail loans originated prior to June 28, 2009 were classified as held-for-sale based on the Company's intent to securitize these U.S. retail motorcycle loans in off-balance sheet securitization transactions under prior U.S. GAAP. Accordingly, the origination and collection of these retail loans were components of operating cash flows. In connection with the Company's adoption of the new guidance within ASC Topic 810 and ASC Topic 860 on January 1, 2010, all U.S. retail motorcycle finance receivables are considered held for investment, as the Company has the intent and ability to hold the finance receivables for the foreseeable future, or until maturity. Consistent with the adoption guidance within ASC Topic 810 and ASC Topic 860, which requires the Company to adopt the standards on a prospective basis as if they had always been in effect, the Company has classified the post-January 1, 2010 cash flows related to all of its retail motorcycle finance receivables as investing cash flows in the statement of cash flows.

Investing Activities of Continuing Operations

The Company's investing activities consist primarily of capital expenditures, net changes in finance receivables held for investment and net changes in marketable securities. Capital expenditures were \$77.6 million and \$76.6 million during the first nine months of 2010 and 2009, respectively. Net changes in finance receivables held for investment in the first nine months of 2010 reflect the incremental cash flows from finance receivables held by securitization trusts that were not consolidated prior to January 1, 2010. The effects of consolidating formerly off-balance sheet QSPEs are discussed further in Note 2 of Notes to Condensed Consolidated Financial Statements.

Financing Activities of Continuing Operations

The Company's financing activities consist primarily of debt activity, dividend payments and share repurchases. As of September 26, 2010, there were 16.7 million shares remaining on a board-approved share repurchase authorization. An additional board-approved share repurchase authorization is in place to offset option exercises.

The Company paid dividends of \$0.30 per share at a total cost of \$70.5 million and \$70.3 million during each of the first nine months of 2010 and 2009, respectively.

Table of Contents

As of September 26, 2010, debt increased by \$967.0 million compared to September 27, 2009, primarily driven by the Company's adoption of new accounting guidance within ASC Topic 810 and ASC Topic 860, which resulted in the consolidation of all formerly off-balance sheet QSPE debt. The Company's total outstanding debt consisted of the following as of September 26, 2010 and September 27, 2009 (in thousands):

	September 26, 2010	September 27, 2009
Global credit facilities	\$ 207,234	\$ 400,939
Unsecured commercial paper	697,481	899,971
Medium-term notes	2,099,092	1,605,464
Senior unsecured notes	600,000	600,000
	3,603,807	3,506,374
Asset-backed conduit facility		570,132
Finance receivable securitization debt	2,533,370	1,093,650
Debt held by variable interest entities	2,533,370	1,663,782
Total debt	\$ 6,137,177	\$ 5,170,156

In order to access the debt capital markets, the Company relies on credit rating agencies to assign short-term and long-term credit ratings. Generally, lower credit ratings result in higher borrowing costs and reduced access to debt capital markets. A credit rating agency may change or withdraw the Company's ratings based on its assessment of the Company's current and future ability to meet interest and principal repayment obligations. The Company's short-term debt ratings affect its ability to issue unsecured commercial paper. The Company's short- and long-term debt ratings as of September 26, 2010 were as follows:

	Short-Term	Long-Term	Outlook
Moody's	P2	Baa1	Negative
Standard & Poor's	A2	BBB	Stable
Fitch	F2	BBB+	Stable

Global Credit Facilities On April 29, 2010, the Company and HDFS entered into a new \$675.0 million 364-day credit facility (New 364-Day Credit Facility) to refinance and replace a \$625.0 million 364-day credit facility (2009 364-Day Credit Facility), which matured in April 2010. The New 364-Day Credit Facility matures in April 2011. In connection with the New 364-Day Credit Facility, the Company and HDFS also entered into a new \$675.0 million three-year credit facility to refinance and replace a \$950.0 million three-year credit facility agreement, which was set to mature in July 2011. The new three-year credit facility matures in April 2013. The New 364-Day Credit Facility and the new three-year credit facility agreement (together, the Global Credit Facilities) bear interest at various variable interest rates, which may be adjusted upward or downward depending on certain criteria, such as credit ratings. The Global Credit Facilities also require the Company to pay a fee based upon the average daily unused portion of the aggregate commitments under the Global Credit Facilities. The Global Credit Facilities are committed facilities and primarily used to support HDFS' unsecured commercial paper program.

Unsecured Commercial Paper Subject to limitations, HDFS can issue unsecured commercial paper of up to \$1.35 billion as of September 26, 2010 as a result of the Global Credit Facilities discussed above. Outstanding unsecured commercial paper may not exceed the unused portion of the Global Credit Facilities. Maturities may range up to 365 days from the issuance date. HDFS intends to finance the repayment of unsecured commercial paper as it matures by issuing traditional unsecured commercial paper or through other means, such as borrowing under the Global Credit Facilities, borrowing under its asset-backed commercial paper conduit facility and term asset-backed securitizations.⁽¹⁾

Table of Contents

Medium-Term Notes The Company had the following medium-term notes (collectively, the Notes) issued and outstanding at September 26, 2010 (in thousands):

Principal Amount	Rate	Issue Date	Maturity Date
\$ 200,000	5.00%	December 2005	December 2010
\$ 400,000	5.25%	December 2007	December 2012
\$ 1,000,000	6.80%	May 2008	June 2018
\$ 500,000	5.75%	November 2009	December 2014

The Notes provide for semi-annual interest payments and principal due at maturity. At September 26, 2010 and September 27, 2009, the Notes included a fair value adjustment increasing the balance by \$1.4 million and \$7.4 million, respectively, due to interest rate swap agreements designated as fair value hedges. The effect of the interest rate swap agreements is to convert the interest rate on a portion of the Notes from a fixed to a floating rate, which is based on 3-month LIBOR. Unamortized discounts on the Notes reduced the balance by \$2.3 million and \$2.0 million at September 26, 2010 and September 27, 2009, respectively.

Senior Unsecured Notes In February 2009, the Company issued \$600.0 million of senior unsecured notes in an underwritten offering. The senior unsecured notes mature in February 2014 and have an annual interest rate of 15%. The senior unsecured notes provide for semi-annual interest payments and principal due at maturity. Prior to the end of the first quarter of 2009, the Company transferred the full proceeds from the issuance to HDFS to fund HDFS operations. As HDFS diversified its debt structure through a combination of actions during 2009, its funding profile improved. During the fourth quarter of 2009, HDFS transferred the full proceeds back to the Company.

Asset-Backed Commercial Paper Conduit Facility On September 10, 2010, the Company amended and restated its revolving asset-backed conduit facility which provides for a total aggregate commitment of \$600.0 million. At September 26, 2010, HDFS had no outstanding borrowings under the conduit facility.

This debt provides for interest on outstanding principal based on prevailing commercial paper rates, 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 conduit facility also provides for an unused commitment fee based on the unused portion of the total aggregate commitment of \$600.0 million. There is no amortization schedule; however, the debt is reduced monthly as available collections on the related finance receivable collateral are applied to outstanding principal. Upon expiration of the conduit facility, any outstanding principal will continue to be reduced monthly through available collections. Unless earlier terminated or extended by mutual agreement of HDFS and the lenders, as of September 26, 2010, the conduit facility had an expiration date of September 9, 2011.

Finance Receivable Securitization Debt On January 1, 2010, the Company adopted new guidance within ASC Topics 810 and 860 for consolidating VIEs. As a result, the Company consolidated the securitized U.S. retail motorcycle loans, resulting secured borrowings, and other related assets and liabilities related to the formerly unconsolidated QSPEs in the Company's consolidated financial statements. The consolidation of the secured notes related to these VIEs resulted in a \$1.89 billion increase in securitization debt on January 1, 2010, the effective date of adoption.

During 2009, the Company issued \$2.46 billion of secured notes through four separate term asset-backed securitization transactions that were consolidated in the Company's financial statements due to the structure of those transactions at the time of issuance. The Company has not completed any term asset-backed securitization transactions during 2010.

For all of the term asset-backed securitization transactions, the Company transferred U.S. retail motorcycle loans to separate VIEs, which in turn issued secured notes, with various maturities and interest rates to investors. All of the notes held by the VIEs are secured by future collections of the purchased U.S. retail motorcycle loans. The U.S. retail motorcycle loans included in the term asset-backed securitization transactions are only available for payment of the debt and other obligations arising from term asset-backed securitization

Table of Contents

transactions and are not available to pay other obligations or claims of the Company's creditors until the associated debt and other obligations are satisfied. Cash and cash equivalent balances held by the VIEs are used only to support the securitizations. There is no amortization schedule for the secured notes; however, the debt is reduced monthly as available collections on the related retail motorcycle loans are applied to outstanding principal. The secured notes' contractual lives have various maturities ranging from 2010 to 2017.

As of September 26, 2010, the assets of the VIEs totaled \$3.37 billion, of which \$3.07 billion of finance receivables and \$285.7 million of cash were restricted as collateral for the payment of \$2.53 billion of obligations under the secured notes. Approximately \$731.8 million of the obligations under the secured notes were classified as current at September 26, 2010, based on the contractual maturities of the restricted finance receivables.

Intercompany Borrowing During the first nine months of 2009, HDFS borrowed \$600.0 million from the Company with interest terms matching the Company's senior unsecured notes described above. During the fourth quarter of 2009, HDFS repaid the full proceeds back to the Company. In addition, HDFS has a revolving credit line with the Company whereby HDFS may borrow up to \$210.0 million from the Company at a market interest rate. As of September 26, 2010 and September 27, 2009, HDFS had no outstanding borrowings owed to the Company under the revolving credit line.

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

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

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

incur certain additional indebtedness;

assume or incur certain liens;

participate in a merger, consolidation, liquidation or dissolution; and

purchase or hold margin stock.

Under the financial covenants of the Global Credit Facilities and the asset-backed commercial paper conduit facility, the debt to equity ratio of HDFS and its consolidated subsidiaries cannot exceed 10.0 to 1.0 and HDFS must maintain a consolidated tangible net worth of not less than \$500.0 million. In addition, the Company must maintain a minimum interest coverage ratio of at least 2.0 to 1.0 for the fiscal quarter ending September 26, 2010, 2.25 to 1.0 for the fiscal quarter ended December 31, 2010 and 2.5 to 1.0 for each fiscal quarter thereafter. No financial covenants are required under the Notes or the Company's \$600.0 million senior unsecured notes.

At September 26, 2010, HDFS and the Company remained in compliance with all of the existing covenants.

Cash Flows from Discontinued Operations

Cash flows from discontinued operations consist of the operating and investing activities of MV. During the nine months ended September 26, 2010 and September 27, 2009, cash flows from discontinued operations were a net cash outflow of \$69.8 million and \$72.1 million, respectively. The Company expects that consolidated cash flow will benefit now that the divestiture of MV is complete.

Table of Contents

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 and divest certain Company assets;
- (ii) effectively execute the Company's restructuring plans within expected costs and timing;
- (iii) successfully achieve with the Company's labor unions flexible and cost-effective agreements to accomplish restructuring goals and long-term competitiveness;
- (iv) manage the risks that the Company's independent dealers may have difficulty obtaining capital, and adjusting to the recession and slowdown in consumer demand;
- (v) manage supply chain issues;
- (vi) anticipate the level of consumer confidence in the economy;
- (vii) continue to have access to reliable sources of capital funding and adjust to fluctuations in the cost of capital;
- (viii) manage the credit quality, the loan servicing and collection activities, and the recovery rates of HDFS' loan portfolio;
- (ix) continue to realize production efficiencies at its production facilities and manage operating costs including materials, labor and overhead;
- (x) manage production capacity and production changes;
- (xi) provide products, services and experiences that are successful in the marketplace;
- (xii) develop and implement sales and marketing plans that retain existing retail customers and attract new retail customers in an increasingly competitive marketplace;
- (xiii) sell all of its motorcycles and related products and services to its independent dealers;

Edgar Filing: HARLEY DAVIDSON INC - Form 10-Q

- (xiv) continue to develop the capabilities of its distributor and dealer network;
- (xv) manage changes and prepare for requirements in legislative and regulatory environments for its products, services and operations;
- (xvi) adjust to fluctuations in foreign currency exchange rates, interest rates and commodity prices;
- (xvii) adjust to healthcare inflation and reform, pension reform and tax changes;
- (xviii) retain and attract talented employees;
- (xix) detect any issues with the Company's motorcycles or manufacturing processes to avoid delays in new model launches, recall campaigns, increased warranty costs or litigation; and

(xx) implement and manage enterprise-wide information technology solutions and secure data contained in those systems. In addition, the Company could experience delays or disruptions in its operations as a result of work stoppages, strikes, natural causes, terrorism or other factors. Other factors are described in risk factors that the Company has disclosed in documents previously filed with the Securities and Exchange Commission. Many of these risk factors are impacted by the current turbulent capital, credit and retail markets and the Company's ability to adjust to them.

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.

Refer to Risk Factors under Item 1A of this report and under Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2009 for a discussion of additional factors and a more complete discussion of some of the cautionary statements noted above.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 for a complete discussion of the Company's market risk. There have been no material changes to the market risk information included in the Company's Annual Report on Form 10-K for the year December 31, 2009.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls

There was no change in the Company's internal control over financial reporting during the quarter ended September 26, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 1 Legal Proceedings

Environmental Protection Agency Notice

The Company has 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 has submitted written responses to the EPA's inquiry and has engaged in discussions with the EPA. It is possible that a result of the EPA's investigation will be some form of enforcement action by the EPA that will seek a fine or other relief. However, at this time the Company does not know and cannot reasonably estimate the impact of any remedies the EPA might seek.

Shareholder Lawsuits:

In re Harley-Davidson, Inc. Securities Litigation was a consolidated shareholder securities class action lawsuit filed in the United States District Court for the Eastern District of Wisconsin. On October 2, 2006, the Lead Plaintiffs filed a Consolidated Class Action Complaint, which named the Company and certain former Company officers as defendants, that alleged securities law violations and sought unspecified damages relating generally to the Company's April 13, 2005 announcement that it was reducing short-term production growth and planned increases of motorcycle shipments. In 2006, the defendants filed a motion to dismiss the Consolidated Complaint. On October 8, 2009, the judge granted defendants motion to dismiss, and the clerk of court entered judgment dismissing the consolidated lawsuit. No appeal was taken from the final judgment and the dismissal of the case became final. Subsequently, on March 18, 2010, a group of individuals who appear to be inmates in a federal correctional institution filed a motion to intervene which was immediately dismissed by the District Court because judgment had already been entered. On April 5, 2010, two of the individuals filed notices of appeal of the dismissal. On May 27, 2010, the Court of Appeals for the Seventh Circuit dismissed the appeals for failure to pay the required docketing fees. The dismissal of the action again became final.

In 2005, three shareholder derivative lawsuits were filed in the United States District Court for the Eastern District of Wisconsin (one of which was later voluntarily dismissed), and two shareholder derivative lawsuits were filed in Milwaukee County Circuit Court on July 22, 2005 and November 16, 2005, against some or all of the following current or former directors and officers of the Company: Jeffrey L. Bleustein, James L. Ziemer, James M. Brostowitz, Barry K. Allen, Richard I. Beattie, George H. Conrades, Judson C. Green, Donald A. James, Sara L. Levinson, George L. Miles, Jr., James A. Norling, James A. McCaslin, Donna F. Zarcone, Jon R. Flickinger, Gail A. Lione, Ronald M. Hutchinson, W. Kenneth Sutton, Jr. and John A. Hevey. The lawsuits also name the Company as a nominal defendant. In general, the shareholder derivative complaints include factual allegations similar to those in the class action complaints and allege that officers and directors breached their fiduciary duties to the Company. In 2006, the state court consolidated the two state court derivative actions and appointed Lead Plaintiffs and Lead Plaintiffs' counsel, and the state court ordered that the consolidated state court derivative action be stayed until after motions to dismiss the federal securities class action were decided.

On November 24, 2009, both federal court derivative plaintiffs moved to voluntarily dismiss their lawsuits and all claims without prejudice. On November 30, 2009, the federal court entered orders granting the motions and dismissing the federal court derivative lawsuits without prejudice, and those cases are now closed. Lead plaintiffs in the consolidated state court derivative action filed an amended complaint on February 22, 2010 and defendants moved to dismiss the amended complaint in its entirety on April 26, 2010. The motion has been fully briefed, and the court is scheduled to hear arguments on the motion on November 18, 2010.

The Company believes the allegations in the state court derivative lawsuit are without merit and it intends to vigorously defend against the suit. The Company is unable to predict the scope or outcome or quantify their eventual impact, if any, on the Company. At this time, the Company is also unable to estimate associated expenses or possible losses. The Company maintains insurance that may limit its financial exposure for defense costs and liability for an unfavorable outcome, should it not prevail, for claims covered by the insurance coverage.

Table of Contents

York Environmental Matters:

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

In February 2002, the Company was advised by the EPA that it considers some of the Company's remediation activities at the York facility to be subject to the EPA's corrective action program under the Resource Conservation and Recovery Act (RCRA) and offered the Company the option of addressing corrective action under a RCRA facility lead agreement. In July 2005, the York facility was designated as the first site in Pennsylvania to be addressed under the One Cleanup Program. The program provides a more streamlined and efficient oversight of voluntary remediation by both PADEP and EPA and will be carried out consistent with the Agreement with the Navy. As a result, the RCRA facility lead agreement has been superseded.

Although the RI/FS is still underway and substantial uncertainty exists concerning the nature and scope of the additional environmental investigation and remediation that will ultimately be required at the York facility, the Company estimates that its share of the future Response Costs at the York facility will be approximately \$5.9 million. The Company has established reserves for this amount, which are included in accrued liabilities in the Condensed Consolidated Balance Sheets.

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 related to the remediation of soil are expected to be incurred over a period of several years ending in 2015. Response Costs related to ground water remediation may continue for some time beyond 2015.

Product Liability Matters:

Additionally, 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 will not have a material adverse effect on the Company's consolidated financial statements.

Item 1A Risk Factors

Refer to Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2009 for a discussion regarding risk factors relating to the Company. In addition, investors should consider the following:

The Company's operations may be affected by greenhouse emissions and climate change and related regulations. In particular, 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. There have been bills pending in Congress that would regulate greenhouse gas emissions. In addition, several states, including states where the Company has manufacturing plants, are considering various 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

Table of Contents

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. While additional regulation of emissions in the future appears likely, it is too early to predict how this regulation will ultimately affect the Company's business, operations or financial results. 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 natural gas, a fuel necessary for the manufacture of motorcycles. Supply disruptions would raise market rates and jeopardize the continuity of motorcycle production.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

The following table contains detail related to the repurchase of common stock based on the date of trade during the quarter ended September 26, 2010:

2010 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
June 28 to August 1	14,654	\$ 32		23,960,147
August 2 to August 29	246	\$ 28		23,993,557
August 30 to September 26		\$		23,994,807
Total	14,900	\$ 32		

The Company has an authorization (originally adopted in December 1997) by its Board of Directors to repurchase shares of its outstanding common stock under which the cumulative number of shares repurchased, at the time of any repurchase, shall not exceed the sum of (1) the number of shares issued in connection with the exercise of stock options occurring on or after January 1, 2004 plus (2) one percent of the issued and outstanding common stock of the Company on January 1 of the current year, adjusted for any stock split. The Company did not purchase shares under this authorization during the quarter ended September 26, 2010.

In December 2007, the Company's Board of Directors separately authorized the Company to buy back up to 20.0 million shares of its common stock with no dollar limit or expiration date. As of September 26, 2010, 16.7 million shares remained under this authorization.

The Harley-Davidson, Inc. 2009 Incentive Stock Plan and predecessor stock plans permit participants to satisfy all or a portion of the statutory federal, state and local withholding tax obligations arising in connection with plan awards by electing to (a) have the Company withhold shares otherwise issuable under the award, (b) tender back shares received in connection with such award or (c) deliver other previously owned shares, in each case having a value equal to the amount to be withheld. During the third quarter of 2010, the Company acquired 14,900 shares of common stock that employees presented to the Company to satisfy withholding taxes in connection with the vesting of restricted stock awards.

Table of Contents

Item 6 Exhibits

Refer to the Exhibit Index on page 69 of this report.

Table of Contents

SIGNATURES

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

HARLEY-DAVIDSON, INC.

Date: November 3, 2010

/s/ John A. Olin
John A. Olin
Senior Vice President and Chief Financial Officer

(Principal financial officer)

Date: November 3, 2010

/s/ Mark R. Kornetzke
Mark R. Kornetzke
Chief Accounting Officer

(Principal accounting officer)

Table of Contents

Harley-Davidson, Inc.

Exhibit Index to Form 10-Q

Exhibit No.	Description
2.1	Sale and Purchase Agreement among Harley-Davidson, Inc. and related parties and MV Agusta Holding S.r.l. and Claudio Castiglioni, dated July 31, 2010 (incorporated herein by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated August 6, 2010 (File No. 1-9183)).*
31.1	Chief Executive Officer Certification pursuant to Rule 13a-14(a)
31.2	Chief Financial Officer Certification pursuant to Rule 13a-14(a)
32.1	Written Statement of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. §1350
101	Financial statements from the quarterly report on Form 10-Q of Harley-Davidson, Inc. for the quarter ended September 26, 2010, filed on November 3, 2010, formatted in XBRL: (i) the Condensed Consolidated Statements of Income; (ii) the Condensed Consolidated Balance Sheets; (iii) the Condensed Consolidated Statements of Cash Flows; and (iv) the Notes to Condensed Consolidated Financial Statements tagged as blocks of text.

* The schedules to this document have not been filed with the Securities and Exchange Commission. The Company agrees to furnish supplementally a copy of any such schedule to the Securities and Exchange Commission upon request.

Instruments relating to the Company's revolving asset-backed conduit facility described in this report need not be filed herewith pursuant to Item 601(b)(4)(v) of Regulation S-K. The registrant, by signing this report, agrees to furnish the Securities and Exchange Commission, upon its request, with a copy of any such instrument.