HARLEY DAVIDSON INC
Form 10-Q
May 06, 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 March 28, 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)

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

Registrants telephone number: (414) 342-4680

None

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days. Yes x No ¨

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

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

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

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

Number of shares of the registrant s common stock outstanding at April 30, 2010: 235,451,951 shares

Table of Contents

Harley-Davidson, Inc.

Form 10-Q

For The Quarter Ended March 28, 2010

Part I	**Financial Information**	3
Item 1.	Financial Statements	3
	Condensed Consolidated Statements of Operations	3
	Condensed Consolidated Balance Sheets	4
	Condensed Consolidated Statements of Cash Flows	5
	Notes to Condensed Consolidated Financial Statements	6
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	36
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	53
Item 4.	Controls and Procedures	53
Part II	**Other Information**	54
Item 1.	Legal Proceedings	54
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	56
Item 6.	Exhibits	56
Signatures		57

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	
	March 28, 2010	**March 29, 2009**
Revenue:		
Motorcycles and related products	$ 1,037,335	$ 1,278,432
Financial services	169,837	104,667
Total revenue	1,207,172	1,383,099
Costs and expenses:		
Motorcycles and related products cost of goods sold	657,788	804,386
Financial services interest expense	81,203	53,700
Financial services provision for credit losses	31,806	5,911
Selling, administrative and engineering expense	235,350	242,022
Restructuring expense	48,236	34,862
Total costs and expenses	1,054,383	1,140,881
Operating income	152,789	242,218
Investment income	876	1,953
Interest expense	23,455	9,746
Income before provision for income taxes	130,210	234,425
Provision for income taxes	61,469	106,372
Income from continuing operations	68,741	128,053
Loss from discontinued operations, net of tax	(35,416)	(10,706)
Net income	$ 33,325	$ 117,347
Earnings per common share from continuing operations:		
Basic	$ 0.30	$ 0.55
Diluted	$ 0.29	$ 0.55
Loss per common share from discontinued operations:		
Basic	$ (0.15)	$ (0.05)
Diluted	$ (0.15)	$ (0.05)
Earnings per common share:		
Basic	$ 0.14	$ 0.51

Diluted	$	0.14	$	0.50
Cash dividends per common share	$	0.10	$	0.10

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

3

Table of Contents

HARLEY-DAVIDSON, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	(Unaudited) March 28, 2010	December 31, 2009	(Unaudited) March 29, 2009
ASSETS			
Current assets:			
Cash and cash equivalents	$ 1,442,798	$ 1,630,433	$ 884,623
Marketable securities	39,416	39,685	
Accounts receivable, net	286,518	269,371	284,853
Finance receivables held for sale			2,086,920
Finance receivables held for investment, net	1,252,420	1,436,114	1,677,355
Restricted finance receivables held by variable interest entities, net	809,779		
Inventories	322,238	323,029	421,577
Assets of discontinued operations	151,175	181,211	231,421
Restricted cash held by variable interest entities	401,275		
Other current assets	315,890	462,106	243,054
Total current assets	5,021,509	4,341,949	5,829,803
Finance receivables held for sale			580,736
Finance receivables held for investment, net	1,274,734	3,621,048	796,732
Restricted finance receivables held by variable interest entities, net	3,299,070		
Property, plant and equipment, net	847,480	906,906	1,016,043
Goodwill	29,818	31,400	59,046
Other long-term assets	230,292	254,215	337,234
	$ 10,702,903	$ 9,155,518	$ 8,619,594
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Accounts payable	$ 265,905	$ 162,515	$ 363,282
Accrued liabilities	599,820	514,084	568,767
Liabilities of discontinued operations	61,726	69,535	74,488
Short-term debt	160,837	189,999	1,724,375
Current portion of long-term debt	396,169	1,332,091	
Current portion of long-term debt held by variable interest entities	898,935		
Total current liabilities	2,383,392	2,268,224	2,730,912
Long-term debt	2,862,725	4,114,039	2,757,185
Long-term debt held by variable interest entities	2,707,748		
Pension liability	239,445	245,332	484,006
Postretirement healthcare liability	265,117	264,472	260,453
Other long-term liabilities	157,077	155,333	154,225
Commitments and contingencies (Note 17)			
Total shareholders equity	2,087,399	2,108,118	2,232,813
	$ 10,702,903	$ 9,155,518	$ 8,619,594

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)

	Three months ended March 28, 2010	Three months ended March 29, 2009
Net cash provided by (used by) operating activities of continuing operations (Note 3)	$ 200,842	$ (227,026)
Cash flows from investing activities of continuing operations:		
Capital expenditures	(14,558)	(20,009)
Origination of finance receivables held for investment	(455,879)	(98,976)
Collections on finance receivables held for investment	653,983	110,637
Collection of retained securitization interests		1,358
Net cash provided by (used by) investing activities of continuing operations	183,546	(6,990)
Cash flows from financing activities of continuing operations:		
Proceeds from issuance of senior unsecured notes		595,731
Repayments of securitization debt	(445,215)	
Net (decrease) increase in credit facilities and unsecured commercial paper	(50,703)	48,442
Repayments of asset-backed commercial paper		(67,194)
Net change in restricted cash	(34,734)	
Dividends	(23,488)	(23,455)
Purchase of common stock for treasury	(1,191)	
Excess tax benefits from share-based payments	34	147
Issuance of common stock under employee stock option plans	1,101	10
Net cash (used by) provided by financing activities of continuing operations	(554,196)	553,681
Effect of exchange rate changes on cash and cash equivalents of continuing operations	(606)	6,253
Net (decrease) increase in cash and cash equivalents of continuing operations	(170,414)	325,918
Cash flows from discontinued operations:		
Cash flows from operating activities of discontinued operations	(13,723)	(18,294)
Cash flows from investing activities of discontinued operations	(393)	(4,433)
Effect of exchange rate changes on cash and cash equivalents of discontinued operations	(635)	2,549
	(14,751)	(20,178)
Net (decrease) increase in cash and cash equivalents	$ (185,165)	$ 305,740
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
Net (decrease) increase in cash and cash equivalents	(185,165)	305,740
Less: Cash and cash equivalents of discontinued operations end of period	(8,533)	(14,675)
Cash and cash equivalents end of period	$ 1,442,798	$ 884,623

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

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), MV Agusta (MV) 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 March 28, 2010 and March 29, 2009, the condensed consolidated statements of operations for the three month periods then ended and the condensed consolidated statements of cash flows for the three month periods then ended.

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

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.

6

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 currently be 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 6.

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 milllion 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 with the three months ended March 28, 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 will no longer incur 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 consolidation of formerly unconsolidated QSPEs, 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.

3. Additional Balance Sheet and Cash Flow Information

Marketable Securities

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

	March 28, 2010	December 31, 2009	March 29, 2009
Available-for-sale:			
Corporate bond investments	$ 39,416	$ 39,685	$

The Company s available-for-sale securities are carried at fair value with any unrealized gains or losses reported in other comprehensive income, and have maturities less than one year. During the first quarter of 2010, the Company recognized gross unrealized losses of $0.8 million, or $0.5 million net of tax, to adjust amortized cost to fair value. There were no marketable securities held at March 29, 2009.

Finance Receivables

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

	March 28, 2010	December 31, 2009	March 29, 2009
Wholesale	$ 1,061,183	$ 870,001	$ 1,499,819
Retail	5,766,920	4,091,893	699,259
	6,828,103	4,961,894	2,199,078
Allowance for finance credit losses	192,100	150,082	40,534
	6,636,003	4,811,812	2,158,544
Investment in retained securitization interests		245,350	315,543
	$ 6,636,003	$ 5,057,162	$ 2,474,087

At March 28, 2010, the allowance for finance credit losses on finance receivables held for investment was $192.1 million which consisted of $175.7 million for retail finance receivables and $16.4 million for wholesale finance receivables. Of the $175.7 million allowance for finance credit losses on retail finance receivables, $128.3 million related to retail finance receivables held by VIEs. At March 29, 2009, the Company classified $2.67 billion of finance receivables as held for sale, which were carried at the lower of cost or estimated fair value. As such, no amount of the allowance for credit losses was related to the finance receivables held for sale at March 29, 2009.

Table of Contents

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.

During the second quarter of 2009, the Company reclassified $3.14 billion of finance receivables held for sale at the lower of cost or fair value to finance receivables held for investment due to the structure of its May 2009 term asset-backed securitization transaction and the Company s intent to structure subsequent securitization transactions in a manner that did not qualify for accounting sale treatment under prior U.S. GAAP. As a result of the reclassification, the Company recorded a $72.7 million increase to the allowance for credit losses during the second quarter of 2009 in order to establish the initial reserve for the reclassified receivables.

Inventories

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

	March 28, 2010	December 31, 2009	March 29, 2009
Components at the lower of FIFO cost or market			
Raw materials and work in process	$ 98,420	$ 104,641	$ 133,059
Motorcycle finished goods	163,093	168,002	210,302
Parts and accessories and general merchandise	96,162	84,823	115,610
Inventory at lower of FIFO cost or market	357,675	357,466	458,971
Excess of FIFO over LIFO cost	(35,437)	(34,437)	(37,394)
	$ 322,238	$ 323,029	$ 421,577

9

Table of Contents

Operating Cash Flow

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

	Three months ended March 28, 2010	March 29, 2009
Cash flows from operating activities:		
Net income	$ 33,325	$ 117,347
Loss from discontinued operations	(35,416)	(10,706)
Income from continuing operations	68,741	128,053
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation	67,392	54,968
Provision for employee long-term benefits	25,902	25,453
Contributions to pension and postretirement plans	(16,137)	(8,948)
Stock compensation expense	6,123	6,059
Net change in wholesale finance receivables	(173,994)	(279,546)
Origination of retail finance receivables held for sale		(468,299)
Collections on retail finance receivables held for sale		217,255
Impairment of retained securitization interests		17,131
Lower of cost or fair market value adjustment on finance receivables held for sale		8,648
Pension and postretirement healthcare plan curtailment and settlement expense	1,558	
Provision for credit losses	31,806	5,911
Foreign currency adjustments	(2,962)	(15,613)
Other, net	51,630	38,633
Changes in current assets and liabilities:		
Accounts receivable, net	(26,656)	(30,287)
Finance receivables - accrued interest and other	5,934	(1,730)
Inventories	(7,158)	(49,497)
Accounts payable and accrued liabilities	176,880	82,643
Restructuring reserves	(2,125)	28,562
Derivative instruments	838	7,292
Other	(6,930)	6,286
Total adjustments	132,101	(355,079)
Net cash provided by (used by) operating activities of continuing operations	$ 200,842	$ (227,026)

4. MV Planned 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 at a price that is reasonable relative to its fair value. The Company expects to complete its divestiture of MV during 2010. As a result, MV is presented as a discontinued operation for all periods presented.

Table of Contents

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

	Three months ended	
	March 28, 2010	March 29, 2009
Revenue	$ 22,551	$ 12,216
Loss before income taxes	$ (41,809)	$ (10,686)
Loss per common share	$ (0.15)	$ (0.05)

During the first quarter of 2010, the Company incurred a $41.8 million pre-tax loss from discontinued operations, or $35.4 million net of tax. Included in the first quarter 2010 operating loss was an impairment charge of $35.0 million, or $28.6 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 charge is included in loss from discontinued operations and consisted of $22.7 million fixed asset impairment and $12.3 million intangible asset impairment.

At March 28, 2010, assets of discontinued operations consisted of $40.1 million of accounts receivable, net; $31.7 million of inventories; $6.3 million of property, plant and equipment, net; and $73.1 million of other assets. At March 28, 2010, liabilities of discontinued operations consisted $49.9 million of accounts payable and accrued liabilities and $11.8 million of other liabilities.

5. Restructuring Expense and Other Impairments

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 reductions began in 2009 and are expected to be completed during 2011.

Table of Contents

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 2009 Restructuring Plan to result in restructuring and impairment expenses of approximately $430 million to $460 million from 2009 to 2012, of which approximately 30% are expected to be non-cash. On a cumulative basis, the Company has incurred $272.5 million of restructuring and impairment expense under the 2009 Restructuring Plan as of March 28, 2010, of which $48.2 million was incurred during the first quarter of 2010. Approximately 2,400 employees have left the Company under the 2009 Restructuring Plan as of March 28, 2010.

The following table summarizes the Company s 2009 Restructuring Plan reserve recorded in accrued liabilities as of March 28, 2010 (in thousands):

	Motorcycles & Related Products					**Financial Services**			
	Employee Severance and Termination Costs	**Accelerated Depreciation**	**Asset Impairment**	**Other**	**Total**	**Employee Severance and Termination Costs**	**Other**	**Total**	**Consolidated Total**
Restructuring expense	$ 30,816	$ 3,786	$	$ 260	$ 34,862	$	$	$	$ 34,862
Utilized - cash	(1,047)			(260)	(1,307)				(1,307)
Utilized - noncash	(4,533)	(3,786)			(8,319)				(8,319)
Balance, March 29, 2009	$ 25,236	$	$	$	$ 25,236	$	$	$	$ 25,236
Restructuring expense	72,953	23,119	18,024	72,018	186,114	1,679	1,623	3,302	189,416
Utilized - cash	(28,838)			(40,596)	(69,434)	(1,460)	(1,197)	(2,657)	(72,091)
Utilized - noncash	(33,281)	(23,119)	(18,024)		(74,424)		(426)	(426)	(74,850)
Balance December 31, 2009	$ 36,070	$	$	$ 31,422	$ 67,492	$ 219	$	$ 219	$ 67,711
Restructuring expense	19,677	20,790		7,769	48,236				48,236
Utilized - cash	(23,774)			(6,123)	(29,897)	(44)		(44)	(29,941)
Utilized - noncash	1,023	(20,790)		(475)	(20,242)	(175)		(175)	(20,417)
Balance March 28, 2010	$ 32,996	$	$	$ 32,593	$ 65,589	$	$	$	$ 65,589

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

6. 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. 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.

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.

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.

The assets of the consolidated term asset-backed securitization SPEs totaled $4.48 billion at March 28, 2010 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 March 28, 2010, the SPEs held U.S. retail motorcycle finance receivables of $4.06 billion restricted as collateral for the payment of $3.61 billion of obligations under the secured notes. The SPEs also held $397.7 million of cash restricted for payment on the secured notes at March 28, 2010.

Asset-Backed Commercial Paper Conduit Facility VIE

In December 2008, HDFS transferred U.S. retail motorcycle finance receivables to a SPE which in turn issued $500.0 million of debt to third-party bank-sponsored asset-backed commercial paper conduits. The asset-backed commercial paper conduit facility SPE funded the purchase of the U.S. retail motorcycle finance receivables from HDFS primarily with cash obtained through the issuance of the debt. In April 2009, HDFS replaced its December 2008 asset-backed commercial paper conduit facility with a new revolving asset-backed commercial paper conduit agreement (2009 Conduit Loan Agreement). 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 2009 Conduit Loan Agreement provided for a total aggregate commitment of up to $1.20 billion as of March 28, 2010 based on, among other things, the amount of eligible U.S. retail motorcycle loans held by the SPE as collateral. 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 2009 Conduit Loan Agreement also provides for an unused commitment fee based on the unused portion of the total aggregate commitment of $1.20 billion as of March 28, 2010. There is no amortization schedule; however, the debt is reduced monthly as available collections on the related finance receivables are applied to outstanding principal with the balance due at maturity. Unless earlier terminated or extended by mutual agreement of HDFS and the lenders, as of March 28, 2010, the 2009 Conduit Loan Agreement had an expiration date of April 29, 2010, at which time HDFS will be obligated to repay any amounts outstanding in full. Please refer to Note 19 for information regarding the extension and reduction of the 2009 Conduit Loan Agreement.

At March 28, 2010, HDFS had no borrowings outstanding under the 2009 Conduit Loan Agreement. The SPE held $45.6 million of finance receivables and $3.6 million of cash collections restricted as collateral for the payment of fees associated with the unused portion of the total aggregate commitment of $1.20 billion. The assets of the SPE totaled $54.5 million at March 28, 2010, 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 March 29, 2009, the asset-backed commercial paper conduit facility SPE held finance receivables of $582.9 million restricted as collateral for the payment of the $432.8 million short-term asset-backed conduit facility debt, which is included in the Company s Condensed Consolidated Balance Sheet. The SPE also held $27.4 million of cash collections from the finance receivables held by the SPE restricted for payment on the outstanding debt at March 29, 2009. The assets of the SPE totaled $620.4 million at March 29, 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

7. 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 retail loans from HDFS.

Upon sale of the retail 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 in the Condensed Consolidated Balance Sheets. In conjunction with prior year sales, the Company had investments in retained securitization interests of $315.5 million at March 29, 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 $2.89 billion of U.S. retail motorcycle loans securitized in off-balance sheet term asset-backed securitization transactions as of March 29, 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 $11.7 million from contractually specified servicing fees, late fees, and ancillary fees during the first quarter 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.

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.

Table of Contents

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. During the three months ended March 29, 2009, the Company recorded an other-than-temporary impairment charge of $17.1 million related to its retained securitization interests. 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. During the three months ended March 29, 2009, the fair value of certain retained securitization interests was lower than the amortized cost, which indicated impairment. These impairments were considered permanent and as a result the investment in retained securitization interests was appropriately written down to fair value. The decline in fair value was due to higher actual and anticipated credit losses on certain securitization portfolios. This charge was recorded as a reduction of financial services revenue.

As of March 29, 2009, the following weighted-average key assumptions were used to value the investment in retained securitization interests:

Prepayment speed (Single Monthly Mortality)	1.81%
Weighted-average life (in years)	2.10
Expected cumulative net credit losses	4.99%
Residual cash flows discount rate	17.85%

Expected cumulative net credit losses were a key assumption in the valuation of the investment in retained securitization interests. As of March 29, 2009, weighted-average expected net credit losses for all active securitizations were 4.99%. The table below summarizes, as of March 29, 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:

	Loans securitized in				
Expected weighted-average cumulative net credit losses (%) as of :	**2009**	**2008**	**2007**	**2006**	**2005**
March 29, 2009		5.00%	5.16%	5.03%	4.66%

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 March 29, 2009 was as follows (dollars in thousands):

Carrying amount/fair value of retained interests	$ 315,543
Weighted-average life (in years)	2.10
Prepayment speed assumption (monthly rate)	**1.81%**
Impact on fair value of 10% adverse change	$ (4,500)
Impact on fair value of 20% adverse change	$ (8,900)
Expected cumulative net credit losses	**4.99%**
Impact on fair value of 10% adverse change	$ (36,400)
Impact on fair value of 20% adverse change	$ (72,800)
Residual cash flows discount rate (annual)	**17.85%**
Impact on fair value of 10% adverse change	$ (7,800)
Impact on fair value of 20% adverse change	$ (15,300)

Table of Contents

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 table below provides information regarding certain cash flows received from and paid to all motorcycle loan securitization trusts during the three months ended March 29, 2009 (in thousands):

Proceeds from new securitizations	$
Servicing fees received	$ 8,092
Other cash flows received on retained interests	$ 13,449
10% clean-up call repurchase option	$

Prior to the adoption of the new accounting guidance, 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 March 29, 2009, managed retail motorcycle loans totaled $5.86 billion, of which $2.89 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 $243.4 million at March 29, 2009. The principal amount of securitized retail motorcycle loans 30 days or more past due was $150.3 million at March 29, 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 $49.7 million during the first quarter of 2009 which included securitized retail motorcycle loan credit losses, net of recoveries, of $29.0 million.

8. Fair Value of Financial Instruments

The Company s financial instruments consist primarily of cash and cash equivalents, marketable securities, trade receivables, finance receivables, net, trade payables, debt, foreign currency contracts and interest rate swaps (derivative instruments are discussed further in Note 10). 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.

The following table summarizes the fair value and carrying value of the Company s financial instruments at March 28, 2010 (in thousands):

	Fair Value	Carrying Value
Assets:		
Cash and cash equivalents	$ 1,442,798	$ 1,442,798
Marketable securities	$ 39,416	$ 39,416
Accounts receivable, net	$ 286,518	$ 286,518
Finance receivables, net	$ 6,624,864	$ 6,636,003
Derivatives	$ 15,300	$ 15,300
Restricted cash held by variable interest entities	$ 401,275	$ 401,275
Liabilities:		
Accounts payable	$ 265,905	$ 265,905
Derivatives	$ 12,889	$ 12,889
Unsecured commercial paper	$ 286,837	$ 286,837
Credit facilities	$ 430,740	$ 430,740
Medium-term notes	$ 2,122,879	$ 2,102,154
Senior unsecured notes	$ 790,398	$ 600,000
Finance receivable securitization debt	$ 3,689,921	$ 3,606,683

Table of Contents

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 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.

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.

9. 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 table.

Table of Contents

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 March 28, 2010 and March 29, 2009 (in thousands):

	Balance as of March 28, 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	$ 1,093,653	$ 1,093,653	$	$
Marketable securities	39,416		39,416	
Derivatives	15,300		15,300	
	$ 1,148,369	$ 1,093,653	$ 54,716	$
Liabilities:				
Derivatives	$ 12,889	$	$ 12,889	$

	Balance as of March 29, 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	$ 706,171	$ 706,171		
Derivatives	28,537		$ 28,537	
Investment in retained securitization interests	315,543			$ 315,543
	$ 1,050,251	$ 706,171	$ 28,537	$ 315,543
Liabilities:				
Derivatives	$ 20,797		$ 20,797	

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 March 29, 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):

	Three months ended March 29, 2009
Balance, beginning of period	$ 330,674
Realized (losses)/gains included in financial services income[(a)]	(4,136)
Unrealized gains (losses) included in other comprehensive income[(b)]	3,358
Sales, repurchases and settlements, net	(14,353)
Balance, end of period	$ 315,543

(a) As discussed in Note 7, realized (losses)/gains included in financial services income includes an other-than-temporary impairment charge of $17.1 million for the three months ended March 29, 2009.
(b) No amounts were reclassified out of accumulated other comprehensive income into income for the three months ended March 29, 2009.

Table of Contents

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 on that date was $245.4 million.

Non-Recurring Fair Value Measurements

The following tables present information about the Company s assets and liabilities measured at fair value on a non-recurring basis as of March 28, 2010 and March 29, 2009 (in thousands):

	Balance as of March 28, 2010	Significant Unobservable Inputs (Level 3)	Total Losses
Assets:			
Assets of discontinued operations	$ 151,175	$ 151,175	$ 35,021
Liabilities:			
Liabilities of discontinued operations	$ 61,726	$ 61,726	$

	Balance as of March 29, 2009	Significant Unobservable Inputs (Level 3)	Total Losses
Finance receivables held for sale	$ 2,667,656	$ 2,667,656	$ 8,648

At March 28, 2010, the assets and liabilities of MV, which are held for sale and presented as discontinued operations, were carried at the lower of cost or fair value (less estimated selling costs) using significant unobservable inputs (Level 3). During the first quarter of 2010, the Company recorded an impairment charge of $35.0 million which represented the excess of net book value of the held-for-sale assets over the expected fair value less selling costs. The impairment charge is included in loss from discontinued operations and consisted of $22.7 million fixed asset impairment and $12.3 million intangible asset impairment. In determining the fair value of MV, the Company utilized discounted cash flow methodologies that require the Company to make assumptions and apply judgment to estimate macro economic factors such as interest rates, motorcycle industry economic factors and the future profitability of MV s business strategies. In addition, the Company considered information gained through its efforts to sell MV.

At March 29, 2009, finance receivables held for sale in the aggregate were carried at the lower of cost or estimated fair value, and were measured at fair value on a non-recurring basis using significant unobservable inputs (Level 3). During the first quarter of 2009, the Company recorded non-cash charges of $8.6 million due to a decline in the fair value below cost on finance receivables held for sale. The fair value of the finance receivables held for sale at March 29, 2009 was $2.67 billion, which was net of a $23.9 million valuation adjustment. 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.

10. Derivative Instruments and Hedging Activities

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks are foreign currency exchange rate risk, interest rate risk and commodity price risk. To reduce 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, the accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. Changes in the fair value of derivatives that are designated as fair value hedges, along with the gain or loss on the hedged item, are recorded in current period earnings. For derivative instruments that are designated as cash flow hedges, the effective portion of gains and losses that result from changes in the fair value of derivative instruments is initially recorded in other comprehensive income (OCI) and subsequently reclassified into earnings when the hedged item affects income. The Company assesses, at both the inception of each hedge and on an on-going basis, whether the derivatives that are used in its hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. Any ineffective portion is immediately recognized in earnings. No component of a hedging derivative instrument s gain or loss is excluded from the assessment of hedge effectiveness. Derivative instruments which do not qualify for hedge accounting are recorded at fair value and any changes in fair value are recorded in current period earnings.

The Company sells its products internationally and in most markets those sales are made in the foreign country s local currency. As a result, the Company s earnings can be affected by fluctuations in the value of the U.S. dollar relative to foreign currency. The Company s most significant foreign currency risk relates to the Euro and the Australian dollar. The Company utilizes foreign currency contracts to mitigate the effect of the Euro and the Australian dollar 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 asset-backed commercial paper conduit facility agreements that the Company entered into in December 2008 and April 2009, HDFS entered into derivative contracts, certain of which do not qualify for hedge accounting treatment.

Table of Contents

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

	March 28, 2010			March 29, 2009		
Derivatives Designated As Hedging Instruments Under ASC Topic 815	**Notional Value**	**Asset Fair Value[1]**	**Liability Fair Value[2]**	**Notional Value**	**Asset Fair Value[1]**	**Liability Fair Value[2]**
Foreign currency contracts[3]	$ 144,871	$ 6,744	$ 2,197	$ 329,931	$ 18,390	$
Natural gas contracts[3]	3,523		745	3,319		1,134
Interest rate swaps - unsecured commercial paper[3]	166,000		9,667	218,000		15,547
Interest rate swaps - conduit facility[3]				394,042		4,116
Interest rate swaps - medium-term notes[4]	150,000	4,716		150,000	8,950	
Total	$ 464,394	$ 11,460	$ 12,609	$ 1,095,292	$ 27,340	$ 20,797

	March 28, 2010			March 29, 2009		
Derivatives Not Designated As Hedging Instruments Under ASC Topic 815	**Notional Value**	**Asset Fair Value[1]**	**Liability Fair Value[2]**	**Notional Value**	**Asset Fair Value[1]**	**Liability Fair Value[2]**
Derivatives - securitization transactions	$ 262,518	$	$ 280	$ 717,818	$ 938	$
Derivatives - conduit facility	545,497	3,840		52,839	259	
	$ 808,015	$ 3,840	$ 280	$ 770,657	$ 1,197	$

(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

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

	Amount of Gain/(Loss) Recognized in OCI Three months ended	
Cash Flow Hedges	**March 28, 2010**	**March 29, 2009**
Foreign currency contracts	$ 9,401	$ 26,432
Natural gas contracts	(904)	(757)
Interest rate swaps - unsecured commercial paper	(1,800)	(680)
Interest rate swaps - conduit facility		(736)
Total	$ 6,697	$ 24,259

	Amount of Gain/(Loss) Reclassified from AOCI into Income Three months ended		
Cash Flow Hedges	**March 28, 2010**	**March 29, 2009**	**Expected to be Reclassified Over the Next Twelve Months**
Foreign currency contracts[1]	$ 360	$ 21,216	$ 4,354
Natural gas contracts[1]	(108)	(957)	(745)

Interest rate swaps - unsecured commercial paper[2]	(1,786)	(2,328)	(5,934)
Interest rate swaps - conduit facility[2]		(1,627)	
Total	$ (1,534)	$ 16,304	$ (2,325)

(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

Table of Contents

For the three months ended March 28, 2010 and March 29, 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 table summarizes the amount of gains and losses related to derivative financial instruments designated as fair value hedges (in thousands):

Fair Value Hedges	Amount of Gain/(Loss) Recognized in Income on Derivative Three months ended March 28, 2010	March 29, 2009
Interest rate swaps - medium-term notes[1]	$ (1,356)	$ (747)

Fair Value Hedges	Amount of Gain/(Loss) Recognized in Income on Hedged Debt Three months ended March 28, 2010	March 29, 2009
Interest rate swaps - medium-term notes[1]	$ 1,356	$ 747

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

The following table summarizes the amount of gains and losses related to derivative financial instruments not designated as hedging instruments for the three months ended March 28, 2010 (in thousands):

Derivatives not Designated as Hedges	Amount of Gain/(Loss) Recognized in Income on Derivative Three months ended March 28, 2010	March 29, 2009
Derivatives - securitization transactions[1]	$ (9)	$ 199
Derivatives - conduit facility[1]	(3,364)	(280)
	$ (3,373)	$ (81)

(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.

Table of Contents

11. Comprehensive Income

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

	Three months ended			
	March 28, 2010		March 29, 2009	
Net income		$ 33,325		$ 117,347
Other comprehensive income, net of tax:				
Foreign currency translation adjustment		(8,818)		(19,349)
Investment in retained securitization interest:				
Unrealized net gains arising during the period			2,170	2,170
Derivative financial instruments:				
Unrealized net gains arising during period	4,163		15,180	
Less: net gains reclassified into net income	(985)	5,148	10,021	5,159
Marketable securities				
Unrealized losses on marketable securities	(484)	(484)		
Pension and postretirement benefit plans:				
Amortization of actuarial loss	4,969		2,800	
Amortization of net prior service cost	317		739	
Pension and postretirement plan funded status adjustment			4,147	
Less: actuarial loss reclassified into net income due to settlement	(1,625)		(232)	
Less: actuarial loss reclassified into net income due to curtailment			(8,352)	
Less: prior service credit (cost) reclassified into net income due to curtailment gain (loss)	644	6,267	(2,839)	19,109
		$ 35,438		$ 124,436

12. 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; however, the Company has accounted for both Acts in the first quarter of 2010. 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 recorded income tax expense of $13.3 million associated with this change.

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.

13. 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	
	March 28, 2010	March 29, 2009
Balance, beginning of period	$ 68,044	$ 64,543
Warranties issued during the period	9,903	12,688
Settlements made during the period	(13,264)	(16,111)
Recalls and changes to pre-existing warranty liabilities	5,522	3,687
Balance, end of period	$ 70,204	$ 64,807

The liability for safety recall campaigns was $4.2 million and $3.9 million as of March 28, 2010 and March 29, 2009, respectively.

14. 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 March 28, 2010 and March 29, 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	
	March 28, 2010	March 29, 2009
Numerator:		
Income from continuing operations used in computing basic and diluted earnings per share	$ 68,741	$ 128,053
Denominator:		
Denominator for basic earnings per share - weighted-average common shares	232,864	232,263
Effect of dilutive securities - employee stock compensation plan	1,364	387
Denominator for diluted earnings per share - adjusted weighted-average shares outstanding	234,228	232,650
Earnings per common share from continuing operations:		
Basic	$ 0.30	$ 0.55
Diluted	$ 0.29	$ 0.55

Outstanding options to purchase 4.4 million and 5.9 million shares of common stock for the three months ended March 28, 2010 and March 29, 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.

15. 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	
	March 28, 2010	**March 29, 2009**
Pension and SERPA Benefits		
Service cost	$ 10,393	$ 12,024
Interest cost	19,457	18,629
Expected return on plan assets	(24,344)	(21,752)
Amortization of unrecognized:		
Prior service cost	1,133	1,465
Net loss	5,642	3,027
Curtailment loss		4,164
Settlement loss	2,582	370
Net periodic benefit cost	$ 14,863	$ 17,927
Postretirement Healthcare Benefits		
Service cost	$ 2,517	$ 3,001
Interest cost	5,297	5,727
Expected return on plan assets	(2,445)	(2,794)
Amortization of unrecognized:		
Prior service credit	(629)	(287)
Net loss	2,251	1,442
Curtailment (gain) loss	(1,023)	369
Net periodic benefit cost	$ 5,968	$ 7,458

As disclosed in Note 5, the Company recorded restructuring expense of $48.2 million related to its Motorcycles segment during the first quarter of 2010. The restructuring action resulted in a postretirement healthcare plan curtailment gain of $1.0 million, which is included in the $48.2 million restructuring expense, and a decrease to equity of $1.0 million, or $0.6 million net of tax, which is included in accumulated other comprehensive income, during the first quarter of 2010. During the first quarter of 2009, the Company recorded restructuring expense of $34.9 million, which included a pension and postretirement healthcare plan curtailment loss of $4.5 million, and a decrease to equity of $13.3 million.

During the first quarter of 2010, the Company incurred a $2.6 million settlement loss related to its SERPA plans compared to a settlement loss of $0.4 million during the first quarter of 2009. The settlement losses were the result of benefit payments made to former executives who have departed from the Company during 2009.

Table of Contents

16. 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	
	March 28, 2010	March 29, 2009
Motorcycles net revenue	$ 1,037,335	$ 1,278,432
Gross profit	379,547	474,046
Selling, administrative and engineering expense	205,204	208,171
Restructuring expense and other impairments	48,236	34,862
Operating income from Motorcycles	126,107	231,013
Financial services revenue	169,837	104,667
Financial services expense	143,155	93,462
Operating income from Financial Services	26,682	11,205
Operating income	$ 152,789	$ 242,218

As discussed in Note 2, Operating income from Financial Services for the three months ended March 28, 2010 includes the effects of consolidating formerly unconsolidated QSPEs.

As discussed in Note 7, Operating income from Financial Services for the three months ended March 29, 2009 includes an impairment charge of $17.1 million.

As discussed in Note 9, Operating income from Financial Services for the three months ended March 29, 2009 includes a lower of cost or market adjustment related to finance receivables held for sale of $8.6 million.

17. 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.

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

Table of Contents

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, but all appellate activity has been stayed pending required filings by intervenors/appellants. Defendants will oppose the appeal and seek to have the Order dismissing the motion to intervene affirmed.

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. Further briefing and a hearing on the motion to dismiss are pending.

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.

Table of Contents

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.

18. 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 March 28, 2010			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations	Consolidated
Revenue:				
Motorcycles and related products	$ 1,037,335	$	$	$ 1,037,335
Financial services		169,525	312	169,837
Total revenue	1,037,335	169,525	312	1,207,172
Costs and expenses:				
Motorcycles and related products cost of goods sold	657,788			657,788
Financial services interest expense		81,203		81,203
Financial services provision for credit losses		31,806		31,806
Selling, administrative and engineering expense	204,892	30,146	312	235,350
Restructuring expense	48,236			48,236
Total costs and expenses	910,916	143,155	312	1,054,383
Operating income	126,419	26,370		152,789
Investment income	876			876
Interest expense	23,455			23,455
Income before provision for income taxes	103,840	26,370		130,210
Provision for income taxes	51,975	9,494		61,469
Income from continuing operations	51,865	16,876		68,741
Loss from discontinued operations, net of tax	(35,416)			(35,416)
Net income	$ 16,449	$ 16,876	$	$ 33,325

	Three months ended March 29, 2009			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations	Consolidated
Revenue:				
Motorcycles and related products	$ 1,278,432	$	$	$ 1,278,432
Financial services		104,192	475	104,667
Total revenue	1,278,432	104,192	475	1,383,099
Costs and expenses:				
Motorcycles and related products cost of goods sold	804,386			804,386
Financial services interest expense		53,700		53,700
Financial services provision for credit losses		5,911		5,911
Selling, administrative and engineering expense	207,696	33,851	475	242,022
Restructuring expense	34,862			34,862
Total costs and expenses	1,046,944	93,462	475	1,140,881
Operating income	231,488	10,730		242,218
Investment income	1,953			1,953
Interest expense	9,746			9,746
Income before provision for income taxes	223,695	10,730		234,425
Provision for income taxes	102,375	3,997		106,372

Income from continuing operations	121,320	6,733		128,053
Loss from discontinued operations, net of tax	(10,706)			(10,706)
Net income	$ 110,614	$ 6,733	$	$ 117,347

Table of Contents

	March 28, 2010			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	$ 1,148,618	$ 294,180	$	$ 1,442,798
Marketable securities	39,416			39,416
Accounts receivable, net	558,707		(272,189)	286,518
Finance receivables held for investment, net		1,252,420		1,252,420
Restricted finance receivables held by variable interest entities, net		809,779		809,779
Inventories	322,238			322,238
Assets of discontinued operations	151,175			151,175
Restricted cash held by variable interest entities		401,275		401,275
Other current assets	203,590	112,300		315,890
Total current assets	2,423,744	2,869,954	(272,189)	5,021,509
Finance receivables held for investment, net		1,274,734		1,274,734
Restricted finance receivables held by variable interest entities, net		3,299,070		3,299,070
Property, plant and equipment, net	814,992	32,488		847,480
Goodwill	29,818			29,818
Other long-term assets	272,336	25,026	(67,070)	230,292
	$ 3,540,890	$ 7,501,272	$ (339,259)	$ 10,702,903
LIABILITIES AND SHAREHOLDERS EQUITY				
Current liabilities:				
Accounts payable	$ 225,100	$ 312,994	$ (272,189)	$ 265,905
Accrued liabilities	499,008	103,506	(2,694)	599,820
Liabilities of discontinued operations	61,726			61,726
Short-term debt		160,837		160,837
Current portion of long-term debt	191,458	204,711		396,169
Current portion of long-term debt held by variable interest entities		898,935		898,935
Total current liabilities	977,292	1,680,983	(274,883)	2,383,392
Long-term debt	600,000	2,262,725		2,862,725
Long-term debt held by variable interest entities		2,707,748		2,707,748
Pension liability	239,445			239,445
Postretirement healthcare benefits	265,117			265,117
Other long-term liabilities	145,656	11,421		157,077
Commitments and contingencies (Note 17)				
Total shareholders equity	1,313,380	838,395	(64,376)	2,087,399
	$ 3,540,890	$ 7,501,272	$ (339,259)	$ 10,702,903

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 17)				
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

	March 29, 2009			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	$ 309,848	$ 574,775	$	$ 884,623
Accounts receivable, net	749,804		(464,951)	284,853
Note receivable from HDFS	600,000		(600,000)	
Finance receivables held for sale		2,086,920		2,086,920
Finance receivables held for investment, net		1,677,355		1,677,355
Inventories	421,577			421,577
Assets of discontinued operations	231,421			231,421
Other current assets	167,439	75,615		243,054
Total current assets	2,480,089	4,414,665	(1,064,951)	5,829,803
Finance receivables held for sale		580,736		580,736
Finance receivables held for investment, net		796,732		796,732
Property, plant and equipment, net	977,681	38,362		1,016,043
Goodwill	30,206	28,840		59,046
Other long-term assets	408,375	22,476	(93,617)	337,234
	$ 3,896,351	$ 5,881,811	$ (1,158,568)	$ 8,619,594
LIABILITIES AND SHAREHOLDERS EQUITY				
Current liabilities:				
Accounts payable	$ 292,333	$ 535,900	$ (464,951)	$ 363,282
Accrued liabilities	468,783	102,256	(2,272)	568,767
Liabilities of discontinued operations	74,488			74,488
Short-term debt		1,724,375		1,724,375
Total current liabilities	835,604	2,362,531	(467,223)	2,730,912
Long-term debt	773,186	1,983,999		2,757,185
Note payable to HDMC		600,000	(600,000)	
Pension liability	484,006			484,006
Postretirement healthcare benefits	260,453			260,453
Other long-term liabilities	142,121	12,104		154,225
Commitments and contingencies (Note 17)				
Total shareholders equity	1,400,981	923,177	(91,345)	2,232,813
	$ 3,896,351	$ 5,881,811	$ (1,158,568)	$ 8,619,594

Table of Contents

	Three months ended March 28, 2010			
	Motorcycles & Related Products Operations	Financial Services Operations	Eliminations & Adjustments	Consolidated
Cash flows from operating activities:				
Net income	$ 16,449	$ 16,876	$	$ 33,325
Loss from discontinued operations	(35,416)			(35,416)
Income from continuing operations	51,865	16,876		68,741
Adjustments to reconcile income from continuing operations to cash provided by operating activities:				
Depreciation	65,694	1,698		67,392
Provision for employee long-term benefits	25,645	257		25,902
Contributions to pension and postretirement plans	(16,137)			(16,137)
Stock compensation expense	5,563	560		6,123
Net change in wholesale finance receivables			(173,994)	(173,994)
Curtailment and settlement expense	1,558			1,558
Provision for credit losses		31,806		31,806
Foreign currency adjustments	(2,962)			(2,962)
Other, net	12,884	38,746		51,630
Change in current assets and current liabilities:				
Accounts receivable	(211,284)		184,628	(26,656)
Finance receivables - accrued interest and other		5,934		5,934
Inventories	(7,158)			(7,158)
Accounts payable and accrued liabilities	145,379	216,147	(184,646)	176,880
Restructuring reserves	(1,906)	(219)		(2,125)
Derivative instruments	(1,829)	2,667		838
Other	(5,685)	(1,245)		(6,930)
Total adjustments	9,762	296,351	(174,012)	132,101
Net cash provided by operating activities of continuing operations	61,627	313,227	(174,012)	200,842
Cash flows from investing activities of continuing operations:				
Capital expenditures	(14,156)	(402)		(14,558)
Origination of finance receivables held for investment		(1,264,777)	808,898	(455,879)
Collections of finance receivables held for investment		1,288,887	(634,904)	653,983
Net cash (used by) provided by investing activities of continuing operations	(14,156)	23,708	173,994	183,546
Cash flows from financing activities of continuing operations:				
Repayments of securitization debt		(445,215)		(445,215)
Net decrease in credit facilities and unsecured commercial paper		(50,703)		(50,703)
Net change in restricted cash		(34,734		