HARLEY DAVIDSON INC
Form 10-Q
August 05, 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 June 27, 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 check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

Number of shares of the registrant s common stock outstanding at July 30, 2010: 235,498,805 shares

Table of Contents

Harley-Davidson, Inc.

Form 10-Q

For The Quarter Ended June 27, 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	39
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	61
Item 4.	Controls and Procedures	61
Part II	**Other Information**	63
Item 1.	Legal Proceedings	63
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	65
Item 6.	Exhibits	66
Signatures		67

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		Six months ended	
	June 27, 2010	June 28, 2009	June 27, 2010	June 28, 2009
Revenue:				
Motorcycles and related products	$ 1,135,101	$ 1,135,734	$ 2,172,436	$ 2,414,166
Financial services	173,705	123,967	343,542	228,634
Total revenue	1,308,806	1,259,701	2,515,978	2,642,800
Costs and expenses:				
Motorcycles and related products cost of goods sold	738,117	748,539	1,395,905	1,552,925
Financial services interest expense	69,121	79,118	150,324	132,818
Financial services provision for credit losses	9,262	75,475	41,068	81,386
Selling, administrative and engineering expense	243,429	229,364	478,779	471,386
Restructuring expense	30,125	15,131	78,361	49,993
Goodwill impairment		28,387		28,387
Total costs and expenses	1,090,054	1,176,014	2,144,437	2,316,895
Operating income	218,752	83,687	371,541	325,905
Investment income	1,551	317	2,427	2,270
Interest expense	23,591	840	47,046	10,586
Income before provision for income taxes	196,712	83,164	326,922	317,589
Provision for income taxes	57,425	49,787	118,894	156,159
Income from continuing operations	139,287	33,377	208,028	161,430
Loss from discontinued operations, net of tax	(68,130)	(13,627)	(103,546)	(24,333)
Net income	$ 71,157	$ 19,750	$ 104,482	$ 137,097
Earnings per common share from continuing operations:				
Basic	$ 0.60	$ 0.14	$ 0.89	$ 0.69
Diluted	$ 0.59	$ 0.14	$ 0.89	$ 0.69
Loss per common share from discontinued operations:				
Basic	$ (0.29)	$ (0.06)	$ (0.44)	$ (0.10)
Diluted	$ (0.29)	$ (0.06)	$ (0.44)	$ (0.10)
Earnings per common share:				

Basic	$	0.30	$	0.08	$	0.45	$	0.59
Diluted	$	0.30	$	0.08	$	0.45	$	0.59
Cash dividends per common share	$	0.10	$	0.10	$	0.20	$	0.20

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

Table of Contents

HARLEY-DAVIDSON, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	(Unaudited) June 27, 2010	December 31, 2009	(Unaudited) June 28, 2009
ASSETS			
Current assets:			
Cash and cash equivalents	$ 1,414,912	$ 1,630,433	$ 1,023,401
Marketable securities	86,518	39,685	
Accounts receivable, net	248,620	269,371	253,544
Finance receivables held for investment, net	1,061,598	1,436,114	1,651,700
Restricted finance receivables held by variable interest entities, net	743,697		
Inventories	296,920	323,029	403,524
Assets of discontinued operations	85,126	181,211	243,925
Restricted cash held by variable interest entities	344,595		
Other current assets	304,015	462,106	346,299
Total current assets	4,586,001	4,341,949	3,922,393
Finance receivables held for investment, net	1,717,644	3,621,048	3,472,325
Restricted finance receivables held by variable interest entities, net	2,850,684		
Property, plant and equipment, net	810,104	906,906	983,050
Goodwill	28,110	31,400	31,892
Other long-term assets	231,350	254,215	355,026
	$ 10,223,893	$ 9,155,518	$ 8,764,686
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Accounts payable	$ 241,719	$ 162,515	$ 272,989
Accrued liabilities	592,185	514,084	523,233
Liabilities of discontinued operations	61,501	69,535	72,349
Short-term debt	322,941	189,999	1,690,910
Current portion of long-term debt	341,452	1,332,091	
Current portion of long-term debt held by variable interest entities	817,602		
Total current liabilities	2,377,400	2,268,224	2,559,481
Long-term debt	2,825,334	4,114,039	3,038,387
Long-term debt held by variable interest entities	2,227,025		
Pension liability	244,115	245,332	491,021
Postretirement healthcare liability	265,326	264,472	263,712
Other long-term liabilities	147,689	155,333	159,302
Commitments and contingencies (Note 18)			
Total shareholders equity	2,137,004	2,108,118	2,252,783
	$ 10,223,893	$ 9,155,518	$ 8,764,686

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)

	Six months ended	
	June 27, 2010	**June 28, 2009**
Net cash provided by (used by) operating activities of continuing operations (Note 3)	$ 726,010	$ (124,962)
Cash flows from investing activities of continuing operations:		
Capital expenditures	(45,754)	(49,113)
Origination of finance receivables held for investment	(1,201,812)	(281,486)
Collections on finance receivables held for investment	1,364,188	255,387
Collection of retained securitization interests		26,904
Purchases of marketable securities	(60,670)	
Sales and redemptions of marketable securities	13,526	
Net cash provided by (used by) investing activities of continuing operations	69,478	(48,308)
Cash flows from financing activities of continuing operations:		
Proceeds from issuance of senior unsecured notes		589,255
Proceeds from securitization debt		497,771
Repayments of securitization debt	(1,007,271)	(13,907)
Net increase (decrease) in credit facilities and unsecured commercial paper	38,235	(392,366)
Net borrowings of asset-backed commercial paper		87,706
Net change in restricted cash	21,946	(76,658)
Dividends	(47,033)	(46,913)
Purchase of common stock for treasury	(1,191)	(296)
Excess tax benefits from share-based payments	3,400	147
Issuance of common stock under employee stock option plans	7,184	10
Net cash (used by) provided by financing activities of continuing operations	(984,730)	644,749
Effect of exchange rate changes on cash and cash equivalents of continuing operations	(3,172)	18,662
Net (decrease) increase in cash and cash equivalents of continuing operations	(192,414)	490,141
Cash flows from discontinued operations:		
Cash flows from operating activities of discontinued operations	(22,010)	(39,445)
Cash flows from investing activities of discontinued operations		(11,843)
Effect of exchange rate changes on cash and cash equivalents of discontinued operations	(1,856)	(1,217)
	(23,866)	(52,505)
Net (decrease) increase in cash and cash equivalents	$ (216,280)	$ 437,636
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	(216,280)	437,636
Less: Cash and cash equivalents of discontinued operations end of period	(5,304)	(7,793)

Cash and cash equivalents end of period	$ 1,414,912	$ 1,023,401

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

5

Table of Contents

HARLEY-DAVIDSON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation and Use of Estimates

The condensed consolidated financial statements include the accounts of Harley-Davidson, Inc. and its wholly-owned subsidiaries (the Company), including the accounts of the groups of companies doing business as Harley-Davidson Motor Company (HDMC), Buell Motorcycle Company (Buell), 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 June 27, 2010 and June 28, 2009, the condensed consolidated statements of operations for the three and six month periods then ended and the condensed consolidated statements of cash flows for the six month periods then ended.

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

Table of Contents

Effects of Adoption on January 1, 2010

The Company was required to adopt the new guidance within ASC Topic 810 and ASC Topic 860 as of January 1, 2010. The Company determined that the formerly unconsolidated QSPEs that HDFS utilized were VIEs, of which the Company was the primary beneficiary, and consolidated them into the Company s financial statements beginning January 1, 2010. In accordance with ASC Topic 810, the Company measured the initial carrying values of the assets and liabilities of the VIEs by determining what those values would have been on January 1, 2010 as if the new guidance had been in effect when the Company first met the conditions as the primary beneficiary. The Company s VIEs are discussed in further detail in Note 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 million of restricted cash related to its 2009 on-balance sheet term-asset backed securitization transactions and its asset-backed commercial paper conduit facility. These amounts were reported within Other current assets as of December 31, 2009.

Financial Statement Comparability to Prior Periods

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

Under the new accounting guidance, the Company s securitization transactions are considered secured borrowings rather than asset sales. Beginning in 2010, the Company recognizes interest income and credit losses on the previously unconsolidated securitized receivables and interest expense on the related debt. The Company s statement of operations no longer includes income from securitizations which consisted of an initial gain or loss on new securitization transactions, income on the investment in retained securitization interests and servicer fees. In addition, the Company 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 adoption of the new accounting guidance, finance receivables held by VIEs were included in finance receivables held for investment. In addition, finance receivable securitization debt is now reported as debt held by VIEs.

7

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):

	June 27, 2010	December 31, 2009	June 28, 2009
Available-for-sale:			
Corporate bond investments	$ 86,518	$ 39,685	$

The Company s available-for-sale securities have maturities of less than one year and are carried at fair value with any unrealized gains or losses reported in other comprehensive income. During the first six months 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 June 28, 2009.

Finance Receivables

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

	June 27, 2010	December 31, 2009	June 28, 2009
Wholesale	$ 784,379	$ 870,001	$ 1,084,709
Retail	5,772,227	4,091,893	3,877,424
	6,556,606	4,961,894	4,962,133
Allowance for finance credit losses	(182,983)	(150,082)	(114,335)
	6,373,623	4,811,812	4,847,798
Investment in retained securitization interests		245,350	276,227
	$ 6,373,623	$ 5,057,162	$ 5,124,025

At June 27, 2010, the allowance for finance credit losses on finance receivables held for investment was $183.0 million which consisted of $170.5 million for retail finance receivables and $12.5 million for wholesale finance receivables. Of the $170.5 million allowance for finance credit losses on retail finance receivables, $107.4 million related to retail finance receivables held by VIEs.

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

Table of Contents

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):

	June 27, 2010	December 31, 2009	June 28, 2009
Components at the lower of FIFO cost or market			
Raw materials and work in process	$ 91,523	$ 104,641	$ 128,813
Motorcycle finished goods	144,671	168,002	206,297
Parts and accessories and general merchandise	96,163	84,823	105,005
Inventory at lower of FIFO cost or market	332,357	357,466	440,115
Excess of FIFO over LIFO cost	(35,437)	(34,437)	(36,591)
	$ 296,920	$ 323,029	$ 403,524

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):

	Six months ended	
	June 27, 2010	**June 28, 2009**
Cash flows from operating activities:		
Net income	$ 104,482	$ 137,097
Loss from discontinued operations	(103,546)	(24,333)
Income from continuing operations	208,028	161,430
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation	136,600	123,852
Provision for employee long-term benefits	45,506	46,689
Contributions to pension and postretirement plans	(22,151)	(14,510)
Stock compensation expense	13,935	6,622
Net change in wholesale finance receivables	100,956	129,075
Origination of retail finance receivables held for sale		(1,180,467)
Collections on retail finance receivables held for sale		473,989
Impairment of retained securitization interests		32,165
Lower of cost or fair market value adjustment on finance receivables held for sale		5,895
Pension and postretirement healthcare plan curtailment and settlement expense	1,558	
Provision for credit losses	41,068	81,386
Goodwill impairment		28,387
Foreign currency adjustments	(14,429)	(28,866)
Other, net	88,708	35,199
Changes in current assets and liabilities:		
Accounts receivable, net	1,527	14,400
Finance receivables - accrued interest and other	7,742	1,064
Inventories	11,077	(9,814)
Accounts payable and accrued liabilities	134,389	(63,549)
Restructuring reserves	(25,391)	29,115
Derivative instruments	1,260	176
Other	(4,373)	2,800
Total adjustments	517,982	(286,392)
Net cash provided by (used by) operating activities of continuing operations	$ 726,010	$ (124,962)

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 s efforts to sell MV are progressing and 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		Six months ended	
	June 27, 2010	June 28, 2009	June 27, 2010	June 28, 2009
Revenue	$ 22,029	$ 17,914	$ 44,580	$ 30,130
Loss before income taxes	$ (83,580)	$ (14,615)	$ (125,389)	$ (25,301)
Net loss	$ (68,130)	$ (13,627)	$ (103,546)	$ (24,333)
Loss per common share	$ (0.29)	$ (0.06)	$ (0.44)	$ (0.10)

During the first half of 2010, the Company incurred a $125.4 million pre-tax loss from discontinued operations, or $103.5 million net of tax. Included in the first half 2010 operating loss was an impairment charge of $111.8 million, or $90.2 million net of tax, which represented the excess of net book value of the held-for-sale assets over the fair value less selling costs. The impairment charge is included in loss from discontinued operations and consisted of $32.3 million accounts receivable valuation allowance; $25.2 million inventory valuation allowance; $26.9 million fixed asset impairment; $15.8 million intangible asset impairment; $2.6 million other asset valuation allowance; and $9.0 million of currency translation adjustment.

At June 27, 2010, assets of discontinued operations consisted of $4.1 million of accounts receivable, net; $3.5 million of inventories; and $77.5 million of other assets. At June 27, 2010, liabilities of discontinued operations consisted $44.9 million of accounts payable and accrued liabilities and $16.6 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 headcount 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 $302.6 million of restructuring and impairment expense under the 2009 Restructuring Plan as of June 27, 2010, of which $78.4 million was incurred during the first six months of 2010. Approximately 2,500 employees have left the Company under the 2009 Restructuring Plan as of June 27, 2010.

The following table summarizes the Company s 2009 Restructuring Plan reserve recorded in accrued liabilities as of June 27, 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	$ 39,452	$ 9,141	$	$ 1,400	$ 49,993	$	$	$	$ 49,993
Utilized - cash	(8,187)			(1,400)	(9,587)				(9,587)
Utilized - noncash	(4,533)	(9,141)			(13,674)				(13,674)
Balance, June 28, 2009	$ 26,732	$	$	$	$ 26,732	$	$	$	$ 26,732
Restructuring expense	64,317	17,764	18,024	70,878	170,983	1,679	1,623	3,302	174,285
Utilized - cash	(21,698)			(39,456)	(61,154)	(1,460)	(1,197)	(2,657)	(63,811)
Utilized - noncash	(33,281)	(17,764)	(18,024)		(69,069)		(426)	(426)	(69,495)
Balance, December 31, 2009	$ 36,070	$	$	$ 31,422	$ 67,492	$ 219	$	$ 219	$ 67,711
Restructuring expense	27,527	33,724		17,110	78,361				78,361
Utilized - cash	(32,304)			(35,688)	(67,992)	(44)		(44)	(68,036)
Utilized - noncash	1,023	(33,724)		(2,840)	(35,541)	(175)		(175)	(35,716)
Balance, June 27, 2010	$ 32,316	$	$	$ 10,004	$ 42,320	$	$	$	$ 42,320

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

6. Goodwill

Goodwill represents the excess of acquisition cost over the fair value of the net assets purchased. Goodwill is tested for impairment, based on financial data related to the reporting unit to which it has been assigned, at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The impairment test involves comparing the estimated fair value of the reporting unit associated with the goodwill to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value goodwill must be adjusted to its implied fair value.

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

7. Asset-Backed Financing

HDFS participates in asset-backed financing through both term asset-backed securitization transactions and its asset-backed commercial paper conduit facility. In both types of asset-backed financing programs, HDFS transfers U.S. retail motorcycle finance receivables to a consolidated special purpose entity (SPE) while retaining the servicing rights. Each SPE then converts those assets into cash, through the issuance of debt. These SPEs are considered VIEs under U.S. GAAP. HDFS is required to consolidate any VIEs in which it is deemed to be the primary beneficiary through having power over the significant activities of the entity and having an obligation to absorb losses or the right to receive benefits from the VIE which are potentially significant to the VIE.

HDFS is considered to have the power over the significant activities of its term asset-backed securitization and asset-backed commercial paper conduit facility VIEs due to its role as servicer. Servicing fees are typically not considered potentially significant variable interests in a VIE. However, HDFS retains a residual interest in the VIEs in the form of a debt security, which gives HDFS the right to receive benefits that could be potentially significant to the VIE. Therefore, the Company is the primary beneficiary and consolidates all of its VIEs within its consolidated financial statements. Servicing fees paid by VIEs to HDFS are eliminated in consolidation.

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.

At June 27, 2010, the assets of the consolidated term asset-backed securitization SPEs totaled $3.91 billion and were primarily included in restricted finance receivables held by VIEs, net and restricted cash held by variable interest entities in the Company s Condensed Consolidated Balance Sheet. At June 27, 2010, the SPEs held U.S. retail motorcycle finance receivables of $3.56 billion restricted as collateral for the payment of $3.04 billion of obligations under the secured notes. The SPEs also held $342.3 million of cash restricted for payment on the secured notes at June 27, 2010.

At June 28, 2009, the assets of the consolidated term asset-backed securitization SPE totaled $644.6 million and were primarily included in other current assets and finance receivables held for investment in the Company s Condensed Consolidated Balance Sheet. At June 28, 2009, the SPE held U.S. retail motorcycle finance receivables of $608.5 million restricted as collateral for the payment of $486.1 million of obligations under the secured notes. The SPE also held $33.1 million of cash restricted for payment on the secured notes at June 28, 2009.

Asset-Backed Commercial Paper Conduit Facility VIE

In December 2008, HDFS transferred U.S. retail motorcycle finance receivables to an 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.

Table of Contents

The 2009 Conduit Loan Agreement provided for a total aggregate commitment of up to $600.0 million as of June 27, 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 $600.0 million as of June 27, 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 June 27, 2010, the 2009 Conduit Loan Agreement had an expiration date of July 28, 2010, at which time HDFS would have been obligated to repay any amounts outstanding in full. Please refer to Note 20 for information regarding the extension of the 2009 Conduit Loan Agreement.

At June 27, 2010, HDFS had no borrowings outstanding under the 2009 Conduit Loan Agreement. The SPE held $38.8 million of finance receivables and $2.4 million of cash collections restricted as collateral for the payment of fees associated with the unused portion of the total aggregate commitment of $600.0 million. The assets of the SPE totaled $43.2 million at June 27, 2010, and were primarily included in restricted finance receivables held by VIEs, net and restricted cash held by VIEs in the Company s Condensed Consolidated Balance Sheet.

At June 28, 2009, HDFS the asset-backed commercial paper conduit facility SPE held finance receivables of $848.1 million restricted as collateral for the payment of the $600.5 million short-term asset-backed conduit facility debt, which was included in the Company s Condensed Consolidated Balance Sheet. The SPE also held $43.6 million of cash collections from the finance receivables held by the SPE restricted for payment on the outstanding debt at June 28, 2009. The assets of the SPE totaled $916.8 million at June 28, 2009 and were primarily included in finance receivables held for investment, net and other current assets in the Company s Condensed Consolidated Balance Sheet.

8. Off-Balance Sheet Finance Receivable Securitizations

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

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

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

Upon sale of the U.S. retail motorcycle loans to the securitization trust, HDFS received cash, recorded a gain or loss on the transaction and also retained an interest in excess cash flows, subordinated securities, and the right to receive cash reserve account deposits in the future, collectively referred to as investment in retained securitization interests. The investment in retained securitization interests was included with finance receivables held for investment, net in the Condensed Consolidated Balance Sheets. In conjunction with prior year sales, the Company had investments in retained securitization interests of $276.2 million at June 28, 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 $2.46 billion of U.S. retail motorcycle loans securitized in off-balance sheet term asset-backed securitization transactions as of June 28, 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 $22.2 million from contractually specified servicing fees, late fees, and ancillary fees during the first half 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.

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

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

Table of Contents

During the three months ended June 28, 2009, the Company recorded other-than-temporary impairments related to its investment in retained securitization interests. The impairments were due to higher actual and anticipated credit losses partially offset by a slowing in actual and expected prepayment speeds on certain securitization portfolios. As prescribed by the new guidance within ASC Topic 320, the Company recognized the credit component of the other-than-temporary impairment in earnings and the non-credit component in other comprehensive income as the Company did not intend to sell the investment and it was more likely than not that the Company would not be required to sell it prior to recovery of its cost basis. The components of the impairment were as follows (in thousands):

	Three months ended June 28, 2009
Total other-than-temporary impairment losses	$ 13,668
Portion of loss reclassified from other comprehensive income	1,366
Net impairment losses recognized in earnings	$ 15,034

The following activity only applied to other-than-temporary impairments on investment in retained securitization interests for which a component of the impairment was recognized in earnings and a component was recognized in other comprehensive income. The total credit component of other-than-temporary impairments recognized in earnings for all investment in retained securitization interests held as of June 28, 2009 was as follows (in thousands):

	Three months ended June 28, 2009
Balance, beginning of period	$ 29,686
Credit component recognized in earnings during the period	15,034
Reductions due to sale/repurchase[1]	(391)
Balance, end of period	$ 44,329

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

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

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

	June 28, 2009		
	Total Investment in Retained Securitization Interests	Investment in Retained Securitization Interests Currently in a Loss Position for less than 12 Months	Investment in Retained Securitization Interests Currently in a Gain Position
Amortized cost	$ 298,264	$ 266,441	$ 31,823
Gross unrealized gains	649		649

Gross unrealized losses	(22,686)		(22,686)		
Fair value	$ 276,227	$	243,755	$	32,472

The unrealized loss position was primarily due to an increased discount rate in the fourth quarter of 2008 from 12% to 18%. None of the investments in retained securitization interests had been in a continuous unrealized loss position for more than 12 months.

Table of Contents

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

As of June 28, 2009, the following weighted-average key assumptions were used to value the investment in retained securitization interests:

Prepayment speed (Single Monthly Mortality)	1.75%
Weighted-average life (in years)	2.08
Expected cumulative net credit losses	5.31%
Residual cash flows discount rate	17.83%

Expected cumulative net credit losses were a key assumption in the valuation of the investment in retained securitization interests. As of June 28, 2009, weighted-average expected net credit losses for all active securitizations were 5.31%. The table below summarizes, as of June 28, 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**
June 28, 2009		5.50%	5.59%	5.13%	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 June 28, 2009 was as follows (dollars in thousands):

Carrying amount/fair value of retained interests	$ 276,227
Weighted-average life (in years)	2.08
Prepayment speed assumption (monthly rate)	**1.75%**
Impact on fair value of 10% adverse change	$ (3,515)
Impact on fair value of 20% adverse change	$ (6,928)
Expected cumulative net credit losses	**5.31%**
Impact on fair value of 10% adverse change	$ (36,009)
Impact on fair value of 20% adverse change	$ (71,505)
Residual cash flows discount rate (annual)	**17.83%**
Impact on fair value of 10% adverse change	$ (6,792)
Impact on fair value of 20% adverse change	$ (13,327)

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.

Table of Contents

The following table provides information regarding certain cash flows received from and paid to all motorcycle loan securitization trusts during the six months ended June 28, 2009 (in thousands):

Proceeds from new securitizations	$
Servicing fees received	$ 15,202
Other cash flows received on retained interests	$ 32,927
10% clean-up call repurchase option	$ 100,317

Prior to the adoption of the new accounting guidance discussed in Note 2, managed retail motorcycle loans consisted of all retail motorcycle installment loans serviced by HDFS including those held by off-balance sheet securitization trusts and those held by HDFS. As of June 28, 2009, managed retail motorcycle loans totaled $5.92 billion, of which $2.46 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 $262.4 million at June 28, 2009. The principal amount of securitized retail motorcycle loans 30 days or more past due was $147.0 million at June 28, 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 $78.7 million during the first half of 2009 which included securitized retail motorcycle loan credit losses, net of recoveries, of $47.0 million.

9. Fair Value of Financial Instruments

The Company s financial instruments consist primarily of cash and cash equivalents, marketable securities, trade receivables, finance receivables, net, trade payables, debt, foreign currency contracts and interest rate swaps (derivative instruments are discussed further in Note 11). Under U.S. GAAP, certain of these items are required to be recorded in the financial statements at fair value, while others are required to be recorded at historical cost.

The following table summarizes the fair value and carrying value of the Company s financial instruments at June 27, 2010 (in thousands):

	June 27, 2010		June 28, 2009	
	Fair Value	**Carrying Value**	**Fair Value**	**Carrying Value**
Assets:				
Cash and cash equivalents	$ 1,414,912	$ 1,414,912	$ 1,023,401	$ 1,023,401
Marketable securities	$ 86,518	$ 86,518	$	$
Accounts receivable, net	$ 248,620	$ 248,620	$ 253,544	$ 253,544
Derivatives	$ 11,459	$ 11,459	$ 18,280	$ 18,280
Finance receivables, net	$ 6,403,639	$ 6,373,623	$ 4,881,750	$ 4,847,798
Investment in retained securitization interests	$	$	$ 276,227	$ 276,227
Restricted cash held by variable interest entities	$ 344,595	$ 344,595	$ 76,658	$ 76,658
Liabilities:				
Accounts payable	$ 833,904	$ 833,904	$ 796,222	$ 796,222
Derivatives	$ 9,860	$ 9,860	$ 19,705	$ 19,705
Unsecured commercial paper	$ 440,441	$ 440,441	$ 1,009,876	$ 1,009,876
Asset-backed commercial paper conduit facility	$	$	$ 600,542	$ 600,542
Credit facilities	$ 348,817	$ 348,817	$ 426,805	$ 426,805
Medium-term notes	$ 2,118,054	$ 2,100,469	$ 1,390,809	$ 1,605,982
Senior unsecured notes	$ 801,362	$ 600,000	$ 790,933	$ 600,000
Finance receivable securitization debt	$ 3,112,328	$ 3,044,627	$ 498,002	$ 486,092

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.

Table of Contents

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

Finance Receivables, Net Finance receivables, net includes finance receivables held for investment, net and restricted finance receivables held by VIEs, net. Retail and wholesale finance receivables are recorded in the financial statements at historical cost less an allowance for finance credit losses. The fair value of retail finance receivables is generally calculated by discounting future cash flows using an estimated discount rate that reflects current credit, interest rate and prepayment risks associated with similar types of instruments. The historical cost basis of wholesale finance receivables approximates fair value because they either are short-term or have interest rates that adjust with changes in market interest rates.

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

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

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

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

10. Fair Value Measurements

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

The Company assesses the inputs used to measure fair value using a three-tier hierarchy. The hierarchy indicates the extent to which inputs used in measuring fair value are observable in the market. Level 1 inputs include quoted prices for identical instruments and are the most observable. Level 2 inputs include quoted prices for similar assets and observable inputs such as interest rates, foreign currency exchange rates, commodity rates and yield curves. Level 3 inputs are not observable in the market and include management s judgments about the assumptions market participants would use in pricing the asset or liability. The use of observable and unobservable inputs is reflected in the hierarchy assessment disclosed in the following tables.

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 June 27, 2010 and June 28, 2009 (in thousands):

	Balance as of June 27, 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	$ 913,272	$ 913,272	$	$
Marketable securities	86,518		86,518	
Derivatives	11,459		11,459	
	$ 1,011,249	$ 913,272	$ 97,977	$
Liabilities:				
Derivatives	$ 9,860	$	$ 9,860	$

	Balance as of June 28, 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	$ 799,846	$ 799,846	$	$
Derivatives	18,280		18,280	
Investment in retained securitization interests	276,227			276,227
	$ 1,094,353	$ 799,846	$ 18,280	$ 276,227
Liabilities:				
Derivatives	$ 19,705	$	$ 19,705	$

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 June 28, 2009. The following table presents additional information about the investment in retained securitization interests which was measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands):

	Three months ended June 28, 2009	Six months ended June 28, 2009
Balance, beginning of period	$ 315,543	$ 330,674
Realized losses included in financial services income[(a)]	(7,676)	(11,812)
Unrealized gains included in other comprehensive income[(b)]	1,265	4,623
Sales, repurchases and settlements, net	(32,905)	(47,258)
Balance, end of period	$ 276,227	$ 276,227

(a) As discussed in Note 7, realized (losses)/gains included in financial services income includes an other-than-temporary impairment charge of $15.0 million and $32.2 million for the three and six months ended June 28, 2009, respectively.

(b) During the three and six months ended June 28, 2009, $1.4 million of net unrealized losses were reclassified out of accumulated other comprehensive income into financial services income.

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

Non-Recurring Fair Value Measurements

The following table presents information about the Company s assets and liabilities measured at fair value on a non-recurring basis as of June 27, 2010 (in thousands):

	Balance as of June 27, 2010	Significant Unobservable Inputs (Level 3)	Total Losses
Net assets of discontinued operations	$ 23,625	$ 23,625	$ 111,759

At June 27, 2010, the net assets 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 half of 2010, the Company recorded an impairment charge of $111.8 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 $32.3 million accounts receivable valuation allowance; $25.2 million inventory valuation allowance; $26.9 million fixed asset impairment; $15.8 million intangible asset impairment; $2.6 million other asset valuation allowance; and $9.0 million of currency translation adjustment. In determining the fair value of MV, the Company considered information gained through its efforts to sell MV.

11. 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, Derivatives and Hedging, the accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. Changes in the fair value of derivatives that are designated as fair value hedges, along with the gain or loss on the hedged item, are recorded in current period earnings. For derivative instruments that are designated as cash flow hedges, the effective portion of gains and losses that result from changes in the fair value of derivative instruments is initially recorded in other comprehensive income (OCI) and subsequently reclassified into earnings when the hedged item affects income. The Company assesses, at both the inception of each hedge and on an on-going basis, whether the derivatives that are used in its hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. Any ineffective portion is immediately recognized in earnings. No component of a hedging derivative instrument s gain or loss is excluded from the assessment of hedge effectiveness. Derivative instruments 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.

Table of Contents

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.

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

	June 27, 2010			June 28, 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)	$ 74,033	$ 6,912	$	$ 294,831	$	$ 7,918
Natural gas contracts(3)	2,209		138	3,162		402
Interest rate swaps - unsecured commercial paper(3)	155,000		9,656	203,700		11,385
Interest rate swaps - medium-term notes(4)	150,000	2,918		150,000	8,027	
Total	$ 381,242	$ 9,830	$ 9,794	$ 651,693	$ 8,027	$ 19,705

	June 27, 2010			June 28, 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	$ 135,836	$	$ 66	$ 530,161	$ 716	$
Derivatives - conduit facility	513,955	1,629		631,251	9,537	
	$ 649,791	$ 1,629	$ 66	$ 1,161,412	$ 10,253	$

(1) Included in other current assets
(2) Included in accrued liabilities
(3) Derivative designated as a cash flow hedge
(4) Derivative designated as a fair value hedge

Table of Contents

The following 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		Six months ended	
Cash Flow Hedges	**June 27, 2010**	**June 28, 2009**	**June 27, 2010**	**June 28, 2009**
Foreign currency contracts	$ 4,470	$ (17,715)	$ 13,871	$ 8,717
Natural gas contracts	255	(222)	(649)	(980)
Interest rate swaps - unsecured commercial paper	(1,681)	1,751	(3,481)	1,071
Interest rate swaps - conduit facility		(711)		(1,447)
Total	$ 3,044	$ (16,897)	$ 9,741	$ 7,361

	Amount of Gain/(Loss) Reclassified from AOCI into Income				
	Three months ended		Six months ended		Expected to be
Cash Flow Hedges	**June 27, 2010**	**June 28, 2009**	**June 27, 2010**	**June 28, 2009**	**Reclassified Over the Next Twelve Months**
Foreign currency contracts[1]	$ 3,320	$ 6,654	$ 3,681	$ 27,870	$ 5,505
Natural gas contracts[1]	(352)	(955)	(460)	(1,912)	(138)
Interest rate swaps - unsecured commercial paper[2]	(1,558)	(2,212)	(3,344)	(4,540)	(5,510)
Interest rate swaps - conduit facility[2]		(4,825)		(6,452)	
Total	$ 1,410	$ (1,338)	$ (123)	$ 14,966	$ (143)

(1) Gain/(loss) reclassified from accumulated other comprehensive income (AOCI) to income is included in cost of goods sold
(2) Gain/(loss) reclassified from AOCI to income is included in HDFS interest expense, a component of Financial Services expense

For the three and six months ended June 27, 2010 and June 28, 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):

	Amount of Loss Recognized in Income on Derivative			
	Three months ended		Six months ended	
Fair Value Hedges	**June 27, 2010**	**June 28, 2009**	**June 27, 2010**	**June 28, 2009**
Interest rate swaps - medium-term notes[1]	$ (1,798)	$ (924)	$ (3,154)	$ (1,671)

	Amount of Gain Recognized in Income on Hedged Debt			
	Three months ended		Six months ended	
Fair Value Hedges	**June 27, 2010**	**June 28, 2009**	**June 27, 2010**	**June 28, 2009**

Interest rate swaps - medium-term notes[1]	$ 1,798	$ 924	$ 3,154	$ 1,671

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

Table of Contents

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

	Amount of Gain/(Loss) Recognized in Income on Derivative			
	Three months ended		Six months ended	
Derivatives not Designated as Hedges	**June 27, 2010**	**June 28, 2009**	**June 27, 2010**	**June 28, 2009**
Derivatives - securitization transactions[1]	$ 2	$ 205	$ (7)	$ 404
Derivatives - conduit facility[1]	(2,210)	513	(5,574)	233
	$ (2,208)	$ 718	$ (5,581)	$ 637

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

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

12. Comprehensive Income

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

	Three months ended			
		June 27, 2010		**June 28, 2009**
Net income		$ 71,157		$ 19,750
Other comprehensive income, net of tax:				
Foreign currency translation adjustment		(21,413)		28,915
Investment in retained securitization interest:				
Unrealized net losses arising during the period			(65)	
Less: net losses reclassified into net income			(876)	811
Derivative financial instruments:				
Unrealized net gains (losses) arising during period	1,907		(9,469)	
Less: net gains (losses) reclassified into net income	861	1,046	(794)	(8,675)
Marketable securities				