HARLEY DAVIDSON INC
Form 10-Q
August 03, 2017

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 25, 2017
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-9183

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

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

Registrants telephone number: (414) 342-4680
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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company,” and emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

Number of shares of the registrant’s common stock outstanding at July 28, 2017: 170,594,597 shares

Harley-Davidson, Inc.

Form 10-Q

For The Quarter Ended June 25, 2017

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

	Three months ended		Six months ended	
	June 25, 2017	June 26, 2016	June 25, 2017	June 26, 2016
Revenue:				
Motorcycles and Related Products	$1,577,135	$1,670,113	$2,905,846	$3,246,723
Financial Services	188,034	190,964	361,255	364,322
Total revenue	1,765,169	1,861,077	3,267,101	3,611,045
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	1,001,512	1,062,555	1,852,738	2,048,885
Financial Services interest expense	44,408	42,895	87,697	88,814
Financial Services provision for credit losses	26,217	23,461	69,806	60,584
Selling, administrative and engineering expense	291,450	319,844	563,800	611,612
Total costs and expenses	1,363,587	1,448,755	2,574,041	2,809,895
Operating income	401,582	412,322	693,060	801,150
Investment income	577	688	1,456	1,454
Interest expense	7,726	7,094	15,399	14,262
Income before provision for income taxes	394,433	405,916	679,117	788,342
Provision for income taxes	135,566	125,485	233,881	257,422
Net income	$258,867	$280,431	$445,236	$530,920
Earnings per common share:				
Basic	$1.48	$1.55	$2.54	$2.92
Diluted	$1.48	$1.55	$2.53	$2.91
Cash dividends per common share	$0.365	$0.350	$0.730	$0.700

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

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

	Three months ended		Six months ended	
	June 25, 2017	June 26, 2016	June 25, 2017	June 26, 2016
Net income	$258,867	$280,431	$445,236	$530,920
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	9,637	2,628	25,194	15,321
Derivative financial instruments	(10,412)	3,009	(19,464)	(5,343)
Marketable securities	1,204	(32)	1,194	(77)
Pension and postretirement benefit plans	7,256	7,572	14,512	15,143
Total other comprehensive income, net of tax	7,685	13,177	21,436	25,044
Comprehensive income	$266,552	$293,608	$466,672	$555,964

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

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

	(Unaudited) June 25, 2017	December 31, 2016	(Unaudited) June 26, 2016
ASSETS			
Current assets:			
Cash and cash equivalents	$988,476	$759,984	$864,670
Marketable securities	—	5,519	5,070
Accounts receivable, net	330,933	285,106	311,956
Finance receivables, net	2,338,533	2,076,261	2,457,974
Inventories	372,012	499,917	371,196
Restricted cash	63,225	52,574	78,078
Deferred income taxes	—	—	116,214
Other current assets	151,423	174,491	153,866
Total current assets	4,244,602	3,853,852	4,359,024
Finance receivables, net	4,994,002	4,759,197	4,824,071
Property, plant and equipment, net	946,326	981,593	951,309
Goodwill	54,630	53,391	54,542
Deferred income taxes	170,358	167,729	83,047
Other long-term assets	77,853	74,478	76,447
	$10,487,771	$9,890,240	$10,348,440
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$327,346	$235,318	$273,696
Accrued liabilities	533,412	486,652	485,811
Short-term debt	928,445	1,055,708	1,020,487
Current portion of long-term debt, net	1,565,558	1,084,884	732,773
Total current liabilities	3,354,761	2,862,562	2,512,767
Long-term debt, net	4,678,350	4,666,975	5,308,063
Pension liability	51,797	84,442	129,465
Postretirement healthcare liability	166,023	173,267	188,846
Other long-term liabilities	190,673	182,836	188,292
Commitments and contingencies (Note 15)			
Shareholders' equity:			
Preferred stock, none issued	—	—	—
Common stock	1,813	1,806	3,453
Additional paid-in-capital	1,404,428	1,381,862	1,349,755
Retained earnings	1,654,457	1,337,673	9,365,105
Accumulated other comprehensive loss	(543,945)	(565,381)	(590,161)
Treasury stock, at cost	(470,586)	(235,802)	(8,107,145)
Total shareholders' equity	2,046,167	1,920,158	2,021,007
	$10,487,771	$9,890,240	$10,348,440

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

	(Unaudited) June 25, 2017	December 31, 2016	(Unaudited) June 26, 2016
Balances held by consolidated variable interest entities (Note 10)			
Current finance receivables, net	$ 217,348	$ 225,289	$ 258,870
Other assets	$ 2,170	$ 2,781	$ 3,047
Non-current finance receivables, net	$ 653,683	$ 643,047	$ 884,226
Restricted cash - current and non-current	$ 62,973	$ 57,057	$ 79,475
Current portion of long-term debt, net	$ 241,754	$ 241,396	$ 288,786
Long-term debt, net	$ 559,379	$ 554,879	$ 786,145

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

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

	Six months ended	
	June 25, 2017	June 26, 2016
Net cash provided by operating activities (Note 3)	$627,068	$456,290
Cash flows from investing activities:		
Capital expenditures	(69,816)	(107,531)
Origination of finance receivables	(1,977,839)	(1,991,384)
Collections on finance receivables	1,647,799	1,630,213
Proceeds from finance receivables sold	—	312,571
Sales and redemptions of marketable securities	6,916	40,000
Other	115	166
Net cash used by investing activities	(392,825)	(115,965)
Cash flows from financing activities:		
Proceeds from issuance of medium-term notes	893,668	1,193,396
Repayments of medium-term notes	(400,000)	(450,000)
Repayments of securitization debt	(275,659)	(385,837)
Borrowings of asset-backed commercial paper	341,625	33,428
Repayments of asset-backed commercial paper	(77,732)	(34,989)
Net decrease in credit facilities and unsecured commercial paper	(128,787)	(181,259)
Net change in restricted cash	(7,248)	17,992
Dividends paid	(128,452)	(127,800)
Purchase of common stock for treasury	(243,055)	(269,411)
Excess tax benefits from share-based payments	—	331
Issuance of common stock under employee stock option plans	7,432	2,367
Net cash used by financing activities	(18,208)	(201,782)
Effect of exchange rate changes on cash and cash equivalents	12,457	3,918
Net increase in cash and cash equivalents	$228,492	$142,461
Cash and cash equivalents:		
Cash and cash equivalents—beginning of period	$759,984	$722,209
Net increase in cash and cash equivalents	228,492	142,461
Cash and cash equivalents—end of period	$988,476	$864,670

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

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

1. Basis of Presentation and Use of Estimates

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

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the consolidated balance sheets as of June 25, 2017 and June 26, 2016, the consolidated statements of income for the three and six month periods then ended, the consolidated statements of comprehensive income for the three and six month periods then ended and the 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 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, 2016.

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

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

2. New Accounting Standards

Accounting Standards Recently Adopted

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

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

Accounting Standards Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09 Revenue from Contracts with Customers (ASU 2014-09). ASU 2014-09 is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14 Revenue from Contracts with Customers: Deferral of Effective Date (ASU 2015-14) to defer the effective date of the new revenue recognition standard by one year to fiscal years beginning after December 15, 2017 and interim periods therein. The guidance may be adopted using either a full retrospective or modified retrospective approach. The Company expects to adopt the new revenue recognition guidance using the modified retrospective method. The Company's efforts to evaluate the impact of the standard and to prepare for its adoption on January 1, 2018 are well underway. Based on the work completed to date (which includes the review of significant revenue sources), the Company expects the recognition of revenue for sales of motorcycles, parts and accessories and general

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merchandise products under the new revenue recognition guidance will occur at a point in time, which is consistent with current practice. Interest income, which makes up the vast majority of revenue in the Financial Services segment, is not within the scope of the new standard. The Company is also assessing its process for accumulating the required information for enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from its contracts with customers.

In January 2016, the FASB issued ASU No. 2016-01 Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01). ASU 2016-01 enhances the existing financial instruments reporting model by modifying fair value measurement tools, simplifying impairment assessments for certain equity instruments and modifying overall presentation and disclosure requirements. The Company is required to adopt ASU 2016-01 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017 on a prospective basis. The Company is currently evaluating the impact of adoption of ASU 2016-01.

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

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

In August 2016, the FASB issued ASU No. 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15). ASU 2016-15 addresses eight specific cash flow issues with the objective of reducing diversity in practice regarding how certain cash receipts and cash payments are presented in the statement of cash flows. The standard provides guidance on the classification of the following items: (1) debt prepayment or debt extinguishment costs, (2) settlement of zero-coupon debt instruments, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from the settlement of corporate-owned life insurance policies, (6) distributions received from equity method investments, (7) beneficial interests in securitization transactions, and (8) separately identifiable cash flows. The Company is required to adopt ASU 2016-15 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017 on a retrospective basis. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of adoption of ASU 2016-15.

In October 2016, the FASB issued ASU No. 2016-16 Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory (ASU 2016-16). ASU 2016-16 states that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Two common assets included in the scope of the ASU are intellectual property and property, plant and equipment. The Company is required to adopt ASU 2016-16 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017 using a modified retrospective approach with a cumulative-effect adjustment to retained earnings. The Company does not expect the adoption of ASU 2016-16 to have a material impact on its financial statements.

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

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restricted cash would be excluded from the change in cash flows from financing activities and included in the change in total cash, restricted cash and cash equivalents as reported in the statement of cash flows.

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

In March 2017, the FASB issued ASU No. 2017-07 Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASU 2017-07). ASU 2017-07 amends ASC 715, Compensation - Retirement Benefits by requiring employers to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Other components of the net periodic benefit cost will be presented separately from the line item that includes the service cost and outside of any subtotal of operating income. The guidance also limits the components that are eligible for capitalization in assets. The Company is required to adopt ASU 2017-07 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual period for which interim or annual financial statements have not been issued or made available for issuance. The amendments related to the presentation of the components of net periodic benefit cost should be applied retrospectively. The amendments related to the capitalization of certain components in assets should be applied prospectively. The Company's net periodic benefit cost components are disclosed in Note 13.

3. Additional Balance Sheet and Cash Flow Information

Marketable Securities

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

	June 25, 2017	December 31, 2016	June 26, 2016
Available-for-sale securities: corporate bonds	$—	$ 5,519	$5,070
Trading securities: mutual funds	44,156	38,119	37,651
Total marketable securities	$44,156	$ 43,638	$42,721

The Company’s available-for-sale securities are carried at fair value with any unrealized gains or losses reported in other comprehensive income. During the first half of 2017 and 2016, unrealized losses were not material. There were no available-for-sale securities outstanding at June 25, 2017.

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

Inventories

Inventories are valued at the lower of cost or net realizable value. 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 net realizable value using the first-in, first-out (FIFO) method. Inventories consisted of the following (in thousands):

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	June 25, 2017	December 31, 2016	June 26, 2016
Components at the lower of FIFO cost or net realizable value			
Raw materials and work in process	$117,199	$ 140,639	$134,702
Motorcycle finished goods	186,244	285,281	152,035
Parts and accessories and general merchandise	116,836	122,264	133,727
Inventory at lower of FIFO cost or net realizable value	420,279	548,184	420,464
Excess of FIFO over LIFO cost	(48,267)	(48,267)	(49,268)
Total inventories, net	$372,012	$ 499,917	$371,196

Operating Cash Flow

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

	Six months ended June 25, 2017	June 26, 2016
Cash flows from operating activities:		
Net income	$ 445,236	$ 530,920
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangibles	107,578	100,956
Amortization of deferred loan origination costs	40,771	43,555
Amortization of financing origination fees	4,079	5,146
Provision for long-term employee benefits	14,950	19,005
Employee benefit plan contributions and payments	(37,307)	(35,189)
Stock compensation expense	17,497	15,797
Net change in wholesale finance receivables related to sales	(271,927)	(442,254)
Provision for credit losses	69,806	60,584
Gain on off-balance sheet asset-backed securitization	—	(9,269)
Deferred income taxes	178	(3,548)
Other, net	(4,163)	(20,508)

Changes in current assets and liabilities:		
Accounts receivable, net	(28,239)	(55,109)
Finance receivables - accrued interest and other	2,067	(125)
Inventories	138,942	225,586
Accounts payable and accrued liabilities	133,120	53,790
Derivative instruments	3,114	(1,474)
Other	(8,634)	(31,573)
Total adjustments	181,832	(74,630)
Net cash provided by operating activities	$ 627,068	$ 456,290

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4. Finance Receivables

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

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

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

	June 25, 2017	December 31, 2016	June 26, 2016
Retail	$6,267,211	$5,982,211	$6,020,750
Wholesale	1,258,852	1,026,590	1,422,648
Total finance receivables	7,526,063	7,008,801	7,443,398
Allowance for credit losses	(193,528)	(173,343)	(161,353)
Finance receivables, net	$7,332,535	$6,835,458	$7,282,045

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

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

	Three months ended June 25, 2017		
	Retail	Wholesale	Total
Balance, beginning of period	$176,068	$ 7,962	$184,030
Provision for credit losses	26,550	(333)	26,217
Charge-offs	(30,374)	—	(30,374)
Recoveries	13,655	—	13,655
Balance, end of period	$185,899	$ 7,629	$193,528

	Three months ended June 26, 2016		
	Retail	Wholesale	Total
Balance, beginning of period	$146,727	$ 9,457	$156,184
Provision for credit losses	24,563	(1,102)	23,461
Charge-offs	(26,460)	—	(26,460)
Recoveries	11,459	—	11,459
Other [(a)]	(3,291)	—	(3,291)
Balance, end of period	$152,998	$ 8,355	$161,353

	Six months ended June 25, 2017		
	Retail	Wholesale	Total
Balance, beginning of period	$166,810	$ 6,533	$173,343
Provision for credit losses	68,710	1,096	69,806
Charge-offs	(76,298)	—	(76,298)
Recoveries	26,677	—	26,677
Balance, end of period	$185,899	$ 7,629	$193,528

	Six months ended June 26, 2016		
	Retail	Wholesale	Total
Balance, beginning of period	$139,320	$ 7,858	$147,178
Provision for credit losses	60,087	497	60,584
Charge-offs	(66,104)	—	(66,104)
Recoveries	22,986	—	22,986
Other [(a)]	(3,291)	—	(3,291)
Balance, end of period	$152,998	$ 8,355	$161,353

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

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

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

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

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

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

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

	June 25, 2017		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	$—	$—	$—
Collectively evaluated for impairment	185,899	7,629	193,528
Total allowance for credit losses	$185,899	$7,629	$193,528
Finance receivables, ending balance:			
Individually evaluated for impairment	$—	$—	$—
Collectively evaluated for impairment	6,267,211	1,258,852	7,526,063
Total finance receivables	$6,267,211	$1,258,852	$7,526,063

	December 31, 2016		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	$—	$—	$—
Collectively evaluated for impairment	166,810	6,533	173,343
Total allowance for credit losses	$166,810	$6,533	$173,343
Finance receivables, ending balance:			
Individually evaluated for impairment	$—	$—	$—
Collectively evaluated for impairment	5,982,211	1,026,590	7,008,801
Total finance receivables	$5,982,211	$1,026,590	$7,008,801

	June 26, 2016		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	$—	$—	$—
Collectively evaluated for impairment	152,998	8,355	161,353
Total allowance for credit losses	$152,998	$8,355	$161,353
Finance receivables, ending balance:			
Individually evaluated for impairment	$—	$—	$—
Collectively evaluated for impairment	6,020,750	1,422,648	7,443,398
Total finance receivables	$6,020,750	$1,422,648	$7,443,398

There were no wholesale finance receivables at June 25, 2017, December 31, 2016, or June 26, 2016 that were individually deemed to be impaired under ASC Topic 310, "Receivables."

Retail finance receivables are contractually delinquent if the minimum payment is not received by the specified due date. Retail finance receivables are generally charged-off when the receivable is 120 days or more delinquent, the related asset is

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repossessed or the receivable is otherwise deemed uncollectible. All retail finance receivables accrue interest until either collected or charged-off. Accordingly, as of June 25, 2017, December 31, 2016 and June 26, 2016, all retail finance receivables were accounted for as interest-earning receivables, of which $25.1 million, $40.4 million and $21.9 million, respectively, were 90 days or more past due.

Wholesale finance receivables are delinquent if the minimum payment is not received by the contractual due date. Wholesale finance receivables are written down once management determines that the specific borrower does not have the ability to repay the loan in full. Interest continues to accrue on past due finance receivables until the date the finance receivable becomes uncollectible and the finance receivable is placed on non-accrual status. The Company will resume accruing interest on these accounts when payments are current according to the terms of the loans and future payments are reasonably assured. While on non-accrual status, all cash received is applied to principal or interest as appropriate. There were no wholesale receivables on non-accrual status at June 25, 2017, December 31, 2016 or June 26, 2016. At June 25, 2017, December 31, 2016 and June 26, 2016, $1.1 million, $0.3 million, and $0.2 million of wholesale finance receivables were 90 days or more past due and accruing interest, respectively.

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

	June 25, 2017					
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Finance Receivables
Retail	$6,086,592	$118,616	$36,914	$25,089	$180,619	$6,267,211
Wholesale	1,257,301	281	142	1,128	1,551	1,258,852
Total	$7,343,893	$118,897	$37,056	$26,217	$182,170	$7,526,063

	December 31, 2016					
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Finance Receivables
Retail	$5,760,818	$131,302	$49,642	$40,449	$221,393	$5,982,211
Wholesale	1,024,995	1,000	319	276	1,595	1,026,590
Total	$6,785,813	$132,302	$49,961	$40,725	$222,988	$7,008,801

	June 26, 2016					
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Finance Receivables
Retail	$5,852,659	$108,192	$37,961	$21,938	$168,091	$6,020,750
Wholesale	1,421,846	457	153	192	802	1,422,648
Total	$7,274,505	$108,649	$38,114	$22,130	$168,893	$7,443,398

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

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

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

	June 25, 2017	December 31, 2016	June 26, 2016
Prime	$5,034,187	$4,768,420	$4,756,479
Sub-prime	1,233,024	1,213,791	1,264,271
Total	$6,267,211	$5,982,211	$6,020,750

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The Company's credit risk on the wholesale portfolio is different from that of the retail portfolio. Whereas the retail portfolio represents a relatively homogeneous pool of retail finance receivables that exhibit more consistent loss patterns, the wholesale portfolio exposures are less consistent. The Company utilizes an internal credit risk rating system to manage credit risk exposure consistently across wholesale borrowers and individually evaluates credit risk factors for each borrower. The Company uses the following internal credit quality indicators, based on an internal risk rating system, listed from highest level of risk to lowest level of risk for the wholesale portfolio: Doubtful, Substandard, Special Mention, Medium Risk and Low Risk. Based upon management's review, the dealers classified in the Doubtful category are the dealers with the greatest likelihood of being charged-off, while the dealers classified as Low Risk are least likely to be charged-off. The internal rating system considers factors such as the specific borrower's ability to repay and the estimated value of any collateral. Dealer risk rating classifications are reviewed and updated on a quarterly basis.

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

	June 25, 2017	December 31, 2016	June 26, 2016
Doubtful	$5,203	$1,333	$—
Substandard	10,458	1,773	19,637
Special Mention	4,953	30,152	4,334
Medium Risk	8,115	14,620	6,350
Low Risk	1,230,123	978,712	1,392,327
Total	$1,258,852	$1,026,590	$1,422,648

5. Fair Value Measurements

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

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

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

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

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Recurring Fair Value Measurements

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

	June 25, 2017			
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$625,485	$ 375,550	$ 249,935	$ —
Marketable securities	44,156	44,156	—	—
Derivatives	458	—	458	—
Total	$670,099	$ 419,706	$ 250,393	$ —
Liabilities:				
Derivatives	$4,865	$ —	$ 4,865	$ —

	December 31, 2016			
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$531,519	$ 426,266	$ 105,253	$ —
Marketable securities	43,638	38,119	5,519	—
Derivatives	29,034	—	29,034	—
Total	$604,191	$ 464,385	$ 139,806	$ —
Liabilities:				
Derivatives	$142	$ —	$ 142	$ —

	June 26, 2016			
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$549,426	$ 392,800	$ 156,626	$ —
Marketable securities	42,721	37,651	5,070	—
Derivatives	9,528	—	9,528	—
Total	$601,675	$ 430,451	$ 171,224	$ —
Liabilities:				
Derivatives	$1,605	$ —	$ 1,605	$ —

Nonrecurring Fair Value Measurements

Repossessed inventory is recorded at the lower of cost or net realizable value through a nonrecurring fair value measurement. Repossessed inventory was $17.9 million, $19.3 million and $15.3 million at June 25, 2017, December 31, 2016 and June 26, 2016, respectively, for which the fair value adjustment was $2.7 million, $9.3 million and $3.6 million, respectively. Fair value is estimated using Level 2 inputs based on the recent market values of repossessed inventory.

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6. Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, marketable securities, finance receivables, net, debt, foreign currency exchange and commodity contracts (derivative instruments are discussed further in Note 7).

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

	June 25, 2017		December 31, 2016		June 26, 2016	
	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value
Assets:						
Cash and cash equivalents	$988,476	$ 988,476	$759,984	$ 759,984	$864,670	$ 864,670
Marketable securities	$44,156	$ 44,156	$43,638	$ 43,638	$42,721	$ 42,721
Derivatives	$458	$ 458	$29,034	$ 29,034	$9,528	$ 9,528
Finance receivables, net	$7,401,974	$ 7,332,535	$6,921,037	$ 6,835,458	$7,369,410	$ 7,282,045
Restricted cash	$74,395	$ 74,395	$67,147	$ 67,147	$92,650	$ 92,650
Liabilities:						
Derivatives	$4,865	$ 4,865	$142	$ 142	$1,605	$ 1,605
Unsecured commercial paper	$928,445	$ 928,445	$1,055,708	$ 1,055,708	$1,020,487	$ 1,020,487
Asset-backed U.S. commercial paper conduit facilities	$279,833	$ 279,833	$—	$ —	$—	$ —
Asset-backed Canadian commercial paper conduit facility	$138,739	$ 138,739	$149,338	$ 149,338	$161,626	$ 161,626
Medium-term notes	$4,623,146	$ 4,562,403	$4,139,462	$ 4,064,940	$4,239,390	$ 4,063,297
Senior unsecured notes	$773,084	$ 741,633	$744,552	$ 741,306	$808,227	$ 740,982
Asset-backed securitization debt	$521,956	$ 521,300	$797,688	$ 796,275	$1,080,416	$ 1,074,931

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

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

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

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

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

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

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The fair values of the medium-term notes and senior unsecured notes are estimated based upon rates available at the end of the period for debt with similar terms and remaining maturities. Fair value is calculated using Level 2 inputs. The fair value of the debt related to on-balance sheet asset-backed securitization transactions is estimated based on pricing available at the end of the period for transactions with similar terms and maturities. Fair value is calculated using Level 2 inputs.

7. Derivative Instruments and Hedging Activities

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

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

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

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

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

During the second quarter of 2017, the Company entered into a treasury rate lock to fix the interest rate on a portion of the principal related to its anticipated issuance of medium-term notes during the second quarter of 2017. The treasury rate lock contract was settled in June 2017. The loss at settlement was recorded in accumulated other comprehensive loss and will be reclassified into earnings over the life of the debt.

During the second quarter of 2015, the Company entered into treasury rate locks to fix the interest rate on a portion of the principal related to its anticipated issuance of senior unsecured debt during the third quarter of 2015. The treasury rate lock contracts were settled in July 2015. The loss at settlement was recorded in accumulated other comprehensive loss and will be reclassified into earnings over the life of the debt.

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

Derivatives Designated As Hedging Instruments Under ASC Topic 815	June 25, 2017 Notional Value	June 25, 2017 Asset Fair Value[(a)]	June 25, 2017 Liability Fair Value[(b)]	December 31, 2016 Notional Value	December 31, 2016 Asset Fair Value[(a)]	December 31, 2016 Liability Fair Value[(b)]	June 26, 2016 Notional Value	June 26, 2016 Asset Fair Value[(a)]	June 26, 2016 Liability Fair Value[(b)]
Foreign currency contracts[(c)]	$544,601	$ 409	$ 4,622	$554,551	$ 28,528	$ 142	$542,788	$ 9,423	$ 1,358
Commodity contracts[(c)]	1,102	—	75	992	177	—	861	88	—
Total	$545,703	$ 409	$ 4,697	$555,543	$ 28,705	$ 142	$543,649	$ 9,511	$ 1,358

Derivatives Not Designated As Hedging Instruments Under ASC Topic 815	June 25, 2017 Notional Value	June 25, 2017 Asset Fair Value[(a)]	June 25, 2017 Liability Fair Value[(b)]	December 31, 2016 Notional Value	December 31, 2016 Asset Fair Value[(a)]	December 31, 2016 Liability Fair Value[(b)]	June 26, 2016 Notional Value	June 26, 2016 Asset Fair Value[(a)]	June 26, 2016 Liability Fair Value[(b)]
Commodity contracts	$4,336	$ 49	$ 168	$5,025	$ 329	$ —	$4,298	$ 17	$ 247
Total	$4,336	$ 49	$ 168	$5,025	$ 329	$ —	$4,298	$ 17	$ 247

(a) Included in other current assets
(b) Included in accrued liabilities
(c) Derivative designated as a cash flow hedge

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

	Amount of Gain/(Loss) Recognized in OCI, before tax			
	Three months ended		Six months ended	
Cash Flow Hedges	June 25, 2017	June 26, 2016	June 25, 2017	June 26, 2016
Foreign currency contracts	$(11,851)	$ 8,017	$(23,648)	$(4,507)
Commodity contracts	(80)	119	(186)	(73)
Treasury rate locks	(719)	—	(719)	—
Total	$(12,650)	$ 8,136	$(24,553)	$(4,580)

	Amount of Gain/(Loss) Reclassified from AOCL into Income				
	Three months ended		Six months ended		Expected to be Reclassified
Cash Flow Hedges	June 25, 2017	June 26, 2016	June 25, 2017	June 26, 2016	Over the Next Twelve Months
Foreign currency contracts[(a)]	$3,957	$3,551	$6,473	$4,407	$ (3,538)
Commodity contracts[(a)]	17	(104)	65	(319)	(75)
Treasury rate locks[(b)]	(99)	(90)	(189)	(181)	(506)
Total	$3,875	$3,357	$6,349	$3,907	$ (4,119)

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

For the three and six months ended June 25, 2017 and June 26, 2016, the cash flow hedges were highly effective and, as a result, the amount of hedge ineffectiveness was not material. No amounts were excluded from effectiveness testing.

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

Derivatives Not Designated As Hedges	Amount of Gain/(Loss) Recognized in Income on Derivative Three months ended June 25, 2017	June 26, 2016	Six months ended June 25, 2017	June 26, 2016
Commodity contracts[a]	$(193)	$ 67	$(173)	$(224)
Total	$(193)	$ 67	$(173)	$(224)

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

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

8. Accumulated Other Comprehensive Loss

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

	Three months ended June 25, 2017				
	Foreign currency translation adjustments	Marketable securities	Derivative financial instruments	Pension and postretirement benefit plans	Total
Balance, beginning of period	$(52,575)	$(1,204)	$ 3,472	$(501,323)	$(551,630)
Other comprehensive income (loss) before reclassifications	9,447	1,912	(12,650)	—	(1,291)
Income tax expense (benefit)	190	(708)	4,678	—	4,160
Net other comprehensive income (loss) before reclassifications	9,637	1,204	(7,972)	—	2,869
Reclassifications:					
Realized (gains) losses - foreign currency contracts[a]	—	—	(3,957)	—	(3,957)
Realized (gains) losses - commodities contracts[a]	—	—	(17)	—	(17)
Realized (gains) losses - treasury rate lock[b]	—	—	99	—	99
Prior service credits[c]	—	—	—	(289)	(289)
Actuarial losses[c]	—	—	—	11,813	11,813
Total reclassifications before tax	—	—	(3,875)	11,524	7,649
Income tax expense (benefit)	—	—	1,435	(4,268)	(2,833)
Net reclassifications	—	—	(2,440)	7,256	4,816
Other comprehensive income (loss)	9,637	1,204	(10,412)	7,256	7,685
Balance, end of period	$(42,938)	$ —	$(6,940)	$(494,067)	$(543,945)

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	Three months ended June 26, 2016				
	Foreign currency translation adjustments	Marketable securities	Derivative financial instruments	Pension and postretirement benefit plans	Total
Balance, beginning of period	$(46,151)	$(1,139)	$(2,466)	$(553,582)	$(603,338)
Other comprehensive income (loss) before reclassifications	2,516	(51)	8,136	—	10,601
Income tax expense (benefit)	112	19	(3,014)	—	(2,883)
Net other comprehensive income (loss) before reclassifications	2,628	(32)	5,122	—	7,718
Reclassifications:					
Realized (gains) losses - foreign currency contracts[a]	—	—	(3,551)	—	(3,551)
Realized (gains) losses - commodities contracts[a]	—	—	104	—	104
Realized (gains) losses - treasury rate lock[b]	—	—	90	—	90
Prior service credits[c]	—	—	—	(446)	(446)
Actuarial losses[c]	—	—	—	12,472	12,472
Total reclassifications before tax	—	—	(3,357)	12,026	8,669
Income tax expense (benefit)	—	—	1,244	(4,454)	(3,210)
Net reclassifications	—	—	(2,113)	7,572	5,459
Other comprehensive income (loss)	2,628	(32)	3,009	7,572	13,177
Balance, end of period	$(43,523)	$(1,171)	$ 543	$(546,010)	$(590,161)

	Six months ended June 25, 2017				
	Foreign currency translation adjustments	Marketable securities	Derivative financial instruments	Pension and postretirement benefit plans	Total
Balance, beginning of period	$(68,132)	$(1,194)	$ 12,524	$(508,579)	$(565,381)
Other comprehensive income (loss) before reclassifications	25,080	1,896	(24,553)	—	2,423
Income tax expense (benefit)	114	(702)	9,087	—	8,499
Net other comprehensive income (loss) before reclassifications	25,194	1,194	(15,466)	—	10,922
Reclassifications:					
Realized (gains) losses - foreign currency contracts[a]	—	—	(6,473)	—	(6,473)
Realized (gains) losses - commodities contracts[a]	—	—	(65)	—	(65)
Realized (gains) losses - treasury rate lock[b]	—	—	189	—	189
Prior service credits[c]	—	—	—	(578)	(578)
Actuarial losses[c]	—	—	—	23,626	23,626
Total reclassifications before tax	—	—	(6,349)	23,048	16,699
Income tax expense (benefit)	—	—	2,351	(8,536)	(6,185)
Net reclassifications	—	—	(3,998)	14,512	10,514
Other comprehensive income (loss)	25,194	1,194	(19,464)	14,512	21,436
Balance, end of period	$(42,938)	$ —	$(6,940)	$(494,067)	$(543,945)

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	Six months ended June 26, 2016				
	Foreign currency translation adjustments	Marketable securities	Derivative financial instruments	Pension and postretirement benefit plans	Total
Balance, beginning of period	$(58,844)	$(1,094)	$5,886	$(561,153)	$(615,205)
Other comprehensive income (loss) before reclassifications	17,087	(122)	(4,580)	—	12,385
Income tax (benefit) expense	(1,766)	45	1,696	—	(25)
Net other comprehensive income (loss) before reclassifications	15,321	(77)	(2,884)	—	12,360
Reclassifications:					
Realized (gains) losses - foreign currency contracts[a]	—	—	(4,407)	—	(4,407)
Realized (gains) losses - commodities contracts[a]	—	—	319	—	319
Realized (gains) losses - treasury rate lock[b]	—	—	181	—	181
Prior service credits[c]	—	—	—	(892)	(892)
Actuarial losses[c]	—	—	—	24,944	24,944
Total reclassifications before tax	—	—	(3,907)	24,052	20,145
Income tax expense (benefit)	—	—	1,448	(8,909)	(7,461)
Net reclassifications	—	—	(2,459)	15,143	12,684
Other comprehensive income (loss)	15,321	(77)	(5,343)	15,143	25,044
Balance, end of period	$(43,523)	$(1,171)	$543	$(546,010)	$(590,161)

(a) Amounts reclassified to net income are included in Motorcycles and Related Products cost of goods sold.
(b) Amounts reclassified to net income are included in interest expense.
(c) Amounts reclassified are included in the computation of net periodic benefit cost. See Note 13 for information related to pension and postretirement benefit plans.

9. Debt

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

	June 25, 2017	December 31, 2016	June 26, 2016
Unsecured commercial paper	$928,445	$1,055,708	$1,020,487
Total short-term debt	$928,445	$1,055,708	$1,020,487

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

	June 25, 2017	December 31, 2016	June 26, 2016
Secured debt (Note 10)			
Asset-backed Canadian commercial paper conduit facility	$138,739	$149,338	$161,626
Asset-backed U.S. commercial paper conduit facilities	279,833	—	—
Asset-backed securitization debt	522,095	797,755	1,077,317
Less: unamortized discount and debt issuance costs	(795)	(1,480)	(2,386)
Total secured debt	939,872	945,613	1,236,557
Unsecured notes			
2.70% Medium-term notes due in 2017 par value, issued January 2012	—	400,000	400,000
1.55% Medium-term notes due in 2017 par value, issued November 2014	400,000	400,000	400,000
6.80% Medium-term notes due in 2018 par value, issued May 2008	877,488	877,488	878,708
2.25% Medium-term notes due in 2019 par value, issued January 2016	600,000	600,000	600,000
Floating-rate Medium-term notes due in 2019 par value, issued March 2017	150,000	—	—
2.40% Medium-term notes due in 2019 par value, issued September 2014	600,000	600,000	600,000
2.15% Medium-term notes due in 2020 par value, issued February 2015	600,000	600,000	600,000
2.40% Medium-term notes due in 2020 par value, issued March 2017	350,000	—	—
2.85% Medium-term notes due in 2021 par value, issued January 2016	600,000	600,000	600,000
2.55% Medium-term notes due in 2022 par value, issued June 2017	400,000	—	—
3.50% Senior unsecured notes due in 2025 par value, issued July 2015	450,000	450,000	450,000
4.625% Senior unsecured notes due in 2045 par value, issued July 2015	300,000	300,000	300,000
Less: unamortized discount and debt issuance costs	(23,452)	(21,242)	(24,429)
Gross long-term debt	6,243,908	5,751,859	6,040,836
Less: current portion of long-term debt, net of unamortized discount and debt issuance costs	(1,565,558)	(1,084,884)	(732,773)
Total long-term debt	$4,678,350	$4,666,975	$5,308,063

10. Asset-Backed Financing

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

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

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

If the Company meets all three of the sale criteria above, the transaction is recorded as a sale for accounting purposes and is referred to as an off-balance sheet asset-backed financing. Upon sale, the retail motorcycle finance receivables are removed from the Company’s balance sheet and a gain or loss is recognized for the difference between the cash proceeds received, the

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assets derecognized, and the liabilities recognized as part of the transaction. The gain or loss on sale is included in Financial Services revenue in the Consolidated Statement of Income.

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

The following tables show the assets and liabilities related to the on-balance sheet asset-backed financings included in the financial statements (in thousands):

	June 25, 2017					
	Finance receivables	Allowance for credit losses	Restricted cash	Other assets	Total assets	Asset-backed debt
On-balance sheet assets and liabilities						
Consolidated VIEs						
Asset-backed securitizations	$599,754	$(18,291)	$47,980	$1,360	$630,803	$521,300
Asset-backed U.S. commercial paper conduit facilities	298,700	(9,132)	14,993	810	305,371	279,833
Unconsolidated VIEs						
Asset-backed Canadian commercial paper conduit facility	152,248	(2,911)	11,422	203	160,962	138,739
Total on-balance sheet assets and liabilities	$1,050,702	$(30,334)	$74,395	$2,373	$1,097,136	$939,872

	December 31, 2016					
	Finance receivables	Allowance for credit losses	Restricted cash	Other assets	Total assets	Asset-backed debt
On-balance sheet assets and liabilities						
Consolidated VIEs						
Asset-backed securitizations	$893,804	$(25,468)	$57,057	$2,452	$927,845	$796,275
Asset-backed U.S. commercial paper conduit facilities	—	—	—	329	329	—
Unconsolidated VIEs						
Asset-backed Canadian commercial paper conduit facility	165,719	(3,573)	10,090	426	172,662	149,338
Total on-balance sheet assets and liabilities	$1,059,523	$(29,041)	$67,147	$3,207	$1,100,836	$945,613

	June 26, 2016					
	Finance receivables	Allowance for credit losses	Restricted cash	Other assets	Total assets	Asset-backed debt
On-balance sheet assets and liabilities						
Consolidated VIEs						
Asset-backed securitizations	$1,173,527	$(30,431)	$79,475	$2,825	$1,225,396	$1,074,931
Asset-backed U.S. commercial paper conduit facilities	—	—	—	222	222	—
Unconsolidated VIEs						
Asset-backed Canadian commercial paper conduit facility	177,360	(3,620)	13,175	332	187,247	161,626
Total on-balance sheet assets and liabilities	$1,350,887	$(34,051)	$92,650	$3,379	$1,412,865	$1,236,557

On-Balance Sheet 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 on-balance sheet asset-backed securitization SPE is a separate legal entity, and the U.S. retail motorcycle finance receivables included in the asset-backed securitizations are only available for payment of the secured debt and other obligations arising from the asset-backed securitization transaction and are not available to pay other obligations or claims of

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the Company’s creditors until the associated secured debt and other obligations are satisfied. Restricted cash balances held by the SPEs are used only to support the securitizations. There are no amortization schedules for the secured notes; however, the debt is reduced monthly as available collections on the related U.S. retail motorcycle finance receivables are applied to outstanding principal. The secured notes’ contractual lives have various maturities ranging from 2019 to 2022.

The Company is the primary beneficiary of its on-balance sheet asset-backed securitization VIEs because it retains servicing rights and a residual interest in the VIEs in the form of a debt security. As the servicer, the Company is the variable interest holder with the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance. As a residual interest holder, the Company has the obligation to absorb losses and the right to receive benefits which could potentially be significant to the VIE.

There were no on-balance sheet asset-backed securitization transactions during the first half of 2017 or 2016.

On-Balance Sheet Asset-Backed U.S. Commercial Paper Conduit Facilities VIE

On December 14, 2016, the Company entered into a new revolving facility agreement with a third party bank-sponsored asset-backed U.S. commercial paper conduit, which provides for a total commitment of up to $300.0 million. Also on that date, the Company renewed its existing $600.0 million revolving facility agreement, which had expired on December 14, 2016, with the same third party bank-sponsored asset-backed U.S. commercial paper conduit. Availability under the revolving facilities (together, the U.S. Conduit Facilities) is based on, among other things, the amount of eligible U.S. retail motorcycle finance receivables held by the SPE as collateral.

Under the U.S. Conduit Facilities, the Company may transfer U.S. retail motorcycle finance receivables to an SPE, which in turn may issue debt to the third party bank-sponsored asset-backed commercial paper conduit. The assets of the SPE are restricted as collateral for the payment of the debt or other obligations arising in the transaction and are not available to pay other obligations or claims of the Company’s creditors. The terms for this debt provide for interest on the outstanding principal based on prevailing commercial paper rates or LIBOR to the extent the advance is not funded by a conduit lender through the issuance of commercial paper plus, in each case, a program fee based on outstanding principal. The U.S. Conduit Facilities also provide for an unused commitment fee based on the unused portion of the total aggregate commitment of $900.0 million. There is no amortization schedule; however, the debt will be reduced monthly as available collections on the related finance receivables are applied to outstanding principal. Upon expiration of the U.S. Conduit Facilities, any outstanding principal will continue to be reduced monthly through available collections. Unless earlier terminated or extended by mutual agreement of the Company and the lenders, as of June 25, 2017, the U.S. Conduit Facilities have an expiration date of December 13, 2017.

The Company is the primary beneficiary of its U.S. Conduit Facilities VIE because it retains servicing rights and a residual interest in the VIE in the form of a debt security. As the servicer, the Company is the variable interest holder with the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance. As a residual interest holder, the Company has the obligation to absorb losses and the right to receive benefits which could potentially be significant to the VIE.

In January 2017 and April 2017, the Company transferred $333.4 million and $28.2 million, respectively, of U.S. retail motorcycle finance receivables to an SPE which, in turn, issued $300.0 million and $24.0 million, respectively, of debt under the U.S. Conduit Facilities. The contractual maturity of the debt is approximately 5 years. The VIE had no borrowings outstanding under the U.S. Conduit Facilities at December 31, 2016 or June 26, 2016.

On-Balance Sheet Asset-Backed Canadian Commercial Paper Conduit Facility

In June 2016, the Company amended its facility agreement (Canadian Conduit) with a Canadian bank-sponsored asset-backed commercial paper conduit. Under the agreement, the Canadian Conduit is contractually committed, at the Company's option, to purchase eligible Canadian retail motorcycle finance receivables for proceeds up to C$240.0 million. The transferred assets are restricted as collateral for the payment of the debt. The terms for this debt provide for interest on the outstanding principal based on prevailing market interest rates plus a specified margin. The Canadian Conduit also provides for a program fee and an unused commitment fee based on the unused portion of the total aggregate commitment of C$240.0 million. There is no amortization schedule; however, the debt is reduced monthly as available collections on the related finance receivables are applied to outstanding principal. Upon expiration of the Canadian Conduit, any outstanding principal will continue to be reduced monthly through available collections. The contractual maturity of the debt is approximately 5 years. Unless earlier terminated or extended by mutual agreement of the Company and the lenders, as of June 25, 2017, the Canadian Conduit had an expiration date of June 30, 2017. The Canadian Conduit was renewed on June 30, 2017 with similar terms and a borrowing amount of up to C$220.0 million with an expiration date of June 30, 2018.

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The Company is not the primary beneficiary of the Canadian bank-sponsored, multi-seller conduit VIE; therefore, the Company doesn't consolidate the VIE. However, the Company treats the conduit facility as a secured borrowing as it maintains effective control over the assets transferred to the VIE and, therefore, doesn't meet the requirements for sale accounting.

As the Company participates in and does not consolidate the Canadian bank-sponsored, multi-seller conduit VIE, the maximum exposure to loss associated with this VIE, which would only be incurred in the unlikely event that all the finance receivables and underlying collateral have no residual value, was $22.2 million at June 25, 2017. The maximum exposure is not an indication of the Company's expected loss exposure.

The following table includes quarterly transfers of Canadian retail motorcycle finance receivables to the Canadian Conduit and the respective proceeds (in thousands):

	2017		2016	
	Transfers	Proceeds	Transfers	Proceeds
First quarter	$6,300	$5,500	$6,600	$5,800
Second quarter	14,200	12,400	31,400	27,500
	$20,500	$17,900	$38,000	$33,300

Off-Balance Sheet Asset-Backed Securitization VIE

There were no off-balance sheet asset-backed securitization transactions during the first half of 2017. During the second quarter of 2016, the Company sold retail motorcycle finance receivables with a principal balance of $301.8 million into a securitization VIE that was not consolidated, recognized a gain of $9.3 million and received cash proceeds of $312.6 million. Similar to an on-balance sheet asset-backed securitization, the Company transferred U.S. retail motorcycle finance receivables to an SPE which in turn issued secured notes to investors, with various maturities and interest rates, secured by future collections of the purchased U.S. retail motorcycle finance receivables. The off-balance sheet asset-backed securitization SPE is a separate legal entity, and the U.S. retail motorcycle finance receivables included in the asset-backed securitization are only available for payment of the secured debt and other obligations arising from the asset-backed securitization transaction and are not available to pay other obligations or claims of the Company's creditors. In an on-balance sheet asset-backed securitization, the Company retains a financial interest in the VIE in the form of a debt security. As part of this off-balance sheet securitization, the Company did not retain any financial interest in the VIE beyond servicing rights and ordinary representations and warranties and related covenants.

The Company is not the primary beneficiary of the off-balance sheet asset-backed securitization VIE because it only retained servicing rights and does not have the obligation to absorb losses or the right to receive benefits from the VIE which could potentially be significant to the VIE. Accordingly, this transaction met the accounting sale requirements under ASC Topic 860 and was recorded as a sale for accounting purposes. Upon the sale, the retail motorcycle finance receivables were removed from the Company's balance sheet and a gain was recognized for the difference between the cash proceeds received, the assets derecognized and the liabilities recognized as part of the transaction. The gain on sale was included in Financial Services revenue in the Consolidated Statement of Income.

At June 25, 2017, the assets of this off-balance sheet asset-backed securitization VIE were $187.8 million and represented the current unpaid principal balance of the retail motorcycle finance receivables, which was the Company's maximum exposure to loss in the off-balance sheet VIE at June 25, 2017. This is based on the unlikely event that all the receivables have underwriting defects or other defects that trigger a violation of certain covenants and that the underlying collateral has no residual value. This maximum exposure is not an indication of expected losses.

Servicing Activities

The Company services all retail motorcycle finance receivables that it originates. When the Company transfers retail motorcycle finance receivables to SPEs through asset-backed financings, the Company retains the right to service the finance receivables and receives servicing fees based on the securitized finance receivables balance and certain ancillary fees. In on-balance sheet asset-backed financing, servicing fees are eliminated in consolidation and therefore are not recorded on a consolidated basis. In off-balance sheet asset-backed financings, servicing fees and ancillary fees are recorded in Financial Services revenue in the Consolidated Statement of Income. The fees the Company is paid for servicing represent adequate compensation, and consequently, the Company does not recognize a servicing asset or liability. The Company recognized servicing fee income of $1.1 million and $0.3 million during the six months ended June 25, 2017 and June 26, 2016, respectively.

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The unpaid principal balance of retail motorcycle finance receivables serviced by the Company was as follows (in thousands):

	June 25, 2017	December 31, 2016	June 26, 2016
On-balance sheet retail motorcycle finance receivables	$6,121,372	$ 5,839,467	$5,872,668
Off-balance sheet retail motorcycle finance receivables	187,769	236,706	292,176
Total serviced retail motorcycle finance receivables	$6,309,141	$ 6,076,173	$6,164,844

The unpaid principal balance of retail motorcycle finance receivables serviced by the Company 30 days or more delinquent was as follows (in thousands):

	Amount 30 days or more past due:		
	June 25, 2017	December 31, 2016	June 26, 2016
On-balance sheet retail motorcycle finance receivables	$180,619	$ 221,393	$168,091
Off-balance sheet retail motorcycle finance receivables	1,659	1,858	460
Total serviced retail motorcycle finance receivables	$182,278	$ 223,251	$168,551

Credit losses, net of recoveries for the retail motorcycle finance receivables serviced by the Company were as follows (in thousands):

	Three months ended		Six months ended	
	June 25, 2017	June 26, 2016	June 25, 2017	June 26, 2016
On-balance sheet retail motorcycle finance receivables	$16,719	$15,001	$49,621	$43,118
Off-balance sheet retail motorcycle finance receivables	152	15	566	15
Total serviced retail motorcycle finance receivables	$16,871	$15,016	$50,187	$43,133

11. Product Warranty and Recall Campaigns

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

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

	Three months ended		Six months ended	
	June 25, 2017	June 26, 2016	June 25, 2017	June 26, 2016
Balance, beginning of period	$78,211	$74,836	$79,482	$74,217
Warranties issued during the period	18,084	20,202	34,836	38,214
Settlements made during the period	(21,200)	(22,679)	(40,533)	(40,842)
Recalls and changes to pre-existing warranty liabilities	5,586	10,121	6,896	10,891
Balance, end of period	$80,681	$82,480	$80,681	$82,480

The liability for recall campaigns was $7.9 million, $13.6 million and $14.3 million as of June 25, 2017, December 31, 2016 and June 26, 2016, respectively.

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12. Earnings Per Share

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

	Three months ended		Six months ended	
	June 25, 2017	June 26, 2016	June 25, 2017	June 26, 2016
Numerator:				
Net income used in computing basic and diluted earnings per share	$258,867	$280,431	$445,236	$530,920
Denominator:				
Denominator for basic earnings per share - weighted-average common shares	174,409	180,587	175,178	181,976
Effect of dilutive securities - employee stock compensation plan	915	752	992	764
Denominator for diluted earnings per share - adjusted weighted-average shares outstanding	175,324	181,339	176,170	182,740
Earnings per common share:				
Basic	$1.48	$1.55	$2.54	$2.92
Diluted	$1.48	$1.55	$2.53	$2.91

Outstanding options to purchase 0.6 million and 1.5 million shares of common stock for the three months ended June 25, 2017 and June 26, 2016, respectively, and 0.7 million and 1.7 million shares of common stock for the six months ended June 25, 2017 and June 26, 2016, 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.

The Company has a share-based compensation plan under which employees may be granted share-based awards including restricted stock units (RSUs). Non-forfeitable dividend equivalents are paid on unvested RSUs. As such, RSUs are considered participating securities under the two-class method of calculating earnings per share as described in ASC Topic 260, “Earnings per Share.” The two-class method of calculating earnings per share did not have a material impact on the Company’s earnings per share calculation for the three and six month periods ended June 25, 2017 and June 26, 2016.

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13. Employee Benefit Plans

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

Components of net periodic benefit costs were as follows (in thousands):

	Three months ended		Six months ended	
	June 25, 2017	June 26, 2016	June 25, 2017	June 26, 2016
Pension and SERPA Benefits				
Service cost	$7,896	$8,359	$15,792	$16,718
Interest cost	21,269	22,707	42,538	45,414
Expected return on plan assets	(35,345)	(36,445)	(70,690)	(72,890)
Amortization of unrecognized:				
Prior service cost	254	255	508	510
Net loss	10,998	11,588	21,996	23,176
Settlement loss	—	300	—	600
Net periodic benefit cost	$5,072	$6,764	$10,144	$13,528
Postretirement Healthcare Benefits				
Service cost	$1,875	$1,870	$3,750	$3,740
Interest cost	3,412	3,704	6,824	7,408
Expected return on plan assets	(3,156)	(3,017)	(6,312)	(6,034)
Amortization of unrecognized:				
Prior service credit	(543)	(701)	(1,086)	(1,402)
Net loss	815	884	1,630	1,768
Net periodic benefit cost	$2,403	$2,740	$4,806	$5,480

During the first half of 2017, the Company voluntarily contributed $25.0 million in cash to further fund its qualified pension plan. There are no required or planned contributions to the qualified pension plan for the remainder of 2017. The Company expects it will continue to make ongoing benefit payments under the SERPA and postretirement healthcare plans.

14. Business Segments

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

	Three months ended		Six months ended	
	June 25, 2017	June 26, 2016	June 25, 2017	June 26, 2016
Motorcycles net revenue	$1,577,135	$1,670,113	$2,905,846	$3,246,723
Gross profit	575,623	607,558	1,053,108	1,197,838
Selling, administrative and engineering expense	255,976	284,809	494,619	542,632
Operating income from Motorcycles	319,647	322,749	558,489	655,206
Financial Services revenue	188,034	190,964	361,255	364,322
Financial Services expense	106,099	101,391	226,684	218,378
Operating income from Financial Services	81,935	89,573	134,571	145,944

Operating income	$401,582	$412,322	$693,060	$801,150

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15. Commitments and Contingencies

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

Environmental Protection Agency Notice:

In December 2009, the Company received formal, written requests for information from the United States Environmental Protection Agency (EPA) regarding: (i) certificates of conformity for motorcycle emissions and related designations and labels, (ii) aftermarket parts, and (iii) warranty claims on emissions related components. The Company promptly submitted written responses to the EPA’s inquiry and has engaged in information exchanges and discussions with the EPA. In August 2016, the Company entered into a consent decree with the EPA regarding these issues, and the consent decree was subsequently revised (the Settlement). In the Settlement, the Company agreed to, among other things, pay a fine, and not sell tuning products unless they are approved by the EPA or California Air Resources Board. Following the required public comment period, the Company anticipates the EPA will move the court to finalize the Settlement in the coming months. The Company has a reserve associated with this matter which is included in accrued liabilities in the Consolidated Balance Sheet, and as a result, if it is finalized, the Settlement would not have a material adverse effect on the Company's financial condition or results of operations. The Settlement is not final until it is approved by the court, and if it is not approved by the court, the Company cannot reasonably estimate the impact of any remedies the EPA might seek beyond the Company's current reserve for this matter.

York Environmental Matters:

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

In January 1995, the Company entered into a settlement agreement (the Agreement) with the Navy, and the parties amended the Agreement in 2013 to address ordnance and explosive waste. The Agreement calls for the Navy and the Company to contribute amounts into a trust equal to 53% and 47%, respectively, of costs associated with environmental investigation and remediation activities at the York facility (Response Costs). The trust administers the payment of the Response Costs incurred at the York facility as covered by the Agreement.

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

The estimate of the Company's future Response Costs that will be incurred at the York facility is based on reports of independent environmental consultants retained by the Company, the actual costs incurred to date and the estimated costs to complete the necessary investigation and remediation activities.

Product Liability Matters:

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

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National Highway Traffic Safety Administration Matters:
In July 2016, the National Highway Traffic Safety Administration (NHTSA) began an investigation into certain of the Company's motorcycles equipped with anti-lock braking systems (ABS). NHTSA’s investigation is in response to rider complaints related to brake failures, and applies to model year 2008-2013 Touring and model year 2008-2017 V-ROD® motorcycles. NHTSA noted that Harley-Davidson has a two-year brake fluid replacement interval that owners either are unaware of or ignore. The Company does not believe that a loss related to this matter is probable and no reserve has been established. However, it is possible that the outcome of NHTSA’s investigation could result in future costs to the Company. Given the uncertainty that still exists concerning the resolution of this matter, the Company cannot reasonably estimate these possible future costs, if any.

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16. Supplemental Consolidating Data

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

	Three months ended June 25, 2017			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
Revenue:				
Motorcycles and Related Products	$1,580,109	$ —	$(2,974)	$1,577,135
Financial Services	—	188,712	(678)	188,034
Total revenue	1,580,109	188,712	(3,652)	1,765,169
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	1,001,512	—	—	1,001,512
Financial Services interest expense	—	44,408	—	44,408
Financial Services provision for credit losses	—	26,217	—	26,217
Selling, administrative and engineering expense	256,513	38,448	(3,511)	291,450
Total costs and expenses	1,258,025	109,073	(3,511)	1,363,587
Operating income	322,084	79,639	(141)	401,582
Investment income	577	—	—	577
Interest expense	7,726	—	—	7,726
Income before provision for income taxes	314,935	79,639	(141)	394,433
Provision for income taxes	106,035	29,531	—	135,566
Net income	$208,900	$ 50,108	$(141)	$258,867

	Six months ended June 25, 2017			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
Revenue:				
Motorcycles and Related Products	$2,910,727	$ —	$(4,881)	$2,905,846
Financial Services	—	362,269	(1,014)	361,255
Total revenue	2,910,727	362,269	(5,895)	3,267,101
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	1,852,738	—	—	1,852,738
Financial Services interest expense	—	87,697	—	87,697
Financial Services provision for credit losses	—	69,806	—	69,806
Selling, administrative and engineering expense	495,509	74,062	(5,771)	563,800
Total costs and expenses	2,348,247	231,565	(5,771)	2,574,041
Operating income	562,480	130,704	(124)	693,060
Investment income	107,456	—	(106,000)	1,456
Interest expense	15,399	—	—	15,399
Income before provision for income taxes	654,537	130,704	(106,124)	679,117
Provision for income taxes	185,192	48,689	—	233,881
Net income	$469,345	$ 82,015	$(106,124)	$445,236

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	Three months ended June 26, 2016			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
Revenue:				
Motorcycles and Related Products	$1,673,379	$ —	$(3,266)	$1,670,113
Financial Services	—	191,935	(971)	190,964
Total revenue	1,673,379	191,935	(4,237)	1,861,077
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	1,062,555	—	—	1,062,555
Financial Services interest expense	—	42,895	—	42,895
Financial Services provision for credit losses	—	23,461	—	23,461
Selling, administrative and engineering expense	285,367	38,301	(3,824)	319,844
Total costs and expenses	1,347,922	104,657	(3,824)	1,448,755
Operating income	325,457	87,278	(413)	412,322
Investment income	43,688	—	(43,000)	688
Interest expense	7,094	—	—	7,094
Income before provision for income taxes	362,051	87,278	(43,413)	405,916
Provision for income taxes	93,788	31,697	—	125,485
Net income	$268,263	$ 55,581	$(43,413)	$280,431

	Six months ended June 26, 2016			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
Revenue:				
Motorcycles and Related Products	$3,252,018	$ —	$(5,295)	$3,246,723
Financial Services	—	365,456	(1,134)	364,322
Total revenue	3,252,018	365,456	(6,429)	3,611,045
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	2,048,885	—	—	2,048,885
Financial Services interest expense	—	88,814	—	88,814
Financial Services provision for credit losses	—	60,584	—	60,584
Selling, administrative and engineering expense	543,598	74,275	(6,261)	611,612
Total costs and expenses	2,592,483	223,673	(6,261)	2,809,895
Operating income	659,535	141,783	(168)	801,150
Investment income	184,454	—	(183,000)	1,454
Interest expense	14,262	—	—	14,262
Income before provision for income taxes	829,727	141,783	(183,168)	788,342
Provision for income taxes	204,361	53,061	—	257,422
Net income	$625,366	$ 88,722	$(183,168)	$530,920

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	June 25, 2017			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	$586,892	$ 401,584	$ —	$988,476
Accounts receivable, net	709,343	—	(378,410)	330,933
Finance receivables, net	—	2,338,533	—	2,338,533
Inventories	372,012	—	—	372,012
Restricted cash	—	63,225	—	63,225
Other current assets	108,162	43,261	—	151,423
Total current assets	1,776,409	2,846,603	(378,410)	4,244,602
Finance receivables, net	—	4,994,002	—	4,994,002
Property, plant and equipment, net	905,244	41,082	—	946,326
Goodwill	54,630	—	—	54,630
Deferred income taxes	100,949	71,108	(1,699)	170,358
Other long-term assets	139,742	22,740	(84,629)	77,853
	$2,976,974	$ 7,975,535	$ (464,738)	$10,487,771
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$298,372	$ 407,384	$ (378,410)	$327,346
Accrued liabilities	441,102	92,217	93	533,412
Short-term debt	—	928,445	—	928,445
Current portion of long-term debt, net	—	1,565,558	—	1,565,558
Total current liabilities	739,474	2,993,604	(378,317)	3,354,761
Long-term debt, net	741,633	3,936,717	—	4,678,350
Pension liability	51,797	—	—	51,797
Postretirement healthcare liability	166,023	—	—	166,023
Other long-term liabilities	155,086	32,714	2,873	190,673
Commitments and contingencies (Note 15)				
Shareholders' equity	1,122,961	1,012,500	(89,294)	2,046,167
	$2,976,974	$ 7,975,535	$ (464,738)	$10,487,771

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	December 31, 2016			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	$425,540	$ 334,444	$—	$ 759,984
Marketable securities	5,019	500	—	5,519
Accounts receivable, net	450,186	—	(165,080)	285,106
Finance receivables, net	—	2,076,261	—	2,076,261
Inventories	499,917	—	—	499,917
Restricted cash	—	52,574	—	52,574
Other current assets	127,606	46,934	(49)	174,491
Total current assets	1,508,268	2,510,713	(165,129)	3,853,852
Finance receivables, net	—	4,759,197	—	4,759,197
Property, plant and equipment, net	942,634	38,959	—	981,593
Goodwill	53,391	—	—	53,391
Deferred income taxes	103,487	66,152	(1,910)	167,729
Other long-term assets	132,835	24,769	(83,126)	74,478
	$2,740,615	$ 7,399,790	$ (250,165)	$ 9,890,240
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$219,353	$ 181,045	$ (165,080)	$ 235,318
Accrued liabilities	395,907	90,910	(165)	486,652
Short-term debt	—	1,055,708	—	1,055,708
Current portion of long-term debt, net	—	1,084,884	—	1,084,884
Total current liabilities	615,260	2,412,547	(165,245)	2,862,562
Long-term debt, net	741,306	3,925,669	—	4,666,975
Pension liability	84,442	—	—	84,442
Postretirement healthcare liability	173,267	—	—	173,267
Other long-term liabilities	150,391	29,697	2,748	182,836
Commitments and contingencies (Note 15)				
Shareholders' equity	975,949	1,031,877	(87,668)	1,920,158
	$2,740,615	$ 7,399,790	$ (250,165)	$ 9,890,240

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	June 26, 2016			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	$445,662	$ 419,008	$—	$864,670
Marketable securities	5,070	—	—	5,070
Accounts receivable, net	816,439	—	(504,483)	311,956
Finance receivables, net	—	2,457,974	—	2,457,974
Inventories	371,196	—	—	371,196
Restricted cash	—	78,078	—	78,078
Deferred income taxes	60,497	55,717	—	116,214
Other current assets	124,923	38,203	(9,260)	153,866
Total current assets	1,823,787	3,048,980	(513,743)	4,359,024
Finance receivables, net	—	4,824,071	—	4,824,071
Property, plant and equipment, net	916,388	34,921	—	951,309
Goodwill	54,542	—	—	54,542
Deferred income taxes	76,194	8,555	(1,702)	83,047
Other long-term assets	133,540	24,744	(81,837)	76,447
	$3,004,451	$ 7,941,271	$(597,282)	$10,348,440
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$239,380	$ 538,799	$(504,483)	$273,696
Accrued liabilities	397,645	97,150	(8,984)	485,811
Short-term debt	—	1,020,487	—	1,020,487
Current portion of long-term debt, net	—	732,773	—	732,773
Total current liabilities	637,025	2,389,209	(513,467)	2,512,767
Long-term debt, net	740,982	4,567,081	—	5,308,063
Pension liability	129,465	—	—	129,465
Postretirement healthcare liability	188,846	—	—	188,846
Other long-term liabilities	157,835	27,621	2,836	188,292
Commitments and contingencies (Note 15)				
Shareholders' equity	1,150,298	957,360	(86,651)	2,021,007
	$3,004,451	$ 7,941,271	$(597,282)	$10,348,440

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	Six months ended June 25, 2017			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
Cash flows from operating activities:				
Net income	$469,345	$82,015	$(106,124)	$445,236
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization of intangibles	104,157	3,421	—	107,578
Amortization of deferred loan origination costs	—	40,771	—	40,771
Amortization of financing origination fees	327	3,752	—	4,079
Provision for long-term employee benefits	14,950	—	—	14,950
Employee benefit plan contributions and payments	(37,307)	—	—	(37,307)
Stock compensation expense	15,995	1,502	—	17,497
Net change in wholesale finance receivables related to sales	—	—	(271,927)	(271,927)
Provision for credit losses	—	69,806	—	69,806
Deferred income taxes	4,975	(4,586)	(211)	178
Other, net	(6,422)	2,134	125	(4,163)
Changes in current assets and liabilities:				
Accounts receivable, net	(241,569)	—	213,330	(28,239)
Finance receivables - accrued interest and other	—	2,067	—	2,067
Inventories	138,942	—	—	138,942
Accounts payable and accrued liabilities	112,916	228,247	(208,043)	133,120
Derivative instruments	3,106	8	—	3,114
Other	(8,683)	98	(49)	(8,634)
Total adjustments	101,387	347,220	(266,775)	181,832
Net cash provided by operating activities	570,732	429,235	(372,899)	627,068

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	Six months ended June 25, 2017			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
Cash flows from investing activities:				
Capital expenditures	(64,273)	(5,543)	—	(69,816)
Origination of finance receivables	—	(4,205,868)	2,228,029	(1,977,839)
Collections on finance receivables	—	3,608,929	(1,961,130)	1,647,799
Sales and redemptions of marketable securities	6,916	—	—	6,916
Other	115	—	—	115
Net cash used by investing activities	(57,242)	(602,482)	266,899	(392,825)
Cash flows from financing activities:				
Proceeds from issuance of medium-term notes	—	893,668	—	893,668
Repayments of medium-term notes	—	(400,000)	—	(400,000)
Repayments of securitization debt	—	(275,659)	—	(275,659)
Borrowings of asset-backed commercial paper	—	341,625	—	341,625
Repayments of asset-backed commercial paper	—	(77,732)	—	(77,732)
Net decrease in credit facilities and unsecured commercial paper	—	(128,787)	—	(128,787)
Net change in restricted cash	—	(7,248)	—	(7,248)
Dividends paid	(128,452)	(106,000)	106,000	(128,452)
Purchase of common stock for treasury	(243,055)	—	—	(243,055)
Issuance of common stock under employee stock option plans	7,432	—	—	7,432
Net cash (used by) provided by financing activities	(364,075)	239,867	106,000	(18,208)
Effect of exchange rate changes on cash and cash equivalents	11,937	520	—	12,457
Net increase in cash and cash equivalents	$ 161,352	$ 67,140	$ —	$ 228,492
Cash and cash equivalents:				
Cash and cash equivalents—beginning of period	$ 425,540	$ 334,444	$ —	$ 759,984
Net increase in cash and cash equivalents	161,352	67,140	—	228,492
Cash and cash equivalents—end of period	$ 586,892	$ 401,584	$ —	$ 988,476

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	Six months ended June 26, 2016			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
Cash flows from operating activities:				
Net income	$625,366	$88,722	$(183,168)	$530,920
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization of intangibles	97,025	3,931	—	100,956
Amortization of deferred loan origination costs	—	43,555	—	43,555
Amortization of financing origination fees	330	4,816	—	5,146
Provision for long-term employee benefits	19,005	—	—	19,005
Employee benefit plan contributions and payments	(35,189)	—	—	(35,189)
Stock compensation expense	14,562	1,235	—	15,797
Net change in wholesale finance receivables related to sales	—	—	(442,254)	(442,254)
Provision for credit losses	—	60,584	—	60,584
Gain on off-balance sheet asset-backed securitization	—	(9,269)	—	(9,269)
Deferred income taxes	798	(3,906)	(440)	(3,548)
Other, net	(20,505)	(171)	168	(20,508)
Changes in current assets and liabilities:				
Accounts receivable, net	(416,198)	—	361,089	(55,109)
Finance receivables - accrued interest and other	—	(125)	—	(125)
Inventories	225,586	—	—	225,586
Accounts payable and accrued liabilities	23,420	385,992	(355,622)	53,790
Derivative instruments	(1,474)	—	—	(1,474)
Other	(33,237)	1,664	—	(31,573)
Total adjustments	(125,877)	488,306	(437,059)	(74,630)
Net cash provided by operating activities	499,489	577,028	(620,227)	456,290

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	Six months ended June 26, 2016			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
Cash flows from investing activities:				
Capital expenditures	(104,125)	(3,406)	—	(107,531)
Origination of finance receivables	—	(4,507,717)	2,516,333	(1,991,384)
Collections on finance receivables	—	3,709,319	(2,079,106)	1,630,213
Proceeds from finance receivables sold	—	312,571	—	312,571
Sales and redemptions of marketable securities	40,000	—	—	40,000
Other	166	—	—	166
Net cash used by investing activities	(63,959)	(489,233)	437,227	(115,965)
Cash flows from financing activities:				
Proceeds from issuance of medium-term notes	—	1,193,396	—	1,193,396
Repayments of medium-term notes	—	(450,000)	—	(450,000)
Repayments of securitization debt	—	(385,837)	—	(385,837)
Borrowings of asset-backed commercial paper	—	33,428	—	33,428
Repayments of asset-backed commercial paper	—	(34,989)	—	(34,989)
Net decrease in credit facilities and unsecured commercial paper	—	(181,259)	—	(181,259)
Net change in restricted cash	—	17,992	—	17,992
Dividends paid	(127,800)	(183,000)	183,000	(127,800)
Purchase of common stock for treasury	(269,411)	—	—	(269,411)
Excess tax benefits from share-based payments	331	—	—	331
Issuance of common stock under employee stock option plans	2,367	—	—	2,367
Net cash (used by) provided by financing activities	(394,513)	9,731	183,000	(201,782)
Effect of exchange rate changes on cash and cash equivalents	4,202	(284)	—	3,918
Net increase in cash and cash equivalents	$45,219	$97,242	$ —	$ 142,461
Cash and cash equivalents:				
Cash and cash equivalents—beginning of period	$400,443	$321,766	$ —	$ 722,209
Net increase in cash and cash equivalents	45,219	97,242	—	142,461
Cash and cash equivalents—end of period	$445,662	$419,008	$ —	$ 864,670

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

Harley-Davidson, Inc. is the parent company of the groups of companies doing business as Harley-Davidson Motor Company (HDMC) and Harley-Davidson Financial Services (HDFS). Unless the context otherwise requires, all references to the "Company" include Harley-Davidson, Inc. and all its subsidiaries. The Company operates in two segments: Motorcycles & Related Products (Motorcycles) and Financial Services. The Company’s reportable segments are strategic business units that offer different products and services and are managed separately based on the fundamental differences in their operations.

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

The Financial Services segment consists of HDFS which primarily provides wholesale and retail financing and insurance-related programs to Harley-Davidson dealers and their retail customers. HDFS conducts business principally in the United States and Canada.

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

(1) Note Regarding Forward-Looking Statements

The Company intends that certain matters discussed in this report are “forward-looking statements” intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such by reference to this footnote or because the context of the statement will include words such as the Company “believes,” “anticipates,” “expects,” “plans,” or “estimates” or words of similar meaning. Similarly, statements that describe future plans, objectives, outlooks, targets, guidance or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this report. Certain of such risks and uncertainties are described in close proximity to such statements or elsewhere in this report, including under the caption “Cautionary Statements” and in Item 1A “Risk Factors” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. Shareholders, potential investors, and other readers are urged to consider these factors in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in the Overview and Outlook section are only made as of July 18, 2017 and the remaining forward-looking statements in this report are only made as of the date of the filing of this report (August 3, 2017) and the Company disclaims any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

Overview[(1)]

The Company’s net income was $258.9 million, or $1.48 per diluted share, for the second quarter of 2017 compared to $280.4 million, or $1.55 per diluted share, in the second quarter of 2016. Operating income from the Motorcycles segment decreased $3.1 million or 1.0% compared to last year’s second quarter due primarily to lower motorcycle shipments. Operating income from the Financial Services segment in the second quarter of 2017 was $81.9 million, down 8.5% compared to the year-ago quarter, due to a $9.3 million gain on the sale of retail finance receivables recognized as part of the second quarter 2016 off-balance sheet securitization that did not recur in the second quarter of 2017.

Worldwide retail sales of new Harley-Davidson motorcycles were down 6.7% compared to the second quarter of 2016. In the U.S., retail sales were down 9.3%, while international markets declined 2.3% compared to the prior year second quarter. The decline in the U.S. was significant and larger than the Company's expectations, while international performance was generally in line with the Company's expectations. As a result of the very tough market conditions in the U.S., the Company is taking action to:

- Address market issues in the U.S. through disciplined and aggressive supply management
- Manage cost aggressively in the near-term while continuing to invest in the future
-

Focus relentlessly on its long-term strategies of growing ridership in the U.S. and growing its reach and impact internationally, while growing market share and profitability globally

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Overview (continued)[(1)]

For the remainder of 2017, the Company believes the retail environment will continue to be challenging; however, it expects year-over-year retail sales rates to improve from those experienced during the first half of 2017, supported by:

- Increased marketing investment focused on growing ridership in the U.S.
- Increased availability of Street Rod™ internationally
- International dealer network expansion
- Easier second half retail sales comparisons
- High-impact model-year 2018 Harley-Davidson motorcycles

Outlook[(1)]

On July 18, 2017, the Company provided the following information concerning its expectations for the Company for the remainder of 2017:

Given the weak U.S. industry results during the second quarter, the Company reduced its full-year 2017 shipment guidance and now expects to ship 241,000 to 246,000 motorcycles to dealers worldwide in 2017, which is down approximately 6% to 8% from 2016 and takes into account the Company's expectation of significantly lower U.S. year-end retail inventory as compared to 2016. The Company's previous full-year shipment guidance was flat to down modestly as compared to 2016. The Company expects shipments in the third quarter of 39,000 to 44,000 motorcycles compared to 48,611 motorcycles shipped in the year-ago period.

The Company also adjusted its 2017 margin outlook for the Motorcycles segment and now expects gross margin as a percent of revenue to be down modestly. Full-year operating expenses for the Motorcycles segment, including selling, administrative and engineering expenses, are now expected to be down compared to 2016, but slightly higher as a percent of revenue. Consequently, operating margin as a percent of revenue is now expected to be down approximately 1 percentage point, compared to 2016. The Company had previously expected gross margin percent, operating expenses as a percent of revenue and in absolute dollars and operating margin percent to be approximately in line with 2016.

In the third quarter of 2017, the Company expects gross margin as a percent of revenue to be down approximately 2.5 percentage points versus the third quarter of 2016. The Company expects the decrease in gross margin to be primarily driven by lower fixed cost absorption as the Company reduces production. It expects the lower gross margin percent in the third quarter to be largely recovered in the fourth quarter. It also expects third quarter selling, administrative and engineering expenses to be higher than prior year driven by increased marketing expense related to the launch of model-year 2018 motorcycles and spending focused on increasing ridership in the U.S.

The Company continues to expect operating income for the Financial Services segment to be down in 2017 as compared to 2016 largely as a result of the 2016 off-balance sheet asset-backed securitization gain on sale of $9.3 million that it does not expect to recur in 2017.

The Company continues to estimate capital expenditures for 2017 to be between $200 million and $220 million. The Company anticipates it will have the ability to fund all capital expenditures in 2017 with cash flows generated by operations.

The Company continues to expect its full-year 2017 effective income tax rate to be approximately 34.5%. This guidance excludes the effect of any potential future adjustments such as new tax legislation or audit settlements which are recorded as discrete tax items in the period in which they are settled.

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Results of Operations for the Three Months Ended June 25, 2017
Compared to the Three Months Ended June 26, 2016
Consolidated Results

(in thousands, except earnings per share)	Three months ended June 25, 2017	Three months ended June 26, 2016	(Decrease) Increase	% Change
Operating income from Motorcycles & Related Products	$319,647	$322,749	$(3,102)	(1.0)%
Operating income from Financial Services	81,935	89,573	(7,638)	(8.5)
Operating income	401,582	412,322	(10,740)	(2.6)
Investment income	577	688	(111)	(16.1)
Interest expense	7,726	7,094	632	8.9
Income before income taxes	394,433	405,916	(11,483)	(2.8)
Provision for income taxes	135,566	125,485	10,081	8.0
Net income	$258,867	$280,431	$(21,564)	(7.7)%
Diluted earnings per share	$1.48	$1.55	$(0.07)	(4.5)%

Consolidated operating income was down $10.7 million in the second quarter of 2017, or 2.6%, compared to the same period last year. Operating income from the Motorcycles segment declined $3.1 million, or 1.0%, compared to the second quarter of 2016, and operating income from the Financial Services segment decreased $7.6 million, or 8.5%, compared to the second quarter of 2016. Please refer to the “Motorcycles & Related Products Segment” and “Financial Services Segment” discussions following for a more detailed discussion of the factors affecting operating income.

The effective income tax rate for the second quarter of 2017 was 34.4% compared to 30.9% for the second quarter of 2016. The second quarter 2016 income tax rate was lower due to discrete tax benefits that were recognized following the closure of various tax audits during the quarter.

Diluted earnings per share were $1.48 in the second quarter of 2017, down 4.5% from the same period in the prior year. Diluted earnings per share were adversely impacted by the 7.7% decrease in net income, but benefited from lower diluted weighted average shares outstanding. Diluted weighted average shares outstanding decreased from 181.3 million in the second quarter of 2016 to 175.3 million in the second quarter of 2017, driven by the Company's repurchases of common stock. Please refer to "Liquidity and Capital Resources" for additional information concerning the Company's share repurchase activity.

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Harley-Davidson Motorcycle Retail Sales[a]

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

	Three months ended June 30, 2017	June 30, 2016	(Decrease) Increase	% Change
United States	49,668	54,786	(5,118)	(9.3)%
Europe[b]	15,357	15,188	169	1.1
EMEA - Other	1,873	2,325	(452)	(19.4)
Total EMEA	17,230	17,513	(283)	(1.6)
Japan	2,677	2,763	(86)	(3.1)
Asia Pacific - Other	5,631	5,818	(187)	(3.2)
Total Asia Pacific	8,308	8,581	(273)	(3.2)
Latin America	2,355	2,573	(218)	(8.5)
Canada	3,827	3,813	14	0.4
Total International Retail Sales	31,720	32,480	(760)	(2.3)
Total Worldwide Retail Sales	81,388	87,266	(5,878)	(6.7)%

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

(b) Includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

In the U.S., retail sales in the second quarter of 2017 were significantly below the Company's expectations driven by very weak industry conditions. The Company believes soft used motorcycle pricing adversely impacted new motorcycle sales in the industry during the second quarter. Despite the disappointing industry trends that persisted into the second quarter, the Company was encouraged by two market indicators related to used Harley-Davidson motorcycles.

First, sales of used Harley-Davidson motorcycles in the U.S. have performed well. Through the May 2017 year-to-date period, growth rates for sales of used Harley-Davidson motorcycles were up year over year. In addition, combined retail sales of new and used Harley-Davidson motorcycles in the U.S. were also up on a year-to-date basis through May, as compared to the same period in 2016. (Source: Based on IHS Markit New and Used Motorcycle Registration data for calendar years to date (January through May) 2016 and 2017)

Second, wholesale prices for used Harley-Davidson motorcycles sold at auction in the U.S. showed what we believe to be a favorable trend that began in the first quarter of 2017 and continued into the second quarter. (Source: Company data)

The Company's U.S. market share of 601+cc new motorcycles for the second quarter of 2017 was 48.5%, down 1.0 percentage points compared to the same period last year, when market share grew 2.0 percentage points over the second quarter of 2015 (Source: Motorcycle Industry Council). The Company believes that market share in the second quarter of 2017 was adversely impacted by the fact that it offered low-rate financing in 2016 and by lower subprime financing of new motorcycles in 2017.

International retail sales performance was also down in the second quarter of 2017, but generally in line with Company expectations. The Company believes growth prospects internationally are significant long-term. The Company expects growth in international retail sales in the second half of 2017 behind expanded distribution, broader availability of Street Rod™ motorcycles, the launch of model-year 2018 motorcycles and significantly easier year-over-year comparisons.[(1)]

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In EMEA, retail sales were down modestly versus the second quarter of 2016 which grew 8.2% over the same period in 2015. The Company believes underlying demand remains strong in EMEA, especially for the new Milwaukee-Eight™ -powered motorcycles and Street Rod™ motorcycles.

In the Asia Pacific region, retail sales were lower in Australia and Japan while emerging markets grew during the quarter, with the exception of India where that market's retail sales reflected the continued impact of the country's currency demonetization and a newly implemented national sales tax.

Retail sales in Latin America were down driven by declines in Mexico, partially offset by gains in Brazil.

Finally, retail sales in Canada were up slightly in a highly competitive environment.

Motorcycles & Related Products Segment

Motorcycle Unit Shipments

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

	Three months ended					
	June 25, 2017		June 26, 2016		Unit	Unit
	Units	Mix %	Units	Mix %	(Decrease) Increase	% Change
United States	52,966	64.7 %	57,804	65.6 %	(4,838)	(8.4)%
International	28,841	35.3 %	30,356	34.4 %	(1,515)	(5.0)
Harley-Davidson motorcycle units	81,807	100.0%	88,160	100.0%	(6,353)	(7.2)%
Touring motorcycle units	36,650	44.8 %	27,675	31.4 %	8,975	32.4 %
Cruiser motorcycle units	25,247	30.9 %	37,655	42.7 %	(12,408)	(33.0)
Sportster® / Street motorcycle units	19,910	24.3 %	22,830	25.9 %	(2,920)	(12.8)
Harley-Davidson motorcycle units	81,807	100.0%	88,160	100.0%	(6,353)	(7.2)%

The Company shipped 81,807 Harley-Davidson motorcycles worldwide during the second quarter of 2017, which was 7.2% lower than the second quarter of 2016 and in line with the Company's expectations.

Shipments of Touring motorcycles as a percentage of total shipments increased in the second quarter of 2017 compared to the prior year while shipments of Cruiser and Sportster®/Street motorcycles as a percentage of total shipments decreased. The higher shipment mix of Touring motorcycles reflected demand for the new 2017 Touring motorcycles featuring the Milwaukee-Eight™ engine.

U.S dealer inventory of Harley-Davidson motorcycles was down approximately 7,200 motorcycles at the end of the second quarter compared to the end of the same quarter in 2016. While this was a significant reduction, it was less than the Company had planned due to retail sales slowing late in the second quarter as the Company produced its final model-year 2017 motorcycles. The Company plans to work closely with dealers to help facilitate the sell-through of remaining model-year 2017 motorcycle inventory in anticipation of model-year 2018 motorcycles. The Company now expects that 2017 year-end U.S. dealer inventory will be down significantly from prior year-end levels.(1)

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Segment Results

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

	Three months ended			
	June 25, 2017	June 26, 2016	(Decrease) Increase	% Change
Revenue:				
Motorcycles	$1,270,433	$1,330,632	$(60,199)	(4.5)%
Parts & Accessories	237,498	258,208	(20,710)	(8.0)
General Merchandise	63,017	75,757	(12,740)	(16.8)
Other	6,187	5,516	671	12.2
Total revenue	1,577,135	1,670,113	(92,978)	(5.6)
Cost of goods sold	1,001,512	1,062,555	(61,043)	(5.7)
Gross profit	575,623	607,558	(31,935)	(5.3)
Selling & administrative expense	210,702	236,428	(25,726)	(10.9)
Engineering expense	45,274	48,381	(3,107)	(6.4)
Operating expense	255,976	284,809	(28,833)	(10.1)
Operating income from Motorcycles	$319,647	$322,749	$(3,102)	(1.0)%

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

	Net Revenue	Cost of Goods Sold	Gross Profit
Three months ended June 26, 2016	$1,670.1	$ 1,062.5	$607.6
Volume	(147.7)	(88.8)	(58.9)
Price, net of related cost	29.5	9.7	19.8
Foreign currency exchange rates and hedging	(10.9)	(2.3)	(8.6)
Shipment mix	36.1	8.9	27.2
Raw material prices	—	7.5	(7.5)
Manufacturing and other costs	—	4.0	(4.0)
Total	(93.0)	(61.0)	(32.0)
Three months ended June 25, 2017	$1,577.1	$ 1,001.5	$575.6

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

- The decrease in volume was due to lower wholesale motorcycle shipments, as well as lower parts & accessories (P&A) and general merchandise sales. P&A and general merchandise sales were down due in large part to lower motorcycle shipments and lower retail motorcycle sales. In addition, shipments of general merchandise were reduced in advance of new merchandise which will be introduced to dealers in August 2017, including the 115th anniversary collection.
- On average, wholesale prices for the Company’s model-year 2017 motorcycles were higher than the prior model-year resulting in a favorable impact on revenue which was partially offset by increased cost related to the additional content added to the model-year 2017 motorcycles.
- Revenue and gross profit were negatively impacted by weaker foreign currency rates, relative to the U.S. dollar, as compared to the same quarter last year.
- Shipment mix changes had a positive impact on revenue and gross profit primarily driven by an increased mix of Touring motorcycles.
- Raw material prices were higher due primarily to increased steel and aluminum costs.
- Manufacturing costs were negatively impacted by lower fixed cost absorption and higher depreciation.

The decrease in operating expense during the second quarter of 2017 was primarily due to the timing of year-over-year marketing expenditures, lower recall costs and lower employee costs compared to the same quarter last year.

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Financial Services Segment

Segment Results

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

	Three months ended			
	June 25, 2017	June 26, 2016	Increase (Decrease)	% Change
Interest income	$157,429	$157,009	$420	0.3 %
Other income	30,094	24,434	5,660	23.2
Securitization and servicing income	511	9,521	(9,010)	(94.6)
Financial Services revenue	188,034	190,964	(2,930)	(1.5)
Interest expense	44,408	42,895	1,513	3.5
Provision for credit losses	26,217	23,461	2,756	11.7
Operating expenses	35,474	35,035	439	1.3
Financial Services expense	106,099	101,391	4,708	4.6
Operating income from Financial Services	$81,935	$89,573	$(7,638)	(8.5)%

Interest income for the second quarter of 2017 increased slightly primarily due to higher average retail receivables, partially offset by lower average wholesale receivables and a lower yield in the wholesale portfolio. Other income was favorable due to increased licensing revenue and insurance commission revenue. Securitization and servicing income was lower due to the $9.3 million gain on the sale of finance receivables recognized as part of the second quarter 2016 off-balance sheet asset-backed securitization. There was no comparable transaction in the current quarter.

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

The provision for credit losses increased $2.8 million in the second quarter of 2017 as compared to the second quarter of 2016. The retail motorcycle provision increased $1.4 million as a result of higher credit losses and an increase in receivables partially offset by a smaller increase in the retail reserve rate. Credit losses were higher as a result of unfavorable performance across the retail motorcycle portfolio. The wholesale provision was unfavorable by $0.8 million.

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

	Three months ended	
	June 25, 2017	June 26, 2016
Balance, beginning of period	$184,030	$156,184
Provision for credit losses	26,217	23,461
Charge-offs, net of recoveries	(16,719)	(15,001)
Other [(a)]	—	(3,291)
Balance, end of period	$193,528	$161,353

(a) Related to the sale of finance receivables during the second quarter of 2016 through the off-balance sheet asset-backed securitization transaction.

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Results of Operations for the Six Months Ended June 25, 2017
Compared to the Six Months Ended June 26, 2016
Consolidated Results

(in thousands, except earnings per share)	Six months ended June 25, 2017	June 26, 2016	(Decrease) Increase	% Change
Operating income from Motorcycles & Related Products	$558,489	$655,206	$(96,717)	(14.8)%
Operating income from Financial Services	134,571	145,944	(11,373)	(7.8)
Operating income	693,060	801,150	(108,090)	(13.5)
Investment income	1,456	1,454	2	0.1
Interest expense	15,399	14,262	1,137	8.0
Income before income taxes	679,117	788,342	(109,225)	(13.9)
Provision for income taxes	233,881	257,422	(23,541)	(9.1)
Net income	$445,236	$530,920	$(85,684)	(16.1)%
Diluted earnings per share	$2.53	$2.91	$(0.38)	(13.1)%

Consolidated operating income was down 13.5% in the first half of 2017 primarily due to a decrease in operating income from the Motorcycles segment of $96.7 million, or 14.8%, compared to the first half of 2016. Operating income from the Financial Services segment declined by $11.4 million in the first half of 2017 compared to the same period last year. Please refer to the “Motorcycles & Related Products Segment” and “Financial Services Segment” discussions following for a more detailed discussion of the factors affecting operating income.

The effective income tax rate for the first half of 2017 was 34.4% compared to 32.7% for the first half of 2016. The income tax rate in the first half of 2016 was lower due to discrete tax benefits that were recognized following the closure of various tax audits during the second quarter of 2016.

Diluted earnings per share were $2.53 in the first half of 2017, down 13.1% from the same period in the prior year on lower net income partially offset by the positive impact of lower diluted weighted average shares outstanding. Diluted weighted average shares outstanding decreased from 182.7 million in the first half of 2016 to 176.2 million in the first half of 2017, driven by the Company's repurchases of common stock. Please refer to "Liquidity and Capital Resources" for additional information concerning the Company's share repurchase activity.

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Motorcycles Retail Sales and Registration Data

Harley-Davidson Motorcycle Retail Sales[(a)]

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

	Six months ended			
	June 30, 2017	June 30, 2016	(Decrease) Increase	% Change
United States	82,984	90,112	(7,128)	(7.9)%
Europe[(b)]	24,341	24,034	307	1.3
EMEA - Other	3,056	3,689	(633)	(17.2)
Total EMEA	27,397	27,723	(326)	(1.2)
Japan	4,663	4,869	(206)	(4.2)
Asia Pacific - Other	10,508	11,278	(770)	(6.8)
Total Asia Pacific	15,171	16,147	(976)	(6.0)
Latin America	4,697	4,459	238	5.3
Canada	6,188	6,283	(95)	(1.5)
Total International Retail Sales	53,453	54,612	(1,159)	(2.1)
Total Worldwide Retail Sales	136,437	144,724	(8,287)	(5.7)%

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

(b) Includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom. The EMEA Europe total for June 30, 2016 includes 251 units originally reported in the EMEA-Other total.

The Company believes 2017 retail sales of its motorcycles were negatively impacted by weak industry conditions in the U.S. The Company believes soft used motorcycle pricing adversely impacted new motorcycle sales in the industry during the first half of 2017. The Company's U.S. market share of new 601+cc motorcycles for the first half of 2017 was 49.6%, down 0.4 percentage points compared to the same period last year (Source: Motorcycle Industry Council).

In EMEA, retail sales were down modestly versus the first half of 2016 which grew 8.4% over the same period in 2015. The Company's market share in Europe through June 2017 was 9.5%, down 1.0 percentage points from the prior year (Source: Association des Constructeurs Europeens de Motocycles).

In the Asia Pacific region, retail sales in the first half of 2017 were lower compared to 2016 in Australia and Japan, as well as India where that market’s retail sales reflected the continued impact of the country's currency demonetization and a newly implemented national sales tax.

Latin America retail sales in the first six months of 2017 were up compared to the first six months of 2016 driven by strength in Brazil offset by lower retail sales in Mexico.

Retail sales in Canada were down in the first half of 2017 compared to 2016 when retail sales grew 7.2% over the same period in 2015.

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Motorcycle Registration Data[(a)]

The following table includes industry retail motorcycle registration data:

	Six months ended June 30, 2017	June 30, 2016	(Decrease) Increase	% Change
United States[(b)]	165,589	177,447	(11,858)	(6.7)%
Europe[(c)]	254,721	248,519	6,202	2.5 %

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

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

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

Motorcycles & Related Products Segment

Motorcycle Unit Shipments

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

	Six months ended June 25, 2017		June 26, 2016			Unit
	Units	Mix %	Units	Mix %	Unit Decrease	% Change
United States	98,750	64.7 %	115,439	67.4 %	(16,689)	(14.5)%
International	53,888	35.3 %	55,757	32.6 %	(1,869)	(3.4)
Harley-Davidson motorcycle units	152,638	100.0%	171,196	100.0%	(18,558)	(10.8)%
Touring motorcycle units	65,718	43.1 %	66,172	38.7 %	(454)	(0.7)%
Cruiser motorcycle units	50,401	33.0 %	64,584	37.7 %	(14,183)	(22.0)
Sportster® / Street motorcycle units	36,519	23.9 %	40,440	23.6 %	(3,921)	(9.7)
Harley-Davidson motorcycle units	152,638	100.0%	171,196	100.0%	(18,558)	(10.8)%

The Company shipped 152,638 Harley-Davidson motorcycles worldwide during the first half of 2017, which was 10.8% lower than the first half of 2016. Shipments of Touring motorcycles as a percentage of total shipments increased in the first half of 2017 compared to the prior year while shipments of Cruiser motorcycles decreased as a percentage of total shipments. The higher shipment mix of Touring motorcycles reflects demand for the new 2017 Touring motorcycles featuring the Milwaukee-Eight™ engine.

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Segment Results

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

	Six months ended June 25, 2017	Six months ended June 26, 2016	(Decrease) Increase	% Change
Revenue:				
Motorcycles	$2,370,135	$2,648,210	$(278,075)	(10.5)%
Parts & Accessories	406,523	441,913	(35,390)	(8.0)
General Merchandise	118,853	146,375	(27,522)	(18.8)
Other	10,335	10,225	110	1.1
Total revenue	2,905,846	3,246,723	(340,877)	(10.5)
Cost of goods sold	1,852,738	2,048,885	(196,147)	(9.6)
Gross profit	1,053,108	1,197,838	(144,730)	(12.1)
Selling & administrative expense	411,084	452,140	(41,056)	(9.1)
Engineering expense	83,535	90,492	(6,957)	(7.7)
Operating expense	494,619	542,632	(48,013)	(8.8)
Operating income from Motorcycles	$558,489	$655,206	$(96,717)	(14.8)%

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

	Net Revenue	Cost of Goods Sold	Gross Profit
Six months ended June 26, 2016	$3,246.7	$2,048.9	$1,197.8
Volume	(380.8)	(229.0)	(151.8)
Price, net of related costs	56.4	24.0	32.4
Foreign currency exchange rates and hedging	(12.1)	(10.1)	(2.0)
Shipment mix	(4.4)	(5.2)	0.8
Raw material prices	—	9.8	(9.8)
Manufacturing and other costs	—	14.3	(14.3)
Total	(340.9)	(196.2)	(144.7)
Six months ended June 25, 2017	$2,905.8	$1,852.7	$1,053.1

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

- The decrease in volume was due to lower wholesale motorcycle shipments, as well as lower P&A and general merchandise sales. P&A and general merchandise sales were down due in large part to lower motorcycle shipments and lower retail motorcycle sales. In addition, shipments of general merchandise were reduced in advance of new merchandise which will be introduced to dealers in August 2017, including the 115th anniversary collection.
- On average, wholesale prices for motorcycles shipped in the current period were higher than in the same period last year resulting in a favorable impact on revenue. The positive impact on revenue was partially offset by increased costs related to the additional content added to motorcycles shipped in the current period as compared to the same period last year.
- Revenue was negatively impacted by weaker foreign currency rates, relative to the U.S. dollar, as compared to the same period last year. However, the unfavorable revenue impact was mostly offset by the favorable impact on cost that resulted from remeasuring foreign-denominated balance sheet accounts and hedging activities, as compared to the same period last year.
- Shipment mix changes drove a slight positive impact on gross profit as the mix of Touring motorcycles increased. However, the positive impact resulting from an increase in the mix of Touring motorcycles was offset by the unfavorable impact of changes in the mix of models within motorcycle families, as well as, changes in P&A and general merchandise product mix.

- Raw material prices were higher due primarily to increased steel and aluminum costs.
- Manufacturing costs were negatively impacted by lower fixed cost absorption and higher depreciation.

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The decrease in operating expense during the first half of 2017 was primarily due to the timing of year-over-year marketing expenditures, lower recall costs and reduced employee costs compared to the same period last year.

Financial Services Segment

Segment Results

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

	Six months ended			
	June 25, 2017	June 26, 2016	(Decrease) Increase	% Change
Interest income	$308,157	$309,535	$(1,378)	(0.4)%
Other income	52,013	45,266	6,747	14.9
Securitization and servicing income	1,085	9,521	(8,436)	(88.6)
Financial Services revenue	361,255	364,322	(3,067)	(0.8)
Interest expense	87,697	88,814	(1,117)	(1.3)
Provision for credit losses	69,806	60,584	9,222	15.2
Operating expenses	69,181	68,980	201	0.3
Financial Services expense	226,684	218,378	8,306	3.8
Operating income from Financial Services	$134,571	$145,944	$(11,373)	(7.8)%

Interest income was lower for the first six months of 2017 primarily due to lower average wholesale receivables and a lower yield in the wholesale portfolio partially offset by higher average retail receivables outstanding. Other income was favorable due to increased licensing revenue and insurance commission revenue. Securitization and servicing income was lower due to a $9.3 million gain on the sale of finance receivables recognized as part of the second quarter 2016 off-balance sheet asset-backed securitization. There was no comparable transaction in the current year.

Interest expense decreased due to lower average outstanding debt partially offset by unfavorable cost of funds.

The provision for credit losses increased $9.2 million in the first six months of 2017. The retail motorcycle provision increased $8.0 million driven primarily by higher credit losses. Credit losses were higher as a result of unfavorable performance across the retail motorcycle portfolio. The wholesale provision increased $0.6 million.

Annualized credit losses for the Company's retail motorcycle loans were 1.71% through June 25, 2017 compared to 1.50% through June 26, 2016. The 30-day delinquency rate for on-balance sheet retail motorcycle loans at June 25, 2017 was 3.25% compared to 3.16% at June 26, 2016.

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

	Six months ended	
	June 25, 2017	June 26, 2016
Balance, beginning of period	$173,343	$147,178
Provision for credit losses	69,806	60,584
Charge-offs, net of recoveries	(49,621)	(43,118)
Other [(a)]	—	(3,291)
Balance, end of period	$193,528	$161,353

(a) Related to the sale of finance receivables during the second quarter of 2016 through the off-balance sheet asset-backed securitization transaction.

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Other Matters

Contractual Obligations

The Company has updated the contractual obligations table under the caption “Contractual Obligations” in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations of the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 as of June 25, 2017 to reflect the new projected principal and interest payments for the remainder of 2017 and beyond as follows (in thousands):

	2017	2018-2019	2020-2021	Thereafter	Total
Principal payments on debt	$1,462,076	$2,818,108	$1,736,834	$1,179,582	$7,196,600
Interest payments on debt	98,338	259,471	118,756	400,628	877,193
	$1,560,414	$3,077,579	$1,855,590	$1,580,210	$8,073,793

Interest obligations for floating rate instruments, as calculated above, assume rates in effect at June 25, 2017 remain constant. For purposes of the above, the principal payment balances for medium-term notes, on-balance sheet asset-backed securitizations and senior unsecured notes are shown gross of debt issuance costs. Refer to Note 9 for a breakout of the finance costs consistent with ASU No. 2015-03.

As of June 25, 2017, there have been no other material changes to the Company’s summary of expected payments for significant contractual obligations in the contractual obligations table in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Commitments and Contingencies

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

Environmental Protection Agency Notice:

In December 2009, the Company received formal, written requests for information from the United States Environmental Protection Agency (EPA) regarding: (i) certificates of conformity for motorcycle emissions and related designations and labels, (ii) aftermarket parts, and (iii) warranty claims on emissions related components. The Company promptly submitted written responses to the EPA’s inquiry and has engaged in information exchanges and discussions with the EPA. In August 2016, the Company entered into a consent decree with the EPA regarding these issues, and the consent decree was subsequently revised (the Settlement). In the Settlement, the Company agreed to, among other things, pay a fine, and not sell tuning products unless they are approved by the EPA or California Air Resources Board. Following the required public comment period, the Company anticipates the EPA will move the court to finalize the Settlement in the coming months. The Company has a reserve associated with this matter which is included in accrued liabilities in the Consolidated Balance Sheet, and as a result, if it is finalized, the Settlement would not have a material adverse effect on the Company's financial condition or results of operations. The Settlement is not final until it is approved by the court, and if it is not approved by the court, the Company cannot reasonably estimate the impact of any remedies the EPA might seek beyond the Company's current reserve for this matter.

York Environmental Matters:

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

In January 1995, the Company entered into a settlement agreement (the Agreement) with the Navy, and the parties amended the Agreement in 2013 to address ordnance and explosive waste. The Agreement calls for the Navy and the Company to contribute amounts into a trust equal to 53% and 47%, respectively, of costs associated with environmental investigation and remediation activities at the York facility (Response Costs). The trust administers the payment of the Response Costs incurred at the York facility as covered by the Agreement.

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

The estimate of the Company's future Response Costs that will be incurred at the York facility is based on reports of independent environmental consultants retained by the Company, the actual costs incurred to date and the estimated costs to complete the necessary investigation and remediation activities.

Product Liability Matters:

The Company is involved in product liability suits related to the operation of its business. The Company accrues for claim exposures that are probable of occurrence and can be reasonably estimated. The Company also maintains insurance coverage for product liability exposures. The Company believes that its accruals and insurance coverage are adequate and that product liability suits will not have a material adverse effect on the Company’s consolidated financial statements.(1)

National Highway Traffic Safety Administration Matters:

In July 2016, the National Highway Traffic Safety Administration (NHTSA) began an investigation into certain of the Company's motorcycles equipped with anti-lock braking systems (ABS). NHTSA’s investigation is in response to rider complaints related to brake failures, and applies to model year 2008-2013 Touring and model year 2008-2017 V-ROD® motorcycles. NHTSA noted that Harley-Davidson has a two-year brake fluid replacement interval that owners either are unaware of or ignore. The Company does not believe that a loss related to this matter is probable and no reserve has been established. However, it is possible that the outcome of NHTSA’s investigation could result in future costs to the Company. Given the uncertainty that still exists concerning the resolution of this matter, the Company cannot reasonably estimate these possible future costs, if any.

Off-Balance Sheet Arrangements

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

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

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

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

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Liquidity and Capital Resources as of June 25, 2017[1]

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

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

	June 25, 2017
Cash and cash equivalents	$988,476
Credit facilities	636,555
Asset-backed U.S. commercial paper conduit facilities[a]	620,167
Asset-backed Canadian commercial paper conduit facility[b]	30,179
Total availability under credit and conduit facilities	1,286,901
Total	$2,275,377

(a) The U.S. commercial paper conduit facilities expire on December 13, 2017. The Company anticipates that it will renew these facilities prior to expiration.

(b) The Canadian commercial paper conduit facility was due to expire on June 30, 2017 and is limited to Canadian denominated borrowings. The Company renewed this facility and the new facility expires on June 30, 2018.

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

Cash Flow Activity

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

	Six months ended	
	June 25, 2017	June 26, 2016
Net cash provided by operating activities	$627,068	$456,290
Net cash used by investing activities	(392,825)	(115,965)
Net cash used by financing activities	(18,208)	(201,782)
Effect of exchange rate changes on cash and cash equivalents	12,457	3,918
Net increase in cash and cash equivalents	$228,492	$142,461

Operating Activities

The increase in cash provided by operating activities for the first half of 2017 compared to the first half of 2016 was primarily due to a decrease in cash outflows related to wholesale financing and a favorable impact from working capital, partially offset by lower net income. During each of the first quarters of 2017 and 2016, the Company made a $25.0 million voluntary contribution to its qualified pension plan. No further qualified pension plan contributions are expected in the remainder of 2017; however, the Company expects it will continue to make benefit payments under the SERPA and postretirement healthcare plans.[1]

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Investing Activities

The Company’s investing activities consist primarily of capital expenditures and net changes in finance receivables. Capital expenditures were $69.8 million in the first half of 2017 compared to $107.5 million in the same period last year. Net cash outflows for finance receivables for the first half of 2017 were $31.1 million lower than in the same period last year due primarily to a decrease in retail lending activity. In the second quarter of 2016, the Company completed a sale of finance receivables through an off-balance sheet asset-backed securitization transaction resulting in proceeds of $312.6 million. There was no comparable transaction in 2017.

Financing Activities

The Company’s financing activities consist primarily of share repurchases, dividend payments and debt activity. Cash outflows for share repurchases were $243.1 million in the first half of 2017 compared to $269.4 million in the same period last year. Share repurchases during the first six months of 2017 totaled 4.4 million shares of common stock related to discretionary share repurchases and shares of common stock that employees surrendered to satisfy withholding taxes in connection with the vesting of restricted stock units. As of June 25, 2017, there were 15.0 million shares remaining on the board-approved share repurchase authorization.

The Company paid dividends of $0.73 and $0.70 per share totaling $128.5 million and $127.8 million during the first six months of 2017 and 2016, respectively.

Financing cash flows related to debt activity resulted in net cash inflows of $353.1 million in the first six months of 2017 compared to net cash inflows of $174.7 million in the first six months of 2016. The Company’s total outstanding debt consisted of the following (in thousands):

	June 25, 2017	June 26, 2016
Unsecured commercial paper	$928,445	$1,020,487
Asset-backed Canadian commercial paper conduit facility	138,739	161,626
Asset-backed U.S. commercial paper conduit facilities	279,833	—
Medium-term notes, net	4,562,403	4,063,297
Senior unsecured notes, net	741,633	740,982
Asset-backed securitization debt, net	521,300	1,074,931
Total debt	$7,172,353	$7,061,323

To access the debt capital markets, the Company relies on credit rating agencies to assign short-term and long-term credit ratings. Generally, lower credit ratings result in higher borrowing costs and reduced access to debt capital markets. A credit rating agency may change or withdraw the Company’s ratings based on its assessment of the Company’s current and future ability to meet interest and principal repayment obligations. The Company’s short-term debt ratings affect its ability to issue unsecured commercial paper. The Company’s short- and long-term debt ratings as of June 25, 2017 were as follows:

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

Credit Facilities – On May 1, 2017, the Company entered into a $100.0 million 364-day credit facility which matures on April 30, 2018. The Company also has a $675.0 million five-year credit facility which matures in April 2019 and a $765.0 million five-year credit facility which matures in April 2021. The new 364-day credit facility and the five-year credit facilities (together, the Global Credit Facilities) bear interest at variable interest rates, which may be adjusted upward or downward depending on certain criteria, such as credit ratings. The Global Credit Facilities also require the Company to pay a fee based on the average daily unused portion of the aggregate commitments under the Global Credit Facilities. The Global Credit Facilities are committed facilities and primarily used to support the Company's unsecured commercial paper program. During the second quarter of 2017, the Company renewed its $25.0 million credit facility which expired on May 24, 2017. The $25.0 million credit facility bears interest at variable interest rates, and the Company must pay a fee based on the unused portion of the $25.0 million commitment. The credit facility expires on May 23, 2018.

Unsecured Commercial Paper – Subject to limitations, the Company could issue unsecured commercial paper of up to $1.54 billion as of June 25, 2017 supported by the Global Credit Facilities, as discussed above. Outstanding unsecured

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commercial paper may not exceed the unused portion of the Global Credit Facilities. Maturities may range up to 365 days from the issuance date. The Company intends to repay unsecured commercial paper as it matures with additional unsecured commercial paper or through other means, such as borrowing under the Global Credit Facilities, borrowing under its asset-backed U.S. commercial paper conduit facility or through the use of operating cash flow and cash on hand.(1)

Medium-Term Notes – The Company had the following medium-term notes (collectively, the Notes) issued and outstanding at June 25, 2017 (in thousands):

Principal Amount	Rate	Issue Date	Maturity Date
$400,000	1.55%	November 2014	November 2017
$877,488	6.80%	May 2008	June 2018
$600,000	2.25%	January 2016	January 2019
$150,000	Floating-rate(a)	March 2017	March 2019
$600,000	2.40%	September 2014	September 2019
$600,000	2.15%	February 2015	February 2020
$350,000	2.40%	March 2017	June 2020
$600,000	2.85%	January 2016	January 2021
$400,000	2.55%	June 2017	June 2022

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

The Notes provide for semi-annual interest payments and principal due at maturity. Unamortized discount and debt issuance costs on the Notes reduced the outstanding balance by $15.1 million and $15.4 million at June 25, 2017 and June 26, 2016, respectively. There were no medium-term notes repurchased during the second quarter of 2017 and 2016. During the first quarter of 2017 and 2016, $400.0 million of 2.70% and $450.0 million of 3.88% medium-term notes matured, respectively, and the principal and accrued interest were paid in full.

Senior Unsecured Notes – In July 2015, the Company issued $750.0 million of senior unsecured notes. The senior unsecured notes provide for semi-annual interest payments and principal due at maturity. $450.0 million ($444.4 million net of discount and issuance costs) of the senior unsecured notes mature in July 2025 and have an interest rate of 3.50%, and $300.0 million ($296.0 million net of discount and issuance costs) of the senior unsecured notes mature in July 2045 and have an interest rate of 4.625%. The Company used the proceeds from the debt to repurchase shares of its common stock in 2015.

On-Balance Sheet Asset-Backed Canadian Commercial Paper Conduit Facility – The Company has a revolving facility agreement (Canadian Conduit) with a Canadian bank-sponsored asset-backed commercial paper conduit. Under the agreement, the Canadian Conduit is contractually committed, at the Company's option, to purchase from the Company eligible Canadian retail motorcycle finance receivables for proceeds up to C$240.0 million. The transferred assets are restricted as collateral for the payment of the debt. The terms for this facility provide for interest on the outstanding principal based on prevailing market interest rates plus a specified margin. The Canadian Conduit also provides for a program fee and an unused commitment fee based on the unused portion of the total aggregate commitment of C$240.0 million. There is no amortization schedule; however, the debt is reduced monthly as available collections on the related finance receivables are applied to outstanding principal. Upon expiration of the Canadian Conduit, any outstanding principal will continue to be reduced monthly through available collections. Unless earlier terminated or extended by mutual agreement of the Company and the lenders, as of June 25, 2017, the Canadian Conduit had an expiration date of June 30, 2017. The Canadian Conduit was renewed on June 30, 2017 with similar terms and a borrowing amount of up to C$220.0 million with an expiration date of June 30, 2018.

The following table includes quarterly transfers of Canadian retail motorcycle finance receivables to the Canadian Conduit and the respective proceeds (in thousands):

	2017		2016	
	Transfers	Proceeds	Transfers	Proceeds
First quarter	$6,300	$5,500	$6,600	$5,800
Second quarter	14,200	12,400	31,400	27,500

$20,500	$17,900	$38,000	$33,300

On-Balance Sheet Asset-Backed U.S. Commercial Paper Conduit Facilities VIE – On December 14, 2016, the Company entered into a new revolving facility agreement with a third party bank-sponsored asset-backed U.S. commercial paper conduit, which provides for a total commitment of up to $300.0 million. Also on that date, the Company renewed its existing $600.0

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million revolving facility agreement, which had expired on December 14, 2016 with the same third party bank-sponsored asset-backed U.S. commercial paper conduit. In January 2017 and April 2017, the Company transferred $333.4 million and $28.2 million, respectively, of U.S. retail motorcycle finance receivables to an SPE which, in turn, issued $300.0 million and $24.0 million, respectively, of debt under the U.S. Conduit Facilities. The contractual maturity of the debt is approximately 5 years. The VIE had no borrowings outstanding under the U.S. Conduit Facilities at December 31, 2016 or June 26, 2016.

The terms for this debt provide for interest on the outstanding principal based on prevailing commercial paper rates or LIBOR to the extent the advance is not funded by a conduit lender through the issuance of commercial paper plus, in each case, a program fee based on outstanding principal. The U.S. Conduit Facilities also provide for an unused commitment fee based on the unused portion of the total aggregate commitment of $900.0 million. There is no amortization schedule; however, the debt will be reduced monthly as available collections on the related finance receivables are applied to outstanding principal. Upon expiration of the U.S. Conduit Facilities, any outstanding principal will continue to be reduced monthly through available collections. Unless earlier terminated or extended by mutual agreement of the Company and the lenders, as of June 25, 2017, the U.S. Conduit Facilities have an expiration date of December 13, 2017.

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

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

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

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

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

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

- Assume or incur certain liens;
- Participate in certain mergers or consolidations; and

- Purchase or hold margin stock.

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

At June 25, 2017, HDFS and the Company remained in compliance with all of the then existing covenants.

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Cautionary Statements
The Company’s ability to meet the targets and expectations noted depends upon, among other factors, the Company’s ability to:

(i) execute its business strategy,

(ii) drive demand by executing its marketing strategy of appealing to and growing sales to multi-generational and multi-cultural customers worldwide in an increasingly competitive marketplace,

(iii) develop and introduce products, services and experiences that are successful in the marketplace,

(iv) manage the impact that prices for and supply of used motorcycles may have on its business, including on retail sales of new motorcycles,

(v) balance production volumes for its new motorcycles with consumer demand, including in circumstances where competitors may be supplying new motorcycles to the market in excess of demand at reduced prices,

(vi) manage through changes in general economic and business conditions, including changing capital, credit and retail markets, and the changing political environment,

(vii) manage risks that arise through expanding international manufacturing, operations and sales,

(viii) accurately estimate and adjust to fluctuations in foreign currency exchange rates, interest rates and commodity prices,

(ix) manage the credit quality, the loan servicing and collection activities, and the recovery rates of HDFS' loan portfolio,

(x) prevent and detect any issues with its motorcycles or any associated manufacturing processes to avoid delays in new model launches, recall campaigns, regulatory agency investigations, increased warranty costs or litigation and adverse effects on its reputation and brand strength,

(xi) retain and attract talented employees,

(xii) prevent a cybersecurity breach involving consumer, employee, dealer, supplier, or company data and respond to evolving regulatory requirements regarding data security,

(xiii) continue to develop the capabilities of its distributors and dealers and manage the risks that its independent dealers may have difficulty obtaining capital and managing through changing economic conditions and consumer demand,

(xiv) adjust to tax reform, healthcare inflation and reform and pension reform,

(xv) manage through the effects inconsistent and unpredictable weather patterns may have on retail sales of motorcycles,

(xvi) manage supply chain issues, including quality issues and any unexpected interruptions or price increases caused by raw material shortages or natural disasters,

(xvii) implement and manage enterprise-wide information technology systems, including systems at its manufacturing facilities,

(xviii) manage changes and prepare for requirements in legislative and regulatory environments for its products, services and operations,

(xix) manage its exposure to product liability claims and commercial or contractual disputes,

(xx) execute its flexible production strategy,

(xxi) successfully access the capital and/or credit markets on terms (including interest rates) that are acceptable to the Company and within its expectations, and

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(xxii) continue to manage the relationships and agreements that the Company has with its labor unions to help drive long-term competitiveness.

In addition, the Company could experience delays or disruptions in its operations as a result of work stoppages, strikes, natural causes, terrorism or other factors. Further, actual foreign currency exchange rates may vary from underlying assumptions. Other factors are described in risk factors that the Company has disclosed in documents previously filed with the Securities and Exchange Commission.

Many of these risk factors are impacted by the current changing capital, credit and retail markets and the Company's ability to manage through inconsistent economic conditions.

The Company’s ability to sell its motorcycles and related products and services and to meet its financial expectations also depends on the ability of the Company’s independent dealers to sell its motorcycles and related products and services to retail customers. The Company depends on the capability and financial capacity of its independent dealers to develop and implement effective retail sales plans to create demand for the motorcycles and related products and services they purchase from the Company.

In addition, the Company’s independent dealers and distributors may experience difficulties in operating their businesses and selling Harley-Davidson motorcycles and related products and services as a result of weather, economic conditions or other factors.

In recent years, HDFS has experienced historically low levels of retail credit losses, but there is no assurance that this will continue. The Company believes that HDFS' retail credit losses may increase over time due to changing consumer credit behavior and HDFS' efforts to increase prudently structured loan approvals to sub-prime borrowers, as well as actions that the Company has taken and could take that impact motorcycle values.

Refer to “Risk Factors” under Item 1A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 for a discussion of additional risk factors and a more complete discussion of some of the cautionary statements noted above.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company’s earnings related to its operations outside the U.S. are impacted by changes in foreign currency exchange rates. The majority of the Company’s exposure relates to the Euro, the Australian dollar, the Japanese yen, Canadian dollar, Mexican peso and the Brazilian real. A weakening in foreign currencies relative to the U.S. dollar will generally have an adverse effect on revenue related to sales made in those foreign currencies offset by a corresponding positive impact from natural hedges created by the operating costs incurred in those same foreign currencies. As the majority of the Company’s manufacturing occurs in the U.S., the Company’s operating expenses paid in foreign currencies generally include limited manufacturing costs and the selling and administrative costs incurred at the Company’s international locations. In addition, to the extent the Company carries foreign-denominated cash, receivables or accounts payable, those amounts are also exposed to foreign currency remeasurements that can impact the Company’s earnings.

The Company also uses derivative financial instruments to hedge a portion of the forecasted cash flows in its key foreign currencies. These instruments generally have terms of up to 12 months and are purchased over time so that at any point in time some portion of the next 12 months of expected foreign currency exposure is hedged. The hedging instruments allow the Company to lock in the exchange rate on future foreign currency cash flows based on the forward rates available at the time of purchase. The level of gain or loss on these instruments will depend on the spread between the forward rate and the corresponding spot rate at the date the instruments are settled.

Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2016 for further information concerning the Company's market risk. There have been no material changes to the market risk information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls

There were no changes in the Company's internal control over financial reporting during the quarter ended June 25, 2017 that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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PART II – OTHER INFORMATION
Item 1 – Legal Proceedings
The information required under this Item 1 of Part II is contained in Item 1 of Part I of this Quarterly Report on Form 10-Q in Note 15 of the Notes to Consolidated Financial Statements, and such information is incorporated herein by reference in this Item 1 of Part II.
Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds
The following table contains detail related to the Company's repurchase of its common stock based on the date of trade during the quarter ended June 25, 2017:

2017 Fiscal Month	Total Number of Shares Purchased (a)	Average Price Paid per Share		Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
March 27 to April 30	450,548	$	56	450,548	17,584,514
May 1 to May 28	1,066,270	$	56	1,066,270	16,519,429
May 29 to June 25	1,472,823	$	53	1,472,823	15,046,920
Total	2,989,641	$	55	2,989,641	

(a) Includes discretionary share repurchases and shares of common stock that employees surrendered to satisfy withholding taxes in connection with the vesting of restricted stock units

In February 2016, the Company's Board of Directors authorized the Company to repurchase up to 20.0 million shares of its common stock with no dollar limit or expiration date which superseded the share repurchase authority granted by the Board of Directors in December 1997. The Company repurchased 3.0 million shares on a discretionary basis during the quarter ended June 25, 2017 under this authorization. As of June 25, 2017, 15.0 million shares remained under this authorization.
Under the share repurchase authorizations, the Company’s common stock may be purchased through any one or more of a Rule 10b5-1 trading plan and discretionary purchases on the open market, block trades, accelerated share repurchases or privately negotiated transactions. The number of shares repurchased, if any, and the timing of repurchases will depend on a number of factors, including share price, trading volume and general market conditions, as well as on working capital requirements, general business conditions and other factors. The repurchase authority has no expiration date but may be suspended, modified or discontinued at any time.
The Harley-Davidson, Inc. 2014 Incentive Stock Plan and predecessor stock plans permit participants to satisfy all or a portion of the statutory federal, state and local withholding tax obligations arising in connection with plan awards by electing to (a) have the Company withhold shares otherwise issuable under the award, (b) tender back shares received in connection with such award or (c) deliver other previously owned shares, in each case having a value equal to the amount to be withheld. During the second quarter of 2017, the Company acquired 2,045 shares of common stock that employees presented to the Company to satisfy withholding taxes in connection with the vesting of restricted stock units.
Item 6 – Exhibits
Refer to the Exhibit Index on page 65 of this report.

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SIGNATURES

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

	HARLEY-DAVIDSON, INC.
Date: August 3, 2017	/s/ John A. Olin John A. Olin Senior Vice President and Chief Financial Officer (Principal financial officer)
Date: August 3, 2017	/s/ Mark R. Kornetzke Mark R. Kornetzke Chief Accounting Officer (Principal accounting officer)

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Harley-Davidson, Inc.
Exhibit Index to Form 10-Q

Exhibit No.	Description
31.1	Chief Executive Officer Certification pursuant to Rule 13a-14(a)
31.2	Chief Financial Officer Certification pursuant to Rule 13a-14(a)
32.1	Written Statement of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. §1350
101	Financial statements from the quarterly report on Form 10-Q of Harley-Davidson, Inc. for the quarter ended June 25, 2017, filed on August 3, 2017, formatted in XBRL: (i) the Consolidated Statements of Income; (ii) the Consolidated Statements of Comprehensive Income; (iii) the Consolidated Balance Sheets; (iv) the Consolidated Statements of Cash Flows; and (v) the Notes to Consolidated Financial Statements.