

HARLEY DAVIDSON INC
Form 10-Q
November 03, 2016

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
 1934

For the quarterly period ended September 25, 2016

..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 53208
Milwaukee, Wisconsin
(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 No

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

Number of shares of the registrant's common stock outstanding at October 28, 2016: 176,773,435 shares

Harley-Davidson, Inc.

Form 10-Q

For The Quarter Ended September 25, 2016

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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		Nine months ended	
	September 29, 2016	September 27, 2015	September 29, 2016	September 27, 2015
Revenue:				
Motorcycles and Related Products	\$ 1,091,630	\$ 1,140,321	\$ 4,338,353	\$ 4,301,674
Financial Services	183,183	177,109	547,505	513,093
Total revenue	1,274,813	1,317,430	4,885,858	4,814,767
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	724,611	746,282	2,773,496	2,670,146
Financial Services interest expense	42,573	41,214	131,387	120,938
Financial Services provision for credit losses	36,543	27,233	97,127	68,655
Selling, administrative and engineering expense	292,710	286,865	904,322	866,558
Total costs and expenses	1,096,437	1,101,594	3,906,332	3,726,297
Operating income	178,376	215,836	979,526	1,088,470
Investment income	2,300	3,211	3,754	5,983
Interest expense	7,706	4,879	21,968	4,897
Income before provision for income taxes	172,970	214,168	961,312	1,089,556
Provision for income taxes	58,905	73,821	316,327	379,545
Net income	\$ 114,065	\$ 140,347	\$ 644,985	\$ 710,011
Earnings per common share:				
Basic	\$ 0.64	\$ 0.69	\$ 3.57	\$ 3.43
Diluted	\$ 0.64	\$ 0.69	\$ 3.55	\$ 3.41
Cash dividends per common share	\$ 0.35	\$ 0.31	\$ 1.05	\$ 0.93

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		Nine months ended	
	September 27,	September 27,	September 27,	September 27,
	2016	2015	2016	2015
Net income	\$ 114,065	\$ 140,347	\$ 644,985	\$ 710,011
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	3,853	(14,598)	19,174	(37,368)
Derivative financial instruments	(2,031)	(10,533)	(7,374)	(12,747)
Marketable securities	(11)	(99)	(88)	(294)
Pension and postretirement benefit plans	7,572	8,799	22,715	26,395
Total other comprehensive income (loss), net of tax	\$ 9,383	\$ (16,431)	\$ 34,427	\$ (24,014)
Comprehensive income	\$ 123,448	\$ 123,916	\$ 679,412	\$ 685,997

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) September 25, 2016	December 31, 2015	(Unaudited) September 27, 2015
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 790,284	\$ 722,209	\$ 1,368,554
Marketable securities	5,038	45,192	47,358
Accounts receivable, net	346,176	247,405	294,054
Finance receivables, net	2,205,644	2,053,582	2,068,873
Inventories	426,547	585,907	466,657
Restricted cash	65,088	88,267	113,499
Deferred income taxes	123,609	102,769	100,558
Other current assets	139,958	132,552	150,667
Total current assets	4,102,344	3,977,883	4,610,220
Finance receivables, net	4,944,322	4,814,571	5,009,473
Property, plant and equipment, net	954,475	942,418	877,787
Goodwill	54,663	54,182	54,267
Deferred income taxes	80,831	99,614	71,952
Other long-term assets	75,591	84,309	88,335
	\$ 10,212,226	\$ 9,972,977	\$ 10,712,034
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 291,594	\$ 235,614	\$ 316,894
Accrued liabilities	506,533	471,964	464,352
Short-term debt	1,055,428	1,201,380	990,049
Current portion of long-term debt, net	700,152	838,349	885,889
Total current liabilities	2,553,707	2,747,307	2,657,184
Long-term debt, net	5,170,609	4,832,469	5,040,644
Pension liability	120,494	164,888	61,458
Postretirement healthcare liability	182,825	193,659	193,406
Other long-term liabilities	192,223	195,000	199,669
Commitments and contingencies (Note 18)			
Shareholders' equity:			
Preferred stock, none issued	—	—	—
Common stock	3,454	3,449	3,448
Additional paid-in-capital	1,364,694	1,328,561	1,314,693
Retained earnings	9,416,583	8,961,985	8,977,600
Accumulated other comprehensive loss	(580,778)	(615,205)	(538,957)
Treasury stock, at cost	(8,211,585)	(7,839,136)	(7,197,111)
Total shareholders' equity	1,992,368	1,839,654	2,559,673
	\$ 10,212,226	\$ 9,972,977	\$ 10,712,034

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

	(Unaudited) September 25, 2016	December 31, 2015	(Unaudited) September 27, 2015
Balances held by consolidated variable interest entities (Note 12)			
Current finance receivables, net	\$ 236,561	\$ 322,768	\$ 357,713
Other assets	\$ 3,043	\$ 4,706	\$ 4,492
Non-current finance receivables, net	\$ 754,970	\$ 1,250,919	\$ 1,475,179
Restricted cash - current and non-current	\$ 69,364	\$ 100,151	\$ 125,561
Current portion of long-term debt, net	\$ 261,188	\$ 351,123	\$ 398,689
Long-term debt, net	\$ 664,431	\$ 1,108,254	\$ 1,303,043

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)

	Nine months ended	
	September 2016	September 2015 September 27, 2015
Net cash provided by operating activities (Note 3)	\$927,809	\$ 1,020,957
Cash flows from investing activities:		
Capital expenditures	(162,726)	(139,054)
Origination of finance receivables	(3,009,479)	(3,112,827)
Collections on finance receivables	2,440,466	2,393,355
Proceeds from finance receivables sold	312,571	—
Sales and redemptions of marketable securities	40,014	9,500
Acquisition of business	—	(59,910)
Other	251	5,172
Net cash used by investing activities	(378,903)	(903,764)
Cash flows from financing activities:		
Proceeds from issuance of senior unsecured notes	—	740,949
Proceeds from issuance of medium-term notes	1,193,396	595,386
Repayments of medium-term notes	(451,336)	(600,000)
Proceeds from securitization debt	—	1,195,668
Repayments of securitization debt	(535,616)	(764,909)
Net (decrease) increase in credit facilities and unsecured commercial paper	(146,328)	258,734
Borrowings of asset-backed commercial paper	33,428	69,191
Repayments of asset-backed commercial paper	(55,170)	(55,124)
Net change in restricted cash	30,981	(15,165)
Dividends paid	(190,387)	(191,451)
Purchase of common stock for treasury	(374,234)	(894,565)
Excess tax benefits from share-based payments	1,291	2,878
Issuance of common stock under employee stock option plans	6,444	16,755
Net cash (used by) provided by financing activities	(487,531)	358,347
Effect of exchange rate changes on cash and cash equivalents	6,700	(13,666)
Net increase in cash and cash equivalents	\$68,075	\$ 461,874
Cash and cash equivalents:		
Cash and cash equivalents—beginning of period	\$722,209	\$ 906,680
Net increase in cash and cash equivalents	68,075	461,874
Cash and cash equivalents—end of period	\$790,284	\$ 1,368,554

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 September 25, 2016 and September 27, 2015, the consolidated statements of income for the three and nine month periods then ended, the consolidated statements of comprehensive income for the three and nine month periods then ended and the consolidated statements of cash flows for the nine month periods then ended.

Certain information and footnote disclosures normally included in complete financial statements have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and U.S. generally accepted accounting principles (U.S. GAAP) for interim financial reporting. These 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, 2015.

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

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

2. New Accounting Standards

Accounting Standards Recently Adopted

In February 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-02 Amendments to the Consolidation Analysis (ASU 2015-02). ASU 2015-02 amends the guidance within Accounting Standards Codification (ASC) Topic 810, "Consolidation," to change the analysis that a reporting entity must perform to determine whether it should consolidate certain legal entities. The Company adopted ASU 2015-02 on January 1, 2016. The adoption of ASU 2015-02 had no impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03 Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03). ASU 2015-03 amends the guidance within ASC Topic 835, "Interest," to require that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt premiums and discounts. In August 2015, the FASB further clarified its views on debt costs incurred in connection with a line of credit arrangement by issuing ASU No. 2015-15 Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (ASU 2015-15). ASU 2015-15 amends the guidance within ASC Topic 835, "Interest," to allow an entity to defer and present debt issuance costs associated with a line of credit arrangement as an asset, regardless of whether there are any outstanding borrowings on the line of credit arrangement.

The Company adopted ASU 2015-03 and ASU 2015-15 retrospectively on January 1, 2016. As a result, debt issuance costs related to its medium-term notes, senior unsecured notes, and term asset-backed securitizations are now classified as a reduction to the carrying amount of the related debt on the balance sheet. Debt issuance costs previously recorded in other current assets and other long-term assets totaling \$18.2 million and \$19.5 million as of December 31, 2015 and September 27, 2015, respectively, on the balance sheet have been reclassified to current portion of long-term debt, net and long-term debt, net to reflect the adoption of the new guidance. The required new disclosures are also presented in Note 11. The Company will continue to classify debt issuance costs related to line of credit arrangements, which include its asset-backed commercial paper and unsecured commercial paper programs and its credit facilities, as an asset, regardless of whether it has any outstanding borrowings on the line of credit

arrangements.

In April 2015, the FASB issued ASU No. 2015-05 Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, which amends ASC 350-40, "Intangibles-Goodwill and Other Internal-Use Software" (ASU 2015-05).
ASU

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2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If an arrangement includes a software license, the accounting for the license will be consistent with the licenses of other intangible assets. If the arrangement does not include a license, the arrangement will be accounted for as a service contract. The Company adopted ASU 2015-05 prospectively on January 1, 2016. The adoption of ASU 2015-05 had no material impact on the Company's consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16 Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments (ASU 2015-16). ASU 2015-16 eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Acquirers must recognize measurement-period adjustments during the period in which they determine the amounts. This would include any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. The Company adopted ASU 2015-16 on January 1, 2016. The adoption of ASU 2015-16 had no 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 for interim periods therein. The guidance may be adopted using either a full retrospective or modified retrospective approach. Early adoption is permitted as early as fiscal years beginning after December 15, 2016 and interim periods therein. The Company is currently evaluating the impact of adoption of ASU 2014-09 and ASU 2015-14.

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 is required to adopt ASU 2015-11 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016 on a prospective basis. Early adoption will be permitted. The adoption of ASU 2015-11 will not have a material effect on the Company's consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17 Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes (ASU 2015-17). ASU 2015-17 eliminates the requirement for a Company to separate deferred income tax liabilities and assets into current and noncurrent amounts on a classified statement of financial position and requires that deferred tax liabilities and assets be classified as noncurrent. The Company is required to adopt ASU 2015-17 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016 on either a retrospective or prospective basis. Early adoption is permitted. The Company plans to early adopt ASU 2015-17 in the fourth quarter of 2016 on a prospective basis.

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 March 2016, the FASB issued 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 is required to adopt ASU 2016-09 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016 on both a retrospective and prospective basis dependent upon the nature of the subtopic. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of adoption of ASU 2016-09.

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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.

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.

3. Additional Balance Sheet and Cash Flow Information

Marketable Securities

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

	September 25, 2016	December 31, 2015	September 27, 2015
Available-for-sale: Corporate bonds	\$ 5,038	\$ 45,192	\$ 47,358
Trading securities: Mutual funds	39,063	36,256	35,258
	\$ 44,101	\$ 81,448	\$ 82,616

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 nine months of 2016 and 2015, the Company recognized gross unrealized losses of approximately \$140,000 and \$467,000, respectively, or \$88,000 and \$294,000 net of taxes, respectively, to adjust amortized cost to fair value. The marketable securities have contractual maturities that come due over the next 7 months.

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

Inventories

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

	September 25, 2016	December 31, 2015	September 27, 2015
Components at the lower of FIFO cost or market			
Raw materials and work in process	\$ 159,209	\$ 161,704	\$ 153,779
Motorcycle finished goods	182,019	327,952	228,243
Parts and accessories and general merchandise	134,587	145,519	134,537
Inventory at lower of FIFO cost or market	475,815	635,175	516,559

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Excess of FIFO over LIFO cost	(49,268)	(49,268)	(49,902)
	\$ 426,547	\$ 585,907	\$ 466,657

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Operating Cash Flow

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

	Nine months ended	
	September 30, 2016	September 27, 2015
Cash flows from operating activities:		
Net income	\$644,985	\$ 710,011
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangibles	154,565	142,024
Amortization of deferred loan origination costs	65,445	71,012
Amortization of financing origination fees	7,212	7,331
Provision for long-term employee benefits	27,608	36,954
Employee benefit plan contributions and payments	(47,658)	(19,358)
Stock compensation expense	24,909	23,732
Net change in wholesale finance receivables related to sales	(169,599)	(157,532)
Provision for credit losses	97,127	68,655
Gain on off-balance sheet asset-backed securitization	(9,269)	—
Loss on debt extinguishment	118	—
Pension plan settlement expense	900	—
Deferred income taxes	(11,261)	(9,272)
Foreign currency adjustments	(11,741)	22,010
Other, net	(11,529)	5,000
Changes in current assets and liabilities:		
Accounts receivable, net	(86,796)	(60,687)
Finance receivables—accrued interest and other	364	(98)
Inventories	173,975	(36,109)
Accounts payable and accrued liabilities	97,190	211,045
Derivative instruments	(1,992)	(6,734)
Other	(16,744)	12,973
Total adjustments	282,824	310,946
Net cash provided by operating activities	\$927,809	\$ 1,020,957

4. Acquisition

On August 4, 2015, the Company completed its purchase of certain assets and liabilities from Fred Deeley Imports, Ltd. (Deeley Imports) including, among other things, the acquisition of the exclusive right to distribute the Company's motorcycles and other products in Canada (Transaction) for total consideration of \$59.9 million. The majority equity owner of Deeley Imports is a member of the Board of Directors of the Company. The acquisition of the Canadian distribution rights allowed the Company to align its distribution in Canada with its global go-to-market approach. The financial impact of the acquisition, which is part of the Motorcycles segment, has been included in the Company's consolidated financial statements from the date of acquisition. Proforma information reflecting this acquisition has not been disclosed as the proforma impact on consolidated net income would not be material.

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The following table summarizes the fair values of the Deeley Imports assets acquired and liabilities assumed at the date of acquisition (in thousands):

	August 4, 2015
Current assets	\$11,088
Property, plant and equipment	144
Intangible assets	20,842
Goodwill	28,567
Total assets	60,641
Current liabilities	731
Net assets acquired	\$59,910

As noted above, in conjunction with the acquisition of certain assets and assumption of certain liabilities of Deeley Imports, the Company recorded goodwill of \$28.6 million, all of which the Company believes is tax deductible, and intangible assets with an initial fair value of \$20.8 million. Of the total intangible assets acquired, \$13.3 million was assigned to reacquired distribution rights with a useful life of two years and \$7.5 million was assigned to customer relationships with a useful life of twenty years. The Company agreed to reimburse Deeley Imports for certain severance costs associated with the Transaction, resulting in \$3.3 million of expense included in selling, administrative and engineering expense in the third quarter of 2015. The Company did not acquire any cash as part of the Transaction.

5. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the Motorcycles segment were as follows (in thousands):

	Three months ended		Nine months ended		
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015	
Balance, beginning of period	54,542	26,105	\$54,182	\$ 27,752	
Business acquisitions	—	28,567	—	28,567	
Currency translations	121	(405) 481	(2,052)
Balance, end of period	54,663	54,267	\$54,663	\$ 54,267	

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The Motorcycles segment intangible assets consisted of the following (in thousands):

	September 25, 2016			
	Gross Carrying Amount	Accumulated Amortization	Net	Estimated useful life (years)
Other intangible assets				
Reacquired distribution rights	\$13,357	\$ (7,792)	\$5,565	2
Customer relationships	7,535	(439)	7,096	20
Total other intangible assets	\$20,892	\$ (8,231)	\$12,661	

	December 31, 2015			
	Gross Carrying Amount	Accumulated Amortization	Net	Estimated useful life (years)
Other intangible assets				
Reacquired distribution rights	\$12,614	\$ (2,628)	\$9,986	2
Customer relationships	7,116	(148)	6,968	20
Total other intangible assets	\$19,730	\$ (2,776)	\$16,954	

	September 27, 2015			
	Gross Carrying Amount	Accumulated Amortization	Net	Estimated useful life (years)
Other intangible assets				
Reacquired distribution rights	\$13,117	\$ (1,093)	\$12,024	2
Customer relationships	7,399	(62)	7,337	20
Total other intangible assets	\$20,516	\$ (1,155)	\$19,361	

Intangible assets other than goodwill are included in other long-term assets on the Company's consolidated balance sheets. The gross carrying amounts differ from the acquisition date amounts due to changes in foreign currency exchange rates.

Amortization expense of other intangible assets for the three months ended September 25, 2016 and September 27, 2015 was \$1.8 million and \$1.2 million, respectively. Amortization expense of other intangible assets for the nine months ended September 25, 2016 and September 27, 2015 was \$5.2 million and \$1.2 million, respectively. The Company estimates future amortization to be approximately as follows (in thousands):

	Estimated Amortization
2016 (remaining 3 months)	\$ 1,767
2017	4,278
2018	372
2019	372
2020	372
2021	372
Thereafter	5,128
	\$ 12,661

The Financial Services segment did not have a goodwill or intangible assets balance at September 25, 2016, December 31, 2015 and September 27, 2015.

6. 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.

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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):

	September 25, 2016	December 31, 2015	September 27, 2015
Retail	\$ 6,165,999	\$ 5,991,471	\$ 6,194,332
Wholesale	1,155,483	1,023,860	1,029,397
Total finance receivables	7,321,482	7,015,331	7,223,729
Allowance for credit losses	(171,516)	(147,178)	(145,383)
Finance receivables, net	\$ 7,149,966	\$ 6,868,153	\$ 7,078,346

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

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

	Three months ended September 25, 2016		
	Retail	Wholesale	Total
Balance, beginning of period	\$ 152,998	\$ 8,355	\$ 161,353
Provision for credit losses	38,143	(1,600)	36,543
Charge-offs	(35,749)	—	(35,749)
Recoveries	9,369	—	9,369
Balance, end of period	\$ 164,761	\$ 6,755	\$ 171,516

	Three months ended September 27, 2015		
	Retail	Wholesale	Total
Balance, beginning of period	\$ 131,903	\$ 7,328	\$ 139,231
Provision for credit losses	28,309	(1,076)	27,233
Charge-offs	(30,203)	—	(30,203)
Recoveries	9,122	—	9,122
Balance, end of period	\$ 139,131	\$ 6,252	\$ 145,383

	Nine months ended September 25, 2016		
	Retail	Wholesale	Total
Balance, beginning of period	\$ 139,320	\$ 7,858	\$ 147,178
Provision for credit losses	98,230	(1,103)	97,127
Charge-offs	(101,853)	—	(101,853)
Recoveries	32,355	—	32,355
Other ^(a)	(3,291)	—	(3,291)
Balance, end of period	\$ 164,761	\$ 6,755	\$ 171,516

	Nine months ended September 27, 2015		
	Retail	Wholesale	Total
Balance, beginning of period	\$ 122,025	\$ 5,339	\$ 127,364

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Provision for credit losses	67,742	913	68,655
Charge-offs	(83,939)	—	(83,939)
Recoveries	33,303	—	33,303
Balance, end of period	\$ 139,131	\$ 6,252	\$ 145,383

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Related to the sale of finance receivables during the second quarter of 2016 with a principal balance of \$301.8 (a) million through an off-balance sheet asset-backed securitization transaction (see Note 12 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 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.

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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):

	September 25, 2016		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	\$—	\$—	\$—
Collectively evaluated for impairment	164,761	6,755	171,516
Total allowance for credit losses	\$164,761	\$6,755	\$171,516
Finance receivables, ending balance:			
Individually evaluated for impairment	\$—	\$—	\$—
Collectively evaluated for impairment	6,165,999	1,155,483	7,321,482
Total finance receivables	\$6,165,999	\$1,155,483	\$7,321,482

	December 31, 2015		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	\$—	\$—	\$—
Collectively evaluated for impairment	139,320	7,858	147,178
Total allowance for credit losses	\$139,320	\$7,858	\$147,178
Finance receivables, ending balance:			
Individually evaluated for impairment	\$—	\$—	\$—
Collectively evaluated for impairment	5,991,471	1,023,860	7,015,331
Total finance receivables	\$5,991,471	\$1,023,860	\$7,015,331

	September 27, 2015		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	\$—	\$—	\$—
Collectively evaluated for impairment	139,131	6,252	145,383
Total allowance for credit losses	\$139,131	\$6,252	\$145,383
Finance receivables, ending balance:			
Individually evaluated for impairment	\$—	\$—	\$—
Collectively evaluated for impairment	6,194,332	1,029,397	7,223,729
Total finance receivables	\$6,194,332	\$1,029,397	\$7,223,729

There were no wholesale finance receivables at September 25, 2016, December 31, 2015, or September 27, 2015 that were individually deemed to be impaired under ASC Topic 310, "Receivables."

Retail finance receivables are contractually delinquent if the minimum payment is not received by the specified due date. Retail finance receivables are generally charged-off when the receivable is 120 days or more delinquent, the related asset is repossessed or the receivable is otherwise deemed uncollectible. All retail finance receivables accrue interest until either collected or charged-off. Accordingly, as of September 25, 2016, December 31, 2015 and September 27, 2015, all retail finance receivables were accounted for as interest-earning receivables, of which \$31.3 million, \$32.8 million and \$23.8 million, respectively, were 90 days or more past due.

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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 September 25, 2016, December 31, 2015 or September 27, 2015. At September 25, 2016, December 31, 2015 and September 27, 2015, \$0.4 million, \$0.1 million, and \$0.1 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):

September 25, 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	\$5,973,108	\$119,709	\$41,866	\$31,316	\$192,891	\$6,165,999
Wholesale	1,154,617	366	114	386	866	1,155,483
Total	\$7,127,725	\$120,075	\$41,980	\$31,702	\$193,757	\$7,321,482

December 31, 2015

	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Finance Receivables
Retail	\$5,796,003	\$118,996	\$43,680	\$32,792	\$195,468	\$5,991,471
Wholesale	1,022,365	888	530	77	1,495	1,023,860
Total	\$6,818,368	\$119,884	\$44,210	\$32,869	\$196,963	\$7,015,331

September 27, 2015

	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Finance Receivables
Retail	\$6,024,620	\$111,393	\$34,511	\$23,808	\$169,712	\$6,194,332
Wholesale	1,028,981	106	162	148	416	1,029,397
Total	\$7,053,601	\$111,499	\$34,673	\$23,956	\$170,128	\$7,223,729

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):

	September 25, 2016	December 31, 2015	September 27, 2015
Prime	\$4,900,752	\$4,777,448	\$4,936,438
Sub-prime	1,265,247	1,214,023	1,257,894
Total	\$6,165,999	\$5,991,471	\$6,194,332

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

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

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

	September 25, 2016	December 31, 2015	September 27, 2015
Doubtful	\$—	\$5,169	\$—
Substandard	16,244	21,774	14,949
Special Mention	—	6,271	3,706
Medium Risk	7,667	11,494	6,496
Low Risk	1,131,572	979,152	1,004,246
Total	\$1,155,483	\$1,023,860	\$1,029,397

7. Fair Value Measurements

Certain assets and liabilities are recorded at fair value in the financial statements; some of these are measured on a recurring basis while others are measured on a non-recurring basis. Assets and liabilities measured on a recurring basis are those that are adjusted to fair value each time a financial statement is prepared. Assets and liabilities measured on a non-recurring basis are those that are adjusted to fair value when required by particular events or circumstances. In determining the fair value of assets and liabilities, the Company uses various valuation techniques. The availability of inputs observable in the market varies from instrument to instrument and depends on a variety of factors including the type of instrument, whether the instrument is actively traded, and other characteristics particular to the transaction. For many financial instruments, pricing inputs are readily observable in the market, the valuation methodology used is widely accepted by market participants, and the valuation does not require significant management discretion. For other financial instruments, pricing inputs are less observable in the market and may require management judgment. The Company assesses the inputs used to measure fair value using a three-tier hierarchy. The hierarchy indicates the extent to which inputs used in measuring fair value are observable in the market. Level 1 inputs include quoted prices for identical instruments and are the most observable.

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

September 25, 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	\$526,228	\$ 372,850	\$ 153,378	\$ —
Marketable securities	44,101	39,063	5,038	—
Derivatives	6,606	—	6,606	—
	\$576,935	\$ 411,913	\$ 165,022	\$ —
Liabilities:				
Derivatives	\$1,388	\$ —	\$ 1,388	\$ —

December 31, 2015

	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$555,910	\$ 390,706	\$ 165,204	\$ —
Marketable securities	81,448	36,256	45,192	—
Derivatives	16,235	—	16,235	—
	\$653,593	\$ 426,962	\$ 226,631	\$ —
Liabilities:				
Derivatives	\$1,300	\$ —	\$ 1,300	\$ —

September 27, 2015

	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$1,111,571	\$ 719,854	\$ 391,717	\$ —
Marketable securities	82,616	35,258	47,358	—
Derivatives	18,015	—	18,015	—
	\$1,212,202	\$ 755,112	\$ 457,090	\$ —
Liabilities:				
Derivatives	\$1,309	\$ —	\$ 1,309	\$ —

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 \$18.5 million, \$17.7 million and \$16.6 million at September 25, 2016, December 31, 2015 and September 27, 2015, for which the fair value adjustment was \$8.2 million, \$8.6 million and \$6.7 million, respectively. Fair value is estimated using Level 2 inputs based on the recent market values of

repossessed inventory.

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8. 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 9).

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

	September 25, 2016		December 31, 2015		September 27, 2015	
	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value
Assets:						
Cash and cash equivalents	\$790,284	\$790,284	\$722,209	\$722,209	\$1,368,554	\$1,368,554
Marketable securities	\$44,101	\$44,101	\$81,448	\$81,448	\$82,616	\$82,616
Derivatives	\$6,606	\$6,606	\$16,235	\$16,235	\$18,015	\$18,015
Finance receivables, net	\$7,233,923	\$7,149,966	\$6,937,053	\$6,868,153	\$7,170,873	\$7,078,346
Restricted cash	\$79,661	\$79,661	\$110,642	\$110,642	\$137,217	\$137,217
Liabilities:						
Derivatives	\$1,388	\$1,388	\$1,300	\$1,300	\$1,309	\$1,309
Unsecured commercial paper	\$1,055,428	\$1,055,428	\$1,201,380	\$1,201,380	\$990,049	\$990,049
Asset-backed Canadian commercial paper conduit facility	\$140,488	\$140,488	\$153,839	\$153,839	\$158,712	\$158,712
Medium-term notes	\$4,199,753	\$4,063,510	\$3,410,966	\$3,316,949	\$3,468,459	\$3,325,032
Senior unsecured notes	\$800,818	\$741,144	\$737,435	\$740,653	\$752,494	\$741,057
Term asset-backed securitization debt	\$929,775	\$925,619	\$1,455,776	\$1,459,377	\$1,707,076	\$1,701,732

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

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

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

Derivatives – Forward contracts for foreign currency exchange 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 Canadian Conduit approximates fair value since the interest rates charged under the facility are tied directly to market rates and fluctuate as market rates change. Fair value is calculated using Level 2 inputs.

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

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The fair value of the senior unsecured notes is 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 term 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.

9. 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 7). 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 2015, the Company entered into treasury rate locks to fix the interest rate on a portion of the principal related to its 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 table summarizes the fair value of the Company's derivative financial instruments (in thousands):

Derivatives Designated As Hedging Instruments Under ASC Topic 815	September 25, 2016			December 31, 2015			September 27, 2015		
	Notional Value	Asset Fair Value ^(a)	Liability Fair Value ^(b)	Notional Value	Asset Fair Value ^(a)	Liability Fair Value ^(b)	Notional Value	Asset Fair Value ^(a)	Liability Fair Value ^(b)
Foreign currency contracts ^(c)	\$615,251	\$ 6,337	\$ 1,193	\$436,352	\$ 16,167	\$ 181	\$460,323	\$ 18,015	\$ 19
Commodity contracts ^(c)	1,154	110	—	968	—	159	1,297	—	168
Total	\$616,405	\$ 6,447	\$ 1,193	\$437,320	\$ 16,167	\$ 340	\$461,620	\$ 18,015	\$ 187
Derivatives Not Designated As Hedging Instruments Under ASC Topic 815	September 25, 2016			December 31, 2015			September 27, 2015		
	Notional Value	Asset Fair Value ^(a)	Liability Fair Value ^(b)	Notional Value	Asset Fair Value ^(a)	Liability Fair Value ^(b)	Notional Value	Asset Fair Value ^(a)	Liability Fair Value ^(b)
Commodity contracts	\$4,488	\$ 159	\$ 195	\$6,510	\$ 68	\$ 960	\$7,027	\$—	\$ 1,122
	\$4,488	\$ 159	\$ 195	\$6,510	\$ 68	\$ 960	\$7,027	\$—	\$ 1,122

(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):

Cash Flow Hedges	Amount of Gain/(Loss) Recognized in OCI, before tax				
	Three months ended		Nine months ended		
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015	
Foreign currency contracts	\$(938)	\$ 6,796	\$(5,445)	\$ 35,004	
Commodity contracts	43	(138)	(30)	(284)	
Treasury rate locks	—	(10,746)	—	(7,381)	
Total	\$(895)	\$ (4,088)	\$(5,475)	\$ 27,339	
Cash Flow Hedges	Amount of Gain/(Loss) Reclassified from AOCL into Income				
	Three months ended		Nine months ended		Expected to be Reclassified Over the Next Twelve Months
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015	
Foreign currency contracts ^(a)	\$2,399	\$ 12,771	\$6,806	\$ 48,175	\$ 4,488
Commodity contracts ^(a)	21	(68)	(298)	(530)	110
Treasury rate locks ^(b)	(90)	(60)	(271)	(60)	(362)
Total	\$2,330	\$ 12,643	\$6,237	\$ 47,585	\$ 4,236

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

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

For the three and nine months ended September 25, 2016 and September 27, 2015, the cash flow hedges were highly effective and, as a result, the amount of hedge ineffectiveness was not material. No amounts were excluded from effectiveness testing.

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

Derivatives Not Designated As Hedges	Amount of Gain/(Loss) Recognized in Income on Derivative			
	Three months ended		Nine months ended	
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015
Commodity contracts ^(a)	\$45	\$ (731)	\$(179)	\$ (1,257)
Total	\$45	\$ (731)	\$(179)	\$ (1,257)

(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.

10. Accumulated Other Comprehensive Loss

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

	Three months ended September 25, 2016				
	Foreign currency translation adjustments	Marketable securities	Derivative financial instruments	Pension and postretirement benefit plans	Total
Balance, beginning of period	\$(43,523)	\$(1,171)	\$ 543	\$(546,010)	\$(590,161)
Other comprehensive income (loss) before reclassifications	3,574	(18)	(895)	—	2,661
Income tax expense	279	7	332	—	618
Net other comprehensive income (loss) before reclassifications	3,853	(11)	(563)	—	3,279
Reclassifications:					
Realized (gains) losses - foreign currency contracts ^(a)	—	—	(2,399)	—	(2,399)
Realized (gains) losses - commodities contracts ^(a)	—	—	(21)	—	(21)
Realized (gains) losses - treasury rate lock ^(c)	—	—	90	—	90
Prior service credits ^(b)	—	—	—	(446)	(446)
Actuarial losses ^(b)	—	—	—	12,472	12,472
Total reclassifications before tax	—	—	(2,330)	12,026	9,696
Income tax expense (benefit)	—	—	862	(4,454)	(3,592)
Net reclassifications	—	—	(1,468)	7,572	6,104
Other comprehensive income (loss)	3,853	(11)	(2,031)	7,572	9,383
Balance, end of period	\$(39,670)	\$(1,182)	\$(1,488)	\$(538,438)	\$(580,778)

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	Three months ended September 27, 2015				
	Foreign currency translation adjustments	Marketable securities	Derivative financial instruments	Pension and postretirement benefit plans	Total
Balance, beginning of period	\$ (26,252)	\$ (895)	\$ 16,828	\$ (512,207)	\$ (522,526)
Other comprehensive loss before reclassifications	(17,003)	(157)	(4,088)	—	(21,248)
Income tax expense	2,405	58	1,514	—	3,977
Net other comprehensive loss before reclassifications	(14,598)	(99)	(2,574)	—	(17,271)
Reclassifications:					
Realized (gains) losses - foreign currency contracts ^(a)	—	—	(12,771)	—	(12,771)
Realized (gains) losses - commodities contracts ^(a)	—	—	68	—	68
Realized (gains) losses - treasury rate lock ^(c)	—	—	60	—	60
Prior service credits ^(b)	—	—	—	(695)	(695)
Actuarial losses ^(b)	—	—	—	14,671	14,671
Total reclassifications before tax	—	—	(12,643)	13,976	1,333
Income tax expense (benefit)	—	—	4,684	(5,177)	(493)
Net reclassifications	—	—	(7,959)	8,799	840
Other comprehensive (loss) income	(14,598)	(99)	(10,533)	8,799	(16,431)
Balance, end of period	\$ (40,850)	\$ (994)	\$ 6,295	\$ (503,408)	\$ (538,957)
	Nine months ended September 25, 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	20,661	(140)	(5,475)	—	15,046
Income tax (benefit) expense	(1,487)	52	2,028	—	593
Net other comprehensive income (loss) before reclassifications	19,174	(88)	(3,447)	—	15,639
Reclassifications:					
Realized (gains) losses - foreign currency contracts ^(a)	—	—	(6,806)	—	(6,806)
Realized (gains) losses - commodities contracts ^(a)	—	—	298	—	298
Realized (gains) losses - treasury rate lock ^(c)	—	—	271	—	271
Prior service credits ^(b)	—	—	—	(1,338)	(1,338)
Actuarial losses ^(b)	—	—	—	37,416	37,416
Total reclassifications before tax	—	—	(6,237)	36,078	29,841
Income tax expense (benefit)	—	—	2,310	(13,363)	(11,053)
Net reclassifications	—	—	(3,927)	22,715	18,788
Other comprehensive income (loss)	19,174	(88)	(7,374)	22,715	34,427
Balance, end of period	\$ (39,670)	\$ (1,182)	\$ (1,488)	\$ (538,438)	\$ (580,778)

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	Nine months ended September 27, 2015				
	Foreign currency translation adjustments	Marketable securities	Derivative financial instruments	Pension and postretirement benefit plans	Total
Balance, beginning of period	\$ (3,482)	\$ (700)	\$ 19,042	\$ (529,803)	\$ (514,943)
Other comprehensive (loss) income before reclassifications	(41,954)	(467)	27,339	—	(15,082)
Income tax expense (benefit)	4,586	173	(10,126)	—	(5,367)
Net other comprehensive (loss) income before reclassifications	(37,368)	(294)	17,213	—	(20,449)
Reclassifications:					
Realized (gains) losses - foreign currency contracts ^(a)	—	—	(48,175)	—	(48,175)
Realized (gains) losses - commodities contracts ^(a)	—	—	530	—	530
Realized (gains) losses - treasury rate lock ^(c)	—	—	60	—	60
Prior service credits ^(b)	—	—	—	(2,085)	(2,085)
Actuarial losses ^(b)	—	—	—	44,010	44,010
Total reclassifications before tax	—	—	(47,585)	41,925	(5,660)
Income tax expense (benefit)	—	—	17,625	(15,530)	2,095
Net reclassifications	—	—	(29,960)	26,395	(3,565)
Other comprehensive (loss) income	(37,368)	(294)	(12,747)	26,395	(24,014)
Balance, end of period	\$ (40,850)	\$ (994)	\$ 6,295	\$ (503,408)	\$ (538,957)

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

(b) Amounts reclassified are included in the computation of net periodic cost. See Note 16 for information related to pension and postretirement benefit plans.

(c) Amounts reclassified to net income are included in interest expense.

11. Debt

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

	September 25, 2016	December 31, 2015	September 27, 2015
Unsecured commercial paper	\$ 1,055,428	\$ 1,201,380	\$ 990,049
Total short-term debt	\$ 1,055,428	\$ 1,201,380	\$ 990,049

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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):

	September 25, 2016	December 31, 2015	September 27, 2015
Secured debt			
Asset-backed Canadian commercial paper conduit facility	\$ 140,488	\$ 153,839	\$ 158,712
Term asset-backed securitization debt	927,539	1,463,154	1,706,431
Less: unamortized discount and debt issuance costs	(1,920)	(3,777)	(4,699)
Total secured debt	1,066,107	1,613,216	1,860,444
Unsecured notes			
3.88% Medium-term notes due in 2016 par value	—	450,000	450,000
2.70% Medium-term notes due in 2017 par value	400,000	400,000	400,000
1.55% Medium-term notes due in 2017 par value	400,000	400,000	400,000
6.80% Medium-term notes due in 2018 par value	877,488	878,708	887,958
2.40% Medium-term notes due in 2019 par value	600,000	600,000	600,000
2.25% Medium-term notes due in 2019 par value	600,000	—	—
2.15% Medium-term notes due in 2020 par value	600,000	600,000	600,000
2.85% Medium-term notes due in 2021 par value	600,000	—	—
3.50% Senior unsecured notes due in 2025 par value	450,000	450,000	450,000
4.625% Senior unsecured notes due in 2045 par value	300,000	300,000	300,000
Less: unamortized discount and debt issuance costs	(22,834)	(21,106)	(21,869)
Gross long-term debt	5,870,761	5,670,818	5,926,533
Less: current portion of long-term debt, net of unamortized discount and issuance costs	(700,152)	(838,349)	(885,889)
Total long-term debt	\$ 5,170,609	\$ 4,832,469	\$ 5,040,644

The Company adopted ASU No. 2015-03 and ASU No. 2015-15 on January 1, 2016. Upon adoption, the Company reclassified debt issuance costs, other than debt issuance costs related to line of credit arrangements (which include its asset-backed commercial paper and unsecured commercial paper programs and its credit facilities), from other assets to debt on the balance sheet. Refer to Note 2 for further discussion of newly adopted ASUs.

12. 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 (SPE), 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 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

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from the Company's balance sheet and a gain or loss is recognized for the difference between the cash proceeds received, the 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 Company adopted ASU No. 2015-03 and ASU No. 2015-15 on January 1, 2016. Upon adoption, the Company reclassified debt issuance costs, other than debt issuance costs related to line of credit arrangements (including the asset-backed commercial paper programs), from other assets to debt on the balance sheet. Refer to Note 2 for further discussion of newly adopted ASUs.

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

	September 25, 2016					
	Finance receivables	Allowance for credit losses	Restricted cash	Other assets	Total assets	Asset-backed debt
On-balance sheet assets and liabilities						
Consolidated VIEs						
Term asset-backed securitizations	\$ 1,019,378	\$(27,847)	\$ 69,364	\$ 2,893	\$ 1,063,788	\$ 925,619
Asset-backed U.S. commercial paper conduit facility	—	—	—	150	150	—
Unconsolidated VIEs						
Asset-backed Canadian commercial paper conduit facility	155,130	(3,244)	10,297	351	162,534	140,488
Total on-balance sheet assets and liabilities	\$ 1,174,508	\$(31,091)	\$ 79,661	\$ 3,394	\$ 1,226,472	\$ 1,066,107
	December 31, 2015					
	Finance receivables	Allowance for credit losses	Restricted cash	Other assets	Total assets	Asset-backed debt
On-balance sheet assets and liabilities						
Consolidated VIEs						
Term asset-backed securitizations	\$ 1,611,624	\$(37,937)	\$ 100,151	\$ 4,383	\$ 1,678,221	\$ 1,459,377
Asset-backed U.S. commercial paper conduit facility	—	—	—	323	323	—
Unconsolidated VIEs						
Asset-backed Canadian commercial paper conduit facility	170,708	(3,061)	10,491	393	178,531	153,839
Total on-balance sheet assets and liabilities	\$ 1,782,332	\$(40,998)	\$ 110,642	\$ 5,099	\$ 1,857,075	\$ 1,613,216
	September 27, 2015					
	Finance receivables	Allowance for credit losses	Restricted cash	Other assets	Total assets	Asset-backed debt
On-balance sheet assets and liabilities						
Consolidated VIEs						
Term asset-backed securitizations	\$ 1,875,571	\$(42,679)	\$ 125,561	\$ 4,383	\$ 1,962,836	\$ 1,701,732
Asset-backed U.S. commercial paper conduit facility	—	—	—	109	109	—

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Unconsolidated VIEs

Asset-backed Canadian commercial paper conduit facility	175,173	(3,090)	11,656	473	184,212	158,712
Total on-balance sheet assets and liabilities	\$2,050,744	\$(45,769)	\$137,217	\$4,965	\$2,147,157	\$1,860,444
On-Balance Sheet Term Asset-Backed Securitization VIEs						

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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 term asset-backed securitization SPE is a separate legal entity, and the U.S. retail motorcycle finance receivables included in the term asset-backed securitizations are only available for payment of the secured debt and other obligations arising from the term asset-backed securitization transaction and are not available to pay other obligations or claims of the Company's creditors until the associated secured debt and other obligations are satisfied. Restricted cash balances held by the SPEs are used only to support the securitizations. There are no amortization schedules for the secured notes; however, the debt is reduced monthly as available collections on the related U.S. retail motorcycle finance receivables are applied to outstanding principal. The secured notes' contractual lives have various maturities ranging from 2016 to 2022.

The Company is the primary beneficiary of its on-balance sheet term 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 term asset-backed securitization transactions during the nine months ended September 25, 2016. During the first and second quarters of 2015, the Company issued \$700.0 million and \$500.0 million (\$697.6 million and \$498.1 million net of discount and issuance costs), respectively, of secured notes through on-balance sheet term asset-backed securitization transactions.

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

On December 14, 2015, the Company entered into a new revolving facility agreement (U.S. Conduit) with a third party bank-sponsored asset-backed U.S. commercial paper conduit, which provides for a total aggregate commitment of up to \$600.0 million based on, among other things, the amount of eligible U.S. retail motorcycle finance receivables held by the SPE as collateral. The prior facility agreement expired on December 14, 2015 and had similar terms.

Under the facility, the Company may transfer U.S. retail motorcycle finance receivables to a SPE, which in turn may issue debt to third-party bank-sponsored asset-backed commercial paper conduits. The assets of the SPE are restricted as collateral for the payment of the debt or other obligations arising in the transaction and are not available to pay other obligations or claims of the Company's creditors. The terms for this debt provide for interest on the outstanding principal 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 also provides for an unused commitment fee based on the unused portion of the total aggregate commitment of \$600.0 million. There is no amortization schedule; however, the debt will be reduced monthly as available collections on the related finance receivables are applied to outstanding principal. Upon expiration of the U.S. Conduit, any outstanding principal will continue to be reduced monthly through available collections. Unless earlier terminated or extended by mutual agreement of the Company and the lenders, the U.S. Conduit expires on December 14, 2016.

The Company is the primary beneficiary of its U.S. Conduit VIE 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.

The VIE had no borrowings outstanding under the U.S. Conduit at September 25, 2016, December 31, 2015 or September 27, 2015; therefore, assets that the U.S. Conduit holds are restricted as collateral for the payment of fees associated with the unused portion of the total aggregate commitment.

Table of Contents**On-Balance Sheet Asset-Backed Canadian Commercial Paper Conduit Facility**

In June 2015, 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 September 25, 2016, the Canadian Conduit has an expiration date of June 30, 2017.

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 \$22.0 million at September 25, 2016. 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):

	2016		2015	
	Transfers	Proceeds	Transfers	Proceeds
First quarter	\$6,600	\$5,800	\$19,200	\$16,800
Second quarter	\$31,400	\$27,500	\$26,800	\$23,400
Third quarter	—	—	33,100	29,000
	\$38,000	\$33,300	\$79,100	\$69,200

Off-Balance Sheet Asset-Backed Securitization VIE

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 term 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 term 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 September 25, 2016, the assets of this off-balance sheet asset-backed securitization VIE were \$262.6 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 September 25, 2016. This is based on the unlikely event that all the

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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 \$1.0 million during the nine months ended September 25, 2016.

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

	September 25, 2016	December 31, 2015	September 27, 2015
On-balance sheet retail motorcycle finance receivables	\$ 6,017,065	\$ 5,843,352	\$ 6,039,011
Off-balance sheet retail motorcycle finance receivables	262,583	—	—
Total serviced retail motorcycle finance receivables	\$ 6,279,648	\$ 5,843,352	\$ 6,039,011

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:		
	September 25, 2016	December 31, 2015	September 27, 2015
On-balance sheet retail motorcycle finance receivables	\$ 192,891	\$ 195,468	\$ 169,712
Off-balance sheet retail motorcycle finance receivables	1,235	—	—
Total serviced retail motorcycle finance receivables	\$ 194,126	\$ 195,468	\$ 169,712

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

	Three months ended		Nine months ended	
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015
On-balance sheet retail motorcycle finance receivables	\$ 26,380	\$ 21,081	\$ 69,498	\$ 50,636
Off-balance sheet retail motorcycle finance receivables	270	—	285	—
Total serviced retail motorcycle finance receivables	\$ 26,650	\$ 21,081	\$ 69,783	\$ 50,636

13. Income Taxes

The Company's 2016 income tax rate for the nine months ended September 25, 2016 was 32.9% compared to 34.8% for the same period last year. The year-to-date tax provision for income taxes included a discrete benefit of \$16.1 million associated with the release of a portion of the Company's liability for unrecognized tax benefits relating primarily to the closure of various audits during the second quarter of 2016.

14. 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.

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

	Three months ended		Nine months ended	
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015
Balance, beginning of period	\$82,480	\$ 83,416	\$74,217	\$ 69,250
Warranties issued during the period	11,107	9,714	49,321	46,668
Settlements made during the period	(30,512)	(31,492)	(71,354)	(68,611)
Recalls and changes to pre-existing warranty liabilities	22,448	18,170	33,339	32,501
Balance, end of period	\$85,523	\$ 79,808	\$85,523	\$ 79,808

The liability for recall campaigns was \$19.5 million, \$10.2 million and \$16.4 million as of September 25, 2016, December 31, 2015 and September 27, 2015, respectively.

15. Earnings Per Share

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

	Three months ended		Nine months ended	
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015
Numerator:				
Net income used in computing basic and diluted earnings per share	\$ 114,065	\$ 140,347	\$ 644,985	\$ 710,011
Denominator:				
Denominator for basic earnings per share - weighted-average common shares	178,438	203,598	180,779	207,255
Effect of dilutive securities - employee stock compensation plan	882	982	803	1,027
Denominator for diluted earnings per share - adjusted weighted-average shares outstanding	179,320	204,580	181,582	208,282
Earnings per common share:				
Basic	\$0.64	\$ 0.69	\$3.57	\$ 3.43
Diluted	\$0.64	\$ 0.69	\$3.55	\$ 3.41

Outstanding options to purchase 1.2 million and 0.9 million shares of common stock for the three months ended September 25, 2016 and September 27, 2015, respectively, and 1.5 million and 0.9 million shares of common stock for the nine months ended September 25, 2016 and September 27, 2015, 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 shares of restricted stock and restricted stock units (RSUs). Non-forfeitable dividends are paid on unvested shares of restricted stock and non-forfeitable dividend equivalents are paid on unvested RSUs. As such, shares of restricted stock and RSUs are considered participating securities under the two-class method of calculating earnings per share as described in ASC Topic 260, "Earnings per Share." The two-class method of calculating earnings per share did not have a material impact on the Company's earnings per share calculation for the three and nine month periods ended September 25, 2016 and September 27, 2015, respectively.

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16. 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		Nine months ended	
	September 27, 2016	September 27, 2015	September 27, 2016	September 27, 2015
Pension and SERPA Benefits				
Service cost	\$8,359	\$ 10,010	\$25,077	\$ 30,030
Interest cost	22,707	21,836	68,121	65,508
Expected return on plan assets	(36,445)	(36,232)	(109,335)	(108,696)
Amortization of unrecognized:				
Prior service cost	255	109	765	327
Net loss	11,588	13,678	34,764	41,031
Settlement loss	300	—	900	—
Net periodic benefit cost	\$6,764	\$ 9,401	\$20,292	\$ 28,200
Postretirement Healthcare Benefits				
Service cost	\$1,870	\$ 2,065	\$5,610	\$ 6,195
Interest cost	3,704	3,541	11,112	10,623
Expected return on plan assets	(3,017)	(2,877)	(9,051)	(8,631)
Amortization of unrecognized:				
Prior service credit	(701)	(804)	(2,103)	(2,412)
Net loss	884	993	2,652	2,979
Net periodic benefit cost	\$2,740	\$ 2,918	\$8,220	\$ 8,754

During the first nine months of 2016, 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 2016. The Company expects it will continue to make ongoing benefit payments under the SERPA and postretirement healthcare plans.

17. 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		Nine months ended	
	September 27, 2016	September 27, 2015	September 27, 2016	September 27, 2015
Motorcycles net revenue	\$1,091,630	\$ 1,140,321	\$4,338,353	\$ 4,301,674
Gross profit	367,019	394,039	1,564,857	1,631,528
Selling, administrative and engineering expense	258,090	250,974	800,722	762,406
Operating income from Motorcycles	108,929	143,065	764,135	869,122
Financial Services revenue	183,183	177,109	547,505	513,093
Financial Services expense	113,736	104,338	332,114	293,745
Operating income from Financial Services	69,447	72,771	215,391	219,348
Operating income	\$178,376	\$ 215,836	\$979,526	\$ 1,088,470

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18. Commitments and Contingencies

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

Environmental Protection Agency Notice:

In December 2009, the Company received formal, written requests for information from the United States Environmental Protection Agency (EPA) regarding: (i) certificates of conformity for motorcycle emissions and related designations and labels, (ii) aftermarket parts, and (iii) warranty claims on emissions related components. The Company promptly submitted written responses to the EPA's inquiry and has engaged in discussions with the EPA. Since that time, the EPA delivered various additional requests for information to which the Company has responded. More recently, in August 2016, the Company entered into a consent decree with the EPA regarding these issues (the "Settlement"). In the Settlement the Company agreed to, among other things, pay a fine, fund a three-year emissions mitigation project, and not sell tuning products unless they are approved by the EPA or California Air Resources Board. The Company anticipates the EPA will move the court to finalize the Settlement in November 2016. 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 in various environmental matters, including a matter involving the cleanup of soil and groundwater contamination at its York, Pennsylvania facility. The York facility was formerly used by the U.S. Navy and AMF prior to the purchase of the York facility by the Company from AMF in 1981. Although the Company is not certain as to the full extent of the environmental contamination at the York facility, it has been working with the Pennsylvania Department of Environmental Protection (PADEP) since 1986 in undertaking environmental investigation and remediation activities, including 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.

National Highway Traffic Safety Administration Matters:

In July 2016, the National Highway Traffic Safety Administration (NHTSA) announced that it will investigate certain of the Company's model-year 2008-2011 motorcycles equipped with anti-lock braking systems (ABS). NHTSA's investigation is in response to rider complaints related to brake failures. 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

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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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19. Supplemental Consolidating Data

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

Three months ended September 25, 2016

	HDMC Entities	HDFS Entities	Eliminations	Consolidated
Revenue:				
Motorcycles and Related Products	\$ 1,094,148	\$ —	\$ (2,518)	\$ 1,091,630
Financial Services	—	183,706	(523)	183,183
Total revenue	1,094,148	183,706	(3,041)	1,274,813
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	724,611	—	—	724,611
Financial Services interest expense	—	42,573	—	42,573
Financial Services provision for credit losses	—	36,543	—	36,543
Selling, administrative and engineering expense	258,541	37,139	(2,970)	292,710
Total costs and expenses	983,152	116,255	(2,970)	1,096,437
Operating income	110,996	67,451	(71)	178,376
Investment income	2,300	—	—	2,300
Interest expense	7,706	—	—	7,706
Income before provision for income taxes	105,590	67,451	(71)	172,970
Provision for income taxes	33,895	25,010	—	58,905
Net income	\$ 71,695	\$ 42,441	\$ (71)	\$ 114,065

Nine months ended September 25, 2016

	HDMC Entities	HDFS Entities	Eliminations	Consolidated
Revenue:				
Motorcycles and Related Products	\$ 4,346,166	\$ —	\$ (7,813)	\$ 4,338,353
Financial Services	—	549,162	(1,657)	547,505
Total revenue	4,346,166	549,162	(9,470)	4,885,858
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	2,773,496	—	—	2,773,496
Financial Services interest expense	—	131,387	—	131,387
Financial Services provision for credit losses	—	97,127	—	97,127
Selling, administrative and engineering expense	802,139	111,414	(9,231)	904,322
Total costs and expenses	3,575,635	339,928	(9,231)	3,906,332
Operating income	770,531	209,234	(239)	979,526
Investment income	186,754	—	(183,000)	3,754
Interest expense	21,968	—	—	21,968
Income before provision for income taxes	935,317	209,234	(183,239)	961,312
Provision for income taxes	238,256	78,071	—	316,327
Net income	\$ 697,061	\$ 131,163	\$ (183,239)	\$ 644,985

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	Three months ended September 27, 2015			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
Revenue:				
Motorcycles and Related Products	\$ 1,142,948	\$ —	\$ (2,627	) \$ 1,140,321
Financial Services	—	177,487	(378	) 177,109
Total revenue	1,142,948	177,487	(3,005	) 1,317,430
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	746,282	—	—	746,282
Financial Services interest expense	—	41,214	—	41,214
Financial Services provision for credit losses	—	27,233	—	27,233
Selling, administrative and engineering expense	251,352	38,518	(3,005	) 286,865
Total costs and expenses	997,634	106,965	(3,005	) 1,101,594
Operating income	145,314	70,522	—	215,836
Investment income	3,211	—	—	3,211
Interest expense	4,879	—	—	4,879
Income before provision for income taxes	143,646	70,522	—	214,168
Provision for income taxes	47,703	26,118	—	73,821
Net income	\$95,943	\$ 44,404	\$ —	\$ 140,347
Nine months ended September 27, 2015				
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
Revenue:				
Motorcycles and Related Products	\$4,309,589	\$ —	\$ (7,915	) \$ 4,301,674
Financial Services	—	514,324	(1,231	) 513,093
Total revenue	4,309,589	514,324	(9,146	) 4,814,767
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	2,670,146	—	—	2,670,146
Financial Services interest expense	—	120,938	—	120,938
Financial Services provision for credit losses	—	68,655	—	68,655
Selling, administrative and engineering expense	763,637	112,067	(9,146	) 866,558
Total costs and expenses	3,433,783	301,660	(9,146	) 3,726,297
Operating income	875,806	212,664	—	1,088,470
Investment income	105,983	—	(100,000	) 5,983
Interest expense	4,897	—	—	4,897
Income before provision for income taxes	976,892	212,664	(100,000	) 1,089,556
Provision for income taxes	303,852	75,693	—	379,545
Net income	\$673,040	\$ 136,971	\$ (100,000) \$ 710,011

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	September 25, 2016			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	\$438,875	\$ 351,409	\$—	\$ 790,284
Marketable securities	5,038	—	—	5,038
Accounts receivable, net	751,770	—	(405,594)	346,176
Finance receivables, net	—	2,205,644	—	2,205,644
Inventories	426,547	—	—	426,547
Restricted cash	—	65,088	—	65,088
Deferred income taxes	61,611	61,998	—	123,609
Other current assets	110,060	41,305	(11,407)	139,958
Total current assets	1,793,901	2,725,444	(417,001)	4,102,344
Finance receivables, net	—	4,944,322	—	4,944,322
Property, plant and equipment, net	917,984	36,491	—	954,475
Goodwill	54,663	—	—	54,663
Deferred income taxes	73,639	9,066	(1,874)	80,831
Other long-term assets	133,441	24,605	(82,455)	75,591
	\$2,973,628	\$ 7,739,928	\$ (501,330)	\$ 10,212,226
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	\$268,945	\$ 428,243	\$(405,594)	\$ 291,594
Accrued liabilities	419,675	98,268	(11,410)	506,533
Short-term debt	—	1,055,428	—	1,055,428
Current portion of long-term debt, net	—	700,152	—	700,152
Total current liabilities	688,620	2,282,091	(417,004)	2,553,707
Long-term debt, net	741,144	4,429,465	—	5,170,609
Pension liability	120,494	—	—	120,494
Postretirement healthcare benefits	182,825	—	—	182,825
Other long-term liabilities	160,784	28,425	3,014	192,223
Shareholders' equity	1,079,761	999,947	(87,340)	1,992,368
	\$2,973,628	\$ 7,739,928	\$ (501,330)	\$ 10,212,226

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	December 31, 2015			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	\$400,443	\$ 321,766	\$—	\$ 722,209
Marketable securities	45,192	—	—	45,192
Accounts receivable, net	390,799	—	(143,394)	247,405
Finance receivables, net	—	2,053,582	—	2,053,582
Inventories	585,907	—	—	585,907
Restricted cash	—	88,267	—	88,267
Deferred income taxes	56,319	46,450	—	102,769
Other current assets	90,824	43,807	(2,079)	132,552
Total current assets	1,569,484	2,553,872	(145,473)	3,977,883
Finance receivables, net	—	4,814,571	—	4,814,571
Property, plant and equipment, net	906,972	35,446	—	942,418
Goodwill	54,182	—	—	54,182
Deferred income taxes	86,075	15,681	(2,142)	99,614
Other long-term assets	133,753	31,158	(80,602)	84,309
	\$2,750,466	\$ 7,450,728	\$(228,217)	\$ 9,972,977
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	\$220,050	\$ 158,958	\$(143,394)	\$ 235,614
Accrued liabilities	387,137	89,048	(4,221)	471,964
Short-term debt	—	1,201,380	—	1,201,380
Current portion of long-term debt, net	—	838,349	—	838,349
Total current liabilities	607,187	2,287,735	(147,615)	2,747,307
Long-term debt, net	740,653	4,091,816	—	4,832,469
Pension liability	164,888	—	—	164,888
Postretirement healthcare benefits	193,659	—	—	193,659
Other long-term liabilities	166,440	28,560	—	195,000
Shareholders' equity	877,639	1,042,617	(80,602)	1,839,654
	\$2,750,466	\$ 7,450,728	\$(228,217)	\$ 9,972,977

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	September 27, 2015			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	\$963,360	\$ 405,194	\$—	\$1,368,554
Marketable securities	47,358	—	—	47,358
Accounts receivable, net	725,828	—	(431,774)	294,054
Finance receivables, net	—	2,068,873	—	2,068,873
Inventories	466,657	—	—	466,657
Restricted cash	—	113,499	—	113,499
Deferred income taxes	53,218	47,340	—	100,558
Other current assets	121,953	37,893	(9,179)	150,667
Total current assets	2,378,374	2,672,799	(440,953)	4,610,220
Finance receivables, net	—	5,009,473	—	5,009,473
Property, plant and equipment, net	845,297	32,490	—	877,787
Goodwill	54,267	—	—	54,267
Deferred income taxes	59,649	14,232	(1,929)	71,952
Other long-term assets	135,766	32,522	(79,953)	88,335
	\$3,473,353	\$ 7,761,516	\$(522,835)	\$ 10,712,034
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	\$290,154	\$ 458,514	\$(431,774)	\$316,894
Accrued liabilities	382,292	93,168	(11,108)	464,352
Short-term debt	—	990,049	—	990,049
Current portion of long-term debt, net	—	885,889	—	885,889
Total current liabilities	672,446	2,427,620	(442,882)	2,657,184
Long-term debt, net	741,057	4,299,587	—	5,040,644
Pension liability	61,458	—	—	61,458
Postretirement healthcare benefits	193,406	—	—	193,406
Other long-term liabilities	172,038	27,631	—	199,669
Shareholders' equity	1,632,948	1,006,678	(79,953)	2,559,673
	\$3,473,353	\$ 7,761,516	\$(522,835)	\$ 10,712,034

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	Nine months ended September 25, 2016			
	HDMC	HDFS	Eliminations	Consolidated
	Entities	Entities		
Cash flows from operating activities:				
Net income	\$697,061	\$131,163	\$(183,239)	\$ 644,985
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization of intangibles	148,851	5,714	—	154,565
Amortization of deferred loan origination costs	—	65,445	—	65,445
Amortization of financing origination fees	491	6,721	—	7,212
Provision for employee long-term benefits	27,608	—	—	27,608
Employee benefit plan contributions and payments	(47,658)	—	—	(47,658)
Stock compensation expense	23,056	1,853	—	24,909
Net change in wholesale finance receivables related to sales	—	—	(169,599)	(169,599)
Provision for credit losses	—	97,127	—	97,127
Gain on off-balance sheet securitization	—	(9,269)	—	(9,269)
Loss on debt extinguishment	—	118	—	118
Pension plan settlement expense	900	—	—	900
Deferred income taxes	(574)	(10,419)	(268)	(11,261)
Foreign currency adjustments	(11,741)	—	—	(11,741)
Other, net	(12,416)	648	239	(11,529)
Change in current assets and current liabilities:				
Accounts receivable, net	(348,996)	—	262,200	(86,796)
Finance receivables—accrued interest and other	—	364	—	364
Inventories	173,975	—	—	173,975
Accounts payable and accrued liabilities	74,269	277,142	(254,221)	97,190
Derivative instruments	(1,992)	—	—	(1,992)
Other	(18,924)	2,180	—	(16,744)
Total adjustments	6,849	437,624	(161,649)	282,824
Net cash provided by operating activities	703,910	568,787	(344,888)	927,809

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Nine months ended September 25, 2016

	HDMC Entities	HDFS Entities	Eliminations	Consolidated
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Cash flows from investing activities:				
Capital expenditures	(155,967)	(6,759)	—	(162,726)
Origination of finance receivables	—	(6,297,040)	3,287,561	(3,009,479)
Collections of finance receivables	—	5,566,139	(3,125,673)	2,440,466
Proceeds from finance receivables sold	—	312,571	—	312,571
Sales and redemptions of marketable securities	40,014	—	—	40,014
Other	251	—	—	251
Net cash used by investing activities	(115,702)	(425,089)	161,888	(378,903)
Cash flows from financing activities:				
Proceeds from issuance of medium-term notes	—	1,193,396	—	1,193,396
Repayments of medium-term notes	—	(451,336)	—	(451,336)
Repayments of securitization debt	—	(535,616)	—	(535,616)
Net decrease in credit facilities and unsecured commercial paper	—	(146,328)	—	(146,328)
Borrowings of asset-backed commercial paper	—	33,428	—	33,428
Repayments of asset-backed commercial paper	—	(55,170)	—	(55,170)
Net change in restricted cash	—	30,981	—	30,981
Dividends paid	(190,387)	(183,000)	183,000	(190,387)
Purchase of common stock for treasury	(374,234)	—	—	(374,234)
Excess tax benefits from share-based payments	1,291	—	—	1,291
Issuance of common stock under employee stock option plans	6,444	—	—	6,444
Net cash used by financing activities	(556,886)	(113,645)	183,000	(487,531)
Effect of exchange rate changes on cash and cash equivalents	7,110	(410)	—	6,700
Net increase in cash and cash equivalents	\$38,432	\$29,643	\$ —	\$ 68,075
Cash and cash equivalents:				
Cash and cash equivalents—beginning of period	\$400,443	\$321,766	\$ —	\$ 722,209
Net increase in cash and cash equivalents	38,432	29,643	—	68,075
Cash and cash equivalents—end of period	\$438,875	\$351,409	\$ —	\$ 790,284

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	Nine months ended September 27, 2015			
	HDMC	HDFS	Eliminations	Consolidated
	Entities	Entities		
Cash flows from operating activities:				
Net income	\$673,040	\$136,971	\$(100,000)	\$710,011
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization of intangibles	135,232	6,792	—	142,024
Amortization of deferred loan origination costs	—	71,012	—	71,012
Amortization of financing origination fees	107	7,224	—	7,331
Provision for employee long-term benefits	36,954	—	—	36,954
Employee benefit plan contributions and payments	(19,358)	—	—	(19,358)
Stock compensation expense	21,723	2,009	—	23,732
Net change in wholesale finance receivables related to sales	—	—	(157,532)	(157,532)
Provision for credit losses	—	68,655	—	68,655
Deferred income taxes	2,951	(12,223)	—	(9,272)
Foreign currency adjustments	22,010	—	—	22,010
Other, net	3,778	1,222	—	5,000
Change in current assets and current liabilities:				
Accounts receivable, net	(331,347)	—	270,660	(60,687)
Finance receivables—accrued interest and other	—	(98)	—	(98)
Inventories	(36,109)	—	—	(36,109)
Accounts payable and accrued liabilities	141,577	319,734	(250,266)	211,045
Derivative instruments	(6,734)	—	—	(6,734)
Other	11,293	1,680	—	12,973
Total adjustments	(17,923)	466,007	(137,138)	310,946
Net cash provided by operating activities	655,117	602,978	(237,138)	1,020,957

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	Nine months ended September 27, 2015			
	HDMC	HDFS	Eliminations	Consolidated
	Entities	Entities		
Cash flows from investing activities:				
Capital expenditures	(134,164)	(4,890)	—	(139,054)
Origination of finance receivables	—	(6,512,799)	3,399,972	(3,112,827)
Collections of finance receivables	—	5,656,189	(3,262,884)	2,393,355
Sales and redemptions of marketable securities	9,500	—	—	9,500
Acquisition of business	(59,910)	—	—	(59,910)
Other	5,172	—	—	5,172
Net cash used by investing activities	(179,402)	(861,500)	137,138	(903,764)
Cash flows from financing activities:				
Proceeds from issuance of senior unsecured notes	740,949	—	—	740,949
Proceeds from issuance of medium-term notes	—	595,386	—	595,386
Repayments of medium-term notes	—	(600,000)	—	(600,000)
Intercompany borrowing activity	250,000	(250,000)	—	—
Proceeds from securitization debt	—	1,195,668	—	1,195,668
Repayments of securitization debt	—	(764,909)	—	(764,909)
Net increase in credit facilities and unsecured commercial paper	—	258,734	—	258,734
Borrowings of asset-backed commercial paper	—	69,191	—	69,191
Repayments of asset-backed commercial paper	—	(55,124)	—	(55,124)
Net change in restricted cash	—	(15,165)	—	(15,165)
Dividends paid	(191,451)	(100,000)	100,000	(191,451)
Purchase of common stock for treasury	(894,565)	—	—	(894,565)
Excess tax benefits from share-based payments	2,878	—	—	2,878
Issuance of common stock under employee stock option plans	16,755	—	—	16,755
Net cash (used by) provided by financing activities	(75,434)	333,781	100,000	358,347
Effect of exchange rate changes on cash and cash equivalents	(10,816)	(2,850)	—	(13,666)
Net increase in cash and cash equivalents	\$ 389,465	\$ 72,409	\$ —	\$ 461,874
Cash and cash equivalents:				