

HARLEY DAVIDSON INC  
Form 10-K  
February 21, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549  
FORM 10-K

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

For the fiscal year ended: December 31, 2017

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-9183

Harley-Davidson, Inc.

(Exact name of registrant as specified in its charter)

Wisconsin 39-1382325

(State of organization) (I.R.S. Employer Identification No.)

3700 West Juneau Avenue 53208

Milwaukee, Wisconsin  
(Address of principal executive offices) (Zip code)

Registrants telephone number: (414) 342-4680

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
COMMON STOCK, \$.01 PAR VALUE PER SHARE	NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

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

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

Aggregate market value of the voting stock held by non-affiliates of the registrant at June 25, 2017: \$9,561,795,781

Number of shares of the registrant's common stock outstanding at February 2, 2018: 168,413,679 shares

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Documents Incorporated by Reference

Part III of this report incorporates information by reference from registrant's Proxy Statement for the annual meeting of its shareholders to be held on May 10, 2018.

Harley-Davidson, Inc.

Form 10-K

For The Year Ended December 31, 2017

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## PART I

## (1) Note regarding forward-looking statements

The Company intends that certain matters discussed by the Company are “forward-looking statements” intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context statement will include words such as the Company “believes,” “anticipates,” “expects,” “plans,” “estimates,” or words of similar meaning. Similarly, statements that describe future plans, objectives, outlooks, targets, guidance or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this report. Certain of such risks and uncertainties are described in close proximity to such statements or elsewhere in this report, including under the caption “Risk Factors” in Item 1A of this report and under “Cautionary Statements” in Item 7 of this report. Shareholders, potential investors, and other readers are urged to consider these factors in evaluating the forward-looking statements and cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in the Overview and Outlook section of Management's Discussion and Analysis of Financial Condition and Results of Operations are only made as of January 30, 2018 and the remaining forward-looking statements in this report are made as of the date indicated or, if a date is not indicated, as of the date of the filing of this report (February 21, 2018), and the Company disclaims any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

## Item 1. Business

## General

Harley-Davidson Motor Company was founded in 1903. Harley-Davidson, Inc. was incorporated in 1981, at which time it purchased the Harley-Davidson® motorcycle business from AMF Incorporated in a management buyout. In 1986, Harley-Davidson, Inc. became publicly held. Unless the context otherwise requires, all references to the “Company” include Harley-Davidson, Inc. and all of its subsidiaries. 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 has two reportable segments: the Motorcycles & Related Products (Motorcycles) segment and the Financial Services segment.

See Note 18 of the Notes to Consolidated Financial Statements for financial information related to the Company’s reportable segments and revenue by geographic area.

## Motorcycles and Related Products Segment

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

The following table includes Motorcycles segment revenue by product line as a percent of total revenue for the last three fiscal years:

	2017	2016	2015
Motorcycles	77.8 %	78.2 %	77.8 %
Parts & Accessories	16.4 %	16.0 %	16.2 %
General Merchandise	5.3 %	5.4 %	5.5 %
Other	0.5 %	0.4 %	0.5 %
	100.0 %	100.0 %	100.0 %

Motorcycles - The Company's Harley-Davidson motorcycles include cruiser and touring models that feature classic styling, innovative design, distinctive sound, and superior quality with the ability to customize. Harley-Davidson motorcycles generally have engines with displacements that are greater than 601cc's, up to a maximum displacement of approximately 1900cc's.



The Company's motorcycles compete in the cruiser and touring categories of the market which were pioneered by the Company. The total on-road motorcycle market is comprised of the following categories:

• Cruiser (emphasizes styling and owner customization);

• Touring (emphasizes rider comfort and load capacity and incorporates features such as fairings and luggage compartments);

• Standard (a basic motorcycle which usually features upright seating for one or two passengers);

• Sportbike (incorporates racing technology, aerodynamic styling, low handlebars with a “sport” riding position and high performance tires); and

• Dual (designed with the capability for use on public roads as well as for some off-highway recreational use).

Competition in the categories of the motorcycle market in which the Company competes is based upon a number of factors, including product capabilities and features, styling, price, quality, reliability, warranty, availability of financing, and quality of dealer network. The Company believes its motorcycles continue to generally command a premium price at retail relative to competitors’ motorcycles. The Company emphasizes remarkable styling, customization, innovation, sound, quality, and reliability in its products and generally offers a two-year warranty for its motorcycles. The Company considers the availability of a line of motorcycle parts and accessories and general merchandise, the availability of financing through HDFS and its global network of premium dealers to be competitive advantages.

In 2017, the U.S. and European markets accounted for approximately 77% of the total annual independent dealer retail sales of new Harley-Davidson motorcycles. The most significant other markets for the Company, based on the Company's 2017 retail sales data, were Australia, Japan and Canada.

Harley-Davidson has been the historical market share leader in the U.S. 601+cc portion of the motorcycle market.

According to the Motorcycle Industry Council (MIC), the cruiser and touring categories accounted for approximately 73% of total 2017 601+cc retail unit registrations in the U.S. During 2017, the 601+cc portion of the market represented approximately 82% of the total U.S. motorcycle market in terms of new units registered.

The following chart includes U.S. retail registration data for 601+cc motorcycles for the years 2015 through 2017:

U.S. Motorcycle Registration Data<sup>(a)(b)</sup>

601+cc (Units in thousands)

	2017	2016	2015
Total new motorcycle registrations	288.8	311.7	328.8
Harley-Davidson new registrations	146.5	159.5	165.1
	50.7 %	51.2 %	50.2 %

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

U.S. industry data is derived from information provided by the Motorcycle Industry Council (MIC). This third-party data is subject to revision and update. The retail registration data for Harley-Davidson motorcycles presented in this table will differ from the Harley-Davidson retail sales data presented in Item 7 of this report. The Company’s source for retail sales data in Item 7 of this report is sales and warranty registrations provided by (b) Harley-Davidson dealers as compiled by the Company. The retail sales data in Item 7 includes sales of Harley-Davidson Street<sup>®</sup> 500 motorcycles which are excluded from the 601+cc units included in the retail registration data in this table. In addition, small differences may arise related to the timing of data submissions to the independent sources.

The European 601+cc motorcycle market is larger than the U.S. market and customer preferences differ from those of U.S. customers. The touring and cruiser categories represented approximately 52% of the European 601+cc market in 2017 compared to approximately 73% of the 601+ cc market in the U.S.

The following chart includes European retail registration data for 601+cc motorcycles for the years 2015 through 2017:

European Motorcycle Registration Data<sup>(a)(b)</sup>

601+cc (Units in thousands)

	2017	2016	2015
Total new motorcycle registrations	390.6	391.9	351.8
Harley-Davidson new registrations	38.1	42.3	37.0
	9.8 %	10.8 %	10.5 %

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

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

(b) The retail registration data for Harley-Davidson motorcycles presented in this table will differ from the Harley-Davidson retail sales data presented in Item 7 of this report. The Company's source for retail sales data in Item 7 of this report is sales and warranty registrations provided by Harley-Davidson dealers as compiled by the Company. The retail sales data in Item 7 includes sales of Harley-Davidson Street<sup>®</sup> 500 motorcycles which are excluded from the 601+cc units included in the retail registration data in this table. In addition, some differences may arise related to the timing of data collected by the independent sources.

Parts and Accessories (P&A) and General Merchandise – The Company offers a complete line of Harley-Davidson P&A and General Merchandise. P&A products are comprised of replacement parts (Genuine Motor Parts) and mechanical and cosmetic accessories (Genuine Motor Accessories). General Merchandise includes MotorClothes<sup>®</sup> apparel and riding gear.

Licensing – The Company creates an awareness of the Harley-Davidson brand among its customers and the non-riding public through a wide range of products for enthusiasts by licensing the name “Harley-Davidson” and other trademarks owned by the Company. Royalty revenues from licensing, included in Motorcycles revenue, were \$35.5 million, \$38.1 million and \$46.5 million in 2017, 2016 and 2015, respectively.

Patents and Trademarks – The Company strategically manages its portfolio of patents, trade secrets, copyrights, trademarks and other intellectual property.

The Company and its subsidiaries own, and continue to obtain, patent rights that relate to its motorcycles and related products and processes for their production. Certain technology-related intellectual property is also protected, where appropriate, by license agreements, confidentiality agreements or other agreements with suppliers, employees and other third parties. The Company diligently protects its intellectual property, including patents and trade secrets, and its rights to innovative and proprietary technology and designs. This protection, including enforcement, is important as the Company moves forward with investments in new products, designs and technologies. While the Company believes patents are important to its business operations and in the aggregate constitute a valuable asset, the success of the business is not dependent on any one patent or group of patents. The Company's active patent portfolio has an average age for patents of approximately seven and a half years. A patent review committee manages the patent strategy and portfolio of the Company.

Trademarks are important to the Company's motorcycle business and licensing activities. The Company has a vigorous worldwide program of trademark registration and enforcement to maintain and strengthen the value of the trademarks and prevent the unauthorized use of those trademarks. The HARLEY-DAVIDSON trademark and the Bar and Shield trademark are each highly recognizable to the public and are very valuable assets. Additionally, the Company uses numerous other trademarks, trade names and logos which are registered worldwide. The following are among the Company's trademarks: HARLEY-DAVIDSON, H-D, HARLEY, the Bar & Shield Logo, MOTORCLOTHES, the MotorClothes Logo, HARLEY OWNERS GROUP, H.O.G., the H.O.G. Logo, SOFTAIL, SPORTSTER and V-ROD. The HARLEY-DAVIDSON trademark has been used since 1903 and the Bar and Shield trademark since at least

1910. Substantially all of the Company's trademarks are owned by H-D U.S.A., LLC, a subsidiary of the Company, which also manages the Company's trademark strategy and portfolio.

Marketing and Customer Experiences – The Company's products are marketed to retail customers worldwide primarily through digital and experiential activities as well as through more traditional promotional and advertising activities. Additionally, the Company's independent dealers engage in a wide range of local marketing and experiential activities in part supported by cooperative programs with the Company.



Customer experiences have traditionally been at the center of much of the Company's marketing. To attract customers and achieve its goals, the Company participates in motorcycle rallies around the world and also in major motorcycle consumer shows, racing activities, music festivals, mixed martial arts activities and other special promotional events. The Harley Owners Group (H.O.G.<sup>®</sup>) also promotes Harley-Davidson products and the related lifestyle and sponsors motorcycle events, including rallies and rides for Harley-Davidson motorcycle enthusiasts throughout the world. The Company's Harley-Davidson<sup>®</sup> Riding Academy offers a series of rider education experiences that provide both new and experienced riders with deeper engagement in the sport of motorcycling by teaching basic and advanced motorcycling skills and knowledge. The courses are conducted by a network of participating Harley-Davidson dealerships in the U.S., Canada, China, and Mexico, enabling students to experience the Harley-Davidson lifestyle, environment, people and products as they learn.

Through the Company's agreement with EagleRider, riders in the U.S. can rent Harley-Davidson motorcycles and participate in motorcycle tours. EagleRider is the exclusive provider of Harley-Davidson touring and cruiser motorcycle rentals and has locations throughout the U.S., including at select Harley-Davidson dealerships. Outside the U.S., riders can rent Harley-Davidson motorcycles from participating dealers through the Company's Authorized Rental Program and participate in tours through the Company's Harley-Davidson Authorized Tours Program. The Company's Harley-Davidson Museum (Museum) in Milwaukee, Wisconsin is a unique destination that the Company believes builds and strengthens bonds between riders and Harley-Davidson and enhances the Harley-Davidson brand among the public at large.

Distribution – The Company's products are retailed through a network of independent dealers, of which the majority sell Harley-Davidson motorcycles exclusively. These dealerships stock and sell the Company's motorcycles, P&A, general merchandise and licensed products, and perform service on Harley-Davidson motorcycles. The Company believes the quality retail experience that its independent dealers provide is a differentiating and strategic advantage for the Company.

The Company distributes its motorcycles and related products to a network of independent dealers located in approximately 100 countries worldwide. The following table includes the number of worldwide Harley-Davidson independent dealerships by geographic location as of December 31, 2017:

	United States	Canada	Latin America	EMEA	Asia Pacific	Total
Dealerships	698	68	58	398	276	1,498

P&A, general merchandise and licensed products are also retailed through eCommerce channels in certain markets. In the U.S., the eCommerce model is operated by the Company through participating authorized U.S. Harley-Davidson dealers. In China and India, the eCommerce sites are operated by third-parties.

Retail Customer and Dealer Financing – The Company believes that HDFFS, as well as other third-party financial institutions, provide access to financing for Harley-Davidson dealers and their retail customers. HDFFS provides financing to Harley-Davidson independent dealers and retail customers of independent dealers in the U.S. and Canada. The Company's independent dealers and their retail customers in EMEA, Asia Pacific and Latin America are not directly financed by HDFFS, but have access to financing through other established financial services companies, some of which have licensing or branding agreements with HDFFS.

Seasonality – The timing of retail sales made by the Company's independent dealers tracks closely with regional riding seasons. The seasonality of the Company's wholesale motorcycle shipments primarily correlates with the timing of retail sales. The Company utilizes flexible or surge manufacturing capabilities to help align the production and wholesale shipment of motorcycles with the retail selling season. This provides the Company the ability to optimize inventory levels in the U.S. and Canada. In EMEA, Asia Pacific and Latin America, the Company utilizes a distribution process whereby Company-owned inventory is maintained locally at a level sufficient to fulfill dealer orders as needed.

Motorcycle Manufacturing – The Company has a flexible manufacturing process designed to help ensure it is well-positioned to meet customer demand in a timely and cost-effective manner.<sup>(1)</sup> This flexible or surge manufacturing capability allows the Company to increase the production of motorcycles ahead of and during the peak retail selling season to more closely correlate the timing of production and wholesale shipments to the retail selling

season. It also allows the Company to respond to the desired model mix to meet customer demand. The majority of the Company's motorcycles are manufactured at facilities located in the U.S. The Company's U.S. manufacturing facilities supply the U.S. market as well as certain international markets. Additionally, the Company operates

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facilities in Brazil, India and Australia. In Brazil, the Company operates a CKD (Complete Knock Down) assembly facility, which assembles motorcycles sold in Brazil from component kits sourced from the Company's U.S. plants and its suppliers. In India, the Company operates a manufacturing facility that includes both CKD assembly of certain motorcycles for sale in India and production of the Company's Street 750<sup>®</sup> motorcycles for distribution to markets outside of North America. Like its U.S. manufacturing facilities, the Company's Brazil and India operations are focused on driving world-class performance. The motorcycles assembled at the Company's international facilities have the same authentic look, sound, feel and quality of a motorcycle manufactured by the Company's U.S. facilities. These international facilities enable the Company to be close to the customer, provide quality products at a competitive price and grow its overall international business. The Company also operates a manufacturing facility in Australia for the purpose of producing certain complex, high-finish wheels for its motorcycles.

**Raw Materials and Purchased Components** – The Company continues to establish and reinforce long-term, mutually beneficial relationships with its suppliers. Through these collaborative relationships, the Company gains access to technical and commercial resources for application directly to product design, development and manufacturing initiatives. In addition, through a continued focus on collaboration and strong supplier relationships, the Company believes it will be positioned to achieve strategic objectives and deliver cost and quality improvements over the long-term.<sup>(1)</sup>

The Company's principal raw materials that are purchased include steel and aluminum castings, forgings, steel sheet and bar. The Company also purchases certain motorcycle components, including, but not limited to, electronic fuel injection systems, batteries, certain wheels, tires, seats, electrical components and instruments. The Company closely monitors the overall viability of its supply base. At this time, the Company does not anticipate difficulties in obtaining raw materials or components.<sup>(1)</sup>

**Research and Development** – The Company incurred research and development expenses of \$175.2 million, \$172.3 million and \$161.2 million during 2017, 2016 and 2015, respectively.

**Regulation** – International, federal, state and local authorities have various environmental control requirements relating to air, water and noise that affect the business and operations of the Company. The Company strives to ensure that its facilities and products comply with all applicable environmental regulations and standards.

The Company's motorcycles and certain other products that are sold in the United States are subject to certification by the U.S. Environmental Protection Agency (EPA) and the California Air Resources Board (CARB) for compliance with applicable emissions and noise standards. Certain Harley-Davidson products are designed to comply with EPA and CARB standards and the Company believes it will comply with future requirements when they go into effect.<sup>(1)</sup> Additionally, certain of the Company's products must comply with the motorcycle emissions, noise and safety standards of Canada, the European Union, Japan, Brazil and certain other foreign markets where they are sold, and the Company believes its products currently comply with those standards. Because the Company expects that environmental standards will become more stringent over time, the Company will continue to incur research, development and production costs in this area for the foreseeable future.<sup>(1)</sup>

The Company, as a manufacturer of motorcycle products, is subject to the U.S. National Traffic and Motor Vehicle Safety Act, which is administered by the U.S. National Highway Traffic Safety Administration (NHTSA). The Company has certified to NHTSA that certain of its motorcycle products comply fully with all applicable federal motor vehicle safety standards and related regulations. The Company has from time to time initiated certain voluntary recalls. During the last three years, the Company has accrued \$86.8 million associated with 12 voluntary recalls related to Harley-Davidson motorcycles. This includes \$29.4 million recorded in 2017 associated with the previously disclosed NHTSA investigation opened in 2016 related to certain motorcycles equipped with anti-lock braking systems.

**Employees** – As of December 31, 2017, the Motorcycles segment had approximately 5,200 employees.

Approximately 2,100 unionized employees at the U.S. manufacturing facilities are represented as follows:

• York, Pennsylvania - represented by International Association of Machinist and Aerospace Workers (IAM), and the collective bargaining agreement will expire on October 15, 2022

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Kansas City, Missouri - represented by United Steelworkers of America (USW) and IAM, and the respective collective bargaining agreements will expire on July 31, 2018

• Milwaukee, Wisconsin - represented by USW and IAM, and the respective collective bargaining agreements will expire on March 31, 2019

• Tomahawk, Wisconsin - represented by USW, and the collective bargaining agreement will expire on March 31, 2019

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### Financial Services Segment

The Financial Services segment consists of HDFS which is engaged in the business of financing and servicing wholesale inventory receivables and retail consumer loans, primarily for the purchase of Harley-Davidson motorcycles. HDFS also works with certain unaffiliated insurance companies to provide motorcycle insurance and protection products to motorcycle owners. HDFS conducts business principally in the U.S. and Canada. The Company's independent dealers and their retail customers in EMEA, Asia Pacific and Latin America are not financed by HDFS, but have access to financing through other third-party financial institutions, some of which have licensing or branding agreements with the Company or HDFS.

**Wholesale Financial Services** – HDFS provides wholesale financial services to Harley-Davidson dealers, including floorplan and open account financing of motorcycles and motorcycle parts and accessories. HDFS offers wholesale financial services to Harley-Davidson dealers in the United States and Canada, and during 2017, all of such dealers utilized those services at some point during the year.

**Retail Financial Services** – HDFS provides retail financing to consumers, consisting primarily of installment lending for the purchase of new and used Harley-Davidson motorcycles. HDFS' retail financial services are available through most Harley-Davidson dealerships in the United States and Canada.

**Insurance Services** – HDFS works with certain unaffiliated insurance companies which offer point-of-sale protection products through most Harley-Davidson dealers in both the U.S. and Canada, including motorcycle insurance, extended service contracts and motorcycle maintenance protection. HDFS also direct-markets motorcycle insurance and extended service contracts to owners of Harley-Davidson motorcycles. In addition, HDFS markets a comprehensive package of business insurance coverages and services to owners of Harley-Davidson dealerships.

**Licensing** – HDFS has licensing arrangements with third-party financial institutions that issue credit cards bearing the Harley-Davidson brand in U.S. and international markets. Internationally, HDFS licenses the Harley-Davidson brand to local third-party financial institutions that offer products to the Company's retail customers such as financing and insurance.

**Funding** – The Company believes a diversified and cost-effective funding strategy is important to meet HDFS' goal of providing credit while delivering appropriate returns and profitability. Financial Services operations have been funded with unsecured debt, unsecured commercial paper, asset-backed commercial paper conduit facilities, committed unsecured bank facilities and asset-backed securitizations.

**Competition** – The Company regards its ability to offer a package of wholesale and retail financial services in the U.S. and Canada as a significant competitive advantage. Competitors in the financial services industry compete for business based largely on price and, to a lesser extent, service. HDFS competes on convenience, service, brand association, dealer relations, industry experience, terms and price.

In the United States, HDFS financed 61.2% of new Harley-Davidson motorcycles retailed by independent dealers during 2017, compared to 61.7% in 2016. In Canada, HDFS financed 41.9% of new Harley-Davidson motorcycles retailed by independent dealers during 2017, compared to 45.3% in 2016. Competitors for retail motorcycle finance business are primarily banks, credit unions and other financial institutions. In the motorcycle insurance business, competition primarily comes from national insurance companies and from insurance agencies serving local or regional markets. For insurance-related products such as extended service contracts, HDFS faces competition from certain regional and national industry participants as well as dealer in-house programs. Competition for the wholesale motorcycle finance business primarily consists of banks and other financial institutions providing wholesale financing to Harley-Davidson dealers in their local markets.

**Trademarks** – HDFS uses various trademarks and trade names for its financial services and products which are licensed from H-D U.S.A., LLC, including HARLEY-DAVIDSON, H-D and the Bar & Shield logo.

**Seasonality** – HDFS experiences seasonal variations in retail financing activities based on the timing of regional riding seasons in the U.S. and Canada. In general, from mid-March through August, retail financing volume is greatest. HDFS wholesale financing volume is affected by inventory levels at Harley-Davidson dealers. Dealers generally have higher inventory levels of new and used motorcycles in the winter than during the spring and summer riding season. As a result, wholesale financing volume is generally higher during the winter as compared to the rest of the year.

Regulation – Operations of HDFS (both U.S. and foreign) are subject, in certain instances, to supervision and regulation by state and federal administrative agencies and various foreign governmental authorities. Many of the requirements imposed by such entities are in place to provide consumer protection as it pertains to the selling and servicing of financial products and services. Therefore, HDFS operations may be subject to limitations imposed by regulations, laws and judicial and/or

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administrative decisions. In the U.S. for example, applicable laws include the federal Truth-in-Lending Act, Equal Credit Opportunity Act and Fair Credit Reporting Act.

Depending on the specific facts and circumstances involved, non-compliance with these laws may result in consequences such as limiting the ability of HDFS to collect all or part of the principal or interest on applicable loans, entitling the borrower to rescind the loan or to obtain a refund of amounts previously paid, or could subject HDFS to the payment of damages or penalties and administrative sanctions, including “cease and desist” orders, and could limit the number of loans eligible for HDFS securitization programs.

The Dodd-Frank Wall Street Reform and Consumer Protection Act granted the federal Consumer Financial Protection Bureau (CFPB) significant supervisory, enforcement, and rule-making authority in the area of consumer financial products and services. Certain CFPB actions and regulations will directly impact HDFS and its operations. For example, the CFPB has supervisory authority over non-bank larger participants in the vehicle financing market, which includes a non-bank subsidiary of HDFS.

Such regulatory requirements and associated supervision also could limit the discretion of HDFS in operating its business. Noncompliance with applicable statutes or regulations could result in the suspension or revocation of any charter, license or registration at issue, as well as the imposition of civil fines, criminal penalties and administrative sanctions.

A subsidiary of HDFS, Eaglemark Savings Bank (ESB), is a Nevada state thrift chartered as an Industrial Loan Company (ILC). The activities of this subsidiary are governed by federal laws and regulations as well as State of Nevada banking laws, and are subject to examination by the Federal Deposit Insurance Corporation (FDIC) and Nevada state bank examiners. ESB originates retail loans and sells the loans to a non-banking subsidiary of HDFS. This process allows HDFS to offer retail products with many common characteristics across the United States and to similarly service loans to U.S. retail customers.

Employees – As of December 31, 2017, the Financial Services segment had approximately 600 employees.

#### Internet Access

The Company’s website address for investor relations is <http://investor.harley-davidson.com/>.

The Company’s Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to those reports, are available on its website free of charge as soon as reasonably practicable after it electronically files such material with, or furnishes such material to, the United States Securities and Exchange Commission (SEC).

In addition, the Company makes available, through its website, the following corporate governance materials: (a) the Company’s Corporate Governance Policy; (b) Committee Charters approved by the Company’s Board of Directors for the Audit and Finance Committee, Human Resources Committee, Nominating and Corporate Governance Committee and Sustainability Committee; (c) the Company’s Financial Code of Ethics; (d) the Company’s Code of Business Conduct (the Code of Conduct) in nine languages including English; (e) the Conflict of Interest Process for Directors, Executive Officers and Other Employees (the Conflict Process); (f) a list of the Company’s Board of Directors; (g) the Company’s Bylaws; (h) the Company’s Environmental and Energy Policy; (i) the Company’s Policy for Managing Disclosure of Material Information; (j) the Company’s Supplier Code of Conduct in four languages including English; (k) the Sustainability Strategy Report; (l) the list of compensation survey participants used as market reference points for various components of compensation as reported in the Company’s Notice of Annual Meeting and Proxy Statement filed with the SEC on March 20, 2017, which compensation relates to the Company’s named executive officers; (m) the California Transparency in Supply Chain Act Disclosure; (n) Statement on Conflict Minerals; (o) Political Engagement and Contributions 2016-2017; and (p) the Company’s Clawback Policy.

The Company satisfies the disclosure requirements under the Code of Conduct, the Conflict Process and applicable New York Stock Exchange listing requirements regarding waivers of the Code of Conduct or the Conflict Process by disclosing the information in the Company’s proxy statement for its annual meeting of shareholders or on the Company’s website. The Company is not including the information contained on or available through its website as a part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

#### Item 1A. Risk Factors

An investment in Harley-Davidson, Inc. involves risks, including those discussed below. These risk factors should be considered carefully before deciding whether to invest in the Company.



The Company may not be able to successfully execute its long-term business strategy. There is no assurance that the Company will be able to drive growth and increase ridership to the extent desired through its focus of efforts and resources on its long-term business strategy and the Harley-Davidson brand, or to enhance productivity and profitability to the extent desired through pricing and continuous improvement.

The Company's strategy to grow ridership may not be successful. The Company has been successful in marketing its products in large part by promoting the experience of Harley-Davidson motorcycling. To sustain and grow the business over the long-term, the Company must grow the sport of motorcycling and continue to be successful selling products and promoting the experience of motorcycling to new customers, including new riders, competitive riders and those who have motorcycle licenses but do not currently ride. The Company's efforts toward building two million riders in the U.S. between 2017 and 2027 and growing ridership internationally may not be successful, and achieving such growth in ridership may still not adequately meet the desired result of driving unit sales growth. Further, growing ridership in the U.S. may be challenging because the motorcycle market in the U.S. has been stagnant or declining, and the Company expects those conditions to continue. Failure to successfully drive demand for the Company's products may have a material adverse effect on the Company's business and results of operations.

The Company must effectively execute its manufacturing optimization plan within expected costs and timing. In January 2018, the Company announced a multi-year manufacturing optimization plan anchored by the consolidation of its final assembly plant in Kansas City, Missouri, into its York, Pennsylvania plant, and the closure of its wheel operations in Australia. These actions are designed to eliminate excess capacity and reduce production costs and component supply costs. Effectively executing these plans within expected costs and realizing expected benefits will depend upon a number of factors, including the time required to complete planned actions and effective collaboration with the unions representing the Company's employees, the absence of material issues associated with workforce reductions, availability of and effective use of third-party service providers to assist in implementing the actions, the ability and effectiveness of current suppliers to take on additional component production volume, avoidance of unexpected disruptions in production, retention of key employees involved in implementing the restructuring plans and the ability of the Company to dispose of vacated facilities in a cost effective manner.

The Company's ability to remain competitive is dependent upon its capability to develop and successfully introduce new, innovative and compliant products. The motorcycle market continues to change in terms of styling preferences and advances in new technology and, at the same time, be subject to increasing regulations related to safety and emissions. The Company must continue to distinguish its products from its competitors' products with unique styling and new technologies. The Company may not be able to achieve its goal of introducing 100 new, high-impact motorcycle models between 2017 and 2027, and introducing those models may still not lead to the desired result of driving unit sales growth. As the Company incorporates new and different features and technology into its products, the Company must protect its intellectual property from imitators and ensure its products do not infringe the intellectual property of other companies. In addition, these new products must comply with applicable regulations worldwide and satisfy the potential demand for products that produce lower emissions and achieve better fuel economy. The Company must make product advancements to respond to changing consumer preferences and market demands while maintaining the classic look, sound and feel associated with Harley-Davidson products, and development of electric vehicles will present challenges to the Company's ability to maintain such look, sound and feel. The Company must also be able to design and manufacture these products and deliver them to a global marketplace in an efficient and timely manner and at prices that are attractive to customers. There can be no assurances that the Company will be successful in these endeavors or that existing and prospective customers will like or want the Company's new products.

Increased supply of and/or declining prices for used motorcycles and excess supply of new motorcycles may adversely impact retail sales of new motorcycles by the Company's independent dealers. The Company has observed that when the supply of used motorcycles increases or the prices for used Harley-Davidson motorcycles decline, there

can be reduced demand among retail purchasers for new Harley-Davidson motorcycles (at or near manufacturer's suggested retail prices). Further, the Company and its independent dealers can and do take actions that influence the markets for new and used Harley-Davidson motorcycles. For example, introduction of new motorcycle models with significantly different functionality, technology or other customer satisfiers can result in increased supply of used motorcycles, which could result in declining prices for used motorcycles and prior model-year new motorcycles. Also, while the Company has taken steps designed to balance production volumes for its new motorcycles with demand, those steps may not be effective, or the Company's competitors could choose to supply new motorcycles to the market in excess of demand at reduced prices which could also have the effect of reducing demand for new Harley-Davidson motorcycles (at or near manufacturer's suggested retail prices). Ultimately, reduced demand among retail purchasers for new Harley-Davidson motorcycles leads to reduced shipments by the Company.

The motorcycle industry has become increasingly competitive. Many of the Company's competitors are more diversified than the Company, and they may compete in all segments of the motorcycle market, other powersports markets and/or the automotive market. Certain competitors appear to be increasing their investment in products that compete with the Company's products. Also, the Company's manufacturer's suggested retail price for its motorcycles is generally higher than its competitors, and as price becomes a more important competitive factor for consumers in the markets in which the Company competes, the Company may be at a competitive disadvantage. Furthermore, many competitors headquartered outside the U.S. experience a financial benefit from a strengthening in the U.S. dollar relative to their home currency that can enable them to reduce prices to U.S. consumers. In addition, the Company's financial services operations face competition from various banks, insurance companies and other financial institutions that may have access to additional sources of capital at more competitive rates and terms, particularly for borrowers in higher credit tiers. The Company's responses to these competitive pressures, or its failure to adequately address and respond to these competitive pressures, may have a material adverse effect on the Company's business and results of operations.

Changes in general economic and business conditions, tightening of credit and retail markets, political events or other factors may adversely impact dealers' retail sales. The motorcycle industry is impacted by general economic conditions over which motorcycle manufacturers have little control. These factors can weaken the retail environment and lead to weaker demand for discretionary purchases such as motorcycles. Weakened economic conditions in certain business sectors and geographic areas, such as oil-dependent areas, can also result in reduced demand for the Company's products. Tightening of credit can limit the availability of funds from financial institutions and other lenders and sources of capital which could adversely affect the ability of retail consumers to obtain loans for the purchase of motorcycles from lenders, including HDFS. Should general economic conditions or motorcycle industry demand decline, the Company's results of operations and financial condition may be substantially adversely affected. The motorcycle industry can also be affected by political conditions and other factors over which motorcycle manufacturers have little control.

Expanding international sales and operations subjects the Company to risks that may have a material adverse effect on its business. Expanding international sales and operations is a part of the Company's long-term business strategy, particularly in light of the U.S. market conditions. There is no assurance that the Company will accomplish this successfully. Further, to support that strategy, the Company must increase its presence outside the U.S., including additional employees and investment in business infrastructure and operations. International operations and sales are subject to various risks, including political and economic instability, local labor market conditions, the imposition of foreign tariffs and other trade barriers, the impact of foreign government laws and regulations and U.S. laws and regulations that apply to international operations, and the effects of income and withholding taxes, governmental expropriation and differences in business practices. The Company may incur increased costs and experience delays or disruptions in product deliveries and payments in connection with international operations and sales that could cause loss of revenues and earnings. Unfavorable changes in the political, regulatory and business climate could have a material adverse effect on the Company's net sales, financial condition, profitability or cash flows. Business practices that may be accepted in other countries can violate U.S. or other laws that apply to the Company. Violations of laws that apply to the Company's foreign operations, such as the U.S. Foreign Corrupt Practices Act, could result in severe criminal or civil sanctions, could disrupt the Company's business and result in an adverse effect on the Company's reputation, business and results of operations.

The Company may not be able to successfully execute its manufacturing strategy. The Company's manufacturing strategy is designed to continuously improve product quality and increase productivity, while reducing costs and increasing flexibility to respond to ongoing changes in the marketplace. Based on the Company's strategy, the Company may, from time to time, open, close, expand, contract or restructure one or more of its manufacturing facilities. The Company believes flexible manufacturing, including flexible supply chains and flexible labor

agreements, is the key element to enable improvements in the Company's ability to respond to customers in a cost effective manner. To execute this strategy, the Company must be successful in its implementation of facility changes and in its continuous improvement efforts, all of which are dependent on the involvement of management, production employees and suppliers. To execute this strategy, the Company must be successful in its continuous improvement efforts which are dependent on the involvement of management, production employees and suppliers. Any inability to achieve these objectives could adversely impact the profitability of the Company's products and its ability to deliver the right product at the right time to the customer.

The Company must prevent and detect issues with its products, components purchased from suppliers, and its suppliers' manufacturing processes to reduce the risk of recall campaigns, increased warranty costs or

litigation, increased product liability claims or litigation, delays in new model launches, and inquiries or investigations by regulatory agencies. The Company must also complete any recall campaigns within cost expectations. The Company must continually improve and adhere to product development and manufacturing processes, and ensure that its suppliers and their sub-tier suppliers adhere to product development and manufacturing processes, to ensure high quality products are sold to retail customers. If product designs or manufacturing processes are defective, the Company could experience delays in new model launches, field actions such as product programs and product recalls, inquiries or investigations from regulatory agencies, warranty claims, and product liability claims, which may involve purported class actions. While the Company uses reasonable methods to estimate the cost of warranty, recall and product liability costs and appropriately reflects those in its financial statements, there is a risk the actual costs could exceed estimates and result in damages that are not covered by insurance. Further, selling products with poor quality, the announcement of recalls, and the filing of product liability claims (whether or not successful), may also adversely affect the Company's reputation and brand strength.

The Company's Motorcycles segment is dependent upon unionized labor. Substantially all of the hourly production employees working in the Motorcycles segment are represented by unions and covered by collective bargaining agreements. Harley-Davidson Motor Company is currently a party to five collective bargaining agreements with local affiliates of the International Association of Machinists and Aerospace Workers and the United Steelworkers of America. Current collective bargaining agreements with hourly employees in Missouri, Wisconsin and Pennsylvania will expire in 2018, 2019 and 2022, respectively. There is no certainty that the Company will be successful in negotiating new agreements with these unions that extend beyond the current expiration dates or that these new agreements will be on terms that will allow the Company to be competitive or that allow the Company to execute its manufacturing optimization as planned. The Company's decisions regarding opening, closing, expanding, contracting or restructuring its facilities may require changes to existing or new bargaining agreements. The Company will need to negotiate an extension of its bargaining agreements covering its Kansas City, Missouri facility as part of its manufacturing optimization plan. Failure to extend the KC bargaining agreements, or renew other agreements when they expire or to establish new collective bargaining agreements on terms acceptable to the Company and the unions could result in the relocation of production facilities, work stoppages or other labor disruptions which may have a material adverse effect on the Company's business and results of operations.

The Company is exposed to market risk from changes in foreign exchange rates, commodity prices and interest rates. The Company sells its products internationally and in most markets those sales are made in the foreign country's local currency. As a result, a weakening in those foreign currencies relative to the U.S. dollar can adversely affect the Company's revenue and margin, and cause volatility in results of operations. Furthermore, many competitors headquartered outside the U.S. experience a financial benefit from a strengthening in the U.S. dollar relative to their home currency that can enable them to reduce prices to U.S. consumers. The Company is also subject to risks associated with changes in prices of commodities. Earnings from the Company's financial services business are affected by changes in interest rates. Although the Company uses derivative financial instruments to some extent to attempt to manage a portion of its exposure to foreign currency exchange rates and commodity prices, the Company does not attempt to manage its entire expected exposure, and these instruments generally do not extend beyond one year and may expose the Company to credit risk in the event of counterparty default to the derivative financial instruments. There can be no assurance that in the future the Company will successfully manage these risks.

The Financial Services operations are exposed to credit risk on its retail and wholesale receivables. Credit risk is the risk of loss arising from a failure by a customer, including the Company's independent dealers, to meet the terms of any contract with the Company's financial services operations. Credit losses are influenced by general business and economic conditions, including unemployment rates, bankruptcy filings and other factors that negatively affect household incomes, as well as contract terms and customer credit profiles. Credit losses are also influenced by the markets for new and used motorcycles, and the Company and its independent dealers can and do take actions that impact those markets. For example, the introduction of new models by the Company that represent significant

upgrades on previous models may result in increased supply or decreased demand in the market for used Harley-Davidson branded motorcycles, including those motorcycles that serve as collateral or security for credit that HDFS has extended. This in turn could adversely impact the prices at which those motorcycles may be sold, which may lead to increased credit losses for HDFS. Negative changes in general business, economic or market factors may have an additional adverse impact on the Company's financial services credit losses and future earnings. The Company believes HDFS' retail credit losses may continue to increase over time due to changing consumer credit behavior and HDFS' efforts to increase prudently structured loan approvals to sub-prime borrowers, as well as actions that the Company has taken and could take that impact motorcycle values. Increases in the frequency of loss and decreases in the value of repossessed Harley-Davidson branded motorcycles also adversely impact credit losses. If there are adverse circumstances that involve a material decline in values of Harley-Davidson branded motorcycles, those

circumstances or any related decline in resale values for Harley-Davidson branded motorcycles could contribute to increased delinquencies and credit losses.

The Company's operations are dependent upon attracting and retaining skilled employees, including skilled labor, executive officers and other senior leaders. The Company's future success depends on its continuing ability to identify, hire, develop, motivate, retain and promote skilled personnel for all areas of its organization, and to effectively execute reorganization actions within expected costs and realize the expected benefits of those actions. The Company's current and future total compensation arrangements, which include benefits and incentive awards, may not be successful in attracting new employees and retaining and motivating the Company's existing employees. In addition, the Company must cultivate and sustain a work environment where employees are engaged and energized in their jobs to maximize their performance, and the Company must effectively execute reorganization actions. If the Company does not succeed in attracting new personnel, retaining existing personnel, implementing effective succession plans and motivating and engaging personnel, including executive officers, the Company may be unable to develop and distribute products and services and effectively execute its plans and strategies.

A cybersecurity breach may adversely affect the Company's reputation, revenue and earnings. The Company and certain of its third-party service providers and vendors receive, store, and transmit digital personal information in connection with the Company's human resources operations, financial services operations, e-commerce, the Harley Owners Group, dealer management, and other aspects of its business. The Company's information systems, and those of its third-party service providers and vendors, are vulnerable to the increasing threat of continually evolving cybersecurity risks. Unauthorized parties have attempted to and may attempt in the future to gain access to these systems or the information the Company and its third-party service providers and vendors maintain and use through fraud or other means of deceiving our employees and third-party service providers and vendors. Hardware, software or applications the Company develops or obtains from third-parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security and/or the Company's operations. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving and may be difficult to anticipate or detect. The Company has implemented and regularly reviews and updates processes and procedures to protect against unauthorized access to or use of secured data and to prevent data loss. However, the ever-evolving threats mean the Company and third-party service providers and vendors must continually evaluate and adapt systems and processes, and there is no guarantee that they will be adequate to safeguard against all data security breaches or misuses of data. The Company has experienced information security attacks, but to date they have not compromised the Company's computing environment or resulted in a material impact on the Company's business or operations or the release of confidential information about employees, customers, dealers, suppliers or other third parties. Any future significant compromise or breach of the Company's data security, whether external or internal, or misuse of customer, employee, dealer, supplier or Company data could result in disruption to the Company's operations, significant costs, lost sales, fines and lawsuits, and/or damage to the Company's reputation. In addition, as the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and evolving requirements, compliance could also result in the Company being required to incur additional costs.

The Company sells its products at wholesale and must rely on a network of independent dealers to manage the retail distribution of its products. The Company depends on the capability of its independent dealers to develop and implement effective retail sales plans to create demand among retail purchasers for the motorcycles and related products and services that the dealers purchase from the Company. If the Company's independent dealers are not successful in these endeavors, then the Company will be unable to maintain or grow its revenues and meet its financial expectations. Further, independent dealers may experience difficulty in funding their day-to-day cash flow needs and paying their obligations resulting from adverse business conditions such as weakened retail sales and tightened credit. If dealers are unsuccessful, they may exit or be forced to exit the business or, in some cases, the Company may seek to terminate relationships with certain dealerships. As a result, the Company could face additional

adverse consequences related to the termination of dealer relationships. Additionally, liquidating a former dealer's inventory of new and used motorcycles can add downward pressure on new and used motorcycle prices. Further, the unplanned loss of any of the Company's independent dealers may lead to inadequate market coverage for retail sales of new motorcycles and for servicing previously sold motorcycles, create negative impressions of the Company with its retail customers, and adversely impact the Company's ability to collect wholesale receivables that are associated with that dealer.

The Company must comply with governmental laws and regulations that are subject to change and involve significant costs. The Company's sales and operations in areas outside the U.S. may be subject to foreign laws, regulations and the legal systems of foreign courts or tribunals. These laws and policies governing operations of foreign-based companies may result in increased costs or restrictions on the ability of the Company to sell its products



in certain countries. U.S. laws and policies affecting foreign trade and taxation may also adversely affect the Company's international sales operations.

The Company's domestic sales and operations are subject to governmental policies and regulatory actions of agencies of the United States Government, including the Environmental Protection Agency (EPA), SEC, National Highway Traffic Safety Administration, Department of Labor and Federal Trade Commission. In addition, the Company's sales and operations are also subject to laws and actions of state legislatures and other local regulators, including dealer statutes and licensing laws. Changes in regulations or the imposition of additional regulations may have a material adverse effect on the Company's business and results of operations.

**Tax** - The Company is subject to income and non-income based taxes in the U.S. and in various foreign jurisdictions. Significant judgment is required in determining the Company's worldwide income tax liabilities and other tax liabilities including the impact of the 2017 Tax Cuts and Jobs Act (2017 Tax Act). The Company believes that it complies with applicable tax law. If the governing tax authorities have a different interpretation of the applicable law or if there is a change in tax law, the Company's financial condition and/or results of operations may be adversely affected. To the extent there are considerable changes to tax laws, the Company may need to readjust its tax strategy, and may not be able to take full advantage of such changes. Furthermore, given the complexity and timing of the 2017 Tax Act, future guidance, interpretations and pronouncements may add clarity to the numerous aspects of the 2017 Tax Act that impact the Company. Future clarifications may give rise to additional unanticipated matters that could impact the Company's tax liabilities and effective tax rate that result in revisions to the Company's provisional estimates related to the 2017 Tax Act included in the Company's 2017 income tax provision, which could in turn adversely impact future operating results.

**Environmental** - The Company's motorcycle products use internal combustion engines. These motorcycle products are subject to statutory and regulatory requirements governing emissions and noise, including standards imposed by the EPA, state regulatory agencies, such as California Air Resources Board, and regulatory agencies in certain foreign countries where the Company's motorcycle products are sold. The Company is also subject to statutory and regulatory requirements governing emissions and noise in the conduct of the Company's manufacturing operations. Any significant change to the regulatory requirements governing emissions and noise may substantially increase the cost of manufacturing the Company's products. If the Company fails to meet existing or new requirements, then the Company may be unable to sell certain products or may be subject to fines or penalties. Further, in response to concerns about global climate changes and related changes in consumer preferences, the Company may face greater regulatory or customer pressure to develop products that generate less emissions. This may require the Company to spend additional funds on research, product development, and implementation costs and subject the Company to the risk that the Company's competitors may respond to these pressures in a manner that gives them a competitive advantage.

**Financial Services** - The Company's financial services operations are governed by a wide range of foreign, federal and state laws that regulate financial and lending institutions, and financial services activities. In the U.S. for example, these laws include the federal Truth-in-Lending Act, Equal Credit Opportunity Act and Fair Credit Reporting Act. The financial services operations originate the majority of its consumer loans through its subsidiary, Eaglemark Savings Bank, a Nevada state thrift chartered as an industrial loan company. Federal and state bodies may in the future impose additional laws, regulation and supervision over the financial services industry.

Violations of, or non-compliance with, relevant laws and regulations may limit the ability of HDFS to collect all or part of the principal or interest on applicable loans, may entitle the borrower to rescind the loan or obtain a refund of amounts previously paid, could subject HDFS to payment of damages, civil fines, or criminal penalties and administrative sanctions and could limit the number of loans eligible for HDFS securitizations programs. Such regulatory requirements and associated supervision also could limit the discretion of HDFS in operating its business, such as through the suspension or revocation of any charter, license or registration at issue, as well as the imposition of administrative sanctions, including "cease and desist" orders. The Company cannot assure that the applicable laws or regulations will not be amended or construed in ways that are adverse to HDFS, that new laws and regulations will not be adopted in the future, or that laws and regulations will not attempt to limit the interest rates charged by HDFS, any of which may adversely affect the business of HDFS or its results of operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) is a sweeping piece of legislation impacting financial services and the full effect will not be fully known for years, as regulations that are intended to implement the Dodd-Frank Act are adopted, and the text of the Dodd-Frank Act is analyzed by stakeholders and possibly the courts. The Dodd-Frank Act also created the Consumer Financial Protection Bureau (CFPB). The CFPB has significant enforcement and rule-making authority in the area of consumer financial products and services. The direction that the CFPB will take, the regulations it will adopt, and its interpretation of existing laws

and regulations are all elements that are not yet fully known. Compliance may be costly and could affect operating results as the implementation of new forms, processes, procedures and controls and infrastructure may be required. Compliance may create operational constraints and place limits on pricing. Failure to comply, as well as changes to laws and regulations, or the imposition of additional laws and regulations, could affect HDFS' earnings, limit its access to capital, limit the number of loans eligible for HDFS securitization programs and have a material adverse effect on HDFS' business and results of operations. The CFPB also has supervisory authority over certain non-bank larger participants in the vehicle financing market, which includes a non-bank subsidiary of HDFS, allowing the CFPB to conduct comprehensive and rigorous on-site examinations that could result in enforcement actions, fines, changes to processes and procedures, product-related changes or consumer refunds, or other actions.

U.S. Public Company - The Company is also subject to policies and actions of the SEC and New York Stock Exchange (NYSE). Many major competitors of the Company are not subject to the requirements of the SEC or the NYSE rules. As a result, the Company may be required to disclose certain information that may put the Company at a competitive disadvantage to its principal competitors.

Weather may impact retail sales by the Company's independent dealers. The Company has observed that abnormally cold and/or wet conditions in a region, including impacts from hurricanes or unusual storms, could have the effect of reducing demand or changing the timing for purchases of new Harley-Davidson motorcycles. Reduced demand for new Harley-Davidson motorcycles ultimately leads to reduced shipments by the Company.

The Company relies on third party suppliers to obtain raw materials and provide component parts for use in the manufacture of its motorcycles. The Company may experience supply problems relating to raw materials and components such as unfavorable pricing, poor quality, or untimely delivery. In certain circumstances, the Company relies on a single supplier to provide the entire requirement of a specific part, and a change in this established supply relationship may cause disruption in the Company's production schedule. In addition, the price and availability of raw materials and component parts from suppliers can be adversely affected by factors outside of the Company's control such as the supply of a necessary raw material or natural disasters. Further, Company suppliers may experience difficulty in funding their day-to-day cash flow needs because of tightening credit caused by financial market disruption. In addition, adverse economic conditions and related pressure on select suppliers due to difficulties in the global manufacturing arena could adversely affect their ability to supply the Company. Changes in laws and policies relating to trade and taxation may also adversely impact the Company's foreign suppliers. These supplier risks may have a material adverse effect on the Company's business and results of operations.

The Company must invest in and successfully implement new information systems and technology. The Company is continually modifying and enhancing its systems and technology to increase productivity and efficiency and to mitigate failure risks from older/aged technologies currently in its portfolio. The Company has several large, strategic information system projects in process. As new systems and technologies (and related strategies) are implemented, the Company could experience unanticipated difficulties resulting in unexpected costs and adverse impacts to its manufacturing and other business processes. When implemented, the systems and technology may not provide the benefits anticipated and could add costs and complications to ongoing operations and older technologies may fail, which may have a material adverse effect on the Company's business and results of operations.

The ability of the Company to expand international sales may be impacted by existing or new laws and regulations that impose motorcycle licensing restrictions and limit access to roads and highways. Expanding international sales is a part of the Company's long-term business strategy. A number of countries have tiered motorcycle licensing requirements that limit the ability of new and younger riders to obtain licenses to operate the Company's motorcycles, and many countries are considering the implementation of such requirements. These requirements only allow new and/or younger riders to operate smaller motorcycles for certain periods of time. Riders typically are only permitted to obtain a license to ride larger motorcycles upon reaching certain ages and/or having been licensed to ride smaller motorcycles for a certain period of time, and only after passing additional tests and paying additional fees. These

requirements pose obstacles to large displacement motorcycle ownership. Other countries have laws and regulations that prohibit motorcycles from being operated on certain roads and highways. These types of laws and regulations could adversely impact the Company's plans to expand international sales.

The Company is and may in the future become subject to legal proceedings and commercial or contractual disputes. The uncertainty associated with substantial unresolved claims and lawsuits may harm the Company's business, financial condition, reputation and brand. The defense of the lawsuits may result in the expenditures of significant financial resources and the diversion of management's time and attention away from business operations.

In addition, although the Company is unable to determine the amount, if any, that it may be required to pay in connection with the resolution of the lawsuits by settlement or otherwise, any such payment may have a material adverse effect on the Company's business and results of operations. Refer to the Company's disclosures concerning legal proceedings in this Form 10-K and in the other periodic reports that the Company files with the Securities and Exchange Commission (SEC) for additional detail regarding lawsuits and other claims against the Company.

The Company, its suppliers, and its independent dealers must successfully accommodate a seasonal retail motorcycle sales pattern. The Company records the wholesale sale of a motorcycle when it is shipped to the Company's independent dealers. The Company's flexible production capability allows it to more closely correlate motorcycle production and wholesale shipments with the retail selling season. Any difficulties in executing flexible production could result in lost production or sales. The Company, its suppliers, and its independent dealers must be able to successfully manage changes in production rates, inventory levels and other business processes associated with flexible production. Failure by the Company, its suppliers, or its independent dealers to make such adjustments may have a material adverse effect on the Company's business and results of operations.

The Financial Services operations rely on external sources to finance a significant portion of its operations. Liquidity is essential to the Company's Financial Services business. Disruptions in financial markets may cause lenders and institutional investors to reduce or cease to loan money to borrowers, including financial institutions. The Company's Financial Services operations may be negatively affected by difficulty in raising capital in the long-term and short-term capital markets. These negative consequences may in turn adversely affect the Company's business and results of operations in various ways, including through higher costs of capital, reduced funds available through its financial services operations to provide loans to independent dealers and their retail customers, and dilution to existing share value through the use of alternative sources of capital.

The Financial Services operations are highly dependent on accessing capital markets to fund their operations at competitive interest rates, the Company's access to capital and its cost of capital are highly dependent upon its credit ratings, and any negative credit rating actions will adversely affect its earnings and results of operations. The ability of the Company and its Financial Services operations to access unsecured capital markets is influenced by their short-term and long-term credit ratings. If the Company's credit ratings are downgraded or its ratings outlook is negatively changed, the Company's cost of borrowing could increase, resulting in reduced earnings and interest margins, or the Company's access to capital may be disrupted or impaired. The Company borrowed \$750,000,000 in 2015 to fund the repurchase of its Common Stock, which increased the Company's leverage. Having increased leverage increases the risk of a downgrade in the Company's credit ratings.

The Company incurs substantial costs with respect to employee pension and healthcare benefits. The Company's cash funding requirements and its estimates of liabilities and expenses for pensions and healthcare benefits for both active and retired employees are based on several factors that are outside the Company's control. These factors include funding requirements of the Pension Protection Act of 2006, the rate used to discount the future estimated liability, the rate of return on plan assets, current and projected healthcare costs, healthcare reform or legislation, retirement age and mortality. Changes in these factors can impact the expense, liabilities and cash requirements associated with these benefits which could have a material adverse effect on future results of operations, liquidity or shareholders' equity. In addition, costs associated with these benefits put the Company under significant cost pressure as compared to its competitors that may not bear the costs of similar benefit plans. Furthermore, costs associated with complying with the Patient Protection and Affordable Care Act may produce additional cost pressure on the Company and its health care plans.

The Company's success depends upon the continued strength of the Harley-Davidson brand. The Company believes that the Harley-Davidson brand has significantly contributed to the success of its business and that maintaining and enhancing the brand is critical to expanding its customer base. Failure to protect the brand from infringers or to grow

the value of the Harley-Davidson brand may have a material adverse effect on the Company's business and results of operations.

The Company must maintain stakeholder confidence in its operating ethics and corporate governance practices. The Company believes it has a history of good corporate governance and operating ethics. The Company has a Code of Business Conduct that defines how employees interact with various Company stakeholders and addresses issues such as confidentiality, conflict of interest and fair dealing. Failure to maintain its reputation for good corporate governance and strong operating ethics may have a material adverse effect on the Company's business and results of operations.

The Company's operations may be affected by greenhouse emissions and climate change and related regulations. Climate change is receiving increasing attention worldwide. Many scientists, legislators and others attribute climate change to increased levels of greenhouse gases, including carbon dioxide, which has led to significant legislative and regulatory efforts to limit greenhouse gas emissions. Congress has previously considered and may in the future implement restrictions on greenhouse gas emissions. In addition, several states, including states where the Company has manufacturing plants, have previously considered and may in the future implement greenhouse gas registration and reduction programs. Energy security and availability and its related costs affect all aspects of the Company's manufacturing operations in the United States, including the Company's supply chain. The Company's manufacturing plants use energy, including electricity and natural gas, and certain of the Company's plants emit amounts of greenhouse gas that may be affected by these legislative and regulatory efforts. Greenhouse gas regulation could increase the price of the electricity the Company purchases, increase costs for use of natural gas, potentially restrict access to or the use of natural gas, require the Company to purchase allowances to offset the Company's own emissions or result in an overall increase in costs of raw materials, any one of which could increase the Company's costs, reduce competitiveness in a global economy or otherwise negatively affect the Company's business, operations or financial results. Many of the Company's suppliers face similar circumstances. Physical risks to the Company's business operations as identified by the Intergovernmental Panel on Climate Change and other expert bodies include scenarios such as sea level rise, extreme weather conditions and resource shortages. Extreme weather may disrupt the production and supply of component parts or other items such as natural gas, a fuel necessary for the manufacture of motorcycles and their components. Supply disruptions would raise market rates and jeopardize the continuity of motorcycle production.

Regulations related to conflict minerals and other materials that the Company purchases to use in its products will cause the Company to incur additional expenses and may have other adverse consequences. The SEC adopted inquiry, diligence and disclosure requirements related to certain minerals sourced from the Democratic Republic of Congo and surrounding countries, or "conflict minerals," that are necessary to the functionality of a product manufactured, or contracted to be manufactured, by an SEC reporting company. Compliance with the disclosure requirements could affect the sourcing and availability of some of the minerals that the Company uses in the manufacturing of its products. The Company's supply chain is complex, and if it is not able to determine the source and chain of custody for all conflict minerals used in its products that are sourced from the Democratic Republic of Congo and surrounding countries or determine that its products are "conflict free," then the Company may face reputational challenges with customers, investors or others. Additionally, as there may be only a limited number of suppliers offering "conflict free" minerals, if the Company chooses to use only conflict minerals that are "conflict free," the Company cannot be sure that it will be able to obtain necessary materials from such suppliers in sufficient quantities or at competitive prices. Further, other laws or regulations impacting our supply chain, such as the UK Modern Slavery Act, may have similar consequences. For example, many countries in which the Company distributes its products are beginning to introduce regulations that require knowledge and disclosure of virtually all materials and chemicals in the Company's products. Accordingly, the Company could incur significant costs related to the process of complying with these laws, including potential difficulty or added costs in satisfying the disclosure requirements.

The Company relies on third parties to perform certain operating and administrative functions for the Company. Similar to suppliers of raw materials and components, the Company may experience problems with outsourced services, such as unfavorable pricing, untimely delivery of services, or poor quality. Also, these suppliers may experience adverse economic conditions due to difficulties in the global economy that could lead to difficulties supporting the Company's operations. In light of the amount and types of functions that the Company has outsourced, these service provider risks may have a material adverse effect on the Company's business and results of operations. The Company disclaims any obligation to update these Risk Factors or any other forward-looking statements. The Company assumes no obligation (and specifically disclaims any such obligation) to update these Risk Factors or any other forward-looking statements to reflect actual results, changes in assumptions or other factors affecting such forward-looking statements.

Item 1B. Unresolved Staff Comments

None.

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## Item 2. Properties

The following is a summary of the principal operating properties of the Company as of December 31, 2017: Motorcycles & Related Products Segment

Type of Facility	Location	Approximate Square Feet	Status
Corporate Office	Milwaukee, WI	515,000	Owned
Museum	Milwaukee, WI	130,000	Owned
Manufacturing <sup>(1)</sup>	Menomonee Falls, WI	915,000	Owned
Product Development Center	Wauwatosa, WI	409,000	Owned
Manufacturing <sup>(2)</sup>	Tomahawk, WI	226,000	Owned
Manufacturing <sup>(3)</sup>	York, PA	571,000	Owned
Manufacturing <sup>(4)</sup>	Kansas City, MO	456,000	Owned
Manufacturing <sup>(5)</sup>	Manaus, Brazil	108,000	Lease expiring 2019
Regional Office	Oxford, England	39,000	Lease expiring 2022
Manufacturing <sup>(6)</sup>	Bawal, India	68,000	Lease expiring 2019
Regional Office	Singapore	24,000	Lease expiring 2020
Manufacturing <sup>(7)</sup>	Adelaide, Australia	485,000	Lease expiring 2020

(1) Motorcycle powertrain production.

(2) Plastic parts production and painting.

(3) Motorcycle parts fabrication, painting and Softail<sup>®</sup> and touring model assembly.