HARLEY DAVIDSON INC
Form 10-K
February 18, 2016

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

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

For the fiscal year ended: December 31, 2015

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

For the transition period from to

Commission file number 1-9183

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

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

Registrants telephone number: (414) 342-4680

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 ý 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 ý

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 ý 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 ý 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. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company as defined in Rule 12b-2 of the Exchange Act (check one).

Large accelerated filer	ý	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 ý

Aggregate market value of the voting stock held by non-affiliates of the registrant at June 28, 2015: $11,663,564,377

Number of shares of the registrant's common stock outstanding at January 29, 2016: 184,026,026 shares

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 April 30, 2016.

Harley-Davidson, Inc.
Form 10-K
For The Year Ended December 31, 2015

PART I

Note regarding forward-looking statements[(1)]

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 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 18, 2016), 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).

Segments

The Company operates in two reportable segments: the Motorcycles & Related Products (Motorcycles) segment and the Financial Services segment. While the two segments are strategic business units that offer different products and services and are managed separately based on the fundamental differences in their operations, the two segments work closely together as described below.

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

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

See Note 19 of Notes to Consolidated Financial Statements for financial information related to the Company's reportable segments and revenue by geographic area.

Strategy

Harley-Davidson's purpose of fulfilling dreams of personal freedom is the foundation for the Company's core strategies, which include:

- delivering high-demand, profitable products and premium retail experiences;
- strengthening Harley-Davidson through agility and responsiveness to be a leader in the global marketplace;
- extending the Harley-Davidson brand's reach beyond core customers and markets; and
- cultivating great talent, leadership and culture to enable a sustainable future.

Motorcycles and Related Products Segment

Motorcycles, Parts and Accessories and General Merchandise – The primary business of the Motorcycles segment is to design, manufacture and sell at wholesale on-road Harley-Davidson motorcycles as well as a line of motorcycle parts, accessories, general merchandise and related services. Parts and Accessories (P&A) products are comprised of replacement

3

parts (Genuine Motor Parts) and mechanical and cosmetic accessories (Genuine Motor Accessories). General Merchandise includes MotorClothes® apparel and riding gear.

The following table includes the percent of total revenue by product line for the Motorcycles and Related Products segment:

	2015		2014		2013	
Motorcycles	77.8	%	78.8	%	77.4	%
Parts & Accessories	16.2	%	15.7	%	16.6	%
General Merchandise	5.5	%	5.1	%	5.6	%
Other	0.5	%	0.4	%	0.4	%
	100.0	%	100.0	%	100.0	%

Harley-Davidson manufactures cruiser and touring motorcycles that feature classic styling, innovative design, distinctive sound, and superior quality with the ability to customize. The Company primarily produces on-road motorcycles with engine displacements of 601cc and greater. Its engines range in displacement from 494cc to 1802cc.

The 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 saddlebags, fairings, or large 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).

The cruiser and touring categories were pioneered by the Company. In 2014, the Company unveiled Project LiveWire™, an electric motorcycle it is developing and continues to evaluate for possible distribution.

Competition in the motorcycle markets 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 2015, the U.S. and European markets accounted for approximately 78% of the total annual independent dealer retail sales of new Harley-Davidson motorcycles. The Company also competes in other markets around the world. The most significant other markets for the Company, based on the Company's retail sales data, are Japan, Australia and Canada.

Harley-Davidson has been the historical market share leader in the U.S. 601+cc motorcycle market. According to the Motorcycle Industry Council (MIC), the cruiser and touring categories accounted for approximately 76% of total 2015 601+cc retail unit registrations in the U.S. During 2015, the 601+cc portion of the market represented approximately 85% 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 2013 through 2015:

U.S. Motorcycle Registration Data[(a)(b)]

601+cc (Units in thousands)

	2015		2014		2013	
Total new motorcycle registrations	328.8		313.6		305.9	
Harley-Davidson new registrations	165.1		167.1		167.8	
	50.2	%	53.3	%	54.9	%

(a) Data includes on-road 601+cc models. On-road 601+cc models include dual purpose models, three-wheeled vehicles and beginning in 2014, autocycles. Registration data for Harley-Davidson Street 500® motorcycles is not included in this table.

4

(b) U.S. industry data is derived from information provided by 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 Harley-Davidson dealers as compiled by the Company. The retail sales data in Item 7 includes sales of Street 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 slightly larger than the U.S. market and customer preferences differ from those of U.S. customers. The touring and cruiser category represented approximately 52% of the European 601+cc market in 2015 compared to approximately 76% of the 601+ cc market in the U.S.

The following chart includes European retail registration data for 601+cc motorcycles for the years 2013 through 2015:

European Motorcycle Registration Data[(a)(b)]

601+cc (Units in thousands)

	2015	2014	2013
Total new motorcycle registrations	351.7	319.8	281.8
Harley-Davidson new registrations	37.0	38.5	36.1
	10.5 %	12.0 %	12.8 %

(a) On-road 601+cc models include dual purpose models, three-wheeled vehicles and beginning in 2015, autocycles. Registration data for Harley-Davidson Street 500® motorcycles is not included in this table.

(b) 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 Association des Constructeurs Europeens de Motocycles (ACEM), an independent agency. 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 Harley-Davidson dealers as compiled by the Company. The retail sales data in Item 7 includes sales of Street 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 submissions to the independent sources.

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 segment net revenue, were $46.5 million, $47.1 million and $58.9 million in 2015, 2014 and 2013, respectively.

Other Products and Services – The Company provides a variety of services to its independent dealers including motorcycle service and business management training programs and customized dealer software packages.

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.

Customers – Harley-Davidson appeals to a diverse range of customers across multiple demographics both in the U.S. and worldwide.

U.S. retail purchasers of new Harley-Davidson motorcycles include both core and outreach customers. The Company defines its U.S. core customers as Caucasian men over the age of 35 and its U.S. outreach customers as women (Caucasian, age 35+), young adults (ages 18-34), African-American adults (age 35+), and Latino adults (age 35+). In 2014 (which is the most recent data available), for the seventh straight year the Company was the market share leader in U.S. new motorcycle registrations (all cc's) within its core-customer segment and in each outreach customer segment. (Based on the Company's analysis of Polk new motorcycle registration data from IHS Automotive)

Outside the U.S., the Company's definition of core and outreach customers varies depending on the profile of its customers in each market. In general, the Company defines it core customers outside the U.S. as men over the age of 35 and its outreach customers outside the U.S. as women and young adults.

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 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.

One of the ways the Company promotes its Harley-Davidson products and the related lifestyle is through the Harley Owners Group (H.O.G.®), which has approximately 1 million members worldwide, is the industry’s largest company-sponsored motorcycle enthusiast organization. H.O.G.® also sponsors many motorcycle events, including rallies and rides for Harley-Davidson motorcycle enthusiasts throughout the world.

The Company's Harley-Davidson® 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. Since its inception, the program has trained more than 445,000 riders. The courses are conducted by a network of participating Harley-Davidson dealerships throughout the U.S., Canada, South Africa, China, Australia, Mexico and Brazil, enabling students to experience the Harley-Davidson lifestyle, environment, people and products as they learn.

The Harley-Davidson Authorized Tours program allows motorcyclists/enthusiasts to experience riding opportunities worldwide. Riders can also rent Harley-Davidson motorcycles worldwide from participating dealers through the Company’s Authorized Rentals Program.

The Company operates the Harley-Davidson Museum (Museum) in Milwaukee, Wisconsin. The Museum 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.

P&A, general merchandise and licensed products are also retailed through eCommerce channels in certain markets. In the U.S., the eCommerce model is facilitated by the Company. Retail internet orders are fulfilled and shipped by the Company, which acts as a limited agent for participating authorized U.S. Harley-Davidson dealers who are the merchant of record for all transactions. In China and India, the eCommerce sites are operated by third-parties.

6

The Company distributes its motorcycles and related products to a network of independent dealers located in over 95 countries worldwide. The following table includes the number of worldwide Harley-Davidson independent dealerships by geographic region as of December 31, 2015:

	Americas Region					
	United States	Canada	Latin America	EMEA Region	Asia-Pacific Region	Total
Dealerships	696	68	61	378	232	1,435

Retail Customer and Dealer Financing – The Company believes that HDFS, as well as other financial services companies, provide adequate financing to Harley-Davidson dealers and their retail customers. HDFS provides financing to Harley-Davidson independent dealers and the retail customers of those 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 HDFS, but have access to financing through other established financial services companies, some of which have licensing or branding agreements with the Company.

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 its flexible or surge manufacturing capabilities to help align the production and wholesale shipments of its motorcycles with the retail selling season. This allows the Company to minimize inventory levels in the Americas region. In the EMEA and Asia Pacific regions, 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.(1) 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.

Most of the Company's manufacturing facilities are located in the U.S. Internationally, the Company operates a CKD (Complete Knock Down) assembly facility in Brazil, which assembles motorcycles sold in Brazil from component kits sourced from the Company’s U.S. plants and its suppliers. The Company also operates a manufacturing facility in India, which includes both CKD assembly of certain motorcycles for sale in India and production of the Company’s Street 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 with flexible or surge production processes to meet customer demands at reduced lead times. 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 improvement over the long-term(1).

The Company's principal raw materials that are purchased include steel and aluminum castings, forgings, steel sheets, coils and bars. 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(1).

Research and Development – The Company incurred research and development expenses of $161.2 million, $138.3 million and $152.2 million during 2015, 2014 and 2013, 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 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. Harley-Davidson motorcycle 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[(1)]. Additionally, the Company's motorcycle 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[(1)].
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 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 initiated 27 voluntary recalls related to Harley-Davidson motorcycles at a total cost of $58.1 million. The Company reserves for all estimated costs associated with recalls in the period that management approves and commits to the recall.
Employees – As of December 31, 2015, the Motorcycles segment had approximately 5,700 employees.

Approximately 2,400 unionized employees at the 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
- Kansas City, Missouri - represented by United Steelworkers of America (USW), and IAM and the respective collective bargaining agreements will expire on July 31, 2018
- Menomonee Falls, 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

Financial Services Segment
HDFS 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 is an agent for certain unaffiliated insurance companies providing motorcycle insurance and protection products to motorcycle owners. HDFS conducts business principally in the United States 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 2015, 100% of such dealers utilized those services at some point during the year. HDFS also previously offered financial services to the Harley-Davidson distributor in Canada. The wholesale finance operations of HDFS are located in Plano, Texas.
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. HDFS’ retail finance operations are principally located in Carson City, Nevada and Plano, Texas.
Insurance Services – HDFS operates as an agent for certain unaffiliated insurance companies offering point-of-sale protection products through most Harley-Davidson dealers in both the U.S. and Canada, including motorcycle insurance, extended service contracts, credit protection 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. The HDFS insurance operations are located in Carson City, Nevada and Chicago, Illinois.
Licensing – HDFS has licensing arrangements with third-party financial institutions that issue credit cards bearing the Harley-Davidson brand. 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, term asset-backed securitizations and intercompany borrowings.

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. Additionally, as the predominant lender to sub-prime customers for the purchase of motorcycles in the U.S. and Canada, HDFS enables retail sales of Harley-Davidson motorcycles with very attractive financial returns. 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 62.2% of the new Harley-Davidson motorcycles retailed by independent dealers during 2015, compared to 56.8% in 2014. In Canada, HDFS financed 39.2% of the new Harley-Davidson motorcycles retailed by independent dealers during 2015, compared to 34.0% in 2014. 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. Although the Company's surge production capabilities help reduce seasonal fluctuations in dealer inventory levels for new motorcycles, dealers generally have higher inventory levels of new and used motorcycles in the late fall and winter than during the spring and summer riding season. As a result, wholesale financing volume is higher during fall and winter as compared to the rest of the year.

Regulation – The 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 statutory and regulatory requirements imposed by such entities are in place to provide consumer protection as it pertains to the selling and ongoing servicing of financial products and services. Therefore, operations may be subject to various regulations, laws and judicial and/or administrative decisions imposing requirements and restrictions, which among other things: (a) regulate credit granting activities, including establishing licensing requirements, in applicable jurisdictions; (b) establish maximum interest rates, finance charges and other charges; (c) regulate customers' insurance coverage; (d) require disclosure of credit and insurance terms to customers; (e) govern secured transactions; (f) set collection, foreclosure, repossession and claims handling procedures and other trade practices; (g) prohibit discrimination in the extension of credit and administration of loans; (h) regulate the use and reporting of information related to a borrower; (i) require certain periodic reporting; (j) govern the use and protection of non-public personal information; (k) regulate the use of information reported to the credit reporting agencies; (l) regulate the reporting of information to the credit reporting agencies; and/or (m) regulate insurance solicitation and sales practices.

Depending on the provisions of the applicable laws and regulations, the interpretation of laws and regulations and the specific facts and circumstances involved, violations of or non-compliance with these laws may limit the ability of HDFS to collect all or part of the principal or interest on applicable loans. In addition, these violations or non-compliance may entitle the borrower to rescind the loan or to obtain a refund of amounts previously paid, 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.

Such regulatory requirements and associated supervision 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. 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 or regulations will not be adopted in the future, or that laws or 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.

A subsidiary of HDFS, Eaglemark Savings Bank (ESB), is a Nevada state thrift chartered as an Industrial Loan Company (ILC). As such, 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. The Dodd-Frank Wall Street Reform and Consumer Protection Act, which was passed into law in 2010, granted the federal Consumer Financial Protection Bureau (CFPB) significant supervisory, enforcement, and rule-making authority in the area of consumer financial products and services. While direct supervision of ESB will remain with the FDIC and the State of Nevada, certain CFPB regulations will directly impact HDFS and its operations. On September 17, 2014, the CFPB proposed a rule that would expand the scope of its supervisory authority to include non-bank larger participants in the vehicle financing market. This proposed rule became effective on August 31, 2015, giving the CFPB supervisory authority over a non-bank subsidiary of HDFS, allowing the CFPB to conduct comprehensive and rigorous on-site examinations that could result in enforcement actions, fines, regulatorily-mandated changes to processes and procedures, product-related changes or consumer refunds, or other actions.

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, 2015, the Financial Services segment had approximately 600 employees.

Internet Access

The Company's internet website address is www.harley-davidson.com. The Company makes available free of charge (other than an investor's own internet access charges) through its internet website 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, 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 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 By-laws; (h) the Company's Environmental Policy; (i) the Company's Policy for Managing Disclosure of Material Information; (j) the Company's Supplier Code of Conduct; (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 16, 2015, 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 2014-2015; and (p) the Company's Clawback Policy. This information is also available from the Company upon request. 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 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.

- Changes in general economic conditions, tightening of credit, 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. 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.

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. 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 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.

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 may attempt 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’s marketing strategy of appealing to and growing sales to multi-generational and multi-cultural customers worldwide may not continue to 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 continue to be successful selling products and promoting the experience of motorcycling to both core customers and outreach customers such as women, young adults and ethnically diverse adults. The Company must also execute its multi-generational and multi-cultural strategy without adversely impacting the strength of the brand with core customers. 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'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. 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 while maintaining the classic look, sound and feel associated with Harley-Davidson products. 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. 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.

- 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. 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. 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.

- Retail sales of the Company's independent dealers may be impacted by weather. The Company has observed that abnormally cold and/or wet conditions in a region 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.

- Retail sales of new motorcycles by the Company’s independent dealers may be adversely impacted by increased supply of and/or declining prices for used motorcycles and excess supply of new motorcycles. The Company has observed that when prices for used Harley-Davidson motorcycles have declined, it can have the effect of reducing 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 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, and a decrease in the inventory of used motorcycles available for sale at Harley-Davidson dealers in the U.S. may result in an increased supply or decreased demand in the market for used Harley-Davidson-branded 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 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. The Company’s international sales operations may also be adversely affected by U.S. laws affecting foreign trade and taxation.

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. 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.

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 various foreign, federal and state laws that more specifically affect general financial and lending institutions. 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. Congress has previously considered and may in the future impose additional regulation and supervision over the financial services industry.

Depending on the provisions of the applicable laws and regulations, the interpretation of laws and regulations and the specific facts and circumstances involved, violations of or non-compliance with these laws 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 or penalties and administrative sanctions, including "cease and desist" orders, and could limit the number of loans eligible for HDFS securitizations programs. Such regulatory requirements and associated supervision 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. 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.

In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was passed into law. The Dodd-Frank Act is a sweeping piece of legislation, and the financial services industry is still assessing the impacts. Congress detailed some significant changes, but the Dodd-Frank Act leaves many details to be determined by regulation and further study. The full impact will not be fully known for years, as regulations that are intended to implement the Dodd-Frank Act are adopted by the appropriate agencies, and the text of the Dodd-Frank Act is analyzed by impacted stakeholders and possibly the courts. The Dodd-Frank Act also created the Consumer Financial Protection Bureau (CFPB), housed in the Federal Reserve. The CFPB has been granted 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 known. Compliance with the law may be costly and could affect operating results as the implementation of new forms, processes, procedures and controls and infrastructure may be required to comply with the regulations. Compliance may create operational constraints and place limits on pricing. Failure to comply with these regulations, changes in these or other regulations, or the imposition of additional 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. On September 17, 2014 the CFPB proposed a rule that would expand the scope of its supervisory authority to include non-bank larger participants in the vehicle financing market. This proposed rule became effective on August 31, 2015, giving the CFPB supervisory authority over a non-bank subsidiary of HDFS, allowing the CFPB to conduct comprehensive and rigorous on-site examinations that could result in enforcement actions, fines, regulatorily mandated 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.

- 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. 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 Company must prevent and detect issues with its products, components purchased from suppliers, and its 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, 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. Further, selling products with poor quality and the announcement of recalls may also adversely affect the Company’s reputation and brand strength.

- 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 manufactures products that create exposure to product liability claims and litigation. To the extent plaintiffs are successful in showing that personal injury or property damage result from defects in the design or manufacture of the Company's products, the Company may be subject to claims for damages that are not covered by insurance. The costs associated with defending product liability claims, including frivolous lawsuits, and payment of damages could be substantial. The Company's reputation may also be adversely affected by such claims, whether or not successful.

• 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

14

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 the 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’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. Prior to the enactment of the Sarbanes-Oxley Act of 2002, the Company had in place many of the corporate governance procedures and processes now mandated by the Sarbanes-Oxley Act and related rules and regulations, such as Board Committee Charters and a Corporate Governance Policy. In 1992, the Company established 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 may have a material adverse effect on the Company’s 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. 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 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, 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 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 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

15

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 has a number of competitors, some of which have greater financial resources than the Company. 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 if 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 be used to fund discounted 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.

- 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. 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. 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.

- 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 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 or a decrease in the inventory of used motorcycles available for sale at Harley-Davidson dealers in the U.S. may result in increased supply or decreased demand in the market for used Harley-Davidson-branded motorcycles, including motorcycles securing 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 in the sub-prime lending environment. 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 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. Collective bargaining agreements generally cover wages, healthcare benefits and retirement plans, seniority, job classes and work rules. 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. Failure to renew these 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 customer relationships and 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. Accordingly, the Company could incur significant costs related to the compliance process, including potential difficulty or added costs in satisfying the disclosure requirements. Other laws or regulations impacting our supply chain, such as the UK Modern Slavery Act, may have similar consequences.

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.

Item 2. Properties

The following is a summary of the principal operating properties of the Company as of December 31, 2015:

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(1)	Menomonee Falls, WI	915,000	Owned
Product Development Center	Wauwatosa, WI	409,000	Owned
Manufacturing(2)	Tomahawk, WI	226,000	Owned
Manufacturing(3)	York, PA	616,000	Owned
Manufacturing(4)	Kansas City, MO	456,000	Owned
Manufacturing(5)	Manaus, Brazil	100,000	Lease expiring 2020
Regional Office	Oxford, England	39,000	Lease expiring 2017
Manufacturing(6)	Bawal, India	64,000	Lease expiring 2016
Regional Office	Singapore	24,000	Lease expiring 2020
Manufacturing(7)	Adelaide, Australia	485,000	Lease expiring 2017

(1) Motorcycle powertrain production.
(2) Plastic parts production and painting.
(3) Motorcycle parts fabrication, painting and Softail® and touring model assembly.
(4) Motorcycle parts fabrication, painting and Dyna®, Sportster®, Softail®, V-Rod® and Street platform assembly.
(5) Assembly of select models for the Brazilian market.
(6) Assembly of select models for the Indian market and production of the Street platform for non-North American markets.
(7) Motorcycle wheel production.

Financial Services Segment

Type of Facility	Location	Approximate Square Feet	Status
Office	Chicago, IL	26,000	Lease expiring 2022
Office	Plano, TX	69,321	Lease expiring 2025
Office	Carson City, NV	100,000	Owned

The Financial Services segment has three office facilities: Chicago, Illinois (corporate headquarters); Plano, Texas (wholesale and retail operations); and Carson City, Nevada (retail and insurance operations).

Item 3. Legal Proceedings

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 has delivered various additional requests for information to which the Company has responded. It is probable that a result of the EPA's investigation will be some form of enforcement action by the EPA that will seek a fine and/or other relief. The Company has a reserve associated with this matter which is included in accrued liabilities in the Consolidated Balance Sheet. However, given the uncertainty that still exists concerning the resolution of this matter, there is a possibility that the actual loss incurred may be materially different than the Company's current reserve. At this time, the Company cannot reasonably estimate the impact of any remedies the EPA might seek beyond the Company's current reserve for this matter, if any.

York Environmental Matters:

The Company is involved with government agencies and groups of potentially responsible parties in various environmental matters, including a matter involving the cleanup of soil and groundwater contamination at its York, Pennsylvania facility. The York facility was formerly used by the U.S. Navy and AMF prior to the purchase of the York facility by the Company from AMF in 1981. Although the Company is not certain as to the full extent of the environmental contamination at the York facility, it has been working with the Pennsylvania Department of Environmental Protection (PADEP) since 1986 in undertaking environmental investigation and remediation activities, including an ongoing site-wide remedial investigation/feasibility study (RI/FS). In January 1995, the Company entered into a settlement agreement (the Agreement) with the Navy, 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 future costs associated with environmental investigation and remediation activities at the York facility (Response Costs). The trust administers the payment of the Response Costs incurred at the York facility as covered by the Agreement.

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 Condensed Consolidated Balance Sheets. As noted above, the RI/FS is still underway 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 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. Response Costs are expected to be paid over the next several years.

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.

Item 4. Mine Safety Disclosures

Not Applicable

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities

Harley-Davidson, Inc. common stock is traded on the New York Stock Exchange, Inc. The high and low market prices for the common stock, reported as New York Stock Exchange, Inc. Composite Transactions, were as follows:

2015	Low	High	2014	Low	High
First quarter	$58.24	$66.58	First quarter	$60.55	$70.04
Second quarter	$53.04	$62.96	Second quarter	$63.74	$74.13
Third quarter	$50.64	$60.67	Third quarter	$60.24	$70.65
Fourth quarter	$45.00	$57.10	Fourth quarter	$54.22	$70.41

The Company paid the following dividends per share:

	2015	2014	2013
First quarter	$0.310	$0.275	$0.210
Second quarter	0.310	0.275	0.210
Third quarter	0.310	0.275	0.210
Fourth quarter	0.310	0.275	0.210
Total	$1.240	$1.100	$0.840

As of January 29, 2016, there were 75,729 shareholders of record of Harley-Davidson, Inc. common stock.

The following table contains detail related to the repurchase of common stock based on the date of trade during the quarter ended December 31, 2015:

2015 Fiscal Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
September 28 to November 1	5,720,788	$53	5,720,788	15,860,592
November 2 to November 29	5,218,675	$49	5,218,675	10,746,571
November 30 to December 31	1,761,931	$48	1,761,931	8,986,667
Total	12,701,394	$51	12,701,394	

The Company had an authorization (originally adopted in December 1997) by its Board of Directors to repurchase shares of its outstanding common stock under which the cumulative number of shares repurchased, at the time of any repurchase, shall not exceed the sum of (1) the number of shares issued in connection with the exercise of stock options occurring on or after January 1, 2004 plus (2) one percent of the issued and outstanding common stock of the Company on January 1 of the current year, adjusted for any stock split (1997 Authorization). The Company made discretionary share repurchases of 0.1 million shares during the fourth quarter ended December 31, 2015 under this authorization. As of December 31, 2015, there were no shares available under this authorization. In February 2016, the Company's Board of Directors separately authorized the Company to buy back up to 20.0 million shares of its common stock with no dollar limit or expiration date, which superseded the authority granted by the 1997 Authorization.

In December 2007, the Company’s Board of Directors separately authorized the Company to buy back up to 20.0 million shares of its common stock with no dollar limit or expiration date. The Company made no discretionary share repurchases during the fourth quarter ended December 31, 2015 under this authorization. As of December 31, 2015, no shares remained under this authorization.

In February 2014, the Company's Board of Directors authorized the Company to repurchase up to 20.0 million shares of its common stock with no dollar limit or expiration date. This board authorization is in addition to existing share repurchase authorizations. Six million six hundred thousand shares were repurchased by the Company during the quarter ended December 31, 2015 under this authorization. As of December 31, 2015, no shares remained under this authorization.

Additionally, in June 2015, the Company's Board of Directors authorized the Company to repurchase up to 15.0 million shares of its common stock with no dollar limit or expiration date. The Company repurchased 6.0 million discretionary shares

during the quarter ended December 31, 2015 under this authorization. As of December 31, 2015, 9.0 million shares remained under this authorization.

Under the share repurchase authorizations, the Company's common stock may be purchased through any one or more of a Rule 10b5-1 trading plan and discretionary purchases on the open market, block trades, accelerated share repurchases or privately negotiated transactions. The number of shares repurchased, if any, and the timing of repurchases will depend on a number of factors, including share price, trading volume and general market conditions, as well as on working capital requirements, general business conditions and other factors. The repurchase authority has no expiration date but may be suspended, modified or discontinued at any time.

The Harley-Davidson, Inc. 2014 Incentive Stock Plan and predecessor stock plans permit participants to satisfy all or a portion of the statutory federal, state and local withholding tax obligations arising in connection with plan awards by electing to (a) have the Company withhold shares otherwise issuable under the award, (b) tender back shares received in connection with such award or (c) deliver other previously owned shares, in each case having a value equal to the amount to be withheld. During the fourth quarter of 2015, the Company acquired 398 shares of common stock that employees presented to the Company to satisfy withholding taxes in connection with the vesting of restricted stock awards.

Item 12 of this Annual Report on Form 10-K contains certain information relating to the Company's equity compensation plans.

The following information in this Item 5 is not deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates it by reference into such a filing: the SEC requires the Company to include a line graph presentation comparing cumulative five year Common Stock returns with a broad-based stock index and either a nationally recognized industry index or an index of peer companies selected by the Company. The Company has chosen to use the Standard & Poor's 500 Index as the broad-based index and the Standard & Poor's MidCap 400 Index as a more specific comparison. The Standard & Poor's MidCap 400 Index was chosen because the Company does not believe that any other published industry or line-of-business index adequately represents the current operations of the Company. The graph assumes a beginning investment of $100 on December 31, 2010 and that all dividends are reinvested.

	2010 ($)	2011 ($)	2012 ($)	2013 ($)	2014 ($)	2015 ($)
Harley-Davidson, Inc.	100	114	145	208	201	142
Standard & Poor’s MidCap 400 Index	100	98	116	152	165	159
Standard & Poor’s 500 Index	100	102	118	157	178	181

Item 6. Selected Financial Data

(In thousands, except per share amounts)	2015	2014	2013	2012	2011
Statement of income data:					
Revenue:					
Motorcycles & Related Products	$5,308,744	$5,567,681	$5,258,290	$4,942,582	$4,662,264
Financial Services	686,658	660,827	641,582	637,924	649,449
Total revenue	$5,995,402	$6,228,508	$5,899,872	$5,580,506	$5,311,713
Income from continuing operations	$752,207	$844,611	$733,993	$623,925	$548,078
Income from discontinued operations, net of tax	—	—	—	—	51,036
Net income	$752,207	$844,611	$733,993	$623,925	$599,114
Weighted-average common shares:					
Basic	202,681	216,305	222,475	227,119	232,889
Diluted	203,686	217,706	224,071	229,229	234,918
Earnings per common share from continuing operations:					
Basic	$3.71	$3.90	$3.30	$2.75	$2.35
Diluted	$3.69	$3.88	$3.28	$2.72	$2.33
Earnings per common share from discontinued operations:					
Basic	$—	$—	$—	$—	$0.22
Diluted	$—	$—	$—	$—	$0.22
Earnings per common share:					
Basic	$3.71	$3.90	$3.30	$2.75	$2.57
Diluted	$3.69	$3.88	$3.28	$2.72	$2.55
Dividends paid per common share	$1.240	$1.100	$0.840	$0.620	$0.475
Balance sheet data:					
Total assets	$9,991,167	$9,528,097	$9,405,040	$9,170,773	$9,674,164
Total debt	$6,890,388	$5,504,629	$5,259,170	$5,102,649	$5,722,619
Total equity	$1,839,654	$2,909,286	$3,009,486	$2,557,624	$2,420,256

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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

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

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

Overview

The Company’s net income for 2015 was $752.2 million, or $3.69 per diluted share, compared to $844.6 million, or $3.88 per diluted share, in 2014. Operating income from the Motorcycles segment was down $127.7 million compared to 2014. Motorcycles segment operating income was negatively impacted by unfavorable currency exchange rates, lower wholesale shipment volume, unfavorable product mix and higher selling, administrative and engineering expenses. These unfavorable impacts were partially offset by model-year price increases and lower raw material and manufacturing costs. Operating income from the Financial Services segment was up modestly from the prior year, increasing $2.4 million, or 0.9%, on higher net interest income partially offset by a higher provision for credit losses.

Worldwide independent dealer retail sales of new Harley-Davidson motorcycles decreased 1.3% compared to 2014. Retail sales of new Harley-Davidson motorcycles decreased 1.7% in the U.S. and 0.5% in international markets. Retail sales were below the Company's expectations in 2015. In 2015, retail sales were adversely impacted by a significant increase in competitiveness behind currency-driven discounting and the introduction of new products by a number of our competitors as well as a challenging macro-economic environment.

Please refer to the “Results of Operations 2015 Compared to 2014” for additional details concerning the results for 2015.

(1) Note Regarding Forward-Looking Statements

The Company intends that certain matters discussed in this report are “forward-looking statements” intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such by reference to this footnote or because the context of the statement will include words such as the Company “believes,” “anticipates,” “expects,” “plans,” or “estimates” or words of similar meaning. Similarly, statements that describe future plans, objectives, outlooks, targets, guidance or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially, unfavorably or favorably, 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 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 Outlook section are only made as of January 28, 2016 and the remaining forward looking statements in this report are only made as the date of the filing of this report (February 18, 2016), and the Company disclaims any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

Outlook[(1)]

In October 2015, the Company laid out its plans for how it intends to increase its focus, investment and resolve to drive demand in 2016 and beyond. The Company has five clear objectives:

- Lead in every market by achieving and holding the number one market share of the 601+cc motorcycle segment.
- Grow the sport of motorcycling in the U.S., in part by growing the number of U.S. core customers and growing the U.S. outreach customers at a faster rate.
- Grow U.S. retail sales and grow international retail sales at a faster rate. The Company has a plan to grow its international dealer network by 150 to 200 new dealerships by 2020.
- Grow revenue and grow earnings faster than revenue through 2020.
- Outperform the S&P 500

For 2016 and beyond, the Company plans to significantly increase its spending to drive demand. The Company intends to offset this increased spending by reducing spending in other areas, primarily support functions and through a reorganization of its commercial operations aimed at being both leaner and stronger.

In 2016, the Company expects to increase its spending on customer-facing marketing by approximately 65% from 2015 levels and it expects to increase its spending on new product development by approximately 35% from 2015 levels. This spending reallocation would represent an approximate $70 million increase in the Company's spending to drive demand compared to 2015.

The Company's increased spending will be focused in four key areas:

- Increase product and brand awareness.
- Grow new ridership in the U.S. This includes the Company's target to more than double the number of riders trained annually through the Harley-Davidson Riding Academy to 100,000 globally by 2020, with the majority in the U.S.
- Increase and enhance brand access. The Company intends to continue to expand and enhance its global dealer network, develop new retail formats for urban centers and urban tastes and expand eCommerce.
- Accelerate the cadence and impact of new products and extend its leadership in features and technology that it believes matter to customers.

On January 28, 2016 the Company announced the following expectations for 2016.

The Company believes 2016 global retail sales of Harley-Davidson motorcycles will face headwinds as the competition continues to be aggressive with discounting and new product introductions. The Company also anticipates global macro-economic challenges including weakness in oil-dependent areas. Internationally, various markets are experiencing economic challenges. In particular in Brazil, the Company expects significant pressure to continue. In response to the nearly 50% devaluation of the Brazilian real last year, the Company raised prices over 20% in 2016, and it expects lower retail sales in Brazil in 2016.

The Company expects to ship 269,000 to 274,000 Harley-Davidson motorcycles during 2016, up approximately 1% to 3% over 2015. This includes 78,000 to 83,000 Harley-Davidson motorcycles that it expects to ship in the first quarter of 2016, approximately down 2% at the low end of the range to up 4% at the high end of the range over the first quarter of 2015.

The Company expects 2016 global retail motorcycle sales to grow year-over-year with international retail sales growing at a faster rate than the rate of growth in the U.S.

The Company expects the 2016 operating margin percent for the Motorcycles segment to be between 16% and 17% compared to 16.5% in 2015.

The Company expects gross margin as a percent of revenue will be down year-over-year.

The Company expects that the 2016 gross margin percent will benefit from motorcycle pricing and strong productivity gains offset by unfavorable foreign currency exchange and higher year-over-year start-up costs as it implements its enterprise resource planning (ERP) system at its Kansas City manufacturing facility. If foreign currency exchange rates on January 27, 2016 remained constant throughout 2016, which is a hypothetical expectation in what is a very volatile foreign currency exchange environment, the Company estimates the adverse impact to its expected Motorcycle segment revenue from currency exchange in 2016 would be approximately 1%. Under this scenario, the Company would also expect an unfavorable impact to

25

2016 gross margin of approximately $60 million, or 1 percentage point, driven by lower revenues and the comparison to the more favorable foreign currency contract gains it realized in 2015. In accordance with its practices, the Company has hedged a portion of its 2016 foreign currency exposure; however, the gains it would realize on those hedges at current spot rates would not be as favorable as those it realized in 2015.
Although the Company will invest significantly more in marketing and product development in 2016, the Company expects its full-year selling, administrative and engineering expenses to be flat to up modestly from 2015. As a percent of revenue, the Company expects its selling, administrative and engineering expense will decrease. The Company expects its first quarter of 2016 selling, administrative and engineering expense to be approximately $25 million higher than the first quarter of 2015 as it ramps up its efforts to drive demand.
The Company expects operating income for the Financial Services segment to be down modestly in 2016 as compared to 2015 as a result of increased borrowing costs and unfavorable credit losses, partially offset by higher revenues.
The Company's capital expenditure estimates for 2016 are between $255 million and $275 million as it increases its focus on bringing exciting new products to market and as it continues to invest in its systems infrastructure, most notably expanding the implementation of its ERP system. The Company anticipates it will have the ability to fund all capital expenditures in 2016 with cash flows generated by operations.
The Company also announced on January 28, 2016 that it expects the full year 2016 effective income tax rate to be approximately 34.5%.

Results of Operations 2015 Compared to 2014
Consolidated Results

(in thousands, except earnings per share)	2015	2014	(Decrease) Increase		% Change	
Operating income from Motorcycles & Related Products	$875,490	$1,003,147	$(127,657	)	(12.7	)%
Operating income from Financial Services	280,205	277,836	2,369		0.9	%
Operating income	1,155,695	1,280,983	(125,288	)	(9.8	)%
Investment income	6,585	6,499	86		1.3	%
Interest expense	12,117	4,162	7,955		191.1	%
Income before income taxes	1,150,163	1,283,320	(133,157	)	(10.4	)%
Provision for income taxes	397,956	438,709	(40,753	)	(9.3	)%
Net income	$752,207	$844,611	$(92,404	)	(10.9	)%
Diluted earnings per share	$3.69	$3.88	$(0.19	)	(4.9	)%

Consolidated operating income was down 9.8% in 2015 driven by a decrease in operating income from the Motorcycles segment which decreased by $127.7 million compared to 2014. Operating income for the Financial Services segment increased by $2.4 million during 2015 as compared to 2014. Please refer to the “Motorcycles and Related Products Segment” and “Financial Services Segment” discussions following for a more detailed discussion of the factors affecting operating income.
Corporate interest expense was higher in 2015 compared to 2014 due to the issuance of corporate debt. The Company issued $750.0 million of senior unsecured notes in the third quarter of 2015 and utilized the proceeds to fund the repurchase of common stock in the third and fourth quarters of 2015.
The effective income tax rate for 2015 was 34.6% compared to 34.2% for 2014.
Diluted earnings per share were $3.69 in 2015, down 4.9% compared to 2014. Diluted earnings per share were adversely impacted by the 10.9% decrease in net income, but benefited from lower diluted weighted average shares outstanding. Diluted weighted average shares outstanding decreased from 217.7 million in 2014 to 203.7 million in 2015 driven by the Company's repurchases of common stock. Please refer to "Liquidity and Capital Resources" for additional information concerning the Company's share repurchase activity.
Motorcycle Retail Sales and Registration Data
Worldwide independent dealer retail sales of Harley-Davidson motorcycles decreased 1.3% during 2015 compared to 2014. Retail sales of Harley-Davidson motorcycles decreased 1.7% in the United States and 0.5% internationally in

2015.

The Company believes 2015 U.S. retail sales of its motorcycles were negatively impacted by intense competitive activity behind currency-driven discounting and new competitor products as well as a challenging macro-economic environment.

The Company's U.S. market share of 601+cc motorcycles for 2015 was 50.2%, down 3.1 percentage points compared to 2014 (Source: Motorcycle Industry Council). The Company anticipated some level of market share loss following the 13.4 percentage point increase in recent years; however, the Company's market share over the first three quarters was more severely impacted than expected, which the Company believes is a result of the intense competitive environment and the inclusion of autocycles in the industry numbers.

International retail sales growth during 2015 in the Asia Pacific region was more than offset by declines in the EMEA region, Latin America and Canada. Retail sales in the Asia Pacific region were driven by growth in emerging markets and in Australia, partially offset by declines in Japan. The Company believes the retail sales decrease in the EMEA region was due to the introduction of several performance-oriented models by the competition. International retail sales as a percent of total retail sales in 2015 were 36.4% compared to 36.2% in 2014.

Despite the volatility in global retail sales, the Company believes it can continue to realize strong international growth opportunities by expanding its distribution network and increasing its brand relevance by delivering exceptional products that inspire riders. In 2015, the Company added 40 international dealerships, and it plans to add an additional 150 to 200 through 2020.[1]

Harley-Davidson Motorcycle Retail Sales[a]

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

	2015	2014	(Decrease) Increase	% Change
Americas Region				
United States	168,240	171,079	(2,839)	(1.7)%
Canada	9,669	9,871	(202)	(2.0)
Latin America	11,173	11,652	(479)	(4.1)
Total Americas Region	189,082	192,602	(3,520)	(1.8)
Europe, Middle East and Africa Region (EMEA)				
Europe[b]	36,894	38,491	(1,597)	(4.1)
Other	6,393	6,832	(439)	(6.4)
Total EMEA Region	43,287	45,323	(2,036)	(4.5)
Asia Pacific Region				
Japan	9,700	10,775	(1,075)	(10.0)
Other	22,558	19,299	3,259	16.9
Total Asia Pacific Region	32,258	30,074	2,184	7.3
Total Worldwide Retail Sales	264,627	267,999	(3,372)	(1.3)%
Total International Retail Sales	96,387	96,920	(533)	(0.5)%

(a) Data source for retail sales figures shown above is new sales warranty and registration information provided by Harley-Davidson dealers and compiled by the Company. The Company must rely on information that its dealers supply concerning retail sales and this information is subject to revision.

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

Motorcycle Registration Data - 601+cc[a]

The following table includes industry retail motorcycle registration data:

	2015	2014	Increase	% Change
United States[b]	328,818	313,627	15,191	4.8%
Europe[c]	351,735	319,801	31,934	10.0%

27

(a) Data includes on-road 601+cc models. On-road 601+cc models include dual purpose models, three-wheeled motorcycles and autocycles. Autocycles were included in the U.S. and Europe data beginning in 2014 and 2015, respectively. Registration data for Harley-Davidson Street 500® motorcycles is not included in this table.
(b) United States industry data is derived from information provided by Motorcycle Industry Council (MIC). This third party data is subject to revision and update.
(c) Europe data includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom. Industry retail motorcycle registration data includes 601+cc models derived from information provided by Association des Constructeurs Europeens de Motocycles (ACEM), an independent agency. This third-party data is subject to revision and update.

Motorcycles and Related Products Segment

Motorcycle Unit Shipments

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

	2015			2014			Unit		Unit	
	Units	Mix %		Units	Mix %		(Decrease) Increase		% Change	
United States	170,688	64.1	%	173,994	64.3	%	(3,306	)	(1.9	)%
International	95,694	35.9	%	96,732	35.7	%	(1,038	)	(1.1	)
Harley-Davidson motorcycle units	266,382	100.0	%	270,726	100.0	%	(4,344	)	(1.6	)%
Touring motorcycle units	114,768	43.1	%	122,481	45.2	%	(7,713	)	(6.3	)%
Cruiser motorcycle units[a]	89,207	33.5	%	91,426	33.8	%	(2,219	)	(2.4	)
Sportster® / Street motorcycle units[b]	62,407	23.4	%	56,819	21.0	%	5,588		9.8	
Harley-Davidson motorcycle units	266,382	100.0	%	270,726	100.0	%	(4,344	)	(1.6	)%

(a) Category previously referred to as "Custom" motorcycle units, as used in this table, include Dyna®, Softail®, V-Rod® and CVO models.
(b) Initial shipments of Street motorcycle units began during the first quarter of 2014.

During 2015, wholesale shipments of Harley-Davidson motorcycles were down 1.6% compared to the prior year. International shipments as a percentage of the total were up slightly in 2015 as compared to 2014. In addition, shipments of Sportster® / Street motorcycles as a percentage of total shipments increased in 2015 compared to the prior year driven by the strong acceptance of the Street motorcycles as the Company continued its global rollout of these models in 2015. Touring motorcycle shipments were down in 2015 following a 14.2% increase in shipments of Touring motorcycles in 2014 driven by demand for the new Rushmore models. As the Company expected, dealer retail inventory of new Harley-Davidson motorcycles in the U.S. at the end of 2015 was approximately 2,600 units higher than at the end of 2014, largely due to the initial dealer fill of its new 2016 model-year motorcycles. The Company believes the U.S. year-end 2015 dealer retail inventory level is appropriate as the Company aggressively manages supply in line with demand[1].

Segment Results

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

	2015	2014	(Decrease) Increase	% Change
Revenue:				
Motorcycles	$4,127,739	$4,385,863	$(258,124)	(5.9)%
Parts & Accessories	862,645	875,019	(12,374)	(1.4)
General Merchandise	292,310	284,826	7,484	2.6
Other	26,050	21,973	4,077	18.6
Total revenue	5,308,744	5,567,681	(258,937)	(4.7)
Cost of goods sold	3,356,284	3,542,601	(186,317)	(5.3)
Gross profit	1,952,460	2,025,080	(72,620)	(3.6)
Selling & administrative expense	916,669	887,333	29,336	3.3
Engineering expense	160,301	134,600	25,701	19.1
Operating expense	1,076,970	1,021,933	55,037	5.4
Operating income from Motorcycles	$875,490	$1,003,147	$(127,657)	(12.7)%

The following table includes the estimated impact of the significant factors affecting the comparability of net revenue, cost of goods sold and gross profit from 2014 to 2015 (in millions):

	Net Revenue	Cost of Goods Sold	Gross Profit
2014	$5,568	$3,543	$2,025
Volume	(59)	(29)	(30)
Price	81	9	72
Foreign currency exchange rates and hedging	(231)	(110)	(121)
Shipment mix	(50)	(20)	(30)
Raw material prices	—	(19)	19
Manufacturing costs	—	(17)	17
Total	(259)	(186)	(73)
2015	$5,309	$3,357	$1,952

The following factors affected the comparability of net revenue, cost of goods sold and gross profit from 2014 to 2015:

- On average, wholesale prices on the Company’s 2015 and 2016 model-year motorcycles were higher than the prior model-years resulting in the favorable impact on revenue during the period. The impact of revenue favorability resulting from model-year price increases on gross profit was partially offset by increases in cost related to the additional content added to the 2015 and 2016 model-year motorcycles.
- Gross profit was negatively impacted by changes in foreign currency exchange rates during 2015 compared to 2014. Revenue was negatively impacted by a weighted-average devaluation in the Euro, Japanese yen, Brazilian real and Australian dollar of 17% compared to 2014. The negative impact to revenue was partially offset by a positive impact to cost of goods sold as a result of natural hedges, benefits of foreign exchange contracts and a decrease in losses from the revaluation of foreign-denominated assets on the balance sheet.
- Shipment mix changes negatively impacted gross profit primarily due to changes in motorcycle family mix, driven by higher shipments of Sportster®/Street motorcycles. The negative motorcycle family mix was partially offset by positive mix changes within parts and accessories and general merchandise.
- Raw material prices were lower in 2015 compared to 2014.
- Manufacturing costs for 2015 benefited from increased manufacturing efficiencies and the absence of Street motorcycles start-up costs that were incurred in 2014.

The net increase in operating expense was primarily due to reorganization charges, expenses associated with the acquisition and operations of its Canadian distribution and higher recall costs.

29

As discussed in "Outlook", the Company plans to significantly increase its spending in 2016 to drive demand. It plans to offset this increased spending by reducing spending in other areas, primarily support functions and through a reorganization of its commercial operations. To support this planned reallocation of spending, the Company incurred approximately $30 million of reorganization expenses in the fourth quarter of 2015. This included approximately $23 million of operating expense and $5 million of cost of goods sold in the Motorcycles segment. These costs consisted of employee severance benefits, retirement benefits and other reorganization costs. The Company also incurred approximately $2 million of reorganization expenses in the Financial Services segment.

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. As a result of the acquisition, the Company now directly distributes its products in Canada as it does in other countries. The Company incurred approximately $20 million of selling and administrative expense related to its Canada operations in 2015.

Financial Services Segment

Segment Results

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

	2015	2014	Increase (Decrease)	% Change
Interest income	$605,770	$585,187	$20,583	3.5 %
Other income	80,888	75,640	5,248	6.9
Financial services revenue	686,658	660,827	25,831	3.9
Interest expense	161,983	164,476	(2,493)	(1.5)
Provision for credit losses	101,345	80,946	20,399	25.2
Operating expenses	143,125	137,569	5,556	4.0
Financial Services expense	406,453	382,991	23,462	6.1
Operating income from Financial Services	$280,205	$277,836	$2,369	0.9 %

Interest income was favorable due to higher average receivables in the retail and wholesale portfolios, partially offset by lower retail yields due to low rate promotions during parts of 2015 and increased competition. Other income was favorable primarily due to increased credit card licensing and insurance revenue. Other income now includes international income which had previously been reported in interest income. Prior period amounts, which were not material, have been adjusted for comparability.

Interest expense benefited from a more favorable cost of funds and a lower loss on the extinguishment of a portion of the Company's 6.80% medium-term notes than in 2014, partially offset by higher average outstanding debt.

The provision for credit losses increased $20.4 million compared to 2014. The retail motorcycle provision increased $18.2 million during 2015 as a result of higher credit losses and portfolio growth. Credit losses were higher as a result of expected increased losses in the subprime portfolio, lower recovery values on repossessed motorcycles, and deterioration in performance in oil-dependent areas of the U.S. in late 2015.

Annual losses on the Company's retail motorcycle loans were 1.42% during 2015 compared to 1.22% in 2014. The 30-day delinquency rate for retail motorcycle loans at December 31, 2015 increased to 3.78% from 3.61% at December 31, 2014.

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

	2015	2014
Balance, beginning of period	$127,364	$110,693
Provision for credit losses	101,345	80,946
Charge-offs, net of recoveries	(81,531)	(64,275)
Balance, end of period	$147,178	$127,364

At December 31, 2015, the allowance for credit losses on finance receivables was $139.3 million for retail receivables and $7.9 million for wholesale receivables. At December 31, 2014, the allowance for credit losses on finance receivables was $122.0 million for retail receivables and $5.3 million for wholesale receivables.

The Company's periodic evaluation of the adequacy of the allowance for credit losses on finance receivables is generally based on the Company's past loan loss experience, known and inherent risks in the portfolio, current economic conditions and the estimated value of any underlying collateral. Please refer to Note 5 of Notes to Consolidated Financial Statements for further discussion regarding the Company’s allowance for credit losses on finance receivables.

Results of Operations 2014 Compared to 2013

Consolidated Results

(in thousands, except earnings per share)	2014	2013	Increase (Decrease)	% Change
Operating income from Motorcycles & Related Products	$1,003,147	$870,609	$132,538	15.2 %
Operating income from Financial Services	277,836	283,093	(5,257)	(1.9)%
Operating income	1,280,983	1,153,702	127,281	11.0 %
Investment income	6,499	5,859	640	10.9 %
Interest expense	4,162	45,256	(41,094)	(90.8)%
Income before income taxes	1,283,320	1,114,305	169,015	15.2 %
Provision for income taxes	438,709	380,312	58,397	15.4 %
Net income	$844,611	$733,993	$110,618	15.1 %
Diluted earnings per share	$3.88	$3.28	$0.60	18.3 %

Consolidated operating income was up 11.0% in 2014 led by an increase in operating income from the Motorcycles segment which improved by $132.5 million compared to 2013. Operating income for the Financial Services segment decreased by $5.3 million during 2014 as compared to 2013. Please refer to the “Motorcycles and Related Products Segment” and “Financial Services Segment” discussions following for a more detailed discussion of the factors affecting operating income.

The effective income tax rate for 2014 was 34.2% compared to 34.1% for 2013. The Company's 2014 and 2013 effective tax rate included U.S. Federal Research and Development tax credits that were reinstated by the American Taxpayer Relief Act. The effective tax rate for 2013 also included the full-impact of the 2012 U.S. Federal Research and Development tax credit due to the timing of the enactment of the American Taxpayer Relief Act.

Diluted earnings per share were $3.88 in 2014, up 18.3% over 2013. The increase in diluted earnings per share was driven primarily by the 15.1% increase in net income, but also benefited from lower diluted weighted average shares outstanding. Diluted weighted average shares outstanding decreased from 224.1 million in 2013 to 217.7 million in 2014 driven by the Company's repurchases of common stock. Please refer to "Liquidity and Capital Resources" for additional information concerning the Company's share repurchase activity.

Motorcycles Retail Sales and Registration Data

Worldwide independent dealer retail sales of Harley-Davidson motorcycles increased 2.7% during 2014 compared to 2013. Retail sales of Harley-Davidson motorcycles increased 1.3% in the United States and 5.4% internationally in 2014.

The Company believes U.S. retail sales for 2014 benefited from strong sales of Rushmore and Street motorcycles that were partially offset by adverse impacts that resulted from the absence of Road Glide motorcycles for most of 2014 and very difficult weather conditions in the first half of 2014.

International retail sales growth during 2014 in the Asia Pacific region, Latin America region and EMEA region was partially offset by a decline in Canada. Retail sales in the Asia Pacific region were driven by growth in emerging markets, especially India and China. The retail sales growth in the Latin America region was driven by Mexico. The EMEA region retail sales growth was driven by growth in nearly all countries throughout the region. International retail sales as a percent of total retail sales in 2014 were 36.2% of total retail sales compared to 35.3% in 2013.

Harley-Davidson Motorcycle Retail Sales[a]

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

	2014	2013	Increase (Decrease)	% Change
North America Region				
United States	171,079	168,863	2,216	1.3 %
Canada	9,871	11,062	(1,191)	(10.8)
Total North America Region	180,950	179,925	1,025	0.6
Europe, Middle East and Africa Region (EMEA)				
Europe[b]	38,491	36,076	2,415	6.7
Other	6,832	6,533	299	4.6
Total EMEA Region	45,323	42,609	2,714	6.4
Asia Pacific Region				
Japan	10,775	10,751	24	0.2
Other	19,299	16,139	3,160	19.6
Total Asia Pacific Region	30,074	26,890	3,184	11.8
Latin America Region	11,652	11,415	237	2.1
Total Worldwide Retail Sales	267,999	260,839	7,160	2.7 %
Total International Retail Sales	96,920	91,976	4,944	5.4 %

(a) Data source for retail sales figures shown above is new sales warranty and registration information provided by Harley-Davidson dealers and compiled by the Company. The Company must rely on information that its dealers supply concerning retail sales and this information is subject to revision.

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

Motorcycle Registration Data - 601+cc[a]

The following table includes industry retail motorcycle registration data:

	2014	2013	Increase	% Change
United States[b]	313,627	305,852	7,775	2.5 %
Europe[c]	319,801	281,844	37,957	13.5 %

(a) Data includes on-road 601+cc models. On-road 601+cc models include dual purpose models, three-wheeled motorcycles and beginning in 2014, the U.S. also includes autocycles. Registration data for Harley-Davidson Street 500® motorcycles are not included in this table.

(b) United States industry data is derived from information provided by Motorcycle Industry Council (MIC). This third party data is subject to revision and update. Prior periods have been adjusted to include all dual purpose models that were previously excluded.

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

Motorcycles and Related Products Segment

Motorcycle Unit Shipments

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

	2014			2013			Unit	Unit	
	Units	Mix %		Units	Mix %		Increase (Decrease)	% Change	
United States	173,994	64.3	%	167,016	64.1	%	6,978	4.2	%
International	96,732	35.7	%	93,455	35.9	%	3,277	3.5	
Harley-Davidson motorcycle units	270,726	100.0	%	260,471	100.0	%	10,255	3.9	%
Touring motorcycle units	122,481	45.2	%	107,213	41.2	%	15,268	14.2	%
Cruiser motorcycle units[a]	91,426	33.8	%	102,950	39.5	%	(11,524)	(11.2)	
Sportster® / Street motorcycle units[b]	56,819	21.0	%	50,308	19.3	%	6,511	12.9	
Harley-Davidson motorcycle units	270,726	100.0	%	260,471	100.0	%	10,255	3.9	%

(a) Category previously referred to as "Custom" motorcycle units, as used in this table, include Dyna®, Softail®, V-Rod® and CVO models.

(b) Initial shipments of Street motorcycle units began in the first quarter of 2014.

During 2014, wholesale shipments of Harley-Davidson motorcycles were up 3.9% compared to the prior year. International shipments as a percentage of the total were down slightly in 2014 as compared to 2013. In addition, shipments of touring motorcycles and Sportster® / Street motorcycles as a percentage of total shipments increased in 2014 compared to the prior year while shipments of cruiser motorcycles as a percentage of total shipments declined. The Company believes the increase in touring motorcycle shipments, as a percentage of total shipments, was driven by continued demand for model-year 2014 Rushmore motorcycles and demand for model-year 2015 Rushmore motorcycles. Also, the shipment mix of Sportster® / Street increased as a result of Street shipments which began in 2014 and totaled approximately 9,900 motorcycles. As expected, retail inventory in the U.S. at the end of 2014 was approximately 2,900 units higher than at the end of 2013 largely due to the initial dealer fill of Street models for retail.

Segment Results

The following table includes the condensed statement of operations for the Motorcycles & Related Products segment (in thousands):

	2014	2013	Increase (Decrease)	% Change
Revenue:				
Motorcycles	$4,385,863	$4,067,510	$318,353	7.8 %
Parts & Accessories	875,019	873,075	1,944	0.2
General Merchandise	284,826	295,854	(11,028)	(3.7)
Other	21,973	21,851	122	0.6
Total revenue	5,567,681	5,258,290	309,391	5.9
Cost of goods sold	3,542,601	3,395,918	146,683	4.3
Gross profit	2,025,080	1,862,372	162,708	8.7
Selling & administrative expense	887,333	847,927	39,406	4.6
Engineering expense	134,600	145,967	(11,367)	(7.8)
Restructuring benefit	—	(2,131)	2,131	(100.0)
Operating expense	1,021,933	991,763	30,170	3.0
Operating income from Motorcycles	$1,003,147	$870,609	$132,538	15.2 %

The following table includes the estimated impact of the significant factors affecting the comparability of net revenue, cost of goods sold and gross profit from 2013 to 2014 (in millions):

	Net Revenue	Cost of Goods Sold	Gross Profit
2013	$5,259	$3,397	$1,862
Volume	124	85	39
Price	166	119	47
Foreign currency exchange rates and hedging	(31)	(19)	(12)
Shipment mix	50	(16)	66
Raw material prices	—	1	(1)
Manufacturing costs	—	(24)	24
Total	309	146	163
2014	$5,568	$3,543	$2,025

The following factors affected the comparability of net revenue, cost of goods sold and gross profit from 2013 to 2014:

- Volume increases were driven by the increase in wholesale motorcycle shipments and parts and accessories sales, partially offset by lower sales volumes for general merchandise. General merchandise revenue was adversely impacted in 2014 by a SKU reduction plan across the apparel offering focused on transforming the retail customer experience with a more targeted assortment of popular styles.
- On average, wholesale prices on the Company’s 2014 and 2015 model-year motorcycles are higher than the preceding model-year resulting in the favorable impact on revenue during the period. The revenue favorability resulting from model-year price increases was partially offset by an increase in cost related to the significant additional content added to the 2014 and 2015 model-year motorcycles.
- Net revenue and gross profit were negatively impacted by a devaluation in the Company's key foreign currencies compared to the U.S. dollar, primarily the Euro, Japanese yen, Brazilian real and Australian dollar, which together declined approximately 3% on a weighted-average basis in 2014 compared to 2013.
- Shipment mix changes between motorcycle families positively impacted net revenue and gross profit as a result of a higher mix of Touring motorcycles which was partially offset by an increase in Street motorcycle shipments. Shipment mix also benefited from favorable model mix within motorcycle families, as well as, favorable mix within the parts and accessories and general merchandise product lines.

• Raw material prices were slightly higher in 2014 relative to 2013.

- Manufacturing costs for 2014 benefited from increased year-over-year production, restructuring savings, lower temporary inefficiencies and lower pension costs compared to 2013. The manufacturing cost benefits were partially offset by start-up costs of approximately $15.3 million associated with the launch of the Street platform of motorcycles.

The net increase in operating expense was primarily due to higher selling and administrative expenses and the absence of the restructuring benefit recorded in 2013, partially offset by lower engineering expense. The higher selling and administrative expenses were primarily due to higher spending in support of the Company's growth initiatives and higher recall costs. In 2013, the Company completed work related to its various restructuring activities that were initiated during 2009 through 2011.

Financial Services Segment

Segment Results

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

	2014	2013	Increase (Decrease)	% Change
Interest income	$585,187	$575,652	$9,535	1.7 %
Other income	75,640	65,930	9,710	14.7
Financial services revenue	660,827	641,582	19,245	3.0
Interest expense	164,476	165,491	(1,015)	(0.6)
Provision for credit losses	80,946	60,008	20,938	34.9
Operating expenses	137,569	132,990	4,579	3.4
Financial Services expense	382,991	358,489	24,502	6.8
Operating income from Financial Services	$277,836	$283,093	$(5,257)	(1.9)%

Interest income was favorable due to higher retail and wholesale outstanding finance receivables, partially offset by lower yields primarily on retail finance receivables due to increased competition. Other income was favorable primarily due to increased credit card licensing and insurance revenue. Other income now includes international income which had previously been reported in interest income. Amounts for 2014 and 2013, which were not material, have been adjusted for comparability.

Interest expense benefited from a more favorable cost of funds and a lower loss on the extinguishment of a portion of the Company's 6.80% medium-term notes than in 2013, partially offset by higher average outstanding debt.

The provision for credit losses increased $20.9 million compared to 2013. The retail motorcycle provision increased $20.0 million during 2014 as a result of higher credit losses, an increase in the retail motorcycle reserve rate, and portfolio growth. Credit losses were impacted by lower recovery values of repossessed motorcycles, the impact of changing consumer behavior, and lower recoveries as a result of fewer charge-offs in prior periods.

Annual losses on the Company's retail motorcycle loans were 1.22% during 2014 compared to 1.09% in 2013. The 30-day delinquency rate for retail motorcycle loans at December 31, 2014 decreased to 3.61% from 3.71% at December 31, 2013.

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

	2014	2013
Balance, beginning of period	$110,693	$107,667
Provision for credit losses	80,946	60,008
Charge-offs, net of recoveries	(64,275)	(56,982)
Balance, end of period	$127,364	$110,693

At December 31, 2014, the allowance for credit losses on finance receivables was $122.0 million for retail receivables and $5.3 million for wholesale receivables. At December 31, 2013, the allowance for credit losses on finance receivables was $106.1 million for retail receivables and $4.6 million for wholesale receivables.

Other Matters

New Accounting Standards Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09 Revenue from Contracts with Customers (ASU No. 2014-09). ASU No. 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 No. 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 Company is currently evaluating the impact of adoption.

In February 2015, the FASB issued ASU No. 2015-02 Amendments to the Consolidation Analysis (ASU 2015-02). ASU No. 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 is required to adopt ASU No. 2015-02 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. The Company believes the adoption of ASU No. 2015-02 will not have an impact on its financial results and will only impact the content of the current disclosure.

In April 2015, the FASB issued ASU No. 2015-03 Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03). ASU No. 2015-03 amends the guidance within ASC Topic 835, "Interest", to require that debt issuance costs related to a recognized debt liability be presented in 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 their 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 No. 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 plans to adopt both ASUs for fiscal years beginning after December 15, 2015 and for interim periods therein, on a retrospective basis. Upon adoption, the Company will reclassify debt issuance costs, other than debt issuance costs related to line of credit arrangements, from other assets to debt on the balance sheet. The Company intends to continue to classify debt issuance costs related to the line of credit arrangements as an asset, regardless of whether it has any outstanding borrowings on the line of credit arrangements. At December 31, 2015, the Company had $20.4 million of debt issuance costs, which includes $2.1 million of debt issuance costs related to line of credit arrangements, recorded as assets on the consolidated balance sheet.

In September 2015, the FASB issued ASU No. 2015-16 Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments (ASU No. 2015-16). ASU No. 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 is required to adopt ASU 2015-16 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The Company does not anticipate any material impacts upon adopting this standard in 2016.

In November 2015, the FASB issued ASU No. 2015-17 Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes (ASU No. 2015-17). ASU No. 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 is currently evaluating the timing and basis of adoption.

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 No. 2016-01). ASU No. 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.

Critical Accounting Estimates

The Company's financial statements are based on the selection and application of significant accounting policies, which require management to make significant estimates and assumptions. Management believes that the following are some of the more critical judgment areas in the application of accounting policies that currently affect the Company's financial condition and results of operations. Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of the Board of Directors.

Allowance for Credit Losses on Finance Receivables – The allowance for uncollectible accounts is maintained at a level management believes is adequate to cover the losses of principal in the existing finance receivables portfolio. The retail portfolio 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. 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.

The wholesale portfolio is primarily composed of large balance, non-homogeneous finance receivables. The Company's wholesale allowance evaluation is first based on a loan-by-loan review. A specific allowance 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 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. In establishing the allowance, management considers a number of factors including the specific borrower's financial performance as well as ability to repay. Finance receivables in the wholesale portfolio that are not individually evaluated for impairment are segregated, based on similar risk characteristics, according to the Company's internal risk rating system and collectively evaluated for impairment. The related allowance is based on factors such as the Company's past loan loss experience, current economic conditions as well as the value of the underlying collateral.

Product Warranty – Estimated warranty costs are reserved for motorcycles, motorcycle parts and motorcycle accessories at the time of sale. The warranty reserve is based upon historical Company claim data used in combination with other known factors that may affect future warranty claims. The Company updates its warranty estimates quarterly to ensure that the warranty reserves are based on the most current information available.

The Company believes that past claim experience is indicative of future claims; however, the factors affecting actual claims can be volatile. As a result, actual claims experience may differ from estimated which could lead to material changes in the Company's warranty provision and related reserves. The Company's warranty liability is discussed further in Note 1 of Notes to Consolidated Financial Statements.

Pensions and Other Postretirement Healthcare Benefits – The Company has a defined benefit pension plan and several postretirement healthcare benefit plans, which cover 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.

U.S. GAAP requires that companies recognize in their statement of financial position a liability for defined benefit pension and postretirement plans that are underfunded or an asset for defined benefit pension and postretirement benefit plans that are overfunded.

Pension, SERPA and postretirement healthcare obligations and costs are calculated through actuarial valuations. The valuation of benefit obligations and net periodic benefit costs relies on key assumptions including discount rates, mortality, long-term expected return on plan assets, future compensation and healthcare cost trend rates.

The Company determines its discount rate assumptions by referencing high-quality long-term bond rates that are matched to the duration of its own benefit obligations. Based on this analysis, the Company increased the weighted-average discount rate for pension and SERPA obligations from 4.21% as of December 31, 2014 to 4.53% as of December 31, 2015. The Company increased the weighted-average discount rate for postretirement healthcare obligations from 3.99% to 4.29%. The Company determines its healthcare trend assumption for the postretirement healthcare obligation by considering factors such as estimated healthcare inflation, the utilization of healthcare benefits and changes in the health of plan participants. Based on the Company's assessment of this data as of

December 31, 2015, the Company set its healthcare cost trend rate at 7.5% as of December 31, 2015. The Company expects the healthcare cost trend rate to reach its ultimate rate of 5.0% by 2021.[(1)] These assumption changes were reflected immediately in the benefit obligation and will be amortized into net periodic benefit costs over future periods.

Plan assets are measured at fair value and are subject to market volatility. In estimating the expected return on plan assets, the Company considers the historical returns on plan assets, adjusted to reflect the current view of the long-term investment market.

Changes in the funded status of defined benefit pension and postretirement benefit plans resulting from the difference between assumptions and actual results are initially recognized in other comprehensive income and amortized to expense over future periods. The following information is provided to illustrate the sensitivity of pension and postretirement healthcare obligations and costs to changes in these major assumptions (in thousands):

	Amounts based on current assumptions	Impact of a 1% decrease in the discount rate	Impact of a 1% decrease in the expected return on assets	Impact of a 1% increase in the healthcare cost trend rate
2015 Net periodic benefit costs				
Pension and SERPA	$48,530	$31,689	$18,706	n/a
Postretirement healthcare	$12,295	$1,334	$1,404	$1,620
2015 Benefit obligations				
Pension and SERPA	$2,009,000	$341,242	n/a	n/a
Postretirement healthcare	$354,739	$30,981	n/a	$12,211

This information should not be viewed as predictive of future amounts. The analysis of the impact of a 1% change in the table above does not take into account the cost related to special termination benefits. The calculation of pension, SERPA and postretirement healthcare obligations and costs is based on many factors in addition to those discussed here. This information should be considered in combination with the information provided in Note 13 of Notes to Consolidated Financial Statements.

Stock Compensation Costs – The total cost of the Company's share-based equity awards is equal to the grant date fair value per award multiplied by the number of awards granted (adjusted for forfeitures). This cost is recognized as expense on a straight-line basis over the service periods of the awards. Forfeitures are initially estimated based on historical Company information and subsequently updated over the life of the awards to ultimately reflect actual forfeitures. As a result, changes in forfeiture activity can influence the amount of stock compensation cost recognized from period to period.

The Company estimates the fair value of option awards as of the grant date using a lattice-based option valuation model which utilizes ranges of assumptions over the expected term of the options, including stock price volatility, dividend yield and risk-free interest rate.

The valuation model uses historical data to estimate option exercise behavior and employee terminations. The expected term of options granted is derived from the output of the option valuation model and represents the average period of time that options granted are expected to be outstanding.

The Company uses implied volatility to determine the expected volatility of its stock. The implied volatility is derived from options that are actively traded and the market prices of both the traded options and underlying shares are measured at a similar point in time to each other and on a date reasonably close to the grant date of the employee stock options. In addition, the traded options have exercise prices that are both (a) near-the-money and (b) close to the exercise price of the employee stock options. Finally, the remaining maturities of the traded options on which the estimate is based are at least one year.

Dividend yield was based on the Company's expected dividend payments and the risk-free rate was based on the U.S. Treasury yield curve in effect at the time of grant.

Changes in the valuation assumptions could result in a significant change to the cost of an individual option. However, the total cost of an award is also a function of the number of awards granted, and as result, the Company has the ability to control the cost of its equity awards by adjusting the number of awards granted.

Income Taxes – The Company accounts for income taxes in accordance with ASC Topic 740, "Income Taxes." Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and other loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The Company is subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgment is required in determining the Company's worldwide provision for income taxes and recording the related deferred tax assets and liabilities. In the ordinary course of the Company's business, there are transactions and calculations where the ultimate tax determination is uncertain. Accruals for unrecognized tax benefits are provided for in accordance with the requirements of ASC Topic 740. An unrecognized tax benefit represents the difference between the recognition of benefits related to items for income tax reporting purposes and financial reporting purposes. The unrecognized tax benefit is included within other long-term liabilities in the Consolidated Balance Sheets. The Company has a reserve for interest and penalties on exposure items, if applicable, which is recorded as a component of the overall income tax provision. The Company is regularly audited by tax authorities as a normal course of business. Although the outcome of tax audits is always uncertain, management believes that it has appropriate support for the positions taken on its tax returns and that its annual tax provision includes amounts sufficient to pay any assessments. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year.

Contractual Obligations

A summary of the Company's expected payments for significant contractual obligations as of December 31, 2015 is as follows (in thousands):

	2016	2017 - 2018	2019 - 2020	Thereafter	Total
Principal payments on debt	$2,045,000	$2,481,191	$1,617,263	$746,934	$6,890,388
Interest payments on debt	159,028	236,972	89,193	425,625	910,818
Operating lease payments	13,727	17,049	11,655	13,098	55,529
	$2,217,755	$2,735,212	$1,718,111	$1,185,657	$7,856,735

Interest for floating rate instruments assumes December 31, 2015 rates remain constant.

As of December 31, 2015, the Company generally had no significant purchase obligations, other than those created in the ordinary course of business. Purchase orders issued for inventory and supplies used in product manufacturing generally do not become firm commitments until 90 days prior to expected delivery and can be modified to a certain extent until 30 days prior to expected delivery.

The Company has long-term obligations related to its pension, SERPA and postretirement healthcare plans at December 31, 2015. During 2015, the Company contributed $28.5 million to its pension, SERPA and postretirement healthcare plans. No additional contributions were required during 2015 beyond current benefit payments for SERPA and postretirement healthcare plans. In January 2016, the Company voluntarily contributed $25 million to its qualified pension plan to further fund its pension plan and the Company expects that no additional qualified plan contributions will be required in 2016.[1] Also, the Company expects it will continue to make on-going contributions related to current benefit payments for SERPA and postretirement healthcare plans.[1] The Company's expected future contributions to these plans are provided in Note 13 of Notes to Consolidated Financial Statements.

As described in Note 12 of Notes to Consolidated Financial Statements, the Company has unrecognized tax benefits of $73.1 million and accrued interest and penalties of $28.7 million as of December 31, 2015. However, the Company cannot make a reasonably reliable estimate for the period of cash settlement for either the liability for unrecognized tax benefits or accrued interest and penalties.

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 has delivered various additional requests for information to which the Company has responded. It is probable that a result of the EPA's investigation will be some form of enforcement action by the EPA that will seek a fine and/or other relief. The Company has a reserve associated with this matter which is included in accrued liabilities in the Consolidated Balance Sheet. However, given the uncertainty that still exists concerning the resolution of this matter, there is a possibility that the actual loss incurred may be materially different than the Company’s current reserve. At this time, the Company cannot reasonably estimate the impact of any remedies the EPA might seek beyond the Company's current reserve for this matter, if any.

York Environmental Matters:

The Company is involved with government agencies and groups of potentially responsible parties in various environmental matters, including a matter involving the cleanup of soil and groundwater contamination at its York, Pennsylvania facility. The York facility was formerly used by the U.S. Navy and AMF prior to the purchase of the York facility by the Company from AMF in 1981. Although the Company is not certain as to the full extent of the environmental contamination at the York facility, it has been working with the Pennsylvania Department of Environmental Protection (PADEP) since 1986 in undertaking environmental investigation and remediation activities, including an ongoing site-wide remedial investigation/feasibility study (RI/FS). In January 1995, the Company entered into a settlement agreement (the Agreement) with the Navy, 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 future costs associated with environmental investigation and remediation activities at the York facility (Response Costs). The trust administers the payment of the Response Costs incurred at the York facility as covered by the Agreement.

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 Condensed Consolidated Balance Sheets.[(1)] As noted above, the RI/FS is still underway 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 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. Response Costs are expected to be paid primarily through 2017 although certain Response Costs may continue for some time beyond 2017.

Product Liability Matters:

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

Liquidity and Capital Resources as of December 31, 2015

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

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

	December 31, 2015
Cash and cash equivalents	$722,209
Current marketable securities	45,192
Total cash and cash equivalents and marketable securities	767,401
Global credit facilities	148,620
Asset-backed U.S. commercial paper conduit facility [(a)]	600,000

Asset-backed Canadian commercial paper conduit facility [b]	19,191
Total availability under credit facilities	767,811
Total	$1,535,212

(a) The U.S. commercial paper conduit facility expires on December 14, 2016. The Company anticipates that it will renew this facility prior to expiration.[(1)]

(b) The Canadian commercial paper conduit facility expires on June 30, 2016 and is limited to Canadian denominated borrowings. The Company anticipates that it will renew this facility prior to expiration.[(1)]

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

Cash Flow Activity

The following table summarizes the cash flow activity of continuing operations for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Net cash provided by operating activities	$1,100,118	$1,146,677	$977,093
Net cash used by investing activities	(915,848)	(744,650)	(568,867)
Net cash used by financing activities	(354,064)	(536,096)	(393,209)
Effect of exchange rate changes on cash and cash equivalents	(14,677)	(25,863)	(16,543)
Net decrease in cash and cash equivalents	$(184,471)	$(159,932)	$(1,526)

Operating Activities

The decrease in operating cash flow in 2015 compared to 2014 was due primarily to lower net income and increased wholesale lending. At the end of 2015, inventory was higher, as the Company increased its year-over-year fourth quarter production to maximize manufacturing efficiencies and prepare for the 2016 first quarter shipments.

During 2015, the Company contributed $28.5 million to its qualified pension, SERPA and postretirement healthcare plans compared to $29.7 million in 2014. In January 2016, the Company voluntarily contributed $25 million to its qualified pension plan to further fund its pension plan, and the Company expects that no additional qualified plan contributions will be required in 2016.[(1)] The Company also expects it will continue to make on-going contributions related to current benefit payments for SERPA and postretirement healthcare plans. The Company's expected future contributions to these plans are provided in Note 13 of Notes to Consolidated Financial Statements.

The increase in operating cash flow in 2014 compared to 2013 was due primarily to increased earnings and favorable changes in working capital and lower pension contributions, partially offset by higher wholesale finance originations.

Investing Activities

The Company's investing activities consist primarily of capital expenditures, net changes in retail finance receivables and short-term investment activity. Capital expenditures were $260.0 million, $232.3 million and $208.3 million during 2015, 2014 and 2013, respectively.

Net cash flows from finance receivables for 2015, which consisted primarily of retail finance receivables, were $59.8 million lower than 2014 as a result of an increase in retail motorcycle loan originations during 2015. Net cash flows from finance receivables for 2014, which consisted primarily of retail finance receivables, were $143.2 million lower than in 2013 as a result of an increase in retail motorcycle loan originations during 2014.

Changes in the Company's investment in marketable securities resulted in cash inflows of $11.5 million, $41.0 million and $35.1 million in 2015, 2014 and 2013, respectively.

During 2015, the Company recorded a $59.9 million cash outflow for the purchase of certain assets and liabilities from Fred Deeley Imports, Ltd.

Financing Activities
The Company’s financing activities consist primarily of dividend payments, share repurchases and debt activity.
The Company paid dividends of $1.24 per share totaling $249.3 million during 2015, $1.10 per share totaling $238.3 million during 2014 and $0.84 per share totaling $187.7 million in 2013.
Cash outflows from share repurchases were $1.54 billion, $615.6 million and $479.2 million for 2015, 2014 and 2013, respectively. Share repurchases during 2015, 2014 and 2013 included 28.0 million, 9.3 million and 8.2 million shares of common stock, respectively, related to discretionary share repurchases and shares of common stock that employees surrendered to satisfy withholding taxes in connection with the vesting of restricted stock awards. In June 2015, the Company announced that the Company's Board of Directors had authorized the Company to repurchase up to 15 million additional shares of its common stock. In total at December 31, 2015, the Company had Board-approved authorizations to repurchase 9.0 million shares of its common stock. In February 2016, the Company's Board of Directors separately authorized the Company to buy back up to an additional 20 million shares of its common stock with no dollar limit or expiration date.
The Company’s total outstanding debt consisted of the following as of December 31, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Unsecured commercial paper	$1,201,380	$731,786	$666,317
Asset-backed Canadian commercial paper conduit facility	153,839	166,912	174,241
Medium-term notes	3,325,081	3,334,398	2,858,980
Senior unsecured notes	746,934	—	303,000
Term asset-backed securitization debt	1,463,154	1,271,533	1,256,632
Total debt	$6,890,388	$5,504,629	$5,259,170

To access the debt capital markets, the Company relies on credit rating agencies to assign short-term and long-term credit ratings. Generally, lower credit ratings result in higher borrowing costs and reduced access to debt capital markets. A credit rating agency may change or withdraw the Company’s ratings based on its assessment of the Company’s current and future ability to meet interest and principal repayment obligations. The Company’s short-term debt ratings affect its ability to issue unsecured commercial paper. The Company’s short- and long-term debt ratings as of December 31, 2015 were as follows:

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

Global Credit Facilities – In April 2014, the Company entered into a new $675.0 million five-year credit facility to refinance and replace a $675.0 million four-year credit facility that was due to mature in April 2015. The new five-year credit facility matures in April 2019. The Company also has a $675.0 million five-year credit facility which matures in April 2017. The new five-year credit facility and the existing five-year credit facility (together, the Global Credit Facilities) bear interest at various variable interest rates, which may be adjusted upward or downward depending on certain criteria, such as credit ratings. The Global Credit Facilities also require the Company to pay a fee based upon the average daily unused portion of the aggregate commitments under the Global Credit Facilities. The Global Credit Facilities are committed facilities and primarily used to support the Company's unsecured commercial paper program. During July 2015, the Company borrowed C$20 million under the Global Credit Facilities and repaid the borrowings in August 2015. No borrowings were outstanding at December 31, 2015.
Unsecured Commercial Paper – Subject to limitations, the Company could issue unsecured commercial paper of up to $1.35 billion as of December 31, 2015 supported by the Global Credit Facilities. Outstanding unsecured commercial paper may not exceed the unused portion of the Global Credit Facilities. Maturities may range up to 365 days from the issuance date. The Company intends to repay unsecured commercial paper as it matures with additional unsecured commercial paper or through other means, such as borrowing under the Global Credit Facilities, borrowing under its asset-backed U.S. commercial paper conduit facility or through the use of operating cash flow and cash on hand.[1]

42

Medium-Term Notes – The Company has the following medium-term notes (collectively, the Notes) issued and outstanding at December 31, 2015 (in thousands):

Principal Amount	Rate	Issue Date	Maturity Date
$450,000	3.875%	March 2011	March 2016
$400,000	2.70%	January 2012	March 2017
$400,000	1.55%	November 2014	November 2017
$878,708	6.80%	May 2008	June 2018
$600,000	2.40%	September 2014	September 2019
$600,000	2.15%	February 2015	February 2020

The Notes provide for semi-annual interest payments and principal due at maturity. Unamortized discounts on the Notes reduced the balance by $3.6 million, $3.6 million, and $1.5 million at December 31, 2015, 2014 and 2013, respectively.

In February 2015, the Company issued $600.0 million of medium-term notes that mature in 2020 and have an annual interest rate of 2.15%. In September 2014, the Company issued $600.0 million of medium-term notes that mature in September 2019 and have an annual interest rate of 2.40%. In November 2014, the Company issued $400.0 million of medium-term notes which mature in November 2017 and have an annual interest rate of 1.55%.

During 2015, 2014 and 2013, the Company repurchased an aggregate $9.3 million, $22.6 million, and $23.0 million, respectively, of its 6.80% medium-term notes which mature in June 2018. As a result, the Company recognized in financial services interest expense $1.1 million, $3.9 million and $4.9 million, respectively, for losses on the extinguishment of debt, which included unamortized discounts and fees. During September 2015, $600.0 million of 1.15% medium-term notes matured, and the principal and accrued interest were paid in full. During December 2014, $500.0 million of 5.75% medium-term notes matured, and the principal and accrued interest were paid in full.

In January 2016, HDFS issued $600.0 million of medium-term notes that mature in January 2019 and have an annual interest rate of 2.25% and $600.0 million of medium term notes that mature in January 2021 and have an annual interest rate of 2.85%.

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

In February 2009, the Company issued $600.0 million of senior unsecured notes in an underwritten offering. The senior unsecured notes provide for semi-annual interest payments and principal due at maturity. During the fourth quarter of 2010, the Company repurchased $297.0 million of the $600.0 million senior unsecured notes at a price of $380.8 million. The senior unsecured notes matured in February 2014 and the Company repaid the remaining senior unsecured notes outstanding.

Asset-Backed Canadian Commercial Paper Conduit Facility – The Company has a revolving facility agreement (Canadian Conduit) with a Canadian bank-sponsored asset-backed commercial paper conduit. Under the agreement, the Canadian Conduit is contractually committed, at the Company's option, to purchase from the Company eligible Canadian retail motorcycle finance receivables for proceeds up to C$240 million. The transferred assets are restricted as collateral for the payment of the debt. The terms for this facility provide for interest on the outstanding principal based on prevailing market interest rates plus a specified margin. The Canadian Conduit also provides for a program fee and an unused commitment fee based on the unused portion of the total aggregate commitment of C$240 million. There is no amortization schedule; however, the debt is reduced monthly as available collections on the related finance receivables are applied to outstanding principal. Upon expiration of the Canadian Conduit, any outstanding principal will continue to be reduced monthly through available collections. Unless earlier terminated or extended by mutual agreement of the Company and the lenders, as of December 31, 2015, the Canadian Conduit has an expiration date of June 30, 2016. The contractual maturity of the debt is approximately 5 years.

During 2015 and 2014, the Company transferred $100.0 million and $97.1 million, respectively, of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of $87.5 million and $85.0 million, respectively.

Asset-Backed U.S. Commercial Paper Conduit Facility Variable Interest Entity (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 $600.0 million. The prior agreement expired on December 14, 2015 and had similar terms. At December 31, 2015, 2014, and 2013, the Company had no outstanding borrowings under the U.S. Conduit.

This debt provides for interest on outstanding principal based generally 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 receivable collateral 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, as of December 31, 2015, the U.S. Conduit expires December 14, 2016.

Term Asset-Backed Securitization VIEs – For all of its term asset-backed securitization transactions, the Company transferred U.S. retail motorcycle finance receivables to separate VIEs, which in turn issued secured notes, with various maturities and interest rates to investors. All of the notes held by the VIEs are secured by future collections of the purchased U.S. retail motorcycle finance receivables. The U.S. retail motorcycle finance receivables included in the term asset-backed securitization transactions are not available to pay other obligations or claims of the Company's creditors until the associated debt and other obligations are satisfied. Restricted cash balances held by the VIEs are used only to support the securitizations. There is no amortization schedule for the secured notes; however, the debt is reduced monthly as available collections on the related retail motorcycle finance receivables are applied to outstanding principal. The secured notes’ contractual lives have various maturities ranging from 2016 to 2022.

In 2015, the Company transferred a total of $1.31 billion of U.S. retail motorcycle finance receivables to two separate SPEs. The SPEs in turn issued $1.20 billion of secured notes. In 2014, the Company transferred $924.9 million of U.S. retail motorcycle finance receivables to one SPE. The SPE in turn issued $850.0 million of secured notes.

Intercompany Borrowings – HDFS and the Company have had in effect term loan agreements under which HDFS borrowed from the Company. As of December 31, 2015, there were no intercompany loans outstanding and the intercompany loan balance of $250.0 million outstanding as of December 31, 2014 was repaid during the first quarter of 2015. The term loans provide for monthly interest based on the prevailing commercial paper rates and principal due at maturity or upon demand by the Company. The term loan balances and related interest are eliminated in the Company's consolidated financial statements.

During 2014, HDFS and the Company had in effect the following term loan agreements under which HDFS borrowed from the Company (in thousands):