HARLEY DAVIDSON INC
Form 10-Q
May 10, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended April 1, 2012

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

Registrants telephone number: (414) 342-4680

None

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days. Yes x No ¨

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

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

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

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

Number of shares of the registrant s common stock outstanding at May 3, 2012: 231,519,008 shares

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Harley-Davidson, Inc.

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For The Quarter Ended April 1, 2012

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

HARLEY-DAVIDSON, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three months ended April 1, 2012	Three months ended March 27, 2011
Revenue:		
Motorcycles and related products	$ 1,273,369	$ 1,063,044
Financial services	156,322	161,886
Total revenue	1,429,691	1,224,930
Costs and expenses:		
Motorcycles and related products cost of goods sold	816,859	711,178
Financial services interest expense	51,256	58,035
Financial services provision for credit losses	9,014	5,606
Selling, administrative and engineering expense	265,653	234,115
Restructuring expense	11,451	22,999
Total costs and expenses	1,154,233	1,031,933
Operating income	275,458	192,997
Investment income	1,933	1,398
Interest expense	11,495	11,481
Income before provision for income taxes	265,896	182,914
Provision for income taxes	93,861	63,654
Income from continuing operations	172,035	119,260
Loss from discontinued operations, net of tax		
Net income	$ 172,035	$ 119,260
Earnings per common share from continuing operations:		
Basic	$ 0.75	$ 0.51
Diluted	$ 0.74	$ 0.51
Loss per common share from discontinued operations:		
Basic	$	$
Diluted	$	$
Earnings per common share:		
Basic	$ 0.75	$ 0.51
Diluted	$ 0.74	$ 0.51
Cash dividends per common share	$ 0.155	$ 0.10

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

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HARLEY-DAVIDSON, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three months ended	
	April 1, 2012	March 27, 2011
Comprehensive income	$ 180,816	$ 138,431

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

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HARLEY-DAVIDSON, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	(Unaudited) April 1, 2012	December 31, 2011	(Unaudited) March 27, 2011
ASSETS			
Current assets:			
Cash and cash equivalents	$ 1,276,337	$ 1,526,950	$ 932,515
Marketable securities	134,946	153,380	115,209
Accounts receivable, net	264,272	219,039	297,671
Finance receivables, net	1,339,139	1,168,603	1,276,780
Restricted finance receivables held by variable interest entities, net	546,350	591,864	637,760
Inventories	467,941	418,006	372,323
Restricted cash held by variable interest entities	246,995	229,655	294,903
Other current assets	237,550	234,709	243,427
Total current assets	4,513,530	4,542,206	4,170,588
Finance receivables, net	2,020,036	1,754,441	1,806,563
Restricted finance receivables held by variable interest entities, net	1,971,878	2,271,773	2,304,320
Property, plant and equipment, net	791,064	809,459	799,091
Goodwill	29,740	29,081	30,988
Other long-term assets	279,099	267,204	293,592
	$ 9,605,347	$ 9,674,164	$ 9,405,142
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Accounts payable	$ 355,902	$ 255,713	$ 292,676
Accrued liabilities	577,619	564,172	580,083
Short-term debt	629,143	838,486	393,393
Current portion of long-term debt	399,939	399,916	
Current portion of long-term debt held by variable interest entities	620,624	640,331	721,179
Total current liabilities	2,583,227	2,698,618	1,987,331
Long-term debt	2,784,688	2,396,871	2,963,375
Long-term debt held by variable interest entities	1,133,696	1,447,015	1,603,584
Pension liability	118,212	302,483	99,627
Postretirement healthcare liability	265,871	268,582	254,505
Other long-term liabilities	144,994	140,339	156,472
Commitments and contingencies (Note 16)			
Total shareholders equity	2,574,659	2,420,256	2,340,248
	$ 9,605,347	$ 9,674,164	$ 9,405,142

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

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HARLEY-DAVIDSON, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three months ended	
	April 1, 2012	March 27, 2011
Net cash used by operating activities of continuing operations (Note 3)	$ (73,616)	$ (104,918)
Cash flows from investing activities of continuing operations:		
Capital expenditures	(24,680)	(27,704)
Origination of finance receivables	(645,247)	(549,200)
Collections on finance receivables	681,904	676,952
Purchases of marketable securities		(5,000)
Sales and redemptions of marketable securities	20,042	29,974
Net cash provided by investing activities of continuing operations	32,019	125,022
Cash flows from financing activities of continuing operations:		
Proceeds from issuance of medium-term notes	397,377	447,076
Repayments of securitization debt	(333,026)	(430,471)
Net decrease in credit facilities and unsecured commercial paper	(224,508)	(96,174)
Net change in restricted cash	(17,340)	(6,016)
Dividends	(35,943)	(23,643)
Purchase of common stock for treasury	(20,745)	(4,699)
Excess tax benefits from share-based payments	7,962	3,262
Issuance of common stock under employee stock option plans	16,281	3,861
Net cash used by financing activities of continuing operations	(209,942)	(106,804)
Effect of exchange rate changes on cash and cash equivalents of continuing operations	926	(2,693)
Net decrease in cash and cash equivalents of continuing operations	(250,613)	(89,393)
Cash flows from discontinued operations:		
Cash flows from operating activities of discontinued operations		(25)
Cash flows from investing activities of discontinued operations		
Effect of exchange rate changes on cash and cash equivalents of discontinued operations		
		(25)
Net decrease in cash and cash equivalents	$ (250,613)	$ (89,418)
Cash and cash equivalents:		
Cash and cash equivalents - beginning of period	$ 1,526,950	$ 1,021,933
Cash and cash equivalents of discontinued operations - beginning of period		
Net decrease in cash and cash equivalents	(250,613)	(89,418)
Less: Cash and cash equivalents of discontinued operations - end of period		
Cash and cash equivalents - end of period	$ 1,276,337	$ 932,515

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

HARLEY-DAVIDSON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation and Use of Estimates

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

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the condensed consolidated balance sheets as of April 1, 2012 and March 27, 2011, the condensed consolidated statements of operations for the three month periods then ended, the condensed consolidated statements of comprehensive income for the three month periods then ended and the condensed consolidated statements of cash flows for the three month periods then ended.

Certain information and footnote disclosures normally included in complete financial statements have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and U.S. generally accepted accounting principles (U.S. GAAP) for interim financial reporting. These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

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

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

During 2008, the Company acquired Italian motorcycle manufacturer MV Agusta (MV). On October 15, 2009, the Company announced its intent to divest MV, and the Company completed the sale on August 6, 2010. MV is presented as a discontinued operation for all periods.

2. New Accounting Standards

Accounting Standards Recently Adopted

In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU No. 2011-04 clarifies the application of existing guidance within ASC Topic 820, Fair Value Measurement to ensure consistency between U.S. GAAP and International Financial Reporting Standards (IFRS). ASU No. 2011-04 also requires new disclosures about purchases, sales, issuances, and settlements related to Level 3 measurements and also requires new disclosures around transfers into and out of Levels 1 and 2 in the fair value hierarchy. The Company adopted ASU No. 2011-04 on January 1, 2012. The adoption of ASU No. 2011-04 required additional disclosures of the hierarchy classification for items whose fair value is not recorded on the balance sheet but is disclosed in the notes, refer to Note 9 for additional information. There was no financial impact resulting from the adoption of ASU No. 2011-04.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. ASU No. 2011-05 amends the guidance within ASC Topic 220, Comprehensive Income, to eliminate the option to present the components of other comprehensive income as part of the statement of shareholders equity. ASU No. 2011-05 requires that all nonowner changes in shareholders equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company decided to present comprehensive income in two separate but consecutive statements. The Company adopted ASU

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No. 2011-05 on January 1, 2012. The adoption of ASU No. 2011-05 and the Company s decision to present comprehensive income in two separate but consecutive statements required the presentation of an additional financial statement, condensed consolidated statements of comprehensive income, for all periods presented.

3. Additional Balance Sheet and Cash Flow Information

Marketable Securities

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

	April 1, 2012	December 31, 2011	March 27, 2011
Available-for-sale:			
Corporate bonds	$ 134,946	$ 153,380	$ 55,232
U.S. Treasuries			59,977
	$ 134,946	$ 153,380	$ 115,209

The Company s available-for-sale securities are carried at fair value with any unrealized gains or losses reported in other comprehensive income. During the first three months of 2012 and 2011, the Company recognized gross unrealized gains in other comprehensive income of $1.6 million and $0.1 million, respectively, or $1.0 million and $0.04 million net of taxes, respectively, to adjust amortized cost to fair value. The marketable securities have contractual maturities that generally come due over the next 12 to 48 months.

Inventories

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

	April 1, 2012	December 31, 2011	March 27, 2011
Components at the lower of FIFO cost or market			
Raw materials and work in process	$ 113,127	$ 113,932	$ 99,538
Motorcycle finished goods	252,979	226,261	187,687
Parts and accessories and general merchandise	145,362	121,340	119,134
Inventory at lower of FIFO cost or market	511,468	461,533	406,359
Excess of FIFO over LIFO cost	(43,527)	(43,527)	(34,036)
	$ 467,941	$ 418,006	$ 372,323

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Operating Cash Flow

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

	Three months ended April 1, 2012	Three months ended March 27, 2011
Cash flows from operating activities:		
Net income	$ 172,035	$ 119,260
Loss from discontinued operations		
Income from continuing operations	172,035	119,260
Adjustments to reconcile income from continuing operations to net cash used by operating activities:		
Depreciation	43,203	42,947
Amortization of deferred loan origination costs	18,547	19,329
Amortization of financing origination fees	2,743	3,107
Provision for employee long-term benefits	17,293	15,563
Contributions to pension and postretirement plans	(206,832)	(204,816)
Stock compensation expense	11,744	9,153
Net change in wholesale finance receivables related to sales	(151,046)	(163,967)
Provision for credit losses	9,014	5,606
Pension and postretirement healthcare plan curtailment and settlement expense		236
Foreign currency adjustments	(2,911)	29
Other, net	1,505	14,112
Changes in current assets and liabilities:		
Accounts receivable, net	(43,745)	(27,048)
Finance receivables - accrued interest and other	3,299	3,542
Inventories	(47,168)	(38,200)
Accounts payable and accrued liabilities	117,460	98,960
Restructuring reserves	1,296	7,757
Derivative instruments	(486)	2,157
Other	(19,567)	(12,645)
Total adjustments	(245,651)	(224,178)
Net cash used by operating activities of continuing operations	$ (73,616)	$ (104,918)

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4. Discontinued Operations

In October 2009, the Company unveiled a new business strategy to drive growth through a focus of efforts and resources on the unique strengths of the Harley-Davidson brand and to enhance productivity and profitability through continuous improvement. The Company s Board of Directors approved and the Company committed to the divestiture of MV as part of this strategy. The Company engaged a third party investment bank to assist with the marketing and sale of MV. During 2009, the Company recorded pre-tax impairment charges of $115.4 million related to MV and a net tax benefit of $40 million related to losses estimated in connection with the sale of MV. As of December 31, 2009, the Company estimated the total tax benefit associated with losses related to the sale of MV to be $66 million of which $26 million was deemed uncertain and appropriately reserved against.

At each subsequent reporting date in 2010 through the date of sale of MV in August 2010, the fair value less selling costs was re-assessed and additional impairment charges totaling $111.8 million and additional tax benefits totaling $18 million were recognized in 2010. As the effort to sell MV progressed into 2010, adverse factors led to decreases in the fair value of MV. During 2010, challenging economic conditions continued to persist, negatively impacting the appetite of prospective buyers and the motorcycle industry as a whole. Information coming directly from the selling process, including discussions with the prospective buyers, indicated a fair value that was less than previously estimated.

On August 6, 2010, the Company concluded its sale of MV to MV Augusta Motor Holding S.r.l., a company controlled by the former owner of MV. Under the agreement relating to the sale, (1) the Company received nominal consideration in return for the transfer of MV and related assets; (2) the parties waived their respective rights under the stock purchase agreement and other documents related to the Company s purchase of MV in 2008, which included a waiver of the former owner s right to contingent earn-out consideration; and (3) the Company contributed 20.0 million Euros to MV as operating capital. The 20.0 million Euros contributed were factored into the Company s estimate of MV s fair value prior to the sale and was recognized in the 2010 impairment charges discussed above. As a result of the impairment charges recorded in 2009 and 2010 prior to the sale, the Company only incurred an immaterial loss on the date of sale, which was included in the loss from discontinued operations, net of tax, during the year ended December 31, 2010.

As of December 31, 2010, the Company s estimated total tax benefit associated with the loss on the sale of MV was $101.0 million, of which $43.5 million was deemed uncertain and appropriately reserved against. As a result, the total cumulative net tax benefit recognized as of December 31, 2010 was $57.5 million. The increase in the estimated tax benefit during 2010 was driven by an increase in the losses related to the sale of MV, not a change in the tax position.

In determining the tax benefit recognized from October 2009 through December 2010, the Company engaged appropriate technical expertise and considered all relevant available information. In accordance with ASC 740, Income Taxes, at each balance sheet date during this period, the Company re-evaluated the overall tax benefit, determined that it was at least more likely than not that it would be sustained upon review and calculated the amount of recognized tax benefit based on a cumulative probability basis.

Beginning in 2010, the Company voluntarily elected to participate in a pre-filing agreement process with the Internal Revenue Service (IRS) in order to accelerate their review of the Company s tax position related to MV. The IRS effectively completed its review in late 2011 and executed a Closing Agreement on Final Determination Covering Specific Matters with the Company.

There were no changes to the Company s estimated gross or recognized tax benefit associated with the loss on the sale of MV during the first three quarters of 2011. In the fourth quarter of 2011, given the outcome of the closing agreement, the Company recognized a $43.5 million tax benefit by reversing the reserve recorded as of September 25, 2011 and recognized an incremental $7.5 million tax benefit related to the final calculation of the tax basis in the loan to and the stock of MV.

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5. Restructuring Expense

2011 Restructuring Plans

In December 2011, the Company made a decision to cease operations at New Castalloy, its Australian subsidiary and producer of cast motorcycle wheels and wheel hubs, and source those components through other existing suppliers (2011 New Castalloy Restructuring Plan). The Company expects the transition of supply from New Castalloy to be complete by mid-2013. The decision to close New Castalloy comes as part of the Company s overall long term strategy to develop world-class manufacturing capability throughout the Company by restructuring and consolidating operations for greater competitiveness, efficiency and flexibility. In connection with this decision, the Company will reduce its workforce by approximately 200 employees by mid-2013.

Under the 2011 New Castalloy Restructuring Plan, restructuring expenses consist of employee severance and termination costs, accelerated depreciation and other related costs. The Company expects to incur about $30 million in restructuring charges related to the transition through 2013. Approximately 35% of the $30 million will be non-cash charges. On a cumulative basis, the Company has incurred $12.4 million of restructuring expense under the 2011 New Castalloy Restructuring Plan as of April 1, 2012, of which $3.0 million was incurred during the first quarter of 2012.

In February 2011, the Company s unionized employees at its facility in Kansas City, Missouri ratified a new seven-year labor agreement. The new agreement took effect on August 1, 2011. The new contract is similar to the labor agreements ratified at the Company s Wisconsin facilities in September 2010 and its York, Pennsylvania facility in December 2009, and allows for similar flexibility and increased production efficiency. Once the new contract is fully implemented, the production system in Kansas City, like Wisconsin and York, will include the addition of a flexible workforce component.

After taking actions to implement the new ratified labor agreement (2011 Kansas City Restructuring Plan), the Company expects to have about 145 fewer full-time hourly unionized employees in its Kansas City facility than would have been required under the prior contract.

Under the 2011 Kansas City Restructuring Plan, restructuring expenses consist of employee severance and termination costs and other related costs. The Company expects to incur approximately $15 million in restructuring expenses related to the new contract through 2012, of which approximately 10% are expected to be non-cash. On a cumulative basis, the Company has incurred $9.3 million of restructuring expense under the 2011 Kansas City Restructuring Plan as of April 1, 2012, of which $0.5 million was incurred during the first quarter of 2012.

For the three months ended March 27, 2011, restructuring expense included $0.2 million of noncash curtailment losses related to the Company s pension plan that covers employees of the Kansas City facility.

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The following table summarizes the Motorcycle segment s 2011 Kansas City Restructuring Plan and 2011 New Castalloy Restructuring Plan reserve activity and balances as recorded in accrued liabilities (in thousands):

	Three months ended April 1, 2012							
	Kansas City			New Castalloy				Consolidated
	Employee Severance and Termination Costs	Other	Total	Employee Severance and Termination Costs	Accelerated Depreciation	Other	Total	Total
Balance, beginning of period	$ 4,123	$	$ 4,123	$ 8,428	$	$ 305	$ 8,733	$ 12,856
Restructuring expense	542		542	571	2,099	349	3,019	3,561
Utilized - cash				(156)		(361)	(517)	(517)
Utilized - noncash					(2,099)		(2,099)	(2,099)
Balance, end of period	$ 4,665	$	$ 4,665	$ 8,843	$	$ 293	$ 9,136	$ 13,801

	Three months ended March 27, 2011		
	Kansas City		
	Employee Severance and Termination Costs	Other	Total
Restructuring expense	6,382	134	6,516
Utilized - cash		(134)	(134)
Utilized - noncash	(236)		(236)
Balance, end of period	$ 6,146	$	$ 6,146

2010 Restructuring Plan

In September 2010, the Company s unionized employees in Wisconsin ratified three separate new seven-year labor agreements which took effect in April 2012 when the prior contracts expired. The new contracts are similar to the labor agreement ratified at the Company s York, Pennsylvania facility in December 2009 and allow for similar flexibility and increased production efficiency. Once the new contracts are fully implemented, the production system in Wisconsin, like York, will include the addition of a flexible workforce component.

Based on the new ratified labor agreements (2010 Restructuring Plan), the Company expects to have about 250 fewer full-time hourly unionized employees in its Milwaukee-area facilities when the contracts are fully implemented than would have been required under the prior contract. In Tomahawk, the Company expects to have about 75 fewer full-time hourly unionized employees when the contract is fully implemented than would have been required under the prior contract.

Under the 2010 Restructuring Plan, restructuring expenses consist of employee severance and termination costs and other related costs. The Company expects to incur approximately $67 million in restructuring expenses related to the new contracts through 2012, of which approximately 42% are expected to be non-cash. On a cumulative basis, the Company has incurred $61.5 million of restructuring expense under the 2010 Restructuring Plan as of April 1, 2012, of which $4.5 million was incurred during the first quarter of 2012.

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The following table summarizes the Motorcycles segment s 2010 Restructuring Plan reserve activity and balances as recorded in accrued liabilities (in thousands):

	Three months ended April 1, 2012 Employee Severance and Termination Costs	Three months ended March 27, 2011 Employee Severance and Termination Costs
Balance, beginning of period	$ 20,361	$ 8,652
Restructuring expense	1,886	3,144
Utilized - cash	(26)	(594)
Balance, end of period	$ 22,221	$ 11,202

2009 Restructuring Plan

During 2009, in response to the U.S. economic recession and worldwide slowdown in consumer demand, the Company committed to a volume reduction and a combination of restructuring actions (2009 Restructuring Plan) that are expected to be completed at various dates between 2009 and 2012. The actions were designed to reduce administrative costs, eliminate excess capacity and exit non-core business operations. The Company s significant announced actions include the restructuring and transformation of its York, Pennsylvania production facility including the implementation of a new more flexible unionized labor agreement; consolidation of facilities related to engine and transmission production; outsourcing of certain distribution and transportation activities and exiting the Buell product line.

The 2009 Restructuring Plan included a reduction of approximately 2,700 to 2,900 hourly production positions and approximately 720 non-production, primarily salaried positions within the Motorcycles segment and approximately 100 salaried positions in the Financial Services segment.

Under the 2009 Restructuring Plan, restructuring expenses consist of employee severance and termination costs, accelerated depreciation on the long-lived assets that will be exited as part of the 2009 Restructuring Plan and other related costs. The Company expects total costs related to the 2009 Restructuring Plan to result in restructuring and impairment expenses of approximately $388 million to $408 million from 2009 to 2012, of which approximately 30% are expected to be non-cash. On a cumulative basis, the Company has incurred $386.6 million of restructuring and impairment expense under the 2009 Restructuring Plan as of April 1, 2012, of which $3.3 million was incurred during the first quarter of 2012. Approximately 3,600 employees have left the Company under the 2009 Restructuring Plan as of April 1, 2012.

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The following table summarizes the Company s 2009 Restructuring Plan reserve activity and balances recorded in accrued liabilities (in thousands):

	Three months ended April 1, 2012 Motorcycles & Related Products			
	Employee Severance and Termination Costs	Accelerated Depreciation	Other	Total
Balance, beginning of period	$ 10,089	$	$	$ 10,089
Restructuring expense	323		5,681	6,004
Utilized - cash	(1,846)		(5,669)	(7,515)
Utilized - noncash				
Balance, end of period	$ 8,566	$	$ 12	$ 8,578

	Three months ended March 27, 2011 Motorcycles & Related Products			
	Employee Severance and Termination Costs	Accelerated Depreciation	Other	Total
Balance, beginning of period	$ 23,818	$	$ 2,764	$ 26,582
Restructuring expense	2,954		10,385	13,339
Utilized - cash	(4,028)		(10,546)	(14,574)
Utilized - noncash			296	296
Balance, beginning of period	$ 22,744	$	$ 2,899	$ 25,643

Other restructuring costs under the 2009 Restructuring Plan include items such as the exit costs for terminating supply contracts, lease termination costs and moving costs. During the first quarter of 2012, the Company released $2.7 million of its 2009 Restructuring Plan reserve related to employee severance costs as these costs are no longer expected to be incurred.

6. Finance Receivables

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

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

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

	April 1, 2012	December 31, 2011	March 27, 2011
Retail	$ 5,043,584	$ 5,087,490	$ 5,225,155
Wholesale	956,322	824,640	959,952

	5,999,906	5,912,130	6,185,107
Allowance for credit losses	(122,503)	(125,449)	(159,684)
	$ 5,877,403	$ 5,786,681	$ 6,025,423

At April 1, 2012, December 31, 2011 and March 27, 2011, the Company s Condensed Consolidated Balance Sheet included finance receivables, net of $2.52 billion, $2.86 billion and $2.94 billion, respectively, which were restricted as collateral for the payment of debt held by VIEs and other related obligations as discussed in Note 7. These receivables are included in retail finance receivables in the table above.

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

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

	Three months ended April 1, 2012		
	Retail	Wholesale	Total
Balance, beginning of period	$ 116,112	$ 9,337	$ 125,449
Provision for credit losses	8,705	309	9,014
Charge-offs	(25,852)		(25,852)
Recoveries	13,892		13,892
Balance, end of period	$ 112,857	$ 9,646	$ 122,503

	Three months ended March 27, 2011		
	Retail	Wholesale	Total
Balance, beginning of period	$ 157,791	$ 15,798	$ 173,589
Provision for credit losses	3,439	2,167	5,606
Charge-offs	(35,191)		(35,191)
Recoveries	15,665	15	15,680
Balance, end of period	$ 141,704	$ 17,980	$ 159,684

Included in the $112.9 and $141.7 million retail allowance for credit losses on finance receivables is $57.0 and $82.3 million, respectively, related to finance receivables held by VIEs.

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

The retail portfolio primarily consists of a large number of small balance, homogeneous finance receivables. HDFS performs a periodic and systematic collective evaluation of the adequacy of the retail allowance for credit losses. HDFS 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. As retail finance receivables are collectively and not individually reviewed for impairment, this portfolio does not have finance receivables specifically impaired.

The wholesale portfolio is primarily composed of large balance, non-homogeneous loans. The Company s evaluation for the wholesale allowance for credit losses is first based on a loan-by-loan review. A specific allowance for credit losses is established for wholesale finance receivables determined to be individually impaired when management concludes that the borrower will not be able to make full payment of the contractual amounts due based on the original terms of the loan agreement. The impairment is determined based on the cash

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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 for credit losses, 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 considered impaired on an individual basis are segregated, based on similar risk characteristics, according to the Company s internal risk rating system and collectively evaluated for impairment. The related allowance for credit losses is based on factors such as the Company s past loan loss experience, current economic conditions as well as the value of the underlying collateral.

Impaired wholesale finance receivables also include loans that have been modified in troubled debt restructurings as a concession to borrowers experiencing financial difficulty. Generally, it is the Company s policy not to change the terms and conditions of finance receivables. However, to minimize the economic loss, the Company may modify certain impaired finance receivables in troubled debt restructurings. Total restructured finance receivables are not significant.

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

		April 1, 2012	
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	$	$	$
Collectively evaluated for impairment	112,857	9,646	122,503
Total allowance for credit losses	$ 112,857	$ 9,646	$ 122,503
Finance receivables, ending balance:			
Individually evaluated for impairment	$	$	$
Collectively evaluated for impairment	5,043,584	956,322	5,999,906
Total finance receivables	$ 5,043,584	$ 956,322	$ 5,999,906

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	December 31, 2011		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	$	$	$
Collectively evaluated for impairment	116,112	9,337	125,449
Total allowance for credit losses	$ 116,112	$ 9,337	$ 125,449
Finance receivables, ending balance:			
Individually evaluated for impairment	$	$	$
Collectively evaluated for impairment	5,087,490	824,640	5,912,130
Total finance receivables	$ 5,087,490	$ 824,640	$ 5,912,130

	March 27, 2011		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	$	$ 3,451	$ 3,451
Collectively evaluated for impairment	141,704	14,529	156,233
Total allowance for credit losses	$ 141,704	$ 17,980	$ 159,684
Finance receivables, ending balance:			
Individually evaluated for impairment	$	$ 5,187	$ 5,187
Collectively evaluated for impairment	5,225,155	954,765	6,179,920
Total finance receivables	$ 5,225,155	$ 959,952	$ 6,185,107

There were no wholesale finance receivables at April 1, 2012 or December 31, 2011 that were individually deemed to be impaired under ASC Topic 310, Receivables . Additional information related to the wholesale finance receivables that were individually deemed to be impaired under ASC Topic 310, Receivables, at March 27, 2011 includes (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Wholesale:					
No related allowance recorded	$	$	$	$	$
Related allowance recorded	5,187	5,037	3,451	5,527	
Total impaired wholesale finance receivables	$ 5,187	$ 5,037	$ 3,451	$ 5,527	$

Retail finance receivables are contractually delinquent if the minimum payment is not received by the specified due date. Retail finance receivables are generally charged-off at 120 days contractually past due. Retail finance receivables accrue interest until either collected or charged-off. Accordingly, as of April 1, 2012, December 31, 2011 and March 27, 2011, all retail finance receivables were accounted for as interest-earning receivables, of which $16.3 million, $27.5 million and $25.1 million, respectively, were 90 days or more past due.

Wholesale finance receivables are delinquent if the minimum payment is not received by the contractual due date. Wholesale finance receivables are written down once management determines that the specific borrower does not have the ability to repay the loan in full. Interest continues to accrue on past due wholesale finance receivables until the date the collection of the finance receivables becomes doubtful, at which time the finance receivable is placed on non-accrual status. The Company will resume accruing interest on these

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wholesale finance receivables when payments are current according to the terms of the loan agreements and future payments are reasonably assured. While on non-accrual status, all cash received is applied to principal or interest as appropriate. There were no wholesale receivables on non-accrual status at April 1, 2012 or December 31, 2011. The recorded investment of non-accrual status wholesale finance receivables at March 27, 2011 was $5.2 million. At April 1, 2012, December 31, 2011 and March 27, 2011, $0.3 million, $0.9 million, and $2.0 million of wholesale finance receivables were 90 days or more past due and accruing interest, respectively.

An analysis of the aging of past due finance receivables, which includes non-accrual status finance receivables was as follows (in thousands):

	April 1, 2012					
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Finance Receivables
Retail	$ 4,930,739	$ 75,560	$ 21,023	$ 16,262	$ 112,845	$ 5,043,584
Wholesale	955,493	354	149	326	829	956,322
Total	$ 5,886,232	$ 75,914	$ 21,172	$ 16,588	$ 113,674	$ 5,999,906

	December 31, 2011					
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Finance Receivables
Retail	$ 4,915,711	$ 107,373	$ 36,937	$ 27,469	$ 171,779	$ 5,087,490
Wholesale	822,610	777	344	909	2,030	824,640
Total	$ 5,738,321	$ 108,150	$ 37,281	$ 28,378	$ 173,809	$ 5,912,130

	March 27, 2011					
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Finance Receivables
Retail	$ 5,059,870	$ 107,471	$ 32,691	$ 25,123	$ 165,285	$ 5,225,155
Wholesale	955,478	881	895	2,698	4,474	959,952
Total	$ 6,015,348	$ 108,352	$ 33,586	$ 27,821	$ 169,759	$ 6,185,107

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