

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

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2019

☐ 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)

3700 West Juneau Avenue
Milwaukee, Wisconsin
(Address of principal executive offices)

39-1382325
(I.R.S. Employer Identification No.)

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

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

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

Securities Registered Pursuant to Section 12(b) of the Act:

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

Number of shares of the registrant's common stock outstanding at May 3, 2019: 159,072,779 shares

Harley-Davidson, Inc.

Form 10-Q

For The Quarter Ended March 31, 2019

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

HARLEY-DAVIDSON, INC. **CONSOLIDATED STATEMENTS OF INCOME** (In thousands, except per share amounts) (Unaudited)

	Three months ended	
	March 31, 2019	April 1, 2018
Revenue:		
Motorcycles and Related Products	\$ 1,195,637	\$ 1,363,947
Financial Services	188,743	178,174
Total revenue	1,384,380	1,542,121
Costs and expenses:		
Motorcycles and Related Products cost of goods sold	848,198	890,174
Financial Services interest expense	52,324	48,450
Financial Services provision for credit losses	34,491	30,052
Selling, administrative and engineering expense	268,625	290,186
Restructuring expense	13,630	46,842
Total costs and expenses	1,217,268	1,305,704
Operating income	167,112	236,417
Other income (expense), net	4,660	220
Investment income	6,358	1,203
Interest expense	7,731	7,690
Income before provision for income taxes	170,399	230,150
Provision for income taxes	42,454	55,387
Net income	\$ 127,945	\$ 174,763
Earnings per common share:		
Basic	\$ 0.80	\$ 1.04
Diluted	\$ 0.80	\$ 1.03
Cash dividends per common share	\$ 0.375	\$ 0.370

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

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

	Three months ended March 31, 2019	April 1, 2018
Net income	\$ 127,945	\$ 174,763
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	331	6,915
Derivative financial instruments	(441)	765
Pension and postretirement benefit plans	7,743	85,765
Total other comprehensive income, net of tax	7,633	93,445
Comprehensive income	\$ 135,578	\$ 268,208

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

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

	(Unaudited) March 31, 2019	December 31, 2018	(Unaudited) April 1, 2018
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 749,600	\$ 1,203,766	\$ 753,517
Marketable securities	10,003	10,007	—
Accounts receivable, net	353,541	306,474	355,107
Finance receivables, net	2,443,899	2,214,424	2,341,918
Inventories	595,806	556,128	564,571
Restricted cash	43,471	49,275	54,569
Other current assets	177,761	144,368	150,472
Total current assets	4,374,081	4,484,442	4,220,154
Finance receivables, net	4,994,693	5,007,507	4,784,524
Property, plant and equipment, net	876,003	904,132	934,645
Prepaid pension costs	—	—	122,230
Goodwill	64,131	55,048	56,524
Deferred income taxes	132,988	141,464	77,624
Lease assets	55,305	—	—
Other long-term assets	83,412	73,071	81,920
	<u>\$ 10,580,613</u>	<u>\$ 10,665,664</u>	<u>\$ 10,277,621</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
Current liabilities:			
Accounts payable	\$ 380,918	\$ 284,861	\$ 319,040
Accrued liabilities	644,171	601,130	566,408
Short-term debt	1,192,925	1,135,810	1,036,976
Current portion of long-term debt, net	1,372,050	1,575,799	1,872,679
Total current liabilities	3,590,064	3,597,600	3,795,103
Long-term debt, net	4,744,694	4,887,667	4,108,511
Lease liabilities	39,516	—	—
Pension liabilities	98,862	107,776	54,921
Postretirement healthcare liabilities	93,897	94,453	113,031
Other long-term liabilities	215,969	204,219	210,106
Commitments and contingencies (Note 17)			
Shareholders' equity:			
Preferred stock, none issued	—	—	—
Common stock	1,826	1,819	1,818
Additional paid-in-capital	1,465,581	1,459,620	1,432,692
Retained earnings	2,074,669	2,007,583	1,725,626
Accumulated other comprehensive loss	(622,051)	(629,684)	(406,604)
Treasury stock, at cost	(1,122,414)	(1,065,389)	(757,583)
Total shareholders' equity	<u>1,797,611</u>	<u>1,773,949</u>	<u>1,995,949</u>
	<u>\$ 10,580,613</u>	<u>\$ 10,665,664</u>	<u>\$ 10,277,621</u>

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

	(Unaudited) March 31, 2019	December 31, 2018	(Unaudited) April 1, 2018
Balances held by consolidated variable interest entities (Note 13)			
Current finance receivables, net	\$ 130,454	\$ 175,043	\$ 182,033
Other assets	\$ 1,416	\$ 1,563	\$ 2,175
Non-current finance receivables, net	\$ 480,936	\$ 591,839	\$ 464,185
Restricted cash - current and non-current	\$ 39,764	\$ 47,203	\$ 55,140
Current portion of long-term debt, net	\$ 137,488	\$ 189,693	\$ 205,055
Long-term debt, net	\$ 408,153	\$ 488,191	\$ 361,049

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

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

	Three months ended	
	March 31, 2019	April 1, 2018
Net cash provided by operating activities (Note 8)	\$ 32,671	\$ 191,594
Cash flows from investing activities:		
Capital expenditures	(35,255)	(28,436)
Origination of finance receivables	(851,372)	(798,067)
Collections on finance receivables	815,824	809,800
Acquisition of business	(7,000)	—
Other	603	(4,948)
Net cash used by investing activities	(77,200)	(21,651)
Cash flows from financing activities:		
Proceeds from issuance of medium-term notes	546,655	347,553
Repayments of medium-term notes	(750,000)	—
Repayments of securitization debt	(76,505)	(67,955)
Borrowings of asset-backed commercial paper	—	35,504
Repayments of asset-backed commercial paper	(72,401)	(45,907)
Net increase (decrease) in credit facilities and unsecured commercial paper	58,527	(234,145)
Dividends paid	(60,859)	(62,731)
Purchase of common stock for treasury	(61,712)	(72,968)
Issuance of common stock under employee stock option plans	616	1,719
Net cash used by financing activities	(415,679)	(98,930)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(409)	2,034
Net (decrease) increase in cash, cash equivalents and restricted cash	\$ (460,617)	\$ 73,047
Cash, cash equivalents and restricted cash:		
Cash, cash equivalents and restricted cash—beginning of period	\$ 1,259,748	\$ 746,210
Net (decrease) increase in cash, cash equivalents and restricted cash	(460,617)	73,047
Cash, cash equivalents and restricted cash—end of period	\$ 799,131	\$ 819,257
Reconciliation of cash, cash equivalents and restricted cash to the Consolidated Balance Sheet:		
Cash and cash equivalents	\$ 749,600	\$ 753,517
Restricted cash	43,471	54,569
Restricted cash included in other long-term assets	6,060	11,171
Total cash, cash equivalents and restricted cash shown in the Statement of Cash Flows	\$ 799,131	\$ 819,257

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

HARLEY-DAVIDSON, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands, except share amounts)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Balance	Total
	Issued Shares	Balance					
Balance December 31, 2018	181,931,225	\$ 1,819	\$ 1,459,620	\$ 2,007,583	\$ (629,684)	\$ (1,065,389)	\$ 1,773,949
Net income	—	—	—	127,945	—	—	127,945
Total other comprehensive income, net of tax (Note 18)	—	—	—	—	7,633	—	7,633
Dividends	—	—	—	(60,859)	—	—	(60,859)
Repurchase of common stock	—	—	—	—	—	(61,712)	(61,712)
Share-based compensation	702,687	7	5,961	—	—	4,687	10,655
Balance March 31, 2019	182,633,912	\$ 1,826	\$ 1,465,581	\$ 2,074,669	\$ (622,051)	\$ (1,122,414)	\$ 1,797,611

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Balance	Total
	Issued Shares	Balance					
Balance December 31, 2017	181,286,547	\$ 1,813	\$ 1,422,808	\$ 1,607,570	\$ (500,049)	\$ (687,865)	\$ 1,844,277
Net income	—	—	—	174,763	—	—	174,763
Total other comprehensive income, net of tax (Note 18)	—	—	—	—	93,445	—	93,445
Dividends	—	—	—	(62,731)	—	—	(62,731)
Repurchase of common stock	—	—	—	—	—	(72,968)	(72,968)
Share-based compensation	489,896	5	9,884	—	—	3,250	13,139
Cumulative effect of change in accounting	—	—	—	6,024	—	—	6,024
Balance April 1, 2018	181,776,443	\$ 1,818	\$ 1,432,692	\$ 1,725,626	\$ (406,604)	\$ (757,583)	\$ 1,995,949

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

1. Basis of Presentation and Use of Estimates

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

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the consolidated balance sheets as of March 31, 2019 and April 1, 2018, the consolidated statements of income for the three month periods then ended, the consolidated statements of comprehensive income for the three month periods then ended, the consolidated statements of cash flows for the three month periods then ended, and the consolidated statements of shareholders' equity 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 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, 2018.

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

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

2. New Accounting Standards

Accounting Standards Recently Adopted

In February 2016, the FASB issued ASU No. 2016-02 Leases (Topic 842) (ASU 2016-02). ASU 2016-02 amends the existing lease accounting model by requiring a lessee to recognize the rights and obligations resulting from certain leases as assets and liabilities on the balance sheet. ASU 2016-02 also requires a company to disclose key information about their leasing arrangements. The Company adopted ASU 2016-02 on January 1, 2019 using a modified retrospective approach. Pursuant to ASU 2018-11, Leases (Topic 842): Targeted Improvements, the Company applied the new leases standard at the adoption date and recognized a cumulative effect adjustment to the opening balance sheet on January 1, 2019.

The Company elected the package of practical expedients upon transition that allows entities not to reassess lease identification, classification and initial direct costs for leases that existed prior to adoption. The Company also elected the short-term lease practical expedient that allows entities to recognize lease payments on a straight-line basis over the lease term for leases with a term of 12 months or less. The Company has elected the practical expedient allowing entities to not separate non-lease components from lease components, but instead account for such components as a single lease component for all leases except leases involving assets operated by a third-party.

The adoption of ASU 2016-02 resulted in the initial recognition of right of use assets and lease liabilities related to the Company's leasing arrangements totaling approximately \$60 million on January 1, 2019. The adoption of ASU 2016-02 had no impact on opening retained earnings on January 1, 2019 and is not expected to materially impact consolidated net income or cash flows on an on-going basis.

In August 2017, the FASB issued ASU No. 2017-12 Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12). ASU 2017-12 amends ASC 815, Derivatives and Hedging to improve the financial reporting of hedging relationships and to simplify the application of the hedge accounting guidance. The ASU makes various updates to the hedge accounting model, including changing the recognition and presentation of changes in the fair value of the hedging instrument and amending disclosure requirements, among other things. The Company adopted ASU 2017-12 on January 1, 2019. The adoption of ASU 2017-12 did not have a material impact on its financial statements.

Accounting Standards Not Yet Adopted

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

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

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13). ASU 2018-13 amends ASC 820 to eliminate, modify, and add certain disclosure requirements for fair value measurements. The guidance is effective for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years. Early adoption is permitted in any period, for either the whole standard or only the provisions that eliminate or modify requirements. The amendments are required to be applied retrospectively, with the exception of a few disclosure additions, which are to be applied on a prospective basis. The Company is currently evaluating the impact of adopting ASU 2018-13, but does not believe that it will have a significant impact on its disclosures.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) (ASU 2018-15). The new guidance requires a customer in a cloud computing arrangement that is a service contract to follow the existing internal-use software guidance to determine which implementation costs to capitalize as assets or expense as incurred. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting ASU 2018-15.

3. Revenue

The following table includes revenue disaggregated by major source (in thousands):

	Three months ended	
	March 31, 2019	April 1, 2018
Motorcycles and Related Products:		
Motorcycles	\$ 964,575	\$ 1,121,673
Parts & Accessories	159,703	169,075
General Merchandise	55,401	56,601
Licensing	8,577	8,358
Other	7,381	8,240
Revenue from Motorcycles and Related Products	1,195,637	1,363,947
Financial Services:		
Interest income	159,804	154,041
Securitization and servicing fee income	189	352
Other income	28,750	23,781
Revenue from Financial Services	188,743	178,174
Total revenue	\$ 1,384,380	\$ 1,542,121

Deferred revenue relates to payments received at contract inception in advance of the Company's performance under the contract and generally relates to the sale of Harley Ownership Group memberships and extended service plan contracts. Deferred revenue is recognized as revenue as the Company performs under the contract. Deferred revenue, included in *Accrued liabilities* and *Other long-term liabilities* on the consolidated balance sheet, was as follows (in thousands):

	March 31, 2019	April 1, 2018
Balance, beginning of year	\$ 29,055	\$ 23,441
Balance, end of period	30,228	27,624

Previously deferred revenue recognized as revenue in the three months ended March 31, 2019 and April 1, 2018 was \$6.1 million and \$4.0 million, respectively. The Company expects to recognize approximately \$16.2 million of the remaining unearned revenue over the next 12 months and \$14.0 million thereafter.

4. Restructuring Expenses

In January 2018, the Company initiated a plan to further improve its manufacturing operations and cost structure by commencing a multi-year manufacturing optimization plan which includes the consolidation of its motorcycle assembly plant in Kansas City, Missouri, into its plant in York, Pennsylvania, and the closure of its wheel operations in Adelaide, Australia (Manufacturing Optimization Plan). As the U.S. operations are consolidated, the Company expects approximately 800 jobs will be eliminated with the closure of Kansas City operations and approximately 450 jobs will be added in York through 2019. Approximately 90 jobs will be eliminated in Adelaide.

The Company expects to incur restructuring and other consolidation costs of \$152 million to \$162 million in the Motorcycles segment related to the Manufacturing Optimization Plan through 2019, of which approximately 70% will be cash charges.

The current estimate includes \$129 million to \$134 million of restructuring expense and \$23 million to \$28 million of costs related to temporary inefficiencies. The Company expects restructuring expenses to include the cost of employee termination benefits, accelerated depreciation, and other project implementation costs of \$40 million to \$41 million, \$51 million to \$53 million, and \$38 million to \$40 million, respectively.

In November 2018, the Company implemented a reorganization of its workforce (Reorganization Plan). As a result, approximately 70 employees left the Company on an involuntary basis.

Restructuring expense related to these plans is recorded as a separate line item in the consolidated statements of income and the accrued restructuring liability is recorded in *Accrued liabilities* on the consolidated balance sheet. The Company expects the plans to be completed by mid-2019. Changes in the accrued restructuring liability (in thousands) were as follows:

	Three months ended March 31, 2019					
	Manufacturing Optimization Plan				Reorganization Plan	
	Employee Termination Benefits	Accelerated Depreciation	Other	Total	Employee Termination Benefits	Total
Balance, beginning of period	\$ 24,958	\$ —	\$ 79	\$ 25,037	\$ 3,461	\$ 28,498
Restructuring expense (benefit)	9	8,379	5,636	14,024	(394)	13,630
Utilized - cash	(2,600)	—	(5,528)	(8,128)	(2,014)	(10,142)
Utilized - non cash	—	(8,379)	—	(8,379)	—	(8,379)
Foreign currency changes	34	—	—	34	(2)	32
Balance, end of period	<u>\$ 22,401</u>	<u>\$ —</u>	<u>\$ 187</u>	<u>\$ 22,588</u>	<u>\$ 1,051</u>	<u>\$ 23,639</u>

	Three months ended April 1, 2018					
	Manufacturing Optimization Plan				Reorganization Plan	
	Employee Termination Benefits	Accelerated Depreciation	Other	Total	Employee Termination Benefits	Total
Balance, beginning of period	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Restructuring expense	40,791	5,613	438	46,842	—	46,842
Utilized - cash	(2,300)	—	(374)	(2,674)	—	(2,674)
Utilized - non cash	—	(5,613)	—	(5,613)	—	(5,613)
Foreign currency changes	(204)	—	(1)	(205)	—	(205)
Balance, end of period	<u>\$ 38,287</u>	<u>\$ —</u>	<u>\$ 63</u>	<u>\$ 38,350</u>	<u>\$ —</u>	<u>\$ 38,350</u>

During the three months ended March 31, 2019, the restructuring liability was adjusted to reflect updated assumptions resulting in a reversal of approximately \$0.4 million of previously recognized restructuring expense.

During the three months ended March 31, 2019 and April 1, 2018, the Company incurred \$3.6 million and \$0.7 million, respectively, of incremental cost of goods sold due to temporary inefficiencies resulting from implementing the Manufacturing Optimization Plan.

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5. Income Taxes

The Company's 2019 effective income tax rate for the three months ended March 31, 2019 was 24.9% compared to 24.1% for the three months ended April 1, 2018.

6. Earnings Per Share

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

	Three months ended	
	March 31, 2019	April 1, 2018
Numerator:		
Net income used in computing basic and diluted earnings per share	\$ 127,945	\$ 174,763
Denominator:		
Denominator for basic earnings per share - weighted-average common shares	159,311	168,139
Effect of dilutive securities - employee stock compensation plan	715	1,035
Denominator for diluted earnings per share - adjusted weighted-average shares outstanding	160,026	169,174
Earnings per common share:		
Basic	\$ 0.80	\$ 1.04
Diluted	\$ 0.80	\$ 1.03

Outstanding options to purchase 1.2 million and 1.0 million shares of common stock for the three months ended March 31, 2019 and April 1, 2018, respectively, were not included in the Company's computation of dilutive securities because the exercise price was greater than the market price, and therefore, the effect would have been anti-dilutive.

The Company has a share-based compensation plan under which employees may be granted share-based awards including restricted stock units (RSUs). Non-forfeitable dividend equivalents are paid on unvested RSUs. As such, RSUs are considered participating securities under the two-class method of calculating earnings per share as described in ASC Topic 260, "Earnings per Share." The two-class method of calculating earnings per share did not have a material impact on the Company's earnings per share calculation for the three month periods ended March 31, 2019 and April 1, 2018.

7. Acquisition

On March 4, 2019, the Company purchased certain assets and liabilities of StaCyc, Inc. for total consideration of \$14.9 million including cash paid at acquisition of \$7.0 million. StaCyc produces electric-powered two-wheelers specifically designed for children and supports the Company's plans to expand its portfolio of electric two-wheeled vehicles.

The Company has completed a provisional allocation of the purchase consideration which is subject to change upon the completion of the Company's final valuation of acquired assets and liabilities. The primary assets acquired and included in the Motorcycles segment were goodwill of \$9.5 million, which is expected to be tax deductible, and intangible assets of \$5.3 million.

8. Additional Balance Sheet and Cash Flow Information

Investments in Marketable Securities

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

	March 31, 2019	December 31, 2018	April 1, 2018
Debt securities	\$ 10,003	\$ 10,007	\$ —
Mutual funds	49,896	44,243	49,402
Total marketable securities	\$ 59,899	\$ 54,250	\$ 49,402

The debt securities, which are included in *Marketable securities* on the consolidated balance sheets, are carried at fair value with unrealized gains or losses reported in other comprehensive income. The mutual fund investments are held to fund certain deferred compensation obligations. These investments, which are included in *Other long-term assets* on the consolidated balance sheets, are carried at fair value with gains and losses recorded in net income.

Inventories

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

	March 31, 2019	December 31, 2018	April 1, 2018
Raw materials and work in process	\$ 204,759	\$ 177,110	\$ 177,652
Motorcycle finished goods	304,386	301,630	289,046
Parts & accessories and general merchandise	145,300	136,027	150,228
Inventory at lower of FIFO cost or net realizable value	654,445	614,767	616,926
Excess of FIFO over LIFO cost	(58,639)	(58,639)	(52,355)
Total inventories, net	<u>\$ 595,806</u>	<u>\$ 556,128</u>	<u>\$ 564,571</u>

Operating Cash Flow

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

	Three months ended March 31, 2019	April 1, 2018
Cash flows from operating activities:		
Net income	\$ 127,945	\$ 174,763
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangibles	64,372	62,473
Amortization of deferred loan origination costs	18,968	20,116
Amortization of financing origination fees	2,194	2,028
Provision for long-term employee benefits	3,156	9,747
Employee benefit plan contributions and payments	(2,507)	(5,486)
Stock compensation expense	6,537	7,962
Net change in wholesale finance receivables related to sales	(237,569)	(239,902)
Provision for credit losses	34,491	30,052
Deferred income taxes	5,981	3,188
Other, net	2,731	(1,902)
Changes in current assets and liabilities:		
Accounts receivable, net	(49,746)	(17,688)
Finance receivables - accrued interest and other	92	4,758
Inventories	(40,600)	(21,542)
Accounts payable and accrued liabilities	123,975	148,923
Derivative instruments	867	702
Other	(28,216)	13,402
Total adjustments	<u>(95,274)</u>	<u>16,831</u>
Net cash provided by operating activities	<u>\$ 32,671</u>	<u>\$ 191,594</u>

9. Finance Receivables

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

The Company offers wholesale financing to the Company's independent dealers. Wholesale loans to dealers are generally secured by financed inventory or property and are originated in the U.S. and Canada. Wholesale finance receivables are related primarily to sales of motorcycles and related parts and accessories to dealers.

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

	March 31, 2019	December 31, 2018	April 1, 2018
Retail	\$ 6,290,036	\$ 6,328,201	\$ 6,064,192
Wholesale	1,339,428	1,083,615	1,252,600
Total finance receivables	7,629,464	7,411,816	7,316,792
Allowance for credit losses	(190,872)	(189,885)	(190,350)
Finance receivables, net	\$ 7,438,592	\$ 7,221,931	\$ 7,126,442

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

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

	Three months ended March 31, 2019		
	Retail	Wholesale	Total
Balance, beginning of period	\$ 182,098	\$ 7,787	\$ 189,885
Provision for credit losses	32,832	1,659	34,491
Charge-offs	(44,721)	—	(44,721)
Recoveries	11,217	—	11,217
Balance, end of period	\$ 181,426	\$ 9,446	\$ 190,872

	Three months ended April 1, 2018		
	Retail	Wholesale	Total
Balance, beginning of period	\$ 186,254	\$ 6,217	\$ 192,471
Provision for credit losses	28,069	1,983	30,052
Charge-offs	(45,081)	—	(45,081)
Recoveries	12,908	—	12,908
Balance, end of period	\$ 182,150	\$ 8,200	\$ 190,350

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

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

The wholesale portfolio is primarily composed of large balance, non-homogeneous loans. The Company's evaluation for the wholesale allowance for credit losses is first based on a loan-by-loan review. A specific allowance for credit losses is established for wholesale finance receivables determined to be individually impaired when management concludes that the borrower will not be able to make full payment of the contractual amounts due based on the original terms of the loan agreement. The impairment is determined based on the cash that the Company expects to receive discounted at the loan's original interest rate or the fair value of the collateral, if the loan is collateral-dependent. Finance receivables in the wholesale portfolio that are not considered impaired on an individual basis are segregated, based on similar risk characteristics, according

to the Company's internal risk rating system and collectively evaluated for impairment. The related allowance for credit losses is based on factors such as the specific borrower's financial performance and ability to repay, the Company's past loan loss experience, current economic conditions, and the value of the underlying collateral.

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

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):

	March 31, 2019		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	\$ —	\$ —	\$ —
Collectively evaluated for impairment	181,426	9,446	190,872
Total allowance for credit losses	\$ 181,426	\$ 9,446	\$ 190,872
Finance receivables, ending balance:			
Individually evaluated for impairment	\$ —	\$ —	\$ —
Collectively evaluated for impairment	6,290,036	1,339,428	7,629,464
Total finance receivables	\$ 6,290,036	\$ 1,339,428	\$ 7,629,464
	December 31, 2018		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	\$ —	\$ —	\$ —
Collectively evaluated for impairment	182,098	7,787	189,885
Total allowance for credit losses	\$ 182,098	\$ 7,787	\$ 189,885
Finance receivables, ending balance:			
Individually evaluated for impairment	\$ —	\$ —	\$ —
Collectively evaluated for impairment	6,328,201	1,083,615	7,411,816
Total finance receivables	\$ 6,328,201	\$ 1,083,615	\$ 7,411,816
	April 1, 2018		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	\$ —	\$ 184	\$ 184
Collectively evaluated for impairment	182,150	8,016	190,166
Total allowance for credit losses	\$ 182,150	\$ 8,200	\$ 190,350
Finance receivables, ending balance:			
Individually evaluated for impairment	\$ —	\$ 220	\$ 220
Collectively evaluated for impairment	6,064,192	1,252,380	7,316,572
Total finance receivables	\$ 6,064,192	\$ 1,252,600	\$ 7,316,792

There are no wholesale finance receivables at March 31, 2019 or December 31, 2018 that are individually deemed to be impaired under ASC Topic 310, "Receivables". Additional information related to the wholesale finance receivables that are individually deemed to be impaired at April 1, 2018 includes (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Wholesale:					
No related allowance recorded	\$ —	\$ —	\$ —	\$ —	\$ —
Related allowance recorded	251	220	184	251	—
Total impaired wholesale finance receivables	\$ 251	\$ 220	\$ 184	\$ 251	\$ —

Retail finance receivables are contractually delinquent if the minimum payment is not received by the specified due date. Retail finance receivables are generally charged-off when the receivable is 120 days or more delinquent, the related asset is repossessed, or the receivable is otherwise deemed uncollectible. All retail finance receivables accrue interest until either collected or charged-off. Accordingly, as of March 31, 2019, December 31, 2018 and April 1, 2018, all retail finance receivables were accounted for as interest-earning receivables, of which \$39.0 million, \$41.2 million and \$27.9 million, respectively, were 90 days or more past due.

Wholesale finance receivables are delinquent if the minimum payment is not received by the contractual due date. Wholesale finance receivables are written down once management determines that the specific borrower does not have the ability to repay the loan in full. Interest continues to accrue on past due finance receivables until the date the finance receivable becomes uncollectible and the finance receivable is placed on non-accrual status. The Company will resume accruing interest on these accounts when payments are current according to the terms of the loans and future payments are reasonably assured. While on non-accrual status, all cash received is applied to principal or interest as appropriate. There were no wholesale receivables on non-accrual status at March 31, 2019 or December 31, 2018. The recorded investment in non-accrual status wholesale finance receivables at April 1, 2018 was \$0.2 million. At March 31, 2019, December 31, 2018 and April 1, 2018, \$0.8 million, \$1.1 million, and \$0.2 million of wholesale finance receivables were 90 days or more past due and accruing interest, respectively.

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

March 31, 2019						
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Finance Receivables
Retail	\$ 6,088,894	\$ 119,150	\$ 43,028	\$ 38,964	\$ 201,142	\$ 6,290,036
Wholesale	1,337,429	862	355	782	1,999	1,339,428
Total	\$ 7,426,323	\$ 120,012	\$ 43,383	\$ 39,746	\$ 203,141	\$ 7,629,464
December 31, 2018						
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Finance Receivables
Retail	\$ 6,100,186	\$ 136,945	\$ 49,825	\$ 41,245	\$ 228,015	\$ 6,328,201
Wholesale	1,081,729	522	273	1,091	1,886	1,083,615
Total	\$ 7,181,915	\$ 137,467	\$ 50,098	\$ 42,336	\$ 229,901	\$ 7,411,816
April 1, 2018						
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Finance Receivables
Retail	\$ 5,897,632	\$ 105,366	\$ 33,275	\$ 27,919	\$ 166,560	\$ 6,064,192
Wholesale	1,247,175	549	4,705	171	5,425	1,252,600
Total	\$ 7,144,807	\$ 105,915	\$ 37,980	\$ 28,090	\$ 171,985	\$ 7,316,792

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

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

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

	March 31, 2019	December 31, 2018	April 1, 2018
Prime	\$ 5,160,942	\$ 5,183,754	\$ 4,923,237
Sub-prime	1,129,094	1,144,447	1,140,955
Total	<u>\$ 6,290,036</u>	<u>\$ 6,328,201</u>	<u>\$ 6,064,192</u>

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

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

	March 31, 2019	December 31, 2018	April 1, 2018
Doubtful	\$ 8,679	\$ 2,210	\$ 1,582
Substandard	7,866	9,660	3,368
Special Mention	11,484	10,299	33,085
Medium Risk	917	25,802	10,512
Low Risk	1,310,482	1,035,644	1,204,053
Total	<u>\$ 1,339,428</u>	<u>\$ 1,083,615</u>	<u>\$ 1,252,600</u>

10. Derivative Instruments and Hedging Activities

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

The Company sells products in foreign currencies and utilizes foreign currency exchange contracts to mitigate the effects of foreign currency exchange rate fluctuations related to the Euro, the Australian dollar, the Japanese yen, the Brazilian real, the Canadian dollar and the Mexican peso. The foreign currency exchange contracts generally have maturities of less than one year.

The Company utilizes commodity contracts to mitigate the effects of commodity price fluctuations related to metals and fuel consumed in the Company's motorcycle production and distribution processes. The commodity contracts generally have maturities of less than one year.

The Company periodically utilizes treasury rate lock contracts to fix the interest rate on a portion of the principal related to the anticipated issuance of long-term debt as well as interest rate swaps to reduce the impact of fluctuations in interest rates on long-term debt.

All derivative instruments are recognized on the balance sheet at fair value. In accordance with ASC Topic 815, Derivatives and Hedging, the accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship.

Changes in the fair value of derivatives that are designated as cash flow hedges are initially recorded in other comprehensive income (OCI) and subsequently reclassified into earnings when the hedged item affects income. The Company assesses, both at the inception of each hedge and on an on-going basis, whether the derivatives that are used in cash flow hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. No component of a hedging derivative instrument's gain or loss is excluded from the assessment of hedge effectiveness. Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to foreign currency and commodity risks. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings.

The following tables summarize the notional and recorded fair values of the Company's derivative financial instruments (in thousands):

Derivatives Designated as Cash Flow Hedging Instruments Under ASC Topic 815									
Derivative	March 31, 2019			December 31, 2018			April 1, 2018		
	Notional Value	Other Current Assets	Accrued Liabil-ities	Notional Value	Other Current Assets	Accrued Liabil-ities	Notional Value	Other Current Assets	Accrued Liabil-ities
Foreign currency contracts	\$ 480,937	\$ 15,576	\$ 646	\$ 442,976	\$ 15,071	\$ 313	\$ 720,869	\$ 3,442	\$ 22,807
Commodity contracts	589	—	6	827	—	46	728	—	11
Interest rate swaps	900,000	—	6,893	900,000	—	4,494	—	—	—
Total	<u>\$ 1,381,526</u>	<u>\$ 15,576</u>	<u>\$ 7,545</u>	<u>\$ 1,343,803</u>	<u>\$ 15,071</u>	<u>\$ 4,853</u>	<u>\$ 721,597</u>	<u>\$ 3,442</u>	<u>\$ 22,818</u>
Derivatives Not Designated as Hedging Instruments Under ASC Topic 815									
Derivative	March 31, 2019			December 31, 2018			April 1, 2018		
	Notional Value	Other Current Assets	Accrued Liabil-ities	Notional Value	Other Current Assets	Accrued Liabil-ities	Notional Value	Other Current Assets	Accrued Liabil-ities
Foreign currency contracts	\$ 157,678	\$ 413	\$ 69	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commodity contracts	7,225	94	119	5,239	—	463	4,577	171	32
Total	<u>\$ 164,903</u>	<u>\$ 507</u>	<u>\$ 188</u>	<u>\$ 5,239</u>	<u>\$ —</u>	<u>\$ 463</u>	<u>\$ 4,577</u>	<u>\$ 171</u>	<u>\$ 32</u>

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

	Amount of Gain/(Loss) Recognized in OCI, before tax		Amount of Gain/(Loss) Reclassified from AOCL into Income		Location of Gain/(Loss) Reclassified from AOCL into Income	Total Statement of Income Amount for Line Items in which the Effects of Cash Flow Hedges are Recorded	
	Three months ended		Three months ended			Three months ended	
Cash Flow Hedges	March 31, 2019	April 1, 2018	March 31, 2019	April 1, 2018	Income statement line item	March 31, 2019	April 1, 2018
Foreign currency contracts	\$ 4,152	\$ (5,890)	\$ 2,453	\$ (6,709)	Motorcycles cost of goods sold	\$ 848,198	\$ 890,174
Commodity contracts	30	(16)	(10)	(73)	Motorcycles cost of goods sold	\$ 848,198	\$ 890,174
Treasury rate locks	—	—	(90)	(90)	Interest expense	\$ 7,731	\$ 7,690
Treasury rate locks	—	—	(32)	(36)	Financial Services interest expense	\$ 52,324	\$ 48,450
Interest rate swaps	(3,005)	—	(606)	—	Financial Services interest expense	\$ 52,324	\$ 48,450
Total	\$ 1,177	\$ (5,906)	\$ 1,715	\$ (6,908)			

The amount of net gain included in accumulated other comprehensive loss at March 31, 2019, estimated to be reclassified into income over the next twelve months was \$11.6 million.

The following table summarizes the amount of gains and losses recognized in income related to derivative financial instruments not designated as hedging instruments. The following amounts were recorded in *Motorcycles cost of goods sold* (in thousands):

	Amount of Gain Recognized in Income on Derivative	
	Three months ended	
Derivatives Not Designated as Hedges	March 31, 2019	April 1, 2018
Foreign currency contracts	\$ 887	\$ —
Commodity contracts	317	6
Total	<u>\$ 1,204</u>	<u>\$ 6</u>

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

11. Leases

The Company determines if an arrangement is or contains a lease at contract inception. Right-of-use (ROU) assets related to leases are recorded in *Lease assets* and lease liabilities are recorded in *Accrued liabilities* and *Lease liabilities* on the consolidated balance sheet.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at lease commencement date based on the present value of future lease payments over the lease term. The ROU asset also includes prepaid lease payments and initial direct costs and is reduced for lease incentives paid by the lessor. The discount rate used to determine the present value is generally the Company's incremental borrowing rate because the implicit rate in the lease is not readily determinable. The lease term used to calculate the ROU asset and lease liability includes periods covered by options to extend or terminate when the Company is reasonably certain the lease term will include these optional periods.

The Company has lease arrangements for sales and administrative offices, manufacturing and distribution facilities, product testing facilities, equipment and vehicles. All of the Company's lease arrangements are accounted for as operating leases. The Company's leases have remaining lease terms ranging from 1 to 13 years, some of which include options to extend the leases for periods generally not greater than 5 years and some of which include options to terminate the leases within 1 year. Certain leases also include options to purchase the leased asset. Leases do not contain any material residual value guarantees or material restrictive covenants.

Operating lease expense for the three months ended March 31, 2019 was \$6.3 million. This includes variable lease costs related to leases involving assets operated by a third-party of approximately \$1.1 million. Other variable and short-term lease costs were not material.

Balance sheet information related to leases was as follows (in thousands):

	March 31, 2019
Lease assets	\$ 55,305
Accrued liabilities	\$ 17,391
Lease liabilities	39,516
	<u>\$ 56,907</u>

Future maturities of lease liabilities were as follows as of March 31, 2019 (in thousands):

	Operating Leases
2019	\$ 14,743
2020	15,023
2021	12,467
2022	8,837
2023	3,511
Thereafter	6,291
Total present value of lease payments	60,872
Less present value discount	3,965
Total lease liability	<u>\$ 56,907</u>

Other lease information is as follows:

	Three months ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities (in millions):	
Operating cash flows	\$ 5,361
Right-of-use assets obtained in exchange for lease obligations (in millions)	298
	March 31, 2019
Weighted average remaining lease term (in years)	4.61
Weighted average discount rate	3.3%

12. Debt

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

	March 31, 2019	December 31, 2018	April 1, 2018
Unsecured commercial paper	\$ 1,192,925	\$ 1,135,810	\$ 1,036,976
Total short-term debt	<u>\$ 1,192,925</u>	<u>\$ 1,135,810</u>	<u>\$ 1,036,976</u>

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

	March 31, 2019	December 31, 2018	April 1, 2018
Secured debt (Note 13)			
Asset-backed Canadian commercial paper conduit facility	\$ 142,676	\$ 155,951	\$ 158,162
Asset-backed U.S. commercial paper conduit facilities	526,947	582,717	281,311
Asset-backed securitization debt	18,712	95,216	285,130
Less: unamortized discount and debt issuance costs	(18)	(49)	(337)
Total secured debt	<u>688,317</u>	<u>833,835</u>	<u>724,266</u>
Unsecured notes (at par value)			
6.80% Medium-term notes due in 2018, issued May 2008	—	—	877,488
2.25% Medium-term notes due in 2019, issued January 2016	—	600,000	600,000
Floating-rate Medium-term notes due in 2019, issued March 2017 ^(a)	—	150,000	150,000
2.40% Medium-term notes due in 2019, issued September 2014	600,000	600,000	600,000
2.15% Medium-term notes due in 2020, issued February 2015	600,000	600,000	600,000
Floating-rate Medium-term notes due in 2020, issued May 2018 ^(b)	450,000	450,000	—
2.40% Medium-term notes due in 2020, issued March 2017	350,000	350,000	350,000
2.85% Medium-term notes due in 2021, issued January 2016	600,000	600,000	600,000
Floating-rate Medium-term notes due in 2021, issued November 2018 ^(c)	450,000	450,000	—
3.55% Medium-term notes due in 2021, issued May 2018	350,000	350,000	—
4.05% Medium-term notes due in 2022, issued February 2019	550,000	—	—
2.55% Medium-term notes due in 2022, issued June 2017	400,000	400,000	400,000
3.35% Medium-term notes due in 2023, issued February 2018	350,000	350,000	350,000
3.50% Senior unsecured notes due in 2025, issued July 2015	450,000	450,000	450,000
4.625% Senior unsecured notes due in 2045, issued July 2015	300,000	300,000	300,000
Less: unamortized discount and debt issuance costs	(21,573)	(20,369)	(20,564)
Gross long-term debt	<u>6,116,744</u>	<u>6,463,466</u>	<u>5,981,190</u>
Less: current portion of long-term debt, net of unamortized discount and debt issuance costs	(1,372,050)	(1,575,799)	(1,872,679)
Total long-term debt	<u>\$ 4,744,694</u>	<u>\$ 4,887,667</u>	<u>\$ 4,108,511</u>

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

(b) Floating interest rate based on LIBOR plus 50 bps. The Company utilized an interest rate swap designated as a cash flow hedge to convert this from a floating rate basis to a fixed rate basis. Refer to Note 10 of the Notes to the Consolidated Financial Statements for further details.

(c) Floating interest rate based on LIBOR plus 94 bps. The Company utilized an interest rate swap designated as a cash flow hedge to convert this from a floating rate basis to a fixed rate basis. Refer to Note 10 of the Notes to the Consolidated Financial Statements for further details.

13. Asset-Backed Financing

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

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

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

If the Company meets all three of the sale criteria above, the transaction is recorded as a sale for accounting purposes and is referred to as an off-balance sheet asset-backed financing. Upon sale, the retail motorcycle finance receivables are removed from the Company's balance sheet and a gain or loss is recognized for the difference between the cash proceeds received, the assets derecognized, and the liabilities recognized as part of the transaction. The gain or loss on sale is included in *Financial Services revenue* in the consolidated statements of income.

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

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

	March 31, 2019					
	Finance receivables	Allowance for credit losses	Restricted cash	Other assets	Total assets	Asset-backed debt
On-balance sheet assets and liabilities						
Consolidated VIEs						
Asset-backed securitizations	\$ 62,771	\$ (1,855)	\$ 8,199	\$ 134	\$ 69,249	\$ 18,694
Asset-backed U.S. commercial paper conduit facilities	567,295	(16,821)	31,565	1,282	583,321	526,947
Unconsolidated VIEs						
Asset-backed Canadian commercial paper conduit facility	164,779	(3,003)	9,767	282	171,825	142,676
Total on-balance sheet assets and liabilities	\$ 794,845	\$ (21,679)	\$ 49,531	\$ 1,698	\$ 824,395	\$ 688,317

	December 31, 2018					
	Finance receivables	Allowance for credit losses	Restricted cash	Other assets	Total assets	Asset-backed debt
On-balance sheet assets and liabilities						
Consolidated VIEs						
Asset-backed securitizations	\$ 158,718	\$ (4,691)	\$ 17,191	\$ 329	\$ 171,547	\$ 95,167
Asset-backed U.S. commercial paper conduit facilities	631,588	(18,733)	30,012	1,234	644,101	582,717
Unconsolidated VIEs						
Asset-backed Canadian commercial paper conduit facility	181,774	(3,130)	8,779	343	187,766	155,951
Total on-balance sheet assets and liabilities	<u>\$ 972,080</u>	<u>\$ (26,554)</u>	<u>\$ 55,982</u>	<u>\$ 1,906</u>	<u>\$ 1,003,414</u>	<u>\$ 833,835</u>
	April 1, 2018					
	Finance receivables	Allowance for credit losses	Restricted cash	Other assets	Total assets	Asset-backed debt
On-balance sheet assets and liabilities						
Consolidated VIEs						
Asset-backed securitizations	\$ 367,584	\$ (11,387)	\$ 38,207	\$ 1,207	\$ 395,611	\$ 284,793
Asset-backed U.S. commercial paper conduit facilities	299,318	(9,297)	16,933	968	307,922	281,311
Unconsolidated VIEs						
Asset-backed Canadian commercial paper conduit facility	183,073	(3,085)	10,600	320	190,908	158,162
Total on-balance sheet assets and liabilities	<u>\$ 849,975</u>	<u>\$ (23,769)</u>	<u>\$ 65,740</u>	<u>\$ 2,495</u>	<u>\$ 894,441</u>	<u>\$ 724,266</u>

On-Balance Sheet Asset-Backed Securitization VIEs

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

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

There were no on-balance sheet asset-backed securitization transactions during the first quarter of 2019 or 2018.

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

The Company has agreements with third-party bank-sponsored asset-backed U.S. commercial paper conduits under which it may transfer U.S. retail motorcycle finance receivables to an SPE, which in turn may issue debt to those third-party bank-sponsored asset-backed U.S. commercial paper conduits. In November 2018, the Company renewed its existing \$600.0 million revolving facility agreement with third-party bank-sponsored asset-backed U.S. commercial paper conduits. Also at that time, the Company amended its existing \$300.0 million revolving facility agreement with third-party bank-sponsored asset-backed U.S. commercial paper conduits, increasing the aggregate initial commitment to \$600.0 million. The aggregate commitment under this agreement is reduced monthly as collections on the related finance receivables are applied to the outstanding

principal until the outstanding principal balance is less than or equal to \$300.0 million, at which point the aggregate commitment will equal \$300.0 million. Availability under the revolving facilities (together, the U.S. Conduit Facilities) is based on, among other things, the amount of eligible U.S. retail motorcycle finance receivables held by the SPE as collateral.

Under the U.S. Conduit Facilities, the assets of the SPE are restricted as collateral for the payment of the debt or other obligations arising in the transaction and are not available to pay other obligations or claims of the Company's creditors. The terms for this debt provide for interest on the outstanding principal based on prevailing commercial paper rates or LIBOR to the extent the advance is not funded by a conduit lender through the issuance of commercial paper plus, in each case, a program fee based on outstanding principal. The U.S. Conduit Facilities also provide for an unused commitment fee based on the unused portion of the total aggregate commitment. 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 U.S. Conduit Facilities, any outstanding principal will continue to be reduced monthly through available collections. The expected remaining term of the related receivables held by the SPE is approximately 5 years. Unless earlier terminated or extended by mutual agreement of the Company and the lenders, as of March 31, 2019, the U.S. Conduit Facilities have an expiration date of November 29, 2019.

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

There were no finance receivable transfers under the U.S. Conduit Facilities during the first quarter of 2019. During the first quarter of 2018, the Company transferred \$32.9 million of U.S. retail motorcycle finance receivables to an SPE which, in turn, issued \$29.3 million of debt under the U.S. Conduit Facilities.

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

In June 2018, the Company renewed its facility agreement (Canadian Conduit) with a Canadian bank-sponsored asset-backed commercial paper conduit. Under the agreement, the Canadian Conduit is contractually committed, at the Company's option, to purchase eligible Canadian retail motorcycle finance receivables for proceeds up to C\$220.0 million. The transferred assets are restricted as collateral for the payment of the debt. The terms for this debt provide for interest on the outstanding principal based on prevailing market interest rates plus a specified margin. The Canadian Conduit also provides for a program fee and an unused commitment fee based on the unused portion of the total aggregate commitment of C\$220.0 million. There is no amortization schedule; however, the debt is reduced monthly as available collections on the related finance receivables are applied to outstanding principal. Upon expiration of the Canadian Conduit, any outstanding principal will continue to be reduced monthly through available collections. The expected remaining term of the related receivables is approximately 5 years. Unless earlier terminated or extended by mutual agreement between the Company and the lenders, as of March 31, 2019, the Canadian Conduit has an expiration date of June 28, 2019.

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

As the Company participates in and does not consolidate the Canadian bank-sponsored, multi-seller conduit VIE, the maximum exposure to loss associated with this VIE, which would only be incurred in the unlikely event that all the finance receivables and underlying collateral have no residual value, was \$29.1 million at March 31, 2019. The maximum exposure is not an indication of the Company's expected loss exposure.

There were no finance receivable transfers under the Canadian Conduit Facilities during the first quarter of 2019. During the first quarter of 2018, the Company transferred \$7.6 million of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of \$6.2 million.

Off-Balance Sheet Asset-Backed Securitization VIE

There were no off-balance sheet asset-backed securitization transactions during the first quarter of 2019 or 2018. During the second quarter of 2016, the Company sold retail motorcycle finance receivables with a principal balance of \$301.8 million into a securitization VIE that was not consolidated, recognized a gain of \$9.3 million and received cash proceeds of \$312.6 million. Similar to an on-balance sheet asset-backed securitization, the Company transferred U.S. retail motorcycle finance receivables to an SPE which in turn issued secured notes to investors, with various maturities and interest rates, secured by

future collections of the purchased U.S. retail motorcycle finance receivables. The off-balance sheet asset-backed securitization SPE is a separate legal entity, and the U.S. retail motorcycle finance receivables included in the asset-backed securitization are only available for payment of the secured debt and other obligations arising from the asset-backed securitization transaction and are not available to pay other obligations or claims of the Company's creditors. In an on-balance sheet asset-backed securitization, the Company retains a financial interest in the VIE in the form of a debt security. As part of this off-balance sheet securitization, the Company did not retain any financial interest in the VIE beyond servicing rights and ordinary representations and warranties and related covenants.

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

At March 31, 2019, the assets of this off-balance sheet asset-backed securitization VIE were \$67.1 million and represented the current unpaid principal balance of the retail motorcycle finance receivables, which was the Company's maximum exposure to loss in the off-balance sheet VIE at March 31, 2019. This is based on the unlikely event that all the receivables have underwriting defects or other defects that trigger a violation of certain covenants and that the underlying collateral has no residual value. This maximum exposure is not an indication of expected losses.

Servicing Activities

The Company services all retail motorcycle finance receivables that it originates. When the Company transfers retail motorcycle finance receivables to SPEs through asset-backed financings, the Company retains the right to service the finance receivables and receives servicing fees based on the securitized finance receivables balance and certain ancillary fees. In on-balance sheet asset-backed financings, servicing fees are eliminated in consolidation and therefore are not recorded on a consolidated basis. In off-balance sheet asset-backed financings, servicing fees and ancillary fees are recorded in *Financial Services revenue* in the consolidated statements of income. The fees the Company is paid for servicing represent adequate compensation, and consequently, the Company does not recognize a servicing asset or liability. The Company recognized servicing fee income of \$0.2 million and \$0.4 million during the first quarter of 2019 and 2018, respectively.

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

	March 31, 2019	December 31, 2018	April 1, 2018
On-balance sheet retail motorcycle finance receivables	\$ 6,159,058	\$ 6,185,350	\$ 5,923,564
Off-balance sheet retail motorcycle finance receivables	67,062	79,613	127,643
Total serviced retail motorcycle finance receivables	<u>\$ 6,226,120</u>	<u>\$ 6,264,963</u>	<u>\$ 6,051,207</u>

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

	Amount 30 days or more past due:		
	March 31, 2019	December 31, 2018	April 1, 2018
On-balance sheet retail motorcycle finance receivables	\$ 201,142	\$ 228,015	\$ 166,560
Off-balance sheet retail motorcycle finance receivables	1,194	1,658	1,652
Total serviced retail motorcycle finance receivables	<u>\$ 202,336</u>	<u>\$ 229,673</u>	<u>\$ 168,212</u>

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

	Three months ended	
	March 31, 2019	April 1, 2018
On-balance sheet retail motorcycle finance receivables	\$ 33,504	\$ 32,173
Off-balance sheet retail motorcycle finance receivables	231	361
Total serviced retail motorcycle finance receivables	<u>\$ 33,735</u>	<u>\$ 32,534</u>

14. Fair Value

The Company assesses the inputs used to measure fair value using a three-tier hierarchy.

Level 1 inputs include quoted prices for identical instruments and are the most observable.

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

Level 3 inputs are not observable in the market and include management's judgments about the assumptions market participants would use in pricing the asset or liability.

Recurring Fair Value Measurements

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

March 31, 2019				
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$ 498,207	\$ 321,300	\$ 176,907	\$ —
Marketable securities	59,899	49,896	10,003	—
Derivatives	16,083	—	16,083	—
Total	<u>\$ 574,189</u>	<u>\$ 371,196</u>	<u>\$ 202,993</u>	<u>\$ —</u>
Liabilities:				
Derivatives	<u>\$ 7,733</u>	<u>\$ —</u>	<u>\$ 7,733</u>	<u>\$ —</u>
December 31, 2018				
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$ 998,601	\$ 728,800	\$ 269,801	\$ —
Marketable securities	54,250	44,243	10,007	—
Derivatives	15,071	—	15,071	—
Total	<u>\$ 1,067,922</u>	<u>\$ 773,043</u>	<u>\$ 294,879</u>	<u>\$ —</u>
Liabilities:				
Derivatives	<u>\$ 5,316</u>	<u>\$ —</u>	<u>\$ 5,316</u>	<u>\$ —</u>

	April 1, 2018			
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$ 653,124	\$ 326,324	\$ 326,800	\$ —
Marketable securities	49,402	49,402	—	—
Derivatives	3,613	—	3,613	—
Total	\$ 706,139	\$ 375,726	\$ 330,413	\$ —
Liabilities:				
Derivatives	\$ 22,850	\$ —	\$ 22,850	\$ —

Nonrecurring Fair Value Measurements

Reposessed inventory is recorded at the lower of cost or net realizable value through a nonrecurring fair value measurement. Reposessed inventory was \$21.4 million, \$20.2 million and \$23.8 million at March 31, 2019, December 31, 2018 and April 1, 2018, respectively, for which the fair value adjustment was \$9.3 million, \$9.7 million and \$8.3 million, respectively. Fair value is estimated using Level 2 inputs based on the recent market values of reposessed inventory.

Fair Value of Financial Instruments Measured at Cost

The carrying value of the Company's cash and cash equivalents and restricted cash approximates their fair values.

The following table summarizes the fair value and carrying value of the Company's remaining financial instruments that are measured at cost or amortized cost (in thousands):

	March 31, 2019		December 31, 2018		April 1, 2018	
	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value
Assets:						
Finance receivables, net	\$ 7,520,418	\$ 7,438,592	\$ 7,304,334	\$ 7,221,931	\$ 7,195,908	\$ 7,126,442
Liabilities:						
Unsecured commercial paper	\$ 1,192,925	\$ 1,192,925	\$ 1,135,810	\$ 1,135,810	\$ 1,036,976	\$ 1,036,976
Asset-backed U.S. commercial paper conduit facilities	\$ 526,947	\$ 526,947	\$ 582,717	\$ 582,717	\$ 281,311	\$ 281,311
Asset-backed Canadian commercial paper conduit facility	\$ 142,676	\$ 142,676	\$ 155,951	\$ 155,951	\$ 158,162	\$ 158,162
Medium-term notes	\$ 4,675,767	\$ 4,685,636	\$ 4,829,671	\$ 4,887,007	\$ 4,486,399	\$ 4,514,798
Senior unsecured notes	\$ 719,544	\$ 742,791	\$ 707,198	\$ 742,624	\$ 750,440	\$ 742,126
Asset-backed securitization debt	\$ 18,674	\$ 18,694	\$ 94,974	\$ 95,167	\$ 283,591	\$ 284,793

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

Debt – The carrying value of debt in the financial statements is generally amortized cost, net of discounts and debt issuance costs. The carrying value of unsecured commercial paper calculated using Level 2 inputs approximates fair value due to its short maturity. The carrying value of debt provided under the U.S. Conduit Facilities and Canadian Conduit Facility calculated using Level 2 inputs approximates fair value since the interest rates charged under the facility are tied directly to market rates and fluctuate as market rates change. The fair values of the medium-term notes and senior unsecured notes are estimated based upon rates currently available for debt with similar terms and remaining maturities (Level 2 inputs). The fair value of the debt related to on-balance sheet asset-backed securitization transactions is estimated based on pricing currently available for transactions with similar terms and maturities (Level 2 inputs).

15. Product Warranty and Recall Campaigns

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

	Three months ended	
	March 31, 2019	April 1, 2018
Balance, beginning of period	\$ 131,740	\$ 94,202
Warranties issued during the period	11,617	14,606
Settlements made during the period	(19,617)	(16,638)
Recalls and changes to pre-existing warranty liabilities	(1,353)	2,905
Balance, end of period	<u>\$ 122,387</u>	<u>\$ 95,075</u>

The liability for recall campaigns was \$64.1 million, \$73.3 million and \$32.3 million as of March 31, 2019, December 31, 2018 and April 1, 2018, respectively. The Company recorded supplier recoveries within operating expenses separate from the amounts disclosed above of \$28.0 million for the three months ended March 31, 2019.

16. Employee Benefit Plans

The Company has a defined benefit qualified pension plan and postretirement healthcare benefit plans that cover certain employees of the Motorcycles segment. The Company also has unfunded supplemental employee retirement plan agreements (SERPA) with certain employees which were instituted to replace benefits lost under the Tax Revenue Reconciliation Act of 1993. Service cost is allocated among *Selling, administrative and engineering expense, Cost of goods sold and Inventory*. Amounts capitalized in inventory are not significant. Non-service cost components of net periodic benefit cost are presented in *Other income (expense), net*. Components of net periodic benefit cost were as follows (in thousands):

	Three months ended	
	March 31, 2019	April 1, 2018
<u>Pension and SERPA Benefits</u>		
Service cost	\$ 6,632	\$ 8,155
Interest cost	21,371	20,590
Expected return on plan assets	(35,581)	(36,891)
Amortization of unrecognized:		
Prior service credit	(483)	(106)
Net loss	11,128	15,819
Curtailment loss	—	1,018
Net periodic benefit cost	<u>\$ 3,067</u>	<u>\$ 8,585</u>
<u>Postretirement Healthcare Benefits</u>		
Service cost	\$ 1,184	\$ 1,812
Interest cost	2,938	2,897
Expected return on plan assets	(3,507)	(3,541)
Amortization of unrecognized:		
Prior service credit	(595)	(460)
Net loss	69	454
Net periodic benefit cost	<u>\$ 89</u>	<u>\$ 1,162</u>

During the three months ended April 1, 2018, the qualified pension plan and certain postretirement healthcare plan assets and obligations were remeasured as a result of a curtailment of benefits related to the planned closure of the Company's motorcycle assembly plant in Kansas City, Missouri, discussed further in Note 4. As a result of the remeasurement, the Company recorded a benefit of \$96.4 million before income taxes in other comprehensive income during the three months ended April 1, 2018.

There are no required or planned qualified pension plan contributions for 2019. The Company expects it will continue to make ongoing benefit payments under the SERPA and postretirement healthcare plans.

17. Commitments and Contingencies

The Company is subject to lawsuits and other claims related to environmental, product and other matters. In determining costs to accrue 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. Any amounts accrued for these matters are monitored on an ongoing basis and are updated based on new developments or new information as it becomes available for each matter.

Environmental Protection Agency Notice:

In December 2009, the Company received formal, written requests for information from the United States Environmental Protection Agency (EPA) regarding: (i) certificates of conformity for motorcycle emissions and related designations and labels, (ii) aftermarket parts, and (iii) warranty claims on emissions related components. The Company promptly submitted written responses to the EPA's inquiry and has engaged in information exchanges and discussions with the EPA. In August 2016, the Company entered into a consent decree with the EPA regarding these issues, and the consent decree was subsequently revised in July 2017 (the Settlement). In the Settlement, the Company agreed to, among other things, pay a fine, and not sell tuning products unless they are approved by the EPA or California Air Resources Board. In December 2017, the Department of Justice (DOJ), on behalf of the EPA, filed the Settlement with the U.S. District Court for the District of Columbia for the purpose of obtaining court approval of the Settlement. Three amicus briefs opposing portions of the Settlement were filed with the court by the deadline of January 31, 2018. On March 1, 2018, the Company and the DOJ each filed separate response briefs. The Company is awaiting the court's decision on whether or not to finalize the Settlement, and on February 8, 2019 the DOJ filed a status update reminding the court of the current status of the outstanding matter. The Company has an accrual associated with this matter which is included in *Accrued liabilities* on the consolidated balance sheets, and as a result, if it is finalized, the Settlement would not have a material adverse effect on the Company's financial condition or results of operations. The Settlement is not final until it is approved by the court, and if it is not approved by the court, the Company cannot reasonably estimate the impact of any remedies the EPA might seek beyond the Company's current reserve for this matter.

York Environmental Matters:

The Company is involved with government agencies and groups of potentially responsible parties related to a matter involving the cleanup of soil and groundwater contamination at its York, Pennsylvania facility. The York facility was formerly used by the U.S. Navy and AMF prior to the purchase of the York facility by the Company from AMF in 1981. The Company has been working with the Pennsylvania Department of Environmental Protection (PADEP) since 1986 and with the U.S. Environmental Protection Agency (EPA) in undertaking environmental investigation and remediation activities, including a site-wide remedial investigation/feasibility study (RI/FS).

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

The Company has an accrual for its estimate of its share of the future Response Costs at the York facility which is included in *Other long-term liabilities* on the consolidated balance sheets. While the work on the RI/FS is now complete and the final remedy was proposed in late 2018, it has not yet been approved, and given the uncertainty that exists concerning the nature and scope of additional environmental remediation that may ultimately be required under the approved final remedy, the Company is unable to make a reasonable estimate of those additional costs, if any, that may result.

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

Product Liability Matters:

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

18. Accumulated Other Comprehensive Loss

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

	Three months ended March 31, 2019			
	Foreign currency translation adjustments	Derivative financial instruments	Pension and postretirement benefit plans	Total
Balance, beginning of period	\$ (49,608)	\$ 1,785	\$ (581,861)	\$ (629,684)
Other comprehensive income before reclassifications	606	1,177	—	1,783
Income tax expense	(275)	(314)	—	(589)
Net other comprehensive income before reclassifications	331	863	—	1,194
Reclassifications:				
Realized gains - foreign currency contracts ^(a)	—	(2,453)	—	(2,453)
Realized losses - commodity contracts ^(a)	—	10	—	10
Realized losses - treasury rate locks ^(b)	—	122	—	122
Realized losses - interest rate swap ^(b)	—	606	—	606
Prior service credits ^(c)	—	—	(1,078)	(1,078)
Actuarial losses ^(c)	—	—	11,197	11,197
Total reclassifications before tax	—	(1,715)	10,119	8,404
Income tax benefit (expense)	—	411	(2,376)	(1,965)
Net reclassifications	—	(1,304)	7,743	6,439
Other comprehensive income (loss)	331	(441)	7,743	7,633
Balance, end of period	\$ (49,277)	\$ 1,344	\$ (574,118)	\$ (622,051)

	Three months ended April 1, 2018			
	Foreign currency translation adjustments	Derivative financial instruments	Pension and postretirement benefit plans	Total
Balance, beginning of period	\$ (21,852)	\$ (17,254)	\$ (460,943)	\$ (500,049)
Other comprehensive income (loss) before reclassifications	6,915	(5,906)	96,374	97,383
Income tax benefit (expense)	—	1,387	(22,629)	(21,242)
Net other comprehensive income (loss) before reclassifications	6,915	(4,519)	73,745	76,141
Reclassifications:				
Realized losses - foreign currency contracts ^(a)	—	6,709	—	6,709
Realized losses - commodity contracts ^(a)	—	73	—	73
Realized losses - treasury rate locks ^(b)	—	126	—	126
Prior service credits ^(c)	—	—	(566)	(566)
Actuarial losses ^(c)	—	—	16,273	16,273
Total reclassifications before tax	—	6,908	15,707	22,615
Income tax expense	—	(1,624)	(3,687)	(5,311)
Net reclassifications	—	5,284	12,020	17,304
Other comprehensive income	6,915	765	85,765	93,445
Balance, end of period	\$ (14,937)	\$ (16,489)	\$ (375,178)	\$ (406,604)

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

(b) Amounts reclassified to net income are included in *Interest expense* and *Financial Services interest expense*

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

19. Business Segments

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

	Three months ended	
	March 31, 2019	April 1, 2018
Motorcycles net revenue	\$ 1,195,637	\$ 1,363,947
Gross profit	347,439	473,773
Selling, administrative and engineering expense	225,428	254,093
Restructuring expense	13,630	46,842
Operating income from Motorcycles	108,381	172,838
Financial Services revenue	188,743	178,174
Financial Services expense	130,012	114,595
Operating income from Financial Services	58,731	63,579
Operating income	\$ 167,112	\$ 236,417

20. Supplemental Consolidating Data

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

	Three months ended March 31, 2019			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
Revenue:				
Motorcycles and Related Products	\$ 1,200,009	\$ —	\$ (4,372)	\$ 1,195,637
Financial Services	—	186,753	1,990	188,743
Total revenue	1,200,009	186,753	(2,382)	1,384,380
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	848,703	—	(505)	848,198
Financial Services interest expense	—	52,324	—	52,324
Financial Services provision for credit losses	—	34,491	—	34,491
Selling, administrative and engineering expense	227,992	42,588	(1,955)	268,625
Restructuring expense	13,630	—	—	13,630
Total costs and expenses	1,090,325	129,403	(2,460)	1,217,268
Operating income	109,684	57,350	78	167,112
Other income (expense), net	4,660	—	—	4,660
Investment income	51,358	—	(45,000)	6,358
Interest expense	7,731	—	—	7,731
Income before provision for income taxes	157,971	57,350	(44,922)	170,399
Provision for income taxes	28,557	13,897	—	42,454
Net income	\$ 129,414	\$ 43,453	\$ (44,922)	\$ 127,945

	Three months ended April 1, 2018			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
Revenue:				
Motorcycles and Related Products	\$ 1,366,246	\$ —	\$ (2,299)	\$ 1,363,947
Financial Services	—	178,460	(286)	178,174
Total revenue	1,366,246	178,460	(2,585)	1,542,121
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	890,174	—	—	890,174
Financial Services interest expense	—	48,450	—	48,450
Financial Services provision for credit losses	—	30,052	—	30,052
Selling, administrative and engineering expense	254,401	38,391	(2,606)	290,186
Restructuring expense	46,842	—	—	46,842
Total costs and expenses	1,191,417	116,893	(2,606)	1,305,704
Operating income	174,829	61,567	21	236,417
Other income (expense), net	220	—	—	220
Investment income	111,203	—	(110,000)	1,203
Interest expense	7,690	—	—	7,690
Income before provision for income taxes	278,562	61,567	(109,979)	230,150
Provision for income taxes	40,233	15,154	—	55,387
Net income	\$ 238,329	\$ 46,413	\$ (109,979)	\$ 174,763

	March 31, 2019			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 384,390	\$ 365,210	\$ —	\$ 749,600
Marketable securities	10,003	—	—	10,003
Accounts receivable, net	666,782	—	(313,241)	353,541
Finance receivables, net	—	2,443,899	—	2,443,899
Inventories	595,806	—	—	595,806
Restricted cash	—	43,471	—	43,471
Other current assets	137,167	40,594	—	177,761
Total current assets	1,794,148	2,893,174	(313,241)	4,374,081
Finance receivables, net	—	4,994,693	—	4,994,693
Property, plant and equipment, net	820,634	55,369		876,003
Goodwill	64,131	—		64,131
Deferred income taxes	96,500	37,487	(999)	132,988
Lease assets	48,513	6,792	—	55,305
Other long-term assets	154,687	19,149	(90,424)	83,412
	<u>\$ 2,978,613</u>	<u>\$ 8,006,664</u>	<u>\$ (404,664)</u>	<u>\$ 10,580,613</u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	\$ 351,831	\$ 342,328	\$ (313,241)	\$ 380,918
Accrued liabilities	544,560	98,778	833	644,171
Short-term debt	—	1,192,925	—	1,192,925
Current portion of long-term debt, net	—	1,372,050	—	1,372,050
Total current liabilities	896,391	3,006,081	(312,408)	3,590,064
Long-term debt, net	742,791	4,001,903	—	4,744,694
Lease liabilities	32,520	6,996	—	39,516
Pension liability	98,862	—	—	98,862
Postretirement healthcare liability	93,897	—	—	93,897
Other long-term liabilities	174,150	39,070	2,749	215,969
Commitments and contingencies (Note 17)				
Shareholders' equity	940,002	952,614	(95,005)	1,797,611
	<u>\$ 2,978,613</u>	<u>\$ 8,006,664</u>	<u>\$ (404,664)</u>	<u>\$ 10,580,613</u>

	December 31, 2018			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 544,548	\$ 659,218	\$ —	\$ 1,203,766
Marketable securities	10,007	—	—	10,007
Accounts receivable, net	425,727	—	(119,253)	306,474
Finance receivables, net	—	2,214,424	—	2,214,424
Inventories	556,128	—	—	556,128
Restricted cash	—	49,275	—	49,275
Other current assets	91,172	59,070	(5,874)	144,368
Total current assets	1,627,582	2,981,987	(125,127)	4,484,442
Finance receivables, net	—	5,007,507	—	5,007,507
Property, plant and equipment, net	847,176	56,956	—	904,132
Goodwill	55,048	—	—	55,048
Deferred income taxes	105,388	37,603	(1,527)	141,464
Other long-term assets	144,122	18,680	(89,731)	73,071
	<u>\$ 2,779,316</u>	<u>\$ 8,102,733</u>	<u>\$ (216,385)</u>	<u>\$ 10,665,664</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>				
Current liabilities:				
Accounts payable	\$ 258,587	\$ 145,527	\$ (119,253)	\$ 284,861
Accrued liabilities	496,643	110,063	(5,576)	601,130
Short-term debt	—	1,135,810	—	1,135,810
Current portion of long-term debt, net	—	1,575,799	—	1,575,799
Total current liabilities	755,230	2,967,199	(124,829)	3,597,600
Long-term debt, net	742,624	4,145,043	—	4,887,667
Pension liability	107,776	—	—	107,776
Postretirement healthcare liability	94,453	—	—	94,453
Other long-term liabilities	164,243	37,142	2,834	204,219
Commitments and contingencies (Note 17)				
Shareholders' equity	914,990	953,349	(94,390)	1,773,949
	<u>\$ 2,779,316</u>	<u>\$ 8,102,733</u>	<u>\$ (216,385)</u>	<u>\$ 10,665,664</u>

	April 1, 2018			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 403,009	\$ 350,508	\$ —	\$ 753,517
Accounts receivable, net	686,265	—	(331,158)	355,107
Finance receivables, net	—	2,341,918	—	2,341,918
Inventories	564,571	—	—	564,571
Restricted cash	—	54,569	—	54,569
Other current assets	108,613	44,724	(2,865)	150,472
Total current assets	1,762,458	2,791,719	(334,023)	4,220,154
Finance receivables, net	—	4,784,524	—	4,784,524
Property, plant and equipment, net	887,522	47,123	—	934,645
Prepaid pension costs	122,230	—	—	122,230
Goodwill	56,524	—	—	56,524
Deferred income taxes	36,140	42,543	(1,059)	77,624
Other long-term assets	145,344	23,514	(86,938)	81,920
	<u>\$ 3,010,218</u>	<u>\$ 7,689,423</u>	<u>\$ (422,020)</u>	<u>\$ 10,277,621</u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	\$ 297,162	\$ 353,036	\$ (331,158)	\$ 319,040
Accrued liabilities	462,279	106,149	(2,020)	566,408
Short-term debt	—	1,036,976	—	1,036,976
Current portion of long-term debt, net	—	1,872,679	—	1,872,679
Total current liabilities	759,441	3,368,840	(333,178)	3,795,103
Long-term debt, net	742,126	3,366,385	—	4,108,511
Pension liability	54,921	—	—	54,921
Postretirement healthcare liability	113,031	—	—	113,031
Other long-term liabilities	171,389	35,899	2,818	210,106
Commitments and contingencies (Note 17)				
Shareholders' equity	1,169,310	918,299	(91,660)	1,995,949
	<u>\$ 3,010,218</u>	<u>\$ 7,689,423</u>	<u>\$ (422,020)</u>	<u>\$ 10,277,621</u>

	Three months ended March 31, 2019			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
Cash flows from operating activities:				
Net income	\$ 129,414	\$ 43,453	\$ (44,922)	\$ 127,945
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization of intangibles	62,187	2,185	—	64,372
Amortization of deferred loan origination costs	—	18,968	—	18,968
Amortization of financing origination fees	167	2,027	—	2,194
Provision for long-term employee benefits	3,156	—	—	3,156
Employee benefit plan contributions and payments	(2,507)	—	—	(2,507)
Stock compensation expense	5,845	692	—	6,537
Net change in wholesale finance receivables related to sales	—	—	(237,569)	(237,569)
Provision for credit losses	—	34,491	—	34,491
Deferred income taxes	6,195	314	(528)	5,981
Other, net	1,886	922	(77)	2,731
Changes in current assets and liabilities:				
Accounts receivable, net	(243,734)	—	193,988	(49,746)
Finance receivables - accrued interest and other	—	92	—	92
Inventories	(40,600)	—	—	(40,600)
Accounts payable and accrued liabilities	122,462	180,980	(179,467)	123,975
Derivative instruments	834	33	—	867
Other	(41,339)	18,997	(5,874)	(28,216)
Total adjustments	(125,448)	259,701	(229,527)	(95,274)
Net cash provided by operating activities	3,966	303,154	(274,449)	32,671

	Three months ended March 31, 2019			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
Cash flows from investing activities:				
Capital expenditures	(34,657)	(598)	—	(35,255)
Origination of finance receivables	—	(1,691,416)	840,044	(851,372)
Collections on finance receivables	—	1,426,419	(610,595)	815,824
Acquisition of business	(7,000)	—	—	(7,000)
Other	603	—	—	603
Net cash used by investing activities	(41,054)	(265,595)	229,449	(77,200)
Cash flows from financing activities:				
Proceeds from issuance of medium-term notes	—	546,655	—	546,655
Repayments of medium-term notes	—	(750,000)	—	(750,000)
Repayments of securitization debt	—	(76,505)	—	(76,505)
Repayments of asset-backed commercial paper	—	(72,401)	—	(72,401)
Net increase in credit facilities and unsecured commercial paper	—	58,527	—	58,527
Dividends paid	(60,859)	(45,000)	45,000	(60,859)
Purchase of common stock for treasury	(61,712)	—	—	(61,712)
Issuance of common stock under employee stock option plans	616	—	—	616
Net cash used by financing activities	(121,955)	(338,724)	45,000	(415,679)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(1,115)	706	—	(409)
Net decrease in cash, cash equivalents and restricted cash	<u>\$ (160,158)</u>	<u>\$ (300,459)</u>	<u>\$ —</u>	<u>\$ (460,617)</u>
Cash, cash equivalents and restricted cash:				
Cash, cash equivalents and restricted cash—beginning of period	\$ 544,548	\$ 715,200	\$ —	\$ 1,259,748
Net decrease in cash, cash equivalents and restricted cash	(160,158)	(300,459)	—	(460,617)
Cash, cash equivalents and restricted cash—end of period	<u>\$ 384,390</u>	<u>\$ 414,741</u>	<u>\$ —</u>	<u>\$ 799,131</u>

	Three months ended April 1, 2018			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
Cash flows from operating activities:				
Net income	\$ 238,329	\$ 46,413	\$ (109,979)	\$ 174,763
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization of intangibles	61,405	1,068	—	62,473
Amortization of deferred loan origination costs	—	20,116	—	20,116
Amortization of financing origination fees	165	1,863	—	2,028
Provision for long-term employee benefits	9,747	—	—	9,747
Employee benefit plan contributions and payments	(5,486)	—	—	(5,486)
Stock compensation expense	7,072	890	—	7,962
Net change in wholesale finance receivables related to sales	—	—	(239,902)	(239,902)
Provision for credit losses	—	30,052	—	30,052
Deferred income taxes	2,469	979	(260)	3,188
Other, net	(2,081)	200	(21)	(1,902)
Changes in current assets and liabilities:				
Accounts receivable, net	(195,123)	—	177,435	(17,688)
Finance receivables - accrued interest and other	—	4,758	—	4,758
Inventories	(21,542)	—	—	(21,542)
Accounts payable and accrued liabilities	121,833	201,056	(173,966)	148,923
Derivative instruments	666	36	—	702
Other	9,935	6,269	(2,802)	13,402
Total adjustments	(10,940)	267,287	(239,516)	16,831
Net cash provided by operating activities	227,389	313,700	(349,495)	191,594

	Three months ended April 1, 2018			
	HDMC Entities	HDFS Entities	Eliminations	Consolidated
Cash flows from investing activities:				
Capital expenditures	(25,746)	(2,690)	—	(28,436)
Origination of finance receivables	—	(1,786,309)	988,242	(798,067)
Collections on finance receivables	—	1,558,547	(748,747)	809,800
Other	(4,948)	—	—	(4,948)
Net cash used by investing activities	(30,694)	(230,452)	239,495	(21,651)
Cash flows from financing activities:				
Proceeds from issuance of medium-term notes	—	347,553	—	347,553
Repayments of securitization debt	—	(67,955)	—	(67,955)
Borrowings of asset-backed commercial paper	—	35,504	—	35,504
Repayments of asset-backed commercial paper	—	(45,907)	—	(45,907)
Net decrease in credit facilities and unsecured commercial paper	—	(234,145)	—	(234,145)
Dividends paid	(62,731)	(110,000)	110,000	(62,731)
Purchase of common stock for treasury	(72,968)	—	—	(72,968)
Issuance of common stock under employee stock option plans	1,719	—	—	1,719
Net cash used by financing activities	(133,980)	(74,950)	110,000	(98,930)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	2,108	(74)	—	2,034
Net increase in cash, cash equivalents and restricted cash	\$ 64,823	\$ 8,224	\$ —	\$ 73,047
Cash, cash equivalents and restricted cash:				
Cash, cash equivalents and restricted cash—beginning of period	\$ 338,186	\$ 408,024	\$ —	\$ 746,210
Net increase in cash, cash equivalents and restricted cash	64,823	8,224	—	73,047
Cash, cash equivalents and restricted cash—end of period	\$ 403,009	\$ 416,248	\$ —	\$ 819,257

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

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

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

The Financial Services segment consists of HDFS which is engaged in the business of financing and servicing wholesale inventory receivables and retail consumer loans, primarily for the purchase of Harley-Davidson motorcycles. HDFS also works with certain unaffiliated insurance companies to provide motorcycle insurance and protection products to motorcycle owners. HDFS conducts business principally in the United States and Canada.

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

(1) Note Regarding Forward-Looking Statements

The Company intends that certain matters discussed in this report are "forward-looking statements" intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such by reference to this footnote or because the context of the statement will include words such as the Company "believes," "anticipates," "expects," "plans," or "estimates" or words of similar meaning. Similarly, statements that describe future plans, objectives, outlooks, targets, guidance or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this report. Certain of such risks and uncertainties are described in close proximity to such statements or elsewhere in this report, including under the caption "Cautionary Statements" and in Item 1A "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2018. Shareholders, potential investors, and other readers are urged to consider these factors in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in the Overview and Outlook sections are only made as of April 23, 2019 and the remaining forward-looking statements in this report are made as of the date of the filing of this report (May 9, 2019), and the Company disclaims any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

Overview⁽¹⁾

The Company's net income was \$127.9 million, or \$0.80 per diluted share, for the first quarter of 2019 compared to \$174.8 million, or \$1.03 per diluted share, in the first quarter of 2018. Operating income from the Motorcycles segment decreased \$64.5 million compared to last year's first quarter and was impacted by lower shipments, unfavorable mix and incremental tariffs, partially offset by lower operating expenses. Operating income from the Financial Services segment in the first quarter of 2019 was \$58.7 million, down 7.6% compared to the year-ago quarter on a higher provision for credit losses and higher operating expenses.

Worldwide dealer retail sales of new Harley-Davidson motorcycles in the first quarter of 2019 were down 3.8% compared to the first quarter of 2018. Retail sales were down 4.2% in the U.S. and down 3.3% in international markets compared to the prior year first quarter. Retail sales results in the first quarter improved significantly from recent trends despite limited availability of Street motorcycles. During the first quarter of 2019, retail sales of Street motorcycles were adversely impacted by limited availability following a recent recall. Excluding retail sales of Street motorcycles from both 2018 and 2019, worldwide retail sales were up 0.4% in the first quarter of 2019 compared to the same period last year. Retail sales of Street motorcycles resumed in late March 2019.

The Company was encouraged by first quarter retail sales performance, but remains cautious as it moves into the height of its selling season. The Company expects its business to remain under pressure in 2019 driven by continuing challenges in the U.S. motorcycle industry. The Company will continue to aggressively manage supply in line with demand and execute marketing efforts to encourage trial, create new riders and increase conversion to sale. In addition, the Company continues work to accelerate its strategy to build the next generation of Harley-Davidson riders through 2022 through its More Roads to Harley-Davidson (More Roads) plan.

Finally, unionized workers at the Company's operations in the Milwaukee area and Tomahawk, Wisconsin ratified new five-year labor agreements in April 2019. The Company believes the new contracts will enable it to compete in a challenging business environment and advance its strategy to build the next generation of riders globally.

Outlook⁽¹⁾

On April 23, 2019, the Company provided the following information concerning its expectations for the remainder of 2019:

Motorcycles and Related Products Segment - Full Year

The Company expects the U.S. industry to continue to decline in 2019, but at a more tempered pace than in 2018. The Company expects international retail sales growth during 2019. As a result, the Company expects to ship between 217,000 and 222,000 motorcycles to dealers in 2019 which is down approximately 3% to 5% from 2018. The Company also expects year-end U.S. dealer inventory of new motorcycles to be down compared to 2018.

The Company expects Motorcycles segment gross margin as a percent of revenue to be lower than 2018 driven by a significant increase in the impact of incremental tariffs, lower shipment volumes and unfavorable product mix, partially offset by aggressive cost reductions, including the benefit of \$25 million to \$30 million of savings from the Company's Manufacturing Optimization plan. Refer to "Restructuring Plan Costs and Savings" below for further information regarding the Manufacturing Optimization Plan.

The Company expects selling, administrative and engineering expenses for the Motorcycles segment to be lower in 2019 behind aggressive cost management and lower recall costs.

Incremental tariffs include incremental European Union and China tariffs imposed on the Company's products shipped from the U.S., as well as incremental U.S. tariffs on certain items imported from certain international markets. Incremental tariff costs exclude metals cost resulting from the U.S. steel and aluminum tariffs, although the Company does expect higher metals cost which are included in the 2019 gross margin guidance above.

As previously disclosed, the Company expects the impact of incremental tariff costs to be approximately \$100 million to \$120 million in 2019. While the Company's preference has always been to serve the EU market from its U.S. manufacturing operations, the Company plans to mitigate the impact of the incremental European Union and China tariffs by the end of 2019 by serving those markets with motorcycles from its Thailand facility.

The Company is pursuing regulatory approval in the European Union to that end; however, there is material risk that regulatory approval will not be granted. As a result, the Company is considering multiple other options to serve the EU market should they be required. These other options to serve the EU market would most likely not mitigate the full impact of the current incremental European Union tariff by the end of 2019.

For 2019, the Motorcycles segment operating margin as a percent of revenue is expected to be between 8.0% and 9.0%. Based on its current plans, the Company expects Motorcycles segment operating income in 2020 to improve by approximately \$170 to \$200 million compared to 2019. This expectation assumes that the Company will complete its Manufacturing Optimization Plan and successfully execute its plan to mitigate the impact of incremental tariffs by the end of 2019.

Motorcycles and Related Products Segment - Second Quarter

In the second quarter of 2019, the Company expects to ship between 65,500 and 70,500 motorcycles, which is down approximately 3% to 10% compared to the second quarter of 2018. Motorcycles segment operating margin as a percent of revenue is expected to be down approximately 4 percentage points compared to the second quarter of 2018 driven in part by the impact of incremental tariffs, lower planned shipments and unfavorable mix.

Financial Services Segment

The Company expects Financial Services segment operating income in 2019 to be down compared to 2018 driven by a higher cost of debt and higher depreciation associated with its 2018 investment in a new loan management system which went into service in January 2019.

Harley-Davidson, Inc.

Capital expenditures in 2019 are expected to be \$225 million to \$245 million, which includes approximately \$20 million to support the Manufacturing Optimization Plan. The Company anticipates it will have the ability to fund all capital expenditures in 2019 with cash flows generated by operations.

The Company expects its 2019 full year effective tax rate will be approximately 24% to 25%. This guidance excludes the effect of potential future adjustments, including items associated with any potential new tax legislation or audit settlements.

Restructuring Plan Costs and Savings⁽¹⁾

In January 2018, the Company commenced a significant, multi-year Manufacturing Optimization Plan anchored by the consolidation of its final assembly plant in Kansas City, Missouri into its plant in York, Pennsylvania by mid-2019. As the operations are consolidated, the Company expects approximately 800 jobs will be eliminated with the closure of Kansas City operations and approximately 450 jobs will be added in York through 2019 (Manufacturing Optimization Plan). As part of the Manufacturing Optimization Plan, the Company will also close its wheel operations in Adelaide, Australia resulting in the elimination of approximately 90 jobs.

In November 2018, the Company implemented a workforce reorganization plan (Reorganization Plan). As a result, approximately 70 employees left the Company on an involuntary basis.

The following table summarizes the expected costs and savings associated with these plans as of April 23, 2019:

(in millions)	2018 Actual	2019 Estimated	2020 Estimated	Total
Manufacturing Optimization Plan				
Cost related to temporary inefficiencies	\$ 12.9	\$10 - \$15	n/a	\$ 23 - \$ 28
Restructuring expenses	\$ 89.5	\$40 - \$45	n/a	\$129 - \$134
	\$102.4	\$50 - \$60		\$152 - \$162
% cash	70%	70%		70%
Reorganization Plan - restructuring expenses				
	\$3.9	\$1		\$5
% cash	100%	100%		100%
Annual cash savings				
		2019 Estimated	2020 Estimated	Annual Ongoing
Manufacturing Optimization Plan		\$25 - \$30	\$45 - \$50	\$65 - \$75
Reorganization Plan		\$7	\$7	\$7

The expected restructuring expenses include the estimated cost of employee termination benefits, accelerated depreciation, and other project implementation costs of \$40 million to \$41 million, \$51 million to \$53 million and \$38 million to \$40 million, respectively. The timing of cash payments for restructuring costs may not occur in the same fiscal period that the Company records the expense.

Refer to Note 4 of the Notes to Consolidated Financial Statements for additional information concerning restructuring expenses. The Company expects total capital expenditures of \$65 million associated with the Manufacturing Optimization Plan through 2019, including \$20 million in 2019.

**Results of Operations for the Three Months Ended March 31, 2019
Compared to the Three Months Ended April 1, 2018**

Consolidated Results

(in thousands, except earnings per share)	Three months ended			
	March 31, 2019	April 1, 2018	(Decrease) Increase	% Change
Operating income from Motorcycles and Related Products	\$ 108,381	\$ 172,838	\$ (64,457)	(37.3)%
Operating income from Financial Services	58,731	63,579	(4,848)	(7.6)
Operating income	167,112	236,417	(69,305)	(29.3)
Other income (expense), net	4,660	220	4,440	2,018.2
Investment income	6,358	1,203	5,155	428.5
Interest expense	7,731	7,690	41	0.5
Income before provision for income taxes	170,399	230,150	(59,751)	(26.0)
Provision for income taxes	42,454	55,387	(12,933)	(23.4)
Net income	\$ 127,945	\$ 174,763	\$ (46,818)	(26.8)%
Diluted earnings per share	\$ 0.80	\$ 1.03	\$ (0.23)	(22.3)%

Consolidated operating income was down 29.3% in the first three months of 2019 due to a decrease in operating income from the Motorcycles segment of \$64.5 million and a \$4.8 million decrease in operating income from Financial Services, compared to the same period last year. Please refer to the “Motorcycles and Related Products Segment” and “Financial Services Segment” discussions following for a more detailed analysis of the factors affecting operating income.

Other income in the first quarter of 2019 was favorably impacted by lower amortization of actuarial losses related to the Company's defined benefit plans. Investment income was up in the first quarter of 2019 compared to the same period last year driven by higher income from investments in marketable securities and cash equivalents.

The Company's effective income tax rate for the first three months of 2019 was 24.9% up slightly from 24.1% in the same period in 2018 due to slightly higher discrete income tax amounts recorded during the first quarter of 2019.

Diluted earnings per share were \$0.80 in the first quarter of 2019, down 22.3% from the same period last year on lower net income and lower diluted weighted average shares outstanding. Diluted weighted average shares outstanding decreased from 169.2 million in the first quarter of 2018 to 160.0 million in the first quarter of 2019, 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

Harley-Davidson Motorcycle Retail Sales^(a)

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

	Three months ended			
	March 31, 2019	March 31, 2018	(Decrease) Increase	% Change
United States	28,091	29,309	(1,218)	(4.2)%
Europe ^(b)	9,508	9,716	(208)	(2.1)
EMEA - Other	1,289	1,146	143	12.5
Total EMEA	10,797	10,862	(65)	(0.6)
Asia Pacific ^(c)	3,786	4,452	(666)	(15.0)
Asia Pacific - Other	2,288	1,877	411	21.9
Total Asia Pacific	6,074	6,329	(255)	(4.0)
Latin America	2,241	2,506	(265)	(10.6)
Canada	1,948	2,080	(132)	(6.3)
Total International Retail Sales	21,060	21,777	(717)	(3.3)
Total Worldwide Retail Sales	49,151	51,086	(1,935)	(3.8)%

- (a) Data source for retail sales figures shown above is new sales warranty and registration information provided by Harley-Davidson dealers and compiled by the Company. The Company must rely on information that its dealers supply concerning new retail sales, and the Company does not regularly verify the information that its dealers supply. This information is subject to revision.
- (b) Includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.
- (c) Includes Japan, Australia, New Zealand and Korea.

Retail sales of new Harley-Davidson motorcycles in the U.S. were down 4.2% in the first quarter of 2019 on a weak U.S. industry, partially offset by an increase in market share. The first quarter retail sales decline of 4.2% represents the lowest rate of decline for retail sales of new Harley-Davidson motorcycles in the U.S. over the last nine quarters. The U.S. industry was down 4.7% percent in the first quarter of 2019, which also represented an improvement compared to recent industry sales trends. The Company believes the U.S. industry for new motorcycles continues to be challenged by soft used motorcycle prices and that the improvement in the U.S. industry sales trend was due in part to a highly competitive and promotional marketplace.

Prices for used Harley-Davidson motorcycles in the U.S. remained at near historical low levels compared to new; however, the Company is encouraged by the firming of used motorcycle prices over the past several quarters. Prices of used Harley-Davidson motorcycles in the Company's dealer network were higher in the first quarter of 2019 than the prior year quarter for the seventh consecutive quarter.

The Company's U.S. market share of new 601+cc motorcycles for the first quarter of 2019 was 51.1%, up 0.6 percentage points compared to the same period last year. The Company believes its U.S. market share gains were due in part to the execution of its "stronger dealer" growth catalyst under its More Roads plan which included increased marketing and sales support. The Company believes its share gains were partially offset by increased competitive promotional activity and stronger performance in segments in which it does not currently compete. In the Touring and Cruiser segments, which represent approximately 70% of the 601+cc market, the Company's market share was up 2.5 percentage points in the first quarter of 2019 compared to the same quarter last year. (Market share source: Motorcycle Industry Council)

International retail sales of new Harley-Davidson motorcycles were down 3.3% in the first quarter of 2019. In the first quarter of 2019 international retail sales were down in developed markets, partially offset by increases in emerging markets. Overall, international retail sales were adversely impacted by the limited availability of Street motorcycles during the first quarter of 2019. Excluding Street motorcycles from both 2018 and 2019, first quarter international retail sales were up 4.7% in 2019 compared to the same quarter last year.

During the first quarter of 2019, international emerging market retail sales were up 5.2% driven by growth in numerous markets. Retail sales in developed international markets were down 6.2% in the first quarter. Retail sales in Japan and Australia continued to be weak in the first quarter of 2019 behind contracting industry sales and competitive new product introductions in segments outside of touring and cruisers. The Company continues to support its dealers in these markets with incentives and a strong focus on national test ride campaigns.

The Company's 2019 market share of new 601+cc motorcycles in Europe was 8.8% through March, compared to 10.4% for the same period last year (Source: Association des Constructeurs Europeens de Motocycles).

The Company remains confident in, and committed to, the great potential that international markets offer Harley-Davidson. Furthermore, with its Thailand facility up and running, the Company is excited about the growth opportunities in the ASEAN (Association of Southeast Asian Nations) region now that it can offer more competitive pricing. The Company believes its brand, products and distribution will drive sustainable growth in international markets.⁽¹⁾

Motorcycle Registration Data^(a)

The following table includes industry retail motorcycle registration data:

	Three months ended		(Decrease) Increase	% Change
	March 31, 2019	March 31, 2018		
United States ^(b)	54,324	57,026	(2,702)	(4.7)%
Europe ^(c)	111,317	93,217	18,100	19.4 %

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

Motorcycles and Related Products Segment

Motorcycle Unit Shipments

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

	Three months ended				Unit (Decrease) Increase	Unit % Change
	March 31, 2019		April 1, 2018			
	Units	Mix %	Units	Mix %		
United States	34,505	58.6%	38,797	60.7%	(4,292)	(11.1)%
International	24,386	41.4%	25,147	39.3%	(761)	(3.0)
Harley-Davidson motorcycle units	58,891	100.0%	63,944	100.0%	(5,053)	(7.9)%
Touring motorcycle units	25,043	42.5%	30,857	48.3%	(5,814)	(18.8)%
Cruiser motorcycle units	20,451	34.7%	21,554	33.7%	(1,103)	(5.1)
Sportster® / Street motorcycle units	13,397	22.8%	11,533	18.0%	1,864	16.2
Harley-Davidson motorcycle units	58,891	100.0%	63,944	100.0%	(5,053)	(7.9)%

The Company shipped 58,891 Harley-Davidson motorcycles worldwide during the first quarter of 2019, which was 7.9% lower than the same period in 2018. The mix of Touring motorcycles decreased as a percent of total shipments while the mix of Cruiser and Sportster[®]/Street motorcycles increased compared to the same period last year. The mix of Touring motorcycles in 2019 was down compared to 2018 due to the relatively high shipment mix of Touring motorcycles in the first quarter of 2018. In addition, during the first quarter of 2019, Sportster shipments as a percent of total shipments were up behind an improved retail sales rate compared to the same period last year.

U.S. retail inventory of new Harley-Davidson motorcycles at the end of the first quarter of 2019 was down approximately 3,450 motorcycles compared to the end of the first quarter of 2018. The Company is very pleased with dealer inventory levels and the mix of products in the field as it moves into the height of the selling season. The Company believes its market discipline is important in maintaining customer and dealer value and will ultimately result in stronger retail sales of new motorcycles.⁽¹⁾

Segment Results

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

	Three months ended		(Decrease) Increase	% Change
	March 31, 2019	April 1, 2018		
Revenue:				
Motorcycles	\$ 964,575	\$ 1,121,673	\$ (157,098)	(14.0)%
Parts & Accessories	159,703	169,075	(9,372)	(5.5)
General Merchandise	55,401	56,601	(1,200)	(2.1)
Licensing	8,577	8,358	219	2.6
Other	7,381	8,240	(859)	(10.4)
Total revenue	1,195,637	1,363,947	(168,310)	(12.3)
Cost of goods sold	848,198	890,174	(41,976)	(4.7)
Gross profit	347,439	473,773	(126,334)	(26.7)
Operating expenses:				
Selling & administrative expense	176,544	207,544	(31,000)	(14.9)
Engineering expense	48,884	46,549	2,335	5.0
Restructuring expense	13,630	46,842	(33,212)	(70.9)
Operating expense	239,058	300,935	(61,877)	(20.6)
Operating income from Motorcycles	\$ 108,381	\$ 172,838	\$ (64,457)	(37.3)%

The following table includes the estimated impact of significant factors affecting the comparability of net revenue, cost of goods sold and gross profit from the first quarter of 2018 to the first quarter of 2019 (in millions):

	Net Revenue	Cost of Goods Sold	Gross Profit
Three months ended April 1, 2018	\$ 1,363.9	\$ 890.1	\$ 473.8
Volume	(108.1)	(66.7)	(41.4)
Price, net of related costs	23.2	6.8	16.4
Foreign currency exchange rates and hedging	(29.8)	(14.7)	(15.1)
Shipment mix	(53.6)	(14.3)	(39.3)
Raw material prices	—	3.1	(3.1)
Manufacturing and other costs	—	43.9	(43.9)
Total	(168.3)	(41.9)	(126.4)
Three months ended March 31, 2019	\$ 1,195.6	\$ 848.2	\$ 347.4

The following factors affected the comparability of net revenue, cost of goods sold and gross profit from the first quarter of 2018 to the first quarter of 2019:

- The decrease in revenue and gross profit related to volume was due primarily to lower wholesale motorcycle shipments, lower P&A sales and an increased level of motorcycle sales support.
- On average, wholesale prices for motorcycles shipped in the current period were higher than in the same period last year resulting in a favorable impact on revenue. The positive impact on revenue was partially offset by increased costs related to the additional content added to motorcycles shipped in the current period as compared to the same period last year.
- Revenue was adversely impacted by weaker foreign currency exchange rates, relative to the U.S. dollar, as compared to the same period last year. The unfavorable revenue impact was partially offset by higher net foreign currency gains due primarily to foreign currency hedging, as compared to the prior year.

- Changes in the shipment mix of motorcycle families, as well as the mix of models within motorcycle families, had an adverse impact on revenue and gross profit during the quarter.
- Raw material prices were higher primarily due to increased steel costs.
- Manufacturing and other costs were negatively impacted by lower fixed cost absorption due to lower production, temporary inefficiencies and the cost of incremental tariffs. Costs associated with incremental tariffs implemented in mid-2018 were \$21.0 million during the first quarter of 2019. Temporary inefficiencies associated with the Manufacturing Optimization Plan were \$3.6 million and \$0.7 million in the first quarters of 2019 and 2018, respectively.

Operating expenses were lower in the first quarter of 2019 compared to the prior year driven by lower restructuring expenses and favorable net warranty and recall costs. In the first quarter of 2019, net warranty and recall costs were approximately \$35 million lower than prior year, driven by higher than normal recoveries and lower warranty costs.

Financial Services Segment

Segment Results

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

	Three months ended		Increase (Decrease)	% Change
	March 31, 2019	April 1, 2018		
Interest income	\$ 159,804	\$ 154,041	\$ 5,763	3.7 %
Other income	28,750	23,781	4,969	20.9
Securitization and servicing fee income	189	352	(163)	(46.3)
Financial Services revenue	188,743	178,174	10,569	5.9
Interest expense	52,324	48,450	3,874	8.0
Provision for credit losses	34,491	30,052	4,439	14.8
Operating expenses	43,197	36,093	7,104	19.7
Financial Services expense	130,012	114,595	15,417	13.5
Operating income from Financial Services	\$ 58,731	\$ 63,579	\$ (4,848)	(7.6)%

Interest income was favorable in the first quarter of 2019 primarily due to higher average retail receivables at a higher average yield. Other income was favorable primarily due to higher investment income and insurance related revenue.

Interest expense increased due to higher average outstanding debt and a higher cost of funds.

The provision for credit losses increased \$4.4 million compared to the first quarter of 2018. The retail motorcycle provision increased \$4.9 million driven by higher retail credit losses, a flat retail reserve rate as compared to a decrease in the reserve rate during the first quarter of 2018, and a smaller decrease in retail receivables as compared to the first quarter of 2018.

Annualized credit losses for the Company's retail motorcycle loans were 2.22% through March 31, 2019 compared to 2.15% through April 1, 2018. The 30-day delinquency rate for retail motorcycle loans at March 31, 2019 was 3.73% compared to 3.31% at April 1, 2018. The Company believes inefficiencies resulting from the implementation of a new loan management system were a driver for the higher delinquency rate. The Company expects these inefficiencies to be temporary.

Operating expenses increased \$7.1 million compared to the first quarter of 2018 driven by higher depreciation associated with the implementation of a new loan management system as well as higher consulting expenses.

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

	Three months ended	
	March 31, 2019	April 1, 2018
Balance, beginning of period	\$ 189,885	\$ 192,471
Provision for credit losses	34,491	30,052
Charge-offs, net of recoveries	(33,504)	(32,173)
Balance, end of period	\$ 190,872	\$ 190,350

Other Matters

Contractual Obligations

The Company has updated the contractual obligations table under the caption “Contractual Obligations” in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations of the Company’s Annual Report on Form 10-K for the year ended December 31, 2018 as of March 31, 2019 to reflect the new projected principal and interest payments for the remainder of 2019 and beyond as follows (in thousands):

	2019	2020-2021	2022-2023	Thereafter	Total
Principal payments on debt	\$ 1,912,597	\$ 3,104,227	\$ 1,564,436	\$ 750,000	\$ 7,331,260
Interest payments on debt	142,180	272,995	112,046	336,750	863,971
	<u>\$ 2,054,777</u>	<u>\$ 3,377,222</u>	<u>\$ 1,676,482</u>	<u>\$ 1,086,750</u>	<u>\$ 8,195,231</u>

Interest obligations for floating rate instruments, as calculated above, assume rates in effect at March 31, 2019 remain constant. For purposes of the above, the principal payment balances for medium-term notes, on-balance sheet asset-backed securitizations, and senior unsecured notes are shown without reduction for debt issuance costs. Refer to Note 12 for a breakout of the finance costs consistent with ASU No. 2015-03.

As of March 31, 2019, there have been no other material changes to the Company’s summary of expected payments for significant contractual obligations in the contractual obligations table in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

Commitments and Contingencies

The Company is subject to lawsuits and other claims related to environmental, product and other matters. In determining costs to accrue 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. Any amounts accrued for these matters are monitored on an ongoing basis and are updated based on new developments or new information as it becomes available for each matter.

Environmental Protection Agency Notice:

In December 2009, the Company received formal, written requests for information from the United States Environmental Protection Agency (EPA) regarding: (i) certificates of conformity for motorcycle emissions and related designations and labels, (ii) aftermarket parts, and (iii) warranty claims on emissions related components. The Company promptly submitted written responses to the EPA’s inquiry and has engaged in information exchanges and discussions with the EPA. In August 2016, the Company entered into a consent decree with the EPA regarding these issues, and the consent decree was subsequently revised in July 2017 (the Settlement). In the Settlement, the Company agreed to, among other things, pay a fine, and not sell tuning products unless they are approved by the EPA or California Air Resources Board. In December 2017, the Department of Justice (DOJ), on behalf of the EPA, filed the Settlement with the U.S. District Court for the District of Columbia for the purpose of obtaining court approval of the Settlement. Three amicus briefs opposing portions of the Settlement were filed with the court by the deadline of January 31, 2018. On March 1, 2018, the Company and the DOJ each filed separate response briefs. The Company is awaiting the court’s decision on whether or not to finalize the Settlement, and on February 8, 2019, the DOJ filed a status update reminding the court of the current status of the outstanding matter. The Company has an accrual associated with this matter which is included in *Accrued liabilities* on the consolidated balance sheets, and as a result, if it is finalized, the Settlement would not have a material adverse effect on the Company’s financial condition or results of operations. The Settlement is not final until it is approved by the court, and if it is not approved by the court, the Company cannot reasonably estimate the impact of any remedies the EPA might seek beyond the Company’s current reserve for this matter.

York Environmental Matters:

The Company is involved with government agencies and groups of potentially responsible parties related to a matter involving the cleanup of soil and groundwater contamination at its York, Pennsylvania facility. The York facility was formerly used by the U.S. Navy and AMF prior to the purchase of the York facility by the Company from AMF in 1981. The Company has been working with the Pennsylvania Department of Environmental Protection (PADEP) since 1986 and with the U.S. Environmental Protection Agency (EPA) in undertaking environmental investigation and remediation activities, including a site-wide remedial investigation/feasibility study (RI/FS).

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

The Company has an accrual for its estimate of its share of the future Response Costs at the York facility which is included in *Other long-term liabilities* on the consolidated balance sheets. While the work on the RI/FS is now complete and the final remedy was proposed in late 2018, it has not yet been approved, and given the uncertainty that exists concerning the nature and scope of additional environmental remediation that may ultimately be required under the approved final remedy, the Company is unable to make a reasonable estimate of those additional costs, if any, that may result.

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

Product Liability Matters:

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

Off-Balance Sheet Arrangements

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

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

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

During the second quarter of 2016, the Company sold finance receivables with a principal balance of \$301.8 million into a securitization VIE. The transaction met the criteria to be treated as a sale for accounting purposes and resulted in an off-balance sheet arrangement because the Company did not retain any financial interest in the VIE beyond servicing rights and ordinary representations and warranties and related covenants. For more information, see Note 13.

Liquidity and Capital Resources as of March 31, 2019⁽¹⁾

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

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

	March 31, 2019
Cash and cash equivalents	\$ 749,600
Current marketable securities	10,003
Total cash and cash equivalents and marketable securities	759,603
Credit facilities	352,075
Asset-backed U.S. commercial paper conduit facilities ^(a)	600,000
Asset-backed Canadian commercial paper conduit facility ^(a)	22,111
Total availability under credit and conduit facilities	974,186
Total	\$ 1,733,789

(a) Includes facilities expiring in the next twelve months which the Company expects to renew prior to expiration.⁽¹⁾

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

Cash Flow Activity

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

	Three months ended	
	March 31, 2019	April 1, 2018
Net cash provided by operating activities	\$ 32,671	\$ 191,594
Net cash used by investing activities	(77,200)	(21,651)
Net cash used by financing activities	(415,679)	(98,930)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(409)	2,034
Net (decrease) increase in cash, cash equivalents and restricted cash	\$ (460,617)	\$ 73,047

Operating Activities

The decrease in cash provided by operating activities for the first quarter of 2019 compared to the same period in 2018 was primarily due to lower sales and unfavorable changes in working capital. There were no voluntary qualified pension plan contributions in the first quarter of 2018 or 2019 and no contributions are planned for the remainder of 2019.⁽¹⁾

Investing Activities

The Company's most significant investing activities consist of capital expenditures and retail finance originations and collections. Capital expenditures were \$35.3 million in the first quarter of 2019 compared to \$28.4 million in the same period last year. Net cash outflows for finance receivables for the first quarter of 2019 were \$47.3 million higher than the same period last year.

Financing Activities

The Company's financing activities consist primarily of share repurchases, dividend payments, and debt activity. Cash outflows for share repurchases were \$61.7 million in the first quarter of 2019 compared to \$73.0 million in the same period last year. Share repurchases during the first three months of 2019 included 1.5 million shares of common stock related to discretionary share repurchases and 0.2 million shares of common stock that employees surrendered to satisfy withholding taxes in connection with the vesting of restricted stock units. As of March 31, 2019, there were 14.9 million shares remaining on a board-approved share repurchase authorization. The Company paid dividends of \$0.375 and \$0.370 per share totaling \$60.9 million and \$62.7 million during the first quarter of 2019 and 2018, respectively.

Financing cash flows related to debt activity resulted in net cash outflows of \$293.7 million in the first three months of 2019 compared to net cash inflows of \$35.1 million in the first three months of 2018. The Company's total outstanding debt consisted of the following (in thousands):

	March 31, 2019	April 1, 2018
Unsecured commercial paper	\$ 1,192,925	\$ 1,036,976
Asset-backed Canadian commercial paper conduit facility	142,676	158,162
Asset-backed U.S. commercial paper conduit facilities	526,947	281,311
Medium-term notes, net	4,685,636	4,514,798
Senior unsecured notes, net	742,791	742,126
Asset-backed securitization debt, net	18,694	284,793
Total debt	\$ 7,309,669	\$ 7,018,166

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 April 5, 2019 were as follows:

	Short-Term	Long-Term	Outlook
Moody's	P2	A3	Stable
Standard & Poor's	A2	BBB+	Negative
Fitch	F1	A	Negative

Credit Facilities – In April 2018, the Company entered into a \$780.0 million five-year credit facility to replace the \$675.0 million five-year credit facility that was due to mature in April 2019 and also terminated the \$100.0 million 364-day credit facility that would have matured at the end of April 2018. The new five-year credit facility matures in April 2023. The Company also has a \$765.0 million five-year credit facility which matures in April 2021. The two five-year credit facilities (together, the Global Credit Facilities) bear interest at variable rates, which may be adjusted upward or downward depending on certain criteria, such as credit ratings. The Global Credit Facilities also require the Company to pay a fee based on the average daily unused portion of the aggregate commitments under the Global Credit Facilities. The Global Credit Facilities are committed facilities primarily used to support the Company's unsecured commercial paper program. In February 2019, the Company terminated its 364-day \$25.0 million credit facility that was due to mature in May 2019.

Unsecured Commercial Paper – Subject to limitations, the Company could issue unsecured commercial paper of up to \$1.55 billion as of March 31, 2019 supported by the Global Credit Facilities, as discussed above. 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 facilities or through the use of operating cash flow and cash on hand.⁽¹⁾

Medium-Term Notes – The Company had the following medium-term notes (collectively, the Notes) issued and outstanding at March 31, 2019 (in thousands):

Principal Amount	Rate	Issue Date	Maturity Date
\$600,000	2.40%	September 2014	September 2019
\$600,000	2.15%	February 2015	February 2020
\$450,000	Floating-rate ^(a)	May 2018	May 2020
\$350,000	2.40%	March 2017	June 2020
\$600,000	2.85%	January 2016	January 2021
\$450,000	Floating-rate ^(b)	November 2018	March 2021
\$350,000	3.55%	May 2018	May 2021
\$550,000	4.05%	February 2019	February 2022
\$400,000	2.55%	June 2017	June 2022
\$350,000	3.35%	February 2018	February 2023

(a) Floating interest rate based on LIBOR plus 50 bps. The Company utilized an interest rate swap designated as a cash flow hedge to convert this from a floating rate basis to a fixed rate basis. Refer to Note 10 of the Notes to the Consolidated Financial Statements for further details.

(b) Floating interest rate based on LIBOR plus 94 bps. The Company utilized an interest rate swap designated as a cash flow hedge to convert this from a floating rate basis to a fixed rate basis. Refer to Note 10 of the Notes to the Consolidated Financial Statements for further details.

The fixed-rate Notes provide for semi-annual interest payments and the floating-rate Notes provide for quarterly interest payments. Principal on the Notes is due at maturity. Unamortized discount and debt issuance costs on the Notes reduced the outstanding balance by \$14.4 million and \$12.7 million at March 31, 2019 and April 1, 2018, respectively. During the first quarter of 2019, \$600.0 million of 2.25% and \$150.0 million of floating-rate medium-term notes matured, and the principal and accrued interest were paid in full. There were no medium-term note maturities during the first quarter of 2018.

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.

On-Balance Sheet Asset-Backed Canadian Commercial Paper Conduit Facility – The Company has a revolving facility agreement (Canadian Conduit) with a Canadian bank-sponsored asset-backed commercial paper conduit. Under the agreement, the Canadian Conduit is contractually committed, at the Company's option, to purchase from the Company eligible Canadian retail motorcycle finance receivables for proceeds up to C\$220.0 million. The transferred assets are restricted as collateral for the payment of the debt. The terms for this facility provide for interest on the outstanding principal based on prevailing market interest rates plus a specified margin. The Canadian Conduit also provides for a program fee and an unused commitment fee based on the unused portion of the total aggregate commitment of C\$220.0 million. There is no amortization schedule; however, the debt is reduced monthly as available collections on the related finance receivables are applied to outstanding principal. Upon expiration of the Canadian Conduit, any outstanding principal will continue to be reduced monthly through available collections. The expected remaining term of the related receivables is approximately 5 years. Unless earlier terminated or extended by mutual agreement between the Company and the lenders, as of March 31, 2019, the Canadian Conduit has an expiration date of June 28, 2019.

There were no finance receivable transfers under the Canadian Conduit Facilities during the first quarter of 2019. During the first quarter of 2018, the Company transferred \$7.6 million of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of \$6.2 million.

On-Balance Sheet Asset-Backed U.S. Commercial Paper Conduit Facilities VIE – The Company has agreements with third-party bank-sponsored asset-backed U.S. commercial paper conduits under which it may transfer U.S. retail motorcycle finance receivables to an SPE, which in turn may issue debt to those third-party bank-sponsored asset-backed U.S. commercial paper conduits. In November 2018, the Company renewed its existing \$600.0 million revolving facility agreement with third-party bank-sponsored asset-backed U.S. commercial paper conduits. Also at that time, the Company amended its existing \$300.0 million revolving facility agreement with third-party bank-sponsored asset-backed U.S. commercial paper conduits, increasing the aggregate initial commitment to \$600.0 million. The aggregate commitment under this agreement is reduced

monthly as collections on the related finance receivables are applied to the outstanding principal until the outstanding principal balance is less than or equal to \$300.0 million, at which point the aggregate commitment will equal \$300.0 million. Availability under the revolving facilities (together, the U.S. Conduit Facilities) is based on, among other things, the amount of eligible U.S. retail motorcycle finance receivables held by the SPE as collateral.

There were no finance receivable transfers under the U.S. Conduit Facilities during the first quarter of 2019. During the first quarter of 2018, the Company transferred \$32.9 million of U.S. retail motorcycle finance receivables to an SPE which, in turn, issued \$29.3 million of debt under the U.S. Conduit Facilities.

The terms for this debt provide for interest on the outstanding principal based on prevailing commercial paper rates or LIBOR to the extent the advance is not funded by a conduit lender through the issuance of commercial paper plus, in each case, a program fee based on outstanding principal. The U.S. Conduit Facilities also provide for an unused commitment fee based on the unused portion of the total aggregate commitment. 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 U.S. Conduit Facilities, any outstanding principal will continue to be reduced monthly through available collections. The expected remaining term of the related receivables held by the SPE is approximately 5 years. Unless earlier terminated or extended by mutual agreement of the Company and the lenders, as of March 31, 2019, the U.S. Conduit Facilities have an expiration date of November 29, 2019.

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

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

There were no on or off-balance sheet asset-backed securitization transactions during the first quarter of 2019 or 2018.

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

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

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

- Assume or incur certain liens;
- Participate in certain mergers or consolidations; and
- Purchase or hold margin stock.

Under the current financial covenants of the Global Credit Facilities, the ratio of HDFS' consolidated debt, excluding secured debt, to HDFS' consolidated shareholders' equity, excluding accumulated other comprehensive income (loss), cannot exceed 10.0 to 1.0 as of the end of any fiscal quarter. In addition, the ratio of the Company's consolidated debt to the Company's consolidated debt and consolidated shareholders' equity (where the Company's consolidated debt in each case excludes that of HDFS and its subsidiaries, and the Company's consolidated shareholders' equity excludes accumulated other comprehensive income (loss)), cannot exceed 0.7 to 1.0 as of the end of any fiscal quarter. No financial covenants are required under the Notes or the U.S. or Canadian asset-backed commercial paper conduit facilities.

At March 31, 2019, HDFS and the Company remained in compliance with all of the then existing covenants.

Cautionary Statements

The Company's ability to meet the targets and expectations noted above depends upon, among other factors, the Company's ability to (i) execute its business plans and strategies, including the elements of the More Roads to Harley-Davidson plan for growth that the Company disclosed on July 30, 2018, and strengthen its existing business while enabling growth, (ii) manage and predict the impact that new or adjusted tariffs may have on our ability to sell product internationally, and the cost of raw materials and components, (iii) execute its strategy of growing ridership, globally, (iv) effectively execute the Company's manufacturing optimization initiative within expected costs and timing and successfully carry out its global manufacturing and assembly operations, (v) accurately analyze, predict and react to changing market conditions and successfully adjust to shifting global consumer needs and interests, (vi) negotiate and successfully implement a strategic alliance relationship with a local partner in Asia, (vii) develop and introduce products, services and experiences on a timely basis that the market accepts, that enable the Company to generate desired sales levels and that provide the desired financial returns, (viii) perform in a manner that enables the Company to benefit from market opportunities while competing against existing and new competitors, (ix) realize expectations concerning market demand for electric models, which may depend in part on the building of necessary infrastructure, (x) prevent, detect, and remediate any issues with its motorcycles or any issues associated with manufacturing processes to avoid delays in new model launches, recall campaigns, regulatory agency investigations, increased warranty costs or litigation and adverse effects on its reputation and brand strength, and carry out any product programs or recalls within expected costs and timing, (xi) manage supply chain issues, including quality issues and any unexpected interruptions or price increases caused by raw material shortages or natural disasters, (xii) manage the impact that prices for and supply of used motorcycles may have on its business, including on retail sales of new motorcycles, (xiii) reduce other costs to offset costs of the More Roads to Harley-Davidson plan and redirect capital without adversely affecting its existing business, (xiv) balance production volumes for its new motorcycles with consumer demand, (xv) manage risks that arise through expanding international manufacturing, operations and sales, (xvi) manage through changes in general economic and business conditions, including changing capital, credit and retail markets, and the changing political environment, (xvii) continue to manage the relationships and agreements that the Company has with its labor unions to help drive long-term competitiveness, (xviii) accurately estimate and adjust to fluctuations in foreign currency exchange rates, interest rates and commodity prices, (xix) continue to develop the capabilities of its distributors and dealers, effectively implement changes relating to its dealers and distribution methods and manage the risks that its independent dealers may have difficulty obtaining capital and managing through changing economic conditions and consumer demand, (xx) retain and attract talented employees, (xxi) prevent a cybersecurity breach involving consumer, employee, dealer, supplier, or Company data and respond to evolving regulatory requirements regarding data security, (xxii) manage the credit quality, the loan servicing and collection activities, and the recovery rates of HDFS' loan portfolio, (xxiii) adjust to tax reform, healthcare inflation and reform and pension reform, and successfully estimate the impact of any such reform on the Company's business, (xxiv) manage through the effects inconsistent and unpredictable weather patterns may have on retail sales of motorcycles, (xxv) implement and manage enterprise-wide information technology systems, including systems at its manufacturing facilities, (xxvi) manage changes and prepare for requirements in legislative and regulatory environments for its products, services and operations, (xxvii) manage its exposure to product liability claims and commercial or contractual disputes, (xxviii) successfully access the capital and/or credit markets on terms (including interest rates) that are acceptable to the Company and within its expectations, (xxix) conduct its operations in Thailand in a manner that sufficiently mitigates certain international tariffs and lowers prices of its motorcycles in certain markets, (xxx) accurately and successfully determine, implement, and maintain a manner in which to sell motorcycles in the E.U., China, and ASEAN countries that is not subject to tariffs; (xxxi) have its application to mitigate E.U. tariffs approved, or the appeal of a denied application acted on in a manner favorable to the Company, and (xxxii) accurately predict the margins of its Motorcycles and Related Products segment in light of, among other things, tariffs, the cost associated with the More Roads to Harley-Davidson plan, the Company's Manufacturing Optimization Plan, and the Company's global supply chain.

The Company could experience delays or disruptions in its operations as a result of work stoppages, strikes, natural causes, terrorism or other factors. Further, actual foreign currency exchange rates may vary from underlying assumptions. Other factors are described in risk factors that the Company has disclosed in documents previously filed with the Securities and Exchange Commission. Many of these risk factors are impacted by the current changing capital, credit and retail markets and the Company's ability to manage through inconsistent economic conditions.

The Company's ability to sell its motorcycles and related products and services and to meet its financial expectations also depends on the ability of the Company's independent dealers to sell its motorcycles and related products and services to retail customers. The Company depends on the capability and financial capacity of its independent dealers to develop and implement effective retail sales plans to create demand for the motorcycles and related products and services they purchase from the Company. In addition, the Company's independent dealers and distributors may experience difficulties in operating their businesses and selling Harley-Davidson motorcycles and related products and services as a result of weather, economic conditions or other factors.

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

Refer to “Risk Factors” under Item 1A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2018 for a discussion of additional risk factors and a more complete discussion of some of the cautionary statements noted above.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk from changes in foreign exchange rates, commodity prices and interest rates. To reduce such risks, the Company selectively uses derivative financial instruments. All hedging transactions are authorized and executed pursuant to regularly reviewed policies and procedures, which prohibit the use of financial instruments for speculative trading purposes. Sensitivity analysis is used to manage and monitor foreign exchange and interest rate risk.

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

The Company’s earnings are affected by changes in the prices of commodities used in the production of motorcycles. The Company uses derivative instruments on a limited basis to hedge the prices of certain commodities.

HDFS’ earnings are affected by changes in interest rates. HDFS’ interest-rate sensitive financial instruments include finance receivables, debt and interest rate derivatives. HDFS utilizes interest rate swaps to reduce the impact of fluctuations in interest rates on its debt.

Refer to the Company’s Annual Report on Form 10-K for the year ended December 31, 2018 for further information concerning the Company’s market risk. There have been no material changes to the market risk information included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls

There were no changes in the Company’s internal control over financial reporting during the quarter ended March 31, 2019 that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

The information required under this Item 1 of Part II is contained in Item 1 of Part I of this Quarterly Report on Form 10-Q in Note 17 of the Notes to Consolidated Financial Statements, and such information is incorporated herein by reference in this Item 1 of Part II.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

The following table contains detail related to the Company's repurchase of its common stock based on the date of trade during the quarter ended March 31, 2019:

<u>2019 Fiscal Month</u>	<u>Total Number of Shares Purchased (a)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</u>
January 1 to February 3	457,779	\$ 34	457,779	15,952,906
February 4 to March 3	1,254,645	\$ 37	1,254,645	14,943,706
March 4 to March 31	1,588	\$ 37	1,588	14,943,706
Total	1,714,012	\$ 36	1,714,012	

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

In February 2016, the Company's Board of Directors authorized the Company to repurchase up to 20.0 million shares of its common stock with no dollar limit or expiration date which superseded the share repurchase authority granted by the Board of Directors in December 1997. The Company repurchased 1.4 million shares on a discretionary basis during the quarter ended March 31, 2019 exhausting the remaining shares under this authorization. In February 2018, the Company's Board of Directors authorized the Company to repurchase up to 15.0 million additional shares of its common stock with no dollar limit or expiration date. The Company repurchased 56,294 shares on a discretionary basis during the quarter ended March 31, 2019 under this authorization. As of March 31, 2019, 14.9 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 first quarter of 2019, the Company acquired 247,408 shares of common stock that employees presented to the Company to satisfy withholding taxes in connection with the vesting of restricted stock units.

Item 6 – Exhibits

Refer to the Exhibit Index immediately following this page.

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

<u>Exhibit No.</u>	<u>Description</u>
4.1	Officers' Certificate, dated February 4, 2019, pursuant to Sections 102 and 301 of the Indenture, dated March 4, 2011, with the form of 4.05% Medium-Term Notes due 2022
31.1	Chief Executive Officer Certification pursuant to Rule 13a-14(a)
31.2	Chief Financial Officer Certification pursuant to Rule 13a-14(a)
32.1	Written Statement of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. §1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

HARLEY-DAVIDSON, INC.

Date: May 9, 2019

/s/ John A. Olin

John A. Olin
Senior Vice President and
Chief Financial Officer
(Principal financial officer)

Date: May 9, 2019

/s/ Mark R. Kornetzke

Mark R. Kornetzke
Chief Accounting Officer
(Principal accounting officer)

**OFFICERS' CERTIFICATE
OF
HARLEY-DAVIDSON FINANCIAL SERVICES, INC.**

Pursuant to Sections 102 and 301 of the Indenture

Reference is made to the Indenture dated as of March 4, 2011 (the "Indenture") among Harley-Davidson Financial Services, Inc. (the "Company"), Harley-Davidson Credit Corp. (the "Guarantor") and The Bank of New York Mellon Trust Company, N.A., as trustee ("Trustee"). Terms used and not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

Pursuant to Sections 102 and 301 of the Indenture, the undersigned, James Darrell Thomas and Perry A. Glassgow, in their respective capacities as Vice President, Chief Financial Officer and Treasurer of the Company, and Vice President of the Company, hereby certify that:

(1) There is hereby established a new series of Securities under the Indenture titled 4.050% Medium-Term Notes due 2022 (the "Notes").

(2) The Notes shall be in substantially the form of Exhibit A hereto.

(3) In addition to the terms provided in, or established pursuant to, the Indenture and the offering memorandum and the pricing supplement, both dated as of January 31, 2019, relating to the Notes (together referred to as the "Offering Memorandum"), the Notes, as authenticated and delivered, shall have the terms set forth in Exhibit A hereto (which terms are incorporated herein by reference and deemed to be set forth herein in full); provided, however, that in the event of a conflict between the provisions of the Notes and the Offering Memorandum, the provisions of the Notes shall prevail.

(4) The Notes shall be registered in the name set forth on Exhibit A hereto and the Notes shall be delivered in the manner specified in the Administrative Procedures attached as Exhibit A to the Company Order delivered as of the date hereof and as described in the Private Placement Agency Agreement dated as of March 1, 2011, among the Company, the Guarantor and the agents party thereto.

(5) The issuance of Notes designated as 4.050% Medium-Term Notes due 2022, in an initial aggregate principal amount of \$550,000,000, has been approved and authorized in accordance with the provisions of the Indenture pursuant to resolutions adopted by the Board of Directors of the Company by unanimous written consent dated as of January 25, 2019 and by this Officers' Certificate; provided, however, that the Company shall have the right to reopen the series of the Notes and issue additional Securities, which shall be part of the same series as the Notes initially issued (except for the issue date, the public offering price and, in some cases, the first interest payment date).

(6) All covenants and conditions precedent provided for in the Indenture relating to the establishment of the Notes, the terms of the Notes and the authentication and issuance of the Notes have been complied with.

(7) No Event of Default has occurred and is continuing and the execution and delivery of the Indenture will not result in a breach or violation of any of the terms and provisions of, or constitute a default under, the certificate of incorporation or bylaws of the Company, or any order of any court or administrative agency entered in any proceeding to which the Company is a party or by which it is bound or to which it is subject.

Each of the undersigned officers of the Company further states (a) that he has read the applicable provisions of the Indenture, including but not limited to Section 301 thereof, and the definitions relating thereto in each case relating to the issuance, authentication and delivery of the Notes, (b) that the statements made in this certificate are based upon an investigation and examination of the provisions of the Indenture and upon the relevant books and records of the Company, (c) in the opinion of such officer, he has made such examination or investigation as is necessary to enable such officer to express an informed opinion as to whether or not the covenants and conditions set forth in the Indenture relating to the issuance, authentication and delivery of the Notes have been complied with and (d) in the opinion of such officer, such covenants and conditions relating to the issuance, authentication and delivery of the Notes have been complied with.

[Signature page follows]

IN WITNESS WHEREOF, each of the undersigned officers of the Company has affixed his signature this 4th day of February, 2019.

/s/ J. Darrell Thomas

Name: J. Darrell Thomas

Title: Vice President, Chief Financial Officer and Treasurer of Harley-Davidson Financial Services, Inc.

/s/ Perry A. Glassgow

Name: Perry A. Glassgow

Title: Vice President of Harley-Davidson Financial Services, Inc.

[HDFS Officers' Certificate Pursuant to Sections 102 and 301 of the Indenture]

Exhibit A

to

Officers' Certificate Pursuant to Sections 102 and 301 of the Indenture

[HDFS Officers' Certificate Pursuant to Sections 102 and 301 of the Indenture]

HARLEY-DAVIDSON FINANCIAL SERVICES, INC.
4.050% MEDIUM-TERM NOTES DUE 2022

Fully and Unconditionally Guaranteed
by Harley-Davidson Credit Corp.

THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITORY (AS DEFINED IN THE INDENTURE) OR A NOMINEE THEREOF. THIS GLOBAL SECURITY IS EXCHANGEABLE FOR SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITORY OR ITS NOMINEE ONLY IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE AND, UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR SECURITIES IN DEFINITIVE FORM, THIS GLOBAL SECURITY MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITORY TO A NOMINEE OF THE DEPOSITORY, OR BY A NOMINEE OF THE DEPOSITORY TO THE DEPOSITORY OR ANOTHER NOMINEE OF THE DEPOSITORY, OR BY THE DEPOSITORY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITORY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITORY.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (55 WATER STREET, NEW YORK, NEW YORK) ("DTC"), TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS MAY BE REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR SUCH OTHER ENTITY AS MAY BE REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION, AND, ACCORDINGLY, NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY OTHER APPLICABLE JURISDICTION. BY ITS ACCEPTANCE HEREOF, THE HOLDER OF THIS SECURITY OR ANY INTEREST OR PARTICIPATION HEREIN (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT), OR (B) IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, AND (2) AGREES TO OFFER, SELL OR OTHERWISE TRANSFER

[HDFS Officers' Certificate Pursuant to Sections 102 and 301 of the Indenture]

SUCH SECURITY, PRIOR TO THE DATE (THE “RESALE RESTRICTION TERMINATION DATE”) WHICH IS ONE YEAR AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE COMPANY OR ANY AFFILIATE THEREOF WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY) ONLY (A) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, (B) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHICH NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, (E) TO AN ACCREDITED INVESTOR WITHIN THE MEANING OF SUBPARAGRAPH (a)(1), (2), (3) OR (7) OF RULE 501 OF REGULATION D UNDER THE SECURITIES ACT THAT IS ACQUIRING THIS SECURITY OR ANY INTEREST OR PARTICIPATION HEREIN FOR ITS OWN ACCOUNT, OR FOR THE ACCOUNT OF SUCH AN ACCREDITED INVESTOR, FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TO, OR FOR OFFER OR SALE IN CONNECTION WITH, ANY DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT OR (F) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY’S AND THE TRUSTEE’S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (i) PURSUANT TO CLAUSES (E) OR (F) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, AND (ii) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY BE COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

THE HOLDER OF THIS SECURITY WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE SECURITY EVIDENCED HEREBY OF THE RESALE RESTRICTIONS SET FORTH ABOVE.

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HARLEY-DAVIDSON FINANCIAL SERVICES, INC.
4.050% MEDIUM-TERM NOTES DUE 2022

Fully and Unconditionally Guaranteed
by Harley-Davidson Credit Corp.

No. A001 Principal Amount \$461,555,000
CUSIP No. 41283LAU9 as revised by the Schedule of
ISIN US41283LAU98 Increases and Decreases in Global
Common Code No. 190253813 Note attached hereto

Issue Price: 99.913%

Maturity Date: February 4, 2022

Original Issue Date: February 4, 2019

Index Maturity:

☐ Original Issue Discount Note

Total Amount of OID:

Yield to Maturity: %

Initial Accrual Period OID:

☒ Fixed Rate

Interest Rate: 4.050%

☐ Floating Rate

Interest Rate Basis:

☐ CD Rate

Specified Currency (if other than U.S. dollars): N/A

☐ CMT Rate

☐ CMT Reuters Page FRBCMT:

☐ CMT Reuters Page FEDCMT:

Option To Receive Payments In Specified Currency (non-U.S. dollar denominated Note): N/A

☐ Commercial Paper Rate

☐ Federal Funds Rate

☐ LIBOR

Authorized Denomination: Minimum denominations of \$2,000 and integral multiples of \$1,000 in excess thereof

☐ Prime Rate

Place of Payment (if other than as set forth in the Indenture): N/A

___ Treasury Rate

___ Other

Spread (Plus Or Minus):

Initial Redemption Date:

Initial Redemption Percentage:

Annual Redemption Percentage Reduction:

Repayment Date:

Spread Multiplier: %

Renewable: ☐ Yes ☐ No

Extendible: ☐ Yes ☐ No

Interest Category:

☐ Regular Floating Rate Note

Final Maturity Date:

☐ Floating Rate/Fixed Rate Note

Fixed Rate Commencement Date:

Fixed Interest Rate: %

☐ Inverse Floating Rate Note

Initial Interest Rate:

Initial Interest Reset Date:

Maximum Interest Rate: %

Interest Reset Dates:

Minimum Interest Rate: %

Interest Payment Dates (in the case of a Floating Rate Note and, in the case of a Fixed Rate Note, other than as set forth below): N/A

Regular Record Dates (if other than as set forth below): N/A

Interest Determination Dates (if other than as set forth below): N/A

Additional Amounts applicable for Company:

☐ Yes

☒ No

Additional Amounts applicable for Guarantor:

☐ Yes

☒ No

Addendum Attached

Other Provisions: The optional redemption provisions described below shall apply to the Note.

☐ Yes

☒ No

Authorized Denomination (only if non-U.S. dollar denominated Note): N/A

Calculation Agent (if other than the Trustee): N/A

Interest Payment Period: N/A

Harley-Davidson Financial Services, Inc., a corporation duly organized under the laws of the State of Delaware (herein called the “Company,” which term includes any successor corporation under the Indenture hereinafter referred to), for value received, hereby promises to pay to Cede & Co., or registered assigns, the Principal Amount specified above, as revised by the Schedule of Increases and Decreases in the Global Note attached hereto, on the Maturity Date specified above and to pay to the registered holder of this Note (the “Holder”) interest on said Principal Amount at a rate per annum specified above and upon the terms provided below under either the heading “Provisions Applicable to Fixed Rate Notes Only” or “Provisions Applicable to Floating Rate Notes Only.”

This Note is one of the Company’s duly authorized issue of notes in the series titled 4.050% Medium-Term Notes due 2022 (herein referred to as the “Notes”), all issued or to be issued under an indenture, dated as of March 4, 2011 (as may be supplemented from time to time, the “Indenture”), among the Company, Harley-Davidson Credit Corp. (the “Guarantor”) and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee,” which term includes any successor trustee under the Indenture), to which Indenture reference is hereby made for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Trustee, the Company, the Guarantor and the Holders of the Notes and of the terms upon which the Notes are, and are to be, authenticated and delivered. The Notes of this series are limited (except as otherwise provided in the Indenture) to the aggregate principal amount established from time to time by the Company Board of Directors. The Notes of this series may be issued at various times with different maturity dates and different principal repayment provisions, may bear interest at different rates and may otherwise vary, all as provided in the Indenture. The Notes of this series may be subject to redemption upon notice and in accordance with the provisions of this Note and the Indenture. The Company and the Guarantor may defease the Notes of this series in accordance with the provisions of the Indenture.

To secure the due and punctual payment of principal, any premium, any interest and Additional Amounts (as defined in the Indenture) on this Note by the Company under the Indenture, when and as the same shall become due and payable, whether at the Maturity Date, by declaration of acceleration, call for redemption or otherwise, the Guarantor has unconditionally guaranteed this Note pursuant to the terms of the Guarantee endorsed hereon and in Section 1401 of the Indenture (the “Guarantee”).

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As used herein, the term “Business Day” means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in the City of New York; *provided, however*, that if a Specified Currency is specified above, the day is also not a day on which commercial banks are authorized or required by law, regulation or executive order to close in the Principal Financial Center (as defined below) of the country issuing such Specified Currency or, if such Specified Currency is the Euro, the day is also a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open; *provided further* that if LIBOR is indicated above to be an applicable Interest Rate Basis, the day is also a London Banking Day (as defined below).

“Principal Financial Center” means, unless otherwise provided in this Note, the capital city of the country issuing the Specified Currency; except that with respect to United States dollars, Australian dollars, Canadian dollars, South African rand and Swiss francs, the “Principal Financial Center” will be the City of New York, Sydney and (solely in the case of the Specified Currency) Melbourne, Toronto, Johannesburg and Zurich, respectively.

“London Banking Day” means a day on which commercial banks are open for business, including dealings in U.S. dollars, in London.

Provisions Applicable To Fixed Rate Notes Only:

If the “Fixed Rate” line above is checked, unless otherwise specified above, the Company will pay interest semiannually on February 4 and August 4 of each year (each such date fixed for the payment of interest, an “Interest Payment Date”) commencing on August 4, 2019, and ending on the Maturity Date or upon earlier redemption or repayment to the person to whom principal is payable. Interest shall accrue from the Original Issue Date, or from the most recent Interest Payment Date to which interest has been paid or duly provided for on this Note to, but excluding, the next following Interest Payment Date, Maturity Date, or earlier date of redemption or repayment, as the case may be. Interest on Fixed Rate Notes will be computed by the Company on the basis of a 360-day year consisting of twelve 30-day months.

If any Interest Payment Date or the Maturity Date (or the date of earlier redemption or repayment) of this Fixed Rate Note falls on a day that is not a Business Day, the payment will be made on the next Business Day as if it were made on the date such payment was due, and no interest will accrue on the amount so payable for the period from and after such Interest Payment Date or the Maturity Date (or the date of earlier redemption or repayment), as the case may be.

Provisions Applicable To Floating Rate Notes Only:

If the “Floating Rate” line above is checked, the Company will pay interest on the Interest Payment Dates shown specified above at the Initial Interest Rate specified above until the first Interest Reset Date specified above following the Original Issue Date specified above and thereafter at a rate determined in accordance with the provisions hereinafter set forth under the headings “Determination of CD Rate,” “Determination of CMT Rate,” “Determination of Commercial Paper Rate,” “Determination of Federal Funds Rate,” “Determination of LIBOR,”

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“Determination of Prime Rate” or “Determination of Treasury Rate,” depending on whether the Interest Rate Basis is the CD Rate, the CMT Rate, the Commercial Paper Rate, the Federal Funds Rate, LIBOR, the Prime Rate, the Treasury Rate or other Interest Rate Basis.

An interest payment shall be the amount of interest accrued from and including the Original Issue Date, or from and including the last Interest Payment Date to which interest has been paid, to, but excluding, the next following Interest Payment Date, Maturity Date, or date of earlier redemption or repayment, as the case may be (an “Interest Period”). Notwithstanding any provision herein to the contrary, the interest rate hereon shall not be greater than the Maximum Interest Rate, if any, or less than the Minimum Interest Rate, if any, specified above.

If any Interest Payment Date for any Floating Rate Note, other than an Interest Payment Date at maturity, would fall on a day that is not a Business Day, such Interest Payment Date will be the following day that is a Business Day, and interest will continue to accrue to the following Business Day, except that if LIBOR is the applicable Interest Rate Basis, if such Business Day is in the next succeeding calendar month, such Interest Payment Date will be the immediately preceding day that is a Business Day. If the Maturity Date (or date of earlier redemption or repayment) of any Floating Rate Note would fall on a day that is not a Business Day, the payment of interest and principal (and premium, if any) may be made on the next succeeding Business Day, and no interest on such payment will accrue for the period from and after the Maturity Date (or the date of earlier redemption or repayment).

Commencing with the first Interest Reset Date specified above following the Original Issue Date, the rate at which interest on this Note is payable shall be adjusted daily, weekly, monthly, quarterly, semi-annually or annually as specified above under “Interest Reset Dates.”

The interest rate borne by this Note will be determined as follows:

(i) Unless the Interest Category of this Note is specified above as a “Floating Rate/Fixed Rate Note” or an “Inverse Floating Rate Note” or in the event either “Other Provisions” or an Addendum hereto applies, in each case, relating to a different interest rate formula, this Note shall be designated as a “Regular Floating Rate Note” and, except as set forth below or specified above under “Other Provisions” or in an Addendum hereto, shall bear interest at the rate determined by reference to the applicable Interest Rate Basis or Bases (a) plus or minus the applicable Spread, if any, and/or (b) multiplied by the applicable Spread Multiplier, if any; in each case as specified above. Commencing on the Initial Interest Reset Date, the rate at which interest on this Note shall be payable shall be reset as of each Interest Reset Date specified above; *provided, however*, that the interest rate in effect for the period, if any, from the Original Issue Date to the Initial Interest Reset Date shall be the Initial Interest Rate.

(ii) If the Interest Category of this Note is specified above as a “Floating Rate/Fixed Rate Note” then, except as set forth below or specified above under “Other Provisions” or in an Addendum hereto, this Note shall bear interest at the rate determined by reference to the applicable Interest Rate Basis or Bases (a) plus or minus the applicable Spread, if any, and/or (b) multiplied by the Spread Multiplier, if any, in each case as specified above. Commencing on the Initial Interest Reset Date, the rate at which interest on this Note shall be payable shall be

reset as of each Interest Reset Date; *provided, however*, that (y) the interest rate in effect for the period, if any, from the Original Issue Date to the Initial Interest Reset Date shall be the Initial Interest Rate and (z) the interest rate in effect for the period commencing on, and including, the Fixed Rate Commencement Date specified above to the Maturity Date (or date of earlier redemption or repayment) shall be the Fixed Interest Rate specified above or, if no Fixed Interest Rate is so specified, the interest rate in effect on the day immediately preceding the Fixed Rate Commencement Date.

(iii) If the Interest Category of this Note is specified above as an “Inverse Floating Rate Note” then, except as set forth below or specified above under “Other Provisions” or in an Addendum hereto, this Note shall bear interest at (a) the Fixed Interest Rate specified above minus (b) the rate determined by reference to the applicable Interest Rate Basis or Bases:

(x) plus or minus the applicable Spread, if any, and/or

(y) multiplied by the applicable Spread Multiplier, if any, in each case as specified above;

provided, however, that, unless otherwise specified above under “Other Provisions” or in an Addendum hereto, the interest rate hereon shall not be less than zero. Commencing on the Initial Interest Reset Date, the rate at which interest on this Note shall be payable shall be reset on each Interest Reset Date; *provided, however*, that the interest rate in effect for the period, if any, from the Original Issue Date to the Initial Interest Reset Date shall be the Initial Interest Rate set forth above.

The “Spread” is the number of basis points (one basis point equals one-hundredth of a percentage point) specified above to be added to or subtracted from the Interest Rate Basis for a Floating Rate Note, and the “Spread Multiplier” is the percentage specified above by which the Interest Rate Basis for such Floating Rate Note will be multiplied. Both a Spread and/or a Spread Multiplier may be applicable to the Interest Rate Basis for a particular Floating Rate Note, as set forth above.

Each such adjusted Interest Rate Basis shall be applicable on and after the Interest Reset Date to which it relates but not including the next succeeding Interest Reset Date. If any Interest Reset Date is a day that is not a Business Day, such Interest Reset Date shall be postponed to the next day that is a Business Day, except that if the rate of interest on this Note shall be determined by reference to LIBOR and such Business Day is in the next succeeding calendar month, such Interest Reset Date shall be the immediately preceding Business Day. In addition, if the Treasury Rate is the applicable Interest Rate Basis and the Interest Determination Date would otherwise fall on an Interest Reset Date, then the Interest Reset Date will be postponed to the next succeeding Business Day. Subject to applicable provisions of law (including usury laws) and except as specified in this Note, on each Interest Reset Date, the rate of interest on this Note shall be the rate determined in accordance with the provisions of the applicable heading below.

With respect to a Floating Rate Note, accrued interest shall be calculated by multiplying the principal amount thereof by an accrued interest factor. Such accrued interest factor will be

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computed by adding the interest factors calculated for each day in the Interest Period or from the last date from which accrued interest is being calculated. The interest factor for each such day is computed by dividing the interest rate applicable to such day by 360, in the cases of CD Rate Notes, Commercial Paper Rate Notes, Federal Funds Rate Notes, LIBOR Notes and Prime Rate Notes or by the actual number of days in the year, in the cases of CMT Rate Notes and Treasury Rate Notes. The interest rate applicable to any day that is an Interest Reset Date will be the interest rate effective on such Interest Reset Date. The interest rate applicable to any other day will be the interest rate for the immediately preceding Interest Reset Date (or, if none, the Initial Interest Rate, as specified above).

The “Calculation Date,” where applicable, pertaining to an Interest Determination Date will be the earlier of (i) the tenth calendar day after such Interest Determination Date or, if any such day is not a Business Day, the next succeeding Business Day or (ii) the Business Day preceding the applicable Interest Payment Date or the Maturity Date (or the date of earlier redemption or repayment), as the case may be.

For Floating Rate Notes, The Bank of New York Mellon Trust Company, N.A. shall be the calculation agent unless another calculation agent is specified above (the “Calculation Agent”). The interest rate applicable to each interest period will be determined by the Calculation Agent on or prior to the applicable Calculation Date. At the request of the Holder, the Calculation Agent will provide the interest rate then in effect and, if determined, the interest rate which will become effective on the next Interest Reset Date.

All percentages resulting from any calculation of the rate of interest on a Floating Rate Note will be rounded, if necessary, to the nearest one hundred-thousandth of a percent (.0000001), with five one-millionths of a percentage point rounded upward, and all dollar amounts used in or resulting from such calculation on Floating Rate Notes will be rounded to the nearest cent (with one-half cent being rounded upward).

Determination of CD Rate. If the Interest Rate Basis, as specified above, is, or is calculated by reference to, the CD Rate, unless otherwise specified above, the “CD Rate” for each Interest Reset Date will be determined by the Calculation Agent as of the second Business Day prior to such Interest Reset Date (a “CD Interest Determination Date”) and shall be the rate on the applicable CD Interest Determination Date for negotiable United States dollar certificates of deposit having the Index Maturity specified above as published in H.15(519) (as defined below) on such CD Interest Determination Date under the heading “CDs (secondary market).” If the rate referred to in the preceding sentence is not so published by 3:00 p.m., New York City time, on the applicable Calculation Date, the CD Rate shall be the rate on the applicable CD Interest Determination Date for negotiable United States dollar certificates of deposit of the Index Maturity specified above as published in H.15 Daily Update (as defined below), or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption “CDs (secondary market).” If the rate referred to in the preceding sentence is not so published by 3:00 p.m., New York City time, on the applicable Calculation Date, the CD Rate shall be the rate on the applicable CD Interest Determination Date calculated by the Calculation Agent on the Notes as the arithmetic mean of the secondary market offered rates as of 10:00

a.m., New York City time, on the applicable CD Interest Determination Date, of three leading non-bank dealers in negotiable United States dollar certificates of deposit in the City of New York (which may include an agent or its affiliates) selected by the Company for negotiable United States dollar certificates of deposit of major United States money market banks with a remaining maturity closest to the Index Maturity specified above in an amount that is representative for a single transaction in that market at that time. If the dealers selected by the Company as provided in the preceding sentence are not quoting as mentioned in such sentence, the CD Rate shall be the CD Rate in effect on the applicable CD Interest Determination Date.

“H.15(519)” means the weekly statistical release designated as H.15(519), or any successor publication, published by the Board of Governors of the Federal Reserve System.

“H.15 Daily Update” means the daily update of H.15(519), available through the world-wide-web site of the Board of Governors of the Federal Reserve System at <http://www.federalreserve.gov/releases/h15/update>, or any successor site or publication.

Determination of CMT Rate. If the Interest Rate Basis, as specified above, is, or is calculated by reference to, the CMT Rate, unless otherwise specified above, the “CMT Rate” for each Interest Reset Date will be determined by the Calculation Agent as of the second Business Day prior to such Interest Reset Date (a “CMT Interest Determination Date”) and shall be, if “CMT Reuters Page FRBCMT” is specified above, the percentage equal to the yield for United States Treasury securities at “constant maturity” having the Index Maturity specified above, as the yield is displayed on Reuters, Inc. (or any successor or similar service), on page FRBCMT (or any other page as may replace the specified page on that service under the caption “Treasury Constant Maturities”) (“Reuters Page FRBCMT”). If the rate referred to in the preceding sentence does not appear on Reuters Page FRBCMT, the CMT Rate for such CMT Interest Determination Date will be a percentage equal to the yield for United States Treasury securities at “constant maturity” having the Index Maturity specified above, and for the applicable CMT Interest Determination Date as published in H.15(519) under the caption “Treasury Constant Maturities.” In the event the rate referred to in the preceding sentence does not appear in H.15(519), then the CMT Rate for such CMT Interest Determination Date will be the rate on the applicable CMT Interest Determination Date for the period of the Index Maturity specified above, as may then be published by either the Board of Governors of the Federal Reserve System or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate which would otherwise have been published in H.15(519). In the event the rate referred to in the preceding sentence is not published, the CMT Rate on the applicable CMT Interest Determination Date will be calculated by the Calculation Agent as a yield-to-maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 p.m., New York City time, on the applicable CMT Interest Determination Date of three leading primary United States government securities dealers in the City of New York, which may include an agent of the Company or such agent’s affiliates (each a “Reference Dealer”), selected by the Company (from five Reference Dealers selected by the Company and eliminating the highest quotation (or, in the event of equality, one of the highest), and the lowest quotation (or, in the event of equality, one of the lowest)), for United States Treasury securities with an original maturity equal to the Index Maturity specified above, a remaining term to maturity no more than

one year shorter than the Index Maturity specified above and in a principal amount that is representative for a single transaction in the securities in the market at that time. If fewer than five but more than two of the prices referred to in the above sentence are provided as requested, the CMT Rate on the applicable CMT Interest Determination Date will be calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained, and neither the highest nor the lowest of the quotations shall be eliminated; *provided, however*, that if fewer than three prices referred to above are provided as requested, the CMT Rate on the applicable CMT Interest Determination Date will be calculated by the Calculation Agent as a yield-to-maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 p.m., New York City time, on the applicable CMT Interest Determination Date of three Reference Dealers selected by the Company from five Reference Dealers selected by the Company and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the Index Maturity specified above, and a remaining term to maturity closest to the Index Maturity specified above, and in a principal amount that is representative for a single transaction in the securities in the market at that time. However, if fewer than five but more than two prices referred to above are provided as requested, the CMT Rate on the applicable CMT Interest Determination Date will be calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained, and neither the highest nor the lowest of the quotations will be eliminated. If fewer than three prices referred to above are provided as requested, the CMT Rate on the applicable CMT Interest Determination Date will be the CMT Rate in effect on the applicable CMT Interest Determination Date. If the CMT Reuters Page FEDCMT is specified above, the CMT Rate for such CMT Interest Determination Date will be a percentage equal to the one-week or one-month, as specified above, and will be the average yield for United States Treasury securities at “constant maturity” having the Index Maturity specified above, as the yield is displayed on Reuters, Inc. (or any successor service) on page FEDCMT (or any other page as may replace that specified page on that service) (“Reuters Page FEDCMT”), for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the related CMT Interest Determination Date falls. If the rate referred to in the preceding sentence does not appear on Reuters Page FEDCMT, then the CMT Rate for such CMT Interest Determination Date will be a percentage equal to the one-week or one-month, as specified above, average yield for United States Treasury securities at “constant maturity” having the Index Maturity specified above, and for the week or month, as applicable, preceding the applicable CMT Interest Determination Date as published in H.15(519) opposite the caption “Treasury Constant Maturities.” If the rate referred to in the preceding sentence does not appear in H.15(519), then the CMT Rate for such CMT Interest Determination Date will be the one-week or one-month, as specified above, average yield for United States Treasury securities at “constant maturity” having the Index Maturity specified above, as otherwise announced by the Federal Reserve Bank of New York for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the related CMT Interest Determination Date falls. If the Federal Reserve Bank of New York does not publish the rate referred to above, the rate on the applicable CMT Interest Determination Date will be calculated by the Calculation Agent as a yield-to-maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 p.m., New York City time, on the applicable CMT Interest Determination Date of three Reference Dealers selected by the Company (from

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five Reference Dealers selected by the Company and eliminating the highest quotation (or, in the event of equality, one of the highest), and the lowest quotation (or, in the event of equality, one of the lowest)), for United States Treasury securities with an original maturity equal to the Index Maturity specified above, and a remaining term to maturity no more than one year shorter than the Index Maturity specified above, and in a principal amount that is representative for a single transaction in the securities in the market at that time. If fewer than five but more than two of the prices referred to above are provided as requested, the rate on the applicable CMT Interest Determination Date will be calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained, and neither the highest nor the lowest of the quotations shall be eliminated. If fewer than three prices referred to above are provided as requested, the rate on the applicable CMT Interest Determination Date will be calculated by the Calculation Agent as a yield-to-maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 p.m., New York City time, on the applicable CMT Interest Determination Date of three Reference Dealers selected by the Company (from five Reference Dealers selected by the Company and eliminating the highest quotation or (in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)), for United States Treasury securities with an original maturity greater than the Index Maturity specified above, and a remaining term to maturity closest to the Index Maturity specified above and will be in a principal amount that is representative for a single transaction in the securities in the market at that time. If fewer than five but more than two prices referred to above are provided as requested, the rate will be calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained, and neither the highest nor the lowest of the quotations will be eliminated, or if fewer than three prices referred to above are provided as requested, the CMT Rate will be the CMT Rate in effect on the applicable CMT Interest Determination Date. If two United States Treasury securities with an original maturity greater than the Index Maturity as specified above have remaining terms to maturity equally close to the Index Maturity specified above, the quotes for the United States Treasury security with the shorter original remaining term to maturity will be used.

Determination of Commercial Paper Rate. If the Interest Rate Basis, as specified above, is, or is calculated by reference to, the Commercial Paper Rate, unless otherwise specified above, the “Commercial Paper Rate” for each Interest Reset Date will be determined by the Calculation Agent as of the second Business Day prior to such Interest Reset Date (a “Commercial Paper Interest Determination Date”) and shall be the Money Market Yield (as defined below) on such date of the rate for commercial paper having the Index Maturity as indicated above, as such rate shall be published in H.15(519) under the caption “Commercial Paper-Nonfinancial.” In the event that such rate is not published prior to 3:00 p.m., New York City time, on the applicable Calculation Date, then the Commercial Paper Rate shall be calculated by the Calculation Agent as the Money Market Yield of the Commercial Paper Rate on the applicable Commercial Paper Interest Determination Date for commercial paper having the Index Maturity specified above, published in H.15 Daily Update, or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption “Commercial Paper-Nonfinancial.” If by 3:00 p.m., New York City time, on the applicable Calculation Date, such rate is not yet published as provided in the preceding sentence, then the Commercial Paper Rate on the applicable Commercial Paper Interest Determination Date shall

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be calculated by the Calculation Agent as the Money Market Yield of the arithmetic mean of the offered rates at approximately 11:00 a.m., New York City time, on the applicable Commercial Paper Interest Determination Date of three leading dealers of United States dollar commercial paper in the City of New York, which may include an agent of the Company or such agent's affiliates, selected by the Calculation Agent for commercial paper having the Index Maturity specified above, placed for industrial issuers whose bond rating is "Aa," or the equivalent, from a nationally recognized statistical rating organization; *provided, however*, that if the dealers selected as aforesaid by the Company are not quoting offered rates as mentioned in this sentence, the Commercial Paper Rate will be the Commercial Paper Rate in effect on the applicable Commercial Paper Interest Determination Date.

"Money Market Yield" shall be a yield calculated in accordance with the following formula and expressed as a percentage:

$$\text{Money market yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where "D" refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal; and "M" refers to the actual number of days in the interest period for which interest is being calculated.

Determination of Federal Funds Rate. If the Interest Rate Basis, as specified above, is, or is calculated by reference to the Federal Funds Rate, unless otherwise specified above, the "Federal Funds Rate" with respect to each Interest Reset Date will be determined by the Calculation Agent as of the first Business Day prior to such Interest Reset Date (a "Federal Funds Interest Determination Date") and shall be the rate on that date for United States dollar Federal Funds as published in H.15(519) under the heading "Federal Funds (Effective)," as displayed on Reuters, Inc. (or any successor service) on page FEDFUND01 (or any other page as may replace the applicable page on that service) ("Reuters Page FEDFUND01") or, if such rate does not appear on Reuters Page FEDFUND01, or is not so published by 3:00 p.m., New York City time, on the applicable Calculation Date, the rate on the applicable Federal Funds Interest Determination Date for United States dollar Federal Funds will be the rate on such Federal Funds Interest Determination Date as published in H.15 Daily Update, or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "Federal Funds (Effective)." If such rate is not so published by 3:00 p.m., New York City time, on the applicable Calculation Date, the Federal Funds Rate will be calculated by the Calculation Agent and will be the arithmetic mean of the rates for the last transaction in overnight United States dollar Federal Funds arranged by three leading brokers of United States dollar Federal Funds transactions in the City of New York, which may include an agent of the Company or such agent's affiliates, selected by the Company before 9:00 a.m., New York City time, on the applicable Federal Funds Interest Determination Date; *provided, however*, that if the brokers selected as aforesaid by the Company are not quoting as mentioned in this sentence, the Federal Funds Rate will be the Federal Funds Rate in effect on the applicable Federal Funds Interest Determination Date.

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Determination of LIBOR. If the Interest Rate Basis, as specified above, is, or is calculated by reference to, LIBOR, unless otherwise specified above, “LIBOR” for each Interest Reset Date will be determined by the Calculation Agent as of the second London Banking Day prior to such Interest Reset Date (a “LIBOR Interest Determination Date”) and shall be the rate (express as a percentage per annum) for deposits in U.S. dollars having a three-month maturity that appears on Reuters LIBOR01 at approximately 11:00 a.m., London time, on the applicable LIBOR Interest Determination Date, or if Reuters LIBOR01 is not available on such date, the Calculation Agent will obtain such rate from Bloomberg’s page “BBAM.” If such rate does not appear on Reuters LIBOR01 or Bloomberg’s page “BBAM” on such LIBOR Interest Determination Date at approximately 11:00 a.m., London time, then the Calculation Agent will request the principal London office of each of four major banks in the London interbank market, as selected by the Company, to provide a quotation of the rate (expressed as a percentage per annum) offered by it to prime banks in the London interbank market for three-month deposits in U.S. dollars in a principal amount of at least \$1,000,000 at approximately 11:00 a.m., London time, on such LIBOR Interest Determination Date. If at least two such offered quotations are so provided, LIBOR determined on the applicable LIBOR Interest Determination Date calculated by the Calculation Agent will be the arithmetic mean of such quotations. If fewer than two such quotations are so provided, the Company will request each of three major banks in New York City, as selected by the Company, to provide a quotation of the rate (expressed as a percentage per annum), offered by it for loans in U.S. dollars to leading European banks having a three-month maturity in a principal amount of at least \$1,000,000 at approximately 11:00 a.m., New York City time, on such LIBOR Interest Determination Date. If at least two such rates are so provided, LIBOR determined on the applicable LIBOR Interest Determination Date calculated by the Calculation Agent will be the arithmetic mean of such rates. If fewer than two such rates are so provided, then LIBOR determined on the applicable LIBOR Interest Determination Date calculated by the Calculation Agent will be the rate in effect on the applicable LIBOR Interest Determination Date.

“Reuters LIBOR01” means the Capital Markets Report Screen LIBOR01 of Reuters, Inc. (or any successor or similar service or page), for the purpose of displaying the London interbank rates of major banks for U.S. dollars.

Determination of Prime Rate. If the Interest Rate Basis, as specified above, is, or is calculated by reference to, the Prime Rate, unless otherwise specified above, the “Prime Rate” with respect to each Interest Reset Date will be determined by the Calculation Agent as of the first Business Day prior to such Interest Reset Date (a “Prime Interest Determination Date”) and shall be the rate set forth on such date as published in H.15(519) under the caption “Bank Prime Loan,” or if not so published prior to 3:00 p.m., New York City time, on the applicable Calculation Date pertaining to such Prime Interest Determination Date, then the Prime Rate. will be as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate under the caption “Bank Prime Loan,” or if not so published prior to 3:00 p.m., New York City time, on the applicable Calculation Date pertaining to such Prime Interest Determination Date, then the Prime Rate will be determined by the Calculation Agent as the arithmetic mean of the rates of interest publicly announced by each bank that appears on the Reuters Screen US PRIME 1 Page (as defined below) as the particular

bank's prime rate or base lending rate as of 11:00 a.m., New York City time, on the applicable Prime Interest Determination Date. If fewer than four such rates are so published by 3:00 p.m., New York City time, on the applicable Calculation Date as shown on the Reuters Screen US PRIME 1 Page for the Prime Interest Determination Date, the Prime Rate will be determined by the Calculation Agent as the arithmetic mean of the prime rates or base lending rates quoted on the basis of the actual number of days in the year divided by a 360-day year as of the close of business on the applicable Prime Interest Determination Date by three major banks, which may include an agent of the Company or such agent's affiliates, in the City of New York selected by the Company. However, if the banks selected by the Company are not quoting as mentioned in the preceding sentence, the Prime Rate will be the Prime Rate in effect on the applicable Prime Interest Determination Date.

"Reuters Screen US PRIME 1 Page" means the display on the Reuter Money 3000 Service or any successor service on the "US PRIME 1 Page" or other page as may replace US PRIME 1 Page on that service for the purpose of displaying prime rates or base lending rates of major United States banks).

Determination of Treasury Rate. If the Interest Rate Basis, as specified above, is, or is calculated by reference to the Treasury Rate, unless otherwise specified above, the "Treasury Rate" for each Interest Reset Date will be the rate from the auction held on the applicable Interest Determination Date (the "Auction") of direct obligations of the United States ("Treasury Bills") having the Index Maturity, as specified above, as published under the caption "INVESTMENT RATE" on the display on Reuters, Inc. or any successor or similar service on page USAUCTION 10 or any other page as may replace page USAUCTION 10 on that service ("Reuters Page USAUCTION 10") or page USAUCTION 11 on that service ("Reuters Page USAUCTION 11"), or, if the rate is not so published by 3:00 p.m., New York City time, on the applicable Calculation Date pertaining to such Treasury Rate Determination Date (as defined below), the Bond Equivalent Yield of the rate for the applicable Treasury Bills as published in H.15 Daily Update, or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "U.S. Government Securities/Treasury Bills/Auction High," or, if the rate is not so published by 3:00 p.m., New York City time, on the applicable Calculation Date pertaining to such Treasury Rate Determination Date, the Bond Equivalent Yield of the auction rate of the applicable Treasury Bills announced by the United States Department of the Treasury, or, if the rate is not announced by the United States Department of the Treasury, or if the Auction is not held, the Bond Equivalent Yield of the rate on the applicable Treasury Rate Determination Date of Treasury Bills having the Index Maturity specified above, published in H.15(519) under the caption "U.S. Government Securities/Treasury Bills/Secondary Market," or, if the rate is not so published by 3:00 p.m., New York City time, on the applicable Calculation Date pertaining to such Treasury Rate Determination Date, the rate on the applicable Treasury Rate Determination Date of the applicable Treasury Bills as published in H.15 Daily Update, or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "U.S. Government Securities/Treasury Bills/Secondary Market." In the event that the results of the auction of Treasury Bills having the applicable Index Maturity specified above are not published or reported, as provided above, by 3:00 p.m., New York City time, on the applicable Calculation Date or if no such auction is held on such Treasury Rate Determination

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Date, then the Treasury Rate on the applicable Treasury Rate Determination Date shall be calculated by the Calculation Agent and shall be the Bond Equivalent Yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 p.m., New York City time, on the applicable Treasury Rate Determination Date, of three primary United States government securities dealers, which may include the agent or its affiliates, selected by the Company, for the issue of Treasury Bills with a remaining maturity closest to the Index Maturity specified above; *provided, however*, that if the dealers selected as aforesaid by the Company are not quoting as mentioned in this sentence, the Treasury Rate will be the Treasury Rate in effect on the applicable Treasury Rate Determination Date.

The “Treasury Rate Determination Date” for any Interest Reset Date will be the day of the week in which such Interest Reset Date falls on which Treasury Bills would normally be auctioned. Treasury Bills are normally sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is normally held on the following Tuesday, except such auction may be held on the preceding Friday. If, as the result of a legal holiday, an auction is so held on the preceding Friday, such Friday will be the Treasury Rate Determination Date pertaining to the Interest Reset Date occurring in the next succeeding week.

“Bond Equivalent Yield” means a yield calculated in accordance with the following formula and expressed as a percentage:

$$\text{Bond Equivalent Yield} = \frac{D \times N}{360 - (D \times M)} \times 100$$

where “D” refers to the applicable per annum rate for Treasury Bills quoted on a bank discount basis and expressed as a decimal; “N” refers to 365 or 366, as the case may be, and “M” refers to the actual number of days in the interest period for which interest is being calculated.

Provisions Applicable To Both Fixed Rate Notes And Floating Rate Notes:

The interest so payable on any Interest Payment Date will, subject to certain exceptions in the Indenture hereinafter referred to, be paid to the person in whose name this Note is registered at the close of business on the Regular Record Date (as defined below) immediately preceding such Interest Payment Date or, if the Interest Payment Date is the Maturity Date or the date of earlier redemption or repayment, to the person in whose name this Note is registered at the close of business on the Maturity Date or such earlier date of redemption or repayment; *provided, however*, that if the Original Issue Date is between a Regular Record Date and an Interest Payment Date or on an Interest Payment Date, interest for the period from and including the Original Issue Date to, but excluding, the Interest Payment Date relating to such Regular Record Date shall be paid on the next succeeding Interest Payment Date to the person in whose name this Note is registered on the close of business on the Regular Record Date preceding such Interest Payment Date. If this Note bears interest at a Fixed Rate, as specified above, unless otherwise specified above, the “Regular Record Date” with respect to any Interest Payment Date shall be the 20th day of January and the 20th day of July, whether or not a Business Day,

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immediately preceding the related Interest Payment Date. If this Note bears interest at a Floating Rate, as specified above, the “Regular Record Date” with respect to any Interest Payment Date shall be the fifteenth calendar day next preceding such Interest Payment Date, whether or not such date shall be a Business Day.

Payment of principal, premium, if any, and interest in respect of this Note due on the Maturity Date or any earlier redemption or repayment date will be made in immediately available funds upon presentation and surrender of this Note; *provided, however,* that if a Specified Currency is specified above and such payment is to be made in such Specified Currency in accordance with the provisions set forth below, such payment will be made by wire transfer of immediately available funds to an account with a bank designated by the Holder hereof at least 15 calendar days prior to the Maturity Date or such earlier redemption or repayment date, as the case may be, *provided that* such bank has appropriate facilities therefor and that this Note is presented and surrendered at the Place of Payment specified above in time for the Trustee to make such payment in such funds in accordance with its normal procedures. Payment of interest due on any Interest Payment Date, other than the Maturity Date or any earlier redemption or repayment date, will be made at the Place of Payment specified above.

Whenever in this Note or in the Indenture there is a reference, in any context, to the payment of the principal of, or interest, if any, on, or in respect of, the Notes, such payment shall be deemed to include the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect of such payment pursuant to the provisions hereof or thereof and express mention of the payment of Additional Amounts (if applicable) in any provision hereof or thereof shall not be construed as excluding Additional Amounts in those provisions hereof where such express mention is not made.

The Company is obligated to make payment of principal, premium, if any, and interest in respect of this Note in United States dollars or, if a Specified Currency is indicated above, in such Specified Currency (or, if such Specified Currency is not at the time of such payment legal tender for the payment of public and private debts of the country issuing such currency or, in the case of the Euro, in the member states of the European Union that have adopted the single currency in accordance with the Treaty Establishing the European Community, as amended by the Treaty on European Union, such other currency which is then such legal tender in such country or in the adopting member states of the European Union, as the case may be). If a Specified Currency is specified above, except as otherwise provided below, any such amounts so payable by the Company will be converted by a New York clearing house bank designated by the Company (the “Exchange Rate Agent”) into United States dollars for payment to the Holder of this Note.

If a Specified Currency is specified above, the Holder of this Note may elect to receive any amount payable hereunder in such Specified Currency. If the Holder of this Note shall not have duly made an election to receive all or a specified portion of any payment of principal, premium, if any, and/or interest in respect of this Note in such Specified Currency, any United States dollar amount to be received by the Holder of this Note will be based on the highest bid quotation in the City of New York received by the Exchange Rate Agent at approximately 11:00

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a.m., New York City time, on the second Business Day preceding the applicable payment date from three recognized foreign exchange dealers (one of whom may be the Exchange Rate Agent) selected by the Exchange Rate Agent and approved by the Company for the purchase by the quoting dealer of the Specified Currency for United States dollars for settlement on such payment date in the aggregate amount of the Specified Currency payable to all Holders of Notes scheduled to receive United States dollar payments and at which the applicable dealer commits to execute a contract. All currency exchange costs will be borne by the Holder of this Note by deductions from such payments. If three such bid quotations are not available, payments on this Note will be made in the Specified Currency.

If a Specified Currency is specified above, the Holder of this Note may elect to receive all or a specified portion of any payment of principal, premium, if any, and/or interest in respect of this Note in such Specified Currency by submitting a written request for such payment to the Trustee at the Place of Payment on or prior to the applicable Record Date or at least 15 calendar days prior to the Maturity Date (or any earlier redemption or repayment date), as the case may be. Such written request may be mailed or hand delivered or sent by facsimile transmission. The Holder of this Note may elect to receive all or a specified portion of all future payments in the Specified Currency in respect of such principal, premium, if any, and/or interest and need not file a separate election for each payment. Such election will remain in effect until revoked by written notice to the Trustee, but written notice of any such revocation must be received by the Trustee on or prior to the applicable Record Date or at least 15 calendar days prior to the Maturity Date (or any earlier redemption or repayment date), as the case may be.

If a Specified Currency is specified above and the Holder of this Note shall have duly made an election to receive all or a specified portion of any payment of principal, premium, if any, and/or interest in respect of this Note in such Specified Currency, but such Specified Currency is not available for such payment due to the imposition of exchange controls or other circumstances beyond the control of the Company, the Company will be entitled to satisfy its obligations to the Holder of this Note by making such payment in United States dollars on the basis of the Market Exchange Rate (as defined below) determined by the Exchange Rate Agent on the second Business Day prior to such payment date or, if such Market Exchange Rate is not then available, on the basis of the most recently available Market Exchange Rate on or before the date on which such payment is due. The “Market Exchange Rate” for the Specified Currency means the noon dollar buying rate in the City of New York for cable transfers of the Specified Currency as certified for customs purposes (or, if not so certified, as otherwise determined) by the Federal Reserve Bank of New York. Any payment made in United States dollars under such circumstances shall not constitute an Event of Default (as defined in the Indenture).

All determinations referred to above made by the Exchange Rate Agent shall be at its sole discretion and shall, in the absence of manifest error, be conclusive for all purposes and binding on the Holder of this Note.

In case an Event of Default (as defined in the Indenture) with respect to Notes of this series shall occur and be continuing, the principal amount (or, if the Note is an Original Issue Discount Note, such lesser portion of the principal amount as may be applicable) of the Notes of

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this series may be declared due and payable, and, with respect to certain Events of Default, shall automatically become due and payable, in each case in the manner and with the effect provided in the Indenture. If this Note is an Original Issue Discount Note, in the event of an acceleration of the Maturity Date hereof, the amount payable to the Holder of this Note upon such acceleration will be determined by this Note but will be an amount less than the amount payable at the Maturity Date of this Note.

The Indenture permits, with certain exceptions as therein provided, the modification of the rights and obligations of the Company and the Guarantor and the rights of the Holders of the Securities (as defined in the Indenture) of each series to be affected by such modification under the Indenture at any time by the Company and the Guarantor with the consent of the holders of not less than a majority in aggregate principal amount of the Outstanding Securities (as defined in the Indenture) of each series to be affected by such modification. The Indenture also contains provisions permitting the Holders of specified percentages in aggregate principal amount of the Outstanding Securities of each series, on behalf of the Holders of all Securities of such series, to waive compliance by the Company and the Guarantor with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences.

This Note is issuable only in registered form without coupons in minimum denominations of \$2,000 and integral multiples of \$1,000 in excess thereof or other Authorized Denomination specified above.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Note may be registered in the Security Register of this series upon surrender of this Note for registration of transfer at the Place of Payment specified above, duly endorsed by or accompanied by, a written instrument of transfer in form satisfactory to the Company and the Trustee, duly executed by the Holder hereof or his attorney duly authorized in writing, and thereupon a new Note or Notes of this series of Authorized Denomination and for the same aggregate principal amount, with the Guarantee endorsed thereon, will be issued to the designated transferee or transferees.

No service charge shall be made for any such registration of transfer, exchange or redemption of the Notes, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

The Trustee, and any agent of the Company or the Trustee may treat the person in whose name this Note is registered in the Security Register as the owner of this Note for all purposes (other than for the determination of any Additional Amounts payable) and neither the Company nor the Trustee nor any such agent shall be affected by any notice to the contrary.

If so specified above, this Note will be redeemable at the Company's option on the date or dates specified prior to the Maturity Date at a price or prices, each as specified above, together with accrued interest to the date of redemption. This Note will not be subject to any sinking fund. If so redeemable, the Company may redeem this Note either in whole or from time to time in part, upon not less than 30, nor more than 60, days' notice before the date of redemption. If less

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than all of the Notes with like tenor and terms are to be redeemed, the Notes to be redeemed shall be selected by the Trustee by such method as the Trustee shall deem fair and appropriate.

If so specified above, this Note will be subject to redemption at the option of the Company, in whole or in part, at any time prior to the Maturity Date, at a redemption price equal to the greater of (i) 100% of the principal amount of this Note to be redeemed, and (ii) as determined by the Quotation Agent (as defined below), the sum of the present values of the remaining scheduled payments of principal and interest on this Note to be redeemed (exclusive of interest accrued to the date of redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below) plus 25 basis points, plus accrued interest on the principal amount redeemed to, but not including, the date of redemption.

If any redemption date falls on a day that is not a Business Day, the related payment of the redemption price and interest will be made on the next Business Day as if it were made on the date such payment was due, and no interest will accrue on the amounts so payable for the period from and after such date to the next Business Day.

“Comparable Treasury Issue” means the U.S. Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes.

“Comparable Treasury Price” means, with respect to any redemption date, (i) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (ii) if fewer than five such Reference Treasury Dealer Quotations are obtained by the Quotation Agent, the average of all such quotations.

“Quotation Agent” means the Reference Treasury Dealer appointed by the Company.

“Reference Treasury Dealer” means (1) each of J.P. Morgan Securities LLC and Wells Fargo Securities, LLC (and their respective successors), (2) one Primary Treasury Dealer (as defined herein) selected by each of MUFG Securities Americas Inc. and U.S. Bancorp Investments, Inc. (or their respective successors) and (3) two other nationally recognized investment banking firms that are Primary Treasury Dealers specified from time to time by the Company; provided, however, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in New York City (a “Primary Treasury Dealer”), the Company shall substitute therefor another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Quotation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Quotation Agent by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

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“Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield-to-maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Notice of any redemption will be delivered at least 30 days but not more than 60 days before the redemption date to the Holder hereof at its address as such address shall appear in the Security Register of the Company, except that redemption notices may be provided more than 60 days prior to the redemption date if the notice is issued in connection with the defeasance or discharge of the Notes and/or the Indenture. Unless the Company defaults in the payment of the redemption price on and after the redemption date, interest will cease to accrue on the principal amount of this Note called for redemption. Notwithstanding anything to the contrary in the foregoing, notice of any redemption to the Holder hereof may, in the Company’s discretion, be subject to one or more conditions precedent, including completion of a corporate transaction. In such event, the related notice of redemption will describe each such condition and, if applicable, will state that, in the Company’s discretion, the date of redemption may be delayed until such time as any or all such conditions shall be satisfied or waived, or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied or waived by the date of redemption, or by the date of redemption as so delayed.

Subject to Section 403 of the Indenture, if an HDI Change of Control Triggering Event (as defined below) occurs, unless the Company has exercised its option to redeem this Note as described above, the Company will be required to make an offer (the “Change of Control Offer”) to each Holder of the Notes to repurchase all or any part (equal to \$2,000 or an integral multiple of \$1,000 in excess thereof) of such Holder’s Notes on the terms set forth herein. In the Change of Control Offer, the Company will be required to offer payment in cash equal to 101% of the aggregate principal amount of Notes repurchased, plus accrued and unpaid interest, if any, on the Notes repurchased to the date of repurchase (the “Change of Control Payment”).

Subject to Section 403 of the Indenture, within 30 days following any HDI Change of Control Triggering Event or, at the Company’s option, prior to any HDI Change of Control (as defined below), but after public announcement by HDI (as defined below) of the transaction that constitutes, or would constitute upon consummation thereof, an HDI Change of Control, a notice will be delivered to Holders of the Notes describing the transaction that constitutes, or would constitute upon consummation thereof, the HDI Change of Control Triggering Event and offering to repurchase such Notes on the date specified in the notice. Such date will be no earlier than 30 days and no later than 60 days from the date such notice is delivered, other than as may be required by law (the “Change of Control Payment Date”). The notice will, if delivered prior to the date of consummation of the HDI Change of Control, state that the offer to purchase is conditioned on the HDI Change of Control Triggering Event occurring on or prior to the Change of Control Payment Date.

If any Change of Control Payment Date falls on a day that is not a Business Day, the related payment of the Change of Control Payment will be made on the next Business Day as if it

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were made on the date such payment was due, and no interest will accrue on the amounts so payable for the period from and after such date to the next Business Day.

On the Change of Control Payment Date, the Company will, to the extent lawful, (i) accept for payment all Notes or portions of Notes properly tendered and not validly withdrawn pursuant to the Change of Control Offer; (ii) deposit with the paying agent an amount equal to the Change of Control Payment in respect of all such Notes or portions of Notes properly tendered and not validly withdrawn; and (iii) deliver or cause to be delivered to the Trustee such Notes properly accepted together with a Company Officers' Certificate (as defined in the Indenture) stating the aggregate principal amount of such Notes or portions of Notes being repurchased.

The Company will not be required to comply with the obligations relating to repurchasing the Notes if a third-party instead satisfies them.

The Company must comply with the requirements of Rule 14e-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and any other securities laws and regulations applicable to the repurchase of the Notes. To the extent that the provisions of any such securities laws or regulations conflict with the Change of Control Offer provisions of the Notes, the Company will comply with those securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control Offer provisions of the Notes by virtue of any such compliance.

If Holders of not less than 95% in aggregate principal amount of the outstanding Notes properly tender and do not validly withdraw such amount of the Notes in a Change of Control Offer, and the Company, or any third-party making an offer to purchase the Notes in connection with an HDI Change of Control Triggering Event in lieu of the Company, purchase such amount of the Notes properly tendered and not validly withdrawn by such Holders, then the Company will have the right, upon notice described above, given not more than 30 days following the Change of Control Payment Date, to redeem all (but not less than all) of the aggregate principal amount of the Notes that remains outstanding following such purchase at a redemption price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of Holders of record as of the close of business on the relevant Regular Record Date to receive interest on the applicable Interest Payment Date). If the redemption date falls on a day that is not a Business Day, the related payment of the redemption price and interest will be made on the next Business Day as if it were made on the date such payment was due, and no interest will accrue on the amounts so payable for the period from and after such date to the next Business Day.

For purposes of the Change of Control Offer provisions of the Notes, the following terms will be applicable:

"Below Investment Grade Rating Event" means the Notes cease to be rated an Investment Grade Rating by each of the Rating Agencies on any day within the 60-day period after the earlier of (1) the occurrence of an HDI Change of Control and (2) the first public announcement by Harley-Davidson, Inc. ("HDI") of the intention of HDI to effect an HDI

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Change of Control (which 60-day period will be extended for so long as any of the Rating Agencies has publicly announced that it is considering a possible downgrade of the rating of the notes of such series); *provided that* a Below Investment Grade Rating Event otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular HDI Change of Control (and thus shall not be deemed a Below Investment Grade Rating Event for purposes of the definition of HDI Change of Control Triggering Event hereunder) if any of the Rating Agencies making the reduction in rating to which this definition would otherwise apply do not announce or publicly confirm or inform the Trustee in writing at the Company's or its request that the reduction was the result, in whole or in part, of any event or circumstance comprised of or arising as a result of, or in respect of, the applicable HDI Change of Control (whether or not the applicable HDI Change of Control shall have occurred at the time of the Below Investment Grade Rating Event). The Trustee has no obligation to monitor the ratings of the Notes for purposes of determining the occurrence of a Below Investment Grade Rating Event.

“Fitch” means Fitch Ratings, Inc. and its successors.

“HDI Change of Control” means the occurrence of any of the following: (1) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any “person” (as that term is used in Section 13(d)(3) of the Exchange Act), other than HDI or one of its subsidiaries, becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of the Voting Stock of HDI or other Voting Stock into which the Voting Stock of HDI is reclassified, consolidated, exchanged or changed, measured by voting power rather than number of shares; or (2) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation or as a pledge for security purposes only), in one or a series of related transactions, of all or substantially all of the assets of HDI and the assets of the subsidiaries of HDI, taken as a whole, to one or more “persons” (as that term is defined in the Indenture), other than HDI or one of its subsidiaries and other than any such transaction or series of related transactions where holders of Voting Stock of HDI outstanding immediately prior thereto hold voting stock of the transferee person representing a majority of the voting power of the transferee person's voting stock immediately after giving effect thereto. Notwithstanding the foregoing, a transaction will not be deemed to be an HDI Change of Control if (1) HDI becomes a direct or indirect wholly-owned subsidiary of a holding company and (2)(A) the direct or indirect holders of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders of the Voting Stock of HDI immediately prior to that transaction or (B) immediately following that transaction no “person” (as that term is used in Section 13(d)(3) of the Exchange Act) (other than a holding company satisfying the requirements of this sentence) is the beneficial owner, directly or indirectly, of more than 50% of the Voting Stock of such holding company.

“HDI Change of Control Triggering Event” means the occurrence of both an HDI Change of Control and a Below Investment Grade Rating Event. Notwithstanding anything to the contrary, no HDI Change of Control Triggering Event will be deemed to have occurred in

[HDFS Officers' Certificate Pursuant to Sections 102 and 301 of the Indenture]

connection with any particular HDI Change of Control unless and until such HDI Change of Control has actually been consummated.

“Investment Grade Rating” means a rating equal to or higher than Baa3 by Moody’s (or its equivalent under any successor rating category of Moody’s), BBB– by S&P (or its equivalent under any successor rating category of S&P) and BBB– by Fitch (or its equivalent under any successor rating category of Fitch), and the equivalent investment grade credit rating from any replacement Rating Agency or Rating Agencies selected by the Company.

“Moody’s” means Moody’s Investors Service, Inc., a subsidiary of Moody’s Corporation, and its successors.

“Rating Agencies” means (1) each of Moody’s, S&P and Fitch, and (2) if any of Moody’s, S&P or Fitch (or in each case any replacement thereof appointed pursuant to this definition) ceases to rate the Notes or fails to make a rating of the Notes publicly available for reasons outside of the Company’s control, a “nationally recognized statistical rating organization” as defined under Section 3(a)(62) of the Exchange Act selected by the Company as a replacement agency for Moody’s, S&P and/or Fitch, as the case may be; *provided that* the Company shall give notice of any such replacement to the Trustee.

“S&P” means S&P Global Ratings, a division of S&P Global Inc. and its successors.

“Voting Stock” means, with respect to any specified “person” (as that term is used in Section 13(d)(3) of the Exchange Act), as of any date, the capital stock of such person that is at the time entitled to vote generally in the election of the board of directors of such person.

In lieu of Section 1005 of the Indenture, the following covenant shall apply:

Limitation on Liens. The Company and the Guarantor will not, nor will they permit any Subsidiary of the Company or the Guarantor to, issue or assume any Indebtedness secured by a Lien upon any Property (now owned or hereinafter acquired) of the Company or the Guarantor or any such Subsidiary without in any such case effectively providing concurrently with the issuance or assumption of any such Indebtedness that the Notes (together with, if the Company or the Guarantor shall so determine, any other Indebtedness of the Company or the Guarantor or any such Subsidiary ranking equally with the Notes then existing or thereafter created) shall be secured equally and ratably with such Indebtedness. The restrictions set forth in the immediately preceding sentence will not, however, apply if the aggregate amount of Indebtedness issued or assumed by the Company, the Guarantor or such Subsidiaries and so secured by Liens, together with all other Indebtedness of the Company, the Guarantor or such Subsidiaries which (if originally issued or assumed at such time) would otherwise be subject to such restrictions, but not including Indebtedness permitted to be secured under clauses (i) through (xy) of the immediately following paragraph, does not at the time such secured Indebtedness is incurred exceed 15% of the Consolidated Net Tangible Assets.

The restrictions set forth above shall not apply to Indebtedness secured by:

[HDFS Officers’ Certificate Pursuant to Sections 102 and 301 of the Indenture]

(i) Liens existing on the date of the original issuance of the Notes;

(ii) Liens on any Property of any company existing at the time such company becomes a Subsidiary of the Company or the Guarantor, which Liens are not created in contemplation of such company becoming a Subsidiary of the Company or the Guarantor;

(iii) Liens on any Property existing at the time such Property is acquired by the Company, the Guarantor or a Subsidiary of the Company or the Guarantor, or Liens to secure the payment of all or any part of the purchase price of such Property upon the acquisition of such Property by the Company, the Guarantor or a Subsidiary of the Company or the Guarantor or to secure any Indebtedness incurred prior to, at the time of, or within 180 days after, the later of the date of acquisition of such Property and the date such Property is placed in service, for the purpose of financing all or any part of the purchase price thereof, or Liens to secure any Indebtedness incurred for the purpose of financing the cost to the Company, the Guarantor or a Subsidiary of the Company or the Guarantor of improvements to such acquired Property or to secure any Indebtedness incurred for the purpose of financing all or any part of the purchase price of the cost of construction of the Property subject to such Liens;

(iv) Liens securing any Indebtedness of the Company, a Subsidiary of the Company or the Guarantor owing to the Company, the Guarantor or to another Subsidiary of the Company or the Guarantor;

(v) Liens created in connection with a securitization or other asset-based financing;

(vi) Liens with respect to the payment of taxes, assessments or governmental charges in all cases which are not yet due or which are being contested in good faith;

(vii) statutory Liens of landlords and Liens of suppliers, mechanics, carriers, materialmen, warehousemen or workmen and other similar Liens imposed by law created in the ordinary course of business for amounts not yet due or which are being contested in good faith;

(viii) Liens incurred or deposits made in the ordinary course of business in connection with worker's compensation, unemployment insurance or other types of social security benefits or to secure the performance of bids, tenders, sales, contracts (other than for the repayment of borrowed money), surety, appeal and performance bonds;

(ix) Liens arising with respect to zoning restrictions, easements, licenses, reservations, covenants, rights-of-way, utility easements, building restrictions and other similar charges or encumbrances on the use of real property which do not interfere with the ordinary conduct of the business of the Company, the Guarantor or any of their respective Subsidiaries;

(x) Liens of attachment or judgment with respect to judgments, writs or warrants of attachment, or similar process against the Company, the Guarantor or any of their respective Subsidiaries;

[HDFS Officers' Certificate Pursuant to Sections 102 and 301 of the Indenture]

(xi) Liens arising from leases, subleases or licenses granted to others which do not interfere in any material respect with the business of the Company, the Guarantor or any of their respective Subsidiaries;

(xii) any interest or title of the lessor in the Property subject to any operating lease (as determined in accordance with GAAP as in effect as of the date of the Indenture without giving effect to any subsequent change thereto) entered into by the Company, the Guarantor or any of their respective Subsidiaries in the ordinary course of business;

(xiii) Liens, if any, in connection with any sale/leaseback transaction;

(xiv) Liens on assets pledged in respect of Indebtedness that has been defeased in accordance with the provisions thereof through the deposit of cash, cash equivalents or marketable securities (it being understood that cash collateral shall be deemed to include cash deposited with a trustee with respect to third party indebtedness); and

(xv) any extension, renewal or replacement (or successive extensions, renewals or replacements) in whole or in part of any Lien referred to in the foregoing clauses (i) - (xiv); provided, however, that such new Lien is limited to the Property which was subject to the prior Lien immediately before such extension, renewal or replacement, and provided, further, that the principal amount of Indebtedness secured by the prior Lien immediately before such extension, renewal or replacement is not increased.

The Company may “reopen” a previously issued tranche of Notes and issue additional Notes of such tranche or establish additional terms of such tranche or issue notes with the same terms as previously issued Notes (except for the Original Issue Date, Issue Price and, if applicable, the initial Interest Payment Date).

The Company may at any time purchase this Note at any price in the open market or otherwise. Notes so purchased by the Company may be held or resold or, at the discretion of the Company, may be surrendered to the Trustee for cancellation.

For the avoidance of doubt, Article 4 of the Indenture, including without limitation Section 403 thereof, shall apply to the Notes.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligations of the Company and the Guarantor, which are absolute and unconditional, to pay the principal of, premium, if any, and interest on this Note, at the times, place and rate, and in the coin or currency, herein and in the Indenture prescribed.

This Note shall be governed by and construed in accordance with the laws of the State of New York.

By acceptance of this Note, the Holder hereof agrees to be bound by the provisions of the Indenture. Terms used herein which are defined in the Indenture shall have the respective meanings assigned thereto in the Indenture. This Note shall not be valid or become obligatory for

[HDFS Officers' Certificate Pursuant to Sections 102 and 301 of the Indenture]

any purpose until the certificate of authentication hereon shall have been signed by or on behalf of the Trustee under the Indenture.

[HDFS Officers' Certificate Pursuant to Sections 102 and 301 of the Indenture]

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed, manually or by facsimile by an authorized signatory.

Dated: February 4, 2019

HARLEY-DAVIDSON FINANCIAL SERVICES, INC.

By: /s/ J. Darrell Thomas
Name: James Darrell Thomas
Title: Vice President, Chief Financial Officer and Treasurer

Attest:

By: /s/ Perry A. Glassgow
Name: Perry Glassgow
Title: Vice President

Dated:

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated herein and referred to in the within-mentioned Indenture.

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,
as Trustee

By: _____
Authorized Signatory

[HDFS Officers' Certificate Pursuant to Sections 102 and 301 of the Indenture]

GUARANTEE

For value received, undersigned hereby fully, irrevocably and unconditionally guarantees, pursuant to the terms of the Guarantee contained in Article Fourteen of the Indenture, to the Holder of this Note and to the Trustee, on behalf of the Holder, the due and punctual payment of the principal of, and any premium, interest and any Additional Amounts on, this Note, when and as the same shall become due and payable, whether at the stated maturity, by declaration of acceleration, call for redemption or otherwise, in accordance with the terms of this Note and the Indenture. This Guarantee will not be valid or obligatory for any purpose until the Trustee duly executes the certificate of authentication on the Note upon which this Guarantee is endorsed.

Dated: February 4, 2019

HARLEY-DAVIDSON CREDIT CORP.,
a Nevada corporation

By: /s/ J. Darrell Thomas
Name: James Darrell Thomas
Title: Vice President, Chief Financial Officer and Treasurer

Attest:

By: /s/ Perry A. Glassgow
Name: Perry Glassgow
Title: Vice President

[HDFS Officers' Certificate Pursuant to Sections 102 and 301 of the Indenture]

ABBREVIATIONS

The following abbreviations, when used in the inscription on this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common

UNIF GIFT MIN ACT - _____ Custodian _____
(Cust) (Minor)

TEN ENT - as tenants by the entirety

under Uniform Gifts to Minors Act

JT TEN - as joint tenants with right of
survivorship and not as tenant
in common

(State)

Additional abbreviations may also be used though not in the above list.

[HDFS Officers' Certificate Pursuant to Sections 102 and 301 of the Indenture]

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto:

(Please insert social security or other identifying number of assignee)

(Name and address of assignee, including zip code,
must be printed or typewritten)

the within Note, and all rights thereunder, hereby irrevocably constituting and appointing
_____ attorney to transfer said Note on the books of the within Company, with full
power of substitution in the premises.

Dated:

NOTICE: The signature to this assignment must correspond with the name as it
appears upon the within Note in every particular, without alteration or enlargement
or any change whatever and must be guaranteed.

SIGNATURE(S) GUARANTEED:

THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS,
STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN
APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM) PURSUANT TO SEC RULE 17Ad-15.

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SCHEDULE OF INCREASES OR DECREASES IN GLOBAL NOTE

The following increases or decreases in this Global Note have been made

Date of Exchange	Amount of increase in Principal Amount of this Global Note	Amount of decrease in Principal Amount of this Global Note	Principal Amount of this Global Note following each decrease or increase	Signature of authorized signatory of Trustee
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[HDFS Officers' Certificate Pursuant to Sections 102 and 301 of the Indenture]

HARLEY-DAVIDSON FINANCIAL SERVICES, INC.
4.050% MEDIUM-TERM NOTES DUE 2022

Fully and Unconditionally Guaranteed
by Harley-Davidson Credit Corp.

THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITORY (AS DEFINED IN THE INDENTURE) OR A NOMINEE THEREOF. THIS GLOBAL SECURITY IS EXCHANGEABLE FOR SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITORY OR ITS NOMINEE ONLY IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE AND, UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR SECURITIES IN DEFINITIVE FORM, THIS GLOBAL SECURITY MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITORY TO A NOMINEE OF THE DEPOSITORY, OR BY A NOMINEE OF THE DEPOSITORY TO THE DEPOSITORY OR ANOTHER NOMINEE OF THE DEPOSITORY, OR BY THE DEPOSITORY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITORY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITORY.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (55 WATER STREET, NEW YORK, NEW YORK) ("DTC"), TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS MAY BE REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR SUCH OTHER ENTITY AS MAY BE REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION, AND, ACCORDINGLY, NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY OTHER APPLICABLE JURISDICTION. BY ITS ACCEPTANCE HEREOF, THE HOLDER OF THIS SECURITY OR ANY INTEREST OR PARTICIPATION HEREIN (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT), OR (B) IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, AND (2) AGREES TO OFFER, SELL OR OTHERWISE TRANSFER

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SUCH SECURITY, PRIOR TO THE DATE (THE “RESALE RESTRICTION TERMINATION DATE”) WHICH IS ONE YEAR AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE COMPANY OR ANY AFFILIATE THEREOF WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY) ONLY (A) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, (B) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHICH NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, (E) TO AN ACCREDITED INVESTOR WITHIN THE MEANING OF SUBPARAGRAPH (a)(1), (2), (3) OR (7) OF RULE 501 OF REGULATION D UNDER THE SECURITIES ACT THAT IS ACQUIRING THIS SECURITY OR ANY INTEREST OR PARTICIPATION HEREIN FOR ITS OWN ACCOUNT, OR FOR THE ACCOUNT OF SUCH AN ACCREDITED INVESTOR, FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TO, OR FOR OFFER OR SALE IN CONNECTION WITH, ANY DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT OR (F) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY’S AND THE TRUSTEE’S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (i) PURSUANT TO CLAUSES (E) OR (F) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, AND (ii) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY BE COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

THE HOLDER OF THIS SECURITY WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE SECURITY EVIDENCED HEREBY OF THE RESALE RESTRICTIONS SET FORTH ABOVE.

THE RIGHTS ATTACHING TO THIS REGULATION S TEMPORARY GLOBAL NOTE, AND THE CONDITIONS AND PROCEDURES GOVERNING ITS EXCHANGE FOR DEFINITIVE NOTES, ARE AS SPECIFIED IN THE INDENTURE (AS DEFINED HEREIN). NEITHER THE HOLDER NOR THE BENEFICIAL OWNERS OF THIS REGULATION S TEMPORARY GLOBAL NOTE SHALL BE ENTITLED TO RECEIVE PAYMENT OF INTEREST HEREON.

PRIOR TO EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), THIS SECURITY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE

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UNITED STATES (AS DEFINED IN REGULATION S) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S), UNLESS SUCH TRANSACTION IS EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT.

HARLEY-DAVIDSON FINANCIAL SERVICES, INC.
4.050% MEDIUM-TERM NOTES DUE 2022

Fully and Unconditionally Guaranteed
by Harley-Davidson Credit Corp.

No. S001 Principal Amount \$88,445,000
CUSIP No. U24652AP1 as revised by the Schedule of
ISIN USU24652AP13 Increases and Decreases in Global
Common Code No. 190254453 Note attached hereto

Issue Price: 99.913%

Maturity Date: February 4, 2022

Original Issue Date: February 4, 2019

Index Maturity:

☐ Original Issue Discount Note

Total Amount of OID:

Yield to Maturity: %

Initial Accrual Period OID:

☒ Fixed Rate

Interest Rate: 4.050%

☐ Floating Rate

Interest Rate Basis:

☐ CD Rate

Specified Currency (if other than U.S. dollars): N/A

☐ CMT Rate

☐ CMT Reuters Page FRBCMT:

☐ CMT Reuters Page FEDCMT:

Option To Receive Payments In Specified Currency (non-U.S. dollar denominated Note): N/A

☐ Commercial Paper Rate

☐ Federal Funds Rate

☐ LIBOR

Authorized Denomination: Minimum denominations of \$2,000 and integral multiples of \$1,000 in excess thereof

___ Prime Rate

Place of Payment (if other than as set forth in the Indenture): N/A

___ Treasury Rate

___ Other

Spread (Plus Or Minus):

Initial Redemption Date:

Initial Redemption Percentage:

Annual Redemption Percentage Reduction:

Repayment Date:

Spread Multiplier: %

Renewable: ☐ Yes ☐ No

Extendible: ☐ Yes ☐ No

Interest Category:
☐ Regular Floating Rate Note

Final Maturity Date:

☐ Floating Rate/Fixed Rate Note
Fixed Rate Commencement Date:

Fixed Interest Rate: %

☐ Inverse Floating Rate Note

Initial Interest Rate:

Initial Interest Reset Date:

Maximum Interest Rate: %

Interest Reset Dates:

Minimum Interest Rate: %

Interest Payment Dates (in the case of a Floating Rate Note and, in the case of a Fixed Rate Note, other than as set forth below): N/A

Regular Record Dates (if other than as set forth below): N/A

Interest Determination Dates (if other than as set forth below): N/A

Additional Amounts applicable for Company:
☐ Yes
☒ No

Additional Amounts applicable for Guarantor:
☐ Yes
☒ No

Addendum Attached

Other Provisions: The optional redemption provisions described below shall apply to the Note.

☐ Yes

☒ No

Authorized Denomination (only if non-U.S. dollar denominated Note): N/A

Calculation Agent (if other than the Trustee): N/A

Interest Payment Period: N/A

Harley-Davidson Financial Services, Inc., a corporation duly organized under the laws of the State of Delaware (herein called the “Company,” which term includes any successor corporation under the Indenture hereinafter referred to), for value received, hereby promises to pay to Cede & Co., or registered assigns, the Principal Amount specified above, as revised by the Schedule of Increases and Decreases in the Global Note attached hereto, on the Maturity Date specified above and to pay to the registered holder of this Note (the “Holder”) interest on said Principal Amount at a rate per annum specified above and upon the terms provided below under either the heading “Provisions Applicable to Fixed Rate Notes Only” or “Provisions Applicable to Floating Rate Notes Only.”

This Note is one of the Company’s duly authorized issue of notes in the series titled 4.050% Medium-Term Notes due 2022 (herein referred to as the “Notes”), all issued or to be issued under an indenture, dated as of March 4, 2011 (as may be supplemented from time to time, the “Indenture”), among the Company, Harley-Davidson Credit Corp. (the “Guarantor”) and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee,” which term includes any successor trustee under the Indenture), to which Indenture reference is hereby made for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Trustee, the Company, the Guarantor and the Holders of the Notes and of the terms upon which the Notes are, and are to be, authenticated and delivered. The Notes of this series are limited (except as otherwise provided in the Indenture) to the aggregate principal amount established from time to time by the Company Board of Directors. The Notes of this series may be issued at various times with different maturity dates and different principal repayment provisions, may bear interest at different rates and may otherwise vary, all as provided in the Indenture. The Notes of this series may be subject to redemption upon notice and in accordance with the provisions of this Note and the Indenture. The Company and the Guarantor may defease the Notes of this series in accordance with the provisions of the Indenture.

To secure the due and punctual payment of principal, any premium, any interest and Additional Amounts (as defined in the Indenture) on this Note by the Company under the Indenture, when and as the same shall become due and payable, whether at the Maturity Date, by declaration of acceleration, call for redemption or otherwise, the Guarantor has unconditionally

[HDFS Officers’ Certificate Pursuant to Sections 102 and 301 of the Indenture]

guaranteed this Note pursuant to the terms of the Guarantee endorsed hereon and in Section 1401 of the Indenture (the “Guarantee”).

As used herein, the term “Business Day” means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in the City of New York; *provided, however*, that if a Specified Currency is specified above, the day is also not a day on which commercial banks are authorized or required by law, regulation or executive order to close in the Principal Financial Center (as defined below) of the country issuing such Specified Currency or, if such Specified Currency is the Euro, the day is also a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open; *provided further* that if LIBOR is indicated above to be an applicable Interest Rate Basis, the day is also a London Banking Day (as defined below).

“Principal Financial Center” means, unless otherwise provided in this Note, the capital city of the country issuing the Specified Currency; except that with respect to United States dollars, Australian dollars, Canadian dollars, South African rand and Swiss francs, the “Principal Financial Center” will be the City of New York, Sydney and (solely in the case of the Specified Currency) Melbourne, Toronto, Johannesburg and Zurich, respectively.

“London Banking Day” means a day on which commercial banks are open for business, including dealings in U.S. dollars, in London.

Provisions Applicable To Fixed Rate Notes Only:

If the “Fixed Rate” line above is checked, unless otherwise specified above, the Company will pay interest semiannually on February 4 and August 4 of each year (each such date fixed for the payment of interest, an “Interest Payment Date”) commencing on August 4, 2019, and ending on the Maturity Date or upon earlier redemption or repayment to the person to whom principal is payable. Interest shall accrue from the Original Issue Date, or from the most recent Interest Payment Date to which interest has been paid or duly provided for on this Note to, but excluding, the next following Interest Payment Date, Maturity Date, or earlier date of redemption or repayment, as the case may be. Interest on Fixed Rate Notes will be computed by the Company on the basis of a 360-day year consisting of twelve 30-day months.

If any Interest Payment Date or the Maturity Date (or the date of earlier redemption or repayment) of this Fixed Rate Note falls on a day that is not a Business Day, the payment will be made on the next Business Day as if it were made on the date such payment was due, and no interest will accrue on the amount so payable for the period from and after such Interest Payment Date or the Maturity Date (or the date of earlier redemption or repayment), as the case may be.

Provisions Applicable To Floating Rate Notes Only:

If the “Floating Rate” line above is checked, the Company will pay interest on the Interest Payment Dates shown specified above at the Initial Interest Rate specified above until the first Interest Reset Date specified above following the Original Issue Date specified above

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and thereafter at a rate determined in accordance with the provisions hereinafter set forth under the headings “Determination of CD Rate,” “Determination of CMT Rate,” “Determination of Commercial Paper Rate,” “Determination of Federal Funds Rate,” “Determination of LIBOR,” “Determination of Prime Rate” or “Determination of Treasury Rate,” depending on whether the Interest Rate Basis is the CD Rate, the CMT Rate, the Commercial Paper Rate, the Federal Funds Rate, LIBOR, the Prime Rate, the Treasury Rate or other Interest Rate Basis.

An interest payment shall be the amount of interest accrued from and including the Original Issue Date, or from and including the last Interest Payment Date to which interest has been paid, to, but excluding, the next following Interest Payment Date, Maturity Date, or date of earlier redemption or repayment, as the case may be (an “Interest Period”). Notwithstanding any provision herein to the contrary, the interest rate hereon shall not be greater than the Maximum Interest Rate, if any, or less than the Minimum Interest Rate, if any, specified above.

If any Interest Payment Date for any Floating Rate Note, other than an Interest Payment Date at maturity, would fall on a day that is not a Business Day, such Interest Payment Date will be the following day that is a Business Day, and interest will continue to accrue to the following Business Day, except that if LIBOR is the applicable Interest Rate Basis, if such Business Day is in the next succeeding calendar month, such Interest Payment Date will be the immediately preceding day that is a Business Day. If the Maturity Date (or date of earlier redemption or repayment) of any Floating Rate Note would fall on a day that is not a Business Day, the payment of interest and principal (and premium, if any) may be made on the next succeeding Business Day, and no interest on such payment will accrue for the period from and after the Maturity Date (or the date of earlier redemption or repayment).

Commencing with the first Interest Reset Date specified above following the Original Issue Date, the rate at which interest on this Note is payable shall be adjusted daily, weekly, monthly, quarterly, semi-annually or annually as specified above under “Interest Reset Dates.”

The interest rate borne by this Note will be determined as follows:

(i) Unless the Interest Category of this Note is specified above as a “Floating Rate/Fixed Rate Note” or an “Inverse Floating Rate Note” or in the event either “Other Provisions” or an Addendum hereto applies, in each case, relating to a different interest rate formula, this Note shall be designated as a “Regular Floating Rate Note” and, except as set forth below or specified above under “Other Provisions” or in an Addendum hereto, shall bear interest at the rate determined by reference to the applicable Interest Rate Basis or Bases (a) plus or minus the applicable Spread, if any, and/or (b) multiplied by the applicable Spread Multiplier, if any; in each case as specified above. Commencing on the Initial Interest Reset Date, the rate at which interest on this Note shall be payable shall be reset as of each Interest Reset Date specified above; *provided, however*, that the interest rate in effect for the period, if any, from the Original Issue Date to the Initial Interest Reset Date shall be the Initial Interest Rate.

(ii) If the Interest Category of this Note is specified above as a “Floating Rate/Fixed Rate Note” then, except as set forth below or specified above under “Other Provisions” or in an Addendum hereto, this Note shall bear interest at the rate determined by reference to the

applicable Interest Rate Basis or Bases (a) plus or minus the applicable Spread, if any, and/or (b) multiplied by the Spread Multiplier, if any, in each case as specified above. Commencing on the Initial Interest Reset Date, the rate at which interest on this Note shall be payable shall be reset as of each Interest Reset Date; *provided, however*, that (y) the interest rate in effect for the period, if any, from the Original Issue Date to the Initial Interest Reset Date shall be the Initial Interest Rate and (z) the interest rate in effect for the period commencing on, and including, the Fixed Rate Commencement Date specified above to the Maturity Date (or date of earlier redemption or repayment) shall be the Fixed Interest Rate specified above or, if no Fixed Interest Rate is so specified, the interest rate in effect on the day immediately preceding the Fixed Rate Commencement Date.

(iii) If the Interest Category of this Note is specified above as an “Inverse Floating Rate Note” then, except as set forth below or specified above under “Other Provisions” or in an Addendum hereto, this Note shall bear interest at (a) the Fixed Interest Rate specified above minus (b) the rate determined by reference to the applicable Interest Rate Basis or Bases:

(x) plus or minus the applicable Spread, if any, and/or

(y) multiplied by the applicable Spread Multiplier, if any, in each case as specified above;

provided, however, that, unless otherwise specified above under “Other Provisions” or in an Addendum hereto, the interest rate hereon shall not be less than zero. Commencing on the Initial Interest Reset Date, the rate at which interest on this Note shall be payable shall be reset on each Interest Reset Date; *provided, however*, that the interest rate in effect for the period, if any, from the Original Issue Date to the Initial Interest Reset Date shall be the Initial Interest Rate set forth above.

The “Spread” is the number of basis points (one basis point equals one-hundredth of a percentage point) specified above to be added to or subtracted from the Interest Rate Basis for a Floating Rate Note, and the “Spread Multiplier” is the percentage specified above by which the Interest Rate Basis for such Floating Rate Note will be multiplied. Both a Spread and/or a Spread Multiplier may be applicable to the Interest Rate Basis for a particular Floating Rate Note, as set forth above.

Each such adjusted Interest Rate Basis shall be applicable on and after the Interest Reset Date to which it relates but not including the next succeeding Interest Reset Date. If any Interest Reset Date is a day that is not a Business Day, such Interest Reset Date shall be postponed to the next day that is a Business Day, except that if the rate of interest on this Note shall be determined by reference to LIBOR and such Business Day is in the next succeeding calendar month, such Interest Reset Date shall be the immediately preceding Business Day. In addition, if the Treasury Rate is the applicable Interest Rate Basis and the Interest Determination Date would otherwise fall on an Interest Reset Date, then the Interest Reset Date will be postponed to the next succeeding Business Day. Subject to applicable provisions of law (including usury laws) and except as specified in this Note, on each Interest Reset Date, the rate of interest on this Note shall be the rate determined in accordance with the provisions of the applicable heading below.

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With respect to a Floating Rate Note, accrued interest shall be calculated by multiplying the principal amount thereof by an accrued interest factor. Such accrued interest factor will be computed by adding the interest factors calculated for each day in the Interest Period or from the last date from which accrued interest is being calculated. The interest factor for each such day is computed by dividing the interest rate applicable to such day by 360, in the cases of CD Rate Notes, Commercial Paper Rate Notes, Federal Funds Rate Notes, LIBOR Notes and Prime Rate Notes or by the actual number of days in the year, in the cases of CMT Rate Notes and Treasury Rate Notes. The interest rate applicable to any day that is an Interest Reset Date will be the interest rate effective on such Interest Reset Date. The interest rate applicable to any other day will be the interest rate for the immediately preceding Interest Reset Date (or, if none, the Initial Interest Rate, as specified above).

The “Calculation Date,” where applicable, pertaining to an Interest Determination Date will be the earlier of (i) the tenth calendar day after such Interest Determination Date or, if any such day is not a Business Day, the next succeeding Business Day or (ii) the Business Day preceding the applicable Interest Payment Date or the Maturity Date (or the date of earlier redemption or repayment), as the case may be.

For Floating Rate Notes, The Bank of New York Mellon Trust Company, N.A. shall be the calculation agent unless another calculation agent is specified above (the “Calculation Agent”). The interest rate applicable to each interest period will be determined by the Calculation Agent on or prior to the applicable Calculation Date. At the request of the Holder, the Calculation Agent will provide the interest rate then in effect and, if determined, the interest rate which will become effective on the next Interest Reset Date.

All percentages resulting from any calculation of the rate of interest on a Floating Rate Note will be rounded, if necessary, to the nearest one hundred-thousandth of a percent (.0000001), with five one-millionths of a percentage point rounded upward, and all dollar amounts used in or resulting from such calculation on Floating Rate Notes will be rounded to the nearest cent (with one-half cent being rounded upward).

Determination of CD Rate. If the Interest Rate Basis, as specified above, is, or is calculated by reference to, the CD Rate, unless otherwise specified above, the “CD Rate” for each Interest Reset Date will be determined by the Calculation Agent as of the second Business Day prior to such Interest Reset Date (a “CD Interest Determination Date”) and shall be the rate on the applicable CD Interest Determination Date for negotiable United States dollar certificates of deposit having the Index Maturity specified above as published in H.15(519) (as defined below) on such CD Interest Determination Date under the heading “CDs (secondary market).” If the rate referred to in the preceding sentence is not so published by 3:00 p.m., New York City time, on the applicable Calculation Date, the CD Rate shall be the rate on the applicable CD Interest Determination Date for negotiable United States dollar certificates of deposit of the Index Maturity specified above as published in H.15 Daily Update (as defined below), or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption “CDs (secondary market).” If the rate referred to in the preceding sentence is not so published by 3:00 p.m., New York City time, on the applicable Calculation Date, the CD Rate

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shall be the rate on the applicable CD Interest Determination Date calculated by the Calculation Agent on the Notes as the arithmetic mean of the secondary market offered rates as of 10:00 a.m., New York City time, on the applicable CD Interest Determination Date, of three leading non-bank dealers in negotiable United States dollar certificates of deposit in the City of New York (which may include an agent or its affiliates) selected by the Company for negotiable United States dollar certificates of deposit of major United States money market banks with a remaining maturity closest to the Index Maturity specified above in an amount that is representative for a single transaction in that market at that time. If the dealers selected by the Company as provided in the preceding sentence are not quoting as mentioned in such sentence, the CD Rate shall be the CD Rate in effect on the applicable CD Interest Determination Date.

“H.15(519)” means the weekly statistical release designated as H.15(519), or any successor publication, published by the Board of Governors of the Federal Reserve System.

“H.15 Daily Update” means the daily update of H.15(519), available through the world-wide-web site of the Board of Governors of the Federal Reserve System at <http://www.federalreserve.gov/releases/h15/update>, or any successor site or publication.

Determination of CMT Rate. If the Interest Rate Basis, as specified above, is, or is calculated by reference to, the CMT Rate, unless otherwise specified above, the “CMT Rate” for each Interest Reset Date will be determined by the Calculation Agent as of the second Business Day prior to such Interest Reset Date (a “CMT Interest Determination Date”) and shall be, if “CMT Reuters Page FRBCMT” is specified above, the percentage equal to the yield for United States Treasury securities at “constant maturity” having the Index Maturity specified above, as the yield is displayed on Reuters, Inc. (or any successor or similar service), on page FRBCMT (or any other page as may replace the specified page on that service under the caption “Treasury Constant Maturities”) (“Reuters Page FRBCMT”). If the rate referred to in the preceding sentence does not appear on Reuters Page FRBCMT, the CMT Rate for such CMT Interest Determination Date will be a percentage equal to the yield for United States Treasury securities at “constant maturity” having the Index Maturity specified above, and for the applicable CMT Interest Determination Date as published in H.15(519) under the caption “Treasury Constant Maturities.” In the event the rate referred to in the preceding sentence does not appear in H.15(519), then the CMT Rate for such CMT Interest Determination Date will be the rate on the applicable CMT Interest Determination Date for the period of the Index Maturity specified above, as may then be published by either the Board of Governors of the Federal Reserve System or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate which would otherwise have been published in H.15(519). In the event the rate referred to in the preceding sentence is not published, the CMT Rate on the applicable CMT Interest Determination Date will be calculated by the Calculation Agent as a yield-to-maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 p.m., New York City time, on the applicable CMT Interest Determination Date of three leading primary United States government securities dealers in the City of New York, which may include an agent of the Company or such agent’s affiliates (each a “Reference Dealer”), selected by the Company (from five Reference Dealers selected by the Company and eliminating the highest quotation (or, in the event of equality, one of the highest), and the lowest quotation (or, in the

event of equality, one of the lowest)), for United States Treasury securities with an original maturity equal to the Index Maturity specified above, a remaining term to maturity no more than one year shorter than the Index Maturity specified above and in a principal amount that is representative for a single transaction in the securities in the market at that time. If fewer than five but more than two of the prices referred to in the above sentence are provided as requested, the CMT Rate on the applicable CMT Interest Determination Date will be calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained, and neither the highest nor the lowest of the quotations shall be eliminated; *provided, however*, that if fewer than three prices referred to above are provided as requested, the CMT Rate on the applicable CMT Interest Determination Date will be calculated by the Calculation Agent as a yield-to-maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 p.m., New York City time, on the applicable CMT Interest Determination Date of three Reference Dealers selected by the Company from five Reference Dealers selected by the Company and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the Index Maturity specified above, and a remaining term to maturity closest to the Index Maturity specified above, and in a principal amount that is representative for a single transaction in the securities in the market at that time. However, if fewer than five but more than two prices referred to above are provided as requested, the CMT Rate on the applicable CMT Interest Determination Date will be calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained, and neither the highest nor the lowest of the quotations will be eliminated. If fewer than three prices referred to above are provided as requested, the CMT Rate on the applicable CMT Interest Determination Date will be the CMT Rate in effect on the applicable CMT Interest Determination Date. If the CMT Reuters Page FEDCMT is specified above, the CMT Rate for such CMT Interest Determination Date will be a percentage equal to the one-week or one-month, as specified above, and will be the average yield for United States Treasury securities at “constant maturity” having the Index Maturity specified above, as the yield is displayed on Reuters, Inc. (or any successor service) on page FEDCMT (or any other page as may replace that specified page on that service) (“Reuters Page FEDCMT”), for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the related CMT Interest Determination Date falls. If the rate referred to in the preceding sentence does not appear on Reuters Page FEDCMT, then the CMT Rate for such CMT Interest Determination Date will be a percentage equal to the one-week or one-month, as specified above, average yield for United States Treasury securities at “constant maturity” having the Index Maturity specified above, and for the week or month, as applicable, preceding the applicable CMT Interest Determination Date as published in H.15(519) opposite the caption “Treasury Constant Maturities.” If the rate referred to in the preceding sentence does not appear in H.15(519), then the CMT Rate for such CMT Interest Determination Date will be the one-week or one-month, as specified above, average yield for United States Treasury securities at “constant maturity” having the Index Maturity specified above, as otherwise announced by the Federal Reserve Bank of New York for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the related CMT Interest Determination Date falls. If the Federal Reserve Bank of New York does not publish the rate referred to above, the rate on the applicable CMT Interest Determination Date will be calculated by the Calculation Agent as a yield-to-maturity based on the arithmetic mean of the

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secondary market bid prices at approximately 3:30 p.m., New York City time, on the applicable CMT Interest Determination Date of three Reference Dealers selected by the Company (from five Reference Dealers selected by the Company and eliminating the highest quotation (or, in the event of equality, one of the highest), and the lowest quotation (or, in the event of equality, one of the lowest)), for United States Treasury securities with an original maturity equal to the Index Maturity specified above, and a remaining term to maturity no more than one year shorter than the Index Maturity specified above, and in a principal amount that is representative for a single transaction in the securities in the market at that time. If fewer than five but more than two of the prices referred to above are provided as requested, the rate on the applicable CMT Interest Determination Date will be calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained, and neither the highest nor the lowest of the quotations shall be eliminated. If fewer than three prices referred to above are provided as requested, the rate on the applicable CMT Interest Determination Date will be calculated by the Calculation Agent as a yield-to-maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 p.m., New York City time, on the applicable CMT Interest Determination Date of three Reference Dealers selected by the Company (from five Reference Dealers selected by the Company and eliminating the highest quotation or (in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)), for United States Treasury securities with an original maturity greater than the Index Maturity specified above, and a remaining term to maturity closest to the Index Maturity specified above and will be in a principal amount that is representative for a single transaction in the securities in the market at that time. If fewer than five but more than two prices referred to above are provided as requested, the rate will be calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained, and neither the highest nor the lowest of the quotations will be eliminated, or if fewer than three prices referred to above are provided as requested, the CMT Rate will be the CMT Rate in effect on the applicable CMT Interest Determination Date. If two United States Treasury securities with an original maturity greater than the Index Maturity as specified above have remaining terms to maturity equally close to the Index Maturity specified above, the quotes for the United States Treasury security with the shorter original remaining term to maturity will be used.

Determination of Commercial Paper Rate. If the Interest Rate Basis, as specified above, is, or is calculated by reference to, the Commercial Paper Rate, unless otherwise specified above, the “Commercial Paper Rate” for each Interest Reset Date will be determined by the Calculation Agent as of the second Business Day prior to such Interest Reset Date (a “Commercial Paper Interest Determination Date”) and shall be the Money Market Yield (as defined below) on such date of the rate for commercial paper having the Index Maturity as indicated above, as such rate shall be published in H.15(519) under the caption “Commercial Paper-Nonfinancial.” In the event that such rate is not published prior to 3:00 p.m., New York City time, on the applicable Calculation Date, then the Commercial Paper Rate shall be calculated by the Calculation Agent as the Money Market Yield of the Commercial Paper Rate on the applicable Commercial Paper Interest Determination Date for commercial paper having the Index Maturity specified above, published in H.15 Daily Update, or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption “Commercial Paper-Nonfinancial.” If by 3:00 p.m., New York City time, on the applicable

Calculation Date, such rate is not yet published as provided in the preceding sentence, then the Commercial Paper Rate on the applicable Commercial Paper Interest Determination Date shall be calculated by the Calculation Agent as the Money Market Yield of the arithmetic mean of the offered rates at approximately 11:00 a.m., New York City time, on the applicable Commercial Paper Interest Determination Date of three leading dealers of United States dollar commercial paper in the City of New York, which may include an agent of the Company or such agent's affiliates, selected by the Calculation Agent for commercial paper having the Index Maturity specified above, placed for industrial issuers whose bond rating is "Aa," or the equivalent, from a nationally recognized statistical rating organization; *provided, however*, that if the dealers selected as aforesaid by the Company are not quoting offered rates as mentioned in this sentence, the Commercial Paper Rate will be the Commercial Paper Rate in effect on the applicable Commercial Paper Interest Determination Date.

"Money Market Yield" shall be a yield calculated in accordance with the following formula and expressed as a percentage:

$$\text{Money market yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where "D" refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal; and "M" refers to the actual number of days in the interest period for which interest is being calculated.

Determination of Federal Funds Rate. If the Interest Rate Basis, as specified above, is, or is calculated by reference to the Federal Funds Rate, unless otherwise specified above, the "Federal Funds Rate" with respect to each Interest Reset Date will be determined by the Calculation Agent as of the first Business Day prior to such Interest Reset Date (a "Federal Funds Interest Determination Date") and shall be the rate on that date for United States dollar Federal Funds as published in H.15(519) under the heading "Federal Funds (Effective)," as displayed on Reuters, Inc. (or any successor service) on page FEDFUND01 (or any other page as may replace the applicable page on that service) ("Reuters Page FEDFUND01") or, if such rate does not appear on Reuters Page FEDFUND01, or is not so published by 3:00 p.m., New York City time, on the applicable Calculation Date, the rate on the applicable Federal Funds Interest Determination Date for United States dollar Federal Funds will be the rate on such Federal Funds Interest Determination Date as published in H.15 Daily Update, or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "Federal Funds (Effective)." If such rate is not so published by 3:00 p.m., New York City time, on the applicable Calculation Date, the Federal Funds Rate will be calculated by the Calculation Agent and will be the arithmetic mean of the rates for the last transaction in overnight United States dollar Federal Funds arranged by three leading brokers of United States dollar Federal Funds transactions in the City of New York, which may include an agent of the Company or such agent's affiliates, selected by the Company before 9:00 a.m., New York City time, on the applicable Federal Funds Interest Determination Date; *provided, however*, that if the brokers selected as aforesaid by the Company are not quoting as mentioned in this sentence, the Federal Funds Rate will be the Federal Funds Rate in effect on the applicable Federal Funds Interest Determination Date.

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Determination of LIBOR. If the Interest Rate Basis, as specified above, is, or is calculated by reference to, LIBOR, unless otherwise specified above, “LIBOR” for each Interest Reset Date will be determined by the Calculation Agent as of the second London Banking Day prior to such Interest Reset Date (a “LIBOR Interest Determination Date”) and shall be the rate (express as a percentage per annum) for deposits in U.S. dollars having a three-month maturity that appears on Reuters LIBOR01 at approximately 11:00 a.m., London time, on the applicable LIBOR Interest Determination Date, or if Reuters LIBOR01 is not available on such date, the Calculation Agent will obtain such rate from Bloomberg’s page “BBAM.” If such rate does not appear on Reuters LIBOR01 or Bloomberg’s page “BBAM” on such LIBOR Interest Determination Date at approximately 11:00 a.m., London time, then the Calculation Agent will request the principal London office of each of four major banks in the London interbank market, as selected by the Company, to provide a quotation of the rate (expressed as a percentage per annum) offered by it to prime banks in the London interbank market for three-month deposits in U.S. dollars in a principal amount of at least \$1,000,000 at approximately 11:00 a.m., London time, on such LIBOR Interest Determination Date. If at least two such offered quotations are so provided, LIBOR determined on the applicable LIBOR Interest Determination Date calculated by the Calculation Agent will be the arithmetic mean of such quotations. If fewer than two such quotations are so provided, the Company will request each of three major banks in New York City, as selected by the Company, to provide a quotation of the rate (expressed as a percentage per annum), offered by it for loans in U.S. dollars to leading European banks having a three-month maturity in a principal amount of at least \$1,000,000 at approximately 11:00 a.m., New York City time, on such LIBOR Interest Determination Date. If at least two such rates are so provided, LIBOR determined on the applicable LIBOR Interest Determination Date calculated by the Calculation Agent will be the arithmetic mean of such rates. If fewer than two such rates are so provided, then LIBOR determined on the applicable LIBOR Interest Determination Date calculated by the Calculation Agent will be the rate in effect on the applicable LIBOR Interest Determination Date.

“Reuters LIBOR01” means the Capital Markets Report Screen LIBOR01 of Reuters, Inc. (or any successor or similar service or page), for the purpose of displaying the London interbank rates of major banks for U.S. dollars.

Determination of Prime Rate. If the Interest Rate Basis, as specified above, is, or is calculated by reference to, the Prime Rate, unless otherwise specified above, the “Prime Rate” with respect to each Interest Reset Date will be determined by the Calculation Agent as of the first Business Day prior to such Interest Reset Date (a “Prime Interest Determination Date”) and shall be the rate set forth on such date as published in H.15(519) under the caption “Bank Prime Loan,” or if not so published prior to 3:00 p.m., New York City time, on the applicable Calculation Date pertaining to such Prime Interest Determination Date, then the Prime Rate will be as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate under the caption “Bank Prime Loan,” or if not so published prior to 3:00 p.m., New York City time, on the applicable Calculation Date pertaining to such Prime Interest Determination Date, then the Prime Rate will be determined by the Calculation Agent as the arithmetic mean of the rates of interest publicly announced by each bank that appears on the Reuters Screen US PRIME 1 Page (as defined below) as the particular

bank's prime rate or base lending rate as of 11:00 a.m., New York City time, on the applicable Prime Interest Determination Date. If fewer than four such rates are so published by 3:00 p.m., New York City time, on the applicable Calculation Date as shown on the Reuters Screen US PRIME 1 Page for the Prime Interest Determination Date, the Prime Rate will be determined by the Calculation Agent as the arithmetic mean of the prime rates or base lending rates quoted on the basis of the actual number of days in the year divided by a 360-day year as of the close of business on the applicable Prime Interest Determination Date by three major banks, which may include an agent of the Company or such agent's affiliates, in the City of New York selected by the Company. However, if the banks selected by the Company are not quoting as mentioned in the preceding sentence, the Prime Rate will be the Prime Rate in effect on the applicable Prime Interest Determination Date.

"Reuters Screen US PRIME 1 Page" means the display on the Reuter Money 3000 Service or any successor service on the "US PRIME 1 Page" or other page as may replace US PRIME 1 Page on that service for the purpose of displaying prime rates or base lending rates of major United States banks).

Determination of Treasury Rate. If the Interest Rate Basis, as specified above, is, or is calculated by reference to the Treasury Rate, unless otherwise specified above, the "Treasury Rate" for each Interest Reset Date will be the rate from the auction held on the applicable Interest Determination Date (the "Auction") of direct obligations of the United States ("Treasury Bills") having the Index Maturity, as specified above, as published under the caption "INVESTMENT RATE" on the display on Reuters, Inc. or any successor or similar service on page USAUCTION 10 or any other page as may replace page USAUCTION 10 on that service ("Reuters Page USAUCTION 10") or page USAUCTION 11 on that service ("Reuters Page USAUCTION 11"), or, if the rate is not so published by 3:00 p.m., New York City time, on the applicable Calculation Date pertaining to such Treasury Rate Determination Date (as defined below), the Bond Equivalent Yield of the rate for the applicable Treasury Bills as published in H.15 Daily Update, or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "U.S. Government Securities/Treasury Bills/Auction High," or, if the rate is not so published by 3:00 p.m., New York City time, on the applicable Calculation Date pertaining to such Treasury Rate Determination Date, the Bond Equivalent Yield of the auction rate of the applicable Treasury Bills announced by the United States Department of the Treasury, or, if the rate is not announced by the United States Department of the Treasury, or if the Auction is not held, the Bond Equivalent Yield of the rate on the applicable Treasury Rate Determination Date of Treasury Bills having the Index Maturity specified above, published in H.15(519) under the caption "U.S. Government Securities/Treasury Bills/Secondary Market," or, if the rate is not so published by 3:00 p.m., New York City time, on the applicable Calculation Date pertaining to such Treasury Rate Determination Date, the rate on the applicable Treasury Rate Determination Date of the applicable Treasury Bills as published in H.15 Daily Update, or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "U.S. Government Securities/Treasury Bills/Secondary Market." In the event that the results of the auction of Treasury Bills having the applicable Index Maturity specified above are not published or reported, as provided above, by 3:00 p.m., New York City time, on the applicable Calculation Date or if no such auction is held on such Treasury Rate Determination

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Date, then the Treasury Rate on the applicable Treasury Rate Determination Date shall be calculated by the Calculation Agent and shall be the Bond Equivalent Yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 p.m., New York City time, on the applicable Treasury Rate Determination Date, of three primary United States government securities dealers, which may include the agent or its affiliates, selected by the Company, for the issue of Treasury Bills with a remaining maturity closest to the Index Maturity specified above; *provided, however*, that if the dealers selected as aforesaid by the Company are not quoting as mentioned in this sentence, the Treasury Rate will be the Treasury Rate in effect on the applicable Treasury Rate Determination Date.

The “Treasury Rate Determination Date” for any Interest Reset Date will be the day of the week in which such Interest Reset Date falls on which Treasury Bills would normally be auctioned. Treasury Bills are normally sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is normally held on the following Tuesday, except such auction may be held on the preceding Friday. If, as the result of a legal holiday, an auction is so held on the preceding Friday, such Friday will be the Treasury Rate Determination Date pertaining to the Interest Reset Date occurring in the next succeeding week.

“Bond Equivalent Yield” means a yield calculated in accordance with the following formula and expressed as a percentage:

$$\text{Bond Equivalent Yield} = \frac{D \times N}{360 - (D \times M)} \times 100$$

where “D” refers to the applicable per annum rate for Treasury Bills quoted on a bank discount basis and expressed as a decimal; “N” refers to 365 or 366, as the case may be, and “M” refers to the actual number of days in the interest period for which interest is being calculated.

Provisions Applicable To Both Fixed Rate Notes And Floating Rate Notes:

The interest so payable on any Interest Payment Date will, subject to certain exceptions in the Indenture hereinafter referred to, be paid to the person in whose name this Note is registered at the close of business on the Regular Record Date (as defined below) immediately preceding such Interest Payment Date or, if the Interest Payment Date is the Maturity Date or the date of earlier redemption or repayment, to the person in whose name this Note is registered at the close of business on the Maturity Date or such earlier date of redemption or repayment; *provided, however*, that if the Original Issue Date is between a Regular Record Date and an Interest Payment Date or on an Interest Payment Date, interest for the period from and including the Original Issue Date to, but excluding, the Interest Payment Date relating to such Regular Record Date shall be paid on the next succeeding Interest Payment Date to the person in whose name this Note is registered on the close of business on the Regular Record Date preceding such Interest Payment Date. If this Note bears interest at a Fixed Rate, as specified above, unless otherwise specified above, the “Regular Record Date” with respect to any Interest Payment Date shall be the 20th day of January and the 20th day of July, whether or not a Business Day,

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immediately preceding the related Interest Payment Date. If this Note bears interest at a Floating Rate, as specified above, the “Regular Record Date” with respect to any Interest Payment Date shall be the fifteenth calendar day next preceding such Interest Payment Date, whether or not such date shall be a Business Day.

Payment of principal, premium, if any, and interest in respect of this Note due on the Maturity Date or any earlier redemption or repayment date will be made in immediately available funds upon presentation and surrender of this Note; *provided, however*, that if a Specified Currency is specified above and such payment is to be made in such Specified Currency in accordance with the provisions set forth below, such payment will be made by wire transfer of immediately available funds to an account with a bank designated by the Holder hereof at least 15 calendar days prior to the Maturity Date or such earlier redemption or repayment date, as the case may be, provided that such bank has appropriate facilities therefor and that this Note is presented and surrendered at the Place of Payment specified above in time for the Trustee to make such payment in such funds in accordance with its normal procedures. Payment of interest due on any Interest Payment Date, other than the Maturity Date or any earlier redemption or repayment date, will be made at the Place of Payment specified above.

Whenever in this Note or in the Indenture there is a reference, in any context, to the payment of the principal of, or interest, if any, on, or in respect of, the Notes, such payment shall be deemed to include the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect of such payment pursuant to the provisions hereof or thereof and express mention of the payment of Additional Amounts (if applicable) in any provision hereof or thereof shall not be construed as excluding Additional Amounts in those provisions hereof where such express mention is not made.

The Company is obligated to make payment of principal, premium, if any, and interest in respect of this Note in United States dollars or, if a Specified Currency is indicated above, in such Specified Currency (or, if such Specified Currency is not at the time of such payment legal tender for the payment of public and private debts of the country issuing such currency or, in the case of the Euro, in the member states of the European Union that have adopted the single currency in accordance with the Treaty Establishing the European Community, as amended by the Treaty on European Union, such other currency which is then such legal tender in such country or in the adopting member states of the European Union, as the case may be). If a Specified Currency is specified above, except as otherwise provided below, any such amounts so payable by the Company will be converted by a New York clearing house bank designated by the Company (the “Exchange Rate Agent”) into United States dollars for payment to the Holder of this Note.

If a Specified Currency is specified above, the Holder of this Note may elect to receive any amount payable hereunder in such Specified Currency. If the Holder of this Note shall not have duly made an election to receive all or a specified portion of any payment of principal, premium, if any, and/or interest in respect of this Note in such Specified Currency, any United States dollar amount to be received by the Holder of this Note will be based on the highest bid quotation in the City of New York received by the Exchange Rate Agent at approximately 11:00

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a.m., New York City time, on the second Business Day preceding the applicable payment date from three recognized foreign exchange dealers (one of whom may be the Exchange Rate Agent) selected by the Exchange Rate Agent and approved by the Company for the purchase by the quoting dealer of the Specified Currency for United States dollars for settlement on such payment date in the aggregate amount of the Specified Currency payable to all Holders of Notes scheduled to receive United States dollar payments and at which the applicable dealer commits to execute a contract. All currency exchange costs will be borne by the Holder of this Note by deductions from such payments. If three such bid quotations are not available, payments on this Note will be made in the Specified Currency.

If a Specified Currency is specified above, the Holder of this Note may elect to receive all or a specified portion of any payment of principal, premium, if any, and/or interest in respect of this Note in such Specified Currency by submitting a written request for such payment to the Trustee at the Place of Payment on or prior to the applicable Record Date or at least 15 calendar days prior to the Maturity Date (or any earlier redemption or repayment date), as the case may be. Such written request may be mailed or hand delivered or sent by facsimile transmission. The Holder of this Note may elect to receive all or a specified portion of all future payments in the Specified Currency in respect of such principal, premium, if any, and/or interest and need not file a separate election for each payment. Such election will remain in effect until revoked by written notice to the Trustee, but written notice of any such revocation must be received by the Trustee on or prior to the applicable Record Date or at least 15 calendar days prior to the Maturity Date (or any earlier redemption or repayment date), as the case may be.

If a Specified Currency is specified above and the Holder of this Note shall have duly made an election to receive all or a specified portion of any payment of principal, premium, if any, and/or interest in respect of this Note in such Specified Currency, but such Specified Currency is not available for such payment due to the imposition of exchange controls or other circumstances beyond the control of the Company, the Company will be entitled to satisfy its obligations to the Holder of this Note by making such payment in United States dollars on the basis of the Market Exchange Rate (as defined below) determined by the Exchange Rate Agent on the second Business Day prior to such payment date or, if such Market Exchange Rate is not then available, on the basis of the most recently available Market Exchange Rate on or before the date on which such payment is due. The “Market Exchange Rate” for the Specified Currency means the noon dollar buying rate in the City of New York for cable transfers of the Specified Currency as certified for customs purposes (or, if not so certified, as otherwise determined) by the Federal Reserve Bank of New York. Any payment made in United States dollars under such circumstances shall not constitute an Event of Default (as defined in the Indenture).

All determinations referred to above made by the Exchange Rate Agent shall be at its sole discretion and shall, in the absence of manifest error, be conclusive for all purposes and binding on the Holder of this Note.

In case an Event of Default (as defined in the Indenture) with respect to Notes of this series shall occur and be continuing, the principal amount (or, if the Note is an Original Issue Discount Note, such lesser portion of the principal amount as may be applicable) of the Notes of

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this series may be declared due and payable, and, with respect to certain Events of Default, shall automatically become due and payable, in each case in the manner and with the effect provided in the Indenture. If this Note is an Original Issue Discount Note, in the event of an acceleration of the Maturity Date hereof, the amount payable to the Holder of this Note upon such acceleration will be determined by this Note but will be an amount less than the amount payable at the Maturity Date of this Note.

The Indenture permits, with certain exceptions as therein provided, the modification of the rights and obligations of the Company and the Guarantor and the rights of the Holders of the Securities (as defined in the Indenture) of each series to be affected by such modification under the Indenture at any time by the Company and the Guarantor with the consent of the holders of not less than a majority in aggregate principal amount of the Outstanding Securities (as defined in the Indenture) of each series to be affected by such modification. The Indenture also contains provisions permitting the Holders of specified percentages in aggregate principal amount of the Outstanding Securities of each series, on behalf of the Holders of all Securities of such series, to waive compliance by the Company and the Guarantor with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences.

This Note is issuable only in registered form without coupons in minimum denominations of \$2,000 and integral multiples of \$1,000 in excess thereof or other Authorized Denomination specified above.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Note may be registered in the Security Register of this series upon surrender of this Note for registration of transfer at the Place of Payment specified above, duly endorsed by or accompanied by, a written instrument of transfer in form satisfactory to the Company and the Trustee, duly executed by the Holder hereof or his attorney duly authorized in writing, and thereupon a new Note or Notes of this series of Authorized Denomination and for the same aggregate principal amount, with the Guarantee endorsed thereon, will be issued to the designated transferee or transferees.

No service charge shall be made for any such registration of transfer, exchange or redemption of the Notes, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

The Trustee, and any agent of the Company or the Trustee may treat the person in whose name this Note is registered in the Security Register as the owner of this Note for all purposes (other than for the determination of any Additional Amounts payable) and neither the Company nor the Trustee nor any such agent shall be affected by any notice to the contrary.

If so specified above, this Note will be redeemable at the Company's option on the date or dates specified prior to the Maturity Date at a price or prices, each as specified above, together with accrued interest to the date of redemption. This Note will not be subject to any sinking fund. If so redeemable, the Company may redeem this Note either in whole or from time to time in part, upon not less than 30, nor more than 60, days' notice before the date of redemption. If less

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than all of the Notes with like tenor and terms are to be redeemed, the Notes to be redeemed shall be selected by the Trustee by such method as the Trustee shall deem fair and appropriate.

If so specified above, this Note will be subject to redemption at the option of the Company, in whole or in part, at any time prior to the Maturity Date, at a redemption price equal to the greater of (i) 100% of the principal amount of this Note to be redeemed, and (ii) as determined by the Quotation Agent (as defined below), the sum of the present values of the remaining scheduled payments of principal and interest on this Note to be redeemed (exclusive of interest accrued to the date of redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below) plus 25 basis points, plus accrued interest on the principal amount redeemed to, but not including, the date of redemption.

If any redemption date falls on a day that is not a Business Day, the related payment of the redemption price and interest will be made on the next Business Day as if it were made on the date such payment was due, and no interest will accrue on the amounts so payable for the period from and after such date to the next Business Day.

“Comparable Treasury Issue” means the U.S. Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes.

“Comparable Treasury Price” means, with respect to any redemption date, (i) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (ii) if fewer than five such Reference Treasury Dealer Quotations are obtained by the Quotation Agent, the average of all such quotations.

“Quotation Agent” means the Reference Treasury Dealer appointed by the Company.

“Reference Treasury Dealer” means (1) each of J.P. Morgan Securities LLC and Wells Fargo Securities, LLC (and their respective successors), (2) one Primary Treasury Dealer (as defined herein) selected by each of MUFG Securities Americas Inc. and U.S. Bancorp Investments, Inc. (or their respective successors) and (3) two other nationally recognized investment banking firms that are Primary Treasury Dealers specified from time to time by the Company; provided, however, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in New York City (a “Primary Treasury Dealer”), the Company shall substitute therefor another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Quotation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Quotation Agent by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

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“Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield-to-maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Notice of any redemption will be delivered at least 30 days but not more than 60 days before the redemption date to the Holder hereof at its address as such address shall appear in the Security Register of the Company, except that redemption notices may be provided more than 60 days prior to the redemption date if the notice is issued in connection with the defeasance or discharge of the Notes and/or the Indenture. Unless the Company defaults in the payment of the redemption price on and after the redemption date, interest will cease to accrue on the principal amount of this Note called for redemption. Notwithstanding anything to the contrary in the foregoing, notice of any redemption to the Holder hereof may, in the Company’s discretion, be subject to one or more conditions precedent, including completion of a corporate transaction. In such event, the related notice of redemption will describe each such condition and, if applicable, will state that, in the Company’s discretion, the date of redemption may be delayed until such time as any or all such conditions shall be satisfied or waived, or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied or waived by the date of redemption, or by the date of redemption as so delayed.

Subject to Section 403 of the Indenture, if an HDI Change of Control Triggering Event (as defined below) occurs, unless the Company has exercised its option to redeem this Note as described above, the Company will be required to make an offer (the “Change of Control Offer”) to each Holder of the Notes to repurchase all or any part (equal to \$2,000 or an integral multiple of \$1,000 in excess thereof) of such Holder’s Notes on the terms set forth herein. In the Change of Control Offer, the Company will be required to offer payment in cash equal to 101% of the aggregate principal amount of Notes repurchased, plus accrued and unpaid interest, if any, on the Notes repurchased to the date of repurchase (the “Change of Control Payment”).

Subject to Section 403 of the Indenture, within 30 days following any HDI Change of Control Triggering Event or, at the Company’s option, prior to any HDI Change of Control (as defined below), but after public announcement by HDI (as defined below) of the transaction that constitutes, or would constitute upon consummation thereof, an HDI Change of Control, a notice will be delivered to Holders of the Notes describing the transaction that constitutes, or would constitute upon consummation thereof, the HDI Change of Control Triggering Event and offering to repurchase such Notes on the date specified in the notice. Such date will be no earlier than 30 days and no later than 60 days from the date such notice is delivered, other than as may be required by law (the “Change of Control Payment Date”). The notice will, if delivered prior to the date of consummation of the HDI Change of Control, state that the offer to purchase is conditioned on the HDI Change of Control Triggering Event occurring on or prior to the Change of Control Payment Date.

If any Change of Control Payment Date falls on a day that is not a Business Day, the related payment of the Change of Control Payment will be made on the next Business Day as if it

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were made on the date such payment was due, and no interest will accrue on the amounts so payable for the period from and after such date to the next Business Day.

On the Change of Control Payment Date, the Company will, to the extent lawful, (i) accept for payment all Notes or portions of Notes properly tendered and not validly withdrawn pursuant to the Change of Control Offer; (ii) deposit with the paying agent an amount equal to the Change of Control Payment in respect of all such Notes or portions of Notes properly tendered and not validly withdrawn; and (iii) deliver or cause to be delivered to the Trustee such Notes properly accepted together with a Company Officers' Certificate (as defined in the Indenture) stating the aggregate principal amount of such Notes or portions of Notes being repurchased.

The Company will not be required to comply with the obligations relating to repurchasing the Notes if a third-party instead satisfies them.

The Company must comply with the requirements of Rule 14e-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and any other securities laws and regulations applicable to the repurchase of the Notes. To the extent that the provisions of any such securities laws or regulations conflict with the Change of Control Offer provisions of the Notes, the Company will comply with those securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control Offer provisions of the Notes by virtue of any such compliance.

If Holders of not less than 95% in aggregate principal amount of the outstanding Notes properly tender and do not validly withdraw such amount of the Notes in a Change of Control Offer, and the Company, or any third-party making an offer to purchase the Notes in connection with an HDI Change of Control Triggering Event in lieu of the Company, purchase such amount of the Notes properly tendered and not validly withdrawn by such Holders, then the Company will have the right, upon notice described above, given not more than 30 days following the Change of Control Payment Date, to redeem all (but not less than all) of the aggregate principal amount of the Notes that remains outstanding following such purchase at a redemption price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of Holders of record as of the close of business on the relevant Regular Record Date to receive interest on the applicable Interest Payment Date). If the redemption date falls on a day that is not a Business Day, the related payment of the redemption price and interest will be made on the next Business Day as if it were made on the date such payment was due, and no interest will accrue on the amounts so payable for the period from and after such date to the next Business Day.

For purposes of the Change of Control Offer provisions of the Notes, the following terms will be applicable:

"Below Investment Grade Rating Event" means the Notes cease to be rated an Investment Grade Rating by each of the Rating Agencies on any day within the 60-day period after the earlier of (1) the occurrence of an HDI Change of Control and (2) the first public announcement by Harley-Davidson, Inc. ("HDI") of the intention of HDI to effect an HDI

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Change of Control (which 60-day period will be extended for so long as any of the Rating Agencies has publicly announced that it is considering a possible downgrade of the rating of the notes of such series); *provided* that a Below Investment Grade Rating Event otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular HDI Change of Control (and thus shall not be deemed a Below Investment Grade Rating Event for purposes of the definition of HDI Change of Control Triggering Event hereunder) if any of the Rating Agencies making the reduction in rating to which this definition would otherwise apply do not announce or publicly confirm or inform the Trustee in writing at the Company's or its request that the reduction was the result, in whole or in part, of any event or circumstance comprised of or arising as a result of, or in respect of, the applicable HDI Change of Control (whether or not the applicable HDI Change of Control shall have occurred at the time of the Below Investment Grade Rating Event). The Trustee has no obligation to monitor the ratings of the Notes for purposes of determining the occurrence of a Below Investment Grade Rating Event.

“Fitch” means Fitch Ratings, Inc. and its successors.

“HDI Change of Control” means the occurrence of any of the following: (1) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any “person” (as that term is used in Section 13(d)(3) of the Exchange Act), other than HDI or one of its subsidiaries, becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of the Voting Stock of HDI or other Voting Stock into which the Voting Stock of HDI is reclassified, consolidated, exchanged or changed, measured by voting power rather than number of shares; or (2) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation or as a pledge for security purposes only), in one or a series of related transactions, of all or substantially all of the assets of HDI and the assets of the subsidiaries of HDI, taken as a whole, to one or more “persons” (as that term is defined in the Indenture), other than HDI or one of its subsidiaries and other than any such transaction or series of related transactions where holders of Voting Stock of HDI outstanding immediately prior thereto hold voting stock of the transferee person representing a majority of the voting power of the transferee person's voting stock immediately after giving effect thereto. Notwithstanding the foregoing, a transaction will not be deemed to be an HDI Change of Control if (1) HDI becomes a direct or indirect wholly-owned subsidiary of a holding company and (2)(A) the direct or indirect holders of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders of the Voting Stock of HDI immediately prior to that transaction or (B) immediately following that transaction no “person” (as that term is used in Section 13(d)(3) of the Exchange Act) (other than a holding company satisfying the requirements of this sentence) is the beneficial owner, directly or indirectly, of more than 50% of the Voting Stock of such holding company.

“HDI Change of Control Triggering Event” means the occurrence of both an HDI Change of Control and a Below Investment Grade Rating Event. Notwithstanding anything to the contrary, no HDI Change of Control Triggering Event will be deemed to have occurred in

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connection with any particular HDI Change of Control unless and until such HDI Change of Control has actually been consummated.

“Investment Grade Rating” means a rating equal to or higher than Baa3 by Moody’s (or its equivalent under any successor rating category of Moody’s), BBB– by S&P (or its equivalent under any successor rating category of S&P) and BBB– by Fitch (or its equivalent under any successor rating category of Fitch), and the equivalent investment grade credit rating from any replacement Rating Agency or Rating Agencies selected by the Company.

“Moody’s” means Moody’s Investors Service, Inc., a subsidiary of Moody’s Corporation, and its successors.

“Rating Agencies” means (1) each of Moody’s, S&P and Fitch, and (2) if any of Moody’s, S&P or Fitch (or in each case any replacement thereof appointed pursuant to this definition) ceases to rate the Notes or fails to make a rating of the Notes publicly available for reasons outside of the Company’s control, a “nationally recognized statistical rating organization” as defined under Section 3(a)(62) of the Exchange Act selected by the Company as a replacement agency for Moody’s, S&P and/or Fitch, as the case may be; provided that the Company shall give notice of any such replacement to the Trustee.

“S&P” means S&P Global Ratings, a division of S&P Global Inc. and its successors.

“Voting Stock” means, with respect to any specified “person” (as that term is used in Section 13(d)(3) of the Exchange Act), as of any date, the capital stock of such person that is at the time entitled to vote generally in the election of the board of directors of such person.

In lieu of Section 1005 of the Indenture, the following covenant shall apply:

Limitation on Liens. The Company and the Guarantor will not, nor will they permit any Subsidiary of the Company or the Guarantor to, issue or assume any Indebtedness secured by a Lien upon any Property (now owned or hereinafter acquired) of the Company or the Guarantor or any such Subsidiary without in any such case effectively providing concurrently with the issuance or assumption of any such Indebtedness that the Notes (together with, if the Company or the Guarantor shall so determine, any other Indebtedness of the Company or the Guarantor or any such Subsidiary ranking equally with the Notes then existing or thereafter created) shall be secured equally and ratably with such Indebtedness. The restrictions set forth in the immediately preceding sentence will not, however, apply if the aggregate amount of Indebtedness issued or assumed by the Company, the Guarantor or such Subsidiaries and so secured by Liens, together with all other Indebtedness of the Company, the Guarantor or such Subsidiaries which (if originally issued or assumed at such time) would otherwise be subject to such restrictions, but not including Indebtedness permitted to be secured under clauses (i) through (xy) of the immediately following paragraph, does not at the time such secured Indebtedness is incurred exceed 15% of the Consolidated Net Tangible Assets.

The restrictions set forth above shall not apply to Indebtedness secured by:

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(i) Liens existing on the date of the original issuance of the Notes;

(ii) Liens on any Property of any company existing at the time such company becomes a Subsidiary of the Company or the Guarantor, which Liens are not created in contemplation of such company becoming a Subsidiary of the Company or the Guarantor;

(iii) Liens on any Property existing at the time such Property is acquired by the Company, the Guarantor or a Subsidiary of the Company or the Guarantor, or Liens to secure the payment of all or any part of the purchase price of such Property upon the acquisition of such Property by the Company, the Guarantor or a Subsidiary of the Company or the Guarantor or to secure any Indebtedness incurred prior to, at the time of, or within 180 days after, the later of the date of acquisition of such Property and the date such Property is placed in service, for the purpose of financing all or any part of the purchase price thereof, or Liens to secure any Indebtedness incurred for the purpose of financing the cost to the Company, the Guarantor or a Subsidiary of the Company or the Guarantor of improvements to such acquired Property or to secure any Indebtedness incurred for the purpose of financing all or any part of the purchase price of the cost of construction of the Property subject to such Liens;

(iv) Liens securing any Indebtedness of the Company, a Subsidiary of the Company or the Guarantor owing to the Company, the Guarantor or to another Subsidiary of the Company or the Guarantor;

(v) Liens created in connection with a securitization or other asset-based financing;

(vi) Liens with respect to the payment of taxes, assessments or governmental charges in all cases which are not yet due or which are being contested in good faith;

(vii) statutory Liens of landlords and Liens of suppliers, mechanics, carriers, materialmen, warehousemen or workmen and other similar Liens imposed by law created in the ordinary course of business for amounts not yet due or which are being contested in good faith;

(viii) Liens incurred or deposits made in the ordinary course of business in connection with worker's compensation, unemployment insurance or other types of social security benefits or to secure the performance of bids, tenders, sales, contracts (other than for the repayment of borrowed money), surety, appeal and performance bonds;

(ix) Liens arising with respect to zoning restrictions, easements, licenses, reservations, covenants, rights-of-way, utility easements, building restrictions and other similar charges or encumbrances on the use of real property which do not interfere with the ordinary conduct of the business of the Company, the Guarantor or any of their respective Subsidiaries;

(x) Liens of attachment or judgment with respect to judgments, writs or warrants of attachment, or similar process against the Company, the Guarantor or any of their respective Subsidiaries;

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(xi) Liens arising from leases, subleases or licenses granted to others which do not interfere in any material respect with the business of the Company, the Guarantor or any of their respective Subsidiaries;

(xii) any interest or title of the lessor in the Property subject to any operating lease (as determined in accordance with GAAP as in effect as of the date of the Indenture without giving effect to any subsequent change thereto) entered into by the Company, the Guarantor or any of their respective Subsidiaries in the ordinary course of business;

(xiii) Liens, if any, in connection with any sale/leaseback transaction;

(xiv) Liens on assets pledged in respect of Indebtedness that has been defeased in accordance with the provisions thereof through the deposit of cash, cash equivalents or marketable securities (it being understood that cash collateral shall be deemed to include cash deposited with a trustee with respect to third party indebtedness); and

(xv) any extension, renewal or replacement (or successive extensions, renewals or replacements) in whole or in part of any Lien referred to in the foregoing clauses (i) - (xiv); provided, however, that such new Lien is limited to the Property which was subject to the prior Lien immediately before such extension, renewal or replacement, and provided, further, that the principal amount of Indebtedness secured by the prior Lien immediately before such extension, renewal or replacement is not increased.

The Company may “reopen” a previously issued tranche of Notes and issue additional Notes of such tranche or establish additional terms of such tranche or issue notes with the same terms as previously issued Notes (except for the Original Issue Date, Issue Price and, if applicable, the initial Interest Payment Date).

The Company may at any time purchase this Note at any price in the open market or otherwise. Notes so purchased by the Company may be held or resold or, at the discretion of the Company, may be surrendered to the Trustee for cancellation.

For the avoidance of doubt, Article 4 of the Indenture, including without limitation Section 403 thereof, shall apply to the Notes.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligations of the Company and the Guarantor, which are absolute and unconditional, to pay the principal of, premium, if any, and interest on this Note, at the times, place and rate, and in the coin or currency, herein and in the Indenture prescribed.

This Note shall be governed by and construed in accordance with the laws of the State of New York.

By acceptance of this Note, the Holder hereof agrees to be bound by the provisions of the Indenture. Terms used herein which are defined in the Indenture shall have the respective meanings assigned thereto in the Indenture. This Note shall not be valid or become obligatory for

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any purpose until the certificate of authentication hereon shall have been signed by or on behalf of the Trustee under the Indenture.

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IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed, manually or by facsimile by an authorized signatory.

Dated: February 4, 2019

HARLEY-DAVIDSON FINANCIAL SERVICES, INC.

By: /s/ J. Darrell Thomas
Name: James Darrell Thomas
Title: Vice President, Chief Financial Officer and Treasurer

Attest:

By: /s/ Perry A. Glassgow
Name: Perry Glassgow
Title: Vice President

Dated:

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated herein and referred to in the within-mentioned Indenture.

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,
as Trustee

By: _____
Authorized Signatory

GUARANTEE

For value received, undersigned hereby fully, irrevocably and unconditionally guarantees, pursuant to the terms of the Guarantee contained in Article Fourteen of the Indenture, to the Holder of this Note and to the Trustee, on behalf of the Holder, the due and punctual payment of the principal of, and any premium, interest and any Additional Amounts on, this Note, when and as the same shall become due and payable, whether at the stated maturity, by declaration of acceleration, call for redemption or otherwise, in accordance with the terms of this Note and the Indenture. This Guarantee will not be valid or obligatory for any purpose until the Trustee duly executes the certificate of authentication on the Note upon which this Guarantee is endorsed.

Dated: February 4, 2019

HARLEY-DAVIDSON CREDIT CORP.,
a Nevada corporation

By: /s/ J. Darrell Thomas
Name: James Darrell Thomas
Title: Vice President, Chief Financial Officer and Treasurer

Attest:

By: /s/ Perry A. Glassgow
Name: Perry Glassgow
Title: Vice President

ABBREVIATIONS

The following abbreviations, when used in the inscription on this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common

UNIF GIFT MIN ACT - _____ Custodian _____
(Cust) (Minor)

TEN ENT - as tenants by the entirety

under Uniform Gifts to Minors Act

JT TEN - as joint tenants with right of
survivorship and not as tenant
in common

(State)

Additional abbreviations may also be used though not in the above list.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto:

(Please insert social security or other identifying number of assignee)

(Name and address of assignee, including zip code,
must be printed or typewritten)

the within Note, and all rights thereunder, hereby irrevocably constituting and appointing
_____ attorney to transfer said Note on the books of the within Company, with full
power of substitution in the premises.

Dated:

NOTICE: The signature to this assignment must correspond with the name as it
appears upon the within Note in every particular, without alteration or enlargement
or any change whatever and must be guaranteed.

SIGNATURE(S) GUARANTEED:

THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS,
STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN
APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM) PURSUANT TO SEC RULE 17Ad-15.

SCHEDULE OF INCREASES OR DECREASES IN GLOBAL NOTE

The following increases or decreases in this Global Note have been made

Date of Exchange	Amount of increase in Principal Amount of this Global Note	Amount of decrease in Principal Amount of this Global Note	Principal Amount of this Global Note following each decrease or increase	Signature of authorized signatory of Trustee
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Chief Executive Officer Certification
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934

I, Matthew S. Levatich, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Harley-Davidson, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2019

/s/ Matthew S. Levatich

Matthew S. Levatich

President and Chief Executive Officer

Chief Financial Officer Certification
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934

I, John A. Olin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Harley-Davidson, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2019

/s/ John A. Olin

John A. Olin
Senior Vice President and
Chief Financial Officer

Written Statement of the Chief Executive Officer and Chief Financial Officer
Pursuant to 18 U.S.C. sec. 1350

Solely for the purpose of complying with 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, we, the undersigned President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer of Harley-Davidson, Inc. (the “Company”), hereby certify, based on our knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2019 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2019

/s/ Matthew S. Levatich

Matthew S. Levatich

President and Chief Executive Officer

/s/ John A. Olin

John A. Olin

Senior Vice President and
Chief Financial Officer