

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 28, 2021

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

For the transition period from to

Commission file number 1-9183

Harley-Davidson, Inc.

(Exact name of registrant as specified in its charter)

Wisconsin

(State of organization)

39-1382325

(I.R.S. Employer Identification No.)

3700 West Juneau Avenue

(Address of principal executive offices)

Milwaukee Wisconsin

53208

(Zip code)

Registrant's telephone number, including area code: (414) 342-4680

None

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

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

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 Act). Yes ☐ No ☒

The registrant had outstanding 153,665,546 shares of common stock as of April 30, 2021.

HARLEY-DAVIDSON, INC.
Form 10-Q
For The Quarter Ended March 28, 2021

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three months ended	
	March 28, 2021	March 29, 2020
Revenue:		
Motorcycles and Related Products	\$ 1,232,107	\$ 1,099,788
Financial Services	190,400	198,456
	<u>1,422,507</u>	<u>1,298,244</u>
Costs and expenses:		
Motorcycles and Related Products cost of goods sold	811,622	780,868
Financial Services interest expense	55,707	52,473
Financial Services provision for credit losses	(22,474)	79,419
Selling, administrative and engineering expense	231,844	277,971
Restructuring benefit	(366)	—
	<u>1,076,333</u>	<u>1,190,731</u>
Operating income	346,174	107,513
Other income, net	277	155
Investment income (loss)	1,402	(5,347)
Interest expense	7,708	7,755
Income before provision for income taxes	340,145	94,566
Provision for income taxes	81,001	24,871
Net income	<u>\$ 259,144</u>	<u>\$ 69,695</u>
Earnings per share:		
Basic	\$ 1.69	\$ 0.46
Diluted	\$ 1.68	\$ 0.45
Cash dividends per share	\$ 0.15	\$ 0.38

The accompanying notes are integral to the consolidated financial statements.

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

	Three months ended	
	March 28, 2021	March 29, 2020
Net income	\$ 259,144	\$ 69,695
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(17,338)	(34,455)
Derivative financial instruments	17,530	(19,845)
Pension and postretirement benefit plans	13,588	11,959
	13,780	(42,341)
Comprehensive income	<u>\$ 272,924</u>	<u>\$ 27,354</u>

The accompanying notes are integral to the consolidated financial statements.

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

	(Unaudited) March 28, 2021	December 31, 2020	(Unaudited) March 29, 2020
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,320,645	\$ 3,257,203	\$ 1,465,061
Accounts receivable, net	216,569	143,082	299,148
Finance receivables, net of allowance of \$64,139, \$72,632, and \$63,881	1,798,194	1,509,539	2,358,989
Inventories, net	470,997	523,497	610,924
Restricted cash	185,374	131,642	99,903
Other current assets	195,356	280,470	142,357
	<u>5,187,135</u>	<u>5,845,433</u>	<u>4,976,382</u>
Finance receivables, net of allowance of \$282,094, \$318,304, and \$271,615	4,958,583	4,933,469	4,933,418
Property, plant and equipment, net	718,968	743,784	826,845
Pension and postretirement assets	105,910	95,711	64,802
Goodwill	65,157	65,976	64,063
Deferred income taxes	135,387	158,538	127,856
Lease assets	44,765	45,203	56,496
Other long-term assets	123,083	122,487	90,085
	<u>\$ 11,338,988</u>	<u>\$ 12,010,601</u>	<u>\$ 11,139,947</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 402,764	\$ 290,904	\$ 333,411
Accrued liabilities	570,440	557,214	584,535
Short-term deposits, net	93,887	79,965	—
Short-term debt	765,263	1,014,274	1,335,664
Current portion of long-term debt, net	1,622,243	2,039,597	2,326,460
	<u>3,454,597</u>	<u>3,981,954</u>	<u>4,580,070</u>
Long-term deposits, net	58,766	—	—
Long-term debt, net	5,478,091	5,932,933	4,478,078
Lease liabilities	30,061	30,115	40,053
Pension and postretirement liabilities	103,854	114,206	128,054
Deferred income taxes	8,682	8,607	6,219
Other long-term liabilities	228,551	220,001	215,490
Commitments and contingencies (Note 16)			
Shareholders' equity:			
Common stock	1,690	1,685	1,834
Additional paid-in-capital	1,517,129	1,507,706	1,495,141
Retained earnings	1,520,862	1,284,823	2,126,646
Accumulated other comprehensive loss	(469,637)	(483,417)	(579,290)
Treasury stock, at cost	(593,658)	(588,012)	(1,352,348)
	<u>1,976,386</u>	<u>1,722,785</u>	<u>1,691,983</u>
	<u>\$ 11,338,988</u>	<u>\$ 12,010,601</u>	<u>\$ 11,139,947</u>

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

	(Unaudited) March 28, 2021	December 31, 2020	(Unaudited) March 29, 2020
Balances held by consolidated variable interest entities (Note 12):			
Finance receivables, net - current	\$ 567,887	\$ 530,882	\$ 381,904
Other assets	\$ 4,027	\$ 3,753	\$ 2,262
Finance receivables, net - non-current	\$ 2,113,344	\$ 1,889,472	\$ 1,435,832
Restricted cash - current and non-current	\$ 196,946	\$ 142,892	\$ 99,235
Current portion of long-term debt, net	\$ 692,903	\$ 608,987	\$ 437,488
Long-term debt, net	\$ 1,757,003	\$ 1,585,174	\$ 1,319,357

The accompanying notes are integral to the consolidated financial statements.

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

	Three months ended	
	March 28, 2021	March 29, 2020
Net cash provided (used) by operating activities (Note 7)	\$ 162,781	\$ (8,582)
Cash flows from investing activities:		
Capital expenditures	(18,813)	(32,928)
Origination of finance receivables	(909,138)	(780,061)
Collections on finance receivables	900,485	841,261
Other investing activities	733	16
Net cash (used) provided by investing activities	(26,733)	28,288
Cash flows from financing activities:		
Repayments of medium-term notes	(1,050,000)	(600,000)
Proceeds from securitization debt	597,411	522,694
Repayments of securitization debt	(291,346)	(130,918)
Borrowings of asset-backed commercial paper	—	225,187
Repayments of asset-backed commercial paper	(66,894)	(67,809)
Net (decrease) increase in unsecured commercial paper	(262,517)	772,208
Net increase in credit facilities	15,629	—
Net increase in deposits	72,664	—
Dividends paid	(23,105)	(58,817)
Repurchase of common stock	(5,646)	(7,071)
Issuance of common stock under share-based plans	1,085	34
Net cash (used) provided by financing activities	(1,012,719)	655,508
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(5,163)	(5,732)
Net (decrease) increase in cash, cash equivalents and restricted cash	\$ (881,834)	\$ 669,482
Cash, cash equivalents and restricted cash:		
Cash, cash equivalents and restricted cash, beginning of period	\$ 3,409,168	\$ 905,366
Net (decrease) increase in cash, cash equivalents and restricted cash	(881,834)	669,482
Cash, cash equivalents and restricted cash, end of period	\$ 2,527,334	\$ 1,574,848
Reconciliation of cash, cash equivalents and restricted cash on the Consolidated balance sheets to the Consolidated statements of cash flows:		
Cash and cash equivalents	\$ 2,320,645	\$ 1,465,061
Restricted cash	185,374	99,903
Restricted cash included in Other long-term assets	21,315	9,884
Cash, cash equivalents and restricted cash per the Consolidated statements of cash flows	\$ 2,527,334	\$ 1,574,848

The accompanying notes are integral to 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 Stock	Total
	Issued Shares	Balance					
Balance, December 31, 2020	168,503,526	\$ 1,685	\$ 1,507,706	\$ 1,284,823	\$ (483,417)	\$ (588,012)	\$ 1,722,785
Net income	—	—	—	259,144	—	—	259,144
Other comprehensive income, net of tax (Note 17)	—	—	—	—	13,780	—	13,780
Dividends (\$0.15 per share)	—	—	—	(23,105)	—	—	(23,105)
Repurchase of common stock	—	—	—	—	—	(5,646)	(5,646)
Share-based compensation	483,326	5	9,423	—	—	—	9,428
Balance, March 28, 2021	<u>168,986,852</u>	<u>\$ 1,690</u>	<u>\$ 1,517,129</u>	<u>\$ 1,520,862</u>	<u>\$ (469,637)</u>	<u>\$ (593,658)</u>	<u>\$ 1,976,386</u>
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
	Issued Shares	Balance					
Balance, December 31, 2019	182,816,536	\$ 1,828	\$ 1,491,004	\$ 2,193,997	\$ (536,949)	\$ (1,345,881)	\$ 1,803,999
Net income	—	—	—	69,695	—	—	69,695
Other comprehensive loss, net of tax (Note 17)	—	—	—	—	(42,341)	—	(42,341)
Dividends (\$0.38 per share)	—	—	—	(58,817)	—	—	(58,817)
Repurchase of common stock	—	—	—	—	—	(7,071)	(7,071)
Share-based compensation	585,053	6	4,137	—	—	604	4,747
Cumulative effect of change in accounting	—	—	—	(78,229)	—	—	(78,229)
Balance, March 29, 2020	<u>183,401,589</u>	<u>\$ 1,834</u>	<u>\$ 1,495,141</u>	<u>\$ 2,126,646</u>	<u>\$ (579,290)</u>	<u>\$ (1,352,348)</u>	<u>\$ 1,691,983</u>

The accompanying notes are integral to the consolidated financial statements.

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 subsidiaries, all of which are wholly-owned (the Company), including the accounts of the groups of companies referred to 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 have been eliminated.

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

In the opinion of the Company's 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 28, 2021 and March 29, 2020, the *Consolidated statements of operations* 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 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. The consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

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

During the first quarter of 2020, the outbreak of a novel strain of coronavirus (COVID-19) spread throughout the world, and it was recognized as a pandemic in March 2020. The COVID-19 pandemic has restricted the level of economic activity in the U.S. and around the world and the full extent of its impact is not yet known. Certain estimates used in the preparation of financial results for the period ending March 28, 2021 could be impacted in future periods as a result of the COVID-19 pandemic.

2. New Accounting Standards

Accounting Standards Recently Adopted

In December 2019, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2019-12, Simplifying the Accounting for Income Taxes (ASU No. 2019-12). The new guidance eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The Company adopted ASU 2019-12 on January 1, 2021 on a prospective basis. The adoption of ASU 2019-12 did not have a material impact on the Company's consolidated financial statements.

3. Revenue

The Company recognizes revenue when it satisfies a performance obligation by transferring control of a good or service to a customer. Revenue is measured based on the consideration that the Company expects to be entitled to in exchange for the goods or services transferred. Taxes that are collected from a customer concurrent with revenue-producing activities are excluded from revenue.

Disaggregated revenue by major source was as follows (in thousands):

	Three months ended	
	March 28, 2021	March 29, 2020
Motorcycles and Related Products Revenue:		
Motorcycles	\$ 1,016,334	\$ 899,365
Parts & Accessories	149,859	134,685
General Merchandise	50,323	49,160
Licensing	5,512	8,029
Other	10,079	8,549
	<u>1,232,107</u>	<u>1,099,788</u>
Financial Services Revenue:		
Interest income	159,814	170,001
Other	30,586	28,455
	<u>190,400</u>	<u>198,456</u>
	<u>\$ 1,422,507</u>	<u>\$ 1,298,244</u>

The Company maintains certain deferred revenue balances related to payments received at contract inception in advance of the Company's performance under the contract and generally relates to the sale of Harley Owners 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 sheets*, was as follows (in thousands):

	March 28, 2021	March 29, 2020
Balance, beginning of period	\$ 36,614	\$ 29,745
Balance, end of period	\$ 36,266	\$ 29,434

Previously deferred revenue recognized as revenue in the three months ended March 28, 2021 and March 29, 2020 was \$6.2 million and \$6.9 million, respectively. The Company expects to recognize approximately \$14.9 million of the remaining unearned revenue over the next 12 months and \$21.4 million thereafter.

4. Restructuring Activities

The Company's restructuring activities are included in *Restructuring benefit* on the *Consolidated statements of operations*.

In 2020, the Company initiated restructuring activities including a workforce reduction, the termination of certain current and future products, facility changes, optimizing its global independent dealer network, exiting certain international markets, and discontinuing its sales and manufacturing operations in India. The workforce reduction resulted in the termination of approximately 500 employees. In addition, the India action resulted in the termination of approximately 70 employees.

Since the inception of these restructuring activities in 2020 through the three months ended March 28, 2021, the Company has incurred cumulative restructuring expenses of \$129.6 million. This includes a restructuring benefit during the three months ended March 28, 2021 of \$0.4 million, consisting of a \$0.6 million benefit in the Motorcycles segment and expense of \$0.2 million in the Financial Services segment. The Company expects total estimated restructuring expenses of approximately \$150 million, including approximately \$139 million and \$11 million expected to be incurred in the Motorcycles and Financial Services segments, respectively. Total expected restructuring expenses include approximately \$30 million related to employee termination benefits, \$90 million related to contract termination and other costs and \$30 million related to non-current asset adjustments, including accelerated depreciation and other adjustments to the carrying value of non-current assets. The Company expects to incur the remaining estimated restructuring expenses of approximately \$20 million in 2021.

Changes in accrued restructuring expenses, which are included in *Accrued liabilities* on the *Consolidated balance sheets*, were as follows (in thousands). There were no restructuring activities during the three months ended March 29, 2020.

	Three months ended March 28, 2021			
	Employee Termination Benefits	Contract Terminations & Other	Non-Current Asset Adjustments	Total
Balance, beginning of period	\$ 7,724	\$ 16,196	\$ —	\$ 23,920
Restructuring (benefit) expense	(944)	1,106	(528)	(366)
Utilized – cash	(3,661)	(12,781)	—	(16,442)
Utilized – non cash	—	—	528	528
Foreign currency changes	(112)	(54)	—	(166)
Balance, end of period	\$ 3,007	\$ 4,467	\$ —	\$ 7,474

5. Income Taxes

The Company's effective income tax rate for the three months ended March 28, 2021 was 23.8% compared to 26.3% for the three months ended March 29, 2020. The decrease in the first quarter 2021 effective income tax rate from 2020 was due to the increase in *Income before provision for income taxes*, resulting in discrete income tax adjustments having a reduced impact on the effective income tax rate for the quarter. The effective income tax rate for the three months ended March 28, 2021 was determined based on the Company's current projections for full-year 2021 financial results.

6. Earnings Per Share

The computation of basic and diluted earnings per share was as follows (in thousands, except per share amounts):

	Three months ended	
	March 28, 2021	March 29, 2020
Net income	\$ 259,144	\$ 69,695
Basic weighted-average shares outstanding	153,478	153,004
Effect of dilutive securities – employee stock compensation plan	1,012	740
Diluted weighted-average shares outstanding	154,490	153,744
Net earnings per share:		
Basic	\$ 1.69	\$ 0.46
Diluted	\$ 1.68	\$ 0.45

Shares of common stock related to share-based compensation that were not included in the effect of dilutive securities because the effect would have been anti-dilutive include 0.6 million and 1.7 million shares for the three months ended March 28, 2021 and March 29, 2020, respectively.

7. Additional Balance Sheet and Cash Flow Information

Investments in Marketable Securities – The Company's investments in marketable securities consisted of the following (in thousands):

	March 28, 2021	December 31, 2020	March 29, 2020
Mutual funds	\$ 50,239	\$ 52,061	\$ 44,144

Mutual funds, included in *Other long-term assets* on the *Consolidated balance sheets*, are carried at fair value with gains and losses recorded in income. Mutual funds are held to support certain deferred compensation obligations.

Inventories, net – Substantially all inventories located in the U.S. 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, net* consisted of the following (in thousands):

	March 28, 2021	December 31, 2020	March 29, 2020
Raw materials and work in process	\$ 251,199	\$ 211,979	\$ 245,384
Motorcycle finished goods	185,590	281,132	272,648
Parts & Accessories and General Merchandise	88,291	84,469	149,318
Inventory at lower of FIFO cost or net realizable value	525,080	577,580	667,350
Excess of FIFO over LIFO cost	(54,083)	(54,083)	(56,426)
	<u>\$ 470,997</u>	<u>\$ 523,497</u>	<u>\$ 610,924</u>

Deposits – Beginning in 2020, HDFS began offering brokered certificates of deposit to customers indirectly through contractual arrangements with third-party banks and/or securities brokerage firms through its bank subsidiary. The Company had \$152.7 million and \$80.0 million, net of fees, of interest-bearing brokered certificates of deposit outstanding as of March 28, 2021 and December 31, 2020, respectively. There were no deposits as of March 29, 2020. The liabilities for deposits are included in *Short-term deposits, net* or *Long-term deposits, net* on the *Consolidated balance sheets* based upon the term of each brokered certificate of deposit issued. Each separate brokered certificate of deposit is issued under a master certificate, and as such, all outstanding brokered certificates of deposit are considered below the Federal Deposit Insurance Corporation insurance coverage limits.

Future maturities of the Company's certificates of deposit as of March 28, 2021 were as follows (in thousands):

2021	\$ 80,000
2022	14,000
2023	7,000
2024	22,000
2025	—
Thereafter	30,000
Unamortized fees	(347)
	<u>\$ 152,653</u>

Operating Cash Flow – The reconciliation of *Net income* to *Net cash provided (used) by operating activities* was as follows (in thousands):

	Three months ended	
	March 28, 2021	March 29, 2020
Cash flows from operating activities:		
Net income	\$ 259,144	\$ 69,695
Adjustments to reconcile Net income to Net cash provided (used) by operating activities:		
Depreciation and amortization	40,221	47,427
Amortization of deferred loan origination costs	19,200	16,739
Amortization of financing origination fees	3,614	2,999
Provision for long-term employee benefits	7,090	7,852
Employee benefit plan contributions and payments	(9,885)	(1,608)
Stock compensation expense	8,968	3,896
Net change in wholesale finance receivables related to sales	(308,532)	(208,183)
Provision for credit losses	(22,474)	79,419
Deferred income taxes	13,192	(3,803)
Other, net	1,171	3,579
Changes in current assets and liabilities:		
Accounts receivable, net	(79,012)	(47,272)
Finance receivables – accrued interest and other	8,947	4,007
Inventories, net	45,086	(23,943)
Accounts payable and accrued liabilities	153,597	10,562
Derivative financial instruments	(3,309)	2,812
Other	25,763	27,240
	(96,363)	(78,277)
Net cash provided (used) by operating activities	\$ 162,781	\$ (8,582)

8. Finance Receivables

The Company provides retail financial services to customers of its independent dealers in the U.S. 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 independent dealer sales of motorcycles to retail 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 its independent dealers in the U.S. and Canada. Wholesale finance receivables are related primarily to the Company's sale of motorcycles and related parts and accessories to dealers. Wholesale loans to dealers are generally secured by financed inventory or property.

Finance receivables, net were as follows (in thousands):

	March 28, 2021	December 31, 2020	March 29, 2020
Retail finance receivables	\$ 6,310,982	\$ 6,344,195	\$ 6,269,247
Wholesale finance receivables	792,028	489,749	1,358,656
	7,103,010	6,833,944	7,627,903
Allowance for credit losses	(346,233)	(390,936)	(335,496)
	\$ 6,756,777	\$ 6,443,008	\$ 7,292,407

On January 1, 2020, the Company adopted ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13), which requires an entity to recognize expected lifetime losses on finance receivables upon origination. Under ASU 2016-13, the Company's finance receivables are reported at amortized cost, net of the allowance for credit losses. Amortized cost includes the principal outstanding, accrued interest, and deferred loan fees and costs. Based on differences in the nature of the finance receivables and the underlying methodology for calculating the allowance for loan losses, the Company segments its finance receivables into the retail and wholesale portfolios. The Company further disaggregates each portfolio by credit quality indicators. As the credit risk varies between the retail and wholesale portfolios, the Company utilizes different credit quality indicators for each portfolio.

The retail portfolio primarily consists of a large number of small balance, homogeneous finance receivables. The Company performs a collective evaluation of the adequacy of the retail allowance for credit losses. The Company utilizes a vintage-based loss forecast methodology that includes decompositions for probability of default, exposure at default, attrition rate, and recovery balance rate. Reasonable and supportable economic forecasts for a two-year period are incorporated into the methodology to reflect the estimated impact of changes in future economic conditions, such as unemployment rates, household obligations or other relevant factors, over the two-year reasonable and supportable period. For periods beyond the Company's reasonable and supportable forecasts, the Company reverts to its average historical loss experience using a mean-reversion process over a three-year period. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, or term as well as other relevant factors.

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 to determine whether the loans share similar risk characteristics. The Company individually evaluates loans that do not share risk characteristics. Loans identified as those for which foreclosure is probable are classified as Non-Performing, and a specific allowance for credit losses is established when appropriate. The specific allowance is determined based on the amortized cost of the related finance receivable and the estimated fair value of the collateral, less selling costs and the cash that the Company expects to receive. Finance receivables in the wholesale portfolio not individually assessed are aggregated, based on similar risk characteristics, according to the Company's internal risk rating system and measured collectively. 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, reasonable and supportable economic forecasts, and the value of the underlying collateral and expected recoveries.

The Company considers various economic forecast scenarios as part of estimating the allowance for expected credit losses and applies a probability-weighting to those economic forecast scenarios. Changes in the Company's outlook on economic conditions impacted the retail and wholesale estimates for expected credit losses at March 28, 2021. During the first quarter of 2021, the U.S. economy and the Company's outlook on economic conditions improved from the fourth quarter of 2020; however, there is uncertainty surrounding the pace of economic recovery as demonstrated by unemployment levels above those experienced prior to the COVID-19 pandemic and continuing COVID-19 pandemic-related challenges across the U.S., among other factors. As such, at the end of the first quarter of 2021, the Company's economic outlook on economic conditions included economic improvement; however, given the uncertainty surrounding the pace of economic recovery, the Company also included some adverse economic conditions in its economic scenario weighting.

Additionally, the historical experience incorporated into the portfolio-specific models does not fully reflect the Company's comprehensive expectations regarding the future. As such, the Company incorporated qualitative factors to establish an appropriate allowance balance. These factors include motorcycle recovery value considerations, delinquency adjustments, specific problem loan trends, and others, as appropriate.

Due to the use of projections and assumptions in estimating the losses, the amount of losses actually incurred by the Company in either portfolio could differ from the amounts estimated. Further, the Company's allowance for credit losses incorporates known conditions at the balance sheet date and the Company's management's expectations surrounding the economic forecasts. The Company's expectations surrounding its economic forecasts may change in future periods as additional information becomes available.

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

	Three months ended March 28, 2021		
	Retail	Wholesale	Total
Balance, beginning of period	\$ 371,738	\$ 19,198	\$ 390,936
Provision for credit losses	(22,449)	(25)	(22,474)
Charge-offs	(34,589)	—	(34,589)
Recoveries	12,360	—	12,360
Balance, end of period	\$ 327,060	\$ 19,173	\$ 346,233

	Three months ended March 29, 2020		
	Retail	Wholesale	Total
Balance, beginning of period	\$ 188,501	\$ 10,080	\$ 198,581
Cumulative effect of change in accounting ^(a)	95,558	5,046	100,604
Provision for credit losses	70,417	9,002	79,419
Charge-offs	(55,215)	—	(55,215)
Recoveries	12,107	—	12,107
Balance, end of period	\$ 311,368	\$ 24,128	\$ 335,496

(a) On January 1, 2020, the Company adopted ASU 2016-13 and increased the allowance for loan loss through *Retained earnings*, net of income taxes, to establish an allowance that represents expected lifetime credit losses on the finance receivable portfolios at date of adoption.

The Company manages retail credit risk through its credit approval process 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. For the Company's U.S. and Canadian retail finance receivables, the Company determines the credit quality indicator for each loan at origination and does not update the credit quality indicator subsequent to the loan origination date.

As loan performance by credit quality indicator differs between the U.S. and Canadian retail loans, the Company's credit quality indicators vary for the two portfolios. For U.S. retail finance receivables, those with a FICO score of 740 or above at origination are generally considered super prime, loans with a FICO score between 640 and 740 are generally categorized as prime, and loans with FICO score below 640 are generally considered sub-prime. For Canadian retail finance receivables, those with a FICO score of 700 or above at origination are generally considered super prime, loans with a FICO score between 620 and 700 are generally categorized as prime, and loans with FICO score below 620 are generally considered sub-prime.

The amortized cost of the Company's U.S. and Canadian retail finance receivables by vintage and credit quality indicator was as follows (in thousands):

	March 28, 2021						
	2021	2020	2019	2018	2017	2016 & Prior	Total
U.S. Retail:							
Super prime	\$ 260,359	\$ 725,383	\$ 502,847	\$ 301,839	\$ 134,213	\$ 74,086	\$ 1,998,727
Prime	349,662	1,026,080	706,940	445,201	249,327	183,217	2,960,427
Sub-prime	130,389	395,495	263,203	156,368	96,998	100,827	1,143,280
	740,410	2,146,958	1,472,990	903,408	480,538	358,130	6,102,434
Canadian Retail:							
Super prime	13,938	48,309	42,993	24,549	11,116	4,831	145,736
Prime	4,245	17,350	13,055	9,263	5,808	4,178	53,899
Sub-prime	601	2,949	2,227	1,407	951	778	8,913
	18,784	68,608	58,275	35,219	17,875	9,787	208,548
	\$ 759,194	\$ 2,215,566	\$ 1,531,265	\$ 938,627	\$ 498,413	\$ 367,917	\$ 6,310,982

December 31, 2020							
	2020	2019	2018	2017	2016	2015 & Prior	Total
U.S. Retail:							
Super prime	\$ 822,631	\$ 575,977	\$ 355,529	\$ 165,436	\$ 71,360	\$ 29,181	\$ 2,020,114
Prime	1,133,637	794,058	508,713	293,358	156,688	77,046	2,963,500
Sub-prime	435,875	295,403	177,598	111,163	72,556	52,060	1,144,655
	<u>2,392,143</u>	<u>1,665,438</u>	<u>1,041,840</u>	<u>569,957</u>	<u>300,604</u>	<u>158,287</u>	<u>6,128,269</u>
Canadian Retail:							
Super prime	53,465	48,692	28,581	13,818	5,018	2,011	151,585
Prime	18,568	14,257	10,269	6,727	3,198	2,025	55,044
Sub-prime	3,172	2,498	1,560	1,095	607	365	9,297
	<u>75,205</u>	<u>65,447</u>	<u>40,410</u>	<u>21,640</u>	<u>8,823</u>	<u>4,401</u>	<u>215,926</u>
	<u>\$ 2,467,348</u>	<u>\$ 1,730,885</u>	<u>\$ 1,082,250</u>	<u>\$ 591,597</u>	<u>\$ 309,427</u>	<u>\$ 162,688</u>	<u>\$ 6,344,195</u>
March 29, 2020							
	2020	2019	2018	2017	2016	2015 & Prior	Total
U.S. Retail:							
Super prime	\$ 204,937	\$ 825,176	\$ 539,296	\$ 275,621	\$ 140,284	\$ 62,924	\$ 2,048,238
Prime	265,365	1,065,132	717,234	441,284	262,421	155,338	2,906,774
Sub-prime	108,068	394,291	239,571	155,391	108,531	98,124	1,103,976
	<u>578,370</u>	<u>2,284,599</u>	<u>1,496,101</u>	<u>872,296</u>	<u>511,236</u>	<u>316,386</u>	<u>6,058,988</u>
Canadian Retail:							
Super prime	12,819	61,889	39,516	22,186	10,565	4,989	151,964
Prime	3,968	16,479	12,389	8,441	4,549	3,929	49,755
Sub-prime	768	2,827	1,919	1,348	921	757	8,540
	<u>17,555</u>	<u>81,195</u>	<u>53,824</u>	<u>31,975</u>	<u>16,035</u>	<u>9,675</u>	<u>210,259</u>
	<u>\$ 595,925</u>	<u>\$ 2,365,794</u>	<u>\$ 1,549,925</u>	<u>\$ 904,271</u>	<u>\$ 527,271</u>	<u>\$ 326,061</u>	<u>\$ 6,269,247</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 the Company'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. Additionally, the Company classifies dealers identified as those in which foreclosure is probable as Non-Performing. 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 amortized cost of wholesale financial receivables, by vintage and credit quality indicator, was as follows (in thousands):

	March 28, 2021						
	2021	2020	2019	2018	2017	2016 & Prior	Total
Non-Performing	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Doubtful	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Special Mention	567	530	262	17	—	—	1,376
Medium Risk	—	728	417	—	—	—	1,145
Low Risk	600,144	122,970	44,614	12,568	6,392	2,819	789,507
	<u>\$ 600,711</u>	<u>\$ 124,228</u>	<u>\$ 45,293</u>	<u>\$ 12,585</u>	<u>\$ 6,392</u>	<u>\$ 2,819</u>	<u>\$ 792,028</u>

	December 31, 2020						
	2020	2019	2018	2017	2016	2015 & Prior	Total
Non-Performing	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Doubtful	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Special Mention	658	365	31	—	—	—	1,054
Medium Risk	1,925	242	—	—	—	—	2,167
Low Risk	388,568	71,441	13,412	7,887	2,297	2,923	486,528
	<u>\$ 391,151</u>	<u>\$ 72,048</u>	<u>\$ 13,443</u>	<u>\$ 7,887</u>	<u>\$ 2,297</u>	<u>\$ 2,923</u>	<u>\$ 489,749</u>

	March 29, 2020						
	2020	2019	2018	2017	2016	2015 & Prior	Total
Non-Performing	\$ —	\$ 2,376	\$ 1,774	\$ 107	\$ 25	\$ 43	\$ 4,325
Doubtful	478	4,169	529	51	—	726	5,953
Substandard	5,375	6,374	391	131	—	—	12,271
Special Mention	5,239	8,001	977	6	—	1,268	15,491
Medium Risk	8,307	10,996	1,091	23	—	826	21,243
Low Risk	658,137	574,401	47,101	10,997	6,323	2,414	1,299,373
	<u>\$ 677,536</u>	<u>\$ 606,317</u>	<u>\$ 51,863</u>	<u>\$ 11,315</u>	<u>\$ 6,348</u>	<u>\$ 5,277</u>	<u>\$ 1,358,656</u>

Retail finance receivables are contractually delinquent if the minimum payment is not received by the specified due date. Retail finance receivables at amortized cost, excluding accrued interest, 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. The Company reverses accrued interest related to charged-off accounts against interest income when the account is charged-off. The Company reversed \$5.2 million and \$6.4 million of accrued interest against interest income during the three months ended March 28, 2021 and March 29, 2020, respectively. All retail finance receivables accrue interest until either collected or charged-off. Due to the timely write-off of accrued interest, the Company made the election provided under *Accounting Standards Codification (ASC) Topic 326, Financial Instruments - Credit Losses* (ASC Topic 326) to exclude accrued interest from its allowance for credit losses. Accordingly, as of March 28, 2021, December 31, 2020 and March 29, 2020, all retail finance receivables were accounted for as interest-earning receivables.

Wholesale finance receivables are delinquent if the minimum payment is not received by the contractual due date. Wholesale finance receivables are written down once the Company 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 Company determines that foreclosure is probable, 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. Once an account is charged-off, the Company will reverse the associated accrued interest against interest income. As the Company follows a non-accrual policy for interest, the allowance for credit losses excludes accrued interest for the wholesale portfolio.

There were no charged-off accounts during the three months ended March 28, 2021 and March 29, 2020. As such, the Company did not reverse any accrued interest in those periods. There were no dealers on non-accrual status at March 28, 2021 and December 31, 2020. At March 29, 2020, \$4.3 million of wholesale finance receivables outstanding on non-accrual status, and of this, \$2.6 million were over 90 days or more past due.

Additional information related to the wholesale finance receivables on non-accrual status at March 29, 2020 includes (in thousands):

	Amortized Cost, Beginning of Period	Amortized Cost, End of Period	Interest Income Recognized
No related allowance recorded	\$ —	\$ —	\$ —
Related allowance recorded	4,994	4,325	—
	<u>\$ 4,994</u>	<u>\$ 4,325</u>	<u>\$ —</u>

The aging analysis of finance receivables was as follows (in thousands):

March 28, 2021						
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total
Retail finance receivables	\$ 6,196,345	\$ 69,032	\$ 23,420	\$ 22,185	\$ 114,637	\$ 6,310,982
Wholesale finance receivables	791,826	128	22	52	202	792,028
	<u>\$ 6,988,171</u>	<u>\$ 69,160</u>	<u>\$ 23,442</u>	<u>\$ 22,237</u>	<u>\$ 114,839</u>	<u>\$ 7,103,010</u>
December 31, 2020						
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total
Retail finance receivables	\$ 6,164,369	\$ 106,818	\$ 39,933	\$ 33,075	\$ 179,826	\$ 6,344,195
Wholesale finance receivables	489,556	166	23	4	193	489,749
	<u>\$ 6,653,925</u>	<u>\$ 106,984</u>	<u>\$ 39,956</u>	<u>\$ 33,079</u>	<u>\$ 180,019</u>	<u>\$ 6,833,944</u>
March 29, 2020						
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total
Retail finance receivables	\$ 6,091,319	\$ 101,412	\$ 37,816	\$ 38,700	\$ 177,928	\$ 6,269,247
Wholesale finance receivables	1,352,084	2,051	1,437	3,084	6,572	1,358,656
	<u>\$ 7,443,403</u>	<u>\$ 103,463</u>	<u>\$ 39,253</u>	<u>\$ 41,784</u>	<u>\$ 184,500</u>	<u>\$ 7,627,903</u>

Generally, it is the Company's policy not to change the terms and conditions of finance receivables. However, to minimize economic loss, the Company may modify certain finance receivables in troubled debt restructurings. Total finance receivables in troubled debt restructurings were not significant as of March 28, 2021, December 31, 2020 and March 29, 2020. Additionally, in certain situations, the Company may offer short-term adjustments to customer payment due dates without affecting the associated interest rate or loan term. During 2020 and into the first quarter of 2021, the Company offered an increased amount of short-term payment due date extensions on eligible retail loans to help retail customers get through financial difficulties associated with the COVID-19 pandemic. During the first quarter of 2021, the volume of payment extensions granted for eligible retail loans declined from the levels experienced during the second quarter and into the third quarter of 2020 but had not yet returned to pre-COVID-19 pandemic levels. The Company continues to grant payment extensions to customers in accordance with its policies.

9. Derivative Financial Instruments and Hedging Activities

The Company is exposed to risks from fluctuations in foreign currency exchange rates, interest rates and commodity prices. 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, Australian dollar, Japanese yen, Brazilian real, Canadian dollar, Mexican peso, Chinese yuan, Thai baht, Indian rupee, Singapore dollar, and Pound sterling. The Company's 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 operations. The Company's 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 an anticipated issuance of long-term debt, interest rate swaps to reduce the impact of fluctuations in interest rates on medium-term notes with floating interest rates, and cross-currency swaps to mitigate the effect of foreign currency exchange rate fluctuations on foreign currency-denominated debt. The Company also utilizes interest rate caps to facilitate certain asset-backed securitization transactions.

All derivative financial instruments are recognized on the *Consolidated balance sheets* at fair value. In accordance with *ASC Topic 815, Derivatives and Hedging* (ASC Topic 815), the accounting for changes in the fair value of a derivative financial 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 derivative financial instruments that are designated as cash flow hedges are initially recorded in *Other comprehensive income (loss)* (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 ongoing basis, whether the derivative financial instruments that are designated as cash flow hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. No component of a designated hedging derivative financial instrument's gain or loss is excluded from the assessment of hedge effectiveness. Derivative financial instruments not designated as hedges are not speculative and are used to manage the Company's exposure to foreign currency, commodity risks, and interest rate risks. Changes in the fair value of derivative financial instruments not designated as hedging instruments are recorded directly in income.

The notional and fair values of the Company's derivative financial instruments under ASC Topic 815 were as follows (in thousands):

	Derivative Financial Instruments Designated as Cash Flow Hedging Instruments								
	March 28, 2021			December 31, 2020			March 29, 2020		
	Notional Value	Other Current Assets	Accrued Liabilities	Notional Value	Other Current Assets	Accrued Liabilities	Notional Value	Other Current Assets	Accrued Liabilities
Foreign currency contracts	\$ 402,814	\$ 6,356	\$ 6,071	\$ 533,925	\$ 11	\$ 21,927	\$ 414,753	\$ 12,108	\$ 575
Commodity contracts	668	3	20	671	—	52	482	—	74
Cross-currency swaps	1,367,460	73,449	—	1,367,460	138,622	—	660,780	—	41,283
Interest rate swaps	—	—	—	450,000	—	3,086	900,000	—	11,398
	<u>\$ 1,770,942</u>	<u>\$ 79,808</u>	<u>\$ 6,091</u>	<u>\$ 2,352,056</u>	<u>\$ 138,633</u>	<u>\$ 25,065</u>	<u>\$ 1,976,015</u>	<u>\$ 12,108</u>	<u>\$ 53,330</u>
	Derivative Financial Instruments Not Designated as Hedging Instruments								
	March 28, 2021			December 31, 2020			March 29, 2020		
	Notional Value	Other Current Assets	Accrued Liabilities	Notional Value	Other Current Assets	Accrued Liabilities	Notional Value	Other Current Assets	Accrued Liabilities
Foreign currency contracts	\$ 214,337	\$ 670	\$ 595	\$ 245,494	\$ 737	\$ 435	\$ 182,642	\$ 2,573	\$ 2,194
Commodity contracts	8,172	1,193	40	6,806	849	21	7,769	—	1,452
Interest rate caps	844,673	170	—	978,058	47	—	326,976	2	—
	<u>\$ 1,067,182</u>	<u>\$ 2,033</u>	<u>\$ 635</u>	<u>\$ 1,230,358</u>	<u>\$ 1,633</u>	<u>\$ 456</u>	<u>\$ 517,387</u>	<u>\$ 2,575</u>	<u>\$ 3,646</u>

The amounts of gains and losses related to derivative financial instruments designated as cash flow hedges were as follows (in thousands):

	Gain/(Loss) Recognized in OCI		Gain/(Loss) Reclassified from AOCL into Income	
	Three months ended		Three months ended	
	March 28, 2021	March 29, 2020	March 28, 2021	March 29, 2020
Foreign currency contracts	\$ 14,037	\$ 16,899	\$ (4,953)	\$ 3,400
Commodity contracts	3	(129)	(32)	(135)
Cross-currency swaps	(65,174)	(49,609)	(65,788)	(12,906)
Treasury rate lock contracts	—	—	(124)	(124)
Interest rate swaps	397	(5,333)	(2,689)	(3,116)
	<u>\$ (50,737)</u>	<u>\$ (38,172)</u>	<u>\$ (73,586)</u>	<u>\$ (12,881)</u>

The location and amount of gains and losses recognized in income related to derivative financial instruments designated as cash flow hedges were as follows (in thousands):

	Motorcycles cost of goods sold	Selling, administrative & engineering expense	Interest expense	Financial Services interest expense
	Three months ended March 28, 2021			
	March 28, 2021	March 29, 2020	March 28, 2021	March 29, 2020
Line item on the Consolidated statements of operations in which the effects of cash flow hedges are recorded	\$ 811,622	\$ 231,844	\$ 7,708	\$ 55,707
Gain/(loss) reclassified from AOCL into income:				
Foreign currency contracts	\$ (4,953)	\$ —	\$ —	\$ —
Commodity contracts	\$ (32)	\$ —	\$ —	\$ —
Cross-currency swaps	\$ —	\$ (65,788)	\$ —	\$ —
Treasury rate lock contracts	\$ —	\$ —	\$ (91)	\$ (33)
Interest rate swap	\$ —	\$ —	\$ —	\$ (2,689)
	Three months ended March 29, 2020			
Line item on the Consolidated statements of operations in which the effects of cash flow hedges are recorded	\$ 780,868	\$ 277,971	\$ 7,755	\$ 52,473
Gain/(loss) reclassified from AOCL into income:				
Foreign currency contracts	\$ 3,400	\$ —	\$ —	\$ —
Commodity contracts	\$ (135)	\$ —	\$ —	\$ —
Cross-currency swaps	\$ —	\$ (12,906)	\$ —	\$ —
Treasury rate lock contracts	\$ —	\$ —	\$ (91)	\$ (33)
Interest rate swaps	\$ —	\$ —	\$ —	\$ (3,116)

The amount of net loss included in *Accumulated other comprehensive loss* (AOCL) at March 28, 2021, estimated to be reclassified into income over the next 12 months was \$17.1 million.

The amount of gains and losses recognized in income related to derivative financial instruments not designated as hedging instruments were as follows (in thousands). Gains and losses on foreign currency contracts and commodity contracts were recorded in *Motorcycles cost of goods sold* and the interest rate caps were recorded in *Financial Services interest expense*.

	Amount of Gain/(Loss) Recognized in Income	
	Three months ended March 28, 2021	March 29, 2020
Foreign currency contracts	\$ (3,629)	\$ 2,194
Commodity contracts	703	(1,551)
Interest rate caps	123	—
	<u>\$ (2,803)</u>	<u>\$ 643</u>

The Company is exposed to credit loss risk in the event of non-performance by counterparties to its derivative financial instruments. Although no assurances can be given, the Company does not expect any of the counterparties to its derivative financial instruments to fail to meet their 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 their position.

10. Leases

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

ROU assets represent the Company's right to use an underlying asset over the lease term, and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the 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 liabilities includes periods covered by options to extend or terminate when the Company is reasonably certain the lease term will include these optional periods.

In accordance with *ASC Topic 842, Leases* (ASC Topic 842), the Company 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 also elected the practical expedient under ASC Topic 842 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 Company has operating lease arrangements for sales and administrative offices, manufacturing and distribution facilities, product testing facilities, equipment and vehicles. The Company's leases have remaining lease terms ranging from 1 to 11 years, some of which include options to extend the lease term 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. The Company's leases do not contain any material residual value guarantees or material restrictive covenants.

Operating lease expense for the three months ended March 28, 2021 and March 29, 2020 was \$8.2 million and \$7.3 million, respectively. This includes variable lease costs related to leases involving assets operated by a third party of approximately \$3.1 million and \$1.9 million for the three months ended March 28, 2021 and March 29, 2020, respectively. Other variable and short-term lease costs were not material.

Balance sheet information related to the Company's leases was as follows (in thousands):

	March 28, 2021	December 31, 2020	March 29, 2020
Lease assets	\$ 44,765	\$ 45,203	\$ 56,496
Accrued liabilities	\$ 17,021	\$ 17,081	\$ 17,939
Lease liabilities	30,061	30,115	40,053
	<u>\$ 47,082</u>	<u>\$ 47,196</u>	<u>\$ 57,992</u>

Future maturities of the Company's operating lease liabilities as of March 28, 2021 were as follows (in thousands):

	Operating Leases
2021	\$ 13,805
2022	14,466
2023	6,511
2024	4,518
2025	6,816
Thereafter	3,677
Future lease payments	49,793
Present value discount	(2,711)
Lease liabilities	<u>\$ 47,082</u>

Other lease information surrounding the Company's operating leases was as follows (dollars in thousands):

	Three months ended	
	March 28, 2021	March 29, 2020
Cash outflows for amounts included in the measurement of lease liabilities	\$ 4,947	\$ 5,378
ROU assets obtained in exchange for lease obligations, net of modifications	\$ 5,305	\$ 557

	March 28, 2021	December 31, 2020	March 29, 2020
Weighted-average remaining lease term (in years)	3.81	3.78	4.20
Weighted-average discount rate	2.9 %	3.1 %	3.3 %

11. Debt

Debt with a contractual term less than 12 months is generally classified as short-term and consisted of the following (in thousands):

	March 28, 2021	December 31, 2020	March 29, 2020
Unsecured commercial paper	\$ 749,801	\$ 1,014,274	\$ 1,335,664
Global credit facility borrowings	15,462	—	—
	<u>\$ 765,263</u>	<u>\$ 1,014,274</u>	<u>\$ 1,335,664</u>

Debt with a contractual term greater than 12 months is generally classified as long-term and consisted of the following (in thousands):

		March 28, 2021	December 31, 2020	March 29, 2020
Secured debt:				
Asset-backed Canadian commercial paper conduit facility		\$ 102,543	\$ 116,678	\$ 155,243
Asset-backed U.S. commercial paper conduit facilities		350,648	402,205	600,000
Asset-backed securitization debt		2,109,046	1,800,393	1,161,047
Unamortized discounts and debt issuance costs		(9,788)	(8,437)	(4,202)
		<u>2,552,449</u>	<u>2,310,839</u>	<u>1,912,088</u>
Unsecured notes (at par value):				
Medium-term notes:				
Due in 2020, issued May 2018	LIBOR + 0.50%	—	—	450,000
Due in 2020, issued March 2017	2.40 %	—	—	350,000
Due in 2021, issued January 2016	2.85 %	—	600,000	600,000
Due in 2021, issued November 2018	LIBOR + 0.94%	—	450,000	450,000
Due in 2021, issued May 2018	3.55 %	350,000	350,000	350,000
Due in 2022, issued February 2019	4.05 %	550,000	550,000	550,000
Due in 2022, issued June 2017	2.55 %	400,000	400,000	400,000
Due in 2023, issued February 2018	3.35 %	350,000	350,000	350,000
Due in 2023, issued May 2020 ^(a)	4.94 %	762,996	797,206	—
Due in 2024, issued November 2019 ^(b)	3.14 %	704,304	735,882	660,030
Due in 2025, issued June 2020	3.35 %	700,000	700,000	—
Unamortized discounts and debt issuance costs		(13,564)	(15,374)	(11,046)
		<u>3,803,736</u>	<u>4,917,714</u>	<u>4,148,984</u>
Senior notes:				
Due in 2025, issued July 2015	3.50 %	450,000	450,000	450,000
Due in 2045, issued July 2015	4.625 %	300,000	300,000	300,000
Unamortized discounts and debt issuance costs		(5,851)	(6,023)	(6,534)
		<u>744,149</u>	<u>743,977</u>	<u>743,466</u>
		<u>4,547,885</u>	<u>5,661,691</u>	<u>4,892,450</u>
Long-term debt		7,100,334	7,972,530	6,804,538
Current portion of long-term debt, net		(1,622,243)	(2,039,597)	(2,326,460)
Long-term debt, net		<u>\$ 5,478,091</u>	<u>\$ 5,932,933</u>	<u>\$ 4,478,078</u>

(a) Euro denominated, €650.0 million par value remeasured to U.S. dollar at March 28, 2021 and December 31, 2020, respectively

(b) Euro denominated, €600.0 million par value remeasured to U.S. dollar at March 28, 2021, December 31, 2020, and March 29, 2020, respectively

The Company's future principal payments on debt obligations as of March 28, 2021 were as follows (in thousands):

2021	\$ 1,670,913
2022	1,685,613
2023	1,829,349
2024	1,120,828
2025	1,287,560
Thereafter	300,537
	<u>\$ 7,894,800</u>

12. Asset-Backed Financing

The Company participates in asset-backed financing both through asset-backed securitization transactions and through asset-backed commercial paper conduit facilities. In the Company's asset-backed financing programs, the Company transfers retail motorcycle finance receivables to special purpose entities (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* (ASC Topic 860). 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 *Consolidated balance sheets* 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* on the *Consolidated statements of operations*.

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 assets and liabilities related to the on-balance sheet asset-backed financings included in the *Consolidated balance sheets* were as follows (in thousands):

	March 28, 2021					
	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	\$ 2,448,681	\$ (126,053)	\$ 166,694	\$ 2,852	\$ 2,492,174	\$ 2,099,258
Asset-backed U.S. commercial paper conduit facility	378,035	(19,432)	30,252	1,175	390,030	350,648
Unconsolidated VIEs:						
Asset-backed Canadian commercial paper conduit facility	115,742	(5,388)	9,743	206	120,303	102,543
	<u>\$ 2,942,458</u>	<u>\$ (150,873)</u>	<u>\$ 206,689</u>	<u>\$ 4,233</u>	<u>\$ 3,002,507</u>	<u>\$ 2,552,449</u>

	December 31, 2020					
	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	\$ 2,129,372	\$ (124,627)	\$ 116,268	\$ 2,622	\$ 2,123,635	\$ 1,791,956
Asset-backed U.S. commercial paper conduit facility	441,402	(25,793)	26,624	1,131	443,364	402,205
Unconsolidated VIEs:						
Asset-backed Canadian commercial paper conduit facility	133,976	(6,508)	9,073	126	136,667	116,678
	<u>\$ 2,704,750</u>	<u>\$ (156,928)</u>	<u>\$ 151,965</u>	<u>\$ 3,879</u>	<u>\$ 2,703,666</u>	<u>\$ 2,310,839</u>
	March 29, 2020					
	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	\$ 1,250,382	\$ (62,159)	\$ 61,945	\$ 852	\$ 1,251,020	\$ 1,156,845
Asset-backed U.S. commercial paper conduit facilities	662,385	(32,872)	37,290	1,410	668,213	600,000
Unconsolidated VIEs:						
Asset-backed Canadian commercial paper conduit facility	182,353	(6,671)	10,552	148	186,382	155,243
	<u>\$ 2,095,120</u>	<u>\$ (101,702)</u>	<u>\$ 109,787</u>	<u>\$ 2,410</u>	<u>\$ 2,105,615</u>	<u>\$ 1,912,088</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 transactions 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 currently have various contractual maturities ranging from 2022 to 2028.

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.

During the first quarter of 2021, the Company transferred \$663.1 million of U.S. retail motorcycle finance receivables to an SPE which, in turn, issued \$600.0 million, or \$597.4 million net of discount and issuance costs, of secured notes through an on-balance sheet asset-backed securitization transaction. During the first quarter of 2020, the Company transferred \$580.2 million of U.S. retail motorcycle finance receivables to an SPE which, in turn, issued \$525.0 million, or \$522.7 million net of discount and issuance costs, of secured notes through an on-balance sheet asset-backed securitization transaction.

On-Balance Sheet Asset-Backed U.S. Commercial Paper Conduit Facilities VIE – Until November 25, 2020, the Company had two separate agreements with third-party bank-sponsored asset-backed U.S. commercial paper conduits, a \$300.0 million revolving facility agreement and a \$600.0 million revolving facility agreement (together, the Former U.S. Conduit Facilities). On November 25, 2020, the Company amended each revolving facility agreement by consolidating the two agreements into one \$900.0 million revolving facility agreement with third-party bank-sponsored asset-backed U.S. commercial paper conduits. Under the revolving facility agreement, the Company 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 addition to the \$900.0 million aggregate commitment, the agreement allows for additional borrowings, at the lender's

discretion, of up to \$300.0 million. Availability under the \$900.0 million revolving facility (the U.S. Conduit Facility) 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 Facility, 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 if funded by a conduit lender through the issuance of commercial paper. If not funded by a conduit lender through the issuance of commercial paper, the terms of the interest are based on LIBOR. In each of these cases, a program fee is assessed based on the outstanding principal. The U.S. Conduit Facility also provides for an unused commitment fee based on the unused portion of the total aggregate commitment. When calculating the unused fee, the aggregate commitment does not include any unused portion of the \$300.0 million additional borrowings allowed. 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 Facility, 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 4 years. Unless earlier terminated or extended by mutual agreement of the Company and the lenders, as of March 28, 2021, the U.S. Conduit Facility has an expiration date of November 19, 2021.

The Company is the primary beneficiary of its U.S. Conduit Facility 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 Facility during the first quarter of 2021. During the first quarter of 2020, the Company transferred \$195.3 million of U.S. retail motorcycle finance receivables to an SPE which, in turn, issued \$163.6 million of debt under the Former U.S. Conduit Facilities.

On-Balance Sheet Asset-Backed Canadian Commercial Paper Conduit Facility – In June 2020, 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 associated 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 4 years. Unless earlier terminated or extended by mutual agreement between the Company and the lenders, as of March 28, 2021, the Canadian Conduit has an expiration date of June 25, 2021.

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 \$17.8 million at March 28, 2021. The maximum exposure is not an indication of the Company's expected loss exposure.

There were no finance receivable transfers under the Canadian Conduit Facility during the first quarter of 2021. During the first quarter of 2020, the Company transferred \$77.9 million of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of \$61.6 million.

Off-Balance Sheet Asset-Backed Securitization VIE – There were no off-balance sheet asset-backed securitization transactions during the first quarter of 2021 or 2020. 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. The gain on sale was included in *Financial Services revenue* on the *Consolidated statements of operations*. In April 2020, the Company repurchased the finance receivables associated with this off-balance sheet asset-backed securitization VIE for \$27.4 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 was a separate legal entity, and the U.S. retail motorcycle finance receivables included in the asset-backed securitization were only available for payment of the secured debt and other obligations arising from the asset-backed securitization transaction and were 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 was not the primary beneficiary of the off-balance sheet asset-backed securitization VIE because it only retained servicing rights and did 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 in 2016, the retail motorcycle finance receivables were removed from the Company's *Consolidated balance sheets* 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.

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* on the *Consolidated statements of operations*. 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 repurchased the finance receivables associated with the off-balance sheet securitization VIE in April 2020. As such, the Company did not recognize any servicing fee income in 2021. The Company recognized servicing fee income of \$0.1 million during the first quarter of 2020.

The unpaid principal balance of the off-balance sheet retail motorcycle finance receivables serviced by the Company were \$27.4 million as of March 29, 2020 of which \$0.7 million were 30 days or more delinquent. Credit losses, net of recoveries for the off-balance sheet retail motorcycle finance receivables as of March 29, 2020 were \$0.01 million. There was no unpaid principal balance or credit losses, net of recoveries associated with the off-balance sheet retail motorcycle finance receivables as of December 31, 2020 and March 28, 2021.

13. 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. Foreign currency contracts, commodity contracts, cross-currency swaps and treasury rate lock contracts are valued using quoted forward rates and prices; interest rate swaps and caps 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 the Company's judgments about the assumptions market participants would use in pricing the asset or liability.

Recurring Fair Value Measurements – The Company's assets and liabilities measured at fair value on a recurring basis were as follows (in thousands):

	March 28, 2021		
	Balance	Level 1	Level 2
Assets:			
Cash equivalents	\$ 2,069,400	\$ 1,919,400	\$ 150,000
Marketable securities	50,239	50,239	—
Derivative financial instruments	81,841	—	81,841
	<u>\$ 2,201,480</u>	<u>\$ 1,969,639</u>	<u>\$ 231,841</u>
Liabilities:			
Derivative financial instruments	\$ 6,726	\$ —	\$ 6,726
	December 31, 2020		
	Balance	Level 1	Level 2
Assets:			
Cash equivalents	\$ 3,019,884	\$ 2,819,884	\$ 200,000
Marketable securities	52,061	52,061	—
Derivative financial instruments	140,266	—	140,266
	<u>\$ 3,212,211</u>	<u>\$ 2,871,945</u>	<u>\$ 340,266</u>
Liabilities:			
Derivative financial instruments	\$ 25,521	\$ —	\$ 25,521
	March 29, 2020		
	Balance	Level 1	Level 2
Assets:			
Cash equivalents	\$ 1,207,799	\$ 1,144,800	\$ 62,999
Marketable securities	44,144	44,144	—
Derivative financial instruments	14,683	—	14,683
	<u>\$ 1,266,626</u>	<u>\$ 1,188,944</u>	<u>\$ 77,682</u>
Liabilities:			
Derivative financial instruments	\$ 56,976	\$ —	\$ 56,976

Nonrecurring Fair Value Measurements – Repossessed inventory is recorded at the lower of cost or net realizable value through a nonrecurring fair value measurement. Repossessed inventory was \$18.6 million, \$17.7 million and \$22.2 million at March 28, 2021, December 31, 2020 and March 29, 2020, respectively, for which the fair value adjustment was \$2.4 million, \$4.2 million and \$10.9 million, respectively. Fair value is estimated using Level 2 inputs based on the recent market values of repossessed 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 fair value and carrying value of the Company's remaining financial instruments that are measured at cost or amortized cost were as follows (in thousands):

	March 28, 2021		December 31, 2020		March 29, 2020	
	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value
Assets:						
Finance receivables, net	\$ 6,930,531	\$ 6,756,777	\$ 6,586,348	\$ 6,443,008	\$ 7,391,948	\$ 7,292,407
Liabilities:						
Deposits, net	\$ 152,715	\$ 152,653	\$ 79,965	\$ 79,965	\$ —	\$ —
Debt:						
Unsecured commercial paper	\$ 749,801	\$ 749,801	\$ 1,014,274	\$ 1,014,274	\$ 1,335,664	\$ 1,335,664
Global credit facility borrowings	\$ 15,462	\$ 15,462	\$ —	\$ —	\$ —	\$ —
Asset-backed U.S. commercial paper conduit facilities	\$ 350,648	\$ 350,648	\$ 402,205	\$ 402,205	\$ 600,000	\$ 600,000
Asset-backed Canadian commercial paper conduit facility	\$ 102,543	\$ 102,543	\$ 116,678	\$ 116,678	\$ 155,243	\$ 155,243
Asset-backed securitization debt	\$ 2,120,855	\$ 2,099,258	\$ 1,817,892	\$ 1,791,956	\$ 1,139,076	\$ 1,156,845
Medium-term notes	\$ 3,955,743	\$ 3,803,736	\$ 5,118,928	\$ 4,917,714	\$ 4,013,409	\$ 4,148,984
Senior notes	\$ 789,967	\$ 744,149	\$ 828,141	\$ 743,977	\$ 685,805	\$ 743,466

Finance Receivables, net – The carrying value of retail and wholesale finance receivables 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 are generally either short-term or have interest rates that adjust with changes in market interest rates.

Deposits, net – The carrying value of deposits is amortized cost. The fair value of deposits is estimated based upon rates currently available for deposits with similar terms and maturities. Fair value is calculated using Level 3 inputs.

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

14. Product Warranty and Recall Campaigns

The Company currently provides a standard two-year limited warranty on all new motorcycles sold worldwide, except in Japan, where the Company currently provides a standard three-year limited warranty. The Company also provides a five-year unlimited warranty on the battery for electric motorcycles. In addition, the Company provides a one-year warranty for parts and accessories. 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 at the time of sale 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 records estimated recall costs when the liability is both probable and estimable. This generally occurs when the Company's management approves and commits to a recall. The warranty and recall liability is included in *Accrued liabilities* and *Other long-term liabilities* on the *Consolidated balance sheets*. Changes in the Company's warranty and recall liabilities were as follows (in thousands):

	Three months ended	
	March 28, 2021	March 29, 2020
Balance, beginning of period	\$ 69,208	\$ 89,793
Warranties issued during the period	11,672	11,025
Settlements made during the period	(8,585)	(14,157)
Recalls and changes to pre-existing warranty liabilities	132	(353)
Balance, end of period	<u>\$ 72,427</u>	<u>\$ 86,308</u>

The liability for recall campaigns, included in the balance above, was \$25.3 million, \$24.7 million and \$33.6 million at March 28, 2021, December 31, 2020 and March 29, 2020, respectively.

15. Employee Benefit Plans

The Company has a qualified pension plan and postretirement healthcare benefit plans. The plans cover certain eligible employees and retirees of the Motorcycles segment. The Company also has unfunded supplemental employee retirement plan agreements (SERPA) with certain employees. Service cost is allocated among *Selling, administrative and engineering expense*, *Motorcycles cost of goods sold* and *Inventories, net*. Amounts capitalized in inventory are not significant. Non-service cost components of net periodic benefit cost are presented in *Other income, net*. Components of net periodic benefit cost for the Company's defined benefit plans were as follows (in thousands):

	Three months ended	
	March 28, 2021	March 29, 2020
Pension and SERPA Benefits:		
Service cost	\$ 6,348	\$ 6,806
Interest cost	15,470	19,112
Expected return on plan assets	(32,720)	(33,764)
Amortization of unrecognized:		
Prior service credit	(312)	(272)
Net loss	18,386	16,372
Settlement loss	816	—
Net periodic benefit cost	<u>\$ 7,988</u>	<u>\$ 8,254</u>
Postretirement Healthcare Benefits:		
Service cost	\$ 1,288	\$ 1,201
Interest cost	1,626	2,336
Expected return on plan assets	(3,495)	(3,467)
Amortization of unrecognized:		
Prior service credit	(581)	(595)
Net loss	264	123
Net periodic benefit cost	<u>\$ (898)</u>	<u>\$ (402)</u>

There are no required or planned voluntary qualified pension plan contributions for 2021. The Company expects it will continue to make ongoing benefit payments under the SERPA and postretirement healthcare plans.

16. 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.

York Environmental Matter – The Company is involved with government agencies and the U.S. Navy 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 an agreement with the U.S. Navy which calls for the U.S. 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). A site wide remedial investigation/feasibility study and a proposed final remedy for the York facility have been completed and approved by the Pennsylvania Department of Environmental Protection and the United States Environmental Protection Agency (EPA). The associated cleanup plan documents were approved in February 2020 and the remaining cleanup activities are expected to begin later in 2021. The Company has an accrual for its share of the estimated future Response Costs recorded in *Other long-term liabilities* on the *Consolidated balance sheets*.

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.

17. Accumulated Other Comprehensive Loss

Changes in *Accumulated other comprehensive loss* were as follows (in thousands):

	Three months ended March 28, 2021			
	Foreign currency translation adjustments	Derivative financial instruments	Pension and postretirement benefit plans	Total
Balance, beginning of period	\$ (7,589)	\$ (46,116)	\$ (429,712)	\$ (483,417)
Other comprehensive loss, before reclassifications	(17,074)	(50,737)	—	(67,811)
Income tax (expense) benefit	(264)	11,092	—	10,828
	(17,338)	(39,645)	—	(56,983)
Reclassifications:				
Net loss on derivative financial instruments	—	73,586	—	73,586
Prior service credits ^(a)	—	—	(893)	(893)
Actuarial losses ^(a)	—	—	18,650	18,650
Reclassifications before tax	—	73,586	17,757	91,343
Income tax expense	—	(16,411)	(4,169)	(20,580)
	—	57,175	13,588	70,763
Other comprehensive (loss) income	(17,338)	17,530	13,588	13,780
Balance, end of period	\$ (24,927)	\$ (28,586)	\$ (416,124)	\$ (469,637)

	Three months ended March 29, 2020			
	Foreign currency translation adjustments	Derivative financial instruments	Pension and postretirement benefit plans	Total
Balance, beginning of period	\$ (40,813)	\$ (14,586)	\$ (481,550)	\$ (536,949)
Other comprehensive loss, before reclassifications	(35,821)	(38,172)	—	(73,993)
Income tax benefit	1,366	8,267	—	9,633
	(34,455)	(29,905)	—	(64,360)
Reclassifications:				
Net loss on derivative financial instruments	—	12,881	—	12,881
Prior service credits ^(a)	—	—	(867)	(867)
Actuarial losses ^(a)	—	—	16,495	16,495
Reclassifications before tax	—	12,881	15,628	28,509
Income tax expense	—	(2,821)	(3,669)	(6,490)
	—	10,060	11,959	22,019
Other comprehensive (loss) income	(34,455)	(19,845)	11,959	(42,341)
Balance, end of period	<u>\$ (75,268)</u>	<u>\$ (34,431)</u>	<u>\$ (469,591)</u>	<u>\$ (579,290)</u>

(a) Amounts reclassified are included in the computation of net periodic benefit cost, discussed further in Note 15

18. Business Segments

Harley-Davidson, Inc. is the parent company for the groups of companies referred to as Harley-Davidson Motor Company (HDMC) and Harley-Davidson Financial Services (HDFS). The Company operates in two business 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 Harley-Davidson motorcycles as well as motorcycle parts, accessories, general merchandise and services. The Company's products are sold to retail customers primarily through a network of independent dealers.

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.

Select segment information is set forth below (in thousands):

	Three months ended	
	March 28, 2021	March 29, 2020
Motorcycles and Related Products:		
Motorcycles revenue	\$ 1,232,107	\$ 1,099,788
Gross profit	420,485	318,920
Selling, administrative and engineering expense	193,546	234,353
Restructuring benefit	(593)	—
Operating income	227,532	84,567
Financial Services:		
Financial Services revenue	190,400	198,456
Financial Services expense	71,531	175,510
Restructuring expense	227	—
Operating income	118,642	22,946
Operating income	<u>\$ 346,174</u>	<u>\$ 107,513</u>

Total assets for the Motorcycles and Financial Services segments were \$2.4 billion and \$8.9 billion, respectively, as of March 28, 2021, \$2.5 billion and \$9.5 billion, respectively, as of December 31, 2020, and \$2.5 billion and \$8.6 billion, respectively, as of March 29, 2020.

19. Supplemental Consolidating Data

The supplemental consolidating data is presented for informational purposes and is different than segment information due to the allocation of consolidating adjustments to the reportable segments. Supplemental consolidating data is as follows (in thousands):

	Three months ended March 28, 2021			
	HDMC Entities	HDFS Entities	Consolidating Adjustments	Consolidated
Revenue:				
Motorcycles and Related Products	\$ 1,238,468	\$ —	\$ (6,361)	\$ 1,232,107
Financial Services	—	188,750	1,650	190,400
	1,238,468	188,750	(4,711)	1,422,507
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	811,622	—	—	811,622
Financial Services interest expense	—	55,707	—	55,707
Financial Services provision for credit losses	—	(22,474)	—	(22,474)
Selling, administrative and engineering expense	196,359	40,275	(4,790)	231,844
Restructuring (benefit) expense	(593)	227	—	(366)
	1,007,388	73,735	(4,790)	1,076,333
Operating income	231,080	115,015	79	346,174
Other income, net	277	—	—	277
Investment income	1,402	—	—	1,402
Interest expense	7,708	—	—	7,708
Income before income taxes	225,051	115,015	79	340,145
Provision for income taxes	55,996	25,005	—	81,001
Net income	\$ 169,055	\$ 90,010	\$ 79	\$ 259,144

	March 28, 2021			
	HDMC Entities	HDFS Entities	Consolidating Adjustments	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 607,941	\$ 1,712,704	\$ —	\$ 2,320,645
Accounts receivable, net	603,273	—	(386,704)	216,569
Finance receivables, net	—	1,798,194	—	1,798,194
Inventories, net	470,997	—	—	470,997
Restricted cash	—	185,374	—	185,374
Other current assets	81,559	113,797	—	195,356
	<u>1,763,770</u>	<u>3,810,069</u>	<u>(386,704)</u>	<u>5,187,135</u>
Finance receivables, net	—	4,958,583	—	4,958,583
Property, plant and equipment, net	687,086	31,882	—	718,968
Pension and postretirement assets	105,910	—	—	105,910
Goodwill	65,157	—	—	65,157
Deferred income taxes	56,911	79,206	(730)	135,387
Lease assets	36,559	8,206	—	44,765
Other long-term assets	184,876	33,929	(95,722)	123,083
	<u>\$ 2,900,269</u>	<u>\$ 8,921,875</u>	<u>\$ (483,156)</u>	<u>\$ 11,338,988</u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	\$ 355,722	\$ 433,746	\$ (386,704)	\$ 402,764
Accrued liabilities	443,529	125,768	1,143	570,440
Short-term deposits, net	—	93,887	—	93,887
Short-term debt	—	765,263	—	765,263
Current portion of long-term debt, net	—	1,622,243	—	1,622,243
	<u>799,251</u>	<u>3,040,907</u>	<u>(385,561)</u>	<u>3,454,597</u>
Long-term deposits, net	—	58,766	—	58,766
Long-term debt, net	744,149	4,733,942	—	5,478,091
Lease liabilities	22,461	7,600	—	30,061
Pension and postretirement liabilities	103,854	—	—	103,854
Deferred income taxes	7,166	1,516	—	8,682
Other long-term liabilities	179,525	46,920	2,106	228,551
Commitments and contingencies (Note 16)				
Shareholders' equity	1,043,863	1,032,224	(99,701)	1,976,386
	<u>\$ 2,900,269</u>	<u>\$ 8,921,875</u>	<u>\$ (483,156)</u>	<u>\$ 11,338,988</u>

	Three months ended March 28, 2021			
	HDMC Entities	HDFS Entities	Consolidating Adjustments	Consolidated
Cash flows from operating activities:				
Net income	\$ 169,055	\$ 90,010	\$ 79	\$ 259,144
Adjustments to reconcile Net income to Net cash (used) provided by operating activities:				
Depreciation and amortization	37,778	2,443	—	40,221
Amortization of deferred loan origination costs	—	19,200	—	19,200
Amortization of financing origination fees	172	3,442	—	3,614
Provision for long-term employee benefits	7,090	—	—	7,090
Employee benefit plan contributions and payments	(9,885)	—	—	(9,885)
Stock compensation expense	8,174	794	—	8,968
Net change in wholesale finance receivables related to sales	—	—	(308,532)	(308,532)
Provision for credit losses	—	(22,474)	—	(22,474)
Deferred income taxes	3,811	9,812	(431)	13,192
Other, net	476	775	(80)	1,171
Changes in current assets and liabilities:				
Accounts receivable, net	(388,688)	—	309,676	(79,012)
Finance receivables – accrued interest and other	—	8,947	—	8,947
Inventories, net	45,086	—	—	45,086
Accounts payable and accrued liabilities	104,486	354,507	(305,396)	153,597
Derivative financial instruments	(3,219)	(90)	—	(3,309)
Other	18,222	11,271	(3,730)	25,763
	(176,497)	388,627	(308,493)	(96,363)
Net cash (used) provided by operating activities	(7,442)	478,637	(308,414)	162,781
Cash flows from investing activities:				
Capital expenditures	(18,427)	(386)	—	(18,813)
Origination of finance receivables	—	(1,923,911)	1,014,773	(909,138)
Collections on finance receivables	—	1,606,844	(706,359)	900,485
Other investing activities	733	—	—	733
Net cash used by investing activities	(17,694)	(317,453)	308,414	(26,733)

	Three months ended March 28, 2021			
	HDMC Entities	HDFS Entities	Consolidating Adjustments	Consolidated
Cash flows from financing activities:				
Repayments of medium-term notes	—	(1,050,000)	—	(1,050,000)
Proceeds from securitization debt	—	597,411	—	597,411
Repayments of securitization debt	—	(291,346)	—	(291,346)
Repayments of asset-backed commercial paper	—	(66,894)	—	(66,894)
Net decrease in unsecured commercial paper	—	(262,517)	—	(262,517)
Net increase in credit facilities	—	15,629	—	15,629
Net increase in deposits	—	72,664	—	72,664
Dividends paid	(23,105)	—	—	(23,105)
Repurchase of common stock	(5,646)	—	—	(5,646)
Issuance of common stock under share-based plans	1,085	—	—	1,085
Net cash used by financing activities	(27,666)	(985,053)	—	(1,012,719)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(5,418)	255	—	(5,163)
Net decrease in cash, cash equivalents and restricted cash	<u>\$ (58,220)</u>	<u>\$ (823,614)</u>	<u>\$ —</u>	<u>\$ (881,834)</u>
Cash, cash equivalents and restricted cash:				
Cash, cash equivalents and restricted cash, beginning of period	\$ 666,161	\$ 2,743,007	\$ —	\$ 3,409,168
Net decrease in cash, cash equivalents and restricted cash	(58,220)	(823,614)	—	(881,834)
Cash, cash equivalents and restricted cash, end of period	<u>\$ 607,941</u>	<u>\$ 1,919,393</u>	<u>\$ —</u>	<u>\$ 2,527,334</u>

20. Subsequent Event

In April 2021, the Company received notification from the Economic Ministry of Belgium that, following a request from the European Union (EU), the Company would be subject to the revocation of Binding Origin Information (BOI) rulings, effective April 19, 2021. Beginning in 2019, the Company has operated under BOIs which allowed it to supply its EU markets with certain motorcycles produced at its Thailand manufacturing facility at tariff rates of 6%. Following the revocation, all non-electric motorcycles that Harley-Davidson imports into the EU, regardless of origin, will be subject to a total tariff rate of 31% from April 19, 2021 through May 31, 2021. This rate is expected to increase to 56% effective June 1, 2021. This ruling will effectively prohibit the Company from functioning competitively in the EU. The Company estimates the impact of the additional EU tariffs in 2021, if unmitigated, to be approximately \$135 million and expects the impact to be approximately \$200 million to \$225 million on annual basis in future years. The Company is appealing the revocation of the BOIs. It has also sought temporary extended reliance on the 6% tariff rate for motorcycles produced in Thailand, ordered prior to April 19, 2021. There is no assurance that the appeal will be successful or that the Company will receive the extended reliance.

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

Harley-Davidson, Inc. is the parent company of 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 "% 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. Certain "% Change" deemed not meaningful (NM) have been excluded.

(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," "may," "will," "estimates," "targets," "intend" or words of similar meaning. Similarly, statements that describe or refer to future expectations, future plans, strategies, objectives, outlooks, targets, guidance, commitments or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially, unfavorably or favorably, from those anticipated as of the date of this report. Certain of such risks and uncertainties are described in close proximity to such statements or elsewhere in this report, including under the caption "Cautionary Statements" in this Item 2 and in *Item 1A. Risk Factors*, as well as in *Item 1A. Risk Factors* of the Company's Annual Report on Form 10-K for the year ended December 31, 2020. 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 "Guidance" sections in this Item 2 are only made as of April 19, 2021 and the remaining forward-looking statements in this report are made as of the date of the filing of this report (May 6, 2021), 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 \$259.1 million, or \$1.68 per diluted share, in the first quarter of 2021, compared to \$69.7 million, or \$0.45 per diluted share, in the first quarter of 2020. The Motorcycles segment reported operating income of \$227.5 million for the first quarter of 2021 which was up \$143.0 million over the first quarter of 2020. Operating income from the Motorcycles segment for the first quarter of 2021 was favorably impacted by a 3.5% increase in wholesale motorcycle shipments, favorable product mix, lower sales incentives and reduced selling, administrative and engineering expenses. Operating income from the Financial Services segment in the first quarter of 2021 was \$118.6 million, up 417.0% compared to the year-ago quarter due primarily to a lower provision for credit losses.

Worldwide independent dealer retail sales of new Harley-Davidson motorcycles in the first quarter of 2021 were up 9.4% compared to the first quarter of 2020 led by a 30.6% increase in the U.S., partially offset by declines in Europe/Middle East/Africa (EMEA) and Latin America. Refer to the *Motorcycles Retail Sales and Registration Data* section for further discussion of retail sales results.

The Company is pleased with the pace of recovery that it has experienced across the business as compared to prior year when the Company's results were adversely impacted by the onset of the COVID-19 pandemic. The Company continues to manage through the impacts of the COVID-19 pandemic keeping safety and community well-being at the forefront. The Company believes its actions during 2020 to reshape the business through The Rewire and its initial execution of The Hardwire 5-year strategic plan are having a positive impact on the Company's results. Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2020 for more information on The Rewire and The Hardwire.

Guidance⁽¹⁾

Given the strong 2021 first quarter performance, the Company has increased its guidance for the full year. The decision to increase guidance was based on several key factors. First, the Company has better clarity on the cost impact of supply chain challenges and its ability to adapt to those challenges. Also, the economic outlook has improved with falling unemployment numbers, recent federal stimulus in the U.S. and continued progress on the global COVID-19 vaccine roll-out. The Company also has a better read on demand for its new model year 2021 motorcycles, which has been stronger than it had anticipated, particularly in the most profitable segments of Touring and Large Cruiser motorcycles. As a result, for the full-year 2021, the Company now expects:

- Motorcycles segment revenue growth of 30% to 35%, an increase from the previous guidance of 20% to 25%.
- Motorcycles segment operating income margin of 7% to 9%, up from the previous guidance of 5% to 7%, assuming the Company can successfully mitigate the impact of the additional European Union (EU) tariffs discussed below. This increase reflects an improved demand outlook and confidence in the Company's ability to continue navigating through the global supply chain headwinds.
- If the Company is unable to mitigate the impact of the additional EU tariffs to any extent in 2021, the Company expects Motorcycles segment operating income margin of 5% to 7%, in line with the original guidance.
- Financial Services segment operating income growth of 50% to 60%, an increase from the previous guidance of 10% to 15%, driven primarily by a favorable provision for credit losses.

Additionally, for the full-year 2021, the Company continues to expect capital expenditures of \$190 million to \$220 million.

Within 2021, the Company expects (a) approximately 60% of the total annual Motorcycles segment revenue to occur in the first half of the year driven by momentum from the model year 2021 launch through the riding season and (b) assuming the Company can successfully mitigate the impact of the additional EU tariffs discussed below, Motorcycles segment operating margin percent to be in the mid-teens during the first half of 2021 and near break-even in the second half of 2021.

In the second half of 2021, the Company expects retail inventory to decrease from its expected peak level at the end of the second quarter. In the fourth quarter the Company will prepare its manufacturing facilities to begin production of model year 2022 motorcycles. The Company believes the pattern for inventory and shipments in the second half of 2021 will be similar to what the Company experienced in the second half of 2020. In addition, during 2020, the Company benefited from cost reductions associated with COVID-19 pandemic cash preservation efforts, which started in the second quarter of 2020, and The Rewire restructuring savings, which started in the third quarter of 2020. Refer to "Restructuring Plan Costs and Savings" for additional discussion.

Additional EU Tariffs⁽¹⁾

In April 2021, the Company received notification from the Economic Ministry of Belgium that, following a request from the EU, the Company would be subject to the revocation of Binding Origin Information (BOI) rulings, effective April 19, 2021. Beginning in 2019, the Company has operated under BOIs which allowed it to supply its EU markets with certain motorcycles produced at its Thailand manufacturing facility at tariff rates of 6%. Following the revocation, all non-electric motorcycles that Harley-Davidson imports into the EU, regardless of origin, will be subject to a total tariff rate of 31% from April 19, 2021 through May 31, 2021. This rate is expected to increase to 56% effective June 1, 2021. This ruling will effectively prohibit the Company from functioning competitively in the EU. The Company estimates the impact of the additional EU tariffs in 2021, if unmitigated, to be approximately \$135 million and expects the impact to be approximately \$200 million to \$225 million on annual basis in future years. The Company is appealing the revocation of the BOIs. It has also sought temporary extended reliance on the 6% tariff rate for motorcycles produced in Thailand, ordered prior to April 19, 2021. There is no assurance that the appeal will be successful or that the Company will receive the extended reliance.

COVID-19 Pandemic

The full impact of the COVID-19 pandemic on future results depends on future developments, such as the ultimate duration and scope of the pandemic, the success of vaccination programs, and its impact on the Company's customers, independent dealers, distributors, and suppliers. Future impacts and disruptions could have an adverse effect on production, supply chains, distribution, and demand for the Company's products.

Supply Chain – During the first quarter of 2021, the Company experienced some disruption and increased cost related to the adverse impacts of the COVID-19 pandemic on its global supply chain. To date, the Company has been successful in mitigating these disruptions to avoid material adverse impacts on its ability to produce and supply product. The Company expects the global supply chain disruptions to continue through the remainder of 2021, and the Company will continue to actively work to mitigate these impacts on its business.

Liquidity – The Company continues to closely monitor its liquidity in light of the COVID-19 pandemic. At the end the first quarter of 2021, the Company had \$4.0 billion of available liquidity through cash, cash equivalents and availability under its credit and conduit facilities. Liquidity is discussed in more detail under *Liquidity and Capital Resources*.

Supporting Dealers and Riders – The Company's response and recovery plans have included supporting global dealers and customers. HDFs continues to work with qualified retail borrowers who have been impacted by the COVID-19 pandemic by offering short-term adjustments to payment due dates. These temporary extensions do not affect the associated interest rate or loan term. The volume of payment extensions on eligible retail loans has declined from the levels experienced during the second quarter and into the third quarter of 2020 but has not yet returned to pre-COVID-19 pandemic levels.

Safety – The Company continues to proactively manage through the COVID-19 pandemic and has implemented robust protocols to keep workers safe in its manufacturing facilities. Most non-production workers continue to work remotely in light of the COVID-19 pandemic.

Restructuring Plan Costs and Savings⁽¹⁾

During 2020, the Company initiated certain restructuring activities as part of The Rewire including a workforce reduction, the termination of certain current and future products, facility changes, optimizing its global independent dealer network, exiting certain international markets, and discontinuing its sales and manufacturing operations in India. These actions included restructuring expenses related to employee termination costs, contract termination costs and non-current asset adjustments. The workforce reduction resulted in the elimination of approximately 700 positions globally, including the termination of approximately 500 employees. In addition, the India action resulted in the termination of approximately 70 employees. The Company incurred approximately \$130 million of restructuring expense in connection with these actions during 2020. The Company expects to incur total restructuring expenses for these actions of approximately \$150 million, including approximately \$20 million in 2021. The Company continues to expect annual ongoing gross savings resulting from these restructuring activities of approximately \$115 million. Refer to *Note 4 of the Notes to Consolidated financial statements* for additional information regarding the Company's restructuring activities.

Results of Operations for the Three Months Ended March 28, 2021 Compared to the Three Months Ended March 29, 2020

(in thousands, except earnings per share)	Three months ended		Increase (Decrease)	% Change
	March 28, 2021	March 29, 2020		
Operating income from Motorcycles and Related Products	\$ 227,532	\$ 84,567	\$ 142,965	169.1 %
Operating income from Financial Services	118,642	22,946	95,696	417.0
Operating income	346,174	107,513	238,661	222.0
Other income, net	277	155	122	78.7
Investment income (loss)	1,402	(5,347)	6,749	(126.2)
Interest expense	7,708	7,755	(47)	(0.6)
Income before income taxes	340,145	94,566	245,579	259.7
Provision for income taxes	81,001	24,871	56,130	225.7
Net income	\$ 259,144	\$ 69,695	\$ 189,449	271.8 %
Diluted earnings per share	\$ 1.68	\$ 0.45	\$ 1.23	273.3 %

During the first quarter of 2021, operating income increased \$238.7 million, or 222.0%, compared to the same period last year, driven by strong performance in both the Motorcycles and the Financial Services segments. Refer to the Motorcycles and Related Products Segment and Financial Services Segment discussions for a more detailed analysis of the factors affecting operating income.

Investment income increased \$6.7 million in 2021 as compared to 2020, driven by higher income from investments in marketable securities.

The Company's effective income tax rate for the first quarter of 2021 was 23.8% compared to 26.3% for the same period in 2020. The decrease in the 2021 effective income tax rate as compared to 2020 was due to the increase in *Income before provision for income taxes*, resulting in discrete income tax adjustments having a reduced impact on the effective income tax rate for the quarter.

Diluted earnings per share was \$1.68 in the first quarter of 2021, up 273.3% from diluted earnings per share of \$0.45 for the same period last year. Diluted weighted average shares outstanding increased from 153.7 million in the first three months of 2020 to 154.5 million in the first three months of 2021.

Motorcycles Retail Sales and Registration Data

Harley-Davidson Motorcycle Retail Sales^(a)

Retail unit sales of new Harley-Davidson motorcycles were as follows:

	Three months ended			
	March 31, 2021	March 31, 2020	Increase (Decrease)	% Change
United States	30,983	23,732	7,251	30.6 %
Canada	1,799	1,466	333	22.7
North America	32,782	25,198	7,584	30.1
Europe/Middle East/Africa (EMEA)	4,943	7,730	(2,787)	(36.1)
Asia Pacific	5,793	5,752	41	0.7
Latin America	717	1,759	(1,042)	(59.2)
	44,235	40,439	3,796	9.4 %

(a) Data source for retail sales figures shown above is new sales warranty and registration information provided by independent Harley-Davidson dealers and compiled by the Company. The Company must rely on information that its independent dealers supply concerning new retail sales, and the Company does not regularly verify the information that its independent dealers supply. This information is subject to revision.

Worldwide retail sales of new Harley-Davidson motorcycles were up 9.4% during the first quarter of 2021 compared to the same period last year, when results were first impacted by the initial effects of the COVID-19 pandemic. The increase in retail sales during 2021 was led by the U.S. market which was positively impacted by the Company's shift in new model year launch timing from August to the first quarter of 2021 and strong demand for the Company's new model year Touring and Large Cruiser motorcycles. Retail sales in EMEA declined compared to the same quarter last year due to the Company's decision not to continue selling Street or Sportster motorcycles in Europe, shipping delays, as well as continued COVID-19 pandemic lockdowns. Latin America retail sales were adversely impacted during the first quarter of 2021 by the reduction of independent dealers and pricing actions executed as part of The Rewire actions in 2020 to restore profitability in those markets.

Across the independent dealer network, worldwide retail inventory of new Harley-Davidson motorcycles was down approximately 50% at the end of March 2021 compared to March 2020 behind the Company's new approach to supply and inventory management which was implemented in the second quarter of 2020. Retail inventory at the end of March 2021 was up approximately 60% over the end of December 2020, as the Company worked to build inventory ahead of the riding season. The Company expects retail inventory at the end of the second and third quarters of 2021 to be lower than average historical levels. The Company believes its approach to inventory management is continuing to improve profitability and strengthen retail pricing, with 2021 first quarter retail motorcycle transaction pricing in the U.S. up for all families, most of which are at or near Manufacturer's Suggested Retail Prices.

Motorcycle Registration Data and Market Share – 601+cc^(a)

Industry retail registration data for new motorcycles and the Company's market share was as follows:

	Three months ended			
	March 31, 2021	March 31, 2020	Increase (Decrease)	% Change
Industry new motorcycle registrations:				
United States ^(b)	63,412	47,232	16,180	34.3 %
Europe ^(c)	100,341	95,504	4,837	5.1 %
Harley-Davidson market share data:				
United States ^(b)	48.3 %	48.9 %	(0.6) pts.	
Europe ^(c)	3.9 %	7.6 %	(3.7) pts.	

- (a) Data includes on-road models with internal combustion engines with displacements greater than 600cc's and electric motorcycles with kilowatt (kW) peak power equivalents greater than 600cc's (601+cc). 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. This third-party data is subject to revision and update.
- (c) Europe data includes Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, Netherlands, Norway, Spain, Sweden, Switzerland, and the United Kingdom. Industry data is derived from information provided by Management Services Helwig Schmitt GmbH. This third-party data is subject to revision and update.

Motorcycles and Related Products Segment

Motorcycle Unit Shipments

Wholesale Harley-Davidson motorcycle unit shipments were as follows:

	Three months ended				Unit Increase (Decrease)	Unit % Change
	March 28, 2021		March 29, 2020			
	Units	Mix %	Units	Mix %		
U.S. motorcycle shipments	40,153	73.3 %	33,024	62.3 %	7,129	21.6 %
Worldwide motorcycle shipments:						
Touring motorcycle units	27,316	49.8 %	21,597	40.8 %	5,719	26.5 %
Cruiser motorcycle units ^(a)	20,468	37.3 %	20,131	38.0 %	337	1.7
Sportster® / Street motorcycle units	7,026	12.9 %	11,245	21.2 %	(4,219)	(37.5)
	54,810	100.0 %	52,973	100.0 %	1,837	3.5 %

- (a) Includes Softail®, CVO™, and LiveWire™

The Company shipped 54,810 Harley-Davidson motorcycles worldwide during the first quarter of 2021, which was 3.5% higher than the same period in 2020 reflecting the positive impact of the change in new model year launch timing from August to the first quarter of 2021. In addition, wholesale shipments in the first quarter of 2020 were adversely impacted by the temporary suspension of the Company's global manufacturing operations in March 2020 resulting from the COVID-19 pandemic. The mix of Touring and Cruiser motorcycles shipped during the first quarter of 2021 increased as a percent of total shipments while the mix of Sportster/Street motorcycles decreased compared to the same period last year.

Segment Results

Condensed statements of operations for the Motorcycles segment were as follows (dollars in thousands):

	Three months ended		Increase (Decrease)	% Change
	March 28, 2021	March 29, 2020		
Revenue:				
Motorcycles	\$ 1,016,334	\$ 899,365	\$ 116,969	13.0 %
Parts & Accessories	149,859	134,685	15,174	11.3
General Merchandise	50,323	49,160	1,163	2.4
Licensing	5,512	8,029	(2,517)	(31.3)
Other	10,079	8,549	1,530	17.9
	1,232,107	1,099,788	132,319	12.0
Cost of goods sold	811,622	780,868	30,754	3.9
Gross profit	420,485	318,920	101,565	31.8
Operating expenses:				
Selling & administrative expense	152,689	185,577	(32,888)	(17.7)
Engineering expense	40,857	48,776	(7,919)	(16.2)
Restructuring benefit	(593)	—	(593)	NM
	192,953	234,353	(41,400)	(17.7)
Operating income	\$ 227,532	\$ 84,567	\$ 142,965	169.1 %
Operating margin	18.5 %	7.7 %	10.8 pts.	

The estimated impact of significant factors affecting the comparability of net revenue, cost of goods sold and gross profit from the first three months of 2020 to the first three months of 2021 were as follows (in millions):

	Net Revenue	Cost of Goods Sold	Gross Profit
Three months ended March 29, 2020	\$ 1,100	\$ 781	\$ 319
Volume	35	25	10
Price and sales incentives, net of related costs	13	(4)	17
Foreign currency exchange rates and hedging	19	11	8
Shipment mix	65	8	57
Raw material prices	—	1	(1)
Manufacturing and other costs	—	(11)	11
	132	30	102
Three months ended March 28, 2021	\$ 1,232	\$ 811	\$ 421

Factors affecting the comparability of net revenue, cost of goods sold and gross profit from the first three months of 2020 to the first three months of 2021 were as follows:

- The increase in volume was due to higher wholesale motorcycle shipments and higher Parts & Accessories sales.
- During the first three months of 2021, revenue benefited from lower sales incentives.
- Revenue was favorably impacted by stronger foreign currency exchange rates relative to the U.S. dollar. The favorable revenue benefit was partially offset by unfavorable net foreign currency losses associated with hedging and balance sheet remeasurements recorded in cost of goods sold.
- Changes in the shipment mix between motorcycle families had a favorable impact on gross profit during the first quarter of 2021 as the increased contribution from Touring models more than offset the impact of unit declines of less profitable small Cruiser models.
- Manufacturing and other costs benefited from cost savings resulting from the Company's 2020 restructuring actions and lower tariff costs, partially offset by higher COVID-19 pandemic related supply chain costs.

Operating expenses were lower in the first quarter of 2021 compared to the same period in 2020 due primarily to lower costs as a result of the Company's 2020 restructuring actions and a shift in the timing of expenses, related to initiatives under The Hardwire, to subsequent quarters in 2021. Refer to *Note 4 of the Notes to Consolidated financial statements* for additional information regarding restructuring activities.

Financial Services Segment

Segment Results

Condensed statements of operations for the Financial Services segment were as follows (in thousands):

	Three months ended		(Decrease) Increase	% Change
	March 28, 2021	March 29, 2020		
Revenue:				
Interest income	\$ 159,814	\$ 170,001	\$ (10,187)	(6.0)%
Other income	30,586	28,455	2,131	7.5
	190,400	198,456	(8,056)	(4.1)
Expenses:				
Interest expense	55,707	52,473	3,234	6.2
Provision for credit losses	(22,474)	79,419	(101,893)	(128.3)
Operating expense	38,298	43,618	(5,320)	(12.2)
Restructuring expense	227	—	227	NM
	71,758	175,510	(103,752)	(59.1)
Operating income	\$ 118,642	\$ 22,946	\$ 95,696	417.0 %

Interest income was unfavorable in the first quarter of 2021, primarily due to lower average outstanding finance receivables, partially offset by a higher average yield. Other income increased due in part to higher insurance income. Interest expense increased due to higher average outstanding debt, partially offset by a lower cost of funds.

The provision for credit losses decreased \$101.9 million compared to the first quarter of 2021 driven primarily by improving economic conditions during the first quarter of 2021 and favorable retail credit loss performance. The provision for credit losses was favorable as a result of improvement in the U.S. economy and the Company's outlook on future economic conditions. However, there is uncertainty surrounding the pace of economic recovery as demonstrated by unemployment levels above those experienced prior to the COVID-19 pandemic and continuing COVID-19 pandemic-related challenges across the U.S., among other factors. As such, the Company considered various third-party economic forecast scenarios and applied a probability-weighting to those economic forecast scenarios. At the end of the first quarter of 2021, the Company's outlook on economic conditions included economic improvement; however, the pace of economic recovery remains uncertain. As a result, the Company included some adverse economic conditions in its economic scenario weighting. The Company's expectations surrounding its economic forecasts may change in future periods as additional information becomes available.

The 30-day delinquency rate for retail motorcycle loans at March 28, 2021 was 2.14% compared to 3.37% at March 29, 2020. The improved delinquency rate was primarily driven by the benefits provided by U.S. federal stimulus packages as well as continued COVID-19 pandemic-related extensions granted to help customers get through financial difficulties associated with the pandemic. During the first quarter of 2021, the volume of payment extensions declined from the levels experienced during the second quarter and into the third quarter of 2020 but has not yet returned to pre-COVID-19 pandemic levels. The Company continues to grant payment extensions to customers in accordance with its policies. Annualized credit losses for the Company's retail motorcycle loans were 1.46% through March 28, 2021 compared to 2.73% through March 29, 2020. The favorable retail credit loss performance was due to the low delinquency levels as well as improved used motorcycle values at auction due to a limited supply of new and used motorcycles.

Operating expenses decreased \$5.3 million compared to the first quarter of 2020 as the Company aggressively managed costs and benefited from lower costs resulting from the Company's 2020 restructuring actions. Refer to *Note 4 of the Notes to Consolidated financial statements* for additional information regarding restructuring activities.

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

	Three months ended	
	March 28, 2021	March 29, 2020
Balance, beginning of period	\$ 390,936	\$ 198,581
Cumulative effect of change in accounting ^(a)	—	100,604
Provision for credit losses	(22,474)	79,419
Charge-offs, net of recoveries	(22,229)	(43,108)
Balance, end of period	<u>\$ 346,233</u>	<u>\$ 335,496</u>

(a) On January 1, 2020, the Company adopted ASU 2016-13 and increased the allowance for loan loss through *Retained Earnings*, net of income taxes, to establish an allowance that represents expected lifetime credit losses on the finance receivable portfolio at date of adoption.

Other Matters

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. Refer to *Note 16 of the Notes to Consolidated financial statements* for a discussion of the Company's commitments and contingencies.

Liquidity and Capital Resources⁽¹⁾

The Company's response to the COVID-19 pandemic included actions implemented during 2020 to preserve cash and secure additional liquidity. The Company continues to monitor its liquidity in light of uncertainty related to the potential impacts of the COVID-19 pandemic. Based on the Company's current outlook, for both the near and longer terms, it expects Motorcycles segment operations to continue to be funded primarily through cash flows generated by operations and Financial Services segment operations to continue to be funded with unsecured debt, unsecured commercial paper, asset-backed commercial paper conduit facilities, committed unsecured bank facilities, asset-backed securitizations and deposits.⁽¹⁾

The Company's cash allocation priorities are first to fund growth through The Hardwire initiatives, then to reward shareholders through dividends. In addition, given the Company's strong cash position, it will be evaluating share repurchases and may choose to repurchase shares.

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 its credit facilities. In response to liquidity concerns related to the COVID-19 pandemic, the Company increased its cash and cash equivalents during 2020. The Company's cash and cash equivalents remain elevated at the end of March 2021, but during the first quarter of 2021, the Company began to gradually reduce its cash and cash equivalents from December 2020 levels. The Company's cash and cash equivalents and availability under its credit and conduit facilities at March 28, 2021 were as follows (in thousands):

Cash and cash equivalents	\$ 2,320,645
Availability under credit and conduit facilities:	
Credit facilities	999,737
Asset-backed U.S. commercial paper conduit facility ^(a)	600,000
Asset-backed Canadian commercial paper conduit facility ^(a)	71,895
	<u>\$ 3,992,277</u>

(a) Includes facilities expiring in the next 12 months which the Company expects to renew prior to expiration.⁽¹⁾

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 March 28, 2021 were as follows:

	Short-Term	Long-Term	Outlook
Moody's	P3	Baa3	Stable
Standard & Poor's	A3	BBB-	Stable
Fitch	F2	BBB+	Negative

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.⁽¹⁾ 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 Company's cash flow activities were as follows (in thousands):

	Three months ended	
	March 28, 2021	March 29, 2020
Net cash provided (used) by operating activities	\$ 162,781	\$ (8,582)
Net cash (used) provided by investing activities	(26,733)	28,288
Net cash (used) provided by financing activities	(1,012,719)	655,508
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(5,163)	(5,732)
Net (decrease) increase in cash, cash equivalents and restricted cash	\$ (881,834)	\$ 669,482

Operating Activities

The increase in net cash from operating activities for the first three months of 2021 compared to the same period in 2020 reflects benefits from improved net income and favorable changes in working capital, including lower inventory. The Company continues to expect that it will generate sufficient cash inflows from operations to fund its ongoing operating cash requirements including those related to existing contractual commitments. The Company's purchase orders for inventory used in manufacturing generally do not become firm commitments until 90 days prior to expected delivery. The Company's material contractual operating cash commitments relate to leases, retirement plan obligations and income taxes. The Company's long-term lease obligations and future payments are discussed further in *Note 10 of the Notes to Consolidated financial statements*. There are no required qualified pension plan contributions in 2021. The Company's expected future contributions and benefit payments related to its defined benefit retirement plans are discussed further in *Note 15 of the Notes to Consolidated financial statements* in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. The Company has a liability for unrecognized tax benefits of \$51.4 million and related accrued interest and penalties of \$26.1 million as of March 28, 2021. The Company cannot reasonably estimate the period of cash settlement for either the liability for unrecognized tax benefits or accrued interest and penalties.

Investing Activities

The Company's most significant investing activities consist of capital expenditures and retail finance receivable originations and collections. Capital expenditures were \$18.8 million in the first three months of 2021 compared to \$32.9 million in the same period last year. The Company's 2021 plan includes estimated capital expenditures between \$190 million to \$220 million, all of which the Company expects to fund with net cash flow generated by operations.⁽¹⁾

Net cash outflows from finance receivables for the first quarter of 2021 were \$69.9 million higher compared to the same period last year due primarily to higher retail finance receivable originations. The Company funds its finance receivables net lending activity through the issuance of debt, discussed in "Financing Activities" below.

Financing Activities

The Company's financing activities consist primarily of dividend payments, share repurchases, and debt activity.

The Company paid dividends of \$0.15 and \$0.38 per share totaling \$23.1 million and \$58.8 million during the first three months of 2021 and 2020, respectively.

In the first quarter of 2020, the Company suspended discretionary share repurchases; as a result, there have been no discretionary share repurchases in 2021 or 2020. Share repurchases of common stock that employees surrendered to satisfy withholding taxes in connection with the vesting of restricted stock units during the first three months of 2021 and 2020 were \$5.6 million or 0.2 million shares and \$7.1 million or 0.2 million shares, respectively. As of March 28, 2021, there were 18.2 million shares remaining on board-approved share repurchase authorizations.

Financing cash flows related to debt and deposit activity resulted in net cash outflows of \$985.1 million in the first three months of 2021 compared to net cash inflows of \$721.4 million in the first three months of 2020. The Company's total outstanding debt and deposits consisted of the following (in thousands):

	March 28, 2021	March 29, 2020
Outstanding debt:		
Global credit facility borrowings	\$ 15,462	\$ —
Unsecured commercial paper	749,801	1,335,664
Asset-backed Canadian commercial paper conduit facility	102,543	155,243
Asset-backed U.S. commercial paper conduit facilities	350,648	600,000
Asset-backed securitization debt, net	2,099,258	1,156,845
Medium-term notes, net	3,803,736	4,148,984
Senior notes, net	744,149	743,466
	<u>\$ 7,865,597</u>	<u>\$ 8,140,202</u>
Deposits, net	\$ 152,653	\$ —

Refer to *Note 11 of the Notes to Consolidated financial statements* for a summary of future principal payments on the Company's debt obligations. Refer to *Note 7 of the Notes to Consolidated financial statements* for a summary of future maturities on the Company's certificates of deposit.

Deposits – During 2020, HDFs began offering brokered certificates of deposit to customers indirectly through contractual arrangements with third-party banks and/or securities brokerage firms through its bank subsidiary. The Company had \$152.7 million, net of fees, of interest-bearing brokered certificates of deposit outstanding as of March 28, 2021. There were no deposits as of March 29, 2020. The deposits are classified as short- and long-term liabilities based upon the term of each brokered certificate of deposit issued. Each separate brokered certificate of deposit is issued under a master certificate, and as such, all outstanding brokered certificates of deposit are considered below the Federal Deposit Insurance Corporation insurance coverage limits.

Credit Facilities – In April 2020, the Company entered into a \$707.5 million five-year credit facility to replace the \$765.0 million five-year credit facility that was due to mature in April 2021. The new five-year credit facility matures in April 2025. At March 28, 2021, the Company had borrowings of \$15.5 million outstanding under this facility, which the Company repaid in full on April 7, 2021. The Company also amended its \$780.0 million five-year credit facility in April 2020 to \$707.5 million with no change to the maturity date of April 2023. Additionally, the Company has a \$350.0 million 364-day credit facility which matures in May 2021. The five-year credit facilities (together, the Global Credit Facilities), as well as the \$350.0 million 364-day credit facility, bear interest at variable rates, which may be adjusted upward or downward depending on certain criteria, such as credit ratings. The Global Credit Facilities and the \$350.0 million 364-day credit facility also require the Company to pay a fee based on the average daily unused portion of the aggregate commitments. The Global Credit Facilities are committed facilities primarily used to support the Company's unsecured commercial paper program.

Unsecured Commercial Paper – Subject to limitations, the Company could issue unsecured commercial paper of up to \$1.40 billion as of March 28, 2021 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 or the \$350.0 million 364-day credit facility, borrowing under its asset-backed U.S. commercial paper conduit facility or through the use of operating cash flow and cash on hand.⁽¹⁾

Medium-Term Notes – The Company had the following unsecured medium-term notes issued and outstanding at March 28, 2021 (in thousands):

Principal Amount	Rate	Issue Date	Maturity Date
\$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
\$762,996 ^(a)	4.94%	May 2020	May 2023
\$704,304 ^(b)	3.14%	November 2019	November 2024
\$700,000	3.35%	June 2020	June 2025

(a) Euro denominated, €650.0 million par value remeasured to U.S. dollar at March 28, 2021

(b) Euro denominated, €600.0 million par value remeasured to U.S. dollar at March 28, 2021

The U.S. dollar-denominated medium-term notes provide for semi-annual interest payments and the foreign currency-denominated medium-term notes provide for annual interest payments. Principal on the medium-term notes is due at maturity. Unamortized discounts and debt issuance costs on the medium-term notes reduced the outstanding balance by \$13.6 million and \$11.0 million at March 28, 2021 and March 29, 2020, respectively. During the first quarter of 2021, \$600.0 million of 2.85% medium-term notes and \$450.0 million of floating-rate medium-term notes matured, and the principal and accrued interest were paid in full. During the first quarter of 2020, \$600.0 million of 2.15% medium-term notes matured, and the principal and accrued interest were paid in full.

Senior Notes – In July 2015, the Company issued \$750.0 million of unsecured senior notes in an underwritten offering. The senior notes provide for semi-annual interest payments and principal due at maturity. \$450.0 million of the senior notes mature in July 2025 and have an interest rate of 3.50%, and \$300.0 million of the senior 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 associated 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 4 years. Unless earlier terminated or extended by mutual agreement between the Company and the lenders, as of March 28, 2021, the Canadian Conduit has an expiration date of June 25, 2021.

There were no finance receivable transfers under the Canadian Conduit Facility during the first quarter of 2021. During the first quarter of 2020, the Company transferred \$77.9 million of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of \$61.6 million.

On-Balance Sheet Asset-Backed U.S. Commercial Paper Conduit Facilities VIE – Until November 25, 2020, the Company had two separate agreements with third-party bank-sponsored asset-backed U.S. commercial paper conduits, a \$300.0 million revolving facility agreement and a \$600.0 million revolving facility agreement (together, the Former U.S. Conduit Facilities). On November 25, 2020, the Company amended each revolving facility agreement by consolidating the two agreements into one \$900.0 million revolving facility agreement with third-party bank-sponsored asset-backed U.S. commercial paper conduits. Under the revolving facility agreement, the Company 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 addition to the \$900.0 million aggregate commitment, the agreement allows for additional borrowings, at the lender's discretion, of up to \$300.0 million. Availability under the \$900.0 million revolving facility (the U.S. Conduit Facility) 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 Facility during the first quarter of 2021. During the first quarter of 2020, the Company transferred \$195.3 million of U.S. retail motorcycle finance receivables to an SPE which, in turn, issued \$163.6 million of debt under the Former U.S. Conduit Facilities.

The terms for this debt provide for interest on the outstanding principal based on prevailing commercial paper rates if funded by a conduit lender through the issuance of commercial paper. If not funded by a conduit lender through the issuance of commercial paper, the terms of the interest are based on LIBOR. In each of these cases, a program fee is assessed based on the outstanding principal. The U.S. Conduit Facility also provides for an unused commitment fee based on the unused portion of the total aggregate commitment. When calculating the unused fee, the aggregate commitment does not include any unused portion of the \$300.0 million additional borrowings allowed. 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 Facility, 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 4 years. Unless earlier terminated or extended by mutual agreement of the Company and the lenders, as of March 28, 2021, the U.S. Conduit Facility has an expiration date of November 19, 2021.

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. The Company's current outstanding 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 currently have various contractual maturities ranging from 2022 to 2028.

During the first quarter of 2021, the Company transferred \$663.1 million of U.S. retail motorcycle finance receivables to an SPE which, in turn, issued \$600.0 million, or \$597.4 million net of discount and issuance costs, of secured notes through an on-balance sheet asset-backed securitization transaction. During the first quarter of 2020, the Company transferred \$580.2 million of U.S. retail motorcycle finance receivables to an SPE which, in turn, issued \$525.0 million, or \$522.7 million net of discount and issuance costs, of secured notes through an on-balance sheet asset-backed securitization transaction.

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 medium-term and senior 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 allowance for credit losses on finance receivables plus HDFS' consolidated shareholders' equity, excluding accumulated other comprehensive loss (AOCL), 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 AOCL), cannot exceed 0.7 to 1.0 as of the end of any fiscal quarter. No financial covenants are required under the medium-term or senior notes or the U.S. or Canadian asset-backed commercial paper conduit facilities.

As of March 28, 2021, HDFS and the Company remained in compliance with all of the then existing covenants.

Cautionary Statements

Important factors that could affect future results and cause those results to differ materially from those expressed in the forward-looking statements include, among others, the following: (i) the COVID-19 pandemic, including the length and severity of the pandemic across the globe and the pace of recovery following the pandemic; and (ii) the Company's ability to: (A) execute its business plans and strategies, including The Hardwire, successfully execute its remodeled approach to supply and inventory management, and strengthen its existing business while allowing for desirable growth; (B) mitigate the impact of the revocation of the Binding Origin Information (BOI) decisions that allowed the Company to supply its European Union (EU) market with certain of its motorcycles produced at its Thailand operations at a reduced tariff rate and favorably resolve risks and uncertainties related to the revocation of the BOI decisions including, among other: (1) uncertainties regarding the quantity and mix of motorcycles that the Company imports into the EU; (2) uncertainties regarding the import prices of motorcycles; (3) whether the Company will be granted temporary relief from the effect of the revocation of the BOI decisions; (4) whether the Company will be successful in appealing the revocation of the BOI decisions; (5) uncertainties regarding the size and duration of the EU tariffs; and (6) whether and to what extent the Company determines to attempt to pass on the impact of the revocation to dealers and its success in doing so; (C) accurately analyze, predict and react to changing market conditions and successfully adjust to shifting global consumer needs and interests; (D) successfully access the capital and/or credit markets on terms that are acceptable to the Company and within its expectations; (E) successfully carry out its global manufacturing and assembly operations; (F) 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, including successfully implementing and executing plans to strengthen and grow its leadership position in Touring, large Cruiser and Trike, and growing its complementary businesses; (G) perform in a manner that enables the Company to benefit from market opportunities while competing against existing and new competitors; (H) prevent, detect, and remediate any issues with its motorcycles or any issues associated with the 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; (I) manage supply chain issues, including quality issues and any unexpected interruptions or price increases caused by raw material shortages or natural disasters; (J) manage the impact that prices for and supply of used motorcycles may have on its business, including on retail sales of new motorcycles; (K) realize expectations concerning market demand for electric models, which will depend in part on the building of necessary infrastructure; (L) successfully manage and reduce costs throughout the business; (M) manage through changes in general economic and business conditions, including changing capital, credit and retail markets, and the changing political environment; (N) 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; (O) develop and maintain a productive relationship with Zhejiang Qianjiang Motorcycle Co., Ltd. and launch related products in a timely manner; (P) develop and maintain a productive relationship with Hero MotoCorp as a distributor and licensee of the Harley-Davidson brand name in India; (Q) manage and predict the impact that new or adjusted tariffs may have on the Company's ability to sell products internationally, and the cost of raw materials and components; (R) successfully maintain a manner in which to sell motorcycles in China and the Company's Association of Southeast Asian Nations (ASEAN) countries that does not subject its motorcycles to incremental tariffs; (S) manage its Thailand corporate and manufacturing operation in a manner that allows the Company to avail itself of preferential free trade agreements and duty rates, and sufficiently lower prices of its motorcycles in certain markets; (T) accurately estimate and adjust to fluctuations in foreign currency exchange rates, interest rates and commodity prices; (U) retain and attract talented employees, and eliminate personnel duplication, inefficiencies and complexity throughout the organization; (V) prevent a cybersecurity breach involving consumer, employee, dealer, supplier,

or Company data and respond to evolving regulatory requirements regarding data security; (W) manage the credit quality, the loan servicing and collection activities, and the recovery rates of HDFS' loan portfolio; (X) 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; (Y) manage through the effects inconsistent and unpredictable weather patterns may have on retail sales of motorcycles; (Z) implement and manage enterprise-wide information technology systems, including systems at its manufacturing facilities; (AA) manage changes and prepare for requirements in legislative and regulatory environments for its products, services and operations; (BB) manage its exposure to product liability claims and commercial or contractual disputes; (CC) continue to manage the relationships and agreements that the Company has with its labor unions to help drive long-term competitiveness; (DD) accurately predict the margins of its Motorcycles and Related Products segment in light of, among other things, tariffs, the cost associated with product development initiatives and the Company's complex global supply chain; and (EE) successfully develop and launch the pre-owned motorcycle program, Harley-Davidson Certified.

The Company's operations, demand for its products, and its liquidity could be adversely impacted by work stoppages, facility closures, strikes, natural causes, widespread infectious disease, terrorism, or other factors. Other factors are described in *Item 1A. Risk Factors* and 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, the impact of the COVID-19 pandemic, 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 *Item 1A. Risk Factors* of this report and *Item 1A. Risk Factors* of the Company's Annual Report on Form 10-K for the year ended December 31, 2020 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 currency 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 currency exchange rate and interest rate risks. Further disclosure relating to the fair value of the Company's derivative financial instruments is included in *Note 9 of the Notes to Consolidated financial statements*.

Motorcycles and Related Products Segment

The Company sells its motorcycles and related products internationally and in most markets those sales are made in the foreign country's local currency. As a result, the Motorcycles segment operating results are affected by fluctuations in the value of the U.S. dollar relative to foreign currencies. The Company's most significant foreign currency exchange rate risk resulting from the sale of motorcycles and related products relates to the Euro, Australian dollar, Japanese yen, Brazilian real, Canadian dollar, Mexican peso, Chinese yuan, Thai baht, Indian rupee, Singapore dollar and Pound sterling. The Company utilizes foreign currency contracts to mitigate the effect of certain currencies' fluctuations on Motorcycles segment operating results. The foreign currency contracts are entered into with banks and allow the Company to exchange currencies at a future date, based on a fixed exchange rate. There have been no material changes to the foreign currency exchange rate market risk information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

The Company purchases commodities for the use in the production of motorcycles. As a result, Motorcycles segment operating results are affected by changes in commodity prices. The Company uses derivative financial instruments on a limited basis to hedge the prices of certain commodities. There have been no material changes to the commodity market risk information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Financial Services Segment

The Company has interest rate sensitive financial instruments including financial receivables, debt and interest rate derivative financial instruments. As a result, Financial Services operating income is affected by changes in interest rates. The Company utilizes interest rate caps to reduce the impact of fluctuations in interest rates on its asset-backed securitization transactions. There have been no material changes to the interest rate market risk information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

HDFS also has short-term commercial paper and debt issued through the commercial paper conduit facilities that is subject to changes in interest rates which it does not hedge. There have been no material changes to the interest rate market risk information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

The Company has foreign denominated medium-term notes. As a result, Financial Services operating income is affected by fluctuations in the value of the U.S. dollar relative to foreign currencies and interest rates. At March 28, 2021, this exposure related to the Euro. The Company utilizes cross-currency swaps to mitigate the effect of the foreign currency exchange rate and interest rate fluctuations related to foreign denominated debt. There have been no material changes to the foreign currency exchange rate and interest rate market risk information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2020 for further information concerning the Company's market risk.

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 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 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 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 28, 2021 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 16 of the Notes to Consolidated financial statements*, and such information is incorporated herein by reference in this Item 1 of Part II.

Item 1A. Risk Factors

An investment in Harley-Davidson, Inc. involves risks, including the risk factors discussed in *Item 1A. Risk Factors* of the Company's Annual Report on Form 10-K for the year ended December 31, 2020, which have not materially changed except as set forth below.

- **Trade policies and changes in trade policies, including the imposition of tariffs, their enforcement and downstream consequences, may continue to have a material adverse impact on our business, results of operations and outlook.** Tariffs and/or other developments with respect to trade policies, trade agreements and government regulations could have a material adverse impact on the Company's business, financial condition and results of operations. To date, the European Union (EU) has placed a 25% incremental tariff (31% total tariff) on motorcycles imported into the EU from the U.S. and that is scheduled to increase to a 50% incremental tariff (56% total tariff) effective June 1, 2021. Shipments of motorcycles to the European Union are a significant portion of the Company's total motorcycles sales. Beginning in 2019, the Company obtained regulatory approvals, reflected in five Binding Origin Information (BOI) rulings, that allowed it to supply its EU markets with certain of its motorcycles produced at its Thailand facilities at tariff rates of 6%. In April 2021, the Company received notification from the Economic Ministry of Belgium that, following a request from the European Union, the Company would be subject to the revocation of the BOI rulings, effective April 19, 2021. Following the revocation, non-electric motorcycles Harley-Davidson imports into the European Union, regardless of origin, will be subject to a total tariff rate of 31% from April 19, 2021 to May 31, 2021. This rate is expected to increase to 56% effective June 1, 2021. This ruling will effectively prohibit the Company from functioning competitively in the European Union. The Company is appealing the revocation of the BOIs. It has also sought temporary extended reliance on the 6% tariff rate, for motorcycles produced in Thailand and ordered prior to April 19, 2021. There is no assurance that the appeal will be successful or that the Company will receive the extended reliance. The full impact of the revocation is subject to uncertainties that include the following, among other factors: (i) uncertainties regarding the quantity and mix of motorcycles that the Company imports into the EU; (ii) uncertainties regarding the import prices of motorcycles; (iii) whether the Company will be granted extended reliance on the 6% tariff rate for motorcycles ordered prior to April 19, 2021; (iv) whether the Company will be successful in appealing the revocation of the BOI rulings; (v) uncertainties regarding the size and duration of the EU tariffs; and (vi) whether and to what extent the Company determines to attempt to pass on the impact of the revocation to dealers and its success in doing so.

In addition, the U.S. government imposed increased tariffs on imports from China (Section 301 tariffs), which has resulted in higher costs for components and products sourced from China.

Without limitation, (i) tariffs currently in place, (ii) the imposition by the U.S. government of new tariffs on imports to the U.S. and/or (iii) the imposition by foreign countries of tariffs on U.S. products, including tariffs imposed in response to U.S. tariffs, could materially increase: (a) the cost of Harley-Davidson products that the Company is offering for sale in relevant countries, (b) the cost of certain products that the Company sources from foreign manufacturers and (c) the prices of certain raw materials that the Company utilizes. The Company may not be able to pass such increased costs on to distributors, independent dealers or their customers, and the Company may not be able to secure sources of certain products and materials that are not subject to tariffs on a timely basis. Such developments could have a material adverse impact on the Company's business, financial condition and results of operations.

The Company disclaims any obligation to update these risk factors or any other forward-looking statements. The Company assumes no obligation, and specifically disclaims any such obligation, to update these risk factors or any other forward-looking statements to reflect actual results, changes in assumptions or other factors affecting such forward-looking statements.

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

The Company's share repurchases, which consisted of shares of common stock that employees surrendered to satisfy withholding taxes in connection with the vesting of restricted stock units and performance shares, were as follows during the quarter ended March 28, 2021:

2021 Fiscal Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 to January 31	2,815	\$ 36	2,815	18,246,721
February 1 to February 28	154,562	\$ 36	154,562	18,246,721
March 1 to March 28	479	\$ 36	479	18,246,721
	<u>157,856</u>	<u>\$ 36</u>	<u>157,856</u>	

In February 2018, the Company's Board of Directors authorized the Company to repurchase up to 15.0 million shares of its common stock on a discretionary basis with no dollar limit or expiration date. In February 2020, the Company's Board of Directors authorized the Company to repurchase up to 10.0 million additional shares of its common stock on a discretionary basis with no dollar limit or expiration date. As of March 28, 2021, 18.2 million shares remained under these authorizations. The Company repurchased no shares on a discretionary basis during the quarter ended March 28, 2021.

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. 2020 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 2021, the Company acquired 157,856 shares of common stock that employees presented to the Company to satisfy withholding taxes in connection with the vesting of restricted stock units and performance share units.

Item 6. Exhibits

Refer to the exhibit index immediately following this page.

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

Exhibit No.	Description
3.1	Restated Articles of Incorporation of Harley-Davidson, Inc. as amended through May 28, 2020
3.2	Harley-Davidson By-Laws, as amended through May 28, 2020 (incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated May 28, 2020 (File No. 1-9183))
10.1*	Amended and Restated Harley-Davidson, Inc. Director Stock Plan as amended and restated effective May 10, 2018 (incorporated herein by reference to Appendix A to the Company's definitive proxy statement on Schedule 14A for the Company's Annual Meeting of Shareholders held May 10, 2018 filed on March 29, 2018 (File No. 1-9183))
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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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
104	Cover Page Interactive Data File - formatted in Inline XBRL and contained in Exhibit 101

* Represents a management contract or compensatory plan, contract or arrangement in which a director or named executive officer of the Company participated.

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 6, 2021

/s/ Gina Goetter
Gina Goetter
Chief Financial Officer
(Principal financial officer)

Date: May 6, 2021

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

RESTATED ARTICLES OF INCORPORATION, as amended through May 28, 2020

* * * * *

ARTICLE I

The name of the Corporation is Harley-Davidson, Inc.

ARTICLE II

The registered agent and registered office of the Corporation is CT Corporation System, 8040 Excelsior Dr., Suite 200, Madison, Wisconsin 53717.

ARTICLE III

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the Wisconsin Business Corporation Law.

ARTICLE IV

(a) **AUTHORIZED SHARES.** The total number of shares of all classes of stock that the Corporation is authorized to issue is eight hundred two million (802,000,000), consisting of (i) eight hundred million (800,000,000) shares of Common Stock of \$.01 par value ("Common Stock"), and (ii) two million (2,000,000) shares of Preferred Stock of \$1.00 par value.

All cross references in each Subdivision of this ARTICLE IV refer to other paragraphs in such subdivision unless otherwise indicated.

(i) **Voting Rights.** The holders of Common Stock will be entitled to one vote per share on all matters to be voted on by the Corporation's shareholders.

(ii) **Registration of Transfer.** The Corporation shall keep at its principal office (or such other place as the Corporation reasonably designates) a register for the registration of shares of Common Stock. Upon the surrender of any certificate representing shares of Common Stock at such place, the Corporation shall, at the request of the registered holder of such certificate, execute and deliver (at the Corporation's expense) a new certificate or certificates in exchange therefor representing in the aggregate the number of shares of Common Stock represented by the surrendered certificate (and the Corporation forthwith shall cancel such surrendered certificate), subject to the requirements of applicable securities laws. Each such new certificate shall be registered in such name and shall represent such number of shares as shall be requested by the holder of the surrendered certificate and shall be substantially identical in form to the surrendered certificate.

(iii) **Replacement.**

(A) Upon receipt of evidence reasonably satisfactory to the Corporation (an affidavit of the registered holder without bond shall be satisfactory) of the ownership and the loss, theft, destruction or mutilation of any certificate evidencing one or more shares of Common Stock and, in the case of any such loss, theft or destruction, upon receipt of indemnity reasonably satisfactory to the Corporation, or, in the case of any such mutilation, upon surrender of such certificate, the Corporation shall, at the expense of the registered holder, execute and deliver in lieu of such certificate a new certificate of like kind representing the number of shares of Common Stock represented by such lost, stolen, destroyed or mutilated certificate and dated the date of such lost, stolen, destroyed or mutilated certificate.

(B) The term "outstanding" when used in this ARTICLE IV with reference to the shares of Common Stock as of any particular time shall not include any such shares represented by any certificate in lieu of which a new certificate has been executed and delivered by the Corporation in accordance with paragraph (ii) or this paragraph (iii), but shall include only those shares represented by such new certificate.

(iv) **DISSOLUTION.** Upon the dissolution of the Corporation, after there shall have been paid to or set aside for the holders of shares of Preferred Stock the full preferential amounts to which they are entitled, if any, the holders of outstanding shares of Common Stock shall be entitled to receive pro rata the remaining net assets of the Corporation.

(b) **PREFERRED STOCK.** The Preferred Stock may be issued from time to time in one or more series in any manner permitted by law and the provisions of the Restated Articles of Incorporation of the Corporation, as determined from time to time by the Board of Directors and stated in the resolution or resolutions providing for the issuances thereof, prior to the issuances of any shares thereof. Unless otherwise provided in the resolution establishing a series of Preferred Stock, prior to the issue of any shares of a series so established or to be established, the Board of Directors may, by resolution, amend the relative rights and preferences of the shares of such series. The designations and the powers, preferences and rights, and the qualifications, limitations or restrictions thereof, of each class of stock shall be governed by the following provisions:

(i) The Board of Directors is expressly authorized at any time, and from time to time, to provide for the issuance of shares of Preferred Stock in one or more series, with such voting powers, full or limited, or without voting powers and with such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions providing for the issue thereof adopted by the Board of Directors, including (but not limiting the generality thereof) the following:

(A) The number of shares to constitute each such series, and the designation of each such series.

(B) The dividend rate of each such series, the conditions and dates upon which such dividends shall be payable, the relation which such dividends shall bear to the dividends payable on any other class or classes or on any other series of any class or classes of stock, and whether such dividends shall be cumulative or non-cumulative.

(C) Whether the shares of each such series shall be subject to redemption by the Corporation and if made subject to such redemption, the times, prices and other terms and conditions of such redemption.

(D) The terms and amount of any sinking fund provided for the purchase or redemption of the shares of each such series.

(E) Whether or not the shares of each such series shall be convertible into or exchangeable for shares of any other class or classes or any other series of any other class or classes of stock of the Corporation, and, if provision be made for conversion or exchange, the times, prices, rates of exchange, adjustments, and other terms and conditions of such conversion or exchange.

(F) The extent, if any, to which the holders of the shares of each such series shall be entitled to vote with respect to the election of directors or otherwise.

(G) The restrictions, if any, on the issue or reissue of any additional Preferred Stock.

(H) The rights of the holders of the shares of each such series upon the dissolution of, or upon the distribution of the assets of, the Corporation.

(ii) Except as otherwise required by law and except for such voting powers with respect to the election of directors or other matters as may be stated in the resolutions of the Board of Directors creating any series of Preferred Stock, the holders of any such series shall have no voting powers whatsoever.

ARTICLE V

(a) **VOTE REQUIRED FOR CERTAIN BUSINESS COMBINATIONS.**

(i) In addition to any affirmative vote required by law or these Restated Articles of Incorporation, and except as otherwise expressly provided in Section (b) of this ARTICLE V:

(A) any merger of the Corporation or any Subsidiary (as hereinafter defined), or any share exchange to which the Corporation is a party with (I) any Interested Shareholder (as hereinafter defined) or (II) any other corporation (whether or not an Interested Shareholder) which is, or after such merger or consolidation would be, an Affiliate (as hereinafter defined) of an Interested Shareholder; or

(B) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or in a series of transactions) to or with any Interested Shareholder or any Affiliate of any

Interested Shareholder of all or a Substantial Part of the assets of the Corporation (including, without limitation, any securities of a Subsidiary) or any Subsidiary; or

(C) the issuance or transfer by the Corporation or any Subsidiary (in one transaction or in a series of transactions) of any securities of the Corporation or any Subsidiary to any Interested Shareholder or any Affiliate of any Interested Shareholder in exchange for cash, securities or other property (or a combination thereof); or

(D) the adoption of any plan or proposal for the liquidation or dissolution of the Corporation proposed by or on behalf of an Interested Shareholder or any Affiliate of any Interested Shareholder; or

(E) any reclassification of securities (including any reverse stock split), or recapitalization of the Corporation, or any merger of the Corporation with any of its Subsidiaries or any share exchange to which the Corporation is a party or any self tender offer for or repurchase of securities of the Corporation by the Corporation or any Subsidiary or any other transaction (whether or not with or into or otherwise involving an Interested Shareholder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of equity or convertible securities of the Corporation or any Subsidiary which is directly or indirectly owned by any Interested Shareholder or any Affiliate of any Interested Shareholder, shall require a vote of the holders of the then outstanding shares of stock of the Corporation entitled to vote generally in the election of directors (the "Voting Stock") (it being understood that for purposes of this ARTICLE V, each share of the Voting Stock shall have the number of votes granted to it pursuant to ARTICLE IV of these Restated Articles of Incorporation) where the votes cast in favor of the action exceed the votes cast opposing the action. Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified, by law or by these Restated Articles of Incorporation or in any agreement with any national securities exchange or otherwise.

(ii) The term "Business Combination" as used in this ARTICLE V shall mean any transaction which is referred to in any one or more of subparagraphs (A) through (E) of paragraph (i) of this Section (a).

(b) WHEN VOTE UNDER ARTICLE V IS NOT REQUIRED. The provisions of Section (a) of this ARTICLE V shall not be applicable to any particular Business Combination, and such Business Combination shall require only such affirmative vote as is required by law, any other provision of these Restated Articles of Incorporation or any agreement with any national securities exchange, if, in the case of a Business Combination that does not involve any cash or other consideration being received by the shareholders of the Corporation, solely in their respective capacities as shareholders of the Corporation, the condition specified in the following paragraph (i) is met, or, in the case of any other Business Combination, the conditions specified in either of the following paragraphs (i) and (ii) are met:

(i) The Business Combination shall have been approved by a majority of the Disinterested Directors (as hereinafter defined).

(ii) Each of the five conditions specified in the following subparagraphs (A) through (E) shall have been met:

(A) The aggregate amount of the cash and the Fair Market Value (as hereinafter defined) as of the date of consummation of the Business Combination of consideration other than cash to be received per share by holders of each class of Voting Stock in such Business Combination shall be at least equal to the higher of the following:

(I) (if applicable) the Highest Per Share Price (as hereinafter defined) (including the brokerage commissions, transfer taxes and soliciting dealers' fees) paid in order to acquire any shares of such class of Voting Stock beneficially owned by the Interested Shareholder which were acquired beneficially by such Interested Shareholder (x) within the two-year period immediately prior to the first public announcement of the proposal of the Business Combination (the "Announcement Date") or (y) in the transaction in which it became an Interested Shareholder, whichever is higher; or

(II) the Fair Market Value per share of such class of Voting Stock on the Announcement Date or on the date on which the Interested Shareholder became an Interested Shareholder (such latter date is referred to in this ARTICLE V as the "Determination Date"), whichever is higher; or

(III) an amount which bears the same or greater percentage relationship to the Fair Market Value of such class of Voting Stock on the Announcement Date as the Highest Per Share Price determined in (ii) (A) (I) above bears to the Fair Market Value of such class of Voting Stock on the date of the commencement of the acquisition of Voting Stock by such Interested Shareholder.

(B) The consideration to be received by holders of the outstanding Voting Stock shall be in cash or in the same form as was previously paid in order to acquire beneficially shares of Voting Stock that are beneficially owned by the Interested Shareholder. If the Interested Shareholder beneficially owns shares of Voting Stock that were acquired with varying forms of consideration, the form of consideration to be received by holders of Voting Stock shall be either cash or the form used to acquire beneficially the largest number of shares of Voting Stock beneficially acquired by it prior to the Announcement Date.

(C) After such Interested Shareholder has become an Interested Shareholder and prior to consummation of such Business Combination: (I) there shall have been (x) no reduction in the annual rate of dividends paid on the Voting Stock (except as necessary to reflect any subdivision of the Voting Stock), except as approved by a majority of the Disinterested Directors, and (y) an increase in such annual rate of dividends as necessary to reflect any reclassification (including any reverse stock split), recapitalization, reorganization or any similar transaction which has the effect of reducing the number of outstanding shares of the Voting Stock, unless the failure so to increase such annual rate is approved by a majority of the Disinterested Directors; and (II) such Interested Shareholder shall have not become the beneficial owner of any additional shares of Voting Stock except as part of the transaction which resulted in such Interested Shareholder becoming an Interested Shareholder.

(D) After such Interested Shareholder has become an Interested Shareholder, such Interested Shareholder shall not have received the benefit, directly or indirectly (except proportionately as a shareholder), of any loans, advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided by the Corporation, whether in anticipation of or in connection with such Business Combination or otherwise.

(E) A proxy or information statement describing the proposed Business Combination and complying with the requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder (or any subsequent provisions replacing such Act, rules or regulations) shall be mailed to shareholders of the Corporation at least 30 days prior to the consummation of such Business Combination (whether or not such proxy or information statement is required to be mailed pursuant to such Act or subsequent provisions).

(c) CERTAIN DEFINITIONS. For the purposes of this ARTICLE V:

(i) A "person" shall mean any individual, firm, corporation, group (as such term is defined in Section 13(d) (3) of the Securities Exchange Act of 1934, as in effect on March 1, 1991) or other entity.

(ii) "Interested Shareholder" shall mean any person (other than the Corporation, any Subsidiary or any compensation or retirement plan of the Corporation) who or which, as of the record date for the determination of shareholders entitled to notice of and to vote on such Business Combination or immediately prior to the consummation of any such transaction:

(A) is the beneficial owner, directly or indirectly, of more than 10% of the voting power of the outstanding Voting Stock;

(B) is an Affiliate of the Corporation and at any time within the two-year period immediately prior to the date in question was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding Voting Stock; or

(C) is an assignee of or has otherwise succeeded to beneficial ownership of any shares of Voting Stock which were at any time within the two-year period immediately prior to the date in question beneficially owned by any Interested Shareholder, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933.

(iii) A person shall be a "beneficial owner" of any Voting Stock:

(A) which such person or any of its Affiliates or Associates (as hereinafter defined) beneficially owns, directly or indirectly; or

(B) which such person or any of its Affiliates or Associates has (I) the right to acquire (whether such right is exercisable immediately or only after the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise or (II) the right to vote or direct the vote pursuant to any agreement, arrangement or understanding; or

(C) which are beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purposes of acquiring, holding, voting or disposing of any shares of Voting Stock.

(iv) For the purposes of determining whether a person is an Interested Shareholder pursuant to paragraph (ii) of this Section (c), the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned through application of paragraph (iii) of this Section (c) but shall not include any other shares of Voting Stock which may be issuable pursuant to any agreement, arrangement or understanding or upon exercise of conversion rights, warrants or options, or otherwise.

(v) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934 as in effect on March 1, 1991.

(vi) "Subsidiary" means any corporation of which a majority of any class of equity security is owned, directly or indirectly, by the Corporation or by a Subsidiary or by the Corporation and one or more subsidiaries; provided, however, that for the purposes of the definition of Interested Shareholder set forth in paragraph (ii) of this Section (c), the term "Subsidiary" shall mean only a corporation of which a majority of each class of equity security is owned, directly or indirectly, by the Corporation.

(vii) "Substantial Part" means more than 10% of the book value of the total assets of the person or entity in question, as of the end of its most recent fiscal year ending prior to the time of the determination.

(viii) "Disinterested Director" means any member of the Board of Directors of the Corporation who is unaffiliated with, and not a nominee of, the Interested Shareholder and was a member of the Board of Directors prior to the time that the Interested Shareholder became an Interested Shareholder, and any successor of a Disinterested Director who is unaffiliated with, and not a nominee of, the Interested Shareholder and who is recommended to succeed a Disinterested Director by a majority of Disinterested Directors then on the Board of Directors.

(ix) "Fair Market Value" means: (A) in the case of stock, the highest closing sale price during the 30-day period immediately preceding the date in question of a share of such stock on the Composite Tape for New York Stock Exchange-Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the Composite Tape for American Stock Exchange-Listed Stocks, or if such stock is not quoted on such Composite Tape, on the American Stock Exchange or on the principal United States securities exchange registered under the Securities Exchange Act of 1934 on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing sales price or bid quotation with respect to a share of stock during the 30-day period preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by a majority of the Disinterested Directors in good faith; and (B) in the case of stock of any class or series which is not traded on any United States registered securities exchange nor in the over-the-counter market or in the case of property other than cash or stock, the fair market value of such property on the date in question as determined Disinterested Directors in good faith.

(x) References to "Highest Per Share Price" shall reflect an appropriate adjustment for any dividend or distribution in shares of Voting Stock or any stock split or reclassification of outstanding shares of such stock into a greater number of shares of such stock or any combination or reclassification of outstanding shares of such stock into a smaller number of shares of such stock.

(xi) In the event of any Business Combination in which the Corporation survives, the phrase "consideration other than cash to be received" as used in subparagraph (A) of paragraph (ii) of Section (b) of this ARTICLE V shall include the shares of Voting Stock retained by the holders of such shares.

(d) **POWERS OF THE BOARD OF DIRECTORS.** A majority of the Disinterested Directors of the Corporation shall have the power and duty to determine for the purposes of this ARTICLE V on the basis of information known to them after reasonable inquiry, all facts necessary to determine compliance with this ARTICLE V, including, without limitation, (i) whether a person is an Interested Shareholder, (ii) whether a Business Combination is proposed by or on behalf of an Interested Shareholder or an Affiliate of an Interested Shareholder, (iii) the number of shares of Voting Stock beneficially owned by any person, (iv) whether a person is an Affiliate or Associate of another person, (v) whether the requirements of Section (b) (ii) of this ARTICLE V have been met with respect to any Business Combination, and (vi) whether any Business Combination involves all or a Substantial Part of the assets of the Corporation or any Subsidiary. The good faith determination of a majority of the Disinterested Directors shall be conclusive and binding for all purposes of this ARTICLE V.

(e) **NO EFFECT ON FIDUCIARY OBLIGATIONS OF INTERESTED SHAREHOLDERS.** Nothing contained in this ARTICLE V shall be construed to relieve any Interested Shareholder from any fiduciary obligation imposed by law.

ARTICLE VI

(a) BOARD OF DIRECTORS.

(i) **NUMBER, TERM AND QUALIFICATION.** The authorized number of directors of the Corporation which shall constitute the entire Board of Directors shall be such as from time to time shall be determined by a majority of the then authorized number of directors, but in no case shall the authorized number of directors be less than six nor more than fifteen. Until the annual meeting of shareholders of the Corporation held in 2010, the directors shall be divided with respect to the time for which they severally hold office into three classes, as nearly equal in number as possible (but with not less than two directors in each class), as determined by the Board of Directors, with the members of each class to hold office until their successors have been elected and qualified. At each annual meeting of shareholders prior to the annual meeting of shareholders of the Corporation held in 2010, the successors of the members of the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of shareholders held in the third year following the year of their election. Commencing with the annual meeting of shareholders of the Corporation held in 2010, directors shall hold office for terms as follows: (i) at the 2010 annual meeting of shareholders, directors for whom such annual meeting is the annual meeting of shareholders held in the third year following the year of their election (or such directors' successors) shall be elected to hold office for a term expiring at the next annual meeting of shareholders and until their successors have been elected and qualified, (ii) at the 2011 annual meeting of shareholders, directors for whom such annual meeting is the annual meeting of shareholders held in the third year following the year of their election and directors elected at the 2010 annual meeting of shareholders (or such directors' successors) shall be elected to hold office for a term expiring at the next annual meeting of shareholders and until their successors have been elected and qualified, and (iii) at the 2012 annual meeting of shareholders and each annual meeting of shareholders thereafter, all directors shall be elected to hold office for a term expiring at the next annual meeting of shareholders and until their successors have been elected and qualified. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

(ii) **REMOVAL.** Any director may be removed from office by the shareholders, but only for cause and only by the affirmative vote of a majority of the votes then entitled to be cast in an election of directors.

(iii) **VACANCIES.** Any vacancy occurring in the Board of Directors, including, but not limited to, a vacancy created by an increase in the number of directors or the removal of a director, shall be filled only by the affirmative vote of a majority of the directors then in office, even if such majority is less than a quorum of the Board of Directors, or by a sole remaining director. If no director remains in office, any vacancy may be filled by the shareholders. Any director elected to fill a vacancy prior to the annual meeting of shareholders of the Corporation held in 2010 shall serve until the next election of the class for which such director shall have been chosen. Any director elected to fill a vacancy after the annual meeting of shareholders of the Corporation held in 2010 shall serve until the next annual meeting of shareholders, except that any director who is replacing a director who was in the course of serving a three-year term shall serve for the remainder of the predecessor's term.

(b) NOMINATIONS AND QUALIFICATIONS OF DIRECTORS.

(i) Nominations for the election of directors may be made (A) by the Board of Directors or a committee appointed by the Board of Directors, (B) by any shareholder entitled to vote generally in the election of directors who complies with the notice procedures set forth in this Article VI(b), or (C) by a shareholder or shareholders who are eligible under, and comply with the notice procedures set forth in, the By-laws of the Corporation pursuant to which the Corporation shall include in its proxy statement for any annual meeting of shareholders one or more nominees for election to the Board of Directors of a Nominating Shareholder (as defined

therein) disclosure about each nominee and the Nominating Shareholder and a statement by the Nominating Shareholder for inclusion in the proxy statement in support of the Nominee's election where, among other things, the Nominating Shareholder's notice must be received by the Secretary at the principal offices of the Corporation not less than 120 days in advance of the date in the current fiscal year of the Corporation corresponding to the date the Corporation released its proxy statement to shareholders in connection with the annual meeting for the immediately preceding year, all as more fully provided in the By-laws.

(ii) Any shareholder entitled to vote generally in the election of directors may nominate one or more persons for election as directors at a meeting pursuant to this paragraph (ii) only if written notice of such shareholder's intent to make such nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Corporation (i) with respect to an election to be held at an annual meeting of shareholders, 60 calendar days in advance of the date in the current fiscal year of the Corporation corresponding to the date the Corporation released its proxy statement to shareholders in connection with the annual meeting for the immediately preceding year and (ii) with respect to an election to be held at a special meeting of shareholders for the election of directors, the close of business on the seventh day following the date on which notice of such meeting is first given to shareholders. Each such notice shall set forth: (A) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated, (B) a representation that the shareholder is entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice, (C) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder, (D) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the then current proxy rules of the Securities and Exchange Commission, if the nominee were to be nominated by the Board and (E) the consent of each nominee to serve as a director of the Corporation if so elected. The chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure. The directors shall be at least twenty-one years of age. Directors need not be shareholders. The By-laws of the Corporation may provide that, to the extent provided in such By-laws, an individual shall be elected a director of the Corporation by the shareholders if, and only if, the number of votes cast favoring that individual's election exceeds the number of votes cast opposing that individual's election at any meeting for the election of directors at which a quorum is present, subject to the terms and conditions set forth within such By-laws. For purposes of clarity, the provisions of the foregoing sentence do not apply to vacancies on the Board of Directors (including a vacancy resulting from an increase in the number of directors) filled by a vote of the Board of Directors.

ARTICLE VII

The shareholders shall not be entitled to take action without a meeting by less than unanimous consent. Except as otherwise required by law and subject to the express rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, annual and special meetings of the shareholders shall be called, the record date or dates shall be determined and notice shall be sent as set forth in the By-laws of the Corporation. Notwithstanding any other provisions of these Restated Articles of Incorporation or the By-laws of the Corporation (and notwithstanding the fact that a lesser affirmative vote may be specified by law), the affirmative vote of shareholders possessing at least eighty percent of the voting power of the then outstanding shares of all classes of stock of the Corporation generally possessing voting rights in elections of directors, considered for this purpose as one class, shall be required to amend, alter, change or repeal, or to adopt any provision inconsistent with, sections 1.02, 1.04 and 1.05 of Article I of the By-laws, or this ARTICLE VII or any provision thereof or hereof; provided, however, that the Board of Directors, may amend, alter, change or repeal, or adopt any provision inconsistent with, sections 1.02, 1.04 and 1.05 of Article I of the By-laws, or any provision thereof, without a vote of shareholders.

ARTICLE VIII

Annual meetings of shareholders shall be held, at a date, time and place fixed by the Board of Directors and stated in the notice of meeting, to elect a Board of Directors and to transact such other business as may properly come before the meeting. Special meetings of shareholders may be called only in accordance with the provisions of ARTICLE VII of these Restated Articles of Incorporation. At each meeting of shareholders only such business may be conducted as is (a) specified in the written notice of meeting given by or at the direction of the Board of Directors, (b) in the case of an annual meeting, brought before the meeting by the Board of Directors or by the chairman of the meeting or (c) in the case of an annual meeting, specified in a written notice given by or on behalf of a shareholder of record, provided that written notice of such shareholder's intent to make a proposal or proposals has been given, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Corporation not later than 60 calendar days in advance of the date in the current fiscal year of the Corporation corresponding to the date the Corporation released its proxy statement to shareholders in connection with the annual meeting for the immediately preceding year. Each such notice shall set forth: (a) the name and address of the shareholder who intends to make the proposal and the number of shares of the Corporation's capital stock owned or controlled by such shareholder, (b) a representation that the shareholder is entitled to vote at such annual meeting and intends to appear in person or by proxy at the annual meeting to make the proposal specified in the notice and (c) such other information regarding each proposal made by such shareholder as would be required to be included in a proxy statement filed pursuant to the then current proxy rules of the Securities and Exchange Commission with respect to such proposals. The chairman of the meeting may refuse to acknowledge any proposal not made in compliance with the foregoing procedure.

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

I, Jochen Zeitz, 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 6, 2021

/s/ Jochen Zeitz

Jochen Zeitz

President and Chief Executive Officer

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

I, Gina Goetter, 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 6, 2021

/s/ Gina Goetter

Gina Goetter

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 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 28, 2021 (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 6, 2021

/s/ Jochen Zeitz

Jochen Zeitz

President and Chief Executive Officer

/s/ Gina Goetter

Gina Goetter

Chief Financial Officer