

HARLEY DAVIDSON INC
Form 10-K
February 24, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2010

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 1-9183

Harley-Davidson, Inc.

(Exact name of registrant as specified in its charter)

Wisconsin
(State of organization)
3700 West Juneau Avenue

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

Milwaukee, Wisconsin
(Address of principal executive offices)

53208
(Zip code)

Registrants telephone number: (414) 342-4680

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

| Title of each class | Name of each exchange on which registered |
|--|---|
| COMMON STOCK, \$.01 PAR VALUE PER SHARE | NEW YORK STOCK EXCHANGE |
| Securities registered pursuant to Section 12(g) of the Act: NONE | |

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

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

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

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

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

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

| | | | |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |

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

Aggregate market value of the voting stock held by non-affiliates of the registrant at June 27, 2010: \$5,691,839,774

Number of shares of the registrant's common stock outstanding at January 31, 2011: 235,521,693 shares

Documents Incorporated by Reference

Part III of this report incorporates information by reference from registrant's Proxy Statement for the annual meeting of its shareholders to be held on April 30, 2011.

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Harley-Davidson, Inc.

Form 10-K

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PART I

Note regarding forward-looking statements

The Company intends that certain matters discussed by the Company are forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such by reference to this note or because the context of the statement will include words such as the Company believes, anticipates, expects, plans, or estimates or words of similar meaning. Similarly, statements that describe future plans, objectives, outlooks, targets, guidance or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this report. Certain of such risks and uncertainties are described in close proximity to such statements or elsewhere in this report, including under the caption Risk Factors in Item 1A of this report and under Cautionary Statements in Item 7 of this report. Shareholders, potential investors, and other readers are urged to consider these factors in evaluating the forward-looking statements and cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in this report are made as of the date indicated or, if a date is not indicated, as of the date of the filing of this report (February 24, 2011) and the Company disclaims any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

Item 1. Business

Harley-Davidson, Inc. was incorporated in 1981, at which time it purchased the Harley-Davidson® motorcycle business from AMF Incorporated in a management buyout. In 1986, Harley-Davidson, Inc. became publicly held. Unless the context otherwise requires, all references to the Company include Harley-Davidson, Inc. and all of its subsidiaries. The Company operates in two segments: the Motorcycles & Related Products (Motorcycles) segment and the Financial Services (Financial Services) segment. The Company's reportable segments are strategic business units that offer different products and services. They are managed separately based on the fundamental differences in their operations.

The Motorcycles segment designs, manufactures and sells at wholesale heavyweight (engine displacement of 651+cc) cruiser and touring motorcycles as well as a line of motorcycle parts, accessories, general merchandise and related services. The Company conducts business on a global basis, with sales in North America, Europe/Middle East/Africa (EMEA), Asia/Pacific and Latin America. The Motorcycles segment includes the Harley-Davidson and Buell product lines.

On October 15, 2009, the Company announced that it would exit from the Buell product line and ceased production of Buell motorcycles at the end of October 2009. The sale of remaining Buell motorcycle inventory to independent dealers and/or distributors was substantially completed during 2010. The majority of independent dealers will continue to provide ongoing service and replacement parts to Buell owners.

During 2008, the Company acquired Italian motorcycle manufacturer MV Agusta (MV). On October 15, 2009, the Company announced its intent to divest MV, and it completed the sale of MV on August 6, 2010. MV is presented as a discontinued operation for all periods. Please refer to the section titled Overview within Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion.

The Motorcycles segment discussion that follows is specific to the Harley-Davidson brand unless otherwise specifically noted.

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

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See Note 21 of Notes to Consolidated Financial Statements for financial information related to the Company's business segments.

Motorcycles and Related Products

Motorcycles The primary business of the Motorcycles segment is to design and manufacture premium motorcycles for the heavyweight market and sell them at wholesale. The Company's worldwide motorcycle sales generated approximately 76%, 75% and 78% of the total net revenue in the Motorcycles segment during each of the years 2010, 2009 and 2008, respectively.

Harley-Davidson branded motorcycle products emphasize traditional styling, design simplicity, durability and quality. The Company manufactures five families of motorcycles: Touring, Dyna[®], Softail[®], Sportster[®], and VRSC. The first four of these motorcycle families are powered by an air-cooled, twin-cylinder engine with a 45-degree V configuration. The VRSC family is powered by a liquid-cooled, twin-cylinder engine with a 60-degree V configuration. The Company's Harley-Davidson engines range in displacement size from 883cc's to 1803cc's.

The total heavyweight (651+cc) motorcycle market is comprised of the following five segments:

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

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

Cruiser (emphasizes styling and individual owner customization);

Touring (incorporates features such as saddlebags, fairings, or large luggage compartments and emphasizes rider comfort and load capacity); and

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

The Company competes in the touring and cruiser segments of the heavyweight motorcycle market. The touring segment of the heavyweight market was pioneered by the Company and includes the Harley-Davidson Touring family of motorcycles, including three-wheeled motorcycles, which are generally equipped with fairings, windshields, saddlebags and/or Tour Pak[®] luggage carriers. The cruiser segment of the market includes motorcycles featuring the distinctive styling associated with classic Harley-Davidson motorcycles and includes the Company's Dyna, Softail, VRSC and Sportster motorcycle families.

The worldwide heavyweight motorcycle market is highly competitive. The Company's major competitors are based outside the U.S. In addition to these larger, established competitors, the Company has competitors headquartered in the U.S. These competitors generally offer heavyweight motorcycles with traditional styling that compete directly with many of the Company's products.

Competition in the heavyweight motorcycle market is based upon a number of factors, including price, quality, reliability, styling, product features, customer preference, warranties and availability of financing. In the U.S., suggested retail prices for the Company's Harley-Davidson motorcycles are comparable to or moderately higher than suggested retail prices for comparable motorcycles available in the market. The Company believes that its larger-displacement products continue to command a premium price relative to comparable motorcycles and are generally the most profitable for the Company. The Company emphasizes quality, reliability and styling in its products and generally offers a two-year warranty for its motorcycles. The Company regards its support of the motorcycling lifestyle across a wide demographic range through events, rides, rallies including those sponsored by Harley Owners Group[®] (H.O.G.[®]) as a competitive advantage. The Company also considers the availability of a line of motorcycle parts and accessories and general merchandise and the availability of financing through HDFs as competitive advantages.

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According to the Motorcycle Industry Council, the touring and cruiser segments accounted for approximately 85%, 83% and 84% of total heavyweight retail unit registrations in the U.S. during 2010, 2009 and 2008, respectively. During 2010, the heavyweight portion of the market represented approximately 59% of the total U.S. motorcycle market (street legal models including both on-highway and dual purpose models and three-wheeled vehicles) in terms of new units registered.

The following chart includes U.S. retail registration data for Harley-Davidson motorcycles for the years 2008 through 2010:

U.S. Heavyweight Motorcycle Registration Data^{(a)(b)}

(Units in thousands)

| | 2010 | 2009 | 2008 |
|--|-------|-------|-------|
| Total new heavyweight motorcycle registrations | 259.7 | 304.3 | 480.3 |
| Harley-Davidson new registrations | 142.7 | 162.0 | 218.2 |
| | 54.9% | 53.2% | 45.4% |

(a) Heavyweight data includes street legal 651+cc models. Street legal 651+cc models include on-highway, dual purpose models and three-wheeled vehicles.

(b) U.S. industry data is derived from information provided by Motorcycle Industry Council (MIC). This third party data is subject to revision and update. Prior periods have been adjusted to include all dual purpose models that were previously excluded. The retail registration data for Harley-Davidson motorcycles presented in this table may differ slightly from the Harley-Davidson retail sales data presented in Item 7 of this report. The Company's source for retail sales data in Item 7 of this report is sales and warranty registrations provided by Harley-Davidson dealers as compiled by the Company. The differences are not significant and generally relate to the timing of data submissions to the independent sources.

The European heavyweight motorcycle market (as defined below) is similar in size to the U.S. market; but customer preferences vary across the region. For example, in Europe, the sportbike segment represented nearly 41% of the total heavyweight market in 2010 while the touring segment popular in the U.S. represented 32% of the European heavyweight motorcycle market.

The following chart includes European retail registration data for Harley-Davidson for the years 2008 through 2010:

European Heavyweight Motorcycle Registration Data^{(a)(b)}

(Units in thousands)

| | 2010 | 2009 | 2008 |
|--|-------|-------|-------|
| Total new heavyweight motorcycle registrations | 301.3 | 313.6 | 389.7 |
| Harley-Davidson new registrations | 38.3 | 37.7 | 41.1 |
| | 12.7% | 12.0% | 10.6% |

(a) Heavyweight data includes street legal 651+cc models. Street legal 651+cc models include on-highway, dual purpose models and three-wheeled vehicles.

(b) Europe data includes retail sales in Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom. Industry retail motorcycle registration data is derived from information provided by Giral S.A., an independent agency. This third party data is subject to revision and update. The retail registration data for Harley-Davidson motorcycles presented in this table may differ slightly from the Harley-Davidson retail sales data presented in Item 7 of this report. The Company's source for retail sales data in Item 7 of this report is sales and warranty registrations provided by Harley-Davidson dealers as compiled by the Company. The differences are not significant and generally relate to the timing of data submissions to the independent sources.

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During 2010, the U.S. and European regions accounted for approximately 83% of total annual independent dealer retail sales of new Harley-Davidson motorcycles. The Company also competes in several other markets around the world. Based on Company data, the most significant of these markets in terms of retail sales volume are Canada, Japan, Australia and Brazil.

Parts & Accessories Parts and Accessories (P&A) products are comprised of replacement parts (Genuine Motor Parts) and mechanical and cosmetic accessories (Genuine Motor Accessories). Worldwide P&A net revenue comprised 17.9%, 17.9% and 15.4% of net revenue in the Motorcycles segment in 2010, 2009 and 2008, respectively.

General Merchandise Worldwide General Merchandise net revenue, which includes revenue from MotorCloth[®] apparel and riding gear, comprised 6.2%, 6.6% and 5.6% of net revenue in the Motorcycles segment in 2010, 2009 and 2008, respectively.

Licensing The Company creates an awareness of the Harley-Davidson brand among its customers and the non-riding public through a wide range of products for enthusiasts by licensing the name Harley-Davidson and other trademarks owned by the Company. The Company's licensed products include t-shirts, vehicles and vehicle accessories, jewelry, small leather goods, toys and numerous other products. Although the majority of licensing activity occurs in the U.S., the Company continues to expand these activities in international markets. Royalty revenues from licensing, included in Motorcycles segment net revenue, were \$39.8 million, \$38.3 million and \$45.4 million in 2010, 2009 and 2008, respectively.

Harley-Davidson Museum In 2008, the Company opened the Harley-Davidson Museum in Milwaukee, Wisconsin. The Museum is a unique experience that the Company believes builds and strengthens bonds between riders and the Company and enhances the brand among the public at large. The 130,000 square foot facility houses the Harley-Davidson Museum and Archives, a restaurant, café, retail store and special event space. The Museum gives the Company a new way to create memories for customers through visiting, planning rides and hosting special events at the Museum.

Other Services The Company also provides a variety of services to its independent dealers including service and business management training programs, customized dealer software packages and delivery of its motorcycles. Motorcycle rentals are available through the Company's independent dealers.

International Sales The Company's revenue from the sale of motorcycles and related products to independent dealers and distributors located outside of the United States was approximately \$1.36 billion, \$1.38 billion and \$1.73 billion, or approximately 33%, 32% and 31% of net revenue of the Motorcycles segment, during 2010, 2009 and 2008, respectively.

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

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

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Trademarks are important to the Company's motorcycle business and licensing activities. The Company has a vigorous worldwide program of trademark registration and enforcement to maintain and strengthen the value of the trademarks and prevent the unauthorized use of those trademarks. The HARLEY-DAVIDSON trademark and the Bar and Shield trademark are each highly recognizable to the public and are very valuable assets. Additionally, the Company uses numerous other trademarks, trade names and logos which are registered worldwide. The following are among the Company's trademarks: HARLEY-DAVIDSON, H-D, HARLEY, the Bar & Shield Logo, MOTORCLOTHES, the MotorClothes Logo, RIDER'S EDGE, HARLEY OWNERS GROUP, H.O.G., the H.O.G. Logo, SOFTAIL, SPORTSTER and V-ROD. The HARLEY-DAVIDSON trademark has been used since 1903 and the Bar and Shield trademark since at least 1910. Substantially all of the Company's trademarks are owned by H-D Michigan, LLC, a subsidiary of the Company, which also manages the Company's trademark strategy and portfolio.

Marketing The Company is currently executing a multi-generational and multi-cultural marketing strategy; the Company measures the success of this strategy by internally monitoring market shares (where available) across its various customer definitions, as well as monitoring brand health in various markets.

U.S. retail purchasers of new Harley-Davidson motorcycles include both core and outreach customers and are diverse in terms of age, gender and ethnicity. The Company defines its U.S. core customer base as men over the age of 35 and its U.S. outreach customers as women, young adults, and ethnically diverse adults. Harley-Davidson is the market share leader in U.S. new motorcycle registrations in terms of heavyweight (street legal 651cc+) registrations within all its customer definitions including men over the age of 35, women, young adults and ethnically diverse adults. (Source: R. L. Polk & Co. 2009 motorcycle registrations)

The Company is in the process of implementing its multi-generational and multi-cultural customer marketing strategy outside of the U.S. As a result, the Company is currently establishing definitions for core and outreach customer segments outside of the U.S.

The average U.S. retail purchaser of a new Harley-Davidson motorcycle has a median household income of approximately \$85,000. More than three-quarters of the U.S. retail sales of new Harley-Davidson motorcycles are to purchasers with at least one year of education beyond high school and 34% of the buyers have college/graduate degrees. (Sources: 2010 Company Studies)

The Company's products are marketed to retail customers worldwide primarily through advertising and promotional activities via television, print, radio, direct mailings, as well as electronic advertising and social networks. Additionally, local marketing efforts are accomplished through a cooperative program with the Company's independent dealers.

During 2010, the Company established what it calls a Creativity Model whereby it uses web-based crowd-sourcing as a source for its main marketing creative development. Crowd-sourcing draws on the ideas of passionate brand fans around the world to help guide the creative direction of the brand. The Company also works closely with outside experts in media, digital marketing, and product placement to expand its marketing impact.

Customer experiences have traditionally been at the center of much of the Company's marketing. To attract customers and achieve its goals, the Company not only participates in motorcycle rallies, both large and small, around the world, but also in major motorcycle consumer shows, racing activities, music festivals, mixed martial arts activities and other special promotional and charitable events.

Since 1983, the Company has promoted its Harley-Davidson products and the related lifestyle through the Harley Owner's Group (H.O.G.), which has approximately 1 million members worldwide and the Company believes is the industry's largest company-sponsored motorcycle enthusiast organization. This group also sponsors many motorcycle events, including rallies and rides for Harley-Davidson motorcycle enthusiasts throughout the world.

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In 2000, Rider's Edge, the Harley-Davidson Academy of Motorcycling, was formed. Rider's Edge offers a series of rider education experiences that provide both new and experienced riders with deeper engagement in the sport of motorcycling by teaching basic and advanced motorcycling skills and knowledge. The courses are conducted by a network of select Harley-Davidson dealerships throughout the U.S., enabling students to experience the Harley-Davidson lifestyle, environment, people, and products as they learn. The Company also rents its products through select dealers with its Authorized Rentals program.

The Company website (www.harley-davidson.com) is also utilized to market its products and services. The website also features an online catalog which allows retail customers to create and share product wish lists, utilize a dealer locator and place catalog orders. Internet orders are sold and fulfilled by the participating authorized Harley-Davidson dealer selected by the retail customer. Dealers also handle any after-sale services that retail customers may require.

Harley-Davidson Distribution The Company's products are retailed through an independent dealer network, of which the majority sells Harley-Davidson motorcycles exclusively. The Company's independent dealerships stock and sell the Company's motorcycles, P&A, general merchandise and licensed products, and perform service for the Company's motorcycles. The Company's independent dealers also sell P&A, general merchandise and licensed products through non-traditional retail outlets. The non-traditional outlets, which are extensions of the main dealership, consist of Secondary Retail Locations (SRLs), Alternate Retail Outlets (AROs), and Seasonal Retail Outlets (SROs). SRLs are satellites of the main dealership and are developed to meet additional retail and service needs of the Company's riding customers. SRLs also provide P&A, general merchandise and licensed products and are authorized to sell and service new motorcycles. AROs are located primarily in high traffic locations such as malls, airports or popular vacation destinations and focus on selling the Company's general merchandise and licensed products. SROs are located in similar high traffic areas, but operate on a seasonal basis out of temporary locations such as vendor kiosks. AROs and SROs are not authorized to sell new motorcycles.

The Company's North American region consists of the United States and Canada. In the United States, the Company distributes its motorcycles and related products to a network of independently-owned full-service Harley-Davidson dealerships and the Overseas Military Sales Corporation, an entity that retails the Company's products to members of the U.S. military. The Company distributes its motorcycles to its dealers in the U.S. based on dealer orders but subject to an allocation system that was designed to be forward-looking and market-driven to align the distribution of motorcycles with the demand in individual dealer markets. The allocation system can affect the number of units of particular models that dealers are able to order and the timing of shipments to dealers. In Canada, the Company sells its motorcycles and related products at wholesale to a single independent distributor, Deeley Harley-Davidson Canada/Fred Deeley Imports Ltd., which in turn sells to independent dealers in the Canadian market.

In the EMEA region, the Company distributes all products sold to independent dealers or distributors through its subsidiaries located in the Czech Republic, France, Germany, Italy, Netherlands, South Africa, Spain, Switzerland and the United Kingdom.

In the Asia Pacific region, the Company distributes all products sold to independent dealers in Australia, China, India and Japan through subsidiaries in those countries. The Company distributes all products sold to independent dealers and distributors for the remaining Asia Pacific markets in which its motorcycles are sold from its U.S. operations.

The Company distributes all products sold in the Latin America region to independent dealers in Mexico and Brazil through subsidiaries in those countries, and the Company distributes all products sold to independent dealers for the remaining Latin American markets in which its motorcycles are sold from its U.S. operations.

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The following table includes the number of worldwide Harley-Davidson independent dealers by geographic region as of December 31, 2010:

| | North America Region | | EMEA Region | Asia Pacific Region | Latin America Region |
|---------------------------|----------------------|--------|-------------|---------------------|----------------------|
| | United States | Canada | | | |
| Independent Distributors | | 1 | 3 | | |
| Full Service Dealerships: | 653 | 71 | 362 | 208 | 40 |
| Non-traditional: | | | | | |
| SRL | 76 | 3 | 2 | 64 ^(a) | |
| ARO | 86 | 3 | 23 | 6 | 22 |
| SRO | | 1 | | | 1 |
| | 162 | 7 | 25 | 70 | 23 |

(a) The Asia Pacific SRL total for 2010 includes 54 SRLs that were inadvertently omitted from the 2009 total provided in the 2009 10-K.

Overall, the Company believes the U.S. dealer network continues to remain profitable through dealers actively managing their expense structures despite pressure from a tough U.S. economy. During 2010, 36 dealer points in the U.S. dealer network closed, and the Company expects additional dealer points to close during 2011. Outside of the U.S., the Company's strategy calls for the international dealer network to expand by 100 to 150 dealer points from the end of 2009 through the end of 2014.

Retail Customer and Dealer Financing The Company believes that HDFS, as well as other financial services companies, provide adequate financing to Harley-Davidson independent distributors, dealers and their retail customers. HDFS provides financing to the Company's Canadian distributor, Harley-Davidson independent dealers and the retail customers of those dealers in the U.S. and Canada. The Company's independent distributors, dealers and their retail customers in the Europe, Asia/Pacific and Latin America regions are not directly financed by HDFS, but have access to financing through other established financial services companies, some of which have licensing or branding agreements with the Company.

Seasonality The timing of retail sales made by the Company's independent dealers tracks closely with regional riding seasons. The seasonality of wholesale shipments made by the Company has been different depending on the geographic market.

The Company's independent dealers in the U.S. and Canadian markets typically have built their inventory levels in the late fall and winter in anticipation of the spring and summer selling seasons. The availability of floor plan financing and financing assistance through HDFS has allowed dealers to manage these seasonal increases in inventory. In the U.S., seasonal financing assistance is subsidized by the Company, and in Canada, seasonal financing assistance is sponsored by the region's single independent distributor, Deeley Harley-Davidson Canada/Fred Deeley Imports Ltd. As a result, the Company's wholesale shipments to these markets have historically not been affected to any material extent by seasonality.

In the majority of the remaining international markets, the Company's wholesale shipments track more closely with regional riding seasons. In general, the Company's independent dealers and distributors in these international markets do not build inventory levels in the non-riding seasons, and as a result, the Company's wholesale shipments to these markets are generally lower in the non-riding seasons than in the riding seasons.

The seasonality of the Company's wholesale shipments affects its ability to produce on a level scale throughout the year. As discussed under Motorcycle Manufacturing, the Company is making efforts to increase the flexibility of its manufacturing process.

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Motorcycle Manufacturing The Company's manufacturing strategy is designed to continuously improve product quality and productivity while reducing costs and increasing flexibility to respond to ongoing changes in the marketplace.

The Company believes that flexible manufacturing processes and flexible supply chains combined with cost-competitive and flexible labor agreements are the key enablers to respond to customers in a cost effective manner. The ongoing restructuring of the Company's U.S. manufacturing plants, which commenced in 2009, supports the Company's efforts to become more flexible and cost competitive allowing it to get the right product at the right time to the customer.

To support the Company's international growth initiatives, the Company has embarked on its second CKD (Complete Knock Down) assembly plant. This plant located in India follows the Company's 1999 CKD manufacturing entry into Brazil. The CKD assembly operation in India, which is expected to be operational in the first half of 2011, will assemble motorcycles for the Indian market from component kits produced by the Company's U.S. plants and by the Company's suppliers.

Raw Materials and Purchased Components The Company continues to establish and reinforce long-term, mutually beneficial relationships with its suppliers. Through these collaborative relationships, the Company gains access to technical and commercial resources for application directly to product design, development and manufacturing initiatives. This strategy has generated improved product quality, technical integrity, application of new features and innovations and faster manufacturing ramp-up of new vehicle introductions. Through a continued focus on collaboration and strong supplier relationships, the Company believes it will be positioned to achieve strategic objectives and deliver cost and quality improvement over the long-term.

The Company purchases all of its raw materials, principally steel and aluminum castings, forgings, steel sheets and bars, and certain motorcycle components, including, but not limited to, electronic fuel injection systems, batteries, tires, seats, electrical components and instruments. Given the continuing economic conditions, and related pressure on select suppliers due to difficulties in the global manufacturing arena, the Company is closely monitoring the overall viability of its supply base. However, at this time, the Company does not anticipate difficulties in obtaining raw materials or components.

Research and Development The Company believes research and development are significant factors in its ability to lead the cruiser and touring motorcycling markets. The Company's Harley-Davidson Product Development Center (PDC) brings employees from styling, purchasing, marketing, engineering and manufacturing together with regulatory professionals and supplier representatives to create a concurrent product and process development team. The Company incurred research and development expenses of \$136.2 million, \$143.1 million and \$163.5 million during 2010, 2009 and 2008, respectively.

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

The Company's motorcycles that are sold in the United States are subject to certification by the U.S. Environmental Protection Agency (EPA) for compliance with applicable emissions and noise standards and by the State of California Air Resources Board (CARB) with respect to CARB's more stringent emissions standards. Company motorcycles sold in California are also subject to evaporative emissions standards that are unique to California. The Company's motorcycle products have been designed to comply fully with all such applicable standards. The EPA has implemented tail pipe emission standards for 2010, which are harmonized with the California emissions standards. Harley-Davidson motorcycle products have been designed to comply with the new EPA standards and the Company believes it will comply with future requirements when they go into effect. Additionally, the Company's motorcycle products must and do in fact comply with the motorcycle emissions, noise and safety standards of Canada, the European Union, Japan, Brazil and certain other foreign markets where

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they are sold. Because the Company expects that environmental standards will become even more stringent over time, the Company will continue to incur some level of research, development and production costs in this area for the foreseeable future.

The Company, as a manufacturer of motorcycle products, is subject to the U.S. National Traffic and Motor Vehicle Safety Act, which is administered by the U.S. National Highway Traffic Safety Administration (NHTSA). The Company has certified to NHTSA that its motorcycle products comply fully with all applicable federal motor vehicle safety standards and related regulations. The Company has from time to time initiated certain voluntary recalls. During the last three years, the Company has initiated 11 voluntary recalls related to Harley-Davidson motorcycles at a total cost of \$9.3 million. The Company reserves for all estimated costs associated with recalls in the period that the recalls are announced.

Employees As of December 31, 2010, the Motorcycles segment had approximately 6,300 employees. Unionized employees at the manufacturing facilities in Menomonee Falls and Tomahawk, Wisconsin and Kansas City, Missouri are represented by the United Steelworkers of America (USW), as well as the International Association of Machinist and Aerospace Workers (IAM). Production workers at the motorcycle manufacturing facility in York, Pennsylvania are represented by the IAM. In September 2010, the Company's unionized employees in Wisconsin ratified three separate new seven-year labor agreements which will take effect April 1, 2012 upon the March 31, 2012 expiration of the current collective bargaining agreement. The collective bargaining agreement with the Kansas City-USW and IAM will expire on July 29, 2012, and the collective bargaining agreement with the Pennsylvania-IAM will expire on February 2, 2017. Please refer to the Overview section of Item 7,

Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion of the Company's restructuring activities and the impact on the number of employees.

Internet Access The Company's internet website address is www.harley-davidson.com. The Company makes available free of charge (other than an investor's own internet access charges) through its internet website the Company's Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after it electronically files such material with, or furnishes such material to, the United States Securities and Exchange Commission (SEC). In addition, the Company makes available, through its website, the following corporate governance materials: (a) the Company's Corporate Governance Policy; (b) Committee Charters approved by the Company's Board of Directors for the Audit Committee, Human Resources Committee and Nominating and Corporate Governance Committee; (c) the Company's Financial Code of Ethics; (d) the Company's Code of Business Conduct (the Code of Conduct) in eight languages including English; (e) the Conflict of Interest Process for Directors, Executive Officers and Other Employees (the Conflict Process); (f) a list of the Company's Board of Directors; (g) the Company's By-laws; (h) the Harley-Davidson Environmental Policy; (i) the Company's Policy for Managing Disclosure of Material Information; (j) the Company's Supplier Code of Conduct; (k) the Sustainability Strategy Report; and (l) the list of compensation survey participants used as market reference points for various components of compensation as reported in the Company's Notice of Annual Meeting and Proxy Statement filed with the SEC on March 19, 2010, which compensation relates to the Company's named executive officers. This information is also available from the Company upon request. The Company satisfies the disclosure requirements under the Code of Conduct, the Conflict Process and applicable New York Stock Exchange listing requirements regarding waivers of the Code of Conduct or the Conflict Process by disclosing the information in the Company's proxy statement for its annual meeting of shareholders or on the Company's website. The Company is not including the information contained on or available through its website as a part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

Financial Services

HDFS is engaged in the business of financing and servicing wholesale inventory receivables and retail consumer loans, primarily for the purchase of Harley-Davidson motorcycles. HDFS is an agent for certain

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unaffiliated insurance carriers providing property/casualty insurance and also sells extended service contracts, gap coverage and debt protection products to motorcycle owners. HDFS conducts business principally in the United States and Canada.

Wholesale Financial Services HDFS provides wholesale financial services to Harley-Davidson dealers, including floorplan and open account financing of motorcycles and motorcycle parts and accessories. HDFS offers wholesale financial services to Harley-Davidson dealers in the United States and Canada, and during 2010 approximately 94% of such dealers utilized those services. The wholesale finance operations of HDFS are located in Plano, Texas.

Retail Financial Services HDFS provides retail financing to consumers, including installment lending for the purchase of new and used Harley-Davidson motorcycles. HDFS retail financial services are available through most Harley-Davidson dealers in the United States and Canada. HDFS retail finance operations are principally located in Carson City, Nevada and Plano, Texas.

Insurance Services HDFS is an agent for the sale of motorcycle insurance policies. In the U.S., HDFS also offers motorcycle insurance, extended service contracts, gap coverage and debt protection products through most Harley-Davidson dealers. Motorcycle insurance is also marketed on a direct basis to motorcycle riders. In Canada, HDFS primarily offers extended service contracts through most Harley-Davidson dealers. HDFS insurance operations are principally located in Carson City, Nevada and Plano, Texas.

Funding The Company believes a diversified and cost effective funding base are important to meet HDFS goal of providing credit while delivering appropriate returns and profitability. Financial Services operations have been funded with unsecured debt, unsecured commercial paper, an asset-backed commercial paper conduit facility and committed unsecured bank facilities and through the term asset-backed securitization market. HDFS also has a support agreement with the Company whereby, if required, the Company agrees to provide financial support in the form of advances and/or loans. Please refer to the section titled "Liquidity and Capital Resources as of December 31, 2010" within Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion.

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

In the United States, HDFS financed 47.9% of the new Harley-Davidson motorcycles retailed by independent dealers during 2010, as compared to 48.8% in 2009. In Canada, HDFS financed 32.2% of the new Harley-Davidson motorcycles retailed by independent dealers during 2010, as compared to 33.2% in 2009. Competitors for retail motorcycle finance business are primarily banks, credit unions and other financial institutions. In the motorcycle insurance business, competition primarily comes from national insurance companies and from insurance agencies serving local or regional markets. For insurance-related products such as extended service contracts, HDFS faces competition from certain regional and national industry participants as well as dealer in-house programs.

Competition for the wholesale motorcycle finance business primarily consists of banks and other financial institutions providing wholesale financing to Harley-Davidson dealers in their local markets.

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

Seasonality In the U.S. and Canada, motorcycles are primarily used during warmer months. Accordingly, HDFS experiences seasonal variations. In general, from mid-March through August, retail financing volume

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increases while wholesale financing volume decreases as dealer inventories decline. From September through mid-March, there is generally a decrease in retail financing volume while dealer inventories generally build and turn over more slowly, thereby increasing wholesale finance receivables.

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

Depending on the provisions of the applicable laws and regulations, the interpretation of laws and regulations and the specific facts and circumstances involved, violations of or non-compliance with these laws may limit the ability of HDFFS to collect all or part of the principal or interest on applicable loans, may entitle the borrower to rescind the loan or to obtain a refund of amounts previously paid, could subject HDFFS to the payment of damages or penalties and administrative sanctions, including cease and desist orders, and could limit the number of loans eligible for HDFFS securitization programs.

Such regulatory requirements and associated supervision could limit the discretion of HDFFS in operating its business. Noncompliance with applicable statutes or regulations could result in the suspension or revocation of any charter, license or registration at issue, as well as the imposition of civil fines, criminal penalties and administrative sanctions. The Company cannot assure that the applicable laws or regulations will not be amended or construed differently, that new laws and regulations will not be adopted or that interest rates charged by HDFFS will not rise to maximum levels permitted by law, the effect of any of which could be to adversely affect the business of HDFFS or its results of operations.

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

Employees As of December 31, 2010, the Financial Services segment had approximately 600 employees.

Item 1A. Risk Factors

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

The Company may not be able to successfully execute its long-term business strategy. The Company may not be able to successfully execute the long-term business strategy that the Company announced on October 15, 2009. There is no assurance that the Company will be able to drive growth to the extent desired through its focus of efforts and resources on the Harley-Davidson brand or to enhance productivity and profitability to the extent desired through continuous improvement.

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Expanding international sales subjects the Company to risks that may have a material adverse effect on its business.

Expanding international sales is a part of the Company's long-term business strategy. International operations and sales are subject to various risks, including political and economic instability, local labor market conditions, the imposition of foreign tariffs and other trade barriers, the impact of foreign government regulations and the effects of income and withholding taxes, governmental expropriation and differences in business practices. The Company may incur increased costs and experience delays or disruptions in product deliveries and payments in connection with international operations and sales that could cause loss of revenues and earnings. Unfavorable changes in the political, regulatory and business climate could have a material adverse effect on the Company's net sales, financial condition, profitability or cash flows.

The Company must effectively execute the Company's restructuring plans within expected costs. During 2009 and 2010, the Company announced a combination of restructuring actions that are designed to reduce administrative costs, eliminate excess capacity and exit non-core business operations. Effectively executing these plans within expected costs and realizing expected benefits will depend upon a number of factors, including the time required to complete planned actions, effective collaboration and agreeme