HARLEY DAVIDSON INC
Form 10-Q
November 03, 2016

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 25, 2016
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-9183

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

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

Registrants telephone number: (414) 342-4680
None
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act. Yes ¨ No x
Number of shares of the registrant’s common stock outstanding at October 28, 2016: 176,773,435 shares

Harley-Davidson, Inc.

Form 10-Q

For The Quarter Ended September 25, 2016

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements
HARLEY-DAVIDSON, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(Unaudited)

	Three months ended		Nine months ended	
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015
Revenue:				
Motorcycles and Related Products	$1,091,630	$ 1,140,321	$4,338,353	$ 4,301,674
Financial Services	183,183	177,109	547,505	513,093
Total revenue	1,274,813	1,317,430	4,885,858	4,814,767
Costs and expenses:				
Motorcycles and Related Products cost of goods sold	724,611	746,282	2,773,496	2,670,146
Financial Services interest expense	42,573	41,214	131,387	120,938
Financial Services provision for credit losses	36,543	27,233	97,127	68,655
Selling, administrative and engineering expense	292,710	286,865	904,322	866,558
Total costs and expenses	1,096,437	1,101,594	3,906,332	3,726,297
Operating income	178,376	215,836	979,526	1,088,470
Investment income	2,300	3,211	3,754	5,983
Interest expense	7,706	4,879	21,968	4,897
Income before provision for income taxes	172,970	214,168	961,312	1,089,556
Provision for income taxes	58,905	73,821	316,327	379,545
Net income	$114,065	$ 140,347	$644,985	$ 710,011
Earnings per common share:				
Basic	$0.64	$ 0.69	$3.57	$ 3.43
Diluted	$0.64	$ 0.69	$3.55	$ 3.41
Cash dividends per common share	$0.35	$ 0.31	$1.05	$ 0.93

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

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

	Three months ended		Nine months ended	
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015
Net income	$114,065	$ 140,347	$644,985	$ 710,011
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	3,853	(14,598)	19,174	(37,368)
Derivative financial instruments	(2,031)	(10,533)	(7,374)	(12,747)
Marketable securities	(11)	(99)	(88)	(294)
Pension and postretirement benefit plans	7,572	8,799	22,715	26,395
Total other comprehensive income (loss), net of tax	$9,383	$ (16,431)	$34,427	$ (24,014)
Comprehensive income	$123,448	$ 123,916	$679,412	$ 685,997

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

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

	(Unaudited) September 25, 2016	December 31, 2015	(Unaudited) September 27, 2015
ASSETS			
Current assets:			
Cash and cash equivalents	$790,284	$722,209	$1,368,554
Marketable securities	5,038	45,192	47,358
Accounts receivable, net	346,176	247,405	294,054
Finance receivables, net	2,205,644	2,053,582	2,068,873
Inventories	426,547	585,907	466,657
Restricted cash	65,088	88,267	113,499
Deferred income taxes	123,609	102,769	100,558
Other current assets	139,958	132,552	150,667
Total current assets	4,102,344	3,977,883	4,610,220
Finance receivables, net	4,944,322	4,814,571	5,009,473
Property, plant and equipment, net	954,475	942,418	877,787
Goodwill	54,663	54,182	54,267
Deferred income taxes	80,831	99,614	71,952
Other long-term assets	75,591	84,309	88,335
	$10,212,226	$9,972,977	$10,712,034
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$291,594	$235,614	$316,894
Accrued liabilities	506,533	471,964	464,352
Short-term debt	1,055,428	1,201,380	990,049
Current portion of long-term debt, net	700,152	838,349	885,889
Total current liabilities	2,553,707	2,747,307	2,657,184
Long-term debt, net	5,170,609	4,832,469	5,040,644
Pension liability	120,494	164,888	61,458
Postretirement healthcare liability	182,825	193,659	193,406
Other long-term liabilities	192,223	195,000	199,669
Commitments and contingencies (Note 18)			
Shareholders' equity:			
Preferred stock, none issued	—	—	—
Common stock	3,454	3,449	3,448
Additional paid-in-capital	1,364,694	1,328,561	1,314,693
Retained earnings	9,416,583	8,961,985	8,977,600
Accumulated other comprehensive loss	(580,778)	(615,205)	(538,957)
Treasury stock, at cost	(8,211,585)	(7,839,136)	(7,197,111)
Total shareholders' equity	1,992,368	1,839,654	2,559,673
	$10,212,226	$9,972,977	$10,712,034

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

	(Unaudited) September 25, 2016	December 31, 2015	(Unaudited) September 27, 2015
Balances held by consolidated variable interest entities (Note 12)			
Current finance receivables, net	$ 236,561	$ 322,768	$ 357,713
Other assets	$ 3,043	$ 4,706	$ 4,492
Non-current finance receivables, net	$ 754,970	$ 1,250,919	$ 1,475,179
Restricted cash - current and non-current	$ 69,364	$ 100,151	$ 125,561
Current portion of long-term debt, net	$ 261,188	$ 351,123	$ 398,689
Long-term debt, net	$ 664,431	$ 1,108,254	$ 1,303,043

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

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

	Nine months ended	
	September 25, 2016	September 27, 2015
Net cash provided by operating activities (Note 3)	$927,809	$1,020,957
Cash flows from investing activities:		
Capital expenditures	(162,726)	(139,054)
Origination of finance receivables	(3,009,479)	(3,112,827)
Collections on finance receivables	2,440,466	2,393,355
Proceeds from finance receivables sold	312,571	—
Sales and redemptions of marketable securities	40,014	9,500
Acquisition of business	—	(59,910)
Other	251	5,172
Net cash used by investing activities	(378,903)	(903,764)
Cash flows from financing activities:		
Proceeds from issuance of senior unsecured notes	—	740,949
Proceeds from issuance of medium-term notes	1,193,396	595,386
Repayments of medium-term notes	(451,336)	(600,000)
Proceeds from securitization debt	—	1,195,668
Repayments of securitization debt	(535,616)	(764,909)
Net (decrease) increase in credit facilities and unsecured commercial paper	(146,328)	258,734
Borrowings of asset-backed commercial paper	33,428	69,191
Repayments of asset-backed commercial paper	(55,170)	(55,124)
Net change in restricted cash	30,981	(15,165)
Dividends paid	(190,387)	(191,451)
Purchase of common stock for treasury	(374,234)	(894,565)
Excess tax benefits from share-based payments	1,291	2,878
Issuance of common stock under employee stock option plans	6,444	16,755
Net cash (used by) provided by financing activities	(487,531)	358,347
Effect of exchange rate changes on cash and cash equivalents	6,700	(13,666)
Net increase in cash and cash equivalents	$68,075	$461,874
Cash and cash equivalents:		
Cash and cash equivalents—beginning of period	$722,209	$906,680
Net increase in cash and cash equivalents	68,075	461,874
Cash and cash equivalents—end of period	$790,284	$1,368,554

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

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

1. Basis of Presentation and Use of Estimates

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

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the consolidated balance sheets as of September 25, 2016 and September 27, 2015, the consolidated statements of income for the three and nine month periods then ended, the consolidated statements of comprehensive income for the three and nine month periods then ended and the consolidated statements of cash flows for the nine month periods then ended.

Certain information and footnote disclosures normally included in complete financial statements have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and U.S. generally accepted accounting principles (U.S. GAAP) for interim financial reporting. These consolidated financial statements should be read in conjunction with the audited financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

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

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

2. New Accounting Standards

Accounting Standards Recently Adopted

In February 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-02 Amendments to the Consolidation Analysis (ASU 2015-02). ASU 2015-02 amends the guidance within Accounting Standards Codification (ASC) Topic 810, "Consolidation," to change the analysis that a reporting entity must perform to determine whether it should consolidate certain legal entities. The Company adopted ASU 2015-02 on January 1, 2016. The adoption of ASU 2015-02 had no impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03 Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03). ASU 2015-03 amends the guidance within ASC Topic 835, "Interest," to require that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt premiums and discounts. In August 2015, the FASB further clarified its views on debt costs incurred in connection with a line of credit arrangement by issuing ASU No. 2015-15 Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (ASU 2015-15). ASU 2015-15 amends the guidance within ASC Topic 835, "Interest," to allow an entity to defer and present debt issuance costs associated with a line of credit arrangement as an asset, regardless of whether there are any outstanding borrowings on the line of credit arrangement.

The Company adopted ASU 2015-03 and ASU 2015-15 retrospectively on January 1, 2016. As a result, debt issuance costs related to its medium-term notes, senior unsecured notes, and term asset-backed securitizations are now classified as a reduction to the carrying amount of the related debt on the balance sheet. Debt issuance costs previously recorded in other current assets and other long-term assets totaling $18.2 million and $19.5 million as of December 31, 2015 and September 27, 2015, respectively, on the balance sheet have been reclassified to current portion of long-term debt, net and long-term debt, net to reflect the adoption of the new guidance. The required new disclosures are also presented in Note 11. The Company will continue to classify debt issuance costs related to line of credit arrangements, which include its asset-backed commercial paper and unsecured commercial paper programs and its credit facilities, as an asset, regardless of whether it has any outstanding borrowings on the line of credit

arrangements.
In April 2015, the FASB issued ASU No. 2015-05 Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, which amends ASC 350-40, "Intangibles-Goodwill and Other Internal-Use Software" (ASU 2015-05). ASU

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2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If an arrangement includes a software license, the accounting for the license will be consistent with the licenses of other intangible assets. If the arrangement does not include a license, the arrangement will be accounted for as a service contract. The Company adopted ASU 2015-05 prospectively on January 1, 2016. The adoption of ASU 2015-05 had no material impact on the Company's consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16 Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments (ASU 2015-16). ASU 2015-16 eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Acquirers must recognize measurement-period adjustments during the period in which they determine the amounts. This would include any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. The Company adopted ASU 2015-16 on January 1, 2016. The adoption of ASU 2015-16 had no impact on the Company's consolidated financial statements.

Accounting Standards Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09 Revenue from Contracts with Customers (ASU 2014-09). ASU 2014-09 is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14 Revenue from Contracts with Customers: Deferral of Effective Date (ASU 2015-14) to defer the effective date of the new revenue recognition standard by one year to fiscal years beginning after December 15, 2017 and for interim periods therein. The guidance may be adopted using either a full retrospective or modified retrospective approach. Early adoption is permitted as early as fiscal years beginning after December 15, 2016 and interim periods therein. The Company is currently evaluating the impact of adoption of ASU 2014-09 and ASU 2015-14.

In July 2015, the FASB issued ASU No. 2015-11 Inventory (Topic 330): Simplifying the Measurement of Inventory (ASU 2015-11). ASU 2015-11 simplifies the subsequent measurement of inventory by using only the lower of cost or net realizable value. ASU 2015-11 does not apply to inventory measured using the last-in, first-out method. The Company is required to adopt ASU 2015-11 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016 on a prospective basis. Early adoption will be permitted. The adoption of ASU 2015-11 will not have a material effect on the Company’s consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17 Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes (ASU 2015-17). ASU 2015-17 eliminates the requirement for a Company to separate deferred income tax liabilities and assets into current and noncurrent amounts on a classified statement of financial position and requires that deferred tax liabilities and assets be classified as noncurrent. The Company is required to adopt ASU 2015-17 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016 on either a retrospective or prospective basis. Early adoption is permitted. The Company plans to early adopt ASU 2015-17 in the fourth quarter of 2016 on a prospective basis.

In January 2016, the FASB issued ASU No. 2016-01 Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01). ASU 2016-01 enhances the existing financial instruments reporting model by modifying fair value measurement tools, simplifying impairment assessments for certain equity instruments, and modifying overall presentation and disclosure requirements. The Company is required to adopt ASU 2016-01 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017 on a prospective basis. The Company is currently evaluating the impact of adoption of ASU 2016-01.

In February 2016, the FASB issued ASU No. 2016-02 Leases (Topic 842) (ASU 2016-02). ASU 2016-02 amends the existing lease accounting model by requiring a lessee to recognize the rights and obligations resulting from certain leases as assets and liabilities on the balance sheet. ASU 2016-02 also requires a company to disclose key information about their leasing arrangements. The Company is required to adopt ASU 2016-02 for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 using a modified retrospective approach. Early adoption is permitted. The Company is currently evaluating the impact of adoption of ASU 2016-02.

In March 2016, the FASB issued ASU No. 2016-09 Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). ASU 2016-09 amends the guidance on several aspects of accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, accounting for forfeitures, and classification on the statement of cash flows. The Company is required to adopt ASU 2016-09 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016 on both a retrospective and prospective basis dependent upon the nature of the subtopic. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of adoption of ASU 2016-09.

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

In August 2016, the FASB issued ASU No. 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15). ASU 2016-15 addresses eight specific cash flow issues with the objective of reducing diversity in practice regarding how certain cash receipts and cash payments are presented in the statement of cash flows. The standard provides guidance on the classification of the following items: (1) debt prepayment or debt extinguishment costs, (2) settlement of zero-coupon debt instruments, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from the settlement of corporate-owned life insurance policies, (6) distributions received from equity method investments, (7) beneficial interests in securitization transactions, and (8) separately identifiable cash flows. The Company is required to adopt ASU 2016-15 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017 on a retrospective basis. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of adoption of ASU 2016-15.

3. Additional Balance Sheet and Cash Flow Information

Marketable Securities

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

	September 25, 2016	December 31, 2015	September 27, 2015
Available-for-sale: Corporate bonds	$ 5,038	$ 45,192	$ 47,358
Trading securities: Mutual funds	39,063	36,256	35,258
	$ 44,101	$ 81,448	$ 82,616

The Company’s available-for-sale securities are carried at fair value with any unrealized gains or losses reported in other comprehensive income. During the first nine months of 2016 and 2015, the Company recognized gross unrealized losses of approximately $140,000 and $467,000, respectively, or $88,000 and $294,000 net of taxes, respectively, to adjust amortized cost to fair value. The marketable securities have contractual maturities that come due over the next 7 months.

The Company's trading securities relate to investments held by the Company to fund certain deferred compensation obligations. The trading securities are carried at fair value with gains and losses recorded in net income, and investments are included in other long-term assets on the consolidated balance sheets.

Inventories

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

	September 25, 2016	December 31, 2015	September 27, 2015
Components at the lower of FIFO cost or market			
Raw materials and work in process	$ 159,209	$ 161,704	$ 153,779
Motorcycle finished goods	182,019	327,952	228,243
Parts and accessories and general merchandise	134,587	145,519	134,537
Inventory at lower of FIFO cost or market	475,815	635,175	516,559

Excess of FIFO over LIFO cost	(49,268)	(49,268)	(49,902)
	$ 426,547	$ 585,907	$ 466,657

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Operating Cash Flow

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

	Nine months ended	
	September 25, 2016	September 27, 2015
Cash flows from operating activities:		
Net income	$644,985	$710,011
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangibles	154,565	142,024
Amortization of deferred loan origination costs	65,445	71,012
Amortization of financing origination fees	7,212	7,331
Provision for long-term employee benefits	27,608	36,954
Employee benefit plan contributions and payments	(47,658)	(19,358)
Stock compensation expense	24,909	23,732
Net change in wholesale finance receivables related to sales	(169,599)	(157,532)
Provision for credit losses	97,127	68,655
Gain on off-balance sheet asset-backed securitization	(9,269)	—
Loss on debt extinguishment	118	—
Pension plan settlement expense	900	—
Deferred income taxes	(11,261)	(9,272)
Foreign currency adjustments	(11,741)	22,010
Other, net	(11,529)	5,000
Changes in current assets and liabilities:		
Accounts receivable, net	(86,796)	(60,687)
Finance receivables—accrued interest and other	364	(98)
Inventories	173,975	(36,109)
Accounts payable and accrued liabilities	97,190	211,045
Derivative instruments	(1,992)	(6,734)
Other	(16,744)	12,973
Total adjustments	282,824	310,946
Net cash provided by operating activities	$927,809	$1,020,957

4. Acquisition

On August 4, 2015, the Company completed its purchase of certain assets and liabilities from Fred Deeley Imports, Ltd. (Deeley Imports) including, among other things, the acquisition of the exclusive right to distribute the Company's motorcycles and other products in Canada (Transaction) for total consideration of $59.9 million. The majority equity owner of Deeley Imports is a member of the Board of Directors of the Company. The acquisition of the Canadian distribution rights allowed the Company to align its distribution in Canada with its global go-to-market approach.

The financial impact of the acquisition, which is part of the Motorcycles segment, has been included in the Company's consolidated financial statements from the date of acquisition. Proforma information reflecting this acquisition has not been disclosed as the proforma impact on consolidated net income would not be material.

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The following table summarizes the fair values of the Deeley Imports assets acquired and liabilities assumed at the date of acquisition (in thousands):

	August 4, 2015
Current assets	$11,088
Property, plant and equipment	144
Intangible assets	20,842
Goodwill	28,567
Total assets	60,641
Current liabilities	731
Net assets acquired	$59,910

As noted above, in conjunction with the acquisition of certain assets and assumption of certain liabilities of Deeley Imports, the Company recorded goodwill of $28.6 million, all of which the Company believes is tax deductible, and intangible assets with an initial fair value of $20.8 million. Of the total intangible assets acquired, $13.3 million was assigned to reacquired distribution rights with a useful life of two years and $7.5 million was assigned to customer relationships with a useful life of twenty years. The Company agreed to reimburse Deeley Imports for certain severance costs associated with the Transaction, resulting in $3.3 million of expense included in selling, administrative and engineering expense in the third quarter of 2015. The Company did not acquire any cash as part of the Transaction.

5. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the Motorcycles segment were as follows (in thousands):

	Three months ended		Nine months ended	
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015
Balance, beginning of period	54,542	26,105	$54,182	$ 27,752
Business acquisitions	—	28,567	—	28,567
Currency translations	121	(405)	481	(2,052)
Balance, end of period	54,663	54,267	$54,663	$ 54,267

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The Motorcycles segment intangible assets consisted of the following (in thousands):

	September 25, 2016			
	Gross Carrying Amount	Accumulated Amortization	Net	Estimated useful life (years)
Other intangible assets				
Reacquired distribution rights	$13,357	$ (7,792)	$5,565	2
Customer relationships	7,535	(439)	7,096	20
Total other intangible assets	$20,892	$ (8,231)	$12,661	

	December 31, 2015			
	Gross Carrying Amount	Accumulated Amortization	Net	Estimated useful life (years)
Other intangible assets				
Reacquired distribution rights	$12,614	$ (2,628)	$9,986	2
Customer relationships	7,116	(148)	6,968	20
Total other intangible assets	$19,730	$ (2,776)	$16,954	

	September 27, 2015			
	Gross Carrying Amount	Accumulated Amortization	Net	Estimated useful life (years)
Other intangible assets				
Reacquired distribution rights	$13,117	$ (1,093)	$12,024	2
Customer relationships	7,399	(62)	7,337	20
Total other intangible assets	$20,516	$ (1,155)	$19,361	

Intangible assets other than goodwill are included in other long-term assets on the Company's consolidated balance sheets. The gross carrying amounts differ from the acquisition date amounts due to changes in foreign currency exchange rates.

Amortization expense of other intangible assets for the three months ended September 25, 2016 and September 27, 2015 was $1.8 million and $1.2 million, respectively. Amortization expense of other intangible assets for the nine months ended September 25, 2016 and September 27, 2015 was $5.2 million and $1.2 million, respectively. The Company estimates future amortization to be approximately as follows (in thousands):

	Estimated Amortization
2016 (remaining 3 months)	$ 1,767
2017	4,278
2018	372
2019	372
2020	372
2021	372
Thereafter	5,128
	$ 12,661

The Financial Services segment did not have a goodwill or intangible assets balance at September 25, 2016, December 31, 2015 and September 27, 2015.

6. Finance Receivables

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

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

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

	September 25, 2016	December 31, 2015	September 27, 2015
Retail	$ 6,165,999	$ 5,991,471	$ 6,194,332
Wholesale	1,155,483	1,023,860	1,029,397
Total finance receivables	7,321,482	7,015,331	7,223,729
Allowance for credit losses	(171,516)	(147,178)	(145,383)
Finance receivables, net	$ 7,149,966	$ 6,868,153	$ 7,078,346

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

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

	Three months ended September 25, 2016		
	Retail	Wholesale	Total
Balance, beginning of period	$ 152,998	$ 8,355	$ 161,353
Provision for credit losses	38,143	(1,600)	36,543
Charge-offs	(35,749)	—	(35,749)
Recoveries	9,369	—	9,369
Balance, end of period	$ 164,761	$ 6,755	$ 171,516

	Three months ended September 27, 2015		
	Retail	Wholesale	Total
Balance, beginning of period	$ 131,903	$ 7,328	$ 139,231
Provision for credit losses	28,309	(1,076)	27,233
Charge-offs	(30,203)	—	(30,203)
Recoveries	9,122	—	9,122
Balance, end of period	$ 139,131	$ 6,252	$ 145,383

	Nine months ended September 25, 2016		
	Retail	Wholesale	Total
Balance, beginning of period	$ 139,320	$ 7,858	$ 147,178
Provision for credit losses	98,230	(1,103)	97,127
Charge-offs	(101,853)	—	(101,853)
Recoveries	32,355	—	32,355
Other [(a)]	(3,291)	—	(3,291)
Balance, end of period	$ 164,761	$ 6,755	$ 171,516

	Nine months ended September 27, 2015		
	Retail	Wholesale	Total
Balance, beginning of period	$ 122,025	$ 5,339	$ 127,364

Provision for credit losses	67,742	913	68,655
Charge-offs	(83,939)	—	(83,939)
Recoveries	33,303	—	33,303
Balance, end of period	$139,131	$ 6,252	$145,383

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(a) Related to the sale of finance receivables during the second quarter of 2016 with a principal balance of $301.8 million through an off-balance sheet asset-backed securitization transaction (see Note 12 for additional information).

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

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

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

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

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

	September 25, 2016		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	$—	$—	$—
Collectively evaluated for impairment	164,761	6,755	171,516
Total allowance for credit losses	$164,761	$6,755	$171,516
Finance receivables, ending balance:			
Individually evaluated for impairment	$—	$—	$—
Collectively evaluated for impairment	6,165,999	1,155,483	7,321,482
Total finance receivables	$6,165,999	$1,155,483	$7,321,482

	December 31, 2015		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	$—	$—	$—
Collectively evaluated for impairment	139,320	7,858	147,178
Total allowance for credit losses	$139,320	$7,858	$147,178
Finance receivables, ending balance:			
Individually evaluated for impairment	$—	$—	$—
Collectively evaluated for impairment	5,991,471	1,023,860	7,015,331
Total finance receivables	$5,991,471	$1,023,860	$7,015,331

	September 27, 2015		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	$—	$—	$—
Collectively evaluated for impairment	139,131	6,252	145,383
Total allowance for credit losses	$139,131	$6,252	$145,383
Finance receivables, ending balance:			
Individually evaluated for impairment	$—	$—	$—
Collectively evaluated for impairment	6,194,332	1,029,397	7,223,729
Total finance receivables	$6,194,332	$1,029,397	$7,223,729

There were no wholesale finance receivables at September 25, 2016, December 31, 2015, or September 27, 2015 that were individually deemed to be impaired under ASC Topic 310, "Receivables."

Retail finance receivables are contractually delinquent if the minimum payment is not received by the specified due date. Retail finance receivables are generally charged-off when the receivable is 120 days or more delinquent, the related asset is repossessed or the receivable is otherwise deemed uncollectible. All retail finance receivables accrue interest until either collected or charged-off. Accordingly, as of September 25, 2016, December 31, 2015 and September 27, 2015, all retail finance receivables were accounted for as interest-earning receivables, of which $31.3 million, $32.8 million and $23.8 million, respectively, were 90 days or more past due.

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Wholesale finance receivables are delinquent if the minimum payment is not received by the contractual due date. Wholesale finance receivables are written down once management determines that the specific borrower does not have the ability to repay the loan in full. Interest continues to accrue on past due finance receivables until the date the finance receivable becomes uncollectible and the finance receivable is placed on non-accrual status. The Company will resume accruing interest on these accounts when payments are current according to the terms of the loans and future payments are reasonably assured. While on non-accrual status, all cash received is applied to principal or interest as appropriate. There were no wholesale receivables on non-accrual status at September 25, 2016, December 31, 2015 or September 27, 2015. At September 25, 2016, December 31, 2015 and September 27, 2015, $0.4 million, $0.1 million, and $0.1 million of wholesale finance receivables were 90 days or more past due and accruing interest, respectively.

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

	September 25, 2016					
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Finance Receivables
Retail	$5,973,108	$119,709	$41,866	$31,316	$192,891	$6,165,999
Wholesale	1,154,617	366	114	386	866	1,155,483
Total	$7,127,725	$120,075	$41,980	$31,702	$193,757	$7,321,482

	December 31, 2015					
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Finance Receivables
Retail	$5,796,003	$118,996	$43,680	$32,792	$195,468	$5,991,471
Wholesale	1,022,365	888	530	77	1,495	1,023,860
Total	$6,818,368	$119,884	$44,210	$32,869	$196,963	$7,015,331

	September 27, 2015		
	Current	31-60 Days Past Due	61-90 Days