HARLEY DAVIDSON INC
Form 10-Q
November 08, 2012

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

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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

For the transition period from to

Commission file number 1-9183

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days. Yes ý 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 ý 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	ý	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 ý

Number of shares of the registrant’s common stock outstanding at November 1, 2012: 226,257,911 shares

Harley-Davidson, Inc.

Form 10-Q

For The Quarter Ended September 30, 2012

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements

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

	Three months ended		Nine months ended	
	September 30, 2012	September 25, 2011	September 30, 2012	September 25, 2011
Revenue:				
Motorcycles and related products	$1,089,268	$1,232,699	$3,931,684	$3,635,487
Financial services	161,027	164,557	477,962	492,296
Total revenue	1,250,295	1,397,256	4,409,646	4,127,783
Costs and expenses:				
Motorcycles and related products cost of goods sold	711,364	817,308	2,533,453	2,399,962
Financial services interest expense	46,231	61,907	146,199	176,933
Financial services provision for credit losses	9,069	6,189	12,823	5,005
Selling, administrative and engineering expense	257,359	256,735	806,257	759,274
Restructuring expense	9,170	12,429	26,841	49,022
Total costs and expenses	1,033,193	1,154,568	3,525,573	3,390,196
Operating income	217,102	242,688	884,073	737,587
Investment income	1,447	2,479	5,611	5,625
Interest expense	11,438	11,270	34,528	34,101
Income before provision for income taxes	207,111	233,897	855,156	709,111
Provision for income taxes	73,110	50,303	301,870	215,677
Income from continuing operations	134,001	183,594	553,286	493,434
Income from discontinued operations, net of tax	—	—	—	—
Net income	$134,001	$183,594	$553,286	$493,434
Earnings per common share from continuing operations:				
Basic	$0.59	$0.79	$2.43	$2.11
Diluted	$0.59	$0.78	$2.40	$2.09
Earnings per common share from discontinued operations:				
Basic	$—	$—	$—	$—
Diluted	$—	$—	$—	$—
Earnings per common share:				
Basic	$0.59	$0.79	$2.43	$2.11
Diluted	$0.59	$0.78	$2.40	$2.09
Cash dividends per common share	$0.155	$0.125	$0.465	$0.350

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

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

	Three months ended		Nine months ended	
	September 30, 2012	September 25, 2011	September 30, 2012	September 25, 2011
Comprehensive income	$146,138	$178,561	$572,600	$524,047

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

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

	(Unaudited) September 30, 2012	December 31, 2011	(Unaudited) September 25, 2011
ASSETS			
Current assets:			
Cash and cash equivalents	$1,795,141	$1,526,950	$1,428,753
Marketable securities	136,376	153,380	179,285
Accounts receivable, net	256,193	219,039	285,332
Finance receivables, net	1,212,977	1,168,603	1,104,056
Restricted finance receivables held by variable interest entities, net	513,084	591,864	586,144
Inventories	379,129	418,006	345,963
Restricted cash held by variable interest entities	217,400	229,655	238,208
Other current assets	237,396	234,709	217,445
Total current assets	4,747,696	4,542,206	4,385,186
Finance receivables, net	2,285,309	1,754,441	2,095,839
Restricted finance receivables held by variable interest entities, net	1,904,297	2,271,773	2,119,789
Property, plant and equipment, net	764,835	809,459	775,213
Goodwill	28,928	29,081	30,004
Other long-term assets	284,118	267,204	298,328
	$10,015,183	$9,674,164	$9,704,359
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$293,710	$255,713	$289,490
Accrued liabilities	606,078	564,172	731,943
Short-term debt	404,693	838,486	774,971
Current portion of long-term debt	437,938	399,916	—
Current portion of long-term debt held by variable interest entities	559,256	640,331	644,779
Total current liabilities	2,301,675	2,698,618	2,441,183
Long-term debt	3,339,604	2,396,871	2,804,605
Long-term debt held by variable interest entities	1,132,809	1,447,015	1,350,294
Pension liability	125,664	302,483	106,795
Postretirement healthcare liability	261,564	268,582	262,096
Other long-term liabilities	150,504	140,339	138,126
Commitments and contingencies (Note 16)			
Total shareholders' equity	2,703,363	2,420,256	2,601,260
	$10,015,183	$9,674,164	$9,704,359

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

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

	Nine months ended September 30, 2012	September 25, 2011
Net cash provided by operating activities of continuing operations (Note 3)	$712,498	$901,601
Cash flows from investing activities of continuing operations:		
Capital expenditures	(95,329)	(106,115)
Origination of finance receivables	(2,328,653)	(2,164,144)
Collections on finance receivables	2,131,025	2,130,369
Purchases of marketable securities	(4,993)	(142,653)
Sales and redemptions of marketable securities	23,046	104,975
Net cash used by investing activities of continuing operations	(274,904)	(177,568)
Cash flows from financing activities of continuing operations:		
Proceeds from issuance of medium-term notes	993,737	394,277
Proceeds from securitization debt	763,895	571,276
Repayments of securitization debt	(1,161,592)	(1,333,541)
Net (decrease) increase in credit facilities and unsecured commercial paper	(634,874)	182,058
Net borrowings of asset-backed commercial paper	182,131	(483)
Net repayments of asset-backed commercial paper	(6,538)	—
Net change in restricted cash	12,255	50,679
Dividends	(106,560)	(82,557)
Purchase of common stock for treasury	(257,981)	(97,456)
Excess tax benefits from share-based payments	16,390	2,702
Issuance of common stock under employee stock option plans	36,342	7,763
Net cash used by financing activities of continuing operations	(162,795)	(305,282)
Effect of exchange rate changes on cash and cash equivalents of continuing operations	(6,608)	(11,857)
Net increase in cash and cash equivalents of continuing operations	268,191	406,894
Cash flows from discontinued operations:		
Cash flows from operating activities of discontinued operations	—	(74)
Cash flows from investing activities of discontinued operations	—	—
Effect of exchange rate changes on cash and cash equivalents of discontinued operations	—	—
	—	(74)
Net increase in cash and cash equivalents	$268,191	$406,820
Cash and cash equivalents:		
Cash and cash equivalents—beginning of period	$1,526,950	$1,021,933
Cash and cash equivalents of discontinued operations—beginning of period	—	—
Net increase in cash and cash equivalents	268,191	406,820
Less: Cash and cash equivalents of discontinued operations—end of period	—	—
Cash and cash equivalents—end of period	$1,795,141	$1,428,753

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

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

1. Basis of Presentation and Use of Estimates

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

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the condensed consolidated balance sheets as of September 30, 2012 and September 25, 2011, the condensed consolidated statements of operations for the three and nine month periods then ended, the condensed consolidated statements of comprehensive income for the three and nine month periods then ended and the condensed 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 condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011.

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

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

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

2. New Accounting Standards

Accounting Standards Recently Adopted

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-4 Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS.) ASU No. 2011-04 clarifies the application of the existing guidance within Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement, to ensure consistency between U.S. GAAP and IFRS. ASU No. 2011-04 also requires new disclosures about purchases, sales, issuances, and settlements related to Level 3 measurements and also requires new disclosures around transfers into and out of Level 1 and 2 in the fair value hierarchy. The Company adopted ASU No. 2011-04 on January 1, 2012. The required new disclosures are presented in Note 9.

In June 2011, the FASB issued ASU No. 2011-05, “Presentation of Comprehensive Income.” ASU No. 2011-05 amends the guidance within ASC Topic 220, “Comprehensive Income,” to eliminate the option to present the components of other comprehensive income as part of the statement of shareholders’ equity. ASU No. 2011-05 requires that all nonowner changes in shareholders’ equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company decided to present comprehensive income in two separate but consecutive statements. The Company adopted ASU No. 2011-05 on January 1, 2012. The adoption of ASU No. 2011-05 and the Company’s decision to present comprehensive income in two separate but consecutive statements required the presentation of an additional financial statement, condensed consolidated statements of comprehensive income, for all periods presented.

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3. Additional Balance Sheet and Cash Flow Information

Marketable Securities

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

	September 30, 2012	December 31, 2011	September 25, 2011
Available-for-sale:			
Corporate bonds	$136,376	$153,380	$179,285
U.S. Treasuries	—	—	—
	$136,376	$153,380	$179,285

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 2012 and 2011, the Company recognized gross unrealized gains in other comprehensive income of $1.1 million and $1.5 million, respectively, or $0.7 million and $0.9 million net of taxes, respectively, to adjust amortized cost to fair value. The marketable securities have contractual maturities that generally come due over the next 12 to 48 months.

Inventories

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

	September 30, 2012	December 31, 2011	September 25, 2011
Components at the lower of FIFO cost or market			
Raw materials and work in process	$121,184	$113,932	$95,957
Motorcycle finished goods	169,515	226,261	154,273
Parts and accessories and general merchandise	132,789	121,340	131,708
Inventory at lower of FIFO cost or market	423,488	461,533	381,938
Excess of FIFO over LIFO cost	(44,359)	(43,527)	(35,975)
	$379,129	$418,006	$345,963

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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 30, 2012	September 25, 2011
Cash flows from operating activities:		
Net income	$553,286	$493,434
Loss from discontinued operations	—	—
Income from continuing operations	553,286	493,434
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation	127,443	131,938
Amortization of deferred loan origination costs	58,438	59,272
Amortization of financing origination fees	7,462	8,171
Provision for employee long-term benefits	50,348	50,983
Contributions to pension and postretirement plans	(220,733)	(207,829)
Stock compensation expense	30,287	28,316
Net change in wholesale finance receivables related to sales	5,570	77,519
Provision for credit losses	12,823	5,005
Loss on debt extinguishment	—	8,671
Pension and postretirement healthcare plan curtailment and settlement expense	—	236
Foreign currency adjustments	8,692	11,381
Other, net	9,411	11,036
Changes in current assets and liabilities:		
Accounts receivable, net	(37,904)	(19,473)
Finance receivables—accrued interest and other	1,597	7,069
Inventories	36,463	(19,451)
Accounts payable and accrued liabilities	99,642	257,373
Restructuring reserves	(9,177)	2,664
Derivative instruments	611	(2,279)
Other	(21,761)	(2,435)
Total adjustments	159,212	408,167
Net cash provided by operating activities of continuing operations	$712,498	$901,601

4. Discontinued Operations

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

At each subsequent reporting date in 2010 through the date of sale of MV in August 2010, the fair value less selling costs was re-assessed and additional impairment charges totaling $111.8 million and additional tax benefits totaling $18 million were recognized in 2010. As the effort to sell MV progressed into 2010, adverse factors led to decreases in the fair value of MV. During 2010, challenging economic conditions continued to persist, negatively impacting the appetite of prospective buyers

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and the motorcycle industry as a whole. Information coming directly from the selling process, including discussions with the prospective buyers, indicated a fair value that was less than previously estimated.

On August 6, 2010, the Company concluded its sale of MV to MV Agusta Motor Holding S.r.l., a company controlled by the former owner of MV. Under the agreement relating to the sale, (1) the Company received nominal consideration in return for the transfer of MV and related assets; (2) the parties waived their respective rights under the stock purchase agreement and other documents related to the Company's purchase of MV in 2008, which included a waiver of the former owner's right to contingent earn-out consideration; and (3) the Company contributed 20 million Euros to MV as operating capital. The 20 million Euros contributed were factored into the Company's estimate of MV's fair value prior to the sale and was recognized in the 2010 impairment charges discussed above. As a result of the impairment charges recorded in 2009 and 2010 prior to the sale, the Company only incurred an immaterial loss on the date of sale, which was included in the loss from discontinued operations, net of tax, during the year ended December 31, 2010.

As of December 31, 2010, the Company's estimated total tax benefit associated with the loss on the sale of MV was $101 million, of which $43.5 million was deemed uncertain and appropriately reserved against. As a result, the total cumulative net tax benefit recognized as of December 31, 2010 was $57.5 million. The increase in the estimated tax benefit during 2010 was driven by an increase in the losses related to the sale of MV, not a change in the tax position. In determining the tax benefit recognized from October 2009 through December 2010, the Company engaged appropriate technical expertise and considered all relevant available information. In accordance with ASC 740, "Income Taxes," at each balance sheet date during this period, the Company re-evaluated the overall tax benefit, determined that it was at least more likely than not that it would be sustained upon review and calculated the amount of recognized tax benefit based on a cumulative probability basis.

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

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

5. Restructuring Expense

2011 Restructuring Plans

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

Under the 2011 New Castalloy Restructuring Plan, restructuring expenses consist of employee severance and termination costs, accelerated depreciation and other related costs. The Company expects to incur approximately $30 million in restructuring charges related to the transition through 2013. Approximately 35% of the $30 million will be non-cash charges. On a cumulative basis, the Company has incurred $19.1 million of restructuring expense under the 2011 New Castalloy Restructuring Plan as of September 30, 2012, of which $9.7 million was incurred during the nine months ended September 30, 2012.

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

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

Under the 2011 Kansas City Restructuring Plan, restructuring expenses consist of employee severance and termination costs and other related costs. The Company expects to incur approximately $13 million in restructuring expenses related to the new contract through 2012, of which approximately 10% are expected to be non-cash. On a cumulative basis, the Company has incurred $7.8 million of restructuring expense under the 2011 Kansas City Restructuring Plan as of September 30, 2012. During the first nine months of 2012, the Company released a portion of its 2011 Kansas City Restructuring Plan reserve related to severance costs as these costs are no longer expected to be incurred.

For the nine months ended September 25, 2011, restructuring expense included $0.2 million of non-cash curtailment losses related to the Company's pension plan that covers employees of the Kansas City facility.

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

	Nine months ended September 30, 2012							
	Kansas City			New Castalloy				Consolidated
	Employee Severance and Termination Costs	Other	Total	Employee Severance and Termination Costs	Accelerated Depreciation	Other	Total	Total
Balance, beginning of period	$4,123	$—	$4,123	$8,428	$ —	$305	$8,733	$ 12,856
Restructuring expense	—	—	—	2,450	6,152	1,075	9,677	9,677
Utilized—cash	—	—	—	(388)	—	(1,235)	(1,623)	(1,623)
Utilized—non-cash	—	—	—	—	(6,152)	—	(6,152)	(6,152)
Non-cash reserve release	(967)	—	(967)	—	—	—	—	(967)
Balance, end of period	$3,156	$—	$3,156	$10,490	$ —	$145	$10,635	$ 13,791

	Nine months ended September 25, 2011		
	Kansas City Employee Severance and Termination Costs	Other	Total
Restructuring expense	7,819	342	8,161
Utilized—cash	(3,948)	(342)	(4,290)
Utilized—non-cash	(236)	—	(236)
Balance, end of period	$3,635	$—	$3,635

2010 Restructuring Plan

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

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

Under the 2010 Restructuring Plan, restructuring expenses consist of employee severance and termination costs and other related costs. The Company expects to incur approximately $63 million in restructuring expenses related to the new contracts

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through 2012, of which approximately 45% are expected to be non-cash. On a cumulative basis, the Company has incurred $61.0 million of restructuring expense under the 2010 Restructuring Plan as of September 30, 2012, of which $4.0 million was incurred during the first nine months of 2012.

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

	Nine months ended September 30, 2012 Employee Severance and Termination Costs	Nine months ended September 25, 2011 Employee Severance and Termination Costs
Balance, beginning of period	$20,361	$8,652
Restructuring expense	4,005	9,431
Utilized—cash	(13,894)	(827)
Balance, end of period	$10,472	$17,256

2009 Restructuring Plan

During 2009, in response to the U.S. economic recession and worldwide slowdown in consumer demand, the Company committed to a volume reduction and a combination of restructuring actions (2009 Restructuring Plan) that are expected to be completed at various dates between 2009 and 2012. The actions were designed to reduce administrative costs, eliminate excess capacity and exit non-core business operations. The Company's significant announced actions include the restructuring and transformation of its York, Pennsylvania production facility including the implementation of a new more flexible unionized labor agreement; consolidation of facilities related to engine and transmission production; outsourcing of certain distribution and transportation activities and exiting the Buell product line. In addition, during the third quarter of 2012, the Company implemented projects under this plan involving the outsourcing of select information technology activities and the consolidation of an administrative office in Michigan into its corporate headquarters in Milwaukee, Wisconsin.

The 2009 Restructuring Plan includes an estimated reduction of approximately 2,700 to 2,900 hourly production positions and approximately 800 non-production, primarily salaried positions within the Motorcycles segment and approximately 100 salaried positions in the Financial Services segment.

Under the 2009 Restructuring Plan, restructuring expenses consist of employee severance and termination costs, accelerated depreciation on the long-lived assets that will be exited as part of the 2009 Restructuring Plan and other related costs. The Company expects total costs related to the 2009 Restructuring Plan to result in restructuring and impairment expenses of approximately $384 million to $404 million from 2009 to 2012, of which approximately 30% are expected to be non-cash. On a cumulative basis, the Company has incurred $394.7 million of restructuring and impairment expense under the 2009 Restructuring Plan as of September 30, 2012, of which $14.1 million was incurred during the first nine months of 2012.

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

	Nine months ended September 30, 2012			
	Motorcycles & Related Products			
	Employee Severance and Termination Costs	Accelerated Depreciation	Other	Total
Balance, beginning of period	$10,089	$—	$—	$10,089
Restructuring expense	4,166	—	11,987	16,153
Utilized—cash	(2,529)	—	(11,987)	(14,516)
Utilized—non-cash	—	—	—	—
Non-cash reserve release	(2,027)	—	—	(2,027)
Balance, end of period	$9,699	$—	$—	$9,699

	Nine months ended September 25, 2011			
	Motorcycles & Related Products			
	Employee Severance and Termination Costs	Accelerated Depreciation	Other	Total
Balance, beginning of period	$23,818	$—	$2,764	$26,582
Restructuring expense	5,932	—	25,498	31,430
Utilized—cash	(13,000)	—	(28,079)	(41,079)
Utilized—non-cash	—	—	—	—
Balance, end of period	$16,750	$—	$183	$16,933

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

6. Finance Receivables

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

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

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

	September 30, 2012	December 31, 2011	September 25, 2011
Retail	$5,243,470	$5,087,490	$5,321,403
Wholesale	785,323	824,640	717,044
	6,028,793	5,912,130	6,038,447
Allowance for credit losses	(113,126)	(125,449)	(132,619)
	$5,915,667	$5,786,681	$5,905,828

At September 30, 2012, December 31, 2011 and September 25, 2011, the Company's Condensed Consolidated Balance Sheet included $2.42 billion, $2.86 billion and $2.71 billion, respectively, of finance receivables net of a related allowance for credit losses, which were restricted as collateral for the payment of debt held by VIEs and other related obligations as discussed in Note 7. These receivables are included in retail finance receivables in the table above.

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

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

	Three months ended September 30, 2012		
	Retail	Wholesale	Total
Balance, beginning of period	$106,180	$8,068	$114,248
Provision for credit losses	9,869	(800)	9,069
Charge-offs	(19,873)	—	(19,873)
Recoveries	9,682	—	9,682
Balance, end of period	$105,858	$7,268	$113,126
	Three months ended September 25, 2011		
	Retail	Wholesale	Total
Balance, beginning of period	$130,948	$13,456	$144,404
Provision for credit losses	11,833	(5,644)	6,189
Charge-offs	(28,636)	(173)	(28,809)
Recoveries	10,835	—	10,835
Balance, end of period	$124,980	$7,639	$132,619
	Nine months ended September 30, 2012		
	Retail	Wholesale	Total
Balance, beginning of period	$116,112	$9,337	$125,449
Provision for credit losses	14,892	(2,069)	12,823
Charge-offs	(62,779)	—	(62,779)
Recoveries	37,633	—	37,633
Balance, end of period	$105,858	$7,268	$113,126
	Nine months ended September 25, 2011		
	Retail	Wholesale	Total
Balance, beginning of period	$157,791	$15,798	$173,589
Provision for credit losses	12,676	(7,671)	5,005
Charge-offs	(86,730)	(503)	(87,233)
Recoveries	41,243	15	41,258
Balance, end of period	$124,980	$7,639	$132,619

Included in the $105.9 million and $125.0 million retail allowance for credit losses on finance receivables is $49.5 million and $64.7 million, respectively, related to finance receivables held by VIEs.

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

The retail portfolio primarily consists of a large number of small balance, homogeneous finance receivables. HDFS performs a periodic and systematic collective evaluation of the adequacy of the retail allowance for credit losses. HDFS utilizes loss forecast models which consider a variety of factors including, but not limited to, historical loss trends, origination or vintage analysis, known and inherent risks in the portfolio, the value of the underlying collateral, recovery rates and current economic conditions including items such as unemployment rates. As retail finance receivables are collectively and not individually reviewed for impairment, this portfolio does not have finance receivables specifically impaired.

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

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

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

	September 30, 2012		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	$—	$—	$—
Collectively evaluated for impairment	105,858	7,268	113,126
Total allowance for credit losses	$105,858	$7,268	$113,126
Finance receivables, ending balance:			
Individually evaluated for impairment	$—	$—	$—
Collectively evaluated for impairment	5,243,470	785,323	6,028,793
Total finance receivables	$5,243,470	$785,323	$6,028,793

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

	September 25, 2011		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	$—	$—	$—
Collectively evaluated for impairment	124,980	7,639	132,619
Total allowance for credit losses	$124,980	$7,639	$132,619
Finance receivables, ending balance:			
Individually evaluated for impairment	$—	$—	$—
Collectively evaluated for impairment	5,321,403	717,044	6,038,447
Total finance receivables	$5,321,403	$717,044	$6,038,447

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There were no wholesale finance receivables at September 30, 2012, December 31, 2011, or September 25, 2011 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 at 120 days contractually past due. Interest accrues on retail finance receivables until either collected or charged off. Accordingly, as of September 30, 2012, December 31, 2011 and September 25, 2011, all retail finance receivables were accounted for as interest-earning receivables, of which $19.4 million, $27.5 million and $23.3 million, respectively, were 90 days or more past due.

Wholesale finance receivables are delinquent if the minimum payment is not received by the contractual due date. A specific allowance for credit losses is established once management determines that the borrower does not have the ability to repay the loan in full. Interest continues to accrue on past due wholesale finance receivables until the date the collection of the finance receivables becomes doubtful, at which time the finance receivable is placed on non-accrual status. The Company will resume accruing interest on these wholesale finance receivables when payments are current according to the terms of the loan agreements and future payments are reasonably assured. While on non-accrual status, all cash received is applied to principal or interest as appropriate. There were no wholesale receivables on non-accrual status at September 30, 2012, December 31, 2011 or September 25, 2011. At September 30, 2012, December 31, 2011 and September 25, 2011, $0.5 million, $0.9 million, and $0.6 million of wholesale finance receivables were 90 days or more past due and accruing interest, respectively.

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

	September 30, 2012					
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Finance Receivables
Retail	$5,093,496	$100,706	$29,878	$19,390	$149,974	$5,243,470
Wholesale	784,155	445	217	506	1,168	785,323
Total	$5,877,651	$101,151	$30,095	$19,896	$151,142	$6,028,793

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

	September 25, 2011					
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Finance Receivables
Retail	$5,148,199	$112,370	$37,491	$23,343	$173,204	$5,321,403
Wholesale	715,745	508	197	594	1,299	717,044
Total	$5,863,944	$112,878	$37,688	$23,937	$174,503	$6,038,447

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

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

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

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	September 30, 2012	December 31, 2011	September 25, 2011
Prime	$4,178,726	$4,097,048	$4,280,000
Sub-prime	1,064,744	990,442	1,041,403
Total	$5,243,470	$5,087,490	$5,321,403

HDFS’ credit risk on the wholesale portfolio is different from that of the retail portfolio. Whereas the retail portfolio represents a relatively homogeneous pool of retail finance receivables that exhibit more consistent loss patterns, the wholesale portfolio exposures are less consistent. HDFS utilizes an internal credit risk rating system to manage credit risk exposure consistently across wholesale borrowers and capture credit risk factors for each borrower.

HDFS uses the following internal credit quality indicators, based on the Company’s internal risk rating system, listed from highest level of risk to lowest level of risk for the wholesale portfolio: Doubtful, Substandard, Special Mention, Medium Risk and Low Risk. Based upon management’s review, the dealers classified in the Doubtful category are the dealers with the greatest likelihood of being charged off, while the dealers classified as Low Risk are least likely to be charged off. The internal rating system considers factors such as the specific borrowers’ ability to repay and the estimated value of any collateral. Dealer risk rating classifications are reviewed and updated on a quarterly basis.

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

	September 30, 2012	December 31, 2011	September 25, 2011
Doubtful	$10,072	$13,048	$8,260
Substandard	3,689	5,052	9,115
Special Mention	2,446	14,361	6,652
Medium Risk	6,035	3,032	4,305
Low Risk	763,081	789,147	688,712
Total	$785,323	$824,640	$717,044

7. Asset-Backed Financing

HDFS participates in asset-backed financing through both term asset-backed securitization transactions and through asset-backed commercial paper conduit facilities. HDFS treats these transactions as secured borrowing because they either are transferred to consolidated VIEs or HDFS maintains effective control over the assets and does not meet the accounting sale requirements under ASC Topic 860, "Transfers and Servicing". In HDFS' asset-backed financing programs, HDFS transfers retail motorcycle finance receivables to special purpose entities (SPE), which are considered VIEs under U.S. GAAP. Each SPE then converts those assets into cash, through the issuance of debt. HDFS is required to consolidate any VIEs in which it is deemed to be the primary beneficiary through having power over the significant activities of the entity and having an obligation to absorb losses or the right to receive benefits from the VIE which are potentially significant to the VIE.

HDFS is considered to have the power over the significant activities of its term asset-backed securitization and asset-backed U.S. commercial paper conduit facility VIEs due to its role as servicer. Servicing fees are typically not considered potentially significant variable interests in a VIE. However, HDFS retains a residual interest in the VIEs in the form of a debt security, which gives HDFS the right to receive benefits that could be potentially significant to the VIE. Therefore, the Company is the primary beneficiary and consolidates all of these VIEs within its consolidated financial statements. Servicing fees paid by VIEs to HDFS are eliminated in consolidation and therefore are not recorded on a consolidated basis.

HDFS is not required, and does not currently intend, to provide any additional financial support to its VIEs. Investors and creditors only have recourse to the assets held by the VIEs.

The Company's term asset-backed securitization and asset-backed U.S. commercial paper conduit facility VIEs have been aggregated on the balance sheet due to the similarity of the nature of the assets involved as well as the purpose and design of the VIEs.

HDFS is not the primary beneficiary of the asset-backed Canadian commercial paper conduit facility VIE; therefore, HDFS does not consolidate the VIE. However, HDFS treats the conduit facility as a secured borrowing as it maintains effective control over the assets transferred to the VIE and therefore cannot meet the requirements for sale accounting under ASC Topic 860. The transferred receivables are included in Finance Receivables, net, in the Consolidated Balance Sheet.

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Term Asset-Backed Securitization VIEs

The Company transfers U.S. retail motorcycle finance receivables to SPEs which in turn issue secured notes to investors, with various maturities and interest rates, secured by future collections of the purchased U.S. retail motorcycle finance receivables. Each term asset-backed securitization SPE is a separate legal entity and the U.S. retail motorcycle finance receivables included in each term asset-backed securitization are only available for payment of that secured debt and other obligations arising from the term asset-backed securitization transaction and are not available to pay other obligations or claims of the Company's creditors until the associated secured debt and other obligations are satisfied. Cash and cash equivalent balances held by the SPEs are used only to support the securitizations. There are no amortization schedules for the secured notes; however, the debt is reduced monthly as available collections on the related U.S. retail motorcycle finance receivables are applied to outstanding principal. The secured notes' contractual lives have various maturities ranging from 2012 to 2019.

During the third quarter of 2012, the Company issued $675.3 million of secured notes through one term asset-backed securitization transaction. In addition, during the second quarter of 2012, the Company issued $89.5 million of secured notes through the sale of notes that had been previously retained as part of certain 2009 and 2011 term asset-backed securitization transactions. These notes were sold at a premium, which will be recognized over the term of the notes. At September 30, 2012, the unaccreted premium associated with these notes was $1.5 million. During the third quarter of 2011, the Company issued $573.4 million of secured notes through one term asset-backed securitization transaction.

The following table presents the assets and liabilities of the consolidated term asset-backed securitization SPEs that were included in the Company's financial statements (in thousands):

	September 30, 2012	December 31, 2011	September 25, 2011
Assets:			
Finance receivables	$2,466,871	$2,916,219	$2,754,409
Allowance for credit losses	(49,490)	(65,735)	(64,292)
Restricted cash	205,760	228,776	237,030
Other assets	5,531	6,772	7,394
Total assets	$2,628,672	$3,086,032	$2,934,541
Liabilities			
Term asset-backed securitization debt	$1,692,065	$2,087,346	$1,995,073

Asset-Backed U.S. Commercial Paper Conduit Facility VIE

In September 2012, the Company amended and restated its third-party bank sponsored asset-backed commercial paper conduit facility ("U.S. Conduit") which provides for a total aggregate commitment of $600 million based on, among other things, the amount of eligible U.S. retail motorcycle loans held by the SPE as collateral. The amended agreement has terms that are similar to those of the prior agreement and is for the same amount. Under the facility, HDFS may transfer U.S. retail motorcycle finance receivables to a SPE, which in turn may issue debt to third-party bank-sponsored asset-backed commercial paper conduits. The assets of the SPE are restricted as collateral for the payment of the debt or other obligations arising in the transaction and are not available to pay other obligations or claims of the Company's creditors. The terms for this debt provide for interest on the outstanding principal based on prevailing commercial paper rates, or LIBOR plus a specified margin to the extent the advance is not funded by a conduit lender through the issuance of commercial paper. The U.S. Conduit also provides for an unused commitment fee based on the unused portion of the total aggregate commitment of $600 million. There is no amortization schedule; however, the debt is reduced monthly as available collections on the related finance receivables are applied to outstanding principal. Upon expiration of the U.S. Conduit, any outstanding principal will continue to be reduced monthly through available collections. Unless earlier terminated or extended by mutual agreement of HDFS and the lenders, the U.S. Conduit has an expiration date of September 13, 2013.

The following table presents the assets of the U.S. Conduit SPEs that were included in our financial statements (in thousands);

	September 30, 2012	December 31, 2011	September 25, 2011
Finance receivables	$—	$13,455	$16,193
Allowance for credit losses	—	(302)	(377)
Restricted cash	—	879	1,178
Other assets	542	449	549
Total assets	$542	$14,481	$17,543

The SPEs had no borrowings outstanding under the U.S. Conduit at September 30, 2012, December 31, 2011 or September 25, 2011; therefore, these assets are restricted as collateral for the payment of fees associated with the unused portion of the total aggregate commitment of $600 million. During the third quarter of 2012, all outstanding finance receivables that remained in the U.S. Conduit SPEs were transferred back to HDFS.

Asset-Backed Canadian Commercial Paper Conduit Facility

In August 2012, HDFS entered into an agreement with a Canadian bank-sponsored asset-backed commercial paper conduit facility ("Canadian Conduit"). Under the agreement, the Canadian Conduit is contractually committed, at HDFS' option, to purchase from HDFS eligible Canadian retail motorcycle finance receivables for proceeds up to C$200 million. In August 2012, HDFS transferred $209.1 million of Canadian retail motorcycle finance receivables for proceeds of $183.0 million. HDFS maintains effective control over the transferred assets and therefore does not meet sale accounting requirements under ASC Topic 860. As such, this transaction is treated as a secured borrowing, and the transferred assets are restricted as collateral for payment of the debt.

The terms for this debt provide for interest on the outstanding principal based on prevailing market interest rates plus a specified margin. The Canadian Conduit also provides for a program fee and an unused commitment fee based on the unused portion of the total aggregate commitment of C$200 million. There is no amortization schedule; however, the debt is reduced monthly as available collections on the related finance receivables are applied to outstanding principal. Upon expiration of the Canadian Conduit, any outstanding principal will continue to be reduced monthly through available collections. Unless earlier terminated or extended by mutual agreement of HDFS and the lenders, the Canadian Conduit expires on August 30, 2013. The contractual maturity of the debt is approximately 5 years. At September 30, 2012, $194.0 million of finance receivables and $11.6 million of cash were restricted as collateral for the payment of $176.9 million of debt.

8. Fair Value Measurements

Certain assets and liabilities are recorded at fair value in the financial statements; some of these are measured on a recurring basis while others are measured on a non-recurring basis. Assets and liabilities measured on a recurring basis are those that are adjusted to fair value each time a financial statement is prepared. Assets and liabilities measured on a non-recurring basis are those that are adjusted to fair value when a significant event occurs. In determining fair value of assets and liabilities, the Company uses various valuation techniques. The availability of inputs observable in the market varies from instrument to instrument and depends on a variety of factors including the type of instrument, whether the instrument is actively traded, and other characteristics particular to the transaction. For many financial instruments, pricing inputs are readily observable in the market, the valuation methodology used is widely accepted by market participants, and the valuation does not require significant management discretion. For other financial instruments, pricing inputs are less observable in the market and may require management judgment.

The Company assesses the inputs used to measure fair value using a three-tier hierarchy. The hierarchy indicates the extent to which inputs used in measuring fair value are observable in the market. Level 1 inputs include quoted prices for identical instruments and are the most observable.

Level 2 inputs include quoted prices for similar assets and observable inputs such as interest rates, foreign currency exchange rates, commodity rates and yield curves. The Company uses the market approach to derive the fair value for its level 2 fair value measurements. Foreign currency exchange contracts are valued using publicly quoted spot and forward prices; commodity contracts are valued using publicly quoted prices, where available, or dealer quotes;

interest rate swaps are valued using publicized swap curves; and investments in marketable debt and equity securities are valued using publicly quoted prices.

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Level 3 inputs are not observable in the market and include management's judgments about the assumptions market participants would use in pricing the asset or liability. The use of observable and unobservable inputs is reflected in the hierarchy assessment disclosed in the following tables.

Recurring Fair Value Measurements

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

	September 30, 2012			
	Balance as of September 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$1,417,900	$ 1,417,900	$—	$—
Marketable securities	136,376	—	136,376	—
Derivatives	1,639	—	1,639	—
	$1,555,915	$ 1,417,900	$138,015	$—
Liabilities:				
Derivatives	$2,458	$ —	$2,458	$—

	December 31, 2011			
	Balance as of December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$1,302,367	$ 1,302,367	$—	$—
Marketable securities	153,380	—	153,380	—
Derivatives	16,443	—	16,443	—
	$1,472,190	$ 1,302,367	$169,823	$—
Liabilities:				
Derivatives	$5,136	$ —	$5,136	$—

	September 25, 2011			
	Balance as of September 25, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$1,144,790	$ 1,144,790	$—	$—
Marketable securities	179,285	—	179,285	—
Derivatives	10,343	—	10,343	—
	$1,334,418	$ 1,144,790	$189,628	$—
Liabilities:				
Derivatives	$6,834	$ —	$6,834	$—

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9. Fair Value of Financial Instruments

The Company’s financial instruments consist primarily of cash and cash equivalents, marketable securities, trade receivables, finance receivables, net, trade payables, debt, foreign currency contracts and interest rate swaps (derivative instruments are discussed further in Note 10). Under U.S. GAAP, certain of these items are required to be recorded in the financial statements at fair value, while others are required to be recorded at historical cost.

The following table summarizes the fair value and carrying value of the Company’s financial instruments (in thousands):

	September 30, 2012		December 31, 2011		September 25, 2011	
	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value
Assets:						
Cash and cash equivalents	$1,795,141	$ 1,795,141	$1,526,950	$ 1,526,950	$1,428,753	$ 1,428,753
Marketable securities	$136,376	$ 136,376	$153,380	$ 153,380	$179,285	$ 179,285
Accounts receivable, net	$256,193	$ 256,193	$219,039	$ 219,039	$285,332	$ 285,332
Derivatives	$1,639	$ 1,639	$16,443	$ 16,443	$10,343	$ 10,343
Finance receivables, net	$5,993,713	$ 5,915,667	$5,888,040	$ 5,786,681	$6,008,081	$ 5,905,828
Restricted cash held by variable interest entities	$217,400	$ 217,400	$229,655	$ 229,655	$238,208	$ 238,208
Liabilities:						
Accounts payable	$293,710	$ 293,710	$255,713	$ 255,713	$289,490	$ 289,490
Derivatives	$2,458	$ 2,458	$5,136	$ 5,136	$6,834	$ 6,834
Unsecured commercial paper	$404,693	$ 404,693	$874,286	$ 874,286	$813,571	$ 813,571
Credit facilities	$—	$ —	$159,794	$ 159,794	$159,438	$ 159,438
Asset-backed Canadian commercial paper conduit facility	$176,855	$ 176,855	$—	$ —	$—	$ —
Medium-term notes	$3,623,082	$ 3,297,687	$2,561,458	$ 2,298,193	$2,530,834	$ 2,303,567
Senior unsecured notes	$357,328	$ 303,000	$376,513	$ 303,000	$384,110	$ 303,000
Term asset-backed securitization debt	$1,702,320	$ 1,692,065	$2,099,060	$ 2,087,346	$2,015,261	$ 1,995,073

Cash and Cash Equivalents, Restricted Cash, Accounts Receivable, Net and Accounts Payable – With the exception of certain money-market investments, these items are recorded in the financial statements at historical cost. The historical cost basis for these amounts is estimated to approximate their respective fair values due to the short maturity of these instruments.

Marketable Securities – Marketable securities are recorded in the financial statements at fair value. The fair value of marketable securities is based primarily on quoted market prices of similar financial assets. Changes in fair value are recorded, net of tax, as other comprehensive income and included as a component of shareholders’ equity. Fair Value is based on Level 1 or Level 2 inputs.

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