

HARLEY DAVIDSON INC
Form 10-K
February 22, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-K

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

For the fiscal year ended: December 31, 2007

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

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

Title of each class	Name of each exchange on which registered
COMMON STOCK, \$.01 PAR VALUE PER SHARE	NEW YORK STOCK EXCHANGE
PREFERRED STOCK PURCHASE RIGHTS	NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act: NONE

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

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

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

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

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

Large accelerated filer 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

Aggregate market value of the voting stock held by non-affiliates of the registrant at June 29, 2007: \$14,836,023,206

Number of shares of the registrant's common stock outstanding at February 18, 2008: 238,500,409 shares

Documents Incorporated by Reference

Part III of this report incorporates information by reference from registrant's Proxy Statement for the annual meeting of its shareholders to be held on April 26, 2008.

Harley-Davidson, Inc.

Form 10-K

For The Year Ended December 31, 2007

	Page
<u>Part I</u>	
<u>Item 1.</u> <u>Business</u>	3
<u>Item 1A.</u> <u>Risk Factors</u>	15
<u>Item 1B.</u> <u>Unresolved Staff Comments</u>	19
<u>Item 2.</u> <u>Properties</u>	20
<u>Item 3.</u> <u>Legal Proceedings</u>	22
<u>Item 4.</u> <u>Submission of Matters to a Vote of Security Holders</u>	25
<u>Part II</u>	
<u>Item 5.</u> <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	28
<u>Item 6.</u> <u>Selected Financial Data</u>	31
<u>Item 7.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u>	32
<u>Item 7A.</u> <u>Quantitative and Qualitative Disclosures about Market Risk</u>	54
<u>Item 8.</u> <u>Consolidated Financial Statements and Supplementary Data</u>	55
<u>Item 9.</u> <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	98
<u>Item 9A.</u> <u>Controls and Procedures</u>	98
<u>Part III</u>	
<u>Item 10.</u> <u>Directors and Executive Officers of the Registrant</u>	99
<u>Item 11.</u> <u>Executive Compensation</u>	99
<u>Item 12.</u> <u>Security Ownership of Certain Beneficial Owners and Management</u>	99
<u>Item 13.</u> <u>Certain Relationships and Related Transactions</u>	100
<u>Item 14.</u> <u>Principal Accounting Fees and Services</u>	100
<u>Part IV</u>	
<u>Item 15.</u> <u>Exhibits and Financial Statements Schedules</u>	101
<u>Signatures</u>	103

PART I

Note regarding forward-looking statements

Certain matters discussed by the Company are forward-looking statements intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such by reference to this note or because the context of the statement will include words such as the Company believes, anticipates, expects, plans, or estimates or words of similar meaning. Similarly, statements that describe future plans, objectives, outlooks, targets, guidance or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this report. Certain of such risks and uncertainties are described in close proximity to such statements or elsewhere in this report, including under the caption Risk Factors in Item 1A of this report and under Cautionary Statements in Item 7 of this report. Shareholders, potential investors, and other readers are urged to consider these factors in evaluating the forward-looking statements and cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in this report are made only as of the date of the filing of this report (February 22, 2008), and the Company disclaims any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

Item 1. Business

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

The Motorcycles & Related Products (Motorcycles) segment includes the group of companies doing business as Harley-Davidson Motor Company (Motor Company) and the group of companies doing business as Buell Motorcycle Company (Buell). The Motorcycles segment designs, manufactures and sells at wholesale primarily heavyweight (engine displacement of 651+cc) touring, custom and performance motorcycles as well as a line of motorcycle parts, accessories, general merchandise and related services. The Company, which is the only major American motorcycle manufacturer, has had the largest share of the United States heavyweight (651+cc) motorcycle market since 1986. During 2007, the Company's market share, based on retail registrations of new Harley-Davidson motorcycles, was 48.7% in the United States (see page 9, U.S. Heavyweight Motorcycle Registration Data).

The Financial Services (Financial Services) segment includes the group of companies doing business as Harley-Davidson Financial Services (HDFS). HDFS provides wholesale and retail financing and insurance and insurance-related programs primarily to Harley-Davidson and Buell dealers and their retail customers. HDFS conducts business in the United States, Canada and Europe.

See Note 11 of Notes to the Consolidated Financial Statements for financial information related to the Company's business segments.

Motorcycles and Related Products

Motorcycles The primary business of the Motorcycles segment is to design and manufacture premium motorcycles for the heavyweight market and sell them at wholesale. The Company is best known for its Harley-Davidson motorcycle products, but also offers a line of motorcycles and related products under the Buell brand name. The Company's worldwide motorcycle sales generated approximately 80% of the total net revenue in the Motorcycles segment during each of the years 2007, 2006 and 2005, respectively.

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

The Motor Company's 2008 model year includes 31 domestic models of Harley-Davidson heavyweight motorcycles, with domestic manufacturer's suggested retail prices ranging from \$6,695 to \$23,270. The Motor Company also offers limited-edition, factory-custom motorcycles through its Custom Vehicle Operation (CVO) program. Motorcycles sold through the CVO program are available in limited quantities and offer unique features, paint schemes and accessories. The Motor Company currently has four motorcycle model offerings available through the CVO program with domestic manufacturer's suggested retail prices ranging from \$24,995 to \$35,490.

The average U.S. retail purchaser of a new Harley-Davidson motorcycle is a married male in his mid to late forties (nearly two-thirds of U.S. retail purchasers of new Harley-Davidson motorcycles are between the ages of 35 and 54) with a median household income of approximately \$84,300. Nearly three-quarters of the U.S. retail sales of new Harley-Davidson motorcycles are to buyers with at least one year of education beyond high school and 30% of the buyers have college degrees. Approximately 12% of U.S. retail motorcycle sales of new Harley-Davidson motorcycles are to female buyers. (Source: 2007 Company studies)

The Company's Buell motorcycle products emphasize innovative design, responsive handling and overall performance. Buell currently manufactures and sells ten models, including eight heavyweight models in its XB family, one liquid-cooled engine motorcycle known as the 1125R and the Blast®. The Buell XB motorcycles focus on superior handling and are powered by either a 984cc (XB9) or a 1203cc (XB12) air-cooled, twin-cylinder engine with a 45-degree V configuration. The Buell XB motorcycle models have domestic manufacturer's suggested retail prices ranging from \$8,895 to \$12,995. The 1125R, introduced in 2007, is a high-performance sportbike featuring a liquid-cooled engine while retaining Buell styling and character. The 1125R has a manufacturer's suggested retail price of \$11,995. The Buell Blast is smaller and less expensive than the Buell XB models and is powered by a 492cc single-cylinder engine. The Blast, which competes in the standard market segment, has a domestic manufacturer's suggested retail price of \$4,695.

Buell attracts customers in the demographic age range of 25 to 55. The average U.S. retail purchaser of a new Buell XB motorcycle is a forty-year old male. The majority of new Buell owners have a median household income of approximately \$80,900. Approximately 7% of all new Buell XB U.S. retail motorcycle sales are to females. (Source: 2007 Company studies)

The total motorcycle market, including the heavyweight portion of the market, is comprised of the following four segments:

- standard (emphasizes simplicity and cost)
- performance (emphasizes handling and acceleration)
- custom (emphasizes styling and individual owner customization)
- touring (emphasizes comfort and amenities for long-distance travel)

The touring segment of the heavyweight market was pioneered by the Company and includes the Harley-

Davidson Touring family of motorcycles which are equipped with fairings, windshields, saddlebags and/or Tour Pak® luggage carriers. The custom segment of the market includes motorcycles featuring the distinctive styling associated with classic Harley-Davidson motorcycles and includes the Company's Dyna, Softail and VRSC motorcycle families as well as a portion of the motorcycles in the Sportster family. The Company's Sportster family also serves the standard segment of the market along with the Buell Blast. The Buell XB family and the 1125R serve the performance segment of the market.

In the United States, suggested retail prices for the Company's Harley-Davidson motorcycles range from being comparable to moderately higher than suggested retail prices for comparable motorcycles available in the market. Although there are some differences in accessories between the Company's top-of-the-line touring motorcycles and those of its competitors, suggested retail prices for these motorcycles are generally comparable. The Company's larger-displacement custom motorcycles (Dyna, Softail and VRSC) represent its highest unit volumes. The Company believes its larger-displacement custom products continue to command a premium price because of the features, styling and strong resale value associated with Harley-Davidson custom products. The Company's smallest displacement custom motorcycle (the 883cc Sportster) is price competitive with comparable motorcycles available in the market.

The Company's 2007 surveys of retail purchasers in the United States indicate that three-quarters of the retail purchasers of its Sportster models either have previously owned competitive-brand motorcycles or are completely new to the sport of motorcycling. The Company expects to see sales of its Sportster models lead to future sales of its higher-priced models.

Since 1988, the Company's research has consistently shown that retail purchasers of new Harley-Davidson motorcycles in the United States have a repurchase intent at or in excess of 80%. Research completed by the Company in 2007 shows that approximately 52% of all retail purchasers of new Harley-Davidson motorcycles in the United States had previously owned a Harley-Davidson motorcycle.

Parts & Accessories The major Parts and Accessories (P&A) products are replacement parts (Genuine Motor Parts) and mechanical and cosmetic accessories (Genuine Motor Accessories). Worldwide P&A net revenue comprised 15.2%, 14.9% and 15.3% of net revenue in the Motorcycles segment in 2007, 2006 and 2005, respectively.

General Merchandise Worldwide General Merchandise net revenue, which includes MotorClothes™ apparel and collectibles, comprised 5.3%, 4.8% and 4.6% of net revenue in the Motorcycles segment in 2007, 2006 and 2005, respectively.

Licensing The Company creates an awareness of the Harley-Davidson brand among its customers and the non-riding public through a wide range of products for enthusiasts by licensing the name Harley-Davidson and other trademarks owned by the Company. The Company's licensed products include t-shirts, vehicle and vehicle accessories, jewelry, small leather goods, toys and numerous other products. The Company also licenses the use of its name in connection with a cafe located in Las Vegas, Nevada. Although the majority of licensing activity occurs in the U.S., the Company continues to expand these activities in international markets. Royalty revenues from licensing, included in Motorcycles segment net revenue, were \$46.0 million, \$45.5 million and \$43.0 million in 2007, 2006 and 2005, respectively.

Other Services The Company also provides a variety of services to its independent dealers including service and business management training programs, customized dealer software packages and delivery of its motorcycles.

Motorcycle rental and tour programs and Riders Edge®, the Company's rider training program, are available through the Company's independent dealers.

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

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

Trademarks are important to the Company's motorcycle business and licensing activities. The Company has a vigorous worldwide program of trademark registration and enforcement to maintain and strengthen the value of the trademarks and prevent the unauthorized use of those trademarks. The HARLEY-DAVIDSON trademark and the Bar and Shield trademark are each highly recognizable to the public and are very valuable assets. The BUELL trademark is well-known in performance motorcycle circles, as is the associated Pegasus logo. Additionally, the Company uses numerous other trademarks, trade names and logos which are registered worldwide. The following are among the Company's trademarks: HARLEY-DAVIDSON, H-D, HARLEY, the Bar & Shield Logo, MOTORCLOTHES, the MotorClothes Logo, RIDER'S EDGE, HARLEY OWNERS GROUP, H.O.G., the H.O.G. Logo, SOFTAIL, SPORTSTER, V-ROD, BUELL and the Pegasus Logo. The HARLEY-DAVIDSON trademark has been used since 1903 and the Bar and Shield trademark since at least 1910. The BUELL trademark has been used since 1984. All of the Company's trademarks are owned by H-D Michigan, Inc, a subsidiary of the Company, which also manages the Company's trademark strategy and portfolio.

Marketing The Company's products are marketed to retail customers primarily through promotions, customer events and advertising through national television, print, radio and direct mailings, as well as internet advertising. Additionally, regional marketing efforts are accomplished through a cooperative program with its independent dealers. The Company also sponsors racing activities and special promotional events and participates in many major motorcycle consumer shows and rallies.

On an ongoing basis, the Company promotes its products and the related lifestyle through the Harley Owners Group®, or H.O.G.® H.O.G. has over one million members worldwide and is the industry's largest company-sponsored motorcycle enthusiast organization. The Company formed the Harley Owners Group in 1983 in an effort to encourage Harley-Davidson owners to become more actively involved in the sport of motorcycling. This group also sponsors many motorcycle events, including rallies and rides for Harley-Davidson motorcycle enthusiasts throughout the world.

In 2000, Rider's Edge® the Harley-Davidson Academy of Motorcycling was formed. The Rider's Edge® New Rider Course is the first in the series of rider education experiences within the Academy. Developed to reach non-riders, it provides an entry point into the sport of motorcycling by teaching basic motorcycling skills and knowledge in a way that is fun and involving. The New Rider Course is conducted by a network of select Harley-Davidson dealerships nationwide enabling students to experience the Harley-Davidson lifestyle, environment, people, and products as they learn.

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

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

customers may require.

International Sales The Company's revenue from the sale of motorcycles and related products to independent dealers and distributors located outside of the United States was approximately \$1.52 billion, \$1.18 billion and \$1.04 billion, or approximately 27%, 20% and 19% of net revenue of the Motorcycles segment, during 2007, 2006 and 2005, respectively.

Distribution-United States In the United States, the Company distributes its motorcycles and related products to a network of independently-owned full-service Harley-Davidson dealerships and the Overseas Military Sales Corporation, an entity that retails the Company's products to members of the U.S. military. The Company distributes its motorcycles to its dealers in the U.S. based on dealer orders but subject to an allocation system. During the second quarter of 2007, the Company introduced a new U.S. motorcycle allocation system that was designed to be more forward-looking and market-driven than the previous system. The Company believes the new allocation process will better align the distribution of motorcycles with the demand in individual dealer markets.

In the U.S., there are approximately 684 independently-owned full-service Harley-Davidson dealerships. The U.S. independent dealer network includes 307 combined Harley-Davidson and Buell dealerships. With respect to sales of new motorcycles, approximately 80% of the U.S. dealerships sell the Company's motorcycles exclusively. All independent dealerships stock and sell the Company's P&A, general merchandise and licensed products, and perform service for the Company's motorcycles. The Company's independent dealers also sell a smaller portion of P&A, general merchandise and licensed products through non-traditional retail outlets. The non-traditional outlets, which are extensions of the main dealership, consist of Secondary Retail Locations (SRLs), Alternate Retail Outlets (AROs), and Seasonal Retail Outlets (SROs). SRLs are satellites of the main dealership and are developed to meet additional retail and service needs of the Company's riding customers. SRLs also provide P&A, general merchandise and licensed products and are authorized to sell and service new motorcycles. AROs are located primarily in high traffic locations such as malls, airports or popular vacation destinations and focus on selling the Company's general merchandise and licensed products. SROs are located in similar high traffic areas, but operate on a seasonal basis out of temporary locations such as vendor kiosks. AROs and SROs are not authorized to sell new motorcycles. There are approximately 104 SRLs, 68 AROs and 12 SROs located in the United States.

Distribution-Europe In the European region (consisting of Europe, the Middle East and Africa), the Company's sales, marketing and distribution of product is managed from its subsidiary located in Oxford, England and sales offices in the United Kingdom, France, Germany, Italy, Netherlands, Spain and Switzerland. In the European region, the Company sells its products at wholesale to a network of 7 independent distributors and 370 independent Harley-Davidson dealerships serving 32 country markets. The European dealer network includes 323 combined Harley-Davidson and Buell dealerships. Buell is further represented by 4 independent dealerships that do not sell Harley-Davidson motorcycles. In addition, the Company's dealer network includes 20 AROs across Europe. The opening of a new sales office in South Africa early in 2008 was announced shortly before the end of 2007.

Distribution-Asia/Pacific In Japan, the Company's sales, marketing, and distribution of product is managed from its subsidiary in Tokyo, which sells motorcycles and related products at wholesale to a network of 130 independent Harley-Davidson dealers. This includes 57 combined Harley-Davidson and Buell dealerships. Buell is further represented by 3 dealerships that do not sell Harley-Davidson motorcycles.

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The Company's sales, marketing and distribution of motorcycles and related products in Australia and New Zealand is managed from its subsidiary in Sydney, Australia. The subsidiary sells to a network of 49 independent Harley-Davidson dealers which includes 32 combined Harley-Davidson and Buell dealerships.

The Company distributes its product directly from its U.S. operations to the remaining 15 Asia/Pacific dealers and distributors located throughout East and Southeast Asia.

Distribution-Latin America The Company distributes all products sold in the Latin America region to independent dealers either through Company-owned subsidiaries in Mexico and Brazil, or from its U.S.

operations for the remaining Latin American markets in which its motorcycles are sold. Brazil is the Company's largest market in Latin America and is served by 10 dealerships. Mexico, the region's second largest market, has 11 dealerships and three SRLs. The remaining countries in the Latin America region are served by 25 dealerships.

Distribution-Canada In Canada, the Company sells its motorcycles and related products at wholesale to a single independent distributor, Deeley Harley-Davidson Canada/Fred Deeley Imports Ltd. There are approximately 74 independent Harley-Davidson dealerships, two SRLs, eight AROs and one SRO. In addition, 45 of the 74 dealerships are combined Harley-Davidson and Buell dealerships.

Seasonality The timing of retail purchases from the Company's independent dealers tracks closely with regional riding seasons, requiring the Company and its independent dealers to balance the economies of level production with a more seasonal retail sales pattern. In general, the Motor Company has not experienced the same degree of seasonal fluctuations in its wholesale sales that its independent dealers have experienced. The Company's domestic independent dealers typically build their inventory levels in the late fall and winter in anticipation of the spring and summer selling seasons. The availability of floor plan financing and, in the U.S., Company-sponsored financing assistance allows dealers to manage these seasonal increases in inventory.

Retail Customer and Dealer Financing The Company believes that HDFFS, as well as other financial services companies, provide adequate financing to the Company's independent distributors, dealers and their retail customers. HDFFS provides financing to the Company's independent distributors, dealers and to the retail customers of those dealers in the U.S. and Canada. Through December 2007, HDFFS also provided wholesale financing to many of the Company's independent dealers in Europe. The Company's independent distributors, dealers and their retail customers in the Asia/Pacific and Latin America regions are not serviced by HDFFS, but have access to financing through other established financial services companies.

Competition The heavyweight (651+cc) motorcycle market is highly competitive. The Company's major competitors are based outside the U.S. and generally have financial and marketing resources that are substantially greater than those of the Company. They also have larger worldwide revenue and are more diversified than the Company and compete in all four segments of the market. In addition to these larger, established competitors, the Company has competitors headquartered in the United States. These competitors generally offer heavyweight motorcycles with traditional styling that compete directly with many of the Company's products. These competitors currently have production and sales volumes that are lower than the Company's and have considerably lower domestic market share than the Company.

Competition in the heavyweight motorcycle market is based upon a number of factors, including price, quality, reliability, styling, product features, customer preference and warranties. The Company emphasizes quality, reliability and styling in its products and generally offers a two-year warranty for its motorcycles. The Company regards its support of the motorcycling lifestyle in the form of events, rides, rallies and H.O.G. and its financing through HDFFS as competitive advantages. In recent years the Company has improved the availability of its motorcycles at its independent dealers with the objective of improving the customer experience and the Company's competitive position. The Company believes that the increased availability has resulted in independent dealers providing wider selections of motorcycles at or near manufacturer's suggested retail prices which have also put pressure on the Company's used motorcycle prices (measured as a percentage of the

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manufacturer's suggested retail price when new). In addition, the Company introduced a new engine on many of its motorcycles beginning with the 2007 model year which has impacted the Company's used motorcycle prices. (Source: 2007 Company data)

Domestically, the Company competes most heavily in the touring and custom segments of the heavyweight motorcycle market. According to the Motorcycle Industry Council, these segments accounted for approximately 80%, 79% and 80% of total heavyweight retail unit registrations in the United States during 2007, 2006 and 2005, respectively. The larger-displacement custom and touring motorcycles are generally the most expensive vehicles in the market and the most profitable for the Company. During 2007, the heavyweight portion of the market represented approximately 54% of the total U.S. motorcycle market (on- and off-highway motorcycles and scooters) in terms of new units registered.

For the last 20 years, the Company has led the industry in the United States for retail unit registrations of new heavyweight motorcycles. The Company's (Harley-Davidson motorcycles only) share of the heavyweight market was 48.7% and 49.3% in 2007 and 2006, respectively. This share is significantly greater than that of the Company's largest competitor in the domestic market which had a 14.2% market share in 2007.

The following chart includes U.S. retail registration data for the Company and its major competitors for the years 2003 through 2007:

U.S. Heavyweight Motorcycle Registration Data^(a)

(Engine Displacement of 651+cc)

(Units in thousands)

	2007	2006	2005	2004	2003
Total market new registrations	516.1	543.0	517.6	494.0	461.2
Harley-Davidson new registrations	251.4	267.9	252.9	244.5	228.4
Buell new registrations	3.7	3.8	3.6	3.6	3.5
Total Company new registrations	255.1	271.7	256.5	248.1	231.9
Percentage Market Share:					
Harley-Davidson motorcycles	48.7%	49.3%	48.9%	49.5%	49.5%
Buell motorcycles	0.7	0.7	0.7	0.7	0.8