HARLEY DAVIDSON INC
Form 10-K
February 22, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-K

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

For the fiscal year ended: December 31, 2007

o 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**

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 x No o

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 o No x

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 x No o.

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. o

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 x Accelerated filer o Non-accelerated filer o Smaller reporting compnay o
Indicate by check mark whether the registrant is a shell company, as defined in Rule 12b-2 of the Exchange Act. Yes o No x

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

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 wo 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.

<u>Parts & Accessories</u> 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.

<u>General Merchandise</u> 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.

<u>Licensing</u> 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.

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.

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 HDFS, as well as other financial services companies, provide adequate financing to the Company s independent distributors, dealers and their retail customers. HDFS 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, HDFS 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 HDFS, but have access to financing though 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 HDFS 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 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
Total Company	49.4	50.0	49.6	50.2	50.3
Honda	14.2	15.1	16.6	18.7	18.4
Suzuki	12.5	12.9	12.4	10.2	9.8
Yamaha	9.2	8.6	8.9	8.7	8.5
Kawasaki	7.2	6.8	6.5	6.4	6.7
Other	7.5	6.6	6.0	5.8	6.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%

(a) United States industry data includes 651+cc models derived from submission of motorcycle retail sales by each major manufacturer to an independent third party. The retail registration data for Harley-Davidson motorcycles presented in this table may differ slightly from the Harley-Davidson retail sales data presented in Item 7 of this report. The Company s source for retail sales data in Item 7 of this report is sales and warranty registrations provided by Harley-Davidson dealers as compiled by the Company. The differences are not significant and generally relate to the timing of data submissions to the independent sources.

The European heavyweight motorcycle market (as defined on the next page) is roughly two-thirds of the size of the U.S. market; but unlike the domestic market, it is comprised of the unique preferences of many individual countries. For example, traditional U.S. touring motorcycles represent less than 25% of the European heavyweight motorcycle market. The Company continues to expand its product offerings to compete in the standard and performance segments with motorcycles like the Nightster and the Buell 1125R. The Company s traditional Harley-Davidson products compete primarily in the custom and touring segments.

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The following chart includes European retail registration data for the Company for the years 2005 through 2007:

European Heavyweight Motorcycle Registration Data[a]

(Engine Displacement of 651+cc)

(Units in thousands)

	2007	2006	2005
Total market new registrations	403.0	376.8	350.7
Harley-Davidson new registrations	38.7	34.3	29.7
Buell new registrations	4.6	4.1	4.6
Total Company new registrations	43.3	38.4	34.3
Percentage Market Share:			
Harley-Davidson motorcycles	9.6%	9.1%	8.5%
Buell motorcycles	1.1	1.1	1.3
Total Company	10.7%	10.2%	9.8%

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

The Company also competes in several other markets around the world. The most significant of these markets, based on Company data, are Canada, Japan and Australia. In Canada, the Company s market share based on registrations was 39.0%, 38.2% and 32.7% during 2007, 2006 and 2005, respectively (Source: Moped and Motorcycle Industry of Canada). Market share information for the remaining international markets has not been presented because the Company does not believe that definitive and reliable registration data is available at this time.

Motorcycle Manufacturing The Motor Company s ongoing manufacturing strategy is designed to increase capacity, improve product quality, increase productivity, reduce costs and increase flexibility to respond to changes in the marketplace. The Motor Company incorporates manufacturing techniques focused on continuously pursuing process improvements and innovation. The Motor Company refers to these techniques as operational excellence and they include employee and supplier involvement, just-in-time inventory and lean manufacturing principles, partnering agreements with the local unions, high performance work organizations and statistical process control.

The Motor Company s use of lean manufacturing principles allows it to minimize its inventories of raw materials and work in process, and minimize scrap and rework costs. This system also allows quicker reaction to engineering design changes, quality improvements and market demands. The Motor Company continues to train its manufacturing employees in problem solving and statistical methods.

Raw Material and Purchased Components The Company continues to establish and/or reinforce long-term, mutually beneficial relationships with its suppliers. Through these collaborative relationships, the Company gains access to technical and commercial resources for application directly to product design, development and manufacturing initiatives. This strategy has resulted in improved product quality, technical integrity, application of new features and innovations, reduced lead times for product development, and smoother/faster manufacturing ramp-up of new vehicle introductions. The Company s continuing initiative to improve supplier productivity and component cost has been instrumental in delivering improvement in cost and in partially offsetting raw material commodity price pressures. The Company anticipates that its focus on collaboration and strong supplier relationships will be beneficial to achieving cost improvement over the long-term.

The Company purchases all of its raw materials, principally steel and aluminum castings, forgings, steel sheets and bars, and certain motorcycle components, including electronic fuel injection systems, batteries, tires, seats, electrical components and instruments. Given current economic conditions in certain raw material commodity markets, and pressure on certain suppliers due to difficulties in the automotive industry and U.S. manufacturing sector in general, the Company is closely monitoring supply, availability and pricing for both its suppliers and in-house operations. However, at this time, the Company does not anticipate any difficulties in obtaining raw materials or components.

Research and Development The Company believes research and development are significant factors in its ability to lead the custom and touring motorcycling market and to develop products for the performance segment. The Company s Product Development Center (PDC) brings employees from styling, purchasing and manufacturing together with regulatory professionals and supplier representatives to create a concurrent product and process development team. The Company incurred research and development expenses of $185.5 million, $177.7 million and $178.5 million during 2007, 2006 and 2005, respectively.

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

The Company s motorcycles are subject to certification by the U.S. Environmental Protection Agency (EPA) for compliance with applicable emissions and noise standards and by the State of California Air Resources Board (CARB) with respect to CARB s more stringent emissions standards. Company motorcycles sold in California are also subject to evaporative emissions standards that are unique to California. The Company s motorcycle products have been certified to comply fully with all such applicable standards. The EPA has finalized new tail pipe emission standards for 2006 and 2010, respectively, which are harmonized with the California emissions standards. Harley-Davidson motorcycle products have been certified to the new EPA standards since 2006 and the Company believes it will comply with future requirements when they go into effect. Additionally, the Company s motorcycle products must and do in fact comply with the motorcycle emissions, noise and safety standards of the European Union, Japan and certain other foreign markets where they are sold. Because the Company expects that environmental standards will become even more stringent over time, the Company will continue to incur some level of research, development and production costs in this area for the foreseeable future. The Company does not anticipate that any of these standards will have a materially adverse impact on its capital expenditures, earnings or competitive position.

The Company, as a manufacturer of motorcycle products, is subject to the National Traffic and Motor Vehicle Safety Act, which is administered by the National Highway Traffic Safety Administration (NHTSA). The Company has certified to NHTSA that its motorcycle products comply fully with all applicable federal motor vehicle safety standards and related regulations. The Company has from time to time initiated certain voluntary recalls. During the last three years, the Company has initiated 15 voluntary recalls at a total cost of $10.8 million. The Company reserves for all estimated costs associated with recalls in the period that the recalls are announced.

Employees As of December 31, 2007, the Motorcycles segment had approximately 9,000 employees. Unionized employees at the motorcycle manufacturing facilities in Wauwatosa and Menomonee Falls, Wisconsin and Kansas

City, Missouri are represented by the United Steelworkers of America (USW), as well as the International Association of Machinist and Aerospace Workers (IAM). Unionized employees at the distribution and manufacturing facilities in Franklin and Tomahawk, Wisconsin are represented by the USW. Production workers at the motorcycle manufacturing facility in York, Pennsylvania are represented by the IAM. The collective bargaining agreement with the Pennsylvania-IAM will expire on February 2, 2010, the collective bargaining agreement with the Kansas City-USW and IAM will expire on July 30, 2012, and the collective bargaining agreement with the Wisconsin-USW and IAM will expire on March 31, 2008.

Internet Access The Company s internet website address is www.harley-davidson.com. The Company makes available free of charge (other than an investor s own internet access charges) through its internet website the Company s Annual Report on Form
10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after it electronically files such material with, or furnishes such material to, the United States Securities and Exchange Commission. In addition, the Company makes available, through its website, the following corporate governance materials: (a) the Harley-Davidson, Inc. Corporate Governance Policy; (b) Committee Charters approved by the Harley-Davidson, Inc. Board of Directors for the Audit Committee, Human Resources Committee and Nominating and Corporate Governance Committee; (c) the Company s Financial Code of Ethics; (d) the Company s Code of Business Conduct (the Code of Conduct) in seven languages including English; (e) the Conflict of Interest Process for Directors, Executive Officers and other employees of Harley-Davidson, Inc. (the Conflict Process); (f) a list of the Company s Board of Directors; (g) the Company s By-laws; and (h) the Harley-Davidson Environmental Policy. This information is also available from the Company upon request. The Company satisfies the disclosure requirements under the Code of Conduct, the Conflict Process and applicable New York Stock Exchange listing requirements regarding waivers of the Code of Conduct or the Conflict Process by disclosing the information in the Company s proxy statement for its annual meeting of shareholders or on the Company s website. The Company is not including the information contained on or available through its website as a part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

Financial Services

HDFS is engaged in the business of financing and servicing wholesale inventory receivables and consumer retail loans (primarily for the purchase of the Company s motorcycles). Additionally, HDFS is an agent for certain unaffiliated insurance carriers providing property/casualty insurance and also sells extended service contracts, gap coverage and debt protection products to motorcycle owners. HDFS conducts business in the United States, Canada and Europe.

Harley-Davidson and Buell Operating under the trade name Harley-Davidson Credit, HDFS provides wholesale financial services to Harley-Davidson and Buell dealers and retail financing to consumers. Operating under the trade name Harley-Davidson Insurance, HDFS is an agent for the sale of motorcycle insurance policies and also sells extended service contracts, gap coverage and debt protection products.

Wholesale financial services include floorplan and open account financing of motorcycles and motorcycle parts and accessories. HDFS offers wholesale financial services to Harley-Davidson dealers in the U.S., Canada and Europe and during 2007 approximately 96% of such dealers utilized those services. The wholesale finance operations of HDFS are located in Plano, Texas and, until January 1, 2008, Oxford, England. Effective January 1, 2008, the finance receivables and related assets of the wholesale operations located in Oxford, England were transferred at book value to Harley-Davidson Europe Ltd., a subsidiary of the Motor Company. Beginning in 2008, the Motor Company will assume responsibility for the collection of all wholesale receivables in Europe.

Retail motorcycle financial services include installment lending for new and used Harley-Davidson and Buell motorcycles. HDFS retail financial services are available through most Harley-Davidson and Buell dealers in the United States and Canada. HDFS retail finance operations are located in Carson City, Nevada and Plano, Texas.

Motorcycle insurance, extended service contracts, gap coverage and debt protection products that HDFS offers are available through most Harley-Davidson and Buell dealers in the United States and Canada. Motorcycle insurance that HDFS offers is also marketed on a direct basis to motorcycle riders. HDFS insurance operations are located in Carson City, Nevada and Plano, Texas.

Funding HDFS is financed by operating cash flow, asset-backed securitizations, the issuance of commercial paper, revolving credit facilities, medium-term notes, and the availability of advances and loans from the Company. In asset-backed securitizations, HDFS sells retail motorcycle loans and records a gain or loss on the sale of those loans. HDFS also retains an interest in the excess cash flows from the receivable and recognizes income on this retained interest. After the sale, HDFS performs billing, customer service and portfolio management services for these loans and receives a servicing fee for providing these services.

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

During 2007, HDFS financed 55% of the new Harley-Davidson motorcycles retailed by independent dealers in the United States, as compared to 48% in 2006. Competitors for retail motorcycle finance business are primarily banks, credit unions and other financial institutions. In the motorcycle insurance business, competition primarily comes from national insurance companies and from insurance agencies serving local or regional markets. For insurance-related products such as extended service contracts, HDFS faces competition from certain regional and national industry participants as well as dealer in-house programs.

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

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

Seasonality In the northern United States and Canada, motorcycles are primarily used during warmer months. Accordingly, HDFS experiences seasonal variations. From mid-March through August, retail financing volume increases and wholesale financing volume decreases as dealer inventories decline. From September through mid-March, there is a decrease in retail financing volume while dealer inventories build and turn over more slowly, substantially increasing wholesale finance receivables.

Regulation The operations of HDFS (both domestic and foreign) are subject, in certain instances, to supervision and regulation by state and federal administrative agencies and various foreign governmental authorities. Many of the statutory and regulatory requirements imposed by such entities are in place to provide consumer protection as it pertains to the selling of financial products and services. Therefore, operations may be subject to various regulations, laws and judicial and/or administrative decisions imposing requirements and restrictions, which among other things: (1) regulate credit granting activities, including establishing licensing requirements, in applicable jurisdictions; (2) establish maximum interest rates, finance charges and other charges; (3) regulate customers insurance coverage; (4) require disclosure of credit and insurance terms to customers; (5) govern secured transactions; (6) set collection, foreclosure, repossession and claims handling procedures and other trade practices; (7) prohibit discrimination in the extension of credit and administration of loans; (8) regulate the use and reporting of information related to a borrower; (9) require certain periodic reporting; and/or (10) govern the use and protection of non-public personal information.

Depending on the provisions of the applicable laws and regulations and the specific facts and circumstances involved, violations of these laws may limit the ability of HDFS to collect all or part of the principal or interest on applicable loans, may entitle the borrower to rescind the loan or to obtain a refund of amounts previously paid and, in addition, could subject HDFS to the payment of damages or penalties and administrative sanctions, including cease and desist orders.

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

A subsidiary of HDFS, Eaglemark Savings Bank (ESB), is a Nevada state thrift chartered as an Industrial Loan Company (ILC). As such, the activities of this subsidiary are governed by federal regulations and State of Nevada banking laws and are subject to examination by the Federal Deposit Insurance Corporation (FDIC) and Nevada state bank examiners. During 2002, ESB began to originate retail loans and to sell the loans to a non-banking subsidiary of HDFS. This process allows HDFS to offer retail products with common characteristics across the United States and to uniformly service loans to domestic retail customers.

Employees As of December 31, 2007, the Financial Services segment had approximately 755 employees. No employees of HDFS are represented by labor unions.

Item 1A. Risk Factors

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

- **The Company sells its products at wholesale and must rely on a network of independent dealers and distributors to manage the retail distribution of its products.** The Company depends on the capability of its independent dealers and distributors to develop and implement effective retail sales plans to create demand for the motorcycles and related products and services they purchase from the Company. If the Company s independent dealers and distributors are not successful in these endeavors, then the Company will be unable to maintain or grow its revenues and to meet its financial expectations.

- **The Company and its independent dealers must balance the economies of level production with a more seasonal retail sales pattern.** The Company generally records the sale of a motorcycle when it is shipped to the Company s independent dealers and distributors. In the past, the Company has not experienced seasonal fluctuations in its wholesale motorcycle sales, and as a result, the Company has been able to maintain production that is relatively level. Also, in more recent years, the Company increased the availability of its motorcycles at dealerships to help improve the customer experience. The increased availability of motorcycles has resulted in the timing of retail purchases tracking more closely with regional motorcycle riding seasons. This requires the Company to adapt its methods for allocating its products to its dealer network so that allocation methods are aligned with retail demand. In addition, the Company s independent dealers and distributors must manage seasonal increases in inventory. As a result, the Company and its independent dealers and distributors must balance the economies of level production with the inventory costs associated with a more seasonal retail sales pattern. Failure to balance the two, or the inability of the Company to adequately adjust its allocation methods, may have a material adverse effect on the Company s business and results of operations.

- **The Company s dealers may experience a decline in retail sales resulting from slowing economic growth, political events or other factors.** The motorcycle industry can be affected by general economic and political conditions, among other factors, over which motorcycle manufacturers have little control. These factors may cause a weak retail environment for discretionary purchases and the decision to purchase a motorcycle may be affected by these factors. Should industry demand decline, our results of operations and financial condition may be substantially adversely affected.

- **The Company has a number of competitors of varying sizes that are based both inside and outside the United States some of which have greater financial resources than the Company.** Many of the Company s competitors are more diversified than the Company, and they may compete in the automotive market or all segments of the motorcycle market. Also, the Company s manufacturer s suggested retail price for its motorcycles is generally higher than its competitors, and if price becomes a more important competitive factor for consumers in the heavyweight motorcycle market, the Company may have a competitive disadvantage. In addition, the Company s financial services operations face significant competition from various banks, insurance companies and other financial institutions, some of which are larger and offer more financial products than the Company. Failure to adequately address and respond to these competitive pressures worldwide may have a material adverse effect on the Company s business and results of operations.

• **The Company s marketing strategy of associating its motorcycle products with a motorcycling lifestyle may not be successful with future customers.** The Company has been successful in marketing its products in large part by promoting the experience of motorcycling. This lifestyle is now more typically associated with a retail customer base comprised of individuals who are, on average, in their mid-forties. To sustain long-term growth, the Company must continue to be successful in promoting motorcycling to customers new to the sport of motorcycling including women, younger riders and more ethnically diverse riders.

• **The Company s success depends upon the continued strength of the Harley-Davidson brand.** The Company believes that the Harley-Davidson brand has significantly contributed to the success of its business and that maintaining and enhancing the brand is critical to expanding its customer base. Failure to protect the brand from infringers or to grow the value of the Harley-Davidson brand may have a material adverse effect on the Company s business and results of operations.

• **The Company s prospects for future growth are largely dependent upon its ability to develop and successfully introduce new, innovative and compliant products.** The motorcycle market continues to advance in terms of cutting edge styling and new technology and, at the same time, be subject to increasing regulations related to safety and emissions. The Company must continue to distinguish its products from its competitors products with unique styling and new technologies and to protect its intellectual property from imitators. In addition, these new products must comply with applicable regulations worldwide. The Company must make product advancements while maintaining the classic look, sound and feel associated with Harley-Davidson products. The Company must also be able to design and manufacture these products and deliver them to the marketplace in a timely manner. There can be no assurances that the Company will be successful in these endeavors or that existing and prospective customers will like or want the Company s new products.

• **The Company s Motorcycles segment is dependent upon unionized labor.** Substantially all of the hourly employees working in the Motorcycles segment are represented by unions and covered by collective bargaining agreements. Harley-Davidson Motor Company is currently a party to five collective bargaining agreements with local affiliates of the International Association of Machinists and Aerospace Workers and the United Steelworkers of America that expire during March 2008, February 2010 and July 2012. These collective bargaining agreements generally cover wages, healthcare benefits and retirement plans, seniority, job classes and work rules. There is no certainty that the Company will be successful in negotiating new agreements with these unions that extend beyond the current expiration dates or that these new agreements will be on terms as favorable to the Company as past labor agreements. Failure to renew these agreements when they expire or to establish new collective bargaining agreements on terms acceptable to the Company and the unions could result in work stoppages or other labor disruptions which may have a material adverse effect on customer relationships and the Company s business and results of operations.

• **The Company s operations are dependent upon attracting and retaining skilled employees.** The Company s future success depends on its continuing ability to identify, hire, develop, motivate and retain skilled personnel for all areas of its organization. The current and future total compensation arrangements, which include benefits and cash bonuses, may not be successful in attracting new employees and retaining and motivating the Company s existing employees. If the Company does not succeed in attracting personnel or retaining and motivating existing personnel, the Company may be unable to develop and distribute products and services and grow effectively.

• **The Company incurs substantial costs with respect to pension benefits and providing healthcare for its employees.** The Company s estimates of liabilities and expenses for pensions and other post-retirement healthcare benefits require the use of assumptions. They include the rate used to discount the future estimated liability, the rate of return on plan assets and several assumptions relating to the employee workforce (salary increases, medical costs, retirement age and mortality). Actual results may differ which may have a material adverse effect on future results of operations, liquidity or shareholders equity. In addition, rising healthcare and retirement benefit costs in the United States may put the Company under significant cost pressure as compared to our competitors.

- **The Company manufactures products that create exposure to product liability claims and litigation.** To the extent plaintiffs are successful in showing that personal injury or property damage result from defects in the design or manufacture of the Company s products, the Company may be subject to claims for damages that are not covered by insurance. The costs associated with defending product liability claims, including frivolous lawsuits, and payment of damages could be substantial. The Company s reputation may also be adversely affected by such claims, whether or not successful.

- **The Company relies on third party suppliers to obtain raw materials and provide component parts for use in the manufacture of its motorcycles.** The Company cannot be certain that it will not experience supply problems such as unfavorable pricing or untimely delivery of raw materials and components. In certain circumstances, the Company relies on a single supplier to provide the entire requirement of a specific part and a change in this established supply relationship may cause disruption in the Company s production schedule. In addition, the price and availability of raw materials and component parts from suppliers can be adversely affected by factors outside of the Company s control such as increased worldwide demand. Further, Company suppliers who also serve the automotive industry may be experiencing financial difficulties due to a downturn in that industry. These supplier risks may have a material adverse effect on the Company s business and results of operations.

- **The Company must maintain its reputation of being a good corporate citizen and treating customers, employees, suppliers and other stakeholders fairly.** The Company has a history of good corporate governance. Prior to the enactment of the Sarbanes-Oxley Act of 2002 (the Act), the Company had in place many of the corporate governance procedures and processes now mandated by the Act and related rules and regulations, such as Board Committee Charters and a Corporate Governance Policy. In 1992, the Company established a Code of Business Conduct that defines how employees interact with various Company stakeholders and addresses issues such as confidentiality, conflict of interest and fair dealing. Failure to maintain this reputation may have a material adverse effect on the Company s business and results of operations.

- **The Company must invest in and successfully implement new information systems and technology.** The Company is continually modifying and enhancing its systems and technology to increase productivity and efficiency. When implemented, the systems and technology may not provide the benefits anticipated and could add costs and complications to ongoing operations, which may have a material adverse effect on the Company s business and results of operations.

- **The Company is and may in the future become subject to legal proceedings and commercial or contractual disputes.** These are typically claims that arise in the normal course of business. The uncertainty associated with substantial unresolved claims and lawsuits may harm the Company s business, financial condition, reputation and brand. The defense of the lawsuits may result in the expenditures of significant financial resources and the diversion of management s time and attention away from business operations. In addition, although we are unable to determine the amount, if any, that we may be required to pay in connection with the resolution of the lawsuits by settlement or otherwise, any such payment may have a material adverse effect on the Company s business and results of operations. See Item 3. Legal Proceedings for additional detail regarding lawsuits and other claims against the Company.

- **The Company must comply with governmental laws and regulations that are subject to change and involve significant costs.** The Company s sales and operations in areas outside the U.S. may be subject to foreign laws, regulations and the legal systems of foreign courts or tribunals. These laws and policies governing operations of foreign-based companies may result in increased costs or restrictions on the ability of the Company to sell its products in certain countries. The Company s international sales operations may also be adversely affected by United States laws affecting foreign trade and taxation.

The Company is subject to income and non-income based taxes in the United States and in various foreign jurisdictions. Significant judgment is required in determining our worldwide income tax liabilities and other tax liabilities. The Company believes that it complies with applicable tax law. If the governing tax authorities have a different interpretation of the applicable law or if there is a change in tax law, our financial condition and/or results of operations may be adversely affected.

The Company s domestic sales and operations are subject to governmental policies and regulatory actions of agencies of the United States Government, including the Environmental Protection Agency, SEC, National Highway Traffic Safety Administration, Department of Labor and Federal Trade Commission. In addition, the Company s sales and operations are also subject to laws and actions of state legislatures and other local regulators, including dealer statutes and licensing laws. Changes in regulations or the imposition of additional regulations may have a material adverse effect on the Company s business and results of operations.

Our motorcycle products use internal combustion engines. These motorcycle products are subject to statutory and regulatory requirements governing emissions and noise, including standards imposed by the EPA, state regulatory agencies, such as CARB, and other regulatory agencies around the world. We are also subject to statutory and regulatory requirements governing emissions and noise in the conduct of our manufacturing operations. Any significant change to the regulatory requirements governing emissions and noise may substantially increase the cost of manufacturing our products. Further, in response to concerns about global climate changes, we may face greater regulatory or customer pressure to develop products that generate less emissions. This may require us to spend additional funds on research, product development, implementation costs and subject us to the risk that our competitors may respond to these pressures in a manner that gives them a competitive advantage.

The Company s financial services operations are governed by various foreign, federal and state laws that more specifically affect general financial and lending institutions. The Company s financial services operations originate the majority of its consumer loans through its subsidiary, Eaglemark Savings Bank. Changes in regulations or the imposition of additional regulations may affect the earnings of the financial services operations and have a material adverse effect on the Company s business and results of operations. Any unauthorized release of consumer data may subject the Company to liability and adversely affect the Company s reputation.

In addition, the Company is also subject to policies and actions of the New York Stock Exchange (NYSE). Many major competitors of the Company are not subject to the requirements of the SEC or the NYSE rules. As a result, the Company may be required to disclose certain information that may put the Company at a competitive disadvantage to its principal competitors.

- **Breaches of security involving consumers personal data may adversely affect the Company s reputation, revenue and earnings.** The Company receives and stores personal information in connection with its financial services operations, the Harley Owners Group and other aspects of its business. Breach of the systems on which sensitive consumer information is stored or other unauthorized release of consumer information may adversely affect the Company s reputation and lead to claims against the Company.

- **The Company s financial services operations are highly dependent on accessing capital markets to fund its operations at attractive interest rates.** The Company s ability to access unsecured capital markets is influenced by its short term and long term credit ratings. The Company currently has strong credit ratings; however, in November 2007 Standard & Poor s Ratings Services lowered the Company s long term corporate credit ratings. If the Company s credit ratings are downgraded further, its cost of borrowing may be adversely affected resulting in reduced earnings and interest margins.

- **The Company s financial services operations rely on external sources to finance a significant portion of its operations.** Liquidity is essential to the Company s financial services business. The financial services business may be negatively affected by an inability to raise funding in the long-term or short-term debt capital markets or the equity capital markets. Factors that it cannot control, such as disruption of the financial markets or negative views about the financial services industry in general, may impair our ability to raise funding.

• **The Company s financial services operations are exposed to credit risk on its retail and wholesale receivables.** Credit risk is the risk of loss arising from a failure by a customer to meet the terms of any contract with the Company. Credit losses are influenced by general business and economic conditions, as well as contract terms, customer credit profiles and the new and used motorcycle market. Negative changes in general business, economic or market factors may adversely impact the Company s credit losses and future earnings. Credit exposure is significantly sensitive to any decline in new and used motorcycle prices. In addition, the frequency of losses may be negatively influenced by adverse changes in macro-economic factors, such as unemployment rates and bankruptcy filings.

- **The Company is exposed to market risk from changes in foreign exchange rates and interest rates.** The Company sells its products internationally and in most markets those sales are made in the foreign country s local currency. Earnings from the Company s financial services business are affected by changes in interest rates. The Company uses derivative financial instruments to attempt to manage foreign currency exchange rates and interest rate risks. There can be no assurance that in the future the Company will successfully manage these risks.

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following is a summary of the principal operating properties of the Company as of December 31, 2007:

Motorcycles and Related Products Segment

Type of Facility	Location	Approximate Square Feet	Status
Corporate Office	Milwaukee, WI	515,000	Owned
Warehouse	Milwaukee, WI	24,000	Lease expiring 2009
Airplane hangar	Milwaukee, WI	14,600	Owned
Manufacturing	Wauwatosa, WI	430,000	Owned
Product Development Center	Wauwatosa, WI	409,000	Owned
Distribution Center	Franklin, WI	250,000	Owned
Manufacturing	Menomonee Falls, WI	868,000	Owned
Product Development and Office	East Troy, WI	58,990	Lease expiring 2011
Manufacturing	East Troy, WI	40,000	Lease expiring 2011
Manufacturing	Tomahawk, WI	211,000	Owned
Office	Ann Arbor, MI	3,400	Lease expiring 2009
Office	Cleveland, OH	23,000	Lease expiring 2013
Manufacturing and Materials Velocity Center	Kansas City, MO	450,000	Owned
Materials Velocity Center	Manchester, PA	212,000	Owned
Manufacturing	York, PA	1,321,000	Owned
Motorcycle Testing	Talladega, AL	35,000	Lease expiring 2009
Motorcycle Testing	Naples, FL	82,000	Owned
Motorcycle Testing	Mesa, AZ	29,000	Lease expiring 2009
Office and Training Facility	Monterrey, Mexico	1,100	Lease expiring 2008
Office	Morfelden-Waldorf, Germany	22,000	Lease expiring 2008
Office and Warehouse	Oxford, England	21,000	Lease expiring 2017
Office	Liederdorp, The Netherlands	9,000	Lease expiring 2010
Office	Creteil, France	8,450	Lease expiring 2016
Office and Warehouse	Arese, Italy	17,000	Lease expiring 2009
Office	Zurich, Switzerland	2,000	Lease expiring 2009
Office	Sant Cugat, Spain	3,400	Lease expiring 2017
Warehouse	Yokohama, Japan	15,000	Lease expiring 2008
Office	Tokyo, Japan	14,000	Lease expiring 2008
Manufacturing	Adelaide, Australia	485,000	Lease expiring 2011
Office	Sydney, Australia	1,100	Lease expiring 2011
Office	Shanghai, China	1,700	Lease expiring 2008
Manufacturing and Office	Manaus, Brazil	30,000	Lease expiring 2009

The Company has eight facilities that perform manufacturing operations: Wauwatosa and Menomonee Falls, Wisconsin (motorcycle powertrain production); Tomahawk, Wisconsin (fiberglass/plastic parts production and painting); York, Pennsylvania (motorcycle parts fabrication, painting and Softail® and touring model assembly); Kansas City, Missouri (motorcycle parts fabrication, painting and Dyna Glide, Sportster® and VRSC assembly); East Troy, Wisconsin (Buell® motorcycle assembly); Manaus, Brazil (assembly of select models for Brazilian market); and Adelaide, Australia (motorcycle wheel production).

Financial Services Segment

Type of Facility	Location	Approximate Square Feet	Status
Office	Chicago, IL	26,000	Lease expiring 2022
Office	Plano, TX	61,500	Lease expiring 2014
Office	Carson City, NV	100,000	Owned
Storage	Carson City, NV	1,600	Lease expiring 2008
Office	Oxford, England	6,000	Lease expiring 2017

The Financial Services segment has four office facilities: Chicago, Illinois (corporate headquarters); Plano, Texas (wholesale, insurance and retail operations); Carson City, Nevada (retail and insurance operations); and Oxford, England (European wholesale operations). Effective January 1, 2008, the European wholesale operations were transferred to Harley-Davidson Europe Ltd., a subsidiary of the Motor Company.

Item 3. **Legal Proceedings**

The Company is subject to lawsuits and other claims related to environmental, product and other matters. In determining required reserves related to these items, the Company carefully analyzes cases and considers the likelihood of adverse judgments or outcomes, as well as the potential range of possible loss. The required reserves are monitored on an ongoing basis and are updated based on new developments or new information in each matter.

Shareholder Lawsuits:

A number of shareholder class action lawsuits were filed between May 18, 2005 and July 1, 2005 in the United States District Court for the Eastern District of Wisconsin. On February 14, 2006, the court consolidated all of the actions into a single case, captioned *In re Harley-Davidson, Inc. Securities Litigation*, and appointed Lead Plaintiffs and Co-Lead Plaintiffs Counsel. Pursuant to the schedule set by the court, on October 2, 2006, the Lead Plaintiffs filed a Consolidated Class Action Complaint, which names the Company and Jeffrey L. Bleustein, James L. Ziemer, and James M. Brostowitz, who are current or former Company officers, as defendants. The Consolidated Complaint alleges securities law violations and seeks unspecified damages relating generally to the Company s April 13, 2005 announcement that it was reducing short-term production growth and planned increases of motorcycle shipments from 317,000 units in 2004 to a new 2005 target of 329,000 units (compared to its original target of 339,000 units). On December 18, 2006, the defendants filed a motion to dismiss the Consolidated Complaint in its entirety. Briefing of the motion to dismiss was completed in April 2007.

Three shareholder derivative lawsuits were filed in the United States District Court for the Eastern District of Wisconsin on June 3, 2005, October 25, 2005 (this lawsuit was later voluntarily dismissed) and December 2, 2005 and two shareholder derivative lawsuits were filed in Milwaukee County Circuit Court on July 22, 2005 and November 16, 2005 against some or all of the following current or former directors and officers of the Company: Jeffrey L. Bleustein, James L. Ziemer, James M. Brostowitz, Barry K. Allen, Richard I. Beattie, George H. Conrades, Judson C. Green, Donald A. James, Sara L. Levinson, George L. Miles, Jr., James A. Norling, James A. McCaslin, Donna F. Zarcone, Jon R. Flickinger, Gail A. Lione, Ronald M. Hutchinson, W. Kenneth Sutton, Jr. and John A. Hevey. The lawsuits also name the Company as a nominal defendant. In general, the shareholder derivative complaints include factual allegations similar to those in the class action complaints and allegations that officers and directors breached their fiduciary duties to the Company. On February 14, 2006, the state court consolidated the two state court derivative actions and appointed Lead Plaintiffs and Lead Plaintiffs counsel, and on April 24, 2006, the state court ordered that the consolidated state court derivative action be stayed until after motions to dismiss the federal securities class action are decided. On February 15, 2006, the federal court consolidated the federal derivative lawsuits with the securities and ERISA (see below) actions for administrative purposes. On February 1, 2007, the federal court appointed Lead Plaintiff and Co-Lead Plaintiffs Counsel in the consolidated federal derivative action.

On August 25, 2005, a class action lawsuit alleging violations of the Employee Retirement Income Security Act (ERISA) was filed in the United States District Court for the Eastern District of Wisconsin. As noted above, on February 15, 2006, the court ordered the ERISA action consolidated with the federal derivative and securities actions for administrative purposes. Pursuant to the schedule set by the court, on October 2, 2006, the ERISA plaintiff filed an Amended Class Action Complaint, which named the Company, the Harley-Davidson Motor Company Retirement Plans Committee, the Company s Leadership and Strategy Council, Harold A. Scott, James L. Ziemer, James M. Brostowitz, Gail A. Lione, Joanne M. Bischmann, Karl M. Eberle, Jon R. Flickinger, Ronald M. Hutchinson, James A. McCaslin, W. Kenneth Sutton, Jr., and Donna F. Zarcone, who are current or former Company officers or employees, as defendants. In general, the ERISA complaint includes factual allegations similar to those in the shareholder class action lawsuits and alleges on behalf of participants in certain Harley-Davidson retirement savings plans that the plan fiduciaries breached their ERISA fiduciary duties. On December 18, 2006, the defendants filed a motion to dismiss the ERISA complaint in its entirety. Briefing of the motion to dismiss was completed in April 2007.

The Company believes the allegations against all of the defendants in the lawsuits against the Company are without merit and it intends to vigorously defend against them. Since all of these matters are in the preliminary stages, the Company is unable to predict the scope or outcome or quantify their eventual impact, if any, on the

Company. At this time, the Company is also unable to estimate associated expenses or possible losses. The Company maintains insurance that may limit its financial exposure for defense costs and liability for an unfavorable outcome, should it not prevail, for claims covered by the insurance coverage.

Security Breach Lawsuit:

On January 22, 2007, a purported class action lawsuit was filed in the Supreme Court of the State of New York against Harley-Davidson, Inc. and the Harley Owners Group. The complaint alleges that the Company was negligent in failing to properly safeguard, protect and keep confidential the personal Customer Identifiable Information that was stored on a Company laptop computer that was lost on or about August 14, 2006. The complaint also alleges that Harley-Davidson breached fiduciary duties and made false and fraudulent representations and warranties to its customers that it would keep confidential and safeguard and protect the personal customer information in its possession. The complaint seeks unspecified damages. On February 23, 2007, this matter was removed to the United States District Court Southern District of New York. On April 5, 2007, the Company filed a motion to dismiss the complaint. Briefing is completed on the motion to dismiss and the parties are awaiting a ruling. The Company believes the allegations in the lawsuit are without merit and it intends to vigorously defend against them.

Cam Bearing Lawsuit:

In January 2001, on its own initiative, the Company notified owners that it was extending the warranty on rear cam bearings to 5 years or 50,000 miles on certain 1999 and early-2000 Harley-Davidson motorcycles equipped with Twin Cam 88® and Twin Cam 88B™ engines. Subsequently, on June 28, 2001, a putative nationwide class action was filed against the Company in state court in Milwaukee County, Wisconsin, which was amended by a complaint filed September 28, 2001, alleging that this cam bearing was defective, asserting various legal theories, and seeking unspecified damages for affected owners. After the Wisconsin court granted the Company s motion to dismiss those claims, the same attorneys filed a second putative nationwide class action against the Company in state court in Milwaukee County, Wisconsin related to the same issues. Again, the Wisconsin court granted the Company s motion and dismissed all claims in their entirety. On April 12, 2004, the same attorneys filed a third action in the state court in Milwaukee County, Wisconsin on behalf of the same plaintiffs. This third action was likewise dismissed by the court on July 26, 2004. After subsequent appeals to the Wisconsin Court of Appeals and the Wisconsin Supreme Court, on July 12, 2007, the Wisconsin Supreme Court issued a final decision in the Company s favor upholding the dismissal of all claims against the Company. Then, on September 11, 2007, the Company received a claim letter from one of the same attorneys involved in the Wisconsin actions. This letter relates to the same issues as the previously dismissed Wisconsin actions, but alleges claims under California law on behalf of California owners exclusively. The Company believes that these California claims lack merit as they are premised on the same legal theories that were presented in previously dismissed Wisconsin actions.

Environmental Matters:

The Company is involved with government agencies and groups of potentially responsible parties in various environmental matters, including a matter involving the cleanup of soil and groundwater contamination at its York, Pennsylvania facility. The York facility was formerly used by the U.S. Navy and AMF prior to the purchase of the York facility by the Company from AMF in 1981. Although the Company is not certain as to the full extent of the environmental contamination at the York facility, it has been working with the Pennsylvania Department of Environmental Protection (PADEP) since 1986 in undertaking environmental investigation and remediation activities, including an ongoing site-wide remedial investigation/feasibility study (RI/FS). In January 1995, the Company entered into a settlement agreement (the Agreement) with the Navy. The Agreement calls for the Navy and the Company to contribute amounts into a trust equal to 53% and 47%, respectively, of future costs associated with environmental investigation and remediation activities at the York facility (Response Costs). The trust administers the payment of the Response Costs incurred at the York facility as covered by the Agreement.

In February 2002, the Company was advised by the U.S. Environmental Protection Agency (EPA) that it considers some of the Company s remediation activities at the York facility to be subject to the EPA s corrective action program under the Resource Conservation and Recovery Act (RCRA) and offered the Company the option of addressing corrective action under a RCRA facility lead agreement. In July 2005, the York facility was designated as the first site in Pennsylvania to be addressed under the One Cleanup Program. The program provides a more streamlined and efficient oversight of voluntary remediation by both PADEP and EPA and will be carried out consistent with the Agreement with the Navy. As a result, the RCRA facility lead agreement has been superseded.

Although the RI/FS is still under way and substantial uncertainty exists concerning the nature and scope of the additional environmental investigation and remediation that will ultimately be required at the York facility, the Company estimates that its share of the future Response Costs at the York facility will be approximately $7.2 million. The Company has established reserves for this amount, which are included in Accrued Liabilities in the Consolidated Balance Sheets.

The estimate of the Company s future Response Costs that will be incurred at the York facility is based on reports of independent environmental consultants retained by the Company, the actual costs incurred to date and the estimated costs to complete the necessary investigation and remediation activities. Response Costs related to the remediation of soil are expected to be incurred over a period of several years ending in 2012. Response Costs related to ground water remediation may continue for some time beyond 2012. However, these Response Costs are expected to be much lower than those related to the remediation of soil.

Under the terms of the sale of the Commercial Vehicles Division in 1996, the Company has agreed to indemnify Utilimaster Corporation, until December 2008, for certain claims related to environmental contamination present at the date of sale, up to $20.0 million. Based on the environmental studies performed, the Company does not expect to incur any material expenditures under this indemnification.

Product Liability Matters:

Additionally, the Company is involved in product liability suits related to the operation of its business. The Company accrues for claim exposures that are probable of occurrence and can be reasonably estimated. The Company also maintains insurance coverage for product liability exposures. The Company believes that its accruals and insurance coverage are adequate and that product liability will not have a material adverse effect on the Company s consolidated financial statements.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of shareholders of the Company in the fourth quarter of 2007.

Pursuant to General Instruction G(3) of Form 10-K, the following list of executive officers of the Company as of December 31, 2007 is included as an unnumbered Item in Part I of this report in lieu of being included in the Company s Proxy Statement for the annual meeting of its shareholders to be held on April 26, 2008.

Executive Officers of the Registrant

The following sets forth, as of December 31, 2007, the name, age and business experience for the last five years for each of the executive officers of Harley-Davidson, Inc. Executive officers are defined by the Company as executives that are members of the Company s Leadership and Strategy Council (LSC). The LSC, which is comprised of selected members of senior management from various areas within the Company, makes high-level resource decisions, develops policies, and acts as an advisory group to the Chief Executive Officer. Effective January 1, 2008, the LSC is comprised of the President and Chief Executive Officer, Executive Vice Presidents, Senior Vice Presidents, the President and Chief Operating Officer of Harley-Davidson Motor Company, the President and Chief Operating Officer of Buell Motorcycle Company and the President of Harley-Davidson Financial Services.

Executive Officers

Name	Age
Thomas E. Bergmann Executive Vice President and Chief Financial Officer	41
Rodney J. Copes Vice President, Asia Pacific Harley-Davidson Motor Company	41
William B. Dannehl Executive Vice President and Chief Organizational Transformation Officer	49
Karl M. Eberle Senior Vice President, Manufacturing Harley-Davidson Motor Company	59
Jon R. Flickinger President and Chief Operating Officer Buell Motorcycle Company	50
Ronald M. Hutchinson Senior Vice President, Product Development Harley-Davidson Motor Company	60
Matthew S. Levatich Vice President, Parts & Accessories Harley-Davidson Motor Company	42
Gail A. Lione Executive Vice President, General Counsel and Secretary and Chief Compliance Officer	58

James A. McCaslin President and Chief Operating Officer Harley-Davidson Motor Company	59
Saiyid T. Naqvi President Harley-Davidson Financial Services	58
Mark-Hans Richer Senior Vice President and Chief Marketing Officer Harley-Davidson Motor Company	41

Harold A. Scott Vice President, Human Resources Harley-Davidson Motor Company	59
W. Kenneth Sutton, Jr. Vice President, Engineering Harley-Davidson Motor Company	59
James L. Ziemer President and Chief Executive Officer and Director	57

Except for the following persons, all such executive officers have been employed by the Company in an executive officer capacity, as defined above, for more than five years: Thomas E. Bergmann, Rodney J. Copes, William B. Dannehl, Karl M. Eberle, Matthew S. Levatich, Saiyid T. Naqvi, Mark-Hans Richer, Harold A. Scott and Kenneth Sutton. The following is additional biographical information for at least the last five years relating to these nine executive officers:

Mr. Bergmann has served as the Executive Vice President and Chief Financial Officer since November 2007 and joined the Company in March 2006 as Vice President and Chief Financial Officer. Prior to joining the Company, Mr. Bergmann most recently served as Interim Chief Executive Officer of USF Corporation (USF), a $2.5 billion transportation and logistics company, a position he held from November 2004 to June 2005. USF was publicly traded until it was acquired by YRC Worldwide Inc. in May 2005. Prior to that, Mr. Bergmann served as Executive Vice President of USF from August 2004 to November 2004 and Senior Vice President and Chief Financial Officer of USF from February 2004 to August 2004. Prior to joining USF, Mr. Bergmann served as Vice President Finance Services of Sears, Roebuck and Co., a retailer, from February 2003 to November 2003 and as Vice President and Controller of Sears, Roebuck and Co. from January 2002 to February 2003.

Mr. Copes has served as Vice President, Asia Pacific since November 2007. From September 2004 though October 2007, Mr. Copes served as the Vice President and General Manager, Powertrain Operations. Previously, Mr. Copes was the General Manager of the Motor Company s Tomahawk Operations from 2002 to 2004.

Mr. Dannehl has served as the Executive Vice President, Chief Organizational Transformation Officer since December 2007. From August 2004 through November 2007, Mr. Dannehl served as Vice President North American Sales and Dealer Services. From August 2002 through July 2004, Mr. Dannehl served as Vice President of Strategic Planning and New Business Development.

Mr. Eberle has served as the Senior Vice President, Manufacturing of the Motor Company since November 2007. From 1997 through October 2007, Mr. Eberle served as Vice President and General Manager of the Motor Company s Kansas City Vehicle and Powertrain Operations.

Mr. Levatich has served as Vice President and General Manager of Parts & Accessories and Custom Vehicle Operations of the Motor Company since November 2007. From October 2003 through October 2007, Mr. Levatich served as Vice President of Materials Management of the Motor Company. From April 2003 through September 2003, he served as Director of Development Purchasing. Mr. Levatich has worked in a series of other management roles since joining the Motor Company in 1994.

Mr. Naqvi has served as the President of HDFS since February 2007. From January 2005 to December 2006, he served as President and Chief Executive Officer of DeepGreen Financial, Inc., an online home equity lender. From November 2002 until January 2005 he served as Chairman and Chief Executive Officer of Setara Corporation, a consulting firm specializing in business process outsourcing for financial services companies.

Mr. Richer has served as the Company s Senior Vice President and Chief Marketing Officer since November 2007. Prior thereto, Mr. Richer served as the Company s Vice President and Chief Marketing Officer since July 2007. Prior to joining the Company, Mr. Richer served as the Director of Marketing at General Motors Corp., an automobile manufacturer, from March 1998 though July 2007.

Mr. Scott has served as the Vice President, Human Resources of the Motor Company since 2000.

Mr. Sutton became the Vice President, Engineering for the Motor Company in 2002. From 2000 to 2002, Mr. Sutton served as Vice President, Continuous Improvement for the Motor Company.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Harley-Davidson, Inc. common stock is traded on the New York Stock Exchange, Inc. The high and low market prices for the common stock, reported as New York Stock Exchange, Inc. Composite Transactions, were as follows:

2007	Low	High	2006	Low	High
First quarter	$ 57.91	$ 74.03	First quarter	$ 47.88	$ 54.92
Second quarter	58.72	66.00	Second quarter	47.86	53.98
Third quarter	45.92	63.38	Third quarter	50.74	62.33
Fourth quarter	44.37	51.75	Fourth quarter	61.52	75.87

The Company paid the following dividends per share:

	2007	2006	2005
First quarter	$ 0.21	$ 0.18	$ 0.125
Second quarter	0.25	0.21	0.160
Third quarter	0.30	0.21	0.160
Fourth quarter	0.30	0.21	0.180
	$ 1.06	$ 0.81	$ 0.625

As of February 18, 2008 there were 90,748 shareholders of record of Harley-Davidson, Inc. common stock.

The following table contains detail related to the repurchase of common stock based on the date of trade during the quarter ended December 31, 2007:

2007 Fiscal Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Be Purchased Under the Plans or Programs
October 1 to November 4	74	$ 45	0	10,547,933
November 5 to December 2	3,150,000	$ 49	3,150,000	7,398,133
December 3 to December 31	0	0	0	27,400,094
Total	3,150,074	$ 49	3,150,000	

The Company has an authorization (originally adopted in December 1997) by its Board of Directors to repurchase shares of its outstanding common stock under which the cumulative number of shares repurchased, at the time of any repurchase, shall not exceed the sum of (1) the number of shares issued in connection with the exercise of stock options occurring on or after January 1, 2004 plus (2) one percent of the issued and outstanding common stock of the Company on January 1 of the current year, adjusted for any stock split. The Company did not repurchase shares under this authorization during the fourth quarter ended December 31, 2007.

In April 2005, the Company s Board of Directors separately authorized the Company to buy back up to 20.0 million shares of its common stock with no dollar limit or expiration date. During 2007, 2.8 million shares were repurchased under this authorization. No shares remain under this authorization as of December 31, 2007.

In October 2006, the Company s Board of Directors separately authorized the Company to buy back up to 20.0 million shares of its common stock with no dollar limit or expiration date. During 2007, 16.9 million shares were repurchased under this authorization, of which 3.2 million were repurchased during the fourth quarter of 2007. As of December 31, 2007, 3.1 million shares remained under this authorization.

In December 2007, the Company s Board of Directors separately authorized the Company to buy back up to 20.0 million shares of its common stock with no dollar limit or expiration date. No shares had been repurchased under this authorization as of December 31, 2007.

The Harley-Davidson, Inc. 2004 Incentive Stock Plan (exhibit 10.17) permits participants to satisfy all or a portion of the statutory federal, state and local withholding tax obligations arising in connection with plan awards by electing to (a) have the Company withhold Shares otherwise issuable under the award, (b) tender back shares received in connection with such award or (c) deliver other previously owned Shares, in each case having a value equal to the amount to be withheld. During the fourth quarter of 2007, the Company acquired 74 shares of common stock that employees presented to the Company to satisfy withholding taxes in connection with the vesting of restricted stock awards.

Item 12 of this Annual Report on Form 10-K contains certain information relating to the Company s equity compensation plans.

The following information in this Item 5 is not deemed to be soliciting material or to be filed with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates it by reference into such a filing: the SEC requires the Company to include a line graph presentation comparing cumulative five year Common Stock returns with a broad-based stock index and either a nationally recognized industry index or an index of peer companies selected by the Company. The Company has chosen to use the Standard & Poor s 500 Index as the broad-based index and the Standard & Poor s MidCap 400 Index as a more specific comparison. The Standard & Poor s MidCap 400 Index was chosen because the Company does not believe that any other published industry or line-of-business index adequately represents the current operations of the Company. The graph assumes a beginning investment of $100 on December 31, 2002 and that all dividends are reinvested.

	2002 ($)	**2003 ($)**	**2004 ($)**	**2005 ($)**	**2006 ($)**	**2007 ($)**
Harley-Davidson, Inc.	100	103	133	114	158	107
Standard & Poor s MidCap 400 Index	100	136	158	178	196	213
Standard & Poor s 500 Index	100	129	143	150	173	183

Item 6. Selected Financial Data

(In thousands, except per share amounts)

	2007(1), (2)	2006(1), (2)	2005(1)	2004	2003
Income statement data:					
Net revenue	$ 5,726,848	$ 5,800,686	$ 5,342,214	$ 5,015,190	$ 4,624,274
Cost of goods sold	3,612,748	3,567,839	3,301,715	3,115,655	2,958,708
Gross profit	2,114,100	2,232,847	2,040,499	1,899,535	1,665,566
Financial services income	416,196	384,891	331,618	305,262	279,459
Financial services expense	204,027	174,167	139,998	116,662	111,586
Operating income from financial services	212,169	210,724	191,620	188,600	167,873
Selling, administrative and engineering expense	900,708	846,418	767,157	731,750	690,492
Income from operations	1,425,561	1,597,153	1,464,962	1,356,385	1,142,947
Investment income, net	22,258	27,087	22,797	23,101	23,088
Income before provision for income taxes	1,447,819	1,624,240	1,487,759	1,379,486	1,166,035
Provision for income taxes	513,976	581,087	528,155	489,720	405,107
Net income	$ 933,843	$ 1,043,153	$ 959,604	$ 889,766	$ 760,928
Weighted-average common shares:					
Basic	249,205	264,453	280,303	295,008	302,271
Diluted	249,882	265,273	281,035	296,852	304,470
Earnings per common share:					
Basic	$ 3.75	$ 3.94	$ 3.42	$ 3.02	$ 2.52
Diluted	$ 3.74	$ 3.93	$ 3.41	$ 3.00	$ 2.50
Dividends paid per common share	$ 1.060	$ 0.810	$ 0.625	$ 0.405	$ 0.195
Balance sheet data:					
Working capital	$ 1,562,235	$ 1,954,956	$ 2,272,125	$ 2,510,490	$ 2,087,056
Finance receivables held for sale	781,280	547,106	299,373	456,516	347,112
Finance receivables held for investment, net	2,420,327	2,280,217	1,943,224	1,655,784	1,390,737
Total assets	5,656,606	5,532,150	5,255,209	5,483,293	4,923,088
Current finance debt	1,119,955	832,491	204,973	495,441	324,305
Long-term finance debt	980,000	870,000	1,000,000	800,000	670,000
Total finance debt	2,099,955	1,702,491	1,204,973	1,295,441	994,305
Shareholders equity	2,375,491	2,756,737	3,083,605	3,218,471	2,957,692

(1) 2007, 2006 and 2005 results include the adoption of Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment effective January 1, 2005. See Note 8 of Notes to the Consolidated Financial Statements for further discussion.

(2) 2007 and 2006 results include the adoption of SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans as of December 31, 2006. See Note 6 of Notes to the Consolidated Financial Statements for further discussion.

Item 7. **Management s Discussion and Analysis of Financial Condition and Results of Operations**

Harley-Davidson, Inc. is the parent company for the group of companies doing business as Harley-Davidson Motor Company (HDMC), Buell Motorcycle Company (Buell) and Harley-Davidson Financial Services (HDFS). Harley-Davidson Motor Company produces heavyweight motorcycles and offers a line of motorcycle parts, accessories, general merchandise and related services. HDMC manufactures five families of motorcycles: Touring, Dyna , Softail®, Sportster® and VRSC . Buell produces premium sport performance motorcycles and offers a line of motorcycle parts, accessories, and apparel. HDFS provides wholesale and retail financing and insurance programs primarily to Harley-Davidson/Buell dealers and customers.

The % Change figures included in the Results of Operations section have been calculated using unrounded dollar amounts and may differ from calculations using the rounded dollar amounts presented.

Overview and Outlook[1]

The Company s net revenue for 2007 was $5.73 billion, a decrease of 1.3% compared to 2006 driven by a 5.3% decrease in wholesale shipments of Harley-Davidson® motorcycles from last year. Net income and diluted earnings per share for 2007 were down 10.5% and 4.8%, respectively, compared to 2006. The decrease in diluted earnings per share resulting from lower net income during 2007 was partially offset by the positive impact of fewer weighted-average shares outstanding when compared to last year. Diluted weighted-average shares outstanding were 15.4 million lower in 2007 compared to 2006 primarily due to the Company s repurchases of common stock occurring over 2007. During 2007, the Company repurchased 20.4 million shares of its common stock at a cost of $1.15 billion.

The Company s 2007 financial results were negatively impacted by a decrease in Harley-Davidson motorcycle shipments from 2006. During the first quarter of 2007, the Company lost four weeks of production as a result of a strike at its York, Pennsylvania assembly facility and related interruptions at its other manufacturing locations. Additionally, in early September 2007, the Company announced that it planned to reduce Harley-Davidson motorcycle shipments for the balance of 2007 due to a sharp decrease in U.S. retail sales of Harley-Davidson motorcycles during August and unfavorable economic conditions in the U.S. The Company believes that low consumer confidence and persistent housing and credit issues have resulted in a weak retail sales environment in the U.S. for major discretionary purchases, including Harley-Davidson motorcycles.

During the fourth quarter, worldwide retail sales of Harley-Davidson motorcycles finished down 6.1% from the fourth quarter of 2006. During the fourth quarter, U.S. retail sales of Harley-Davidson motorcycles continued to decrease, finishing the quarter down 14.2% compared to the fourth quarter of 2006. The decrease in U.S. retail sales was partially offset by increases in the Company s international markets where retail sales of Harley-Davidson motorcycles increased 17.4% during the fourth quarter of 2007 compared to the fourth quarter of 2006.

On an annual basis, 2007 worldwide retail sales of Harley-Davidson motorcycles decreased 1.8% compared to 2006. The worldwide decrease in retail sales was driven primarily by a 6.2% decrease in Harley-Davidson dealer retail sales in the U.S. International retail sales of Harley-Davidson motorcycles finished 2007 up 13.7% over 2006.

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(1) **Note Regarding Forward-Looking Statements**

The Company intends that certain matters discussed in this report are forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such by reference to this footnote or because the context of the statement will include words such as the Company believes, anticipates, expects, plans, 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 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.

For 2008, the Company plans to ship fewer Harley-Davidson motorcycles to its dealers than it expects its worldwide dealer network to sell. The Company also expects moderate revenue growth, lower operating margin, and diluted earnings per share growth rate of 4% to 7% compared to 2007. For the first quarter of 2008, the Company expects wholesale shipments of Harley-Davidson motorcycles to be between 68,000 and 72,000 units, which compares to 67,761 units in the first quarter of 2007.

Going forward, the Company will continue to manage the business to generate long-term sustainable shareholder value while protecting the brand. The Company expects the U.S. economy to continue to be very challenging in 2008. The Company will closely monitor the worldwide retail environment and regularly assess its wholesale shipment plans throughout the year.

As the Company executes its plans, the Company believes its business model will continue to generate cash, permitting it to invest in the business, fund future growth opportunities and return value to shareholders. The Company s expected annual capital expenditures are provided under Liquidity and Capital Resources.

Results of Operations 2007 Compared to 2006

Overall

Net revenue for 2007 totaled $5.73 billion, a $73.8 million or 1.3% decrease from the prior year. Net income was $933.8 million, a decrease of $109.3 million, or 10.5%. Diluted earnings per share were $3.74, a decrease of $0.19, or 4.8%. Diluted earnings per share during 2007 were positively impacted by a decrease in the weighted-average shares outstanding, which were 249.9 million in 2007 compared to 265.3 million in 2006. The decrease in weighted-average shares outstanding was driven by the Company s repurchases of 20.4 million shares of common stock during 2007. The Company s share repurchases are discussed in further detail under Liquidity and Capital Resources.

The Company paid dividends in 2007 of $.21 per share in March, $.25 per share in June and $.30 in September and December. The aggregate annual dividend paid in 2007 was $1.06 per share, a 30.9% increase over the aggregate annual dividend of $0.81 per share in 2006.

Motorcycle Unit Shipments and Net Revenue

The following table includes wholesale motorcycle unit shipments and net revenue for the Motorcycles segment (dollars in millions):

	2007	2006	(Decrease) Increase	% Change
Motorcycle Unit Shipments				
United States	241,539	273,212	(31,673)	(11.6)%
International	89,080	75,984	13,096	17.2
Harley-Davidson motorcycle units	330,619	349,196	(18,577)	(5.3)
Touring motorcycle units	114,076	123,444	(9,368)	(7.6)
Custom motorcycle units*	144,507	161,195	(16,688)	(10.4)
Sportster motorcycle units	72,036	64,557	7,479	11.6
Harley-Davidson motorcycle units	330,619	349,196	(18,577)	(5.3)
Buell motorcycle units	11,513	12,460	(947)	(7.6)%
Net Revenue				
Harley-Davidson motorcycles	$ 4,446.6	$ 4,553.6	$ (107.0)	(2.3)%
Buell motorcycles	100.5	102.2	(1.7)	(1.7)
Total motorcycles	4,547.1	4,655.8	(108.7)	(2.3)
Parts & Accessories	868.3	862.3	6.0	0.7
General Merchandise	305.4	277.5	27.9	10.1
Other	6.0	5.1	0.9	N/M
Net revenue	$ 5,726.8	$ 5,800.7	$ (73.9)	(1.3)%

* Custom motorcycle units, as used in this table, include Dyna, Softail, VRSC and CVO models.

During 2007, the financial results of the Motorcycle segment were negatively impacted by a decline in wholesale shipments of Harley-Davidson motorcycle units. This decrease was driven by a 31,673 unit reduction in shipments to U.S. dealers that were partially offset by a 13,096 unit increase in shipments outside the U.S. International shipments represented 26.9% of total Harley-Davidson wholesale shipments for 2007, compared to 21.8% for 2006. The increase in international shipments is consistent with the Company s expectation that the international shipment growth rate will outpace the domestic shipment growth rate.[(1)]

Motorcycles segment net revenue declined $73.9 million, or 1.3%. Net revenue was approximately $221 million lower due to an overall decrease in sales volumes from the prior year. The lower volumes were primarily driven by the 5.3% decrease in Harley-Davidson motorcycle unit shipments partially offset by higher sales volumes for General Merchandise. Net revenue was also negatively impacted during 2007 by higher sales incentive costs.

These decreases were partially offset by higher revenue from wholesale price increases on Harley-Davidson motorcycles of approximately $60 million, favorability resulting from changes in foreign currency exchange rates of approximately $87 million (driven primarily by the strengthening of the Euro against the U.S. dollar during 2007) and changes to product mix which resulted in higher revenue of approximately $16 million.

During 2007, the higher revenue resulting from changes in product mix was due primarily to mix changes that occurred within the motorcycle families and by the sale of higher priced 105th Anniversary models beginning in the second half of 2007. The positive revenue impact that resulted from mix changes within motorcycle families was partially offset by lower revenue resulting from changes in mix between motorcycle families.

During 2007, shipments of Touring models made up 34.5% of total shipments compared to 35.4% for 2006. Additionally, 2007 shipments of Custom motorcycles made up 43.7% of total shipments compared to 46.2% for 2006, while Sportster model shipments increased to 21.8% of total shipments from 18.5% in 2006.

Harley-Davidson Motorcycle Retail Sales

The Company sells its motorcycles at wholesale to an independent network of distributors and dealers who in turn sell the Company s products at retail. Worldwide retail sales of Harley-Davidson motorcycles decreased 1.8% during 2007 relative to the same period last year. Retail sales of Harley-Davidson motorcycles decreased 6.2% in the United States while growing 13.7% internationally including a 15.0% increase in Europe. On an industry-wide basis in 2007, the heavyweight (651+cc) portion of the market was down 5.0% in the United States while growing 5.4% in Europe when compared to 2006.

The following table includes retail unit sales of Harley-Davidson motorcycles (units in thousands):

Harley-Davidson Motorcycle Retail Sales[(a)]

Heavyweight (651+cc)

	2007	**2006**

			% Change
United States	251.8	268.4	(6.2)%
Europe[b]	38.9	33.8	15.0
Japan	13.8	13.3	3.6
Canada	14.8	13.5	9.4
All other markets	18.5	15.0	23.7
Total Retail Sales	337.8	344.0	(1.8)%

(a) Data source for retail sales figures shown above is sales warranty and registration information provided by Harley-Davidson dealers and compiled by the Company. The Company must rely on information that its dealers supply concerning retail sales and this information is subject to revision. Only Harley-Davidson motorcycles are included in the Harley-Davidson Motorcycle Retail Sales data.

(b) Europe data includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

The following table includes industry retail motorcycle registration data (units in thousands):

	2007	2006	% Change
United States[(a)]	516.1	543.0	(5.0)%
Europe[(b)]	403.0	376.8	7.0%

(a) U.S. industry data includes 651+cc models derived from submission of motorcycle retail sales by each major manufacturer to an independent third party.

(b) Europe data includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom. Industry retail motorcycle registration data includes 651+cc models derived from information provided by Giral S.A., an independent agency.

Industry retail registration data for the remaining international markets has not been presented because the Company does not believe definitive and reliable registration data is available to the Company at this time.

Cost of Goods Sold

Cost of goods sold was $3.61 billion for the Motorcycles segment during 2007, an increase of $44.9 million, or 1.3% versus 2006. During 2007, cost of goods sold was higher due to an increased manufacturing cost per unit, foreign currency losses and changes in product mix. These increases in cost were partially offset by a decrease in cost resulting from the lower shipment volumes in 2007.

Cost of goods sold increased by approximately $123 million due to a higher average manufacturing cost per unit driven by increases in both material and conversion costs. The higher average material cost per unit was driven by higher raw material surcharges of approximately $31 million and increased product content. The increase in conversion cost per unit was driven by higher fixed costs per unit resulting from the allocation of these costs to fewer units in 2007 and other manufacturing inefficiencies experienced during 2007 including those associated with the 2008 new model year launch and the York, Pennsylvania assembly plant strike during February 2007. During 2007, cost of goods sold was also higher by approximately $44 million resulting from changes in foreign currency exchange rates and approximately $4 million related to changes in product mix.

The decrease in cost of goods sold during 2007 resulting from lower shipments, partially offsetting the increased costs described above, was approximately $126 million.

Gross Profit

Gross profit was $2.11 billion for the Motorcycles segment during 2007, a decrease of $118.7 million or 5.3% compared to 2006. Gross profit margin for 2007 was 36.9% compared to 38.5% during 2006. The Company s gross margin was negatively impacted during 2007 by a higher manufacturing cost per unit and higher sales incentive costs partially offset by the favorable impact of higher wholesale prices, changes resulting from foreign currency exchange rates and changes to product mix. The factors impacting the change in gross margin are detailed under Motorcycle Unit Shipments and Net Revenue and Cost of Goods Sold above.

Financial Services

The following table includes the condensed statements of operations for the Financial Services segment (in millions):

		2007		2006		Increase (Decrease)	% Change
Interest income	$	196.8	$	167.5	$	29.3	17.5%
Income from securitizations		97.6		111.2		(13.6)	(12.2)
Other income		121.8		106.2		15.6	14.7
Financial services income		416.2		384.9		31.3	8.1
Interest expense		81.5		59.8		21.7	36.3
Operating expenses		122.5		114.4		8.1	7.1
Financial services expense		204.0		174.2		29.8	17.1
Operating income from financial services	$	212.2	$	210.7	$	1.5	0.7%

Interest income increased due to higher average retail and wholesale outstanding receivables. The increase in other income was primarily due to higher credit card licensing income, securitization servicing income and insurance commission revenue. Interest expense was higher due to increased borrowings to support growth in outstanding receivables and higher borrowing rates.

Income from securitizations decreased as higher securitization gains were offset by a reduction in income from retained securitization interests. During 2007, HDFS sold $2.53 billion in retail motorcycle loans through securitization transactions resulting in gains of $36.0 million. This compares with gains of $32.3 million on $2.33 billion of loans securitized during 2006. The 2007 gain as a percentage of loans sold was 1.42% as compared to 1.39% for 2006. Income on the investment in retained securitization interests decreased to $61.6 million from $78.9 million. The reduction in income was due to higher than projected credit losses used in the valuation of retained securitization interests as well as $9.9 million in write downs of certain retained securitization interests. The write downs, which occurred in March and December of 2007 and are considered permanent impairments, result from a decline in the fair value of certain retained securitization interest due to higher actual and anticipated credit losses on those securitization portfolios, partially offset by a slowing in actual and expected prepayment speeds.

The capital markets, which HDFS relies on to fund its portfolio growth, experienced significant volatility over the later half of 2007. Currently HDFS plans to securitize its retail motorcycle portfolio in 2008, but will continue to evaluate various funding alternatives, and will adjust as necessary, based on market conditions. Until the current capital market conditions normalize, gains on securitization transactions in 2008, if any, are expected to be lower than historical results.(1) During February 2008, HDFS completed the sale of $540.0 million in retail motorcycle loans through a securitization transaction resulting in an estimated loss of $4.1 million to $5.4 million.(1) As part of the transaction, HDFS retained $54.0 million of subordinated securities.

Annualized losses on HDFS managed retail motorcycle loans totaled 1.91% in 2007 compared to 1.41% for 2006. Managed retail loans include loans held by HDFS as well as those sold through securitization transactions. The 30-day delinquency rate for managed retail motorcycle loans at December 31, 2007 increased to 6.15% from 5.18% at December 31, 2006. This increase in losses is primarily due to an increase in delinquent accounts resulting in a higher incidence of loss as well as continued pressure on values for repossessed motorcycles. As a result, it is expected that HDFS will experience higher credit losses as a percentage of managed retail motorcycle loans in 2008 as compared to 2007.(1)

Changes in the allowance for credit losses were as follows (in millions):

	2007	2006
Balance, beginning of period	$ 27.3	$ 26.2
Provision for finance credit losses	11.2	5.9
Charge-offs, net of recoveries	(8.2)	(4.8)
Balance, end of period	$ 30.3	$ 27.3

HDFS periodic evaluation of the adequacy of the allowance for credit losses is generally based on HDFS past loan loss experience, known and inherent risks in the portfolio and current economic conditions. HDFS believes the allowance is adequate to cover the losses of principal and accrued interest in the existing portfolio.

Operating Expenses

The following table includes operating expenses for the Motorcycles segment and Corporate (in millions):

	2007	2006	Increase (Decrease)	% Change
Motorcycles and Related Products				
Selling & Administrative	$ 692.8	$ 637.5	$ 55.3	8.7%
Engineering	190.6	186.2	4.4	2.4
Corporate	17.3	22.7	(5.4)	(23.5)
Total operating expenses	$ 900.7	$ 846.4	$ 54.3	6.4%

Total operating expenses were 15.7% and 14.6% of net revenue for 2007 and 2006, respectively.

Selling and administrative expenses were higher due primarily to increased marketing costs and higher international operating costs in connection with the Company s growth in those markets combined with unfavorable changes in foreign currency exchange rates. These cost increases were partially offset by a decrease in expense associated with the Company s short-term incentive compensation programs.

Investment Income, Net

Investment income, net in 2007 was $22.3 million, compared to $27.1 million in 2006. Net investment income decreased due primarily to lower average short-term investment balances in 2007 when compared to 2006.

Provision for Income Taxes

The Company s effective income tax rate was 35.5% during 2007 compared to 35.8% in 2006. The decrease is due primarily to a higher benefit from the domestic manufacturing deduction and slightly lower state income taxes in 2007.

Results of Operations 2006 Compared to 2005

Overall

Net revenue for 2006 totaled $5.80 billion, a $458.5 million or 8.6% increase over the prior year. Net income for 2006 was $1.04 billion, an increase of $83.5 million, or 8.7%. Diluted earnings per share were $3.93, representing an increase of $0.52, or 15.2%. Diluted earnings per share were positively impacted during 2006 by a decrease in the weighted-average shares outstanding, which were 265.3 million in 2006 compared to 281.0 million in 2005. The decrease in weighted-average shares outstanding was due primarily to the Company s share repurchases. The Company repurchased 19.3 million shares of common stock during 2006.

The Company paid dividends in 2006 of $.18 per share in March and $.21 per share in June, September and December. The aggregate annual dividend paid in 2006 was $.81 per share, representing a 29.6% increase over the aggregate annual dividend of $.625 per share in 2005.

Motorcycle Unit Shipments and Net Revenue

The following table includes wholesale motorcycle unit shipments and net revenue for the Motorcycles segment (dollars in millions):

	2006	2005	Increase (Decrease)	% Change
Motorcycle Unit Shipments				
United States	273,212	266,507	6,705	2.5%
International	75,984	62,510	13,474	21.6
Harley-Davidson motorcycle units	349,196	329,017	20,179	6.1
Touring motorcycle units	123,444	110,193	13,251	12.0
Custom motorcycle units*	161,195	148,609	12,586	8.5
Sportster motorcycle units	64,557	70,215	(5,658)	(8.1)
Harley-Davidson motorcycle units	349,196	329,017	20,179	6.1
Buell motorcycle units	12,460	11,166	1,294	11.6%
Net Revenue				
Harley-Davidson motorcycles	$ 4,553.6	$ 4,183.5	$ 370.1	8.8%
Buell motorcycles	102.2	93.1	9.1	9.8
Total motorcycles	4,655.8	4,276.6	379.2	8.9
Parts & Accessories	862.3	815.7	46.6	5.7
General Merchandise	277.5	247.9	29.6	12.0
Other	5.1	2.0	3.1	N/M
Net revenue	$ 5,800.7	$ 5,342.2	$ 458.5	8.6%

* Custom motorcycle units, as used in this table, include Dyna, Softail, VRSC and CVO models.

During 2006, the Company shipped 349,196 Harley-Davidson motorcycles, an increase of 20,179 or 6.1%, over 2005 shipments. International shipments grew faster than U.S. shipments with an increase of 21.6% in 2006, compared to a 2006 U.S. shipment increase of 2.5%. As a result, international shipments represented 21.8% of total Harley-Davidson wholesale shipments in 2006, compared to 19.0% in 2005.

During 2006, net revenue for the Motorcycles segment grew 8.6% or $458.5 million over 2005. Approximately $350 million of the increase in net revenue resulted from the higher shipment volumes of motorcycles and related products. Net revenue also benefited from a favorable change in product mix and wholesale price increases. The changes to product mix resulted in approximately $70 million of higher revenue and related primarily to an increase in the percentage of shipments consisting of higher-priced touring motorcycles. Touring motorcycles made up 35.4% of shipments in 2006 compared to 33.5% in 2005. Wholesale price increases on Harley-Davidson motorcycles resulted in approximately $45 million of higher revenue. Changes in foreign currency exchange rates resulted in approximately $10 million of lower net revenue.

Harley-Davidson Motorcycle Retail Sales

Worldwide retail sales of Harley-Davidson motorcycles grew 8.5% during 2006 over the prior year. Retail sales of Harley-Davidson motorcycles increased 5.9% in the United States and 18.6% internationally. On an industry-wide basis, the heavyweight (651+cc) portion of the market was up 4.9% in the United States and up 7.5% in Europe. The following table includes retail unit sales of Harley-Davidson motorcycles (units in thousands):

Harley-Davidson Motorcycle Retail Sales[a]

Heavyweight (651+cc)

	2006	2005	Change
United States	268.4	253.4	5.9%
Europe[b]	33.8	29.5	14.6
Japan	13.3	11.4	16.3
Canada	13.5	11.7	15.9
All other markets	15.0	11.2	34.3
Total Retail Sales	344.0	317.2	8.5%

(a) Data source for retail sales figures shown above is sales warranty and registration information provided by Harley-Davidson dealers and compiled by the Company. The Company must rely on information that its dealers supply concerning retail sales and this information is subject to revision. Only Harley-Davidson motorcycles are included in the Harley-Davidson Motorcycle Retail Sales data.

(b) Europe data includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

The following table includes industry retail motorcycle registration data (units in thousands):

	2006	2005	Change
United States[a]	543.0	517.6	4.9%
Europe[b]	376.8	350.7	7.4%

(a) U.S. industry data includes 651+cc models derived from submission of motorcycle retail sales by each major manufacturer to an independent third party.

(b) Europe data includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom. Industry retail motorcycle registration data includes 651+cc models derived from information provided by Giral S.A., an independent agency.

Industry retail registration data for the remaining international markets has not been presented because the Company does not believe definitive and reliable registration data is available to the Company at this time.

Cost of Goods Sold

Cost of goods sold for the Motorcycles segment increased $266.1 million over 2005, due primarily to the increase in shipment volumes for motorcycles and related products. Higher volumes resulted in an increase in cost of goods sold of approximately $225 million. Cost of goods sold was also higher due to changes in product mix and increases in material costs, partially offset by lower foreign currency losses. Changes in Harley-Davidson motorcycle product mix resulted in approximately $35 million of higher costs and increases in raw material costs, primarily for metals, were approximately $15 million. Finally, net foreign currency transaction and hedging gains resulted in approximately $35 million of lower cost during 2006.

Gross Profit

Gross profit was $2.23 billion for the Motorcycles segment during 2006, an increase of $192.3 million or 9.4% over gross profit in 2005. Gross profit margin for 2006 was 38.5% compared to 38.3% during 2005. The increase in gross margin was due primarily to wholesale price increases on Harley-Davidson motorcycles, favorable Harley-Davidson motorcycle product mix and favorable changes in foreign currency exchange rates, as detailed under Revenue and Cost of Goods Sold above.

Financial Services

The following table includes the condensed statements of operations for the Financial Services segment (in millions):

	2006	2005	Increase (Decrease)	% Change
Interest income	$ 167.5	$ 129.9	$ 37.6	29.0%
Income from securitizations	111.2	123.1	(11.9)	(9.7)
Other income	106.2	78.6	27.6	35.1
Financial services income	384.9	331.6	53.3	16.1
Interest expense	59.8	36.2	23.6	65.3
Operating expenses	114.4	103.8	10.6	10.2
Financial services expense	174.2	140.0	34.2	24.4
Operating income from financial services	$ 210.7	$ 191.6	$ 19.1	10.0%

During 2006, interest income benefited from increased retail and wholesale average outstanding receivables and higher retail and wholesale lending rates as compared to 2005. The increase in other income was primarily due to higher revenues from insurance commissions and related products and an increase in securitization servicing fee income. Interest expense was higher due to increased borrowings, in support of higher average outstanding receivables, and higher borrowing costs.

Income from securitizations in 2006 was lower due to lower gains on 2006 securitization transactions, partially offset by an increase in income on the investment in retained securitization interests. During 2006, income on the investment in retained securitization interests was $78.9 million, an increase of $2.3 million over 2005.

During 2006, HDFS sold $2.33 billion in retail motorcycle loans through securitization transactions resulting in gains of $32.3 million. This compares with gains of $46.6 million on $2.48 billion of loans securitized during 2005. The 2006 gain as a percentage of loans sold was 1.4% as compared to 1.9% for 2005. The 2006 gain as a percentage of the amount of loans securitized was lower than the prior year due to rising market interest rates and the competitive environment for motorcycle lending.

In addition, during 2006, other comprehensive income includes unrealized losses of $20.9 million (pre-tax) related to a decrease in the unrealized gain on the investment in retained securitization interests due primarily to higher expected losses on prior year securitization transactions.

Annualized losses on HDFS managed retail motorcycle loans totaled 1.41% in 2006 compared to 1.29% for the same period in 2005. This increase in losses reflected continued pressure on values for repossessed motorcycles. Managed retail loans include loans held by HDFS which are retained on the balance sheet as well as those sold through securitization. The 30-day delinquency rate for managed retail motorcycle loans at December 31, 2006 increased to 5.18% from 4.83% at December 31, 2005.

Changes in the allowance for credit losses were as follows (in millions):

	2006	2005
Balance, beginning of period	$ 26.2	$ 30.3
Provision for finance credit losses	5.9	3.3
Charge-offs, net of recoveries	(4.8)	(7.4)
Balance, end of period	$ 27.3	$ 26.2

Operating Expenses

The following table includes operating expenses for the Motorcycles segment and Corporate (in millions):

	2006	2005	Increase	% Change
Motorcycles and Related Products				
Selling & Administrative	$ 637.5	$ 559.5	$ 78.0	14.0%
Engineering	186.2	186.2	0.0	0.0
Corporate	22.7	21.5	1.2	5.6
Total operating expenses	$ 846.4	$ 767.2	$ 79.2	10.3%

Total operating expenses were 14.6% and 14.4% of net revenue for 2006 and 2005, respectively.

During 2006, selling expenses were higher than the prior year due primarily to higher marketing and advertising expenses combined with increased international operating costs in connection with the Company s growth in those markets.

The increase in administrative expenses during 2006 was driven primarily by a higher provision for future warranty costs which was approximately $44 million higher. The increase in warranty costs was due primarily to higher costs associated with the Company s second year warranty program and higher product program costs. Beginning with shipments of 2004 model year motorcycles, the Company extended its warranty coverage from one to two years. During 2006, additional claims data became available which indicated that the cost of the second year warranty was higher than originally estimated. Based on the higher actual claims, the Company adjusted warranty reserves for the motorcycles affected, which were primarily 2004, 2005 and 2006 models. In addition, the Company announced a number of product programs during 2006 to address customer concerns and promote customer satisfaction. Under a product program, the Company contacts retail customers directly and pays for non-safety related improvements that are covered by the Company s standard warranty.

Investment Income, Net

Investment income, net in 2006 was $27.1 million, compared to $22.8 million in 2005. Net investment income was higher primarily due to a higher average return.

Provision for Income Taxes

The Company s effective income tax rate was 35.8% during 2006 compared to 35.5% in 2005. This increase was due primarily to a relatively smaller benefit from the federal research and development tax credit and slightly higher state income taxes.

Other Matters

Accounting Changes

In June 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company adopted the provisions of FIN 48 on January 1, 2007. See Note 4 of Notes to the Consolidated Financial Statements for further discussion of the effect of adopting FIN 48 on the Company s consolidated financial statements and notes thereto.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R). SFAS No. 158 requires employers that sponsor defined benefit pension and postretirement benefit plans to recognize previously unrecognized actuarial losses and prior service costs in the statement of financial position and to recognize future changes in these amounts in the year in which changes occur through comprehensive income. As a result, the statement of financial position will reflect the funded status (the difference between the projected benefit obligation and the fair value of plan assets) of those plans as an asset or liability. Additionally, employers are required to measure the funded status of a plan as of the date of its year-end statement of financial position. The Company adopted SFAS No. 158, as it relates to recognizing the funded status of its defined benefit pension and postretirement benefit plans, and the related disclosure requirements, as of December 31, 2006. See Note 6 of Notes to the Consolidated Financial Statements for further discussion of the effect of adopting SFAS No. 158 on the Company s consolidated financial statements and notes thereto. The requirement to measure the funded status as of the date of the year-end statement of financial position is required by December 31, 2008. The Company is currently evaluating the impact the change in the measurement date will have on its consolidated financial statements and notes thereto.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS 157 establishes a framework for measuring fair value in generally accepted accounting principles, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. SFAS 157 applies to fair value measurements required by existing accounting pronouncements and does not require any new fair value measurements. The Company is required to adopt SFAS 157 beginning in fiscal year 2008 and the impact that the adoption of SFAS 157 will have on its consolidated financial statements is expected to be immaterial.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. The Company is required to adopt SFAS 159 beginning in fiscal year 2008. The Company does not expect to elect the fair value option permitted under SFAS 159 so adoption will have no impact on its consolidated financial statements.

Critical Accounting Estimates

The Company s financial statements are based on the selection and application of significant accounting policies, which require management to make significant estimates and assumptions. Management believes that the following are some of the more critical judgment areas in the application of accounting policies that currently affect the Company s financial condition and results of operations.

Finance Receivable Securitizations The Company sells retail motorcycle loans through securitization transactions utilizing qualifying special purpose entities (QSPEs) as defined by SFAS No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Upon sale of retail loans in a securitization transaction, HDFS receives cash and retains an interest in excess cash flows, servicing rights and cash reserve account deposits, all of which are collectively referred to as retained interests in the securitized receivables. Retained interests are carried at fair value and are periodically reviewed for impairment. Market value quotes are generally not available for retained interests; therefore, HDFS estimates fair value based on the present value of future expected cash flows using management s best estimates of the key assumptions for credit losses, prepayment speeds and discount rates. The impact of changes to key assumptions is shown in Note 3 of Notes to the Consolidated Financial Statements.

Gains or losses on current year securitizations from the sale of retail loans are recorded as a component of financial services income and are based in part on certain assumptions including expected credit losses, prepayment speed, and discount rates. Gains or losses on sales of retail loans also depend on the original carrying amount of the retail loans, which is allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer.

Finance Receivable Credit Losses The allowance for uncollectible accounts is maintained at a level management believes is adequate to cover the losses of principal in the existing finance receivables portfolio. Management s periodic evaluation of the adequacy of the allowance is generally based on HDFS past loan loss experience, known and inherent risks in the portfolio, current economic conditions, specific borrower s ability to repay and the estimated value of any underlying collateral.

Product Warranty Estimated warranty costs are reserved for each motorcycle at the time of sale. The warranty reserve is an estimated cost per unit sold based upon historical Company claim data used in combination with other known factors that may affect future warranty claims. The Company updates its warranty estimates quarterly to ensure that the warranty reserves are based on the most current information available.

The Company believes that past claim experience is indicative of future claims, however, the factors affecting actual claims can be volatile. As a result, actual claims experience may differ from estimated which could lead to material changes in the Company s warranty provision and related reserves. The Company s warranty liability is discussed further in Note 1 of Notes to the Consolidated Financial Statements.

Pensions and Other Postretirement Benefits Retirement Plan (Pension, SERPA and Postretirement healthcare) obligations and costs are developed from actuarial valuations. The valuation of benefit obligations and net periodic benefit costs relies on key assumptions including discount rates, long-term expected return on plan assets, future compensation and healthcare cost trend rates. The Company evaluates and updates all of its assumptions annually on September 30, the actuarial measurement date.

The Company determines its discount rate assumptions by referencing high-quality long-term bond rates that are matched to the duration of its own benefit obligations. Based on this analysis, the discount rate was increased from 5.90% as of September 30, 2006 to 6.30% as of September 30, 2007. The Company determines its healthcare trend assumption by considering factors such as estimated healthcare inflation, the utilization of healthcare benefits and changes in the health of plan participants. Based on the Company s assessment of this data as of September 30, 2007, the Company lowered its healthcare cost trend rate to 9% from 10% as of September 30, 2006. The Company expects the healthcare cost trend rate to reach its ultimate rate of 5% beginning in 2011. These assumption changes were reflected immediately in the benefit obligation and will be amortized into net periodic benefit costs over future periods.

The following information is provided to illustrate the sensitivity of pension and postretirement healthcare obligations and costs to changes in these major assumptions (in thousands):

	Amounts based on current assumptions	Impact of a 1% decrease in the discount rate	Impact of a 1% increase in the healthcare cost trend rate
2007 Net periodic benefit costs			
Pension and SERPA	$ 48,940	$ 20,612	n/a
Postretirement healthcare	$ 28,290	$ 2,722	$ 1,485
2007 Benefit obligations			
Pension and SERPA	$ 1,033,635	$ 151,904	n/a
Postretirement healthcare	$ 332,139	$ 34,792	$ 12,375

This information should not be viewed as predictive of future amounts. The calculation of Retirement Plan obligations and costs is based on many factors in addition to those discussed here. This information should be considered in combination with the information provided in Note 6 of Notes to the Consolidated Financial Statements.

<u>Stock Compensation Costs</u> The total cost of the Company s share-based awards is equal to the grant date fair value per award multiplied by the number of awards granted (adjusted for forfeitures). This cost is recognized as expense on a straight-line basis over the service periods of the awards. Forfeitures are initially estimated based on historical Company information and subsequently updated over the life of the awards to ultimately reflect actual forfeitures. As a result, changes in forfeiture activity can influence the amount of stock compensation cost recognized from period to period.

The Company generally determines the number of share-based awards granted by first determining the total cost of the award, which is a function of employee salary, level and performance. On the date of grant, the number of awards granted is then computed by dividing the total cost of the award by the grant-date fair value of the award unit.

The Company estimates the fair value of option awards as of the grant date using a lattice-based option valuation model which utilizes ranges of assumptions over the expected term of the options, including stock price volatility, dividend yield and risk free interest rate.

- The valuation model uses historical data to estimate option exercise behavior and employee terminations. The expected term of options granted is derived from the output of the option valuation model and represents the average period of time that options granted are expected to be outstanding.

- The Company used implied volatility to determine the expected volatility of its stock in 2007. In 2006 and 2005, expected volatilities were based on the historical volatility of the Company s stock. The Company believes that implied volatilities provide a better estimate of expected volatilities because it takes into account both historical and future expectations of volatility. The implied volatility is derived from options that are actively traded and the market prices of both the traded options and underlying shares are measured at a similar point in time to each other and on a date reasonably close to the grant date of the employee share options. In addition, the traded options have exercise prices that are both (a) near-the-money and (b) close to the exercise price of the employee share options. Finally, the remaining maturities of the traded options on which the estimate is based are at least one year.

• Dividend yield was based on the Company s expected dividend policy and the risk-free rate was based on the U.S. Treasury yield curve in effect at the time of grant.

Changes in the valuation assumptions could result in a significant change to the cost of an individual option.

However, the total cost of an award is also a function of the number of awards granted, and as result, the Company has the ability to manage the cost and value of its equity awards by adjusting the number of awards granted.

Income Taxes The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and other loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

In calculating the provision for income taxes on an interim basis, the Company uses an estimate of the annual effective tax rate based upon the facts and circumstances known at each interim period. On a quarterly basis, the actual effective tax rate is adjusted as appropriate based upon the actual results as compared to those forecasted at the beginning of the fiscal year.

The Company is subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgment is required in determining the Company s worldwide provision for income taxes and recording the related deferred tax assets and liabilities. In the ordinary course of the Company s business, there are many transactions and calculations where the ultimate tax determination is uncertain. Accruals for unrecognized tax benefits are provided for in accordance with the requirements of FIN 48, Accounting for Uncertainty in Income Taxes. An unrecognized tax benefit represents the difference between the recognition of benefits related to exposure items for income tax reporting purposes and financial reporting purposes. The unrecognized tax benefit is classified as a component of the income taxes payable account, which is included within Other long-term liabilities in the Consolidated Balance Sheets. The Company has a reserve for interest and penalties on exposure items, if applicable, which is recorded as component of the overall income tax provision. The Company is regularly under audit by tax authorities. Although the outcome of tax audits is always uncertain, management believes that it has appropriate support for the positions taken on its tax returns and that its annual tax provision includes amounts sufficient to pay any assessments. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year.

Contractual Obligations

A summary of the Company s expected payments for significant contractual obligations as of December 31, 2007 is as follows (in thousands):

	2008	2009 - 2010	2011 - 2012	Thereafter	Total
Principal payments on finance debt	$ 1,119,955	$ 580,448	$ 399,552		$ 2,099,955
Interest payments on finance debt	73,844	74,781	41,923		190,548
Operating lease payments	10,026	12,728	9,229	$ 14,572	46,555
	$ 1,203,825	$ 667,957	$ 450,704	$ 14,572	$ 2,337,058

- As described in Note 3 of Notes to the Consolidated Financial Statements, as of December 31, 2007, long term finance debt issued by HDFS included outstanding commercial paper and advances under the Global Credit Facility totaling $376.7 million. The amount classified as long term is supported by the Global Credit Facility, due September 2009; accordingly, the Company has assumed that this amount will be repaid in 2009.

- Interest obligations include the impact of interest rate hedges outstanding as of December 31, 2007. Interest for floating rate instruments, as calculated above, assumes December 31, 2007 rates remain constant.

- As of December 31, 2007, the Company had no material purchase obligations other than those created in the ordinary course of business related to inventory and property, plant and equipment which generally have terms of less than 90 days.

- The Company has long-term obligations related to its pension and postretirement plans at December 31, 2007. Due to the current funded status of the pension plans, the Company has no minimum funding requirements for 2008. The Company s expected future contributions to these plans are provided in Note 6 of Notes to the Consolidated Financial Statements.

- As described in Note 4 of Notes to the Consolidated Financial Statements, the Company has unrecognized tax benefits of $72.5 million and accrued interest and penalties of $17.1 million as of December 31, 2007. However, the Company cannot make a reasonably reliable estimate for the period of cash settlement for either the $72.5 million of liability of unrecognized tax benefits or accrued interest and penalties of $17.1 million.

Off-Balance Sheet Arrangements

As part of its securitization program, HDFS transfers retail motorcycle loans to a special purpose bankruptcy-remote wholly-owned subsidiary. The subsidiary sells the retail loans to a securitization trust in exchange for the proceeds from asset-backed securities issued by the securitization trust. The asset-backed securities, usually notes with various maturities and interest rates, are secured by future collections of the purchased retail installment loans. Activities of the securitization trust are limited to acquiring retail loans, issuing asset-backed securities and making payments on securities to investors. Due to the nature of the assets held by the securitization trust and the limited nature of its activities, the securitization trusts are considered QSPEs as defined by SFAS No. 140. In accordance with SFAS No. 140, assets and liabilities of the QSPEs are not consolidated in the financial statements of the Company.

HDFS does not guarantee payments on the securities issued by the securitization trusts or the projected cash flows from the related loans purchased from HDFS. The Company s retained securitization interests, excluding servicing rights, are subordinate to the interests of securitization trust investors. Such investors have priority interests in the cash collections on the retail loans sold to the securitization trust (after payment of servicing fees) and in the cash reserve account deposits. These priority interests ultimately could impact the value of the Company s investment in retained securitization interests. Investors also do not have recourse to assets of HDFS for failure of the obligors on the retail loans to pay when due. Total investment in retained securitization interests at December 31, 2007 was $407.7 million. The securitization trusts have a limited life and generally terminate upon final distribution of amounts owed to the investors in the asset-backed securities. See Note 3 of Notes to the Consolidated Financial Statements for further discussion of HDFS securitization program.

Commitments and Contingencies

The Company is subject to lawsuits and other claims related to environmental, product and other matters. In determining required reserves related to these items, the Company carefully analyzes cases and considers the likelihood of adverse judgments or outcomes, as well as the potential range of possible loss. The required reserves are monitored on an ongoing basis and are updated based on new developments or new information in each matter.

<u>Shareholder Lawsuits:</u>