HARLEY DAVIDSON INC
Form 10-K
February 27, 2007

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, 2006

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

(414) 342-4680

Registrants telephone number:

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 oNo 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. [ ]

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

Large accelerated filer (X) Accelerated filer ( ) Non-accelerated filer ( )

Indicate by check mark whether the registrant is a shell company, as defined in Rule 12b-2 of the Exchange Act.

Yeso No x

Aggregate market value of the voting stock held by non-affiliates of the registrant at June 23, 2006: $13,839,390,264

Number of shares of the registrant s common stock outstanding at February 19, 2007: 257,553,216 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 28, 2007.

Harley-Davidson, Inc.

Form 10-K

For The Year Ended December 31, 2006

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 footnote or because the context of the statement will include words such as the Company believes, anticipates, expects, plans, or estimates o words of similar meaning. Similarly, statements that describe future plans, objectives, outlooks, targets, guidance or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this report. Certain of such risks and uncertainties are described in close proximity to such statements or elsewhere in this report, including under the caption Risk Factors in Item 1A of this report and under Cautionary Statements in Item 7 of this report. Shareholders, potential investors, and other readers are urged to consider these factors in evaluating the forward-looking statements and cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in this report are made only as of the date of the filing of this report (February 27, 2007), 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 complete line of motorcycle parts, accessories, clothing and collectibles. 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 2006, the Company s market share, based on retail registrations of new Harley-Davidson motorcycles, was 49.3% in the United States (data provided by the Motorcycle Industry Council).

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 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 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 2006, 2005 and 2004, 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 1800cc s.

The Motor Company s 2007 model year line up includes 35 models of Harley-Davidson heavyweight motorcycles, with domestic manufacturer s suggested retail prices ranging from $6,595 to $20,195. 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 $33,495.

The average U.S. retail purchaser of a new Harley-Davidson motorcycle is a married male in his mid-forties (two-thirds of these purchasers are between the ages of 35 and 54) with a median household income of approximately $81,700. These customers generally purchase a motorcycle for recreational purposes rather than to provide transportation. Nearly two-thirds 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: 2006 Company studies)

The Company s Buell® motorcycle products emphasize innovative design, responsive handling and overall performance. Buell currently manufactures and sells ten models, including nine heavyweight models in its XB family, 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 $11,495. During 2006, Buell produced a limited production race-only motorcycle (XBRR) powered by a 1339cc air-cooled, 45-degree twin cylinder boasting a peak output rating of over 150 horsepower. The XBRR domestic manufacturer s suggested retail price is $30,995. 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 male at the age of 42 with a household income of approximately $94,800. Approximately 3% of all new Buell XB U.S. retail motorcycle sales are to females. The average U.S. retail purchaser of a new Buell Blast is at the age of 41, with nearly one-half of them being female. Half of new Buell Blast purchasers have never owned a motorcycle before and 95% of them had never owned a Buell motorcycle before. (Source: 2006 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)

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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 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, VRSC and Sportster families of motorcycles. The standard and performance segments of the market are served primarily by the Company s Buell motorcycle line.

In the United States, suggested retail prices for the Company s Harley-Davidson motorcycles range from being comparable to 50% 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 higher 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 2006 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 90%. Research completed by the Company in 2006 shows that approximately 52% of all retail purchasers of new Harley-Davidson motorcycles in the United States had previously owned a Harley-Davidson motorcycle.

Parts & Accessories The major Parts and Accessories (P&A) products are replacement parts (Genuine Motor Parts) and mechanical and cosmetic accessories (Genuine Motor Accessories). Worldwide P&A net revenue comprised 14.9%, 15.3% and 15.6% of net revenue in the Motorcycles segment in 2006, 2005 and 2004, respectively.

General Merchandise Worldwide General Merchandise net revenue, which includes MotorClothesTM apparel and collectibles, comprised 4.8%, 4.6% and 4.5% of net revenue in the Motorcycles segment in 2006, 2005 and 2004, respectively.

Licensing The Company creates an awareness of the Harley-Davidson brand among its customers and the non-riding public through a wide range of products for enthusiasts by licensing the name Harley-Davidson and other trademarks owned by the Company. The Company s licensed products include t-shirts, 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 $45.5 million, $43.0 million and $40.7 million in 2006, 2005 and 2004, 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, delivery of its motorcycles, a motorcycle rental and tour program and Riders Edge®, the Company s rider training program.

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

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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. A patent review committee of the Motor Company and BMC, 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.

<u>Marketing</u> The Company s products are marketed to retail customers primarily through dealer promotions, customer events and advertising through national television, print, radio and direct mailings, as well as internet advertising. Many of the Company s 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 world wide rallies and rides for Harley-Davidson motorcycle enthusiasts.

The Company website (www.harley-davidson.com) is also utilized to market its products and services. The Web site features an online catalog which allows 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 customer. Dealers also handle any after-sale services that customers may require.

<u>International Sales</u> 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 $1.18 billion, $1.04 billion and $917.3 million, or approximately 20%, 19% and 18% of net revenue of the Motorcycles segment, during 2006, 2005 and 2004, respectively.

<u>Distribution-United States</u> In the United States the Company sells its motorcycles and related products at wholesale to a network of approximately 679 independently-owned full-service Harley-Davidson dealerships. In addition, the Company sells at wholesale to the Overseas Military Sales Corporation, an entity that retails the Company s products to members of the U.S. military. The U.S. independent dealer network includes 309 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 the 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 97 SRLs, 69 AROs, and 10 SROs located in the United States.

Distribution-Europe In the European region, the Company sells its motorcycles and related products at wholesale to independent dealers and distributors. The Company s European management team is located in Oxford, England and is responsible for all of the Company s sales, marketing and distribution activities in Europe, the Middle East and Africa and is further represented by the Company s sales offices in the United Kingdom, France, Germany, Italy, the Netherlands, Spain and Switzerland. In the European region, there are 7 independent distributors and 354 independent Harley-Davidson dealerships serving 32 country markets. This includes 311 combined Harley-Davidson and Buell dealerships. Buell is further represented by 6 independent dealerships that do not sell Harley-Davidson motorcycles. In addition, the Company s dealer network includes 21 ARO s across Europe.

Distribution-Asia/Pacific In the Asia/Pacific region, the Company sells its motorcycles and related products at wholesale to independent dealers and distributors. 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 123 independent Harley-Davidson dealers. This includes 55 combined Harley-Davidson and Buell dealerships. Buell is further represented by 2 dealerships that do not sell Harley-Davidson motorcycles.

The Company s sales, marketing and distribution of Harley-Davidson and Buell products in Australia and New Zealand are managed from its subsidiary in Sydney, Australia. The subsidiary sells to a network of 48 independent Harley-Davidson dealers which includes 31 combined Harley-Davidson and Buell dealerships. Buell is further represented by 1 dealership that does not sell Harley-Davidson motorcycles.

The Company supplies product directly from its U.S. operations to the remaining Asia/Pacific dealers, which includes 7 Harley-Davidson dealers located in East and Southeast Asia.

Distribution-Latin America The Company supplies all products sold in the Latin America region directly to independent dealers from its U.S. operations, with the exception of certain motorcycles sold in Brazil which are assembled and distributed by the Company s subsidiary in Manaus, Brazil. In Latin America, 22 countries are served by 31 independent dealers. Brazil is the Company s largest market in Latin America and is served by 10 independent dealers. Mexico, the region s second largest market, has 11 independent dealers. In the remaining countries in the Latin America region there are 10 independent dealers.

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 75 independent Harley-Davidson dealerships, two SRLs, two AROs and one SRO. In addition, 44 of the 75 dealerships are combined Harley-Davidson and Buell dealerships.

Seasonality Over the last several years the Company has been working to increase the availability of its motorcycles at dealers to improve the customer experience. The Company believes that increased availability results in independent dealers providing wider selections of motorcycles at manufacturer s suggested retail prices which in turn has a positive impact on the customer experience and better positions the Company to attract retail buyers that are new to the brand or new to the sport of motorcycling. As a result of improving the availability of its motorcycles to customers, the timing of retail purchases is now tracking more closely with the riding season, 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 similar seasonal fluctuations in its wholesale sales. The Company s independent dealers typically build their inventory levels in the late fall and winter in anticipation of

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the spring and summer selling seasons. The availability of floor plan financing helps allow dealers to manage these seasonal increases in inventory. The Company also offers financing assistance to its dealers in the United States as a way to manage 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. HDFS also provides wholesale financing to many of the Company s independent dealers in Europe. The Company s 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 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 general, the Company believes that resale values for used Harley-Davidson motorcycles, measured by reflecting the used motorcycle price as a percentage of the manufacturer s suggested retail price when new, are higher than resale values for used motorcycles of its competitors (source: 2006 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 79%, 80% and 79% of total heavyweight retail unit registrations in the United States during 2006, 2005 and 2004, 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 2006, the heavyweight portion of the market represented approximately 53% of the total U.S. motorcycle market (on- and off-highway motorcycles and scooters) in terms of new units registered.

For the last 19 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 49.3% and 48.9% in 2006 and 2005, respectively. This share is significantly greater than that of the Company s largest competitor in the domestic market which had a 15.1% market share in 2006.

The following chart includes U.S. retail registration data for the Company and its major competitors for the years 2002 through 2006:

U.S. Heavyweight Motorcycle Registration Data (a)

(Engine Displacement of 651+cc)

(Units in thousands)

	2006	2005	2004	2003	2002
Total market new registrations	543.0	517.6	494.0	461.2	442.3
Harley-Davidson new registrations	267.9	252.9	244.5	228.4	209.3
Buell new registrations	3.8	3.6	3.6	3.5	2.9
Total Company new registrations	271.7	256.5	248.1	231.9	212.2
Percentage Market Share:					
Harley-Davidson motorcycles	49.3 %	48.9 %	49.5 %	49.5 %	47.5 %
Buell motorcycles	0.7	0.7	0.7	0.8	0.7
Total Company	50.0	49.6	50.2	50.3	48.2
Honda	15.1	16.6	18.7	18.4	19.8
Suzuki	12.9	12.4	10.2	9.8	9.6
Yamaha	8.6	8.9	8.7	8.5	8.9
Kawasaki	6.8	6.5	6.4	6.7	6.9
Other	6.6	6.0	5.8	6.3	6.6
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

(a) Motorcycle registration data provided by the Motorcycle Industry Council. The Company must rely on data compiled by independent agencies to obtain industry-wide retail registration data necessary for calculating market share. 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 VRSC and the Buell XB. The Company s traditional Harley-Davidson products compete primarily in the custom and touring segments.

The following chart includes European retail registration data for the Company for the years 2004 through 2006:

European Heavyweight Motorcycle Registration Data (a)

(Engine Displacement of 651+cc)

(Units in thousands)

	2006 Units	% Share	2005 Units	% Share	2004 Units	% Share
Total market new registrations	376.8		350.7		337.1	
Harley-Davidson new registrations	34.3	9.1 %	29.7	8.5 %	25.9	7.7 %
Buell new registrations	4.1	1.1	4.6	1.3	4.5	1.3
Total Company new registrations	38.4	10.2 %	34.3	9.8 %	30.4	9.0 %

(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. Total market new registrations for 2005 and 2004 have been adjusted to include competitor motorcycles that were incorrectly excluded by the Company in the prior years. Accordingly, the Company s 2005 % share of new registrations for Harley-Davidson and Buell decreased from previously reported amounts by 0.4% and 0.1%, respectively. The change to 2004 total market new registrations did not affect the Company s previously reported rounded % share of new registrations for Harley-Davidson and Buell. 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 internationally 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 38.4%, 32.7% and 30.7% during 2006, 2005 and 2004, 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, improve 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 just-in-time inventory 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 and gains commitment from suppliers to advance Company interests efficiently and effectively. 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 electric 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 $177.7 million, $178.5 million and $170.7 million during 2006, 2005 and 2004, 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. CARB s motorcycle emissions standards will become more stringent with model year 2008. 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 for 2006 and the Company believes it will comply with future requirements when they go into effect. Additionally, the European Union, Japan and certain emerging markets are considering making motorcycle emissions and noise standards more stringent, which in the European Union are already more stringent than those of the EPA. Consequently, the Company will continue to incur some level of research and development and production costs related to motorcycle emissions and noise 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 18 voluntary recalls at a total cost of $14.0 million. The Company reserves for all estimated costs associated with recalls in the period that the recalls are announced.

Employees As of December 31, 2006, 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 August 1, 2007, and the collective bargaining agreement with the Wisconsin-USW and IAM will expire on March 31, 2008.

Internet Access The Company s internet 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 and Executive Officers 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 posting such information on its website at www.harley-davidson.com and by disclosing the information in the Company s proxy statement for its annual meeting of shareholders. 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 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 warranty agreements, gap contracts 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 2006, approximately 97% of such dealers utilized those services. Prior to August 2002, HDFS offered wholesale financing to some of the Company s European motorcycle dealers through a joint venture with Transamerica Distribution Finance. In August 2002, HDFS terminated this joint venture relationship and began directly serving the wholesale financing needs of some European dealers. The wholesale finance operations of HDFS are located in Plano, Texas and Oxford, England.

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, senior subordinated debt and the availability of advances and loans from the Company. In asset-backed securitizations, HDFS sells retail motorcycle loans and records a gain 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 2006, HDFS financed 48% of the new Harley-Davidson motorcycles retailed by independent dealers in the United States, as compared to 45% in 2005. 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, 2006, the Financial Services segment had approximately 704 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 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, 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 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 could 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 could 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 favorably receive 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 August 2007, March 2008 and February 2010. 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 could 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 could 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 could also be adversely affected by such claims, whether or not successful.

- **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.

- **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. Over the last several years, the Company has been working to increase 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, could have a material adverse effect on the Company s business and results of operations.

- **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 could 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 could have a material adverse effect on the Company s business and results of operations.

- **The Company is the defendant in several class action and similar lawsuits.** In January 2001, the Company, on its own initiative, notified each owner of 1999 and early-2000 model year Harley-Davidson motorcycles equipped with Twin Cam 88® and Twin Cam 88B engines that the Company was extending the warranty for a rear cam bearing to 5 years or 50,000 miles. Subsequently, putative nationwide class actions were filed against the Company relating to the cam bearing as discussed in Item 3. Legal Proceedings.

A number of shareholder class action lawsuits were filed between May 18, 2005 and July 1, 2005 against the Company and certain Company officers. 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.

In addition, several shareholder derivative lawsuits have been filed against directors and officers of the Company. 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 August 25, 2005, a class action lawsuit alleging violations of the Employee Retirement Income Security Act (ERISA) was filed against the Company, the Administrative Committee of the Company and Company officers, directors and certain employees. 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.

The uncertainty associated with substantial unresolved lawsuits could harm the Company s business, financial condition and reputation. The defense of the lawsuits could result in the diversion of management s time and attention away from business operations and negative developments with respect to the lawsuits could cause a decline in the price of the Company s common stock. 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 could have a material adverse effect on the Company s business and results of operations.

- **There is a Securities and Exchange Commission inquiry relating to the Company.** On July 11, 2005, the staff of the Enforcement Division of the United States Securities and Exchange Commission (SEC) inquired into matters generally relating to the Company s April 13, 2005 announcement and certain allegations contained in the shareholder complaints described above. The Company has cooperated with the SEC. An inquiry of this nature ultimately could result in a formal investigation, other proceedings and penalties.

- **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 could 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 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 could have a material adverse effect on the Company s business and results of operations.

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 could 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 could 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 could put the Company at a competitive disadvantage to its principal competitors.

- **Breaches of security involving consumers personal data could 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 could 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 credit ratings. The Company currently has very strong credit ratings; however, if its ratings were to be downgraded, its cost of borrowing could be adversely affected resulting in reduced earnings and interest margins.

- **The Company s financial services operations are exposed to credit risk on its retail and wholesale receivables, receivables held for sale, and its investment in retained securitization interests.** 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 could 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 could 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 2. Properties

The following is a summary of the principal operating properties of the Company as of December 31, 2006:

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	422,000	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	54,000	Lease expiring 2008
Manufacturing	East Troy, WI	40,000	Lease expiring 2008
Manufacturing	Tomahawk, WI	211,000	Owned
Office	Ann Arbor, MI	3,300	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 2010
Motorcycle Testing	Naples, FL	82,000	Owned
Motorcycle Testing	Mesa, AZ	29,000	Lease expiring 2009
Office	Morfelden-Waldorf, Germany	22,000	Lease expiring 2008
Office and Warehouse	Oxford, England	27,000	Lease expiring 2017
Office	Liederdorp, The Netherlands	9,000	Lease expiring 2010
Office	Creteil, France	8,450	Lease expiring 2016
Office	Paris, France	7,000	Lease expiring 2007
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
Office	Barcelona, Spain	2,000	Lease expiring 2007
Warehouse	Yokohama, Japan	15,000	Lease expiring 2007
Office	Tokyo, Japan	14,000	Lease expiring 2007
Manufacturing	Adelaide, Australia	485,000	Lease expiring 2011
Office	Sydney, Australia	1,100	Lease expiring 2011
Office	Sydney, Australia	600	Lease expiring 2007
Office	Shanghai, China	1,700	Lease expiring 2008
Manufacturing and Office	Manaus, Brazil	30,000	Lease expiring 2007

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).

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Financial Services Segment

Type of Facility	Location	Approximate Square Feet	Status
Office	Chicago, IL	35,000	Lease expiring 2007
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 2007
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). Corporate headquarters will be moving into a new office in February 2007.

Item 3. Legal Proceedings

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 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 is anticipated to be 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 July 11, 2005, the staff of the Enforcement Division of the United States Securities and Exchange Commission (SEC) advised the Company that it is inquiring into matters relating generally to the Company   s April 13, 2005 announcement and certain allegations contained in the shareholder complaints. The Company is cooperating with the SEC.

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 (the   Company 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 is anticipated to be 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. 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, the Company, on its own initiative, notified each owner of 1999 and early-2000 model year Harley-Davidson motorcycles equipped with Twin Cam 88® and Twin Cam 88B engines that the Company was extending the warranty for a rear cam bearing to 5 years or 50,000 miles. 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. The complaint alleged that this cam bearing is defective and asserted various legal theories. The complaint sought unspecified compensatory and punitive damages for affected owners, an order compelling the Company to repair the engines and other relief. On February 27, 2002, the Company s motion to dismiss the amended complaint was granted by the Court and the amended complaint was dismissed in its entirety. An appeal was filed with the Wisconsin Court of Appeals. On April 12, 2002, the same attorneys filed a second putative nationwide class action against the Company in state court in Milwaukee County, Wisconsin relating to this cam bearing issue and asserting different legal theories than in the first action. The complaint sought unspecified compensatory damages, an order compelling the Company to repair the engines and other relief. On September 23, 2002, the Company s motion to dismiss was granted by the Court, the complaint was dismissed in its entirety, and no appeal was taken. On January 14, 2003, the Wisconsin Court of Appeals reversed the trial court s February 27, 2002 dismissal of the complaint in the first action, and the Company petitioned the Wisconsin Supreme Court for review. On March 26, 2004, the Wisconsin Supreme Court reversed the Court of Appeals and dismissed the remaining claims in the action. On April 12, 2004, the same attorneys filed a third action in the state court in Milwaukee County, on behalf of the same plaintiffs from the action dismissed by the Wisconsin Supreme Court. This third action was dismissed by the court on July 26, 2004. In addition, the plaintiffs in the original case moved to reopen that matter and amend the complaint to add new causes of action. On September 9, 2004, Milwaukee County Circuit Court refused to allow the reopening or amendment. Plaintiffs again appealed to the Wisconsin Court of Appeals, and on December 13, 2005, the Court of Appeals again reversed the trial court. On January 12, 2006, the Company filed a petition for review with the Wisconsin Supreme Court. Oral arguments were heard on September 7, 2006 and the Company is awaiting a decision from the court. The Company believes that the 5-year/50,000 mile warranty extension it announced in January 2001 adequately addressed the condition for affected owners, and the Company intends to continue to vigorously defend this matter.

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 $7.7 million. The Company has established reserves for this amount, which are included in Accrued Expenses and Other Liabilities in the Condensed 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 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 2006.

Executive Officers of the Registrant

The following sets forth, as of December 31, 2006, 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.

Executive Officers

Name	Age
Thomas E. Bergmann Vice President and Chief Financial Officer	40
Joanne M. Bischmann Vice President, Marketing Harley-Davidson Motor Company	45
James M. Brostowitz Vice President and Treasurer and Chief Accounting Officer	54
Karl M. Eberle Vice President and General Manager, Kansas City Operations Harley-Davidson Motor Company	58
Jon R. Flickinger Vice President Harley-Davidson Motor Company and President and Chief Operating Officer - Buell Motorcycle Company	49
John A. Hevey Vice President, Strategic Planning and New Business Development Harley-Davidson Motor Company	49
Ronald M. Hutchinson Vice President, New Business Harley-Davidson Motor Company	59
Gail A. Lione Vice President, General Counsel and Secretary Chief Compliance Officer	57
James A. McCaslin President and Chief Operating Officer Harley-Davidson Motor Company	58
Harold A. Scott Vice President, Human Resources Harley-Davidson Motor Company	58
W. Kenneth Sutton, Jr. Vice President, Engineering Harley-Davidson Motor Company	58
James L. Ziemer President and Chief Executive Officer and Director	56

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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, Joanne M. Bischmann, Karl M. Eberle, John A. Hevey, Harold A. Scott and Kenneth Sutton. The following is additional biographical information for at least the last five years relating to these six executive officers:

Mr. Bergmann has served as the Vice President and Chief Financial Officer since March 6, 2006. 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.

Ms. Bischmann has served as the Vice President, Marketing of the Motor Company since 1996.

Mr. Eberle has served as the Vice President and General Manager of the Motor Company s Kansas City Vehicle and Powertrain Operations since 1997.

Mr. Hevey has served as the Vice President, Strategic Planning and New Business Development of the Motor Company since 2004. Prior thereto, he served as President and Chief Operating Officer of Buell Motorcycle Company from 2001 to 2004.

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 Harley-Davidson, Inc. Common Stock and Related Shareholder Matters

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:

2006	Low	High	2005	Low	High
First quarter	$ 47.88	$ 54.92	First quarter	$ 57.84	$ 62.49
Second quarter	47.86	53.98	Second quarter	45.14	59.40
Third quarter	50.74	62.33	Third quarter	47.50	54.25
Fourth quarter	61.52	75.87	Fourth quarter	44.40	55.93

The Company paid the following dividends per share:

	2006	2005	2004
First quarter	$ 0.18	$ 0.125	$ 0.080
Second quarter	0.21	0.160	0.100
Third quarter	0.21	0.160	0.100
Fourth quarter	0.21	0.180	0.125
	$ 0.81	$ 0.625	$ 0.405

As of February 19, 2007 there were 88,995 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, 2006:

2006 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
September 25 to October 29	0	0	0	28,457,932
October 30 to November 26	2,098,091	$ 72	2,098,050	26,970,349
November 27 to December 31	0	0	0	27,097,169
Total	2,098,091	$ 72	2,098,050	

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 repurchased 2.1 million shares under this authorization during the fourth quarter ended December 31, 2006.

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 2006, 17.2 million shares had been repurchased under this authorization.

During 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. No shares had been repurchased under this authorization as of December 31, 2006.

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 2006, the Company acquired 41 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 Securites 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.

	2001 ($)	**2002 ($)**	**2003 ($)**	**2004 ($)**	**2005 ($)**	**2006 ($)**
Harley-Davidson, Inc.	100	85	88	113	97	135
Standard & Poor s MidCap 400 Index	100	86	116	136	153	168
Standard & Poor s 500 Index	100	78	101	112	117	136

Item 6. **Selected Financial Data**

(In thousands except per share amounts)

	2006(1), (2)	**2005**(1)	**2004**	**2003**	**2002**
Income statement data:					
Net revenue	$ 5,800,686	$ 5,342,214	$ 5,015,190	$ 4,624,274	$ 4,090,970
Cost of goods sold	3,567,839	3,301,715	3,115,655	2,958,708	2,673,129
Gross profit	2,232,847	2,040,499	1,899,535	1,665,566	1,417,841
Financial services income	384,891	331,618	305,262	279,459	211,500
Financial services expense	174,167	139,998	116,662	111,586	107,273
Operating income from financial services	210,724	191,620	188,600	167,873	104,227
Selling, administrative and engineering expense	841,051	762,108	726,644	684,175	639,366
Income from operations	1,602,520	1,470,011	1,361,491	1,149,264	882,702
Investment income, net	27,087	22,797	23,101	23,088	16,541
Other, net	(5,367)	(5,049)	(5,106)	(6,317)	(13,416)
Income before provision for income taxes	1,624,240	1,487,759	1,379,486	1,166,035	885,827
Provision for income taxes	581,087	528,155	489,720	405,107	305,610
Net income	$ 1,043,153	$ 959,604	$ 889,766	$ 760,928	$ 580,217
Weighted-average common shares:					
Basic	264,453	280,303	295,008	302,271	302,297
Diluted	265,273	281,035	296,852	304,470	305,158
Earnings per common share:					
Basic	$ 3.94	$ 3.42	$ 3.02	$ 2.52	$ 1.92
Diluted	$ 3.93	$ 3.41	$ 3.00	$ 2.50	$ 1.90
Dividends paid per common share	$ 0.810	$ 0.625	$ 0.405	$ 0.195	$ 0.135
Balance sheet data:					
Working capital	$ 1,954,956	$ 2,272,125	$ 2,510,490	$ 2,087,056	$ 1,354,486
Finance receivables held for sale	547,106	299,373	456,516	347,112	306,901
Finance receivables held for investment, net	2,280,217	1,943,224	1,655,784	1,390,737	1,138,679
Total assets	5,532,150	5,255,209	5,483,293	4,923,088	3,861,217
Current finance debt	832,491	204,973	495,441	324,305	382,579
Long-term finance debt	870,000	1,000,000	800,000	670,000	380,000
Total finance debt	1,702,491	1,204,973	1,295,441	994,305	762,579
Shareholders equity	2,756,737	3,083,605	3,218,471	2,957,692	2,232,915

(1) 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 to the Consolidated Financial Statements for further discussion.

(2) 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 to the Consolidated Financial Statements for further discussion.

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

Harley-Davidson, Inc. is the parent company for the groups 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 complete line of motorcycle parts, accessories, apparel and general merchandise. HDMC manufactures five families of motorcycles: Touring, Dyna , Softail®, Sportster® and VRSC . Buell produces sport motorcycles, including nine twin-cylinder XB models and the single-cylinder Buell® Blast®. Buell also offers a line of motorcycle parts, accessories, apparel and general merchandise. 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(1)

The Company s net revenue for 2006 was $5.80 billion, up 8.6% over 2005 driven by a 6.1% increase in shipments of Harley-Davidson® motorcycles over 2005. Net income and diluted earnings per share for 2006 were up 8.7% and 15.2%, respectively, over 2005. The increase in diluted earnings per share includes the benefit of fewer weighted-average shares outstanding when compared to the prior year. Weighted-average shares outstanding were lower in 2006 than in 2005 as a result of the Company s repurchases of common stock occurring over the last two years.

The Company s independent dealer network also reported growth over prior year with increases in retail motorcycle unit sales during 2006. Worldwide dealer retail sales of Harley-Davidson motorcycles were up 8.5% in 2006 over 2005. In the United States, retail sales of Harley-Davidson motorcycles grew 5.9% during 2006 when compared to the prior year. Internationally, retail sales were up 18.6% over 2005 with increases of 14.6% in Europe, 16.3% in Japan and 15.9% in Canada.

Retail sales growth during 2006 was due in part to a positive worldwide response to the Company s new 2007 models. In July 2006, independent dealers began offering the Company s new 2007 model year motorcycles. The Company s 2007 model offering includes the new larger Twin Cam 96TM engine and a new six-speed transmission for all Touring and Softail motorcycles, the addition of electronic fuel injection on all Sportster models and a number of new models and features.

In addition, the Company believes that the continued momentum in international dealer retail sales is also due in part to the strategies that it has been implementing over the last couple of years. These strategies include improvements within the international dealer base, enhanced marketing programs and a more effective and efficient distribution of motorcycles worldwide.

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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 27, 2007), and the Company disclaims any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

Outlook(1)

The Company s collective bargaining agreement with the Pennsylvania-IAM (Union) covering approximately 2,800 workers at its assembly plant in York, Pennsylvania expired on February 2, 2007. Prior to the expiration of that contract the union voted to reject a proposed new collective bargaining agreement for employees and authorized a strike which began immediately following the expiration of the contract. On February 22, 2007, the Company reached a new agreement with the Union, ending the strike. The new contract with the York Union employees is a three-year agreement expiring in February 2010.

The Company is pleased with the agreement it has reached with its York Union employees. However, the disruption caused by the strike had a significant impact on the Company s business. As a result of the strike, the Company lost approximately four weeks of production at its York, Pennsylvania assembly facility and interrupted production at some of the Company s other manufacturing locations. The strike also adversely impacted its suppliers and employees and may adversely impact its independent dealers and retail customers.

As a result of the strike and its related impact, the Company will not meet previously annuounced guidance for 2007. First quarter 2007 shipments of Harley-Davidson motorcycles had been expected to be between 82,000 and 84,000 units. The Company has lowered its target range by 18,000 units, and now expects first quarter shipments of Harley-Davidson motorcycles to be between 64,000 and 66,000 units. Over the remainder of 2007, the Company expects to make up approximately 4,000 to 5,000 of these motorcycle shipments, resulting in full year shipment plans for approximately 14,000 fewer motorcycles than originally planned. The Company arrived at this decision after carefully evaluating its production constraints, supply chain issues, cost implications, timing of shipments to dealers and the delayed start of 2008 model year production caused by the strike.

The Company s revised plan for 2007 does not affect its previously stated plan to continue to grow revenue, although revenue growth in 2007 as a result of the strike is expected to be moderate. The Company continues to believe that shipments in its international markets will grow at a faster rate than in the U.S. market. The Company s growth will be driven by a focus on providing customers around the world with a continuous stream of exciting new motorcycles, surrounded by the unique Harley-Davidson experience. Harley-Davidson customers enjoy a unique lifestyle experience through organized rides and rallies, through membership in the Harley Owners Group® (H.O.G.®) organization, and through the use of MotorClothes® merchandise and Harley-Davidson® Genuine Motor Accessories to personalize their experience.

In 2007, the Company will experience inefficiencies and costs associated with the strike and the related make-up plan which will have a negative impact on margins. Therefore, for 2007 the Company has revised its previous guidance of increasing margins and believes 2007 margins will be lower than margins experienced in 2006. The Company believes its manufacturing expertise and focus on operational excellence, and other factors, position it to continue to drive a net income growth rate in 2008 and 2009 that will be in excess of its revenue growth rate.

Operational excellence involves employees and suppliers continuously pursuing process improvements and innovation. Over the last several years, the Company has made considerable strides in manufacturing efficiency and automation and believes there continue to be opportunities for improvement in these areas and across other parts of the organization. The Company also expects that other factors such as increased production, quality, product mix and pricing for features will continue to have a positive impact on margins.

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.

Prior to the strike, the Company had expected to deliver earnings-per-share growth of 11% to 17% annually through 2009 driven by solid revenue growth, margin improvement and the benefits of strong free cash flow. However, as a result of the strike and its related impact to the business in 2007, the Company has revised its expected earnings-per-share growth rate for 2007 to be in the range of 4% to 6%. The Company expects its earnings-per-share growth rate to return to 11% to 17% in 2008 and 2009.

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 compared to $959.6 million in 2005, an increase of 8.7%. Diluted earnings per share for 2006 were $3.93 representing a 15.2% increase over

2005 earnings per share of $3.41. 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 s share repurchases are discussed in further detail under Liquidity and Capital Resources.

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 for 2006 and 2005 (dollars in millions):

	2006	2005	Increase (Decrease)	% Change
Motorcycle Unit Shipments				
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 %
Total motorcycle units	361,656	340,183	21,473	6.3 %
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 Softail, Dyna, 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. The increase in international shipments as a percentage of total shipments is consistent with the Company s expectation that international growth will outpace domestic shipment growth.(1)

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 from 2005 to 2006 resulted from the higher shipment volumes of motorcycles and related products. Net revenue also benefited during 2006 from a favorable change in product mix and wholesale price increases. The changes to product mix occurring in 2006 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. During 2006, wholesale price increases on Harley-Davidson motorcycles resulted in approximately $45 million of higher revenue when compared to 2005. Changes in foreign currency exchange rates resulted in approximately $10 million of lower net revenue during 2006 when compared to 2005.

Harley-Davidson Motorcycle Retail Sales

The Company s wholesale motorcycle unit shipments are retailed through an independent worldwide dealer network. 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, when compared to 2005. 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, when compared to 2005. The following table includes retail unit sales of Harley-Davidson motorcycles for 2006 and 2005 (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.

(b) Data for Europe 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. data provided by the Motorcycle Industry Council.

(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 is derived from information provided by Giral S.A., an independent agency. Data for 2005 has been adjusted to include competitor motorcycles that had previously not been included by the Company. The previously reported amount for 2005 was 332.8.

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

During 2006, 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. During 2006, higher volumes resulted in an increase in cost of goods sold of approximately $225 million. Cost of goods sold was also higher in 2006 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 occurring in 2006 resulted in approximately $35 million of higher costs in 2006 compared to 2005, and increases in raw material costs primarily for metals were approximately $15 million in 2006 over 2005. Finally, net foreign currency transaction and hedging gains in 2006 compared to 2005 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. During 2006, 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 (which consists of HDFS) for 2006 and 2005 (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 in 2006 due to increased borrowings, in support of higher average outstanding receivables, and higher borrowing costs as compared to 2005.

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 reflects 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, and as a result it is expected that HDFS will experience higher credit losses as a percentage of managed retail motorcycle loans in 2007 as compared to 2006.(1)

Changes in the allowance for credit losses during 2006 and 2005 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

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.

Included in charge-offs, net of recoveries are $0.6 million and $1.8 million of recoveries in 2006 and 2005, respectively, received by HDFS from HDMC. These recoveries relate to guarantees provided by HDMC on wholesale loans to independent European Harley-Davidson dealers.

Operating Expenses

The following table includes operating expenses for the Motorcycles segment and Corporate for 2006 and 2005 (in millions):

	2006	2005	Increase	% Change
Motorcycles and Related Products				
Selling	$ 302.1	$ 269.5	$ 32.6	12.1 %
Administrative	330.1	284.9	45.2	15.9 %
Engineering	186.2	186.2		0.0 %
Corporate	22.7	21.5	1.2	5.6 %
Total operating expenses	$ 841.1	$ 762.1	$ 79.0	10.4 %

Total operating expenses were 14.5% and 14.3% 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 in 2006 compared to 2005. 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 in 2006 primarily due to a higher average return in 2006 when compared to 2005.

Other, net

Other, net expense was $5.4 million and $5.0 million in 2006 and 2005, respectively. Other, net expense consists of charitable contributions.

Provision for Income Taxes

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

Results of Operations 2005 Compared to 2004

Overall

Net revenue for 2005 totaled $5.34 billion, a $327.0 million or 6.5% increase over the prior year. Net income for 2005 was $959.6 million compared to $889.8 million in 2004, an increase of 7.8%. Diluted earnings per share for 2005 were $3.41 representing a 13.7% increase over 2004 earnings per share of $3.00. Diluted earnings per share were positively impacted during 2005 by a decrease in the weighted-average shares outstanding, which were 281.0 million in 2005 compared to 296.9 million in 2004. The decrease in weighted-average shares outstanding was due primarily to the Company s share repurchases. The Company repurchased of 21.4 million shares of common stock during 2005. The Company s share repurchases are discussed in further detail under Liquidity and Capital Resources.

The Company paid dividends in 2005 of $.125 per share in March, $.16 per share in June and September and $.18 per share in December. The aggregate annual dividend paid in 2005 was $.625 per share, representing a 54.3% increase over the aggregate annual dividend of $.405 per share in 2004.

Motorcycle Unit Shipments and Net Revenue

The following table includes wholesale motorcycle unit shipments and net revenue for the Motorcycles segment for 2005 and 2004 (dollars in millions):

	2005	2004	Increase (Decrease)	% Change
Motorcycle Unit Shipments				
Touring motorcycle units	110,193	93,305	16,888	18.1 %
Custom motorcycle units*	148,609	154,163	(5,554)	-3.6 %
Sportster motorcycle units	70,215	69,821	394	0.5 %
Harley-Davidson motorcycle units	329,017	317,289	11,728	3.7 %
Buell motorcycle units	11,166	9,857	1,309	13.3 %
Total motorcycle units	340,183	327,146	13,037	4.0 %
Net Revenue				
Harley-Davidson motorcycles	$ 4,183.5	$ 3,928.2	$ 255.3	6.5