HARLEY DAVIDSON INC
Form 10-Q
May 01, 2008

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

Form 10-Q

(X) Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended **March 30, 2008**

or

( ) 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 or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3700 West Juneau Avenue, Milwaukee, Wisconsin	53208
(Address of principal executive offices)	(Zip Code)

(Registrant s telephone number, including area code) (414) 342-4680

None
(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer (X)	Accelerated filer ( )
Non-accelerated filer ( )	Smaller reporting company ( )

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ___ No X

Common Stock Outstanding as of April 25, 2008: 236,555,729 shares

HARLEY-DAVIDSON, INC.

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For the Quarter Ended March 30, 2008

PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Harley-Davidson, Inc.
Condensed Consolidated Statements of Income
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended	
	March 30, 2008	April 1, 2007
Net revenue	$ 1,306,313	$ 1,178,875

	Three Months Ended	
Cost of goods sold	830,176	755,829
Gross profit	476,137	423,046
Financial services income	93,289	109,163
Financial services expense	58,382	50,226
Operating income from financial services	34,907	58,937
Selling, administrative and engineering expense	219,991	192,742
Income from operations	291,053	289,241
Investment income, net	2,042	8,915
Income before provision for income taxes	293,095	298,156
Provision for income taxes	105,514	105,846
Net income	$ 187,581	$ 192,310
Earnings per common share:		
Basic	$ 0.79	$ 0.75
Diluted	$ 0.79	$ 0.74
Cash dividends per common share	$ 0.30	$ 0.21

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

Harley-Davidson, Inc.
Condensed Consolidated Balance Sheets
(In thousands)

	(Unaudited) March 30, 2008	December 31, 2007	(Unaudited) April 1, 2007
ASSETS			
Current assets:			
Cash and cash equivalents	$ 332,639	$ 402,854	$ 310,010
Marketable securities	524	2,475	618,502
Accounts receivable, net	330,147	181,217	147,732
Finance receivables held for sale	729,814	781,280	297,885
Finance receivables held for investment, net	1,565,022	1,575,283	1,550,001
Inventories	441,205	349,697	369,418
Prepaid expenses and other current assets	187,436	174,508	122,627
Total current assets	3,586,787	3,467,314	3,416,175
Finance receivables held for investment, net	937,495	845,044	767,529
Property, plant and equipment, net	1,056,076	1,060,590	1,013,104

	(Unaudited) March 30, 2008	December 31, 2007	(Unaudited) April 1, 2007
Prepaid pension costs	82,500	89,881	51,532
Goodwill	63,204	61,401	59,035
Other long-term assets	138,337	132,376	139,123
	$ 5,864,399	$ 5,656,606	$ 5,446,498
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Accounts payable	$ 345,807	$ 300,188	$ 373,368
Accrued liabilities	579,207	484,936	481,096
Current portion of finance debt	1,111,036	1,119,955	463,530
Total current liabilities	2,036,050	1,905,079	1,317,994
Finance debt	980,000	980,000	890,000
Pension liability	59,852	51,551	52,122
Postretirement healthcare benefits	199,978	192,531	203,514
Other long-term liabilities	157,094	151,954	147,381
Commitments and contingencies (Note 10)			
Total shareholders equity	2,431,425	2,375,491	2,835,487
	$ 5,864,399	$ 5,656,606	$ 5,446,498

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

Harley-Davidson, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended March 30, 2008	April 1, 2007
Net cash provided by operating activities (Note 3)	$ 146,778	$ 519,624
Cash flows from investing activities:		
Capital expenditures	(43,239)	(40,775)
Origination of finance receivables held for investment	(128,174)	(103,889)
Collections on finance receivables held for investment	103,439	90,949
Collection of retained securitization interests	10,796	14,493
Purchase of marketable securities	--	(117,075)
Sales and redemptions of marketable securities	2,019	157,697
Other, net	1,511	4,545

	Three Months Ended	
Net cash (used by) provided by investing activities	(53,648)	5,945
Cash flows from financing activities:		
Net decrease in finance-credit facilities and commercial paper	(9,392)	(353,540)
Dividends	(71,023)	(54,103)
Purchase of common stock for treasury	(100,096)	(61,251)
Excess tax benefits from share-based payments	312	1,157
Issuance of common stock under employee stock option plans	584	12,953
Net cash used by financing activities	(179,615)	(454,784)
Effect of exchange rate changes on cash and cash equivalents	16,270	828
Net (decrease) increase in cash and cash equivalents	(70,215)	71,613
Cash and cash equivalents:		
At beginning of period	402,854	238,397
At end of period	$ 332,639	$ 310,010

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

HARLEY-DAVIDSON, INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation and Use of Estimates

The condensed interim consolidated financial statements included in this quarterly report on Form 10-Q have been prepared by Harley-Davidson, Inc. (the Company) without audit. Certain information and footnote disclosures normally included in complete financial statements have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission and U.S. generally accepted accounting principles for interim financial information. However, the foregoing statements contain all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of Company management, necessary to present fairly the condensed consolidated balance sheets as of March 30, 2008 and April 1, 2007, the condensed consolidated statements of income for the three-month periods then ended and the condensed consolidated statements of cash flows for the three-month periods then ended. For further information, refer to the consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

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

Certain prior year amounts have been reclassified to conform to the current year presentation.

2. New Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R). SFAS No. 158 requires employers that sponsor defined benefit pension and postretirement benefit plans to recognize previously unrecognized actuarial losses and prior service costs in the statement of financial position and to recognize future changes in these amounts in the year in which changes occur through comprehensive income. Additionally, employers are required to measure the funded status of a plan as of the date of their year-end statements of financial position. The Company adopted SFAS No. 158, as it relates to recognizing the funded status of its defined benefit pension and postretirement benefit plans, and the related disclosure requirements, as of December 31, 2006. The requirement to measure the funded status as of the date of the year-end statement of financial position was adopted on January 1, 2008. Upon adoption, the Company recorded a reduction to retained earnings of $18.1 million ($11.2 million, net of tax) and an increase to accumulated other comprehensive income of $4.2 million ($2.6 million, net of tax).

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 establishes a framework for measuring fair value in generally accepted accounting principles, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. SFAS No. 157 applies to fair value measurements required by existing accounting pronouncements and does not require any new fair value measurements. The Company adopted SFAS No. 157 on January 1, 2008; see Note 4 for disclosures required under SFAS No. 157. The Company has not adopted SFAS No. 157 for non-financial assets and liabilities as permitted by FASB Staff Position No. FAS 157-2, which provided a deferral of such provisions until 2009.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133. SFAS No. 161 requires enhanced disclosures about an entity s derivative and hedging activities. Entities will be required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedge items are accounted for under SFAS No. 133 and its related interpretations; and (c) how derivative instruments and related hedge items affect an entity s financial position, financial performance and cash flows. The Company is required to adopt SFAS No. 161 beginning in fiscal year 2009. The Company is currently evaluating the impact the new disclosure requirements will have on its consolidated financial statements and notes thereto.

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3. Additional Balance Sheet and Cash Flow Information

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

	March 30, 2008	December 31, 2007	April 1, 2007
Components at the lower of FIFO cost or market			
Raw materials and work in process	$ 148,743	$ 149,954	$ 132,784
Motorcycle finished goods	192,268	107,768	157,427
Parts and accessories and general merchandise	133,760	124,109	110,003
Inventory at lower of FIFO cost or market	474,771	381,831	400,214
Excess of FIFO over LIFO cost	33,566	32,134	30,796
	$ 441,205	$ 349,697	$ 369,418

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

	Three Months Ended	
	March 30, 2008	April 1, 2007
Cash flows from operating activities:		
Net income	$ 187,581	$ 192,310
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	49,722	51,464
Provision for employee long-term benefits	18,194	19,345
Stock compensation expense	5,404	4,828
Loss (gain) on current year securitizations	5,370	(13,039)
Net change in wholesale finance receivables	(76,915)	(7,370)

	Three Months Ended	
Origination of retail finance receivables held for sale	(560,120)	(603,125)
Collections on retail finance receivables held for sale	49,913	19,548
Proceeds from securitization of retail finance receivables	467,722	796,859
Contributions to pension and postretirement plans	(4,562)	(3,202)
Foreign currency adjustments	(11,864)	(1,778)
Other, net	9,094	15,663
Changes in current assets and liabilities:		
Accounts receivable, net	(50,596)	(3,141)
Finance receivables - accrued interest and other	3,914	(2,210)
Inventories	(80,030)	(79,814)
Accounts payable and accrued liabilities	134,573	132,791
Other	(622)	495
Total adjustments	(40,803)	327,314
Net cash provided by operating activities	$ 146,778	$ 519,624

4. Fair Value Measurements

The following table presents information about the Company s assets and liabilities measured at fair value on a recurring basis as of March 30, 2008, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value (in thousands):

	Balance as of March 30, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash Equivalents and Marketable Securities	$ 126,586	$ 126,062	$ 524	--
Derivatives	12,485	--	12,485	--
Investment in Retained Securitization Interests	496,511	--	--	$ 496,511
	$ 635,582	$ 126,062	$ 13,009	$ 496,511
Liabilities:				
Derivatives	$ 40,144	--	$ 40,144	--

The following table presents additional information about the Company s Investment in Retained Securitization Interests which is measured at fair value on a recurring basis using Significant Unobservable Inputs (Level 3). The Investment in Retained Securitization Interests are valued using pricing models and discounted cash flow methodologies incorporating assumptions that, in management s judgment, reflect the assumptions a marketplace participant would use at March 30, 2008. Refer to Critical Accounting Estimates under Item 7 and Note 3 of Notes to the Consolidated Financial Statements under Item 8 of the Company s Annual Report on Form 10-K for the year ended December 31, 2007 for further discussion regarding the assumptions used to value the Investment in Retained Securitization Interests.

	Investment in Retained Securitization Interests
(in thousands)	
Balance, beginning of period	$ 407,742

Total gains or losses (realized/unrealized):	
Included in Financial Services income	15,158
Included in other comprehensive income	12,394
Sales, repurchases and settlements, net	61,217
Balance, end of period	$ 496,511

5. Product Warranty and Safety Recall Campaigns

The Company currently provides a standard two-year limited warranty on all new motorcycles sold worldwide, except for Japan, where the Company provides a standard three-year limited warranty on all new motorcycles sold. The warranty coverage for the retail customer includes parts and labor and begins when the motorcycle is sold to a retail customer. The Company maintains reserves for future warranty claims using an estimated cost per unit sold, which is based primarily on historical Company claim information. Additionally, the Company has from time to time initiated certain voluntary safety recall campaigns. The Company reserves for all estimated costs associated with safety recalls in the period that the safety recalls are announced. Changes in the Company s warranty and safety recall liability were as follows (in thousands):

	Three Months Ended March 30, 2008	Three Months Ended April 1, 2007
Balance, beginning of period	$ 70,523	$ 66,385
Warranties issued during the period	11,999	9,808
Settlements made during the period	(14,001)	(14,304)
Recalls and changes to pre-existing warranty liabilities	8,687	4,274
Balance, end of period	$ 77,208	$ 66,163

The liability for safety recall campaigns was $3.5 million and $4.5 million as of March 30, 2008 and April 1, 2007, respectively.

6. Business Segments

The Company operates in two business segments: Motorcycles & Related Products (Motorcycles) and Financial Services (Financial Services). 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. Selected segment information is set forth below (in thousands):

	Three Months Ended March 30, 2008	Three Months Ended April 1, 2007
Motorcycles net revenue	$ 1,306,313	$ 1,178,875
Gross profit	476,137	423,046
Operating expenses	214,533	187,803
Operating income from Motorcycles	261,604	235,243
Financial Services income	93,289	109,163
Financial Services expense	58,382	50,226
Operating income from Financial Services	34,907	58,937
Corporate expenses	5,458	4,939
Income from operations	$ 291,053	$ 289,241

Three Months Ended

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7. Earnings Per Share

The following table sets forth the computation for basic and diluted earnings per share (in thousands, except per share amounts):

	Three months ended March 30, 2008	Three months ended April 1, 2007
Numerator:		
Net income used in computing basic and diluted earnings per share	$ 187,581	$ 192,310
Denominator:		
Denominator for basic earnings per share-weighted-average common shares	237,078	257,326
Effect of dilutive securities - employee stock compensation plan	172	832
Denominator for diluted earnings per share-adjusted weighted-average shares outstanding	237,250	258,158
Basic earnings per share	$ 0.79	$ 0.75
Diluted earnings per share	$ 0.79	$ 0.74

Outstanding options to purchase 4.7 million and 0.4 million shares of common stock for the three months ended March 30, 2008 and April 1, 2007, respectively, were not included in the Company s computation of dilutive securities because the exercise price was greater than the market price and therefore the effect would have been anti-dilutive.

8. Comprehensive Income

The following table sets forth the reconciliation of net income to comprehensive income (in thousands):

	Three months ended March 30, 2008	Three months ended April 1, 2007
Net income	$ 187,581	$ 192,310
Foreign currency translation adjustment	21,470	3,411
Changes in net unrealized gains and (losses), net of tax:		
Retained securitization interest	7,920	(9,172)
Derivative financial instruments	543	(570)
Marketable securities	68	613
Unrecognized pension and postretirement benefit plan liabilities	2,623	3,742
	$ 220,205	$ 190,334

9. Employee Benefit Plans

The Company has several defined benefit pension plans and postretirement healthcare benefit plans (Retirement Plans), which cover substantially all employees of the Motorcycles segment. The Company also has unfunded supplemental employee retirement plan agreements (SERPA) which were instituted to replace benefits lost under the Tax Revenue Reconciliation Act of 1993. Components of net periodic benefit costs were as follows (in thousands):

	Three months ended March 30, 2008	Three months ended April 1, 2007
Pension and SERPA Benefits		
Service cost	$ 12,841	$ 12,912
Interest cost	17,148	14,941
Expected return on plan assets	(22,015)	(20,209)
Amortization of unrecognized:		
Prior service cost	1,540	1,673
Net loss	1,604	2,919
Net periodic benefit cost	$ 11,118	$ 12,236
Postretirement Healthcare Benefits		
Service cost	$ 3,270	$ 3,191
Interest cost	5,410	4,895
Expected return on plan assets	(2,808)	(2,496)
Amortization of unrecognized:		
Prior service credit	(281)	(281)
Net loss	1,375	1,734
Net periodic benefit cost	$ 6,966	$ 7,043

The Company does not expect to make additional contributions to further fund its pension and postretirement healthcare plans during the remainder of 2008 beyond the amount of current benefit payments for SERPA and postretirement healthcare plans. During the remainder of 2008, the Company expects to continue its practice of funding the SERPA and postretirement healthcare plans in amounts equal to benefits paid during the year.

10. Commitments and Contingencies

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

Shareholder Lawsuits:

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

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

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

The Company believes the allegations against all of the defendants in the lawsuits against the Company are without merit and it intends to vigorously defend against them. Since all of these matters are in the preliminary stages, the Company is unable to predict the scope or outcome or quantify their eventual impact, if any, on the Company. At this time, the Company is also unable to estimate associated expenses or possible losses. The Company maintains insurance that may limit its financial exposure for defense costs and liability for an unfavorable outcome, should it not prevail, for claims covered by the insurance coverage.

Security Breach Lawsuit:

On January 22, 2007, a purported class action lawsuit was filed in the Supreme Court of the State of New York against Harley-Davidson, Inc. and the Harley Owners Group. The complaint alleges that the Company was negligent in failing to properly safeguard, protect and keep confidential the personal Customer Identifiable Information that was stored on a Company laptop computer that was lost on or about August 14, 2006. The complaint also alleges that Harley-Davidson breached fiduciary duties and made false and fraudulent representations and warranties to its customers that it would keep confidential and safeguard and protect the personal customer information in its possession. The complaint seeks unspecified damages. On February 23, 2007, this matter was removed to the United States District Court Southern District of New York. On April 5, 2007, the Company filed a motion to dismiss the complaint. On March 20, 2008, the United States District Court Southern District of New York granted the Company s motion to dismiss the lawsuit.

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Environmental Matters:

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

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

Although the RI/FS is still under way and substantial uncertainty exists concerning the nature and scope of the additional environmental investigation and remediation that will ultimately be required at the York facility, the Company estimates that its share of the future Response Costs at the York facility will be approximately $7.2 million. The Company has established reserves for this amount, which are included in Accrued Liabilities in the 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 December 2008, for certain claims related to environmental contamination present at the date of sale, up to $20.0 million. Based on the environmental studies performed, the Company does not expect to incur any material expenditures under this indemnification.

Product Liability Matters:

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

11. Subsequent Event

In response to U.S. retail trends and uncertainty regarding the future of the economy, the Company announced plans on April 17, 2008 to ship fewer motorcycles to its worldwide dealer network in 2008 than it shipped in 2007. The Company intends to achieve the shipment reduction through temporary plant shutdowns and adjusted daily production rates. Those changes will in turn result in a reduction of its workforce by approximately 370 unionized production employees. The Company also plans to reduce its non-production workforce by approximately 360 workers. The planned workforce reductions represent approximately 6.5% of the Company s North American unionized production employees and approximately 10% of the Company s North American non-production workers. The Company expects to complete the workforce reductions in 2008.

The Company anticipates that it will record pre-tax charges of approximately $20 million to $25 million during the second quarter of 2008 in connection with the workforce reductions, all of which involve severance benefits (one-time termination benefits). The Company believes substantially all of such charges will result in cash expenditures, although the timing of the expenditures will vary.

Item 2. Management s Discussion and Analysis of Financial Condition 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). HDMC produces heavyweight motorcycles and offers a line of motorcycle parts, accessories, general merchandise and related services. HDMC manufactures five families of motorcycles: Touring, Dyna®, Softail®, Sportster® and VRSC . Buell produces premium sport performance motorcycles and offers a line of motorcycle parts, accessories and apparel. HDFS provides wholesale and retail financing and insurance programs primarily to Harley-Davidson and Buell dealers and customers.

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

Overview and Outlook(1)

The Company s 2008 first quarter net revenue of $1.31 billion was up 10.8% compared to the first quarter of 2007 driven by a 6.1% increase in shipments of Harley-Davidson® motorcycles over the same quarter last year, favorability resulting from changes in foreign currency exchange rates and product mix. However, lower operating income from Financial Services combined with a decrease in investment income resulted in a 2.5% decrease in net income for the first quarter of 2008 compared to the first quarter of 2007. Despite lower net income, diluted earnings per share in the first quarter of 2008 were up 6.8% over the same quarter last year driven by the positive impact of fewer weighted-average shares outstanding. Diluted weighted-average shares outstanding were 20.9 million lower in the first quarter of 2008 compared to the first quarter of 2007 primarily due to the Company s repurchases of common stock occurring over the last twelve months.

Worldwide retail sales of Harley-Davidson motorcycles at the Company s independent dealers declined 5.6% during the first quarter of 2008 when compared to the same period last year. In the U.S., retail sales of Harley-Davidson motorcycles decreased 12.8% during the first quarter of 2008 while the heavyweight motorcycle industry in the U.S. decreased 14.0% during the same period. Lower retail sales of Harley-Davidson motorcycles in the U.S. were partially offset by higher retail sales in international markets where sales of Harley-Davidson motorcycles increased 16.8% during the first quarter of 2008 compared to the first quarter of 2007.

The Company monitors the motorcycle retail sales environment closely and regularly assesses its wholesale shipment plans. In addition, the Company remains committed to shipping fewer Harley-Davidson motorcycles to its worldwide dealer network than it expects they will sell in 2008. Therefore, in view of U.S. retail trends and uncertainty about the future of the economy, the Company now plans to ship 23,000 to 27,000 fewer Harley-Davidson motorcycles in 2008 than were shipped in 2007, resulting in total planned shipments for 2008 of 303,500 to 307,500 units. The Company expects to ship between 76,000 and 80,000 Harley-Davidson motorcycles in the second quarter of 2008.

This shipment reduction of Harley-Davidson motorcycles will be achieved through temporary plant shutdowns and adjustments to daily production rates. This will result in a decrease of about 370 unionized employees. The Company and its union leaders will work together to implement this reduction. The Company will also be reducing its non-production workforce by about 360 jobs. Based on current assumptions, the Company anticipates that it will record pre-tax charges in the range of $20.0 million to $25.0 million during the second quarter of 2008 in connection with this workforce reduction. The Company believes these actions will better position it for a business environment that it expects will continue to be challenging.

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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 Cautionary Statements included in this report, and in Item 1A Risk Factors of the Company s Annual Report on Form 10-K for the year ended December 31, 2007. 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 (May 1, 2008), and the Company disclaims any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

In light of these actions, the Company now expects 2008 diluted earnings per share to decrease between 15% and 20% from 2007, resulting in expected annual diluted earnings per share of $3.00 to $3.18 for 2008. This supersedes all previous guidance on earnings per share and other measures.

The Company believes it is fortunate to be dealing with the current economic environment from a position of financial strength and with the benefit of an exceptionally powerful brand. The Company is optimistic about its long-term business prospects and plans to continue to invest in marketing, product development and its international business to drive future growth. The Company expects it will continue to utilize free cash flow to return value to shareholders through share repurchases and dividends.

Results of Operations for the Three Months Ended March 30, 2008
Compared to the Three Months Ended April 1, 2007

Overall

For the three months ended March 30, 2008, net revenue totaled $1.31 billion, a $127.4 million or 10.8% increase from the same period last year. Net income was $187.6 million, a decrease of $4.7 million, or 2.5%. Diluted earnings per share were $0.79, an increase of $0.05, or 6.8%. Diluted earnings per share during the first quarter of 2008 were positively impacted by a decrease in the weighted-average shares outstanding, which were 237.3 million in the first quarter of 2008 compared to 258.2 million in the first quarter of 2007. The decrease in weighted-average shares outstanding was driven by the Company s repurchases of common stock over the last year. The Company s first quarter 2008 share repurchases are discussed in further detail under Liquidity and Capital Resources.

Motorcycle Unit Shipments & Net Revenue

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

	Three months ended			
	March 30, 2008	April 1, 2007	(Decrease) Increase	% Change
Motorcycle Unit Shipments				
United States	47,826	48,740	(914)	(1.9%)
International	24,042	19,021	5,021	26.4
Harley-Davidson motorcycle units	71,868	67,761	4,107	6.1
Touring motorcycle units	26,435	21,802	4,633	21.3
Custom motorcycle units*	29,072	30,768	(1,696)	(5.5)
Sportster motorcycle units	16,361	15,191	1,170	7.7
Harley-Davidson motorcycle units	71,868	67,761	4,107	6.1
Buell motorcycle units	2,392	2,558	(166)	(6.5%)

	Three months ended			
Net Revenue				
Harley-Davidson motorcycles	$ 1,017.2	$ 891.5	$ 125.7	14.1%
Buell motorcycles	22.1	21.7	0.4	1.9
Total motorcycles	1,039.3	913.2	126.1	13.8
Parts & Accessories	181.9	188.2	(6.3)	(3.3)
General Merchandise	84.0	76.1	7.9	10.4
Other	1.1	1.4	(0.3)	N/M
Net revenue	$ 1,306.3	$ 1,178.9	$ 127.4	10.8%

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

During the first quarter of 2008, the Company shipped 71,868 Harley-Davidson motorcycles, an increase of 4,107 motorcycles, or 6.1%, from the same quarter last year. Shipments during the first quarter of 2007 were directly impacted by a strike at the Company s assembly plant in York, Pennsylvania that resulted in approximately four weeks of lost production. International shipments grew 26.4% during the first quarter of 2008, which is consistent with the Company s expectation of continued international growth.(1) However, the international shipment increase was partially offset by a 1.9% decline in domestic shipments.

Motorcycles segment net revenue increased $127.4 million, or 10.8%. Net revenue was higher as a result of favorability resulting from changes in foreign currency exchange rates of approximately $46 million. Higher sales volumes for Harley-Davidson motorcycles and General Merchandise combined with lower sales volumes for Parts and Accessories had a net positive impact on revenue of approximately $44 million. Wholesale price increases on Harley-Davidson motorcycles contributed approximately $7 million to revenue. Product mix changes, occurring within and between the motorcycle families, also increased revenue by approximately $31 million.

Product mix is ultimately driven by retail demand, but can vary due to a variety of factors. For example, the first quarter of 2008 year over year mix changes were affected by the strike during the first quarter of 2007, which led to a lower percentage of Touring motorcycle shipments in the first quarter of 2007. Touring models comprised 36.8% and 32.2% of total shipments for the three months ended March 30, 2008 and April 1, 2007, respectively. Custom model unit shipments decreased as a percentage of total shipments while Sportster model unit shipments increased as a percentage of total shipments for the first three months of 2008 compared to the first three months of 2007.

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Harley-Davidson Motorcycle Retail Sales

The Company sells its motorcycles at wholesale to an independent network of distributors and dealers who in turn sell the Company s products at retail. Worldwide retail sales of Harley-Davidson motorcycles decreased 5.6% during the first three months of 2008 relative to the same period last year. Retail sales of Harley-Davidson motorcycles decreased 12.8% in the United States while growing 16.8% internationally. On an industry-wide basis, the heavyweight (651+cc) portion of the market was down 14.0% in the United States (through March) while growing 20.1% in Europe (through February) when compared to the same periods in 2007. The following table includes retail unit sales of Harley-Davidson motorcycles:

Harley-Davidson Motorcycle Retail Sales[(a)]
Heavyweight (651+cc)

	Three months ended March 30, 2008	April 1, 2007	(Decrease) Increase	% Change
North America Region				
United States	46,572	53,426	(6,854)	(12.8%)
Canada	2,683	2,047	636	31.1
Total North America Region	49,255	55,473	(6,218)	(11.2)

	Three months ended			
Europe Region (Includes Middle East and Africa)				
Europe[b]	9,075	8,686	389	4.5
Other	1,074	729	345	47.3
Total Europe Region	10,149	9,415	734	7.8
Asia Pacific Region				
Japan	2,738	2,292	446	19.5
Other	2,562	2,142	420	19.6
Total Asia Pacific Region	5,300	4,434	866	19.5
Latin America Region	1,857	1,211	646	53.3
Total Worldwide Retail Sales	66,561	70,533	(3,972)	(5.6%)

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

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

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The following table includes industry retail motorcycle registration data through the month indicated:

Motorcycle Industry Retail Registrations
Heavyweight (651+cc)

	2008	2007	(Decrease) Increase	% Change
United States (March)[a]	93,155	108,337	(15,182)	(14.0%)
Europe (February)[b]	47,764	39,785	7,979	20.1%

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

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

Cost of Goods Sold

Cost of goods sold was $830.2 million for the Motorcycles segment in the first quarter of 2008, an increase of $74.3 million or 9.8% versus the corresponding period last year. The increased cost was led by higher shipment volumes which had an impact of approximately $31 million. Cost of goods sold also increased by approximately $20 million resulting from changes in foreign currency exchange rates and approximately $10 million related to changes in product mix. Cost of goods sold was also impacted by higher manufacturing costs of approximately $13 million. Higher manufacturing costs were largely the result of increased product content, such as new features and options in the Company s motorcycles. Raw material surcharges were flat when compared to the prior year first quarter.

Gross Profit

Gross profit was $476.1 million for the Motorcycles segment for the first quarter 2008, an increase of $53.1 million or 12.5% versus the same period last year. Gross margin for the first quarter of 2008 was 36.4% compared to 35.9% for the first quarter of 2007. The factors impacting the change in gross margin are detailed under Motorcycle Unit Shipments and Net Revenue and Cost of Goods Sold above.

Financial Services

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

	Three months ended March 30, 2008	Three months ended April 1, 2007	Increase (Decrease)	% Change
Interest income	$ 55.3	$ 50.7	$ 4.6	9.0%
Income from securitizations	10.2	29.2	(19.0)	(65.1)
Other income	27.8	29.3	(1.5)	(4.9)
Financial services income	93.3	109.2	(15.9)	(14.5)
Interest expense	24.6	21.1	3.5	16.7
Operating expenses	33.8	29.2	4.6	15.9
Financial services expense	58.4	50.3	8.1	16.2
Operating income from financial services	$ 34.9	$ 58.9	($24.0)	(40.8%)

During the first quarter of 2008, interest income benefited from higher average retail outstanding receivables, partially offset by lower retail and wholesale lending rates. The decrease in other income was primarily due to a decrease in insurance commission income partially offset by an increase in credit card licensing income and securitization servicing income. Interest expense was higher in the first quarter of 2008 due to increased borrowings to support growth in outstanding receivables, partially offset by lower borrowing costs as compared to 2007.

During the first quarter of 2008, HDFS sold $540.0 million in retail motorcycle loans through a securitization transaction and recognized a loss of $5.4 million. This compares to an $800.0 million securitization transaction with a gain of $13.0 million during the first quarter of 2007. Due to increased volatility in the debt capital markets the Company s first quarter 2008 securitization transaction was smaller than in the same quarter last year. As part of the first quarter 2008 securitization transaction, HDFS retained $54.0 million of the subordinated securities issued by the securitization trust. The subordinated securities that were retained have been included in the investment in retained securitization interests (a component of finance receivables held for investment) in the Condensed Consolidated Balance Sheets. The cash proceeds from this securitization transaction are net of the cost of the retained subordinated securities.

Income from securitizations in the first quarter of 2008 decreased as compared to the first quarter of 2007 due primarily to the loss on the first quarter 2008 securitization transaction. The 2008 loss as a percentage of loans sold was 0.99% as compared to a gain as a percentage of loans sold of 1.63% for 2007. The loss in 2008 was driven by increased securitization funding costs due to capital market volatility and higher projected credit losses.

Annualized losses on HDFS managed retail motorcycle loans were 2.71% during the first quarter of 2008 compared to 2.28% during the first quarter of 2007. The 30-day delinquency rate for managed retail motorcycle loans at March 30, 2008 increased to 4.78% from 4.08% at April 1, 2007. Managed retail loans include loans held by HDFS as well as those sold through securitization transactions. The increase in losses was primarily due to a higher incidence of loss resulting from an increase in delinquent accounts. The Company expects that HDFS will experience higher delinquencies and credit losses as a percentage of managed retail motorcycle loans in 2008 as compared to 2007.[1]

Changes in the allowance for finance credit losses on finance receivables held for investment were as follows (in millions):

	Three months ended March 30, 2008	Three months ended April 1, 2007
Balance, beginning of period	$ 30.3	$ 27.3
Provision for finance credit losses	6.0	2.4
Charge-offs, net of recoveries	(6.2)	(2.3)
Balance, end of period	$ 30.1	$ 27.4