



Liberty Harley-Davidson, LLC Annual Review - 1998/1999

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1999 Summary

1998 was Harley-Davidson's 95th Anniversary, and Liberty Harley's inaugural year.

We opened our doors at a time when Harley-Davidson was (and is) clearly "King of the Road" in heavyweight motorcycles. Fully half of all new heavyweights sold in the United States are Harleys. Used Harleys command a premium which sometimes exceeds the cost of new motorcycles. Companies building Harley clones are opening daily. Harley-Davidson has become one of the darlings of Wall Street.

While these are the best of times for Harley in general, we opened in a territory where Harley suffers long-term image problems. The prior franchisee's standards for customer service and customer satisfaction were so poor, for so long, that the franchise agreement was finally terminated by Harley-Davidson. The situation existed for so long that riders sought, and found, alternatives; aftermarket cycle shops flourish in the area and have developed strong relationships with riders, as have Harley dealers in contiguous territories.

Our challenge is to restore customers' confidence in the Union County franchise. We have aggressively approached the reputational issue:

- We treat every customer like a valued friend.
- In every part of our business we ensure that the value received by the customer exceeds the price paid.
- We take pride in delivering every repaired and/or serviced vehicle in perfect working order.
- We are "The Good Guys". We sell motorcycles at MSRP, with no additional premium.

We stick to our values and initiatives despite a competitive environment that would permit premium pricing of new vehicles and service we would consider substandard.

We continue to believe our investment in this strategy will yield long-term returns as the supply/demand curve for new Harley-Davidsons shift from the current "customer demand" status to a "dealer supply" position. A supply position will be beneficial to those dealers willing to offer competitive price and outstanding service, and will be very challenging to those unwilling or unable to compete. We intend to continue to lead the field in terms of "doing the right thing" for the customer.

We complete our first year exceeding our gross revenue plan, and with net pre-tax profit consistent with projections. We also complete the year as one of Harley-Davidson's top ranked dealers, selling more Genuine Parts and Accessories per motorcycle than any dealer in New Jersey and earning a 96+% ranking in Harley's "Bar and Shield" franchise quality program.

Both "the numbers" and the anecdotal evidence (such as our customers' comments which appear throughout this report) suggest that our philosophy is well received by our customers. We proceed into the new model year with initiatives which will increase our vehicle sales by over 50%, and will produce similar volume increases in service, parts and merchandise sales. We will continue the quality programs, sales philosophy and promotion which position Liberty Harley-Davidson as the premiere motorcycle dealership in the metropolitan area.

"...they are very customer oriented, and do whatever it takes to satisfy the customer. Stu, Tom and their entire staff are terrific - a new jewel in the H-D crown!" - Ed Herman, 11/98



The Liberty Team

This year has reflected tremendous growth of capabilities, both among the original management team and through the addition of key team members. The Service, General Merchandise and Administrative areas all reflect management who have “risen to the challenge” in the past year. Promotions were earned by:

- Scott Covert to Service Manager.
- Paul McGlynn to Assistant Service Manager.
- Michelle McTamney to Office Manager.
- and Liz Novak to General Merchandise Manager.
- Scott Barbosa single-handedly managed the sales process through the year.
- Adam Kantor joined us late in the model year to manage the Parts and Accessories business.

Throughout the year we observed outstanding individual performance. We recognized those employees through both monetary and non-monetary rewards (tickets to Paul Simon, Bob Dylan, Moody Blues, Roger Waters, Rod Stewart, Ozzie Osborne, et al).

We end the model year with a competent team of business managers, and are well positioned to deliver incremental volume and margin from each of our businesses.

TRAINING

Our ongoing commitment to training this year included:

- Five employees studied at Harley-Davidson University in Ft. Lauderdale.
- Six employees attended the H-D Annual Dealer Convention and Seminar in San Diego.
- One employee completed the requisite coursework to earn a BA, Mathematics from George Mason University.
- Two employees trained for, and earned, their NJ Insurance Licenses.
- Five employees have now completed H-D PHD Technical Training, four completed H-D PACE Sales Training, and one employee completed H-D ProSell training.

GOALS & INITIATIVES FOR 2000

We will continue our commitment to training, and are adding several components to round out our educational offering:

- We have enrolled five staff members in a comprehensive Sales Training program, sponsored by Harley-Davidson, at the York Technical Institute.
- We have also enrolled our top technicians in Technical Training at Harley-Davidson in Milwaukee, and the Motorcycle Mechanics Institute in Orlando.
- We are evaluating a tuition reimbursement program which would encourage staff members to obtain additional relevant training at local colleges and/or technical schools.

Additional staff is being developed to support incremental activity and volume in Marketing, Vehicle Sales and Service. We shall continue our recruiting efforts to find *enthusiasts*, who will bring their passion for our sport, to Liberty Harley.

*“They made me feel very comfortable and a part of the “family” the moment I walked in the doors!”
- Wayne Brink, 7/99*



Motorcycle Sales

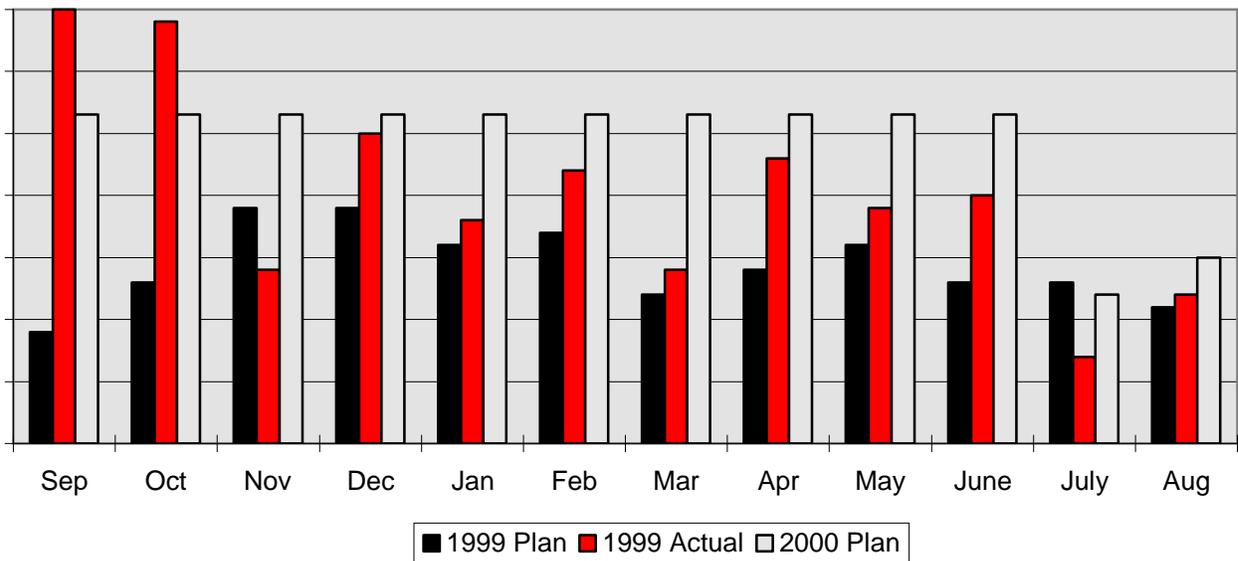
We sell new and used motorcycles, and related finance and insurance products. Qualified customers can purchase their bike by giving us a minimal down payment, finance the balance with us, receive their insurance, title and license plates from us, and ride out the same day. Most ride out with an Extended Service Plan on the vehicle, and with additional insurance to protect them from potential personal financial loss.

NEW MOTORCYCLES

Although we are limited by a shortage of new Harleys we exceeded Harley-Davidson’s initial estimate of our first year new motorcycle sales by 39%. We accomplished this through a number of initiatives and negotiations with Harley.

And, let us mention, *though demand would have allowed us to add a premium to each new Harley we sold, we “did the right thing” for our customers and sold every unit at MSRP.*

NEW HARLEY SALES - IN UNITS



FLEET SALES

In 1999 we laid the groundwork for future contract and fleet sales. As of the writing of this report, we have won the two largest governmental contracts awarded in New Jersey this year. We are replacing the entire Essex County Police and the entire Atlantic City Police motorcycle squads with new Police Model Electraglides and Road Kings - the contracts represent thirty vehicles.

“I waited 15 years to buy my first Harley-Davidson - it was worth every minute of that wait. All in all - I’ve never been more satisfied with an establishment than I am with Liberty Harley.” - Jonathan Faerber, 2/99

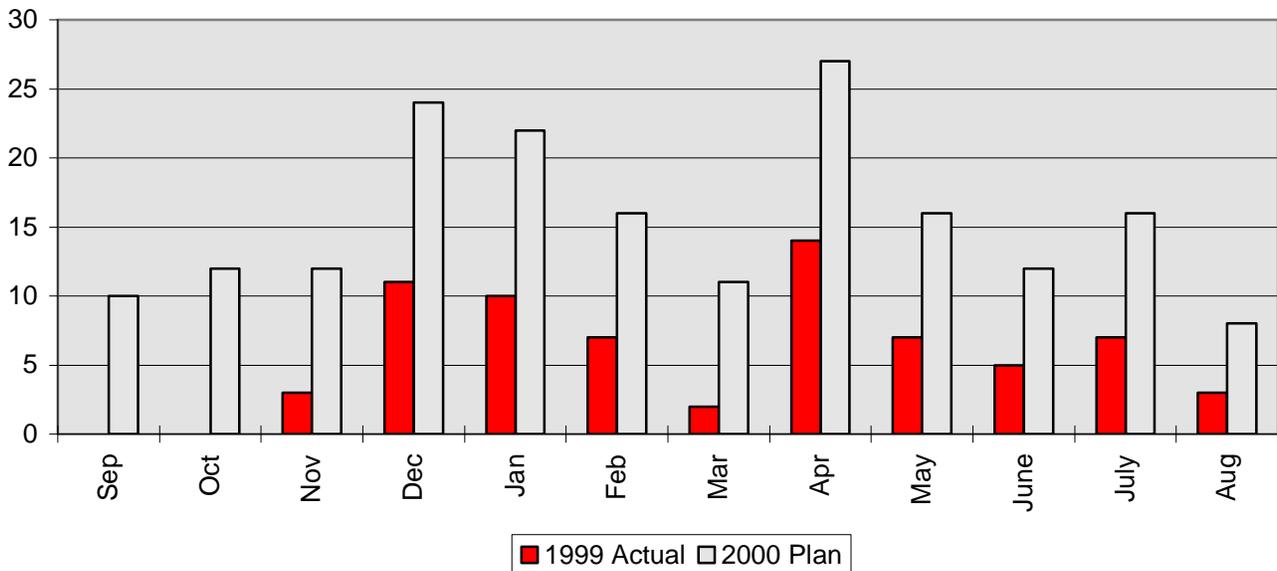


NON-HARLEYS and USED MOTORCYCLES

We also added Titan Motorcycles to our offerings. The decision to carry a second brand was tough - the deciding factor was our belief that Titan sales will not cannibalize Harley sales (and vice-versa) given the disparity in both price and style. While we did limited volume, we are pleased to have sold a half-dozen Titans, at an average price of >\$30,000.

Our used motorcycle business got off to a slow start - primarily as we initially had no inventory. Regardless, we close the first year with sales of 69 used and/or consignment units.

USED & NON-HARLEY SALES



FINANCE AND INSURANCE

We sell a wide enough range of Finance and Insurance products that all our buyers' needs can be handled "in-house". We offer retail vehicle financing, vehicle insurance, GAP insurance, Extended Service Plans and Accident & Health insurance.

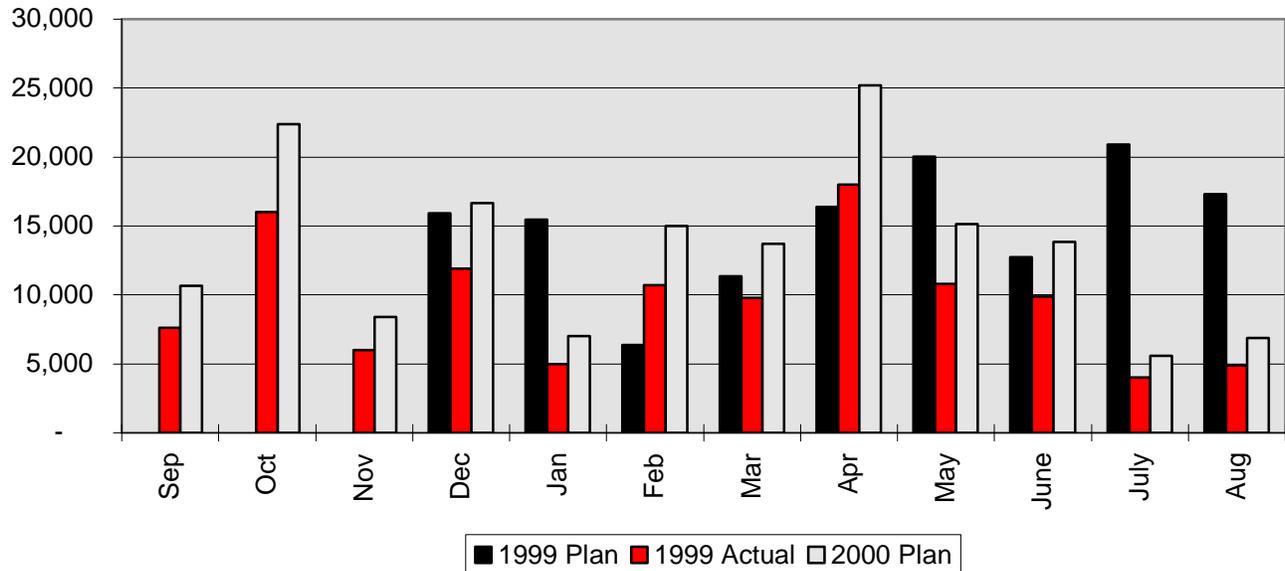
Congratulations and thanks go to both Scott Barbosa and Sam Segal, whose dedication to earning their insurance licenses ensure we can provide the finest insurance to our customers, while achieving the greatest return for Liberty H-D.

This year we financed over \$1.5 million in motorcycles with Harley-Davidson Credit for our customers, and we provided 94.6% of our new vehicle buyers with Extended Service Plans.

"Buying my Harley-Davidson was the culmination of a life-long dream. The guys at Liberty H-D were extremely knowledgeable and made me feel very comfortable despite my "instant biker" status." - Thomas Uzzo, 4/99



F&I REVENUE



GOALS & INITIATIVES FOR 2000

We will continue all current initiatives and add the following, which will produce incremental sales:

- Police Sales - based on our late '99 success, we project sale of 60 Police motorcycles in 2000.
- Shrine and Peace Officer models are available as personal vehicles to individuals who qualify. We project 24 units in 2000.
- We qualify in 2000 for incremental Priority Units based on our "Bar & Shield" score, which placed us in the top 96 percentile nationally.
- Additional administrative support will permit sales staff to focus all efforts on the sales process.
- Incremental sales staff is being developed for both retail and fleet sales.

These incremental activities will permit us to increase our unit sales by 53% over our total model year 1999 sales.

"Throughout the entire process, which I must say was the most relaxing vehicle purchase I have ever been through, I was treated professionally and with respect." - Survey comment by Anonymous Customer, 2/99



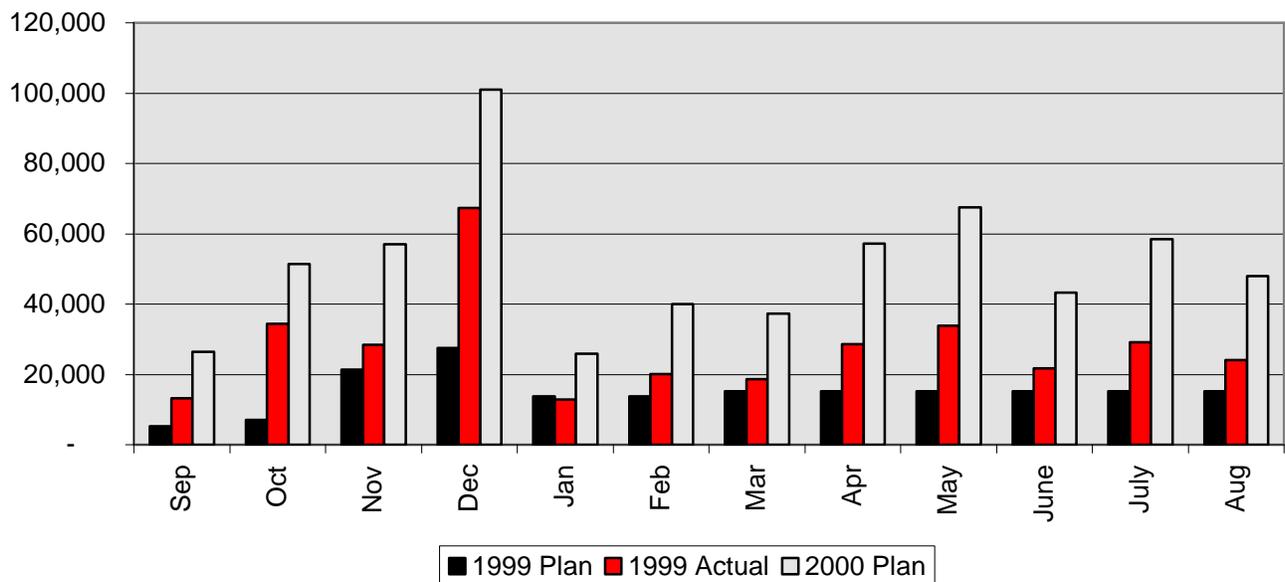
General Merchandise

General Merchandise is all the clothing and other branded products we sell (excluding motorcycles and parts). GM is supplied by Harley-Davidson under the brand MotorClothes, and by several hundred Licensees of Harley-Davidson. There are literally thousands of items available.

We have built a GM business around riding gear (which is most often bought by riders for themselves), and gifts, which consists of both clothing (riding and non) and gifts and collectibles. Our range of price points and products is very broad, ranging from chachkas which cost literally a couple dollars, to functional riding gear in the thousand dollar range.

While we have had a successful year, retailing over \$300K, we are still “testing the waters” to find our niche in this area.

GENERAL MERCHANDISE REVENUE



GOALS & INITIATIVES FOR 2000

While we view our GM sales as “the icing on the cake” with respect to the motorcycle business, we will continue to analyze the market and carve out the niche most relevant to our customers.

For the coming holiday season, we have stocked a very broad range of gift items, are instituting a “Christmas Registry”, and are planning 25 days of sales and events culminating at Christmas.

We move into 2000 with Liz Novak managing the General Merchandise business on a full time basis. Her continued efforts to develop staff and optimize inventory will permit us to double our gross retail sales in the coming year.

“GREAT PLACE TO SHOP!” - Joseph Signoreli, 7/99



Service Department

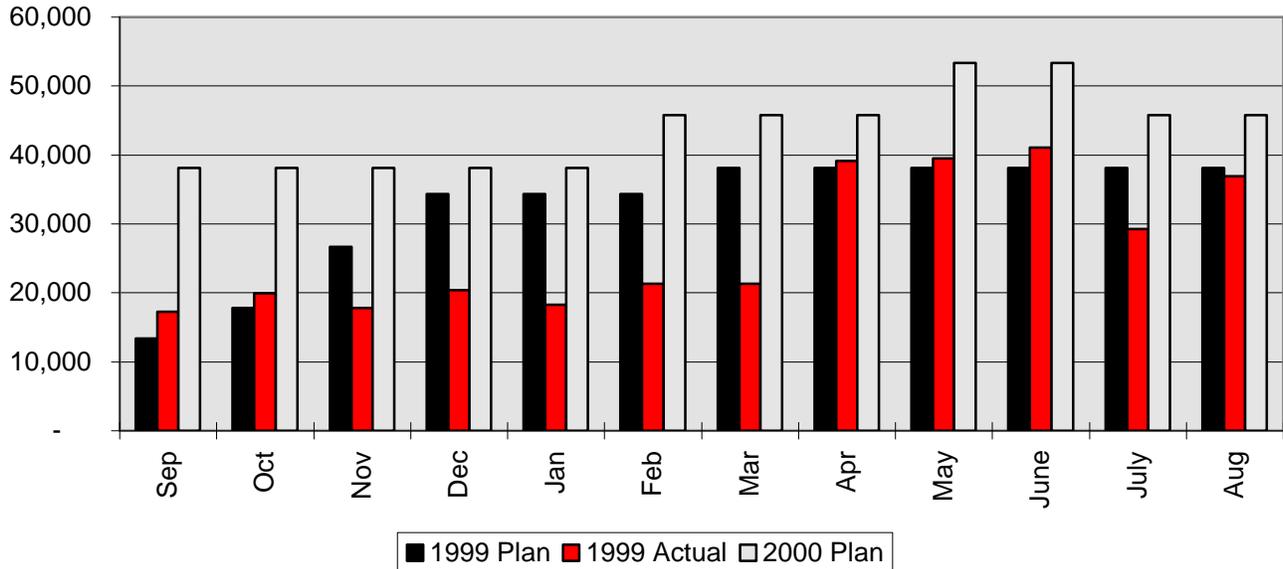
The Liberty Service Department Team was carefully recruited and its members selected on the basis of ability, training, and a true passion for Harley-Davidson. Our team was built around a lead technician who is a PHD Factory Trained Master of Technology certified in all aspects of the service and repair of Harley-Davidson Motorcycles. To create our team we added two factory trained Expert Technicians, and a SWAT trained technician to carefully uncrate and expertly set-up new bikes for our customers. From the very first day the Liberty Service Team went into action, our team was capable of handling, with a high degree of customer satisfaction, any and all service related problems our new service customers presented us with. In fact, the investment we made in sophisticated machining equipment enables us to be among the few Harley dealerships capable of performing all engine repair, machining and rebuilding on-premise.

Besides the proper set-up of motorcycles and the day to day service and repair of our customers' machines, the Liberty Service Team is responsible for the preparation of used bikes offered for sale, as well as the customizing and the careful installation of the accessories ordered by our customers prior to delivery of their bikes. The ability to efficiently and correctly coordinate the service needs of our customers and the service needs of our sales department is no easy task, but time and again the Liberty Service Team has proven that they are up to the job.

Although the Liberty Service Team did not reach its goal of 80% productivity in our first year, we have completed our first year with a comeback rate of less than 1%; we are confident that with continued tracking and leadership our goal of 80% productivity with no increase in customer comebacks can be realized.

It should be noted that our "comeback" rate, which is the primary measure of service quality, far exceeds the current average for Harley-Davidson dealers and the national averages for both motorcycle and automotive dealers.

SERVICE LABOR REVENUE



"I did not buy my bike from this dealer, but everyone at Liberty H-D is very pleasant and helpful. I recommend all my friends go to Liberty Harley. Liberty Harley is the best." - Bert Revill, 8/99



GOALS & INITIATIVES FOR 2000

We have advanced our Lead Technician Scott Covert to the position of Service Manager. Also we have advanced our Service Writer Paul McGlynn to the position of Assistant Service manager.

Throughout our first year we have added five technicians to the Liberty Service Team, three of whom have successfully completed Harley-Davidson factory PHD training, and two who will this coming year. Additionally we have sent our service manager Scott Covert to Milwaukee for factory training on Harley-Davidson's two new engine designs: the Twin-Cam, and the Twin-CamB. John Boyle, Certified Harley-Davidson Technician, is also scheduled to attend Harley-Davidson's Principles of Machining later in the New Year.

All essential tools for the 2000 models were also acquired. Plans are underway for the recruitment of two additional service technicians to handle the anticipated increase in service volume.

We have also commenced the basic processes necessary to participate in the Harley "Service Select" program; this is a workflow management program which will permit us to improve both productivity and efficiency throughout the service process.

With all this in place the Team is positioned to keep pace with the planned volume increase of 53% in the sales of new and used motorcycles and its related increase in our overall customer service needs.

"I have owned 3 Harleys before and never had good luck with any dealership. Liberty is excellent, and I would not buy another bike anywhere else!" - David Delmonico, 2/99



Parts & Accessories

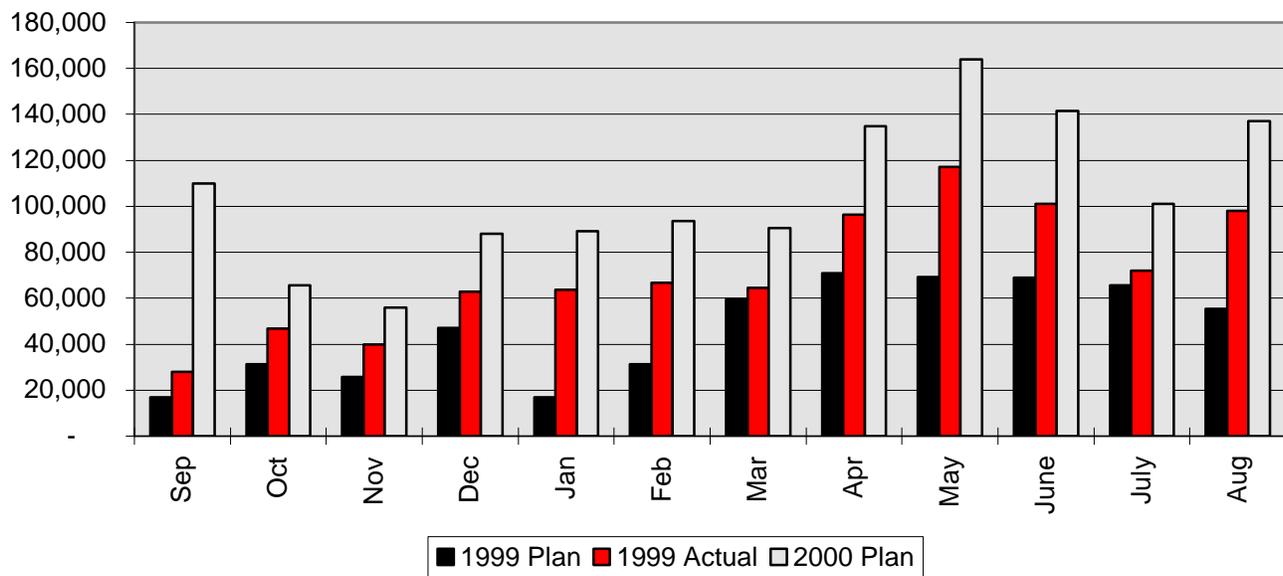
Probably the most challenging area of our business to set-up, Parts and Accessories has had a terrific first year, retailing nearly \$900,000.

At the time we opened, H-D offered 68,000 current part numbers to service 95 years of machines. While we did our best to inventory the 5,000 most needed parts, the six months following opening was required to fine-tune our inventory to suit our daily needs. In fact, though we stocked at the level recommended by H-D, our experience of the past year taught us that that level was neither broad nor deep enough - in short, we have tripled our inventory.

It has also taken a year to develop a team with the necessary competencies to both manage the inventory and satisfy the customers. We end the year with a team of 5 FTE's - 3 individuals are H-D PACE (Parts, Accessories and Clothing Experts) Certified, and one is certified as an H-D PHD Master of Service Technology.

We also end the year with the highest Parts & Accessories per Allocated Motorcycle sales in District 5, New Jersey.

PARTS & ACCESSORIES REVENUE



GOALS & INITIATIVES FOR 2000

- Further fine-tune the inventory, and move toward our 3.5 turns per year goal.
- Develop additional competitive suppliers of locally sourced services (chroming, painting, polishing, etc.)
- Increase gross volume by 50%, while maintaining current margin.

"I have had dealings with most H-D dealers in North Jersey. They could all learn from Liberty Harley-Davidson" - Survey comment by Anonymous Customer, 6/99



Visibility & Promotion

We've developed and/or supported a range of activities which promote both our business and our sport:

Charities

- MDA, The Black & Blue Ball - We participated as a corporate sponsor in the MDA's premiere fundraiser in Union County. This \$100 a plate event drew 300, who enjoyed an evening of dining and dancing, with a charity auction. Liberty Harley also provided motorcycles in the ballroom so each guest could take home a photo of themselves.
- Other charities - Liberty Harley supported over a dozen local area charity events during the year.

Events

- Rides - a motorcycle ride leaves Liberty almost every weekend. Most are 1/2 day, less than 120 mile rides which typically go to a scenic destination, and have lunch along the way. This year 23 rides left Liberty, with over 560 riders.
- Super Saturdays - we hosted three open houses this year, which included sales, custom shows, horsepower shoot-outs, bands, clowns, live radio, etc. Over 6,000 people attended.
- Cruise Nights - just commenced at the end of the model year, we have hosted monthly Cruise Nights, open to motorcycles, antique cars and hotrods. We provide barbecue and soda, and a DJ. Over 100 people has attended each month.
- Sunday donuts - Donuts and coffee are provided in abundance every Sunday morning, and all are invited to "start their Sunday ride at Liberty".

Travel

- Daytona & Sturgis events - We transported over 24 customers cycles to the largest motorcycle events in the country. This was first class luxury transportation, provided by Larry Katz of the Tantara Group.

Web Site

- **www.libertyharley.com** was up and running before we ever opened our doors, giving our potential customers an inside look at the construction project as it developed. We've now linked the site to Harley-Davidson's own web site, and support our own linked custom site which includes motorcycle, event, staff and H.O.G. information.

Relationships

- HOG Chapter - We established a local chapter of the Harley Owners Group, which now boasts over 150 members. The chapter has had meetings, rides and events every month since inception, and continues as an outlet for new and experienced riders to develop friendships and activities with other like-minded individuals.
- Forbes - The Forbes family (Forbes Magazine) continues to maintain the fleet of motorcycles collected by now-deceased patriarch, Malcom Forbes. The fleet is used several times annually to host outings for Forbes Magazine guests. We have supported and participated in the events, and are currently the Forbes family's Harley dealership.

"Great to do business with!" - Louis Kleeman, 8/99



Administrative

Our opening year proved challenging on the Administrative end of the business. It has taken most of the year to institute the processes and controls necessary for the accurate, efficient operation of the business.

The combined efforts of Michelle McTamney, who assumed office management responsibilities mid-year, and Mike Goloff who performed as both our independent accountant and financial and administrative consultant, have produced an environment which exhibits adequate controls, while permitting each internal business the flexibility necessary to satisfy our customers needs.

As we end the model year we are confident that the accounting system accurately reflects the condition of our business, that inventory is reflected accurately, and that we have the necessary controls in place to ensure the continued integrity of our business.

GOALS & INITIATIVES FOR 2000

- Although not an administrative function, the staff will coordinate our move into "E-Commerce"; we are positioned to be one of the initial U.S. dealerships selected by Harley-Davidson. The E-Commerce program will roll-out late winter/early spring.
- We are completing the preliminary evaluation of Demand Chain Integration, a process management program which has produced excellent results in fifteen test Harley franchises.
- We are planning a required upgrade of our systems to "Talon²"; conversion date will be scheduled once H-D Dealer Systems is comfortable with performance at all Beta and "First Wave" sites.
- Administrative Services will move from the main floor of the building to the lower level. This will permit the addition of much-needed incremental administrative staff.

"Liberty Harley is a showplace for the company." - Bill Haenn, 1/99