



Liberty Harley-Davidson, LLC Annual Review

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1999 HARLEY-DAVIDSON
MOTOR COMPANY
“BAR & SHIELD” AWARD



2000 DEALER NEWS
TOP 100 DEALER IN THE U.S.



1999 HOME NEWS TRIBUNE
READER POLL



1999 HARLEY-DAVIDSON
FINANCIAL SERVICES
“PRESIDENT’S AWARD”



2000 Summary

We entered the 2000¹ model year challenged by restoring Harley-Davidson owners' confidence in the Union County franchise – confidence which eroded over years of substandard performance by the prior franchisee. We have continued to treat every customer like a valued friend. We continue to strive to ensure that in every part of our business the value perceived by the customer exceeds the price paid.

We are starting to see the results of our philosophy:

- Dealer News Magazine, a respected motorcycle industry publication, named Liberty Harley-Davidson one of the "Top 100" dealerships in the country. The criteria for this award were innovation and excellence in promotion, marketing and sales strategies.
- Harley-Davidson Motor Company awarded Liberty Harley a Bronze Bar & Shield award. The Bar & Shield program rates and recognizes dealerships' quality of operations, marketing and customer satisfaction.
- Harley-Davidson Financial Services presented Liberty Harley the President's Award, recognizing us as a leading dealership in our class.
- The readers of the Home News Tribune (a Gannet Newspaper) voted Liberty Harley as "One of the Best of Central Jersey".

Additionally, we achieved excellent results on several fronts:

- We completed the model year as the #1 Harley dealer in our district (most of NJ, eastern PA, Delaware) in sale of Parts, Accessories and Clothing, per allocation. Achieving this required we surpass the results of dealerships both larger and longer established than our own.
- We produced excellent growth over the prior model year, averaging 32.5% across all lines of business.
- We were able to reinvest heavily in building a parts, accessories and general merchandise inventory which increased customer satisfaction through more timely delivery of product.

We are proud of the recognition bestowed on us by the industry, the Motor Company and especially our customers, and are equally proud of the results we've produced.

We complete our second year exceeding our gross revenue plan, and with net pre-tax earnings consistent with projections. We also complete the year as one of Harley-Davidson's top dealers. We move into the 2001 model year positioned to build on our early successes.

¹ The "Model Year" runs from August 1 – July 31. References to 2000 are to 8/1/99-7/31/00, references to 2001 are 8/1/00-7/31/01.



“The customer’s always right.”

“This is a great dealership! They are tops when it comes to Harley Motorcycles.”

Ed Herman, owner of a 1999 Dyna Wide Glide
2/00 excerpt from a Service Survey

“My wife had limited knowledge in buying a Harley. She wanted to surprise me for Christmas. She went to Liberty Harley and was able to buy a 2000 FatBoy and came home feeling very, very good about the experience. They made her feel comfortable and treated her with utmost respect. She loves going there.”

Albert Lombardi, owner of a 2000 FatBoy
3/00 excerpt from a New Owner Survey

“Your entire dealership is both courteous and sincere in their customer service. All of your personnel went out of their way when it was time to accessorize my “baby” to guide me but at the same time I didn’t feel I was being “ripped off”. Liberty Harley is what other dealerships should aspire to be.”

Mike Delviscovo, owner of a 2000 Sportster 883 Custom
7/00 excerpt from an unsolicited e-mail

“Liberty Harley was recommended to me by Mr. Joe Flammia – and if you know Joe, if he recommends a place, then you know it has to be good and more importantly reputable. . . .A great experience, which I will highly recommend to all my friends. . . . I will be only too happy to recommend Liberty Harley-Davidson to my friends. My compliments to you and your staff for the wonderful service, courtesy and convenience.”

Vince Tropeano, owner of a FatBoy
8/00 excerpt from an unsolicited letter

I would highly recommend Liberty Harley to my friends and family. The personnel are extremely knowledgeable and courteous.”

Gary E. Cascio, owner of a 2000 Sportster Hugger
Excerpt from a New Owner Survey

“I felt and was treated like I’ve known the people at this dealership for ten years. Everybody that I dealt with at this dealership . . . did a fantastic job helping me to reach my goal, buying my first Harley. They made my experience in buying a Harley one I’ll never forget”

Dale Davis, owner of a 2000 Dyna Wide Glide
4/00 excerpt from a New Owner Survey



The Liberty Team

This year reflected continued development of our management staff:

- Scott Barbosa joined us on Day One as Sales Department (the whole thing). During his first year Scott earned his NJ Insurance License. This year Scott added sales staff to enable expansion of our used motorcycle business.
- Tony Bordonaro joined us this year as General Merchandise Manager. Tony, a longtime Harley rider, managed the fur department at Bloomingdale's (Bergen) for over a decade. He brings a wealth of retail experience to our General Merchandise business, and has made an excellent start realigning both our inventory and our staff.
- Scott Covert, who has over 20 years experience as a Certified H-D Technician and who has earned the coveted "Master of Service Technology" level, began with us on Day One as our Lead Technician. He has since advanced to Service Manager.
- Paul McGlynn, who joined us as a Service Technician, has filled several positions since he started with us on Day One. Paul is the only member of the Team with certification as a PHD Motorcycle Technician, a Parts-Accessories-Clothing Expert (PACE), and a ProSell Sales Certification. This year Paul assumed responsibility as Parts & Accessories Manager.
- Michelle McTamney, who started with us on Day One following successful completion of a Baccalaureate of the Arts, Mathematics, continues as Office Manager. Her responsibilities have expanded to include our HR function and our embryonic E-commerce business.

We are pleased with the development of our Management Team, and enter the 2001 model year planning the continued development of our current team.

TRAINING

We've continued our ongoing commitment to staff training by sending employees to Harley-Davidson University in Ft. Lauderdale, the H-D Annual Dealer Convention and Seminar in San Diego and the York Technical Institute for both Customer Service and Financial Services training.

GOALS & INITIATIVES FOR 2001

We will continue our commitment to training, and are now participating in a Tuition Reimbursement program with the Motorcycle Mechanics Institute (Florida and Arizona) to attract the best new technical talent.

We shall also continue our recruiting efforts to find *enthusiasts*, who will bring their passion for our sport, to Liberty Harley.



Visibility & Promotion

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

LIBERTY CHAPTER – THE HARLEY OWNERS GROUP (HOG)

Our dealership's HOG chapter has had a phenomenal year. They have sponsored dozens of rides, a Summer Picnic/Poker Run/Field Meet, and a Toy Run for the juvenile patients at the Robert Wood Johnson University hospital. We are very proud of the Chapter, which now has approximately 150 active members, and a competent slate of dedicated officers. It truly has developed as an outlet for new and experienced riders to develop friendships and activities with other like-minded individuals.

THE LIBERTY INFORMER

This year we introduced the "Liberty Informer", a direct-mail newsletter which is mailed to all our customers. The Informer contains news about our customers, our HOG Chapter, new products and services, tech tips and personnel profiles. The Informer is published eight times annually, and contains articles written by members of the Liberty Harley Team.

OUR PRIMARY CHARITIES - THE BLACK AND BLUE BALL, AND THE TOY RUN

We again participated as a corporate sponsor in the MDA's premiere fund-raiser in Union County. This is a "black tie and blue jeans" (or some variation thereof) event, featuring dining, dancing and a charity auction. We subsequently appeared on the Jerry Lewis Telethon to present a check representing funds raised at the event. We are currently planning much deeper involvement in the 2001 event, and have established a goal of raising \$80,000.

The TOY RUN – our HOG Chapter coordinated our first Toy Run, to Robert Wood Johnson University Hospital. Over 300 motorcycles rode from Liberty to the Hospital, to present a dumptruck load of toys to the kids. Santa rode in a Harley sidecar, and was escorted by eight reindeer-horned Essex County Sheriffs on Police Harleys – the spectacle attracted considerable attention and earned a front-page color photograph in the local paper.

LIVIN' THE LIFESTYLE

Over 30 motorcycle rides, some sponsored by our HOG Chapter and some by the store, left the dealership this year. Rides went to places like the Strasburg Railroad, Bear Mountain, the All Harley Drags, the Seafood Festival in Atlantic Highlands, the Feast of San Gennaro, and dozens of other destinations. Hundreds of riders participated in Liberty rides this year.

Every Thursday night all summer was Cruise Night at Liberty, and included a (free) barbecue and DJ on our parking lot, followed by a ride. Over 500 riders and guests attended through the summer.

We still put out donuts and coffee every Sunday morning and all are invited to "start their Sunday ride at Liberty".

For the riders who really want to immerse in the lifestyle, we continue to arrange motorcycle transport to the major happenings (Daytona & Sturgis). We continue our relationship with Larry Katz of Kustomize Karriers, who transported dozens of our customer's cycles to these events.



Parts & Accessories

Last year in our first report we said “Parts and Accessories has had a terrific first year, retailing nearly \$900,000”. We’re pleased to report P&A had an even better second year, retailing nearly \$1.4 million.

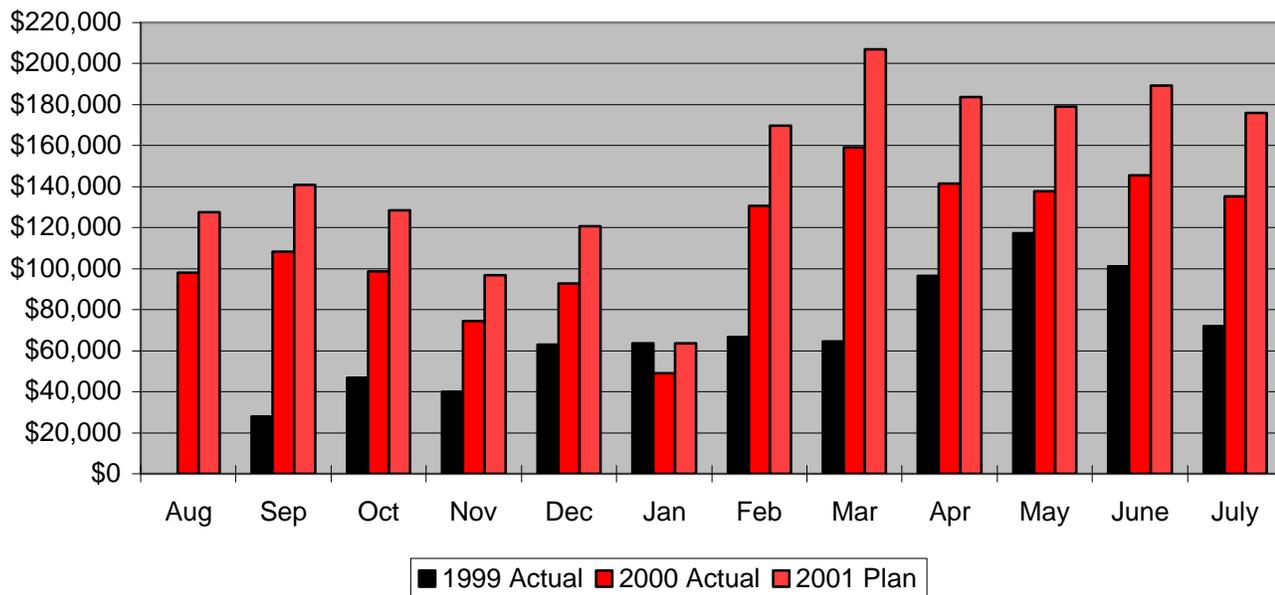
It has required a staff with deep experience to manage our inventory and properly service our customers:

- Paul McGlynn, who manages the department is certified in PACE and ProSell, and is a PHD Technician. He has hands-on experience in both service and parts.
- Ray Barna, who is a counterman and PACE certified, joins us with 19 years experience at another Harley-Davidson dealership.
- Keith Small, who is also a counterman, is a Harley PHD Technician and has experience in both an authorized dealership (H-D of Indianapolis) and an aftermarket custom shop.
- Larry Bell, who performs shipping and counter duties, brings aftermarket motorcycle shop experience from his home in Iowa.

All are active motorcycle enthusiasts whose knowledge and genuine concern for our customers has produced a record year.

We end the year with the highest Parts & Accessories per Allocated Motorcycle sales in all of District 5 (Central and South Jersey, Eastern PA, Delaware).

PARTS & ACCESSORIES REVENUE



GOALS & INITIATIVES FOR 2001

Further fine-tune our inventory, and move toward our goal of 3.5 turns annually.

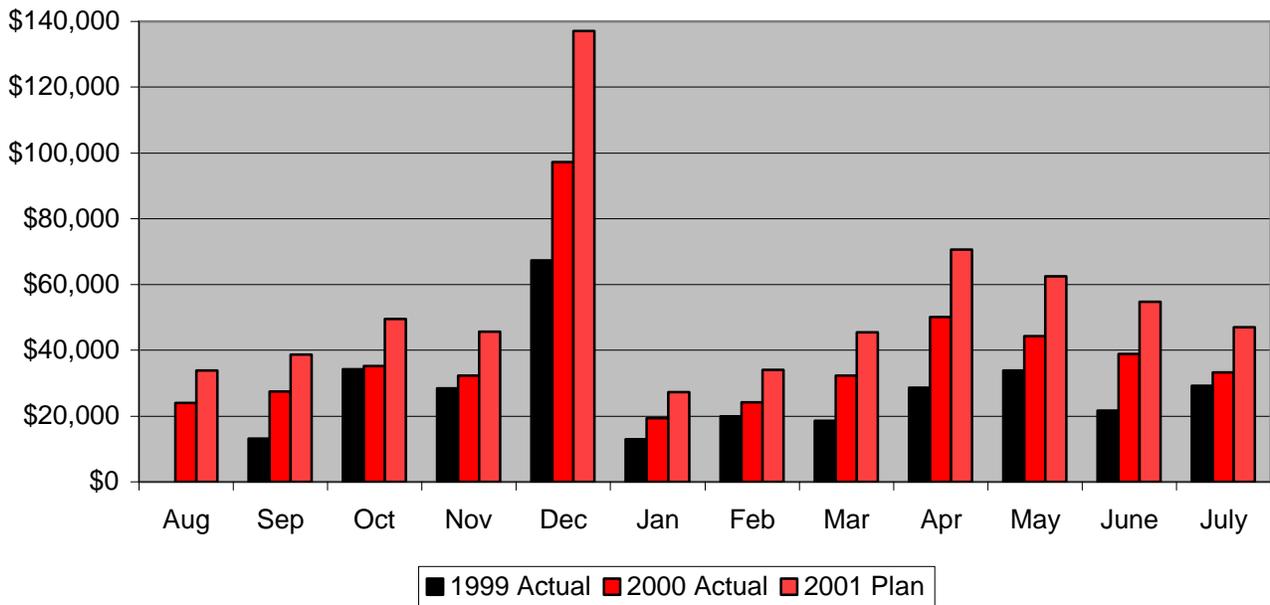


General Merchandise

This year we fine-tuned our selection of General Merchandise to better present the most appropriate products – riding gear in spring and summer, gifts and leather in the fall, cold weather gear in winter. We have strengthened our relationships with several licensees, and have modified the mix of general merchandise to include a higher percentage of Licensed Products (vs. MotorClothes) than in the past. This mix offers our customers lower price points and greater selection, while providing us with better margins and availability of product.

The result of our inventory shift and staff changes resulted in a 41% increase in sales over the prior year – given the strong result of our initial changes, we project excellent growth in the 2001 model year.

GENERAL MERCHANDISE REVENUE



GOALS & INITIATIVES FOR 2001

While 41% growth over prior year is indeed phenomenal, we believe there is considerably more opportunity in this area:

- A restructuring of our inventory is in process, with a predisposition to riding gear (with the exception of the Holiday season).
- We are increasing inventory, while matching new high levels to appropriate seasons and “just in time” delivery.
- We have commenced re-negotiation of price with licensees, which will improve both our price points and our margins.

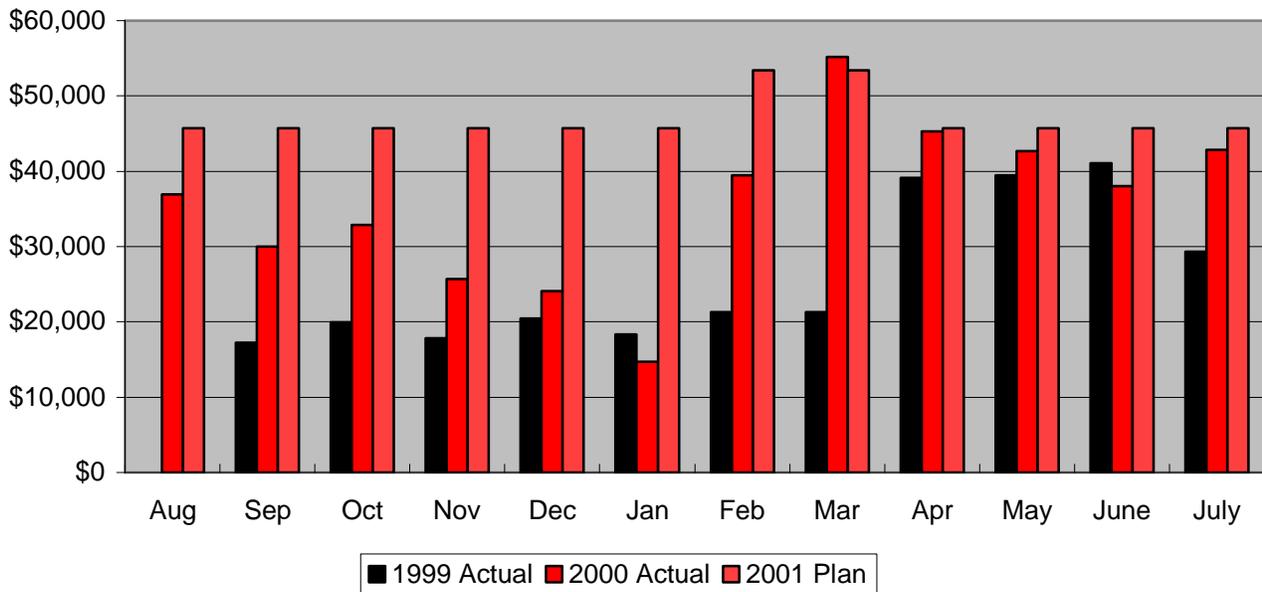
As a result we project continued growth at current rates into the coming year.



Service Department

With each passing month the Service Department raised the bar from our 1999 service labor sales. As you can see by the graph, the last 6 months of labor sales has easily surpassed last year’s sales. As a result, we will once again raise the bar with regards to our Service Shop Potential.

SERVICE DEPARTMENT LABOR



The Liberty Management Team has joined forces with the Motorcycle Mechanics Institute (MMI) to get first access to their finest graduates by participating in the tuition reimbursement program. This model year we added one additional Master of Service Technician, as well as one additional MMI Graduate.

We are also in process of implementing the Harley-Davidson Digital Technician Program, which will allow our service department to interface directly with Harley-Davidson's new online digital service database, and will expedite diagnosis of extraordinary service conditions.

Because of our constant evaluations and the changes we make in response to our changing needs, we fully expect the next model year to once again surpass our expectations.



Administrative & E-Commerce

The Administrative staff is responsible for bookkeeping, HR support, record keeping, systems support, web site development and support, E-Commerce, and dozens of other tasks necessary to keep the service, sales and parts departments operating. Notably, this year:

- We were one of eight pilot stores for E-Pay, a web-based accounts payable function which allows us to utilize the web to determine which H-D invoices to pay, supported by an ACH function to process the payment same day. E-Pay simplifies our accounts payable processing, and reduces the float on our payments. Offered by H-D Financial Services, supported by Bank of America, the program is now being offered to all H-D dealers.
- We continued making excellent progress developing our in-house bookkeeping and accounting capabilities this year. Regular reviews by our external accountant have confirmed the accuracy of our accounting processes.
- The Administrative Staff took responsibility for production of the Liberty Informer, our customer newsletter. All production of the newsletter, and maintenance of the database is performed in-house.

E-COMMERCE



Michelle McTamney heads our E-commerce initiative, which this year linked our web site, www.libertyharley.com, to the Genuine Harley-Davidson Roadstore (at www.harley-davidson.com). We are one of a select group of dealers in the ongoing pilot program, and have been the most successful in our district in sales.

Our pilot program commenced in early spring; though gross sales throughout the pilot program were low, we have established the infrastructure necessary to process and fulfill orders, and anticipate an active online holiday 2000 season.

GOALS & INITIATIVES FOR 2001

We are planning an 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.



Motorcycle Sales

In addition to new and used motorcycles, we offer our customers related finance and insurance products, and Harley-Davidson Financial Services recognized our performance by presenting us with the President’s Award.

This year we incremented staff in both the sales and support areas, increasing sales staff by one and increasing clerical staff to support the sales effort.

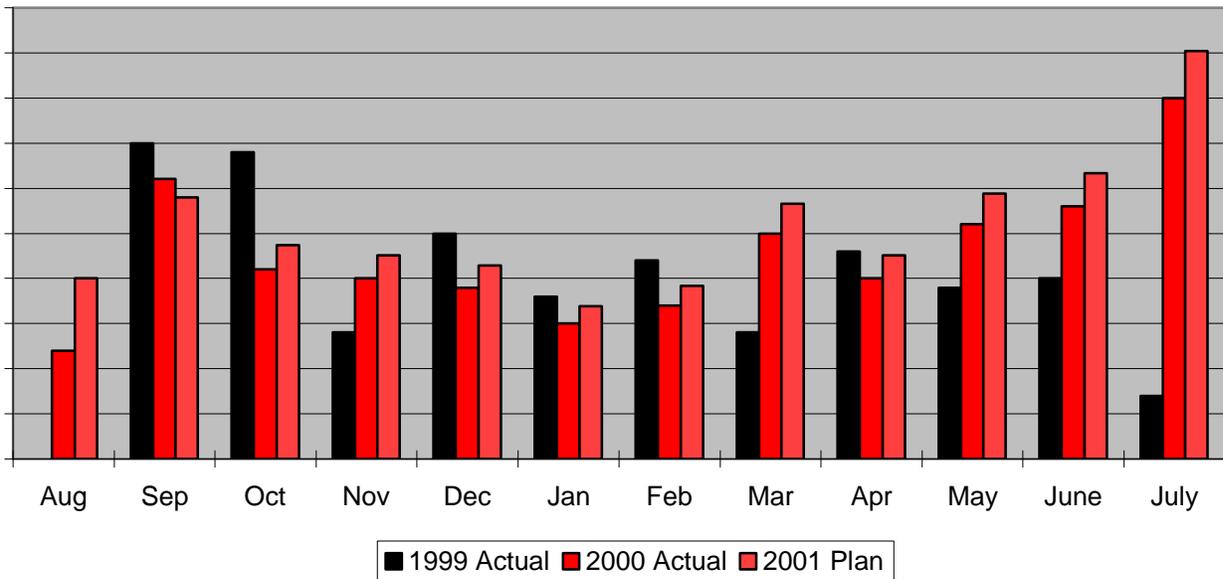
NEW MOTORCYCLES

Our initial model year got off to a flying start, as Harley graciously provided us with an up-front 22% increase over our motorcycle allocation allowing us to open with an impressive selection of motorcycles. Our challenge this year was to exceed our opening year, though there was no subsequent “one time” increase in motorcycles. We are pleased to report that not only did we match our first year new motorcycle sales, we exceeded them by 13%, as a result of:

- Additional new units we earned though our commitment to, and our outstanding results in, Harley-Davidson’s quality excellence program, Bar & Shield.
- Fleet sales initiatives and direct sales to Police Officers

And again, let us mention, *though demand would have allowed us to add a premium to each new Harley we sold, we sold every unit at MSRP, and produced the necessary profitability by up-selling each customer value-added products consistent with their needs.*

NEW HARLEY SALES - IN UNITS





FLEET, PEACE OFFICER & SHRINE SALES

We established relationships with many Departments, and consummated sales to the Sheriff’s Departments in Essex and Bergen, and the Police Department in Elizabeth. Units were sold with a guaranteed annual replacement program, which ensures that the departments will have new units annually, and that Liberty Harley will have a guaranteed source for nearly new Police units to retail to the public in future years.

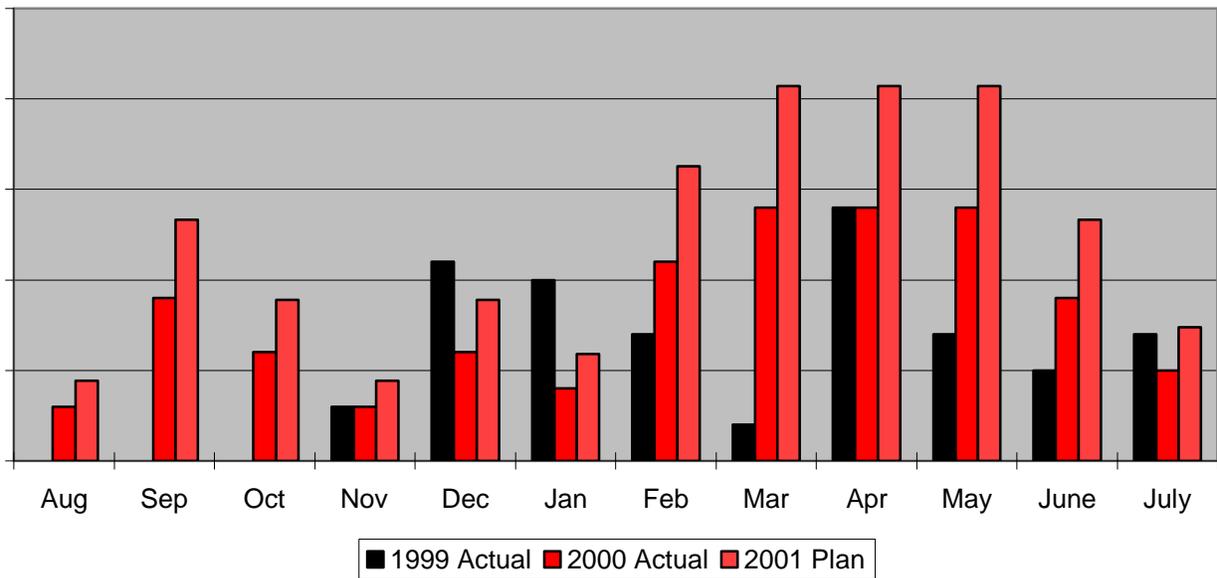
Our Sales Department had an encouraging first year with Police, Peace Officer and Shrine Special Edition Motorcycles. Although produced in limited numbers, these models are provided above the dealerships’ allocation of retail units. Our networking through the Police Departments and Temples resulted in 27 units sold this model year.

NON-HARLEYS and USED MOTORCYCLES

While our used and non-Harley sales got off to a slow start in our first model year, we did this year see a 48% increase in sales. Though the volume is still relatively light, we project a similar sales increase in the coming model year.

Our first full year representing Titan resulted in eight sales of these premiere factory customs. While this is considerably less than anticipated, each sale brings referrals and service business.

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. Again, Harley-Davidson Financial Services recognized our performance by presenting us with the President's Award.

This year we financed over \$1.7 million in motorcycles with Harley-Davidson Credit for our customers, and we provided 94% of our new vehicle buyers with Extended Service Plans, and acted as insurance agent for a majority of our motorcycle buyers.

SALES DEPARTMENT GOALS & INITIATIVES FOR 2001

We move into the 2001 model year with some fundamental changes to our new motorcycle sales policy, which will produce both higher levels of customer satisfaction and increased revenues:

- In prior years we sold some stock motorcycles at MSRP "from the floor". Motorcycles could only be "pre-ordered" by customers who committed to a "custom package" of parts and accessories, or who traded a used Harley. An unforeseen result of this strategy was lower than expected Customer Satisfaction scores (resulting from late deliveries of motorcycles).
- We have modified our internal allocation of motorcycles by directing a much larger percentage to the floor, *but completely accessorized with the most popular Harley P&A*. Our early results indicate this will provide instant gratification in terms obtaining the cycle, and will result in much higher levels of customer satisfaction.
- We have developed a Liberty Limited Edition Vehicles program, which will package specific Harley and Titan motorcycles with Extended Service, Prepaid Maintenance, Certificate of Authenticity and a custom leather jacket. Again, early results are positive.

Police, Shrine and Peace Officer models continue to be a compelling opportunity, and we are again pursuing these opportunities aggressively.

We qualify in 2001 for incremental units based on our continued outstanding "Bar & Shield" performance, and have instituted procedures which will ensure top Bar & Shield performance in the coming year.

These incremental activities will permit us to increase our unit sales nearly 30% during the 2001 model year.