

POLARIS INDUSTRIES INC/MN

Form 10-Q

July 22, 2016

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

FORM 10-Q

(Mark
one)

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

For the quarterly period ended June 30, 2016

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 1-11411

POLARIS INDUSTRIES INC.
(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of
incorporation or organization)

41-1790959
(I.R.S.
Employer
Identification
No.)

2100 Highway 55, Medina MN
(Address of principal executive offices)

55340
(Zip Code)

(763) 542-0500
(Registrant's telephone number, including area code)

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of July 15, 2016, 64,090,736 shares of Common Stock, \$.01 par value, of the registrant were outstanding.

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 FORM 10-Q
 For Quarterly Period Ended June 30, 2016

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Part I FINANCIAL INFORMATION
Item 1 – FINANCIAL STATEMENTS
POLARIS INDUSTRIES INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 146,633	\$ 155,349
Trade receivables, net	142,434	150,778
Inventories, net	692,272	710,001
Prepaid expenses and other	64,201	90,619
Income taxes receivable	20,013	46,175
Total current assets	1,065,553	1,152,922
Property and equipment, net	696,241	650,678
Investment in finance affiliate	93,870	99,073
Deferred tax assets	170,955	166,538
Goodwill and other intangible assets, net	273,896	236,117
Other long-term assets	95,129	80,331
Total assets	\$2,395,644	\$2,385,659
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of debt, capital lease obligations and notes payable	\$4,821	\$5,059
Accounts payable	348,376	299,660
Accrued expenses:		
Compensation	80,348	106,486
Warranties	76,873	56,474
Sales promotions and incentives	138,679	141,057
Dealer holdback	119,833	123,276
Other	103,211	88,030
Income taxes payable	9,728	6,741
Total current liabilities	881,869	826,783
Long-term income taxes payable	23,864	23,416
Capital lease obligations	19,178	19,660
Long-term debt	444,126	436,757
Deferred tax liabilities	12,887	13,733
Other long-term liabilities	78,511	74,188
Total liabilities	\$1,460,435	\$1,394,537
Deferred compensation	\$11,027	\$9,645
Shareholders' equity:		
Preferred stock \$0.01 par value, 20,000 shares authorized, no shares issued and outstanding	—	—
Common stock \$0.01 par value, 160,000 shares authorized, 64,091 and 65,309 shares issued and outstanding, respectively	\$641	\$653
Additional paid-in capital	626,854	596,143
Retained earnings	367,476	447,173
Accumulated other comprehensive loss, net	(70,789)	(62,492)
Total shareholders' equity	924,182	981,477

Total liabilities and shareholders' equity	\$2,395,644	\$2,385,659
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The accompanying footnotes are an integral part of these consolidated statements.

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CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Three months ended		Six months ended June	
	June 30,		30,	
	2016	2015	2016	2015
Sales	\$1,130,777	\$1,124,327	\$2,113,773	\$2,157,672
Cost of sales	846,274	804,913	1,581,692	1,544,527
Gross profit	284,503	319,414	532,081	613,145
Operating expenses:				
Selling and marketing	77,820	79,656	155,061	149,341
Research and development	45,579	41,431	88,688	80,294
General and administrative	64,566	51,948	134,146	101,487
Total operating expenses	187,965	173,035	377,895	331,122
Income from financial services	20,464	17,638	39,960	32,280
Operating income	117,002	164,017	194,146	314,303
Non-operating expense:				
Interest expense	3,802	2,972	6,667	5,882
Equity in loss of other affiliates	1,583	1,748	3,641	3,371
Other expense, net	1,805	2,681	1,886	10,121
Income before income taxes	109,812	156,616	181,952	294,929
Provision for income taxes	38,646	55,673	63,897	105,423
Net income	\$71,166	\$100,943	\$118,055	\$189,506
Basic net income per share	\$1.10	\$1.52	\$1.82	\$2.86
Diluted net income per share	\$1.09	\$1.49	\$1.80	\$2.79
Weighted average shares outstanding:				
Basic	64,406	66,324	64,726	66,376
Diluted	65,297	67,829	65,639	67,987

The accompanying footnotes are an integral part of these consolidated statements.

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POLARIS INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income	\$71,166	\$100,943	\$118,055	\$189,506
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments, net of tax benefit (expense) of (\$172) and \$28 in 2016 and \$198 and \$213 in 2015	(10,904)	2,465	(1,038)	(27,691)
Unrealized gain (loss) on derivative instruments, net of tax benefit (expense) of \$44 and \$4,318 in 2016 and \$798 and (\$137) in 2015	(74)	(1,341)	(7,259)	231
Comprehensive income	\$60,188	\$102,067	\$109,758	\$162,046

The accompanying footnotes are an integral part of these consolidated statements.

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POLARIS INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six months ended June 30,	
	2016	2015
Operating Activities:		
Net income	\$ 118,055	\$ 189,506
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	78,109	72,372
Noncash compensation	38,382	34,452
Noncash income from financial services	(14,828)	(13,757)
Deferred income taxes	(4,876)	(507)
Excess tax benefits from share-based compensation	—	(32,863)
Other, net	3,641	3,371
Changes in operating assets and liabilities:		
Trade receivables	14,744	50,521
Inventories	27,605	(137,362)
Accounts payable	45,598	(46,766)
Accrued expenses	4,910	(45,769)
Income taxes payable/receivable	28,527	18,821
Prepaid expenses and others, net	8,416	(2,110)
Net cash provided by operating activities	348,283	89,909
Investing Activities:		
Purchase of property and equipment	(117,628)	(88,663)
Investment in finance affiliate, net	20,030	15,239
Investment in other affiliates	(6,861)	(10,050)
Acquisition of businesses, net of cash acquired	(54,830)	(27,019)
Net cash used for investing activities	(159,289)	(110,493)
Financing Activities:		
Borrowings under debt arrangements / capital lease obligations	1,202,652	1,481,655
Repayments under debt arrangements / capital lease obligations	(1,198,337)	(1,303,098)
Repurchase and retirement of common shares	(143,876)	(157,739)
Cash dividends to shareholders	(70,583)	(70,061)
Proceeds from stock issuances under employee plans	11,758	25,133
Excess tax benefits from share-based compensation	—	32,863
Net cash provided by (used for) financing activities	(198,386)	8,753
Impact of currency exchange rates on cash balances	676	(6,950)
Net decrease in cash and cash equivalents	(8,716)	(18,781)
Cash and cash equivalents at beginning of period	155,349	137,600
Cash and cash equivalents at end of period	\$ 146,633	\$ 118,819
Noncash Activity:		
Property and equipment obtained through notes payable	—	\$ 14,500
Supplemental Cash Flow Information:		
Interest paid on debt borrowings	\$ 6,537	\$ 5,880
Income taxes paid	\$ 34,966	\$ 86,483

The accompanying footnotes are an integral part of these consolidated statements.

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POLARIS INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Basis of presentation. The accompanying unaudited consolidated financial statements of Polaris Industries Inc. (“Polaris” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial statements and, therefore, do not include all information and disclosures of results of operations, financial position and changes in cash flow in conformity with accounting principles generally accepted in the United States for complete financial statements. Accordingly, such statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 previously filed with the Securities and Exchange Commission (“SEC”). In the opinion of management, such statements reflect all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. Due to the seasonality of snowmobiles; Off-Road Vehicles (ORV), which include all-terrain vehicles (ATV) and side-by-side vehicles; motorcycles; Global Adjacent Markets vehicles; and related Parts, Garments and Accessories (PG&A), and to certain changes in production and shipping cycles, results of such periods are not necessarily indicative of the results to be expected for the complete year.

Fair value measurements. Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Assets and liabilities measured at fair value are classified using the following hierarchy, which is based upon the transparency of inputs to the valuation as of the measurement date: Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

In making fair value measurements, observable market data must be used when available. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement. The Company utilizes the market approach to measure fair value for its non-qualified deferred compensation assets and liabilities, and the income approach for foreign currency contracts and commodity contracts. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities, and for the income approach the Company uses significant other observable inputs to value its derivative instruments used to hedge foreign currency and commodity transactions.

Assets and liabilities measured at fair value on a recurring basis are summarized below (in thousands):

Asset (Liability)	Fair Value Measurements as of June 30, 2016			
	Total	Level 1	Level 2	Level 3
Non-qualified deferred compensation assets	\$ 49,560	\$ 49,560	—	—
Total assets at fair value	\$ 49,560	\$ 49,560	—	—
Foreign exchange contracts, net	\$ (8,791)	—	\$ (8,791)	—
Non-qualified deferred compensation liabilities	(49,560)	\$ (49,560)	—	—
Total liabilities at fair value	\$ (58,351)	\$ (49,560)	\$ (8,791)	—

Asset (Liability)	Fair Value Measurements as of December 31, 2015			
	Total	Level 1	Level 2	Level 3
Non-qualified deferred compensation assets	\$ 48,238	\$ 48,238	—	—
Foreign exchange contracts, net	2,767	—	\$ 2,767	—
Interest rate swap contracts	186	—	186	—
Total assets at fair value	\$ 51,191	\$ 48,238	\$ 2,953	—
Commodity contracts, net	\$ (354)	—	\$ (354)	—

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Non-qualified deferred compensation liabilities	(48,238)	\$ (48,238)	—	—
Total liabilities at fair value	\$ (48,592)	\$ (48,238)	\$ (354) —

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Fair value of other financial instruments. The carrying values of the Company's short-term financial instruments, including cash and cash equivalents, trade receivables and short-term debt, including current maturities of long-term debt, capital lease obligations and notes payable, approximate their fair values. At June 30, 2016 and December 31, 2015, the fair value of the Company's long-term debt was approximately \$492,099,000 and \$477,936,000, respectively, and was determined using Level 2 inputs, including quoted market prices or discounted cash flows based on quoted market rates for similar types of debt. The carrying value of long-term debt, including current maturities, was \$468,125,000 and \$461,476,000 as of June 30, 2016 and December 31, 2015, respectively.

Inventories. Inventory costs include material, labor and manufacturing overhead costs, including depreciation expense associated with the manufacture and distribution of the Company's products. Inventories are stated at the lower of cost (first-in, first-out method) or market. The major components of inventories are as follows (in thousands):

	June 30, 2016	December 31, 2015
Raw materials and purchased components	\$ 160,457	\$ 167,569
Service parts, garments and accessories	186,847	189,731
Finished goods	394,517	388,970
Less: reserves	(49,549)	(36,269)
Inventories	\$692,272	\$710,001

Product warranties. Polaris provides a limited warranty for its ORVs for a period of six months, for a period of one year for its snowmobiles, for a period of one or two years for its motorcycles depending on brand and model year, for a period of one year for its Taylor-Dunn vehicles and for a two year period for its GEM, Goupil and Aixam vehicles. Polaris provides longer warranties in certain geographical markets as determined by local regulations and market conditions and may also provide longer warranties related to certain promotional programs. Polaris' standard warranties require the Company or its dealers to repair or replace defective products during such warranty periods at no cost to the consumer. The warranty reserve is established at the time of sale to the dealer or distributor based on management's best estimate using historical rates and trends. Adjustments to the warranty reserve are made from time to time as actual claims become known in order to properly estimate the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. Factors that could have an impact on the warranty accrual in any given period include the following: change in manufacturing quality, shifts in product mix, changes in warranty coverage periods, snowfall and its impact on snowmobile usage, product recalls and any significant changes in sales volume. The activity in the warranty reserve during the periods presented was as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Balance at beginning of period	\$67,207	\$48,634	\$56,474	\$53,104
Additions to warranty reserve through acquisitions	42	150	147	200
Additions charged to expense	38,358	14,646	67,531	28,565
Warranty claims paid	(28,734)	(18,331)	(47,279)	(36,770)
Balance at end of period	\$76,873	\$45,099	\$76,873	\$45,099

In 2016, Polaris began financing its self-insured risks related to extended service contracts. The premiums for extended service contracts are primarily recognized in income in proportion to the costs expected to be incurred over the contract period. These unamortized extended service contract premiums (deferred revenue) included in Other long-term liabilities totaled \$8,100,000 and \$0 as of June 30, 2016 and December 31, 2015, respectively.

New accounting pronouncements.

Debt issuance costs. In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, Interest - Imputation of Interest (Subtopic 835-230) - Simplifying the Presentation of Debt Issuance Costs. The amendment requires that debt issuance costs be presented on the balance sheet as a direct reduction from the carrying amount of the related debt liability rather than as an asset. The amendment is to be applied retrospectively and is effective for fiscal years beginning after December 15, 2015. The Company adopted this amendment during the first quarter of 2016, which caused the Company to reclassify \$1,803,000 of debt issuance

costs as a reduction from Long-term debt rather than as a component of Prepaid expenses and other assets, as of December 31, 2015.

Share-based payment accounting. In March 2016, the FASB issued ASU No. 2016-09, which simplifies several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, statutory tax withholding requirements, and statement of cash flow classification. The ASU is effective for annual reporting periods

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beginning after December 15, 2016, and is effective for the Company's fiscal year beginning January 1, 2017. Early adoption is permitted. The Company is evaluating the impact of this new standard on the financial statements.

Leases. In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This ASU requires most lessees to recognize right of use assets and lease liabilities, but recognize expenses in a manner similar with current accounting standards. The new standard is effective for fiscal years and interim periods beginning after December 15, 2018 and is effective for the Company's fiscal year beginning January 1, 2019. Entities are required to use a modified retrospective approach, with early adoption permitted. The Company is evaluating the impact of this new standard on the financial statements.

Revenue from contracts with customers. In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue from the transfer of goods or services to customers in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. The new standard is effective for fiscal years and interim periods beginning after December 15, 2017 and is effective for the Company's fiscal year beginning January 1, 2018. The Company is evaluating the application method and the impact of this new standard on the financial statements.

There are no other new accounting pronouncements that are expected to have a significant impact on Polaris' consolidated financial statements.

Note 2. Share-Based Compensation

The amount of compensation cost for share-based awards to be recognized during a period is based on the portion of the awards that are ultimately expected to vest. The Company estimates stock option forfeitures at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company analyzes historical data to estimate pre-vesting forfeitures and records share-based compensation expense for those awards expected to vest.

Total share-based compensation expenses were as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Option plan	\$6,158	\$6,595	\$11,562	\$13,180
Other share-based awards	9,362	9,721	18,819	16,478
Total share-based compensation before tax	15,520	16,316	30,381	29,658
Tax benefit	5,789	6,085	11,332	11,062
Total share-based compensation expense included in net income	\$9,731	\$10,231	\$19,049	\$18,596

In addition to the above share-based compensation expenses, Polaris sponsors a qualified non-leveraged employee stock ownership plan (ESOP). Shares allocated to eligible participants' accounts vest at various percentage rates based on years of service and require no cash payments from the recipient.

At June 30, 2016, there was \$115,435,000 of total unrecognized share-based compensation expense related to unvested share-based equity awards. Unrecognized share-based compensation expense is expected to be recognized over a weighted-average period of 1.96 years. Included in unrecognized share-based compensation is approximately \$44,945,000 related to stock options and \$70,490,000 for restricted stock.

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Note 3. Financing Agreements

The carrying value of debt, capital lease obligations, notes payable and the average related interest rates were as follows (in thousands):

	Average interest rate at June 30, 2016	Maturity	June 30, 2016	December 31, 2015
Revolving loan facility	1.31%	May 2021	\$ 135,793	\$ 225,707
Revolving loan facility—term note	1.59%	May 2021	100,000	—
Senior notes—fixed rate	3.81%	May 2018	25,000	25,000
Senior notes—fixed rate	4.60%	May 2021	75,000	75,000
Senior notes—fixed rate	3.13%	December 2020	100,000	100,000
Capital lease obligations	5.08%	Various through 2029	21,175	21,874
Notes payable and other	3.50%	June 2027	14,304	15,698
Debt issuance costs			(3,147)	(1,803)
Total debt, capital lease obligations, and notes payable			\$ 468,125	\$ 461,476
Less: current maturities			4,821	5,059
Total long-term debt, capital lease obligations, and notes payable			\$ 463,304	\$ 456,417

In August 2011, Polaris entered into a \$350,000,000 unsecured revolving loan facility. In March 2015, Polaris amended the loan facility to increase the facility to \$500,000,000 and to provide more beneficial covenant and interest rate terms. The amended terms also extended the expiration date to March 2020. Interest is charged at rates based on a LIBOR or “prime” base rate. In May 2016, Polaris amended the revolving loan facility to increase the facility to \$600,000,000 and extend the expiration date to May 2021. The amended terms also established a \$500,000,000 12-month delayed draw term loan facility, of which \$100,000,000 is outstanding as of June 30, 2016.

In December 2010, the Company entered into a Master Note Purchase Agreement to issue \$25,000,000 of unsecured senior notes due May 2018 and \$75,000,000 of unsecured senior notes due May 2021 (collectively, the “Senior Notes”). The Senior Notes were issued in May 2011. In December 2013, the Company entered into a First Supplement to Master Note Purchase Agreement, under which the Company issued \$100,000,000 of unsecured senior notes due December 2020.

The unsecured revolving loan facility and the Master Note Purchase Agreement contain covenants that require Polaris to maintain certain financial ratios, including minimum interest coverage and maximum leverage ratios. Polaris was in compliance with all such covenants as of June 30, 2016.

The debt issuance costs are recognized as a reduction in the carrying value of the related long-term debt in the consolidated balance sheets and is being amortized to interest expense in our consolidated statements of income over the expected remaining terms of the related debt.

A property lease agreement for a manufacturing facility which Polaris began occupying in Opole, Poland commenced in February 2014. The Poland property lease is accounted for as a capital lease.

In January 2015, the Company announced plans to build a new production facility in Huntsville, Alabama to provide additional capacity and flexibility, and focus on ORV and Slingshot production. Construction of the 725,000 square-foot facility was completed during the second quarter of 2016, with start-of-production also occurring during the second quarter. A mortgage note payable agreement of \$14,500,000 for land, on which Polaris built the facility, commenced in February 2015. The payment of principal and interest for the note payable is forgivable if the Company satisfies certain job commitments over the term of the note. Forgivable loans related to other Company facilities are also included within notes payable.

Note 4. Goodwill and Other Intangible Assets

Goodwill and other intangible assets, net, consisted of \$161,433,000 of goodwill and \$112,463,000 of intangible assets, net of accumulated amortization, as of June 30, 2016.

Additions to goodwill and other intangible assets relate to acquisitions, primarily the March 2016 acquisition of Taylor-Dunn, a leading provider of industrial vehicles serving a broad range of commercial, manufacturing, warehouse and ground-support customers. Taylor-Dunn is based in Anaheim, California, and is included in the Global Adjacent Markets reporting segment.

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For the acquisition, the aggregate purchase price was allocated on a preliminary basis to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Taylor-Dunn financial results are included in the Company's consolidated results from the date of acquisition. Pro forma financial results are not presented as the acquisition is not material to the consolidated financial statements. As of June 30, 2016, the purchase price allocation for the acquisition remains preliminary.

In April 2015, the Company acquired Timbersled Products, Inc. ("Timbersled") and HH Investment Limited ("Hammerhead"). Timbersled is based in Idaho and is an innovator and market leader in the burgeoning snow bike industry. Hammerhead is based in Shanghai, China and manufactures gasoline powered go-karts, light utility vehicles, and electric utility vehicles. Hammerhead markets its products globally under the Hammerhead Offroad® brand, along with maintaining key private label relationships with other original equipment manufacturers. In December 2015, the Company completed the acquisition of certain assets of 509, Inc. ("509"). 509 is based in Washington and is an aftermarket leader in snowmobile helmets and goggles. As of June 30, 2016, the purchase price allocation for 509 remains preliminary.

The changes in the carrying amount of goodwill for the six months ended June 30, 2016 were as follows (in thousands):

	Six months ended June 30, 2016
Goodwill, beginning of period	\$131,014
Goodwill from businesses acquired	29,158
Currency translation effect on foreign goodwill balances	1,261
Goodwill, end of period	\$161,433

For other intangible assets, the changes in the net carrying amount for the six months ended June 30, 2016 were as follows (in thousands):

	Six months ended June 30, 2016	
	Gross Amount	Accumulated Amortization
Other intangible assets, beginning of period	\$138,831	\$ (33,728)
Intangible assets acquired during the period	14,000	—
Amortization expense	—	(7,181)
Foreign currency translation effect on balances	715	(174)
Other intangible assets, end of period	\$153,546	\$ (41,083)

The components of other intangible assets were as follows (in thousands):

	Total estimated life (years)	June 30, 2016	December 31, 2015
Non-amortizable—indefinite lived:			
Brand names		\$54,323	\$ 51,951
Amortizable:			
Non-compete agreements	5	540	540
Dealer/customer related	7	79,382	67,079
Developed technology	5-7	19,301	19,261
Total amortizable		99,223	86,880
Less: Accumulated amortization		(41,083)	(33,728)
Net amortized other intangible assets		58,140	53,152
Total other intangible assets, net		\$112,463	\$ 105,103

Amortization expense for intangible assets for the three months ended June 30, 2016 and 2015 was \$3,774,000 and \$2,913,000, respectively. Estimated amortization expense for the remainder of 2016 through 2021 is as follows: 2016 (remainder), \$7,600,000; 2017, \$14,800,000; 2018, \$12,800,000; 2019, \$11,000,000; 2020, \$5,600,000; 2021, \$3,700,000; and after 2021, \$2,600,000. The preceding expected amortization expense is an estimate and actual amounts could differ due to additional intangible asset acquisitions, changes in foreign currency rates or impairment of intangible assets.

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Note 5. Shareholders' Equity

During the six months ended June 30, 2016, Polaris paid \$143,876,000 to repurchase and retire approximately 1,692,000 shares of its common stock. As of June 30, 2016, the Board of Directors has authorized the Company to repurchase up to an additional 8,679,000 shares of Polaris stock. The repurchase of any or all such shares authorized for repurchase will be governed by applicable SEC rules and dependent on management's assessment of market conditions. Polaris paid a regular cash dividend of \$0.55 per share on June 15, 2016 to holders of record at the close of business on June 1, 2016. On July 20, 2016, the Polaris Board of Directors declared a regular cash dividend of \$0.55 per share payable on September 15, 2016 to holders of record of such shares at the close of business on September 1, 2016. Cash dividends declared per common share for the three and six months ended June 30, 2016 and 2015, were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Cash dividends declared and paid per common share	\$0.55	\$0.53	\$1.10	\$1.06

Net income per share

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during each period, including shares earned under the Deferred Compensation Plan for Directors ("Director Plan"), the ESOP and deferred stock units under the 2007 Omnibus Incentive Plan ("Omnibus Plan"). Diluted earnings per share is computed under the treasury stock method and is calculated to compute the dilutive effect of outstanding stock options issued under the 1995 Stock Option Plan (the "Option Plan") and certain shares issued under the Omnibus Plan. A reconciliation of these amounts is as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Weighted average number of common shares outstanding	64,130	66,000	64,444	66,068
Director Plan and deferred stock units	166	242	181	224
ESOP	110	82	101	84
Common shares outstanding—basic	64,406	66,324	64,726	66,376
Dilutive effect of Option Plans and Omnibus Plan	891	1,505	913	1,611
Common and potential common shares outstanding—diluted	65,297	67,829	65,639	67,987

During the three and six months ended June 30, 2016, the number of options that could potentially dilute earnings per share on a fully diluted basis that were not included in the computation of diluted earnings per share (because to do so would have been anti-dilutive) were 1,809,000 and 1,672,000, respectively, compared to 1,080,000 and 912,000 for the same periods in 2015.

Accumulated other comprehensive loss

Changes in the accumulated other comprehensive loss balance is as follows (in thousands):

	Foreign Currency Items	Cash Flow Hedging Derivatives	Accumulated Other Comprehensive Loss
Balance as of December 31, 2015	\$(64,360)	\$ 1,868	\$ (62,492)
Reclassification to the income statement	—	(1,574)	(1,574)
Change in fair value	(1,038)	(5,685)	(6,723)
Balance as of June 30, 2016	\$(65,398)	\$ (5,391)	\$ (70,789)

The table below provides data about the amount of gains and losses, net of tax, reclassified from accumulated other comprehensive loss into the income statement for cash flow derivatives designated as hedging instruments for the three and six months ended June 30, 2016 and 2015 (in thousands):

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	Location of (Gain) Loss	Three months		Six months	
Derivatives in Cash	Reclassified from	ended June 30,		ended June 30,	
Flow Hedging Relationships	Accumulated OCI	2016	2015	2016	2015
	into Income				
Foreign currency contracts	Other expense, net	\$493	\$1,898	\$2,423	\$2,402
Foreign currency contracts	Cost of sales	(278)	(1,122)	(849)	(2,018)
Total		\$215	\$776	\$1,574	\$384

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The net amount of the existing gains or losses at June 30, 2016 that is expected to be reclassified into the income statement within the next 12 months is expected to not be material. See Note 9 for further information regarding Polaris' derivative activities.

Note 6. Financial Services Arrangements

Polaris Acceptance, a joint venture between Polaris and Wells Fargo Commercial Distribution Finance, a direct subsidiary of Wells Fargo Bank, N.A. ("Wells Fargo"), which is supported by a partnership agreement between their respective wholly owned subsidiaries, finances substantially all of Polaris' United States sales whereby Polaris receives payment within a few days of shipment of the product. On March 1, 2016, Wells Fargo announced that it completed the purchase of the North American portion of GE Capital's Commercial Distribution Finance (GECDF) business, including GECDF's ownership interests in Polaris Acceptance. The sale is not expected to impact the operations of the partnership agreement. Effective March 1, 2016, GECDF adopted the tradename Wells Fargo Commercial Distribution Finance.

Polaris' subsidiary has a 50 percent equity interest in Polaris Acceptance. Polaris Acceptance sells a majority of its receivable portfolio to a securitization facility (the "Securitization Facility") arranged by Wells Fargo. The sale of receivables from Polaris Acceptance to the Securitization Facility is accounted for in Polaris Acceptance's financial statements as a "true-sale" under Accounting Standards Codification Topic 860. Polaris' allocable share of the income of Polaris Acceptance has been included as a component of income from financial services in the accompanying consolidated statements of income. The partnership agreement is effective through February 2022.

Polaris' total investment in Polaris Acceptance of \$93,870,000 at June 30, 2016 is accounted for under the equity method, and is recorded in investment in finance affiliate in the accompanying consolidated balance sheets. At June 30, 2016, the outstanding amount of net receivables financed for dealers under this arrangement was \$1,180,392,000, which included \$457,181,000 in the Polaris Acceptance portfolio and \$723,211,000 of receivables within the Securitization Facility ("Securitized Receivables").

Polaris has agreed to repurchase products repossessed by Polaris Acceptance up to an annual maximum of 15 percent of the aggregate average month-end outstanding Polaris Acceptance receivables and Securitized Receivables during the prior calendar year. For calendar year 2016, the potential 15 percent aggregate repurchase obligation is approximately \$182,814,000. Polaris' financial exposure under this arrangement is limited to the difference between the amounts unpaid by the dealer with respect to the repossessed product plus costs of repossession and the amount received on the resale of the repossessed product. No material losses have been incurred under this agreement during the periods presented.

Polaris has agreements with Chrome Capital, Freedom Road, Sheffield Financial and Synchrony Bank, under which these financial institutions provide financing to end consumers of Polaris products. Polaris' income generated from these agreements has been included as a component of income from financial services in the accompanying consolidated statements of income.

Polaris also administers and provides extended service contracts to consumers and certain insurance contracts to dealers and consumers through various third-party suppliers. Polaris finances its self-insured risks related to extended service contracts, but does not retain any insurance or financial risk under any of the other arrangements. Polaris' service fee income generated from these arrangements has been included as a component of income from financial services in the accompanying consolidated statements of income.

Note 7. Investment in Other Affiliates

The Company has certain investments in nonmarketable securities of strategic companies. As of June 30, 2016 and December 31, 2015, these investments are comprised of investments in Eicher-Polaris Private Limited (EPPL) and Brammo, and are recorded as components of other long-term assets in the accompanying consolidated balance sheets. EPPL is a joint venture established in 2012 with Eicher Motors Limited ("Eicher"). Polaris and Eicher each control 50 percent of the joint venture, which is intended to design, develop and manufacture a full range of new vehicles for India and other emerging markets. The investment in EPPL is accounted for under the equity method, with Polaris' proportionate share of income or loss recorded within the consolidated financial statements on a one month lag due to

financial information not being available timely. At the time of the establishment of the joint venture, the overall investment was expected to be approximately \$50,000,000, shared equally with Eicher over a three year period. As of June 30, 2016 and December 31, 2015, the carrying value of the Company's investment in EPPL was \$22,030,000 and \$18,884,000, respectively. Through June 30, 2016, Polaris has invested \$41,560,000 in the joint venture. Polaris' share of EPPL loss for the three and six months

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ended June 30, 2016 was \$1,583,000 and \$3,641,000, respectively, compared to \$1,748,000 and \$3,371,000 for the same respective periods in 2015. The loss is included in equity in loss of other affiliates on the consolidated statements of income.

Brammo is a privately held designer and developer of electric powertrains, which Polaris has invested in since 2011. The investment in Brammo is accounted for under the cost method. Brammo is in the early stages of designing, developing, and selling electric vehicle powertrains. As such, a risk exists that Brammo may not be able to secure sufficient financing to reach viability through cash flow from operations. In January 2015, Polaris acquired the electric motorcycle business from Brammo, and also made an additional investment in the remaining Brammo business, which will continue to be a designer and developer of electric vehicle powertrains.

Polaris will impair or write off an investment and recognize a loss if and when events or circumstances indicate there is impairment in the investment that is other-than-temporary. When necessary, Polaris evaluates investments in nonmarketable securities for impairment, utilizing level 3 fair value inputs. No impairments were recognized on currently held investments for the three or six months ended June 30, 2016 and 2015.

Note 8. Commitments and Contingencies

Polaris is subject to product liability claims in the normal course of business. In late 2012, Polaris purchased excess insurance coverage for catastrophic product liability claims for incidents occurring after the policy date. Polaris self-insures product liability claims before the policy date and up to the purchased catastrophic insurance coverage after the policy date. The estimated costs resulting from any losses are charged to operating expenses when it is probable a loss has been incurred and the amount of the loss is reasonably determinable. The Company utilizes historical trends and actuarial analysis tools, along with an analysis of current claims, to assist in determining the appropriate loss reserve levels. At June 30, 2016, the Company had an accrual of \$23,332,000 for the probable payment of pending claims related to product liability litigation associated with Polaris products. This accrual is included as a component of other accrued expenses in the accompanying consolidated balance sheets.

Polaris is a defendant in lawsuits and subject to other claims arising in the normal course of business. In the opinion of management, it is unlikely that any legal proceedings pending against or involving Polaris will have a material adverse effect on Polaris' financial position or results of operations.

As a component of certain past acquisition agreements, Polaris has committed to make additional payments to certain sellers contingent upon either the passage of time or certain financial performance criteria. Polaris initially records the fair value of each commitment as of the respective opening balance sheet, and each reporting period the fair value is evaluated, using level 3 inputs, with the change in value reflected in the consolidated statements of income. As of June 30, 2016 and December 31, 2015, the fair value of contingent purchase price commitments are immaterial.

Note 9. Derivative Instruments and Hedging Activities

The Company is exposed to certain risks relating to its ongoing business operations. From time to time, the primary risks managed by using derivative instruments are foreign currency risk, interest rate risk and commodity price fluctuations. Derivative contracts on various currencies are entered into in order to manage foreign currency exposures associated with certain product sourcing activities and intercompany cash flows. Interest rate swaps are entered into in order to maintain a balanced risk of fixed and floating interest rates associated with the Company's long-term debt. Commodity hedging contracts are entered into in order to manage fluctuating market prices of certain purchased commodities and raw materials that are integrated into the Company's end products.

The Company's foreign currency management objective is to mitigate the potential impact of currency fluctuations on the value of its U.S. dollar cash flows and to reduce the variability of certain cash flows at the subsidiary level. The Company actively manages certain forecasted foreign currency exposures and uses a centralized currency management operation to take advantage of potential opportunities to naturally offset foreign currency exposures against each other. The decision of whether and when to execute derivative instruments, along with the duration of the instrument, can vary from period to period depending on market conditions, the relative costs of the instruments and capacity to hedge. The duration is linked to the timing of the underlying exposure, with the connection between the two being regularly monitored. Polaris does not use any financial contracts for trading purposes.

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At June 30, 2016, Polaris had the following open foreign currency contracts (in thousands):

Foreign Currency	Notional Amounts (in U.S. Dollars)	Net Unrealized Gain (Loss)
Australian Dollar	\$ 25,522	\$ (260)
Canadian Dollar	160,247	(7,090)
Japanese Yen	1,417	210
Mexican Peso	29,280	(1,651)
Total	\$ 216,466	\$ (8,791)

These contracts, with maturities through December 31, 2017, met the criteria for cash flow hedges and the unrealized gains or losses, after tax, are recorded as a component of accumulated other comprehensive loss in shareholders' equity.

The table below summarizes the carrying values of derivative instruments as of June 30, 2016 and December 31, 2015 (in thousands):

	Carrying Values of Derivative Instruments as of June 30, 2016		
	Fair Value— Assets	Fair Value— (Liabilities)	Derivative Net Carrying Value
Derivatives designated as hedging instruments			
Foreign exchange contracts(1)	\$ 816	\$ (9,607)	\$ (8,791)
Total derivatives designated as hedging instruments	\$ 816	\$ (9,607)	\$ (8,791)
Total derivatives	\$ 816	\$ (9,607)	\$ (8,791)
	Carrying Values of Derivative Instruments as of December 31, 2015		
	Fair Value— Assets	Fair Value— (Liabilities)	Derivative Net Carrying Value
Derivatives designated as hedging instruments			
Foreign exchange contracts(1)	\$ 5,218	\$ (2,451)	\$ 2,767
Interest rate swap contracts(1)	186	—	186
Total derivatives designated as hedging instruments	\$ 5,404	\$ (2,451)	\$ 2,953
Commodity contracts(1)	—	\$ (354)	\$ (354)
Total derivatives not designated as hedging instruments	—	\$ (354)	\$ (354)
Total derivatives	\$ 5,404	\$ (2,805)	\$ 2,599

(1) Assets are included in prepaid expenses and other and liabilities are included in other accrued expenses on the accompanying consolidated balance sheets.

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive loss and reclassified into the income statement in the same period or periods during which the hedged transaction affects the income statement. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in the current income statement.

The amount of gains (losses), net of tax, related to the effective portion of derivative instruments designated as cash flow hedges included in accumulated other comprehensive loss for the three and six months ended June 30, 2016 was \$(74,000) and \$(7,259,000), respectively, compared to \$(1,341,000) and \$231,000 for the same respective periods in 2015.

See Note 5 for information about the amount of gains and losses, net of tax, reclassified from accumulated other comprehensive loss into the income statement for derivative instruments designated as hedging instruments. The ineffective portion of foreign currency contracts was not material for the three and six month periods ended June 30, 2016.

Note 10. Segment Reporting

The Company's reportable segments are based on the Company's method of internal reporting, which generally segregates the operating segments by product line, inclusive of wholegoods and PG&A. The internal reporting of these operating segments is defined based, in part, on the reporting and review process used by the Company's Chief Executive Officer. The Company has four operating segments: 1) ORV, 2) Snowmobiles, 3) Motorcycles, and 4) Global Adjacent Markets, and three reportable segments: 1) ORV/Snowmobiles, 2) Motorcycles, and 3) Global Adjacent Markets.

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The ORV/Snowmobiles segment includes the aggregated results of our ORV and Snowmobiles operating segments. The Motorcycles and Global Adjacent Markets segments include the results for those respective operating segments. The Corporate amounts include costs that are not allocated to individual segments, which include incentive-based compensation and other unallocated manufacturing costs. Additionally, given the commonality of customers, manufacturing and asset management, the Company does not maintain separate balance sheets for each segment. Accordingly, the segment information presented below is limited to sales and gross profit data.

(\$ in thousands)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Sales				
ORV/Snowmobiles	\$808,494	\$857,146	\$1,529,136	\$1,653,387
Motorcycles	231,324	187,541	419,569	347,020
Global Adjacent Markets	90,959	79,640	165,068	157,265
Total sales	\$1,130,777	\$1,124,327	\$2,113,773	\$2,157,672
Gross profit				
ORV/Snowmobiles	\$230,554	\$278,938	\$439,659	\$539,261
Motorcycles	39,837	24,505	68,677	44,812
Global Adjacent Markets	23,952	22,639	44,335	40,787
Corporate	(9,840)	(6,668)	(20,590)	(11,715)
Total gross profit	\$284,503	\$319,414	\$532,081	\$613,145

Item 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The following discussion pertains to the results of operations and financial position of Polaris Industries Inc., a Minnesota corporation, for the three and six month periods ended June 30, 2016 compared to the three and six month periods ended June 30, 2015. The terms “Polaris,” the “Company,” “we,” “us,” and “our” as used herein refer to the business and operations of Polaris Industries Inc., its subsidiaries and its predecessors, which began doing business in the early 1950s. Due to the seasonality of snowmobiles; Off-Road Vehicles (ORV), which includes all-terrain vehicles (ATV) and side-by-side vehicles; motorcycles; Global Adjacent Markets vehicles; and related Parts, Garments and Accessories (PG&A), and to certain changes in production and shipping cycles, results of such periods are not necessarily indicative of the results to be expected for the complete year.

We reported net income of \$71.2 million, or \$1.09 per diluted share, an earnings per diluted share decrease of 27 percent compared to 2015 second quarter net income of \$100.9 million, or \$1.49 per diluted share. Sales totaled \$1,130.8 million, an increase of one percent from last year’s second quarter sales of \$1,124.3 million. The sales increase was driven by higher shipments of motorcycles, partially offset by lower shipments of ORV units. Our unit retail sales to consumers in North America decreased seven percent in the second quarter of 2016, with decreased demand for off-road vehicles. Our sales to customers outside of North America increased five percent, driven by a 41 percent increase in Latin American sales and a six percent sales increase in the Europe, Middle East and Africa (“EMEA”) region, partially offset by a 14 percent decrease in sales in the Asia/Pacific region. Our gross profit of \$284.5 million decreased 11 percent from \$319.4 million in the comparable prior year period. The decrease in gross profit resulted primarily from lower volume, negative product mix, negative currency impacts, and increased promotional and warranty costs, partially offset by lower commodity costs and cost savings from product cost reduction efforts. Our liquidity remained healthy with \$146.6 million of cash on hand and \$863.6 million of combined availability, inclusive of both the revolving loan facility and the delayed draw term loan facility at June 30, 2016.

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Results of Operations

Unless otherwise noted, all “quarter” comparisons are from the second quarter 2016 to the second quarter 2015, and all “year-to-date” comparisons are from the six month period ended June 30, 2016 to the six month period ended June 30, 2015.

Sales:

Quarter sales were \$1,130.8 million, a one percent increase from \$1,124.3 million of quarter sales in the prior year. Year-to-date sales were \$2,113.8 million, a two percent decrease from \$2,157.7 million of sales in the comparable prior year period. The following table is an analysis of the percentage change in total Company sales:

	Percent change in total Company sales compared to corresponding period of the prior year	
	Three months ended June 30, 2016	Six months ended June 30, 2016
Volume	(1)%	(1)%
Product mix and price	2	—
Currency	—	(1)
	1 %	(2)%

Quarter and year-to-date volume decreased as we shipped fewer ORVs, partially offset by increased volume sales of motorcycles and Global Adjacent Market vehicles. Quarter product mix and price more than offset the volume decrease. The U.S. dollar to Canadian dollar exchange rate, and overall strength of the U.S. dollar compared to other international currencies, negatively impacted our quarter and year-to-date sales by approximately \$7.0 million and \$21.0 million, respectively, when compared to the prior year period exchange rates.

Our sales by reporting segment, which includes the respective PG&A, were as follows:

(\$ in millions)	Three months ended June 30,				Six months ended June 30,					
	2016	Percent of Total Sales	2015	Percent of Total Sales	Percent Change 2016 vs. 2015	2016	Percent of Total Sales	2015	Percent of Total Sales	Percent Change 2016 vs. 2015
ORV/Snowmobiles	\$808.5	71 %	\$857.2	76 %	(6)%	\$1,529.1	72 %	\$1,653.4	77 %	(8)%
Motorcycles	231.3	21 %	187.5	17 %	23 %	419.6	20 %	347.0	16 %	21 %
Global Adjacent Markets	91.0	8 %	79.6	7 %	14 %	165.1	8 %	157.3	7 %	5 %
Total Sales	\$1,130.8	100 %	\$1,124.3	100 %	1 %	\$2,113.8	100 %	\$2,157.7	100 %	(2)%

ORV/Snowmobiles

ORVs: Quarter and year-to-date sales, inclusive of PG&A sales, decreased, which reflects ongoing softness in North American retail sales in regions heavily dependent upon the oil markets, as well as negative impacts from recent recalls of certain products. Our North American ORV quarter unit retail sales to consumers were down low double-digits percent compared to the 2015 second quarter, with consumer purchases of side-by-side vehicles, which include RANGER®, RZR®, and Polaris GENERAL™, down high single-digits percent, and ATV retail sales down mid-teens percent over the prior year. The Company estimates that North American industry ORV retail sales were down mid-single digits percent from the second quarter of 2015. Polaris’ North American dealer unit inventory decreased eight percent from the second quarter of 2015. Quarter sales, inclusive of PG&A sales, outside of North America were down one percent, primarily due to weak economic conditions in the EMEA region, as well as the currency impact of the strong U.S. dollar. The quarter average per unit sales price was approximately flat.

Snowmobiles: Historically, the first half of the year are slow quarters for shipments to dealers due to the seasonality of the business. The quarter and year-to-date sales, inclusive of PG&A sales, decreased due to the timing of shipments year-over-year.

Motorcycles

Quarter and year-to-date sales, inclusive of PG&A sales, increased due to increased shipments of Victory®, Indian Motorcycle® and Slingshot®. Consumer North American retail sales for Victory, Indian Motorcycle, and Slingshot increased mid-teens percent for the quarter, while quarter North American industry retail sales, 900cc and above, were down mid single-digits percent in the quarter. Product availability for all three motorcycle brands remained adequate throughout the

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quarter as year-over-year paint capacity at the Company's Spirit Lake, Iowa motorcycle plant has significantly improved. Beginning in July 2016, our Slingshot moto-roadsters are manufactured in our Huntsville, Alabama facility. Increased shipments of all three motorcycle brands contributed to North American Polaris dealer inventory increasing over 80 percent, which is essentially at targeted stocking levels at quarter-end. Quarter sales, including PG&A, to customers outside of North America increased 17 percent due primarily to increased Victory and Indian Motorcycle shipments. The quarter average per unit sales price decreased one percent.

Global Adjacent Markets

Quarter and year-to-date sales, including PG&A sales, increased due primarily to increased sales for the Work and Transportation group, which was primarily driven by the acquisition of Taylor-Dunn and continued growth of Aixam. The quarter average per unit sales price increased one percent.

Sales by Geography

Sales by geographic region were as follows:

(\$ in millions)	Three months ended June 30,					Six months ended June 30,				
	2016	Percent of Total Sales	2015	Percent of Total Sales	Percent Change 2016 vs. 2015	2016	Percent of Total Sales	2015	Percent of Total Sales	Percent Change 2016 vs. 2015
United States	\$879.8	78 %	\$861.0	77 %	2 %	\$1,646.1	78 %	\$1,671.1	77 %	(1) %
Canada	80.5	7 %	100.4	9 %	(20) %	134.6	6 %	170.5	8 %	(21) %
Other foreign countries	170.5	15 %	162.9	14 %	5 %	333.1	16 %	316.1	15 %	5 %
Total sales	\$1,130.8	100 %	\$1,124.3	100 %	1 %	\$2,113.8	100 %	\$2,157.7	100 %	(2) %

United States: Quarter sales in the U.S. increased due to higher shipments of motorcycles, partially offset by lower ORV shipments. Year-to-date sales in the U.S. decreased due to unfavorable product mix, partially offset by increased shipments of motorcycles.

Canada: Quarter and year-to-date sales in Canada decreased due to lower shipments of ORVs, weak economic conditions and an unfavorable four and five percent currency rate movement impact on quarter and year-to-date sales, respectively.

Other foreign countries: Quarter and year-to-date sales in other foreign countries increased primarily due to motorcycle sales, primarily in the EMEA and Latin America regions. These sales increases were partially offset by quarter and year-to-date sales decreases in the Asia/Pacific region. Specifically for quarter segment sales, Motorcycles sales increased 17 percent, ORV/Snowmobiles sales decreased one percent, and Global Adjacent Markets sales increased seven percent. Currency rate movements had a negative impact on sales of two and four percent, on quarter and year-to-date sales, respectively.

Cost of Sales:

(\$ in millions)	Three months ended June 30,					Six months ended June 30,				
	2016	Percent of Total Cost of Sales	2015	Percent of Total Cost of Sales	Change of 2016 vs. 2015	2016	Percent of Total Cost of Sales	2015	Percent of Total Cost of Sales	Change of 2016 vs. 2015
Purchased materials and services	\$708.3	84 %	\$696.5	87 %	2 %	\$1,327.2	84 %	\$1,331.6	86 %	0 %
Labor and benefits	69.3	8 %	67.0	8 %	3 %	128.3	8 %	128.3	8 %	0 %
Depreciation and amortization	30.3	4 %	26.8	3 %	13 %	58.7	4 %	56.0	4 %	5 %
Warranty costs	38.4	4 %	14.6	2 %	163 %	67.5	4 %	28.6	2 %	136 %
Total cost of sales	\$846.3	100 %	\$804.9	100 %	5 %	\$1,581.7	100 %	\$1,544.5	100 %	2 %
Percentage of sales	74.8 %		71.6 %		+325 basis points	74.8 %		71.6 %		+325 basis points

The increase in quarter and year-to-date cost of sales dollars resulted primarily from the effect of higher warranty costs incurred related to product recalls and depreciation and amortization.

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Gross Profit:

(\$ in millions)	Three months ended June 30,				Six months ended June 30,			
	2016	Percent of Sales	2015	Percent Change of Sales 2016 vs. 2015	2016	Percent of Sales	2015	Percent Change of Sales 2016 vs. 2015
ORV/Snowmobiles	\$230.6	28.5 %	\$278.9	32.5 % (17)%	\$439.7	28.8 %	\$539.2	32.6 % (18)%
Motorcycles	39.8	17.2 %	24.5	13.1 % 63 %	68.7	16.4 %	44.8	12.9 % 53 %
Global Adjacent Markets	23.9	26.3 %	22.6	28.4 % 6 %	44.3	26.9 %	40.8	25.9 % 9 %
Corporate	(9.8)		(6.6)		(20.6)		(11.7)	
Total gross profit dollars	\$284.5		\$319.4	-11 %	\$532.1		\$613.1	-13 %
Percentage of sales	25.2 %		28.4 %	-325 basis points	25.2 %		28.4 %	-325 basis points

Consolidated. Quarter gross profit, as a percentage of sales, decreased due to negative currency rate movements, primarily the Canadian dollar, along with increased warranty costs and negative product mix, partially offset by lower commodity costs, cost savings from product cost reduction efforts and higher selling prices. During the quarter, the Company incurred additional warranty expense equating to approximately 210 basis points of negative impact to gross profit margins, related to increased warranty costs associated with vehicle recalls and service bulletins. Foreign currencies had a negative impact to gross profit of approximately \$16.0 million and \$33.0 million for the quarter and year-to-date periods, respectively. Gross profit in absolute dollars decreased due to lower sales volume, unfavorable product mix, higher warranty costs and negative impacts from currency, partially offset by lower commodity costs and cost savings from product cost reduction efforts.

ORV/Snowmobiles. Gross profit dollars decreased for the quarter and year-to-date periods, primarily due to decreased volumes, higher warranty and promotions and the negative impact of currency movements, partially offset by product cost reduction efforts. Included in warranty expense incurred during the quarter and year-to-date periods are costs related to product recall notices on certain side-by-side vehicles.

Motorcycles. Gross profit dollars increased for the quarter and year-to-date periods, primarily due to increased sales volumes of Indian Motorcycle and Slingshot, offset by negative currency rate movements. Gross profit has also improved due to the absence of costs incurred in 2015 related to additional manufacturing costs and inefficiencies associated with our Spirit Lake, Iowa motorcycle facility paint system.

Global Adjacent Markets. Gross profit dollars increased for the quarter and year-to-date periods, primarily due to the acquisition of Taylor-Dunn and increased sales volumes of Aixam vehicles, partially offset by the negative impact of currency movements.

Operating Expenses:

(\$ in millions)	Three months ended June 30,			Six months ended June 30,			
	2016	2015	Change 2016 vs. 2015	2016	2015	Change 2016 vs. 2015	
Selling and marketing	\$77.8	\$79.7	-2	% \$155.1	\$149.3	4	%
Research and development	45.6	41.4	10	% 88.7	80.3	10	%
General and administrative	64.6	51.9	24	% 134.1	101.5	32	%
Total operating expenses	\$188.0	\$173.0	9	% \$377.9	\$331.1	14	%
Percentage of sales	16.6 %	15.4 %	+123 basis points	17.9 %	15.3 %	+253 basis points	

Operating expenses, as a percentage of sales and in absolute dollars, for the quarter and year-to-date periods increased primarily due to ongoing research for product innovation, and increased general and administrative expenses due to increased legal expenses and other costs related to the product recall notices incurred. These costs were partially offset by operating cost control measures.

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Income from Financial Services:

(\$ in millions)	Three months ended June 30,			Six months ended June 30,			
	2016	2015	Change 2016 vs. 2015	2016	2015	Change 2016 vs. 2015	
Income from financial services	\$20.5	\$17.6	16	% \$40.0	\$32.3	24	%
Percentage of sales	1.8	% 1.6	% +24 basis points	1.9	% 1.5	% +39 basis points	

The increase in quarter and year-to-date income from financial services is due to higher penetration rates for retail financing programs. Further discussion can be found in the "Liquidity and Capital Resources" section below.

Remainder of the Income Statement:

(\$ in millions except per share data)	Three months ended June 30,			Six months ended June 30,			
	2016	2015	Change 2016 vs. 2015	2016	2015	Change 2016 vs. 2015	
Interest expense	\$3.8	\$3.0	28	% \$6.7	\$5.9	13	%
Equity in loss of other affiliates	\$1.6	\$1.7	(9)	)% \$3.6	\$3.4	8	%
Other expense, net	\$1.8	\$2.7	(33)	)% \$1.9	\$10.1	(81))%
Income before taxes	\$109.8	\$156.6	(30)	)% \$182.0	\$294.9	(38))%
Provision for income taxes	\$38.6	\$55.7	(31)	)% \$63.9	\$105.4	(39))%
Percentage of income before taxes	35.2	% 35.5	% -36 basis points	35.1	% 35.7	% -63 basis points	
Net income	\$71.2	\$100.9	(29)	)% \$118.1	\$189.5	(38))%
Diluted net income per share:	\$1.09	\$1.49	(27)	)% \$1.80	\$2.79	(35))%
Weighted average diluted shares outstanding	65.3	67.8	(4)	)% 65.6	68.0	(4))%

Interest expense: The quarter and year-to-date increase is primarily due to increases in debt levels through borrowings on our delayed-draw term facility during the comparative periods.

Equity in loss of other affiliates: Quarter and year-to-date losses relate to continued operating activities at Eicher-Polaris Private Limited (EPPL). During the quarter, EPPL continued production of the jointly-developed Multix™ personal vehicle, which is specifically designed to satisfy the varied transportation needs of consumers in India. We have recorded our proportionate 50 percent share of EPPL losses.

Other expense, net: The quarter and year-to-date change primarily relates to foreign currency exchange rate movements and the corresponding effects on foreign currency transactions and balance sheet positions related to our foreign subsidiaries from period to period.

Provision for income taxes: The quarter and year-to-date tax rate decrease is primarily due to the permanent extension of the research and development credit by the U.S. Congress in the fourth quarter of 2015.

Weighted average shares outstanding: Over the time period within and between the comparable quarter, weighted average shares outstanding decreased approximately four percent due primarily to share repurchases under our stock repurchase program.

Cash Dividends:

We paid a regular cash dividend of \$0.55 per share on June 15, 2016 to holders of record at the close of business on June 1, 2016. On July 20, 2016, the Polaris Board of Directors declared a regular cash dividend of \$0.55 per share payable on September 15, 2016 to holders of record of such shares at the close of business on September 1, 2016.

Liquidity and Capital Resources

Our primary source of funds has been cash provided by operating and financing activities. Our primary uses of funds have been for acquisitions, repurchase and retirement of common stock, capital investment, new product development and cash dividends to shareholders.

We believe that existing cash balances and cash flow to be generated from operating activities and available borrowing capacity under the line of credit arrangement will be sufficient to fund operations, new product development, cash dividends,

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share repurchases and capital requirements for the foreseeable future. At this time, management is not aware of any factors that would have a material adverse impact on cash flow.

Cash Flows

The following table summarizes the cash flows from operating, investing and financing activities:

(\$ in millions)	Six months ended June 30,		
	2016	2015	Change
Total cash provided by (used for):			
Operating activities	\$348.3	\$89.9	\$258.4
Investing activities	(159.3)	(110.5)	(48.8)
Financing activities	(198.4)	8.8	(207.2)
Impact of currency exchange rates on cash balances	0.7	(7.0)	7.7
Increase in cash and cash equivalents	\$(8.7)	\$(18.8)	\$10.1

Operating activities: The \$258.4 million increase in net cash provided by operating activities in 2016 is primarily the result of decreased working capital required. The decrease in working capital for the six months ended June 30, 2016 is \$292.5 million. Changes in working capital (as reflected in our statements of cash flows) was a decrease of \$129.8 million, compared to an increase of \$162.7 million for the same period in 2015. This was primarily due to a decrease in net cash used of \$165.0 million related to inventory purchases, a decrease in net cash used of \$92.4 related to payments made for accounts payable, and a decrease in net cash used of \$50.7 million related to payments made for accrued expenses due to our focused efforts on working capital management.

Investing activities: The primary use of cash was for the purchase of property and equipment, acquisitions including Taylor-Dunn, and the continued investments in EPPL. We made large capital expenditures related to continued capacity and capability expansion at our manufacturing facilities, including the construction of our Huntsville, Alabama facility which was completed during the second quarter. We expect that capital expenditures for the full year 2016 will be slightly higher than 2015.

Financing activities: Cash used for financing activities changed primarily due to net borrowings under debt arrangements, capital lease obligations and notes payable of \$4.3 million compared to net borrowings of \$178.6 million in the 2015 comparable period, and common stock repurchases of \$143.9 million compared to \$157.7 million in the 2015 comparable period. Additionally, we paid cash dividends of \$70.6 million and \$70.1 million for the six months ended June 30, 2016 and 2015, respectively. Proceeds from the issuance of stock under employee plans were \$11.8 million and \$25.1 million for the six months ended June 30, 2016 and 2015, respectively.

The seasonality of production and shipments cause working capital requirements to fluctuate during the year.

Debt and Capital

We are party to a \$600 million variable interest rate bank lending agreement and a Master Note Purchase Agreement, as amended and supplemented, under which we have unsecured borrowings. We are also party to a \$500 million 12-month delayed draw term loan facility, of which \$100 million is outstanding as of June 30, 2016.

We enter into leasing arrangements to finance the use of certain property and equipment.

In January 2015, we announced plans to build a new production facility in Huntsville, Alabama to provide additional capacity and flexibility. The 725,000 square-foot facility will focus on ORV and Slingshot production. We broke ground on the facility in the first quarter of 2015, and completed construction during the second quarter of 2016, with start-of-production also occurring during the second quarter. A mortgage note payable agreement of \$14.5 million for land, on which we are building the facility, commenced in February 2015. The payment of principal and interest for the note payable is forgivable if we satisfy certain job commitments over the term of the note.

Debt, capital lease obligations, notes payable, and the average related interest rates at June 30, 2016 were as follows:

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(\$ in millions)	Average interest rate at June 30, 2016	Maturity	June 30, 2016
Revolving loan facility	1.31%	May 2021	\$135.8
Revolving loan facility—term note	1.59%	May 2021	100.0
Senior notes—fixed rate	3.81%	May 2018	25.0
Senior notes—fixed rate	4.60%	May 2021	75.0
Senior notes—fixed rate	3.13%	December 2020	100.0
Capital lease obligations	5.08%	Various through 2029	21.1
Notes payable and other	3.50%	June 2027	14.3
Debt issuance costs			(3.1)
Total debt, capital lease obligations, and notes payable			\$468.1
Less: current maturities			4.8
Long-term debt, capital lease obligations, and notes payable			\$463.3

Our debt to total capital ratio was 34 percent and 31 percent at June 30, 2016 and 2015, respectively.

Additionally, at June 30, 2016, we had letters of credit outstanding of \$23.9 million primarily related to purchase obligations for raw materials.

Share Repurchases

Our Board of Directors has authorized the cumulative repurchase of up to 86.5 million shares of our common stock. Of that total, approximately 77.8 million shares have been repurchased cumulatively from 1996 through June 30, 2016. We repurchased approximately 1.7 million shares of our common stock for \$143.9 million during the first six months of 2016, which had a favorable impact on earnings per share of two cents. We have authorization from our Board of Directors to repurchase up to an additional 8.7 million shares of our common stock as of June 30, 2016. The repurchase of any or all such shares authorized remaining for repurchase will be governed by applicable SEC rules.

Other Financial Arrangements

Polaris Acceptance, a joint venture between Polaris and Wells Fargo Commercial Distribution Finance (“WFCDF”), a direct subsidiary of Wells Fargo Bank, N.A. (“Wells Fargo”), which is supported by a partnership agreement between their respective wholly owned subsidiaries, finances substantially all of Polaris’ U.S. sales, whereby Polaris receives payment within a few days of shipment of the product. On March 1, 2016 Wells Fargo announced that it completed the purchase of the North American portion of GE Capital’s Commercial Distribution Finance (“GECDF”) business, including GECDF’s ownership interests in Polaris Acceptance. The sale is not expected to impact the operations of the partnership agreement, which is effective through February 2022. Effective March 1, 2016, GECDF adopted the tradename Wells Fargo Commercial Distribution Finance.

Polaris Acceptance sells a majority of its receivables portfolio (the “Securitized Receivables”) to a securitization facility (“Securitization Facility”) arranged by Wells Fargo, a WFCDF affiliate. Polaris Acceptance is not responsible for any continuing servicing costs or obligations with respect to the Securitized Receivables. At June 30, 2016, the outstanding amount of net receivables financed for dealers under this arrangement, including Securitized Receivables, was \$1,180.4 million, a seven percent increase from \$1,100.4 million at June 30, 2015.

We account for our investment in Polaris Acceptance under the equity method. Polaris Acceptance is funded through equal equity cash investments from the partners and a loan from an affiliate of WFCDF. We do not guarantee the outstanding indebtedness of Polaris Acceptance. The partnership agreement provides that all income and losses of Polaris Acceptance are shared 50 percent by our wholly owned subsidiary and 50 percent by WFCDF’s subsidiary. Our total investment in Polaris Acceptance at June 30, 2016, was \$93.9 million. Our exposure to losses of Polaris Acceptance is limited to our equity in Polaris Acceptance. Credit losses in the Polaris Acceptance portfolio have been modest, averaging less than one percent of the portfolio.

We have agreed to repurchase products repossessed by Polaris Acceptance up to an annual maximum of 15 percent of the aggregate average month-end outstanding Polaris Acceptance receivables and Securitized Receivables during the prior calendar year. For calendar year 2016, the potential 15 percent aggregate repurchase obligation is approximately \$182.8 million. Our financial exposure under this arrangement is limited to the difference between the amount paid to the finance company for repurchases and the amount received on the resale of the repossessed product. No material losses have been incurred under this agreement.

See Note 6 in the Notes to Consolidated Financial Statements for further discussion of Polaris Acceptance.

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We have agreements with certain financial institutions, under which these financial institutions provide financing to end consumers of our products in the United States. The income generated from these agreements has been included as a component of income from financial services in the accompanying consolidated statements of income. At June 30, 2016, the agreements in place were as follows:

Financial institution Agreement expiration date

Chrome Capital	January 2017
Freedom Road	December 2016
Sheffield Financial	December 2020
Synchrony Bank	December 2020

Inflation and Foreign Exchange Rates

The changing relationships of the U.S. dollar to the Japanese yen, the Mexican peso, the Canadian dollar, the Australian dollar, the Euro and other foreign currencies have had a material impact on our results of operations from time to time. We actively manage our exposure to fluctuating foreign currency exchange rates by entering into foreign exchange hedging contracts.

Japanese Yen: During 2015, purchases totaling approximately two percent of our cost of sales were from yen-denominated suppliers. Fluctuations in the yen to U.S. dollar exchange rate primarily impact cost of sales and net income.

Mexican Peso: With increased production at our Monterrey, Mexico facility, our costs in the Mexican peso have continued to increase. We also market and sell to customers in Mexico through a wholly owned subsidiary. Fluctuations in the peso to U.S. dollar exchange rate primarily impact sales, cost of sales, and net income.

Canadian Dollar: We operate in Canada through a wholly owned subsidiary. The relationship of the U.S. dollar in relation to the Canadian dollar impacts both sales and net income.

Other currencies: We operate in various countries, principally in Europe and Australia, through wholly owned subsidiaries and also sell to certain distributors in other countries. We also purchase components from certain suppliers directly for our U.S. operations in transactions denominated in the Euro and other foreign currencies. The relationship of the U.S. dollar in relation to these other currencies impacts each of sales, cost of sales and net income. At June 30, 2016, we had the following open foreign currency hedging contracts for the remainder of 2016 and through December 31, 2017, and expect the following net currency impact on net income, after consideration of the existing foreign currency hedging contracts, when compared to the respective prior year periods:

Foreign Currency	Currency Position	Foreign currency hedging contracts		Currency impact on net income compared to the prior year period	
		Notional amounts (in thousands of U.S. Dollars)	Average exchange rate of open contracts	Second quarter 2016	Estimated remainder of 2016
Australian Dollar (AUD)	Long	\$25,522	\$0.72 to 1 AUD	Negative	Negative
Canadian Dollar (CAD)	Long	160,247	\$0.71 to 1 CAD	Negative	Negative
Euro	Long	—	—	Positive	Slightly negative
Japanese Yen	Short	1,417	118 Yen to \$1	Positive	Negative
Mexican Peso	Short	29,280	18 Peso to \$1	Positive	Positive
Norwegian Krone	Long	—	—	Negative	Slightly negative
Swedish Krona	Long	—	—	Positive	Slightly negative
Swiss Franc	Short	—	—	Positive	Slightly negative

In addition, we expect currencies to have an overall negative impact on 2016 results based on the current environment.

The assets and liabilities in all our foreign entities are translated at the foreign exchange rate in effect at the balance sheet date. Translation gains and losses are reflected as a component of “accumulated other comprehensive loss, net” in the shareholders’ equity section of the accompanying consolidated balance sheets. Revenues and expenses in all of our foreign entities are translated at the average foreign exchange rate in effect for each month of the quarter. Certain assets and liabilities related to intercompany positions reported on our consolidated balance sheet that are denominated in a currency other than the entity’s functional currency are translated at the foreign exchange rates at the balance sheet date and the associated gains and losses are included in net income.

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We are subject to market risk from fluctuating market prices of certain purchased commodities and raw materials including steel, aluminum, petroleum-based resins, certain rare earth metals and diesel fuel. In addition, we are a purchaser of components and parts containing various commodities, including steel, aluminum, rubber and others, which are integrated into the Company's end products. While such materials are typically available from numerous suppliers, commodity raw materials are subject to price fluctuations. We generally buy these commodities and components based upon market prices that are established with the vendor as part of the purchase process and from time to time will enter into derivative contracts to hedge a portion of the exposure to commodity risk. While we occasionally enter into these derivative contracts, at June 30, 2016, we do not have any open derivative contracts in place to hedge our diesel fuel exposure. Based on our current outlook for commodity prices, the total impact of commodities is expected to have a positive impact on our gross margins for the remainder of 2016 when compared to the same period in the prior year.

We are a party to a credit agreement with various lenders consisting of a \$600 million revolving loan facility and a \$500 million 12-month delayed draw term loan facility. Interest accrues on the revolving loan at variable rates based on LIBOR or "prime" plus the applicable add-on percentage as defined in the agreement. At June 30, 2016, we had an outstanding balance of \$135.8 million on the revolving loan, and an outstanding balance of \$100.0 million on the delayed draw term loan.

Critical Accounting Policies

See our most recent Annual Report on Form 10-K for the year ended December 31, 2015 for a discussion of our critical accounting policies.

Note Regarding Forward Looking Statements

Certain matters discussed in this report are "forward-looking statements" intended to qualify for the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These "forward-looking statements," including but not limited to the impact of foreign exchange rate movements on sales and net income, and commodity price changes on gross margins, can generally be identified as such because the context of the statement will include words such as the Company or management "believes," "anticipates," "expects," "estimates" or words of similar import. Similarly, statements that describe the Company's future plans, objectives or goals are also forward-looking. Forward-looking statements may also be made from time to time in oral presentations, including telephone, conferences and/or webcasts open to the public. Shareholders, potential investors and others are cautioned that all forward-looking statements involve risks and uncertainties that could cause results in future periods to differ materially from those anticipated by some of the statements made in this report, including the risks and uncertainties described under the heading titled "Item 1A-Risk Factors" appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. In addition to the factors discussed above, among the other factors that could cause actual results to differ materially are the following: product offerings, promotional activities and pricing strategies by competitors; acquisition integration costs; future conduct of litigation processes; warranty expenses; foreign currency exchange rate fluctuations; commodity and transportation costs; environmental and product safety regulatory activity; effects of weather; uninsured product liability claims; uncertainty in the retail and wholesale credit markets and relationships with Chrome Capital, Freedom Road, Sheffield Financial and Synchrony Bank; changes in tax policy; and overall economic conditions, including inflation and consumer confidence and spending. The Company does not undertake any duty to any person to provide updates to its forward-looking statements.

Item 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for a complete discussion on the Company's market risk. There have been no material changes in market risk from those disclosed in the Company's Form 10-K for the year ended December 31, 2015.

Item 4 – CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and its Executive Vice President — Finance and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rule 13a-15) as of the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by

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this Quarterly Report on Form 10-Q, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is (1) recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and (2) accumulated and communicated to the Company's management, including its Chief Executive Officer and Executive Vice President — Finance and Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure.

Changes in Internal Controls

There have been no changes in the Company's internal controls over financial reporting during the period covered by this quarterly report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Part II OTHER INFORMATION**Item 1 – LEGAL PROCEEDINGS**

We are involved in a number of legal proceedings incidental to our business, none of which is expected to have a material effect on the financial results of our business.

Item 1A – RISK FACTORS

There have been no material changes or additions to our risk factors discussed in our fiscal 2015 Annual Report filed on Form 10-K. Please consider the factors discussed in "Part I, Item 1A. Risk Factors" in such report, which could materially affect the Company's business, financial condition, or future results.

Item 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total	Maximum
			Number of Shares Purchased as Part of Publicly Announced Program	Number of Shares That May Yet Be Purchased Under the Program (1)
April 1 — 30, 2016	152,000	\$ 99.72	152,000	9,179,000
May 1 — 31, 2016	500,000	\$ 87.60	500,000	8,679,000
June 1 — 30, 2016	—	—	—	8,679,000
Total	652,000	\$ 90.41	652,000	8,679,000

(1) The Board of Directors has authorized the cumulative repurchase of up to an aggregate of 86.5 million shares of the Company's common stock (the "Program"). Of that total, 77.8 million shares have been repurchased cumulatively from 1996 through June 30, 2016. The Program does not have an expiration date.

Item 4 – MINE SAFETY DISCLOSURES

Not applicable.

Item 6 – EXHIBITS

A list of exhibits to this Form 10-Q is set forth on the Exhibit Index and is incorporated herein by reference.

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Exhibit Index

Exhibit
Number Description

- 3.a Restated Articles of Incorporation of Polaris Industries Inc. (the “Company”), effective October 24, 2011, incorporated by reference to Exhibit 3.a to the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2011.
- 3.b Bylaws of the Company, as amended and restated on April 29, 2010, incorporated by reference to Exhibit 3 to the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.
- 10.a Form of the Deferred Stock Unit Award Agreement for units of deferred stock granted to non-employee directors under the Company’s Amended and Restated 2007 Omnibus Incentive Plan, incorporated by reference to Exhibit 10.1 on the Company’s Current Report on Form 8-K filed May 3, 2016.*
- 10.b Employment Offer Letter dated April 27, 2016 by and between Steve Eastman and Polaris Industries Inc.*
- 10.c Letter Agreement dated May 16, 2016 by and between Bennett J. Morgan and Polaris Industries Inc., incorporated by reference to Exhibit 10.1 on the Company’s Current Report on Form 8-K, filed May 20, 2016.*
- 10.d Second Amended and Restated Credit Agreement dated May 2, 2016 by and among Polaris Industries Inc., Polaris Sales Europe Srl, any other Foreign Borrower (as defined therein) that hereafter becomes a party thereto, the Lenders named therein, U.S. Bank National Association as Administrative Agent, Left Lead Arranger and Lead Book Runner, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Wells Fargo Securities, LLC, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Joint Lead Arrangers, Joint Book Runners and Syndication Agents, and Bank of the West, Fifth Third Bank, JP Morgan Chase Bank, N.A., PNC Bank, National Association and BMO Harris Bank N/A., as Documentation Agents, incorporated by reference to Exhibit 10.1 on Company’s Current Report on Form 8-K, filed May 5, 2016.
- 31.a Certification of Chief Executive Officer required by Exchange Act Rule 13a-14(a).
- 31.b Certification of Chief Financial Officer required by Exchange Act Rule 13a-14(a).
- 32.a Certification furnished pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.b Certification furnished pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following financial information from Polaris Industries Inc.’s Quarterly Report on Form 10-Q for the period ended June 30, 2016, filed with the SEC on July 22, 2016, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets at June 30, 2016 and December 31, 2015, (ii) the Consolidated Statements of Income for the three and six month periods ended June 30, 2016 and 2015, (iii) the Consolidated Statements of Comprehensive Income for the three and six month periods ended June 30, 2016 and 2015, (iv) the Consolidated Statements of Cash Flows for the six month periods ended June 30, 2016 and 2015, and (v) Notes to Consolidated Financial Statements.

* Management contract or compensatory plan.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

POLARIS INDUSTRIES INC.
(Registrant)

Date: July 22, 2016 /s/ SCOTT W. WINE
Scott W. Wine
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: July 22, 2016 /s/ MICHAEL T. SPEETZEN
Michael T. Speetzen
Executive Vice President — Finance
and Chief Financial Officer
(Principal Financial and Chief Accounting Officer)