
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2016

Commission file number 001-11411

POLARIS INDUSTRIES INC.

(Exact name of registrant as specified in its charter)

Minnesota
(State or other jurisdiction of
incorporation or organization)

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

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

55340
(Zip Code)

(763) 542-0500
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Class
Common Stock, \$.01 par value

Name of Each Exchange on Which
Registered
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 Smaller reporting company

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$5,240,113,000 as of June 30, 2016, based upon the last sales price per share of the registrant's Common Stock, as reported on the New York Stock Exchange on such date.

As of February 10, 2017, 62,936,403 shares of Common Stock, \$.01 par value, of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's Annual Report to Shareholders for the year ended December 31, 2016 (the "2016 Annual Report" furnished to the Securities and Exchange Commission are incorporated by reference into Part II of this Form 10-K. Portions of the definitive Proxy Statement for the registrant's Annual Meeting of Shareholders to be held on April 27, 2017 to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this report (the "2017 Proxy Statement"), are incorporated by reference into Part III of this Form 10-K.

**POLARIS INDUSTRIES INC.
2016 FORM 10-K ANNUAL REPORT
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PART I**Item 1. Business**

Polaris Industries Inc., a Minnesota corporation, was formed in 1994 and is the successor to Polaris Industries Partners LP. 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 1954. We design, engineer and manufacture powersports vehicles which include, Off-Road Vehicles (ORV), including All-Terrain Vehicles (ATV) and side-by-side vehicles for recreational and utility use, Snowmobiles, Motorcycles and Global Adjacent Markets vehicles, including Work & Transportation and military vehicles. Polaris products, together with related Parts, Garments and Accessories (PG&A), as well as aftermarket accessories and apparel are sold through dealers and distributors principally located in the United States, Canada, Western Europe, Australia and Mexico. Sales of our ORV/Snowmobiles, Motorcycles and Global Adjacent Markets reporting segments accounted for the following approximate percentages of our sales for the years ended December 31:

	ORV / Snowmobiles	Motorcycles	Global Adjacent Markets	Other
2016	74%	16%	8%	2%
2015	78%	15%	7%	—
2014	84%	9%	7%	—

Industry

Off-Road Vehicles. ORVs are four-wheel vehicles designed for off-road use and traversing rough terrain, swamps and marshland. The vehicles can be multi-passenger or single passenger, are used for recreation, in such sports as fishing and hunting and for trail and dune riding, and for utility purposes on farms, ranches, and construction sites. The off-road vehicle industry is comprised of ATVs and side-by-side vehicles. The North American ATV industry decreased mid single-digits percent in 2016. Internationally, ATVs are also sold primarily in Western European countries by similar manufacturers as in North America. We estimate that during 2016 world-wide industry sales decreased low single-digits percent from 2015 levels with approximately 400,000 ATVs sold worldwide. We estimate that worldwide side-by-side vehicle market sales increased high single-digits percent during 2016 over 2015 levels with an estimated 480,000 side-by-side vehicles sold. The side-by-side market has increased consistently over the past several years primarily due to continued innovation by manufacturers. We estimate that total worldwide off-road vehicle industry sales for 2016, which include core ATVs and side-by-side vehicles, increased low single-digits percent from 2015 levels with approximately 880,000 units sold.

Snowmobiles. Snowmobiles have been manufactured under the Polaris name since 1954. We estimate that during the season ended March 31, 2016, world-wide industry sales of snowmobiles decreased low teens percent from the previous season levels with approximately 130,000 units sold worldwide.

Motorcycles. Motorcycles are utilized as a mode of transportation as well as for recreational purposes. The industry is comprised of four segments: cruisers, touring, sport bikes and standard motorcycles. We entered the motorcycle market in 1998. We estimate that the combined 900cc and above cruiser and touring market segments (including the moto-roadster Slingshot[®]) decreased low-single digits percent in 2016 compared to 2015 levels with an estimated 233,000 heavyweight cruiser, touring, and mid-size motorcycles sold in the North American market. We estimate that during 2016, worldwide combined 900cc and above cruiser and touring market segments (including Slingshot) sales increased low single-digits percent from 2015 levels, with an estimated 350,000 units sold worldwide.

Global Adjacent Markets. These vehicles are designed to support people mobility as well as various commercial work applications, and include products in the light-duty hauling, people mover, industrial and urban/suburban commuting sub-sectors of the Work and Transportation industry, as well as tactical defense vehicles. We estimate the worldwide target market for Work and Transportation vehicles at approximately \$4.0 billion in 2016, which includes master planned communities and golf courses, light duty hauling, people movers, industrial, urban/suburban commuting and related quadricycles.

Products

Off-Road Vehicles. Our Off-Road Vehicle lineup includes the *RZR*[®] sport side-by-side, the *RANGER*[®] utility side-by-side, the *GENERAL*[™] crossover side-by-side, the *Sportsman*[®] ATV and the *Polaris ACE*[®]. The full line (excluding military vehicles) spans 61 models, and includes two-, four- and six-wheel drive general purpose, commercial,

recreational and side-by-side models. 2017 model year suggested retail prices range from approximately \$2,100 to \$27,500 in the United States.

Most of our ORVs feature the automatic Polaris variable transmission, which requires no manual shifting, and several have a MacPherson® strut front suspension, which enhances control and stability. Our “on demand” all-wheel drive provides industry leading traction performance and ride quality due to its patented on demand, easy shift-on-the-fly design. Our ORVs have four-cycle gas or diesel engines, with available shaft and concentric chain drive systems. Our lineup continues to expand through the introduction of electric ORVs and gas and diesel commercial focused ORVs. In many of our segments, we offer youth, value, mid-size, trail and high-performance vehicles, which come in both single passenger and multi-passenger seating arrangements. Key 2016 ORV product introductions included the all-new *RANGER XP*® 1000, *RZR XP*® Turbo HO with 168 HP and the revolutionary *RIDE COMMAND*™, an integrated in-vehicle rider experience enhancement system, available on the limited edition Velocity Blue *RZR XP*® 1000 EPS, or as an accessory option.

We produce or supply a variety of replacement parts and Polaris Engineered Accessories® for our ORVs. ORV accessories include winches, bumper/brushguards, plows, racks, wheels and tires, pull-behinds, cab systems, lighting and audio systems, cargo box accessories, tracks and oil. We also market a full line of recreational apparel for our ORVs, including helmets, jackets, gloves, pants and hats. Aftermarket brands in our off-road category include Kolpin, a lifestyle brand specializing in purpose-built and universal-fit accessories for UTVs and outdoor enthusiasts, and Pro Armor®, a lineup that specializes in accessories for performance side-by-side vehicles and all-terrain vehicles.

Snowmobiles. We produce a full line of snowmobiles consisting of approximately 40 models, ranging from youth models to utility and economy models to performance and competition models. The 2017 model year suggested retail prices range from approximately \$3,000 to \$15,200 in the United States. Polaris snowmobiles are sold principally in the United States, Canada, Russia and western Europe. We believe our snowmobiles have a long-standing reputation for quality, dependability and performance. In 2014, we introduced the all-new AXYS™ chassis platform for the flatland rider, and in 2015, we introduced the AXYS chassis platform for the mountain rider. We also produce a snow bike conversion kit, under the Timbersled brand.

We produce or supply a variety of replacement parts and Polaris Engineered Accessories® for our snowmobiles and snow bike conversion kits. Snowmobile accessories include covers, traction products, reverse kits, electric starters, tracks, bags, windshields, oil and lubricants. We also market a full line of recreational apparel for our snowmobiles, including helmets, goggles, jackets, gloves, boots, bibs, pants and hats. Aftermarket brands in our snowmobile category include Klim, which primarily specializes in premium technical riding gear for the snowmobile industry, and 509, which is an aftermarket leader in snowmobile helmets and goggles. Apparel is designed to our specifications, purchased from independent vendors and sold by us through our dealers and distributors, and online under our brand names.

Motorcycles. In 1998, we began manufacturing V-twin cruiser motorcycles under the Victory® brand name. In 2011, we acquired Indian Motorcycle Company, America’s first motorcycle company, and in 2013 we re-launched the Indian Motorcycle® brand. The three-wheel motorcycle, Slingshot, was introduced in 2014. Our 2017 model year line of motorcycles for Victory, Indian and Slingshot consists of approximately 24 models with suggested retail prices ranging from approximately \$9,000 to \$30,000 in the United States. In January 2017, we announced the wind down of Victory Motorcycles.

We produce or supply a variety of replacement parts and accessories for our motorcycles. Motorcycle accessories include saddle bags, handlebars, backrests, exhaust, windshields, seats, oil and various chrome accessories. We also market a full line of recreational apparel for our motorcycles, including helmets, jackets, leathers and hats. We also market Klim as an aftermarket brand in our motorcycle category. Apparel is designed to our specifications, purchased from independent vendors and sold by us through our dealers and distributors, and online under our brand names.

Global Adjacent Markets - Work and Transportation. Our Work and Transportation brands include GEM, Goupil, Aixam and Taylor-Dunn. Our Global Adjacent Markets vehicles include low emission vehicles, light duty hauling, passenger vehicles and industrial vehicles. Across these brands we offer approximately 60 models with suggested retail prices ranging from approximately \$6,000 to \$80,000. Work and Transportation also includes all commercial vehicles, BRUTUS® side-by-side vehicles, and all business-to-business (B2B) applications of ORV, Snowmobiles, and Motorcycles outside of our traditional dealer channels.

Global Adjacent Markets - Military/Government. We offer a military version ATV and side-by-side vehicles with features specifically designed for ultra-light tactical military applications. These vehicles provide versatile mobility for

up to nine passengers, and include DAGOR™, Sportsman MV and MRZR®. Our standard line of military and government vehicles consists of seven models at suggested United States retail prices ranging from approximately \$11,000 to \$163,000.

Significant Acquisition

On October 11, 2016, we entered into a definitive agreement with TAP Automotive Holdings, LLC (“Transamerican Auto Parts” or “TAP”), to acquire the outstanding equity interests in Transamerican Auto Parts, a privately held, vertically integrated manufacturer, distributor, retailer and installer of off-road Jeep and truck accessories, for an aggregate consideration of \$668.8 million, net of cash acquired. The transaction closed on November 10, 2016. We funded the purchase price with borrowings under our existing credit facilities.

TAP is a leading participant in aftermarket parts and accessories for light trucks, Jeeps, sport-utility vehicles and other four-wheel drive vehicles. TAP sells through its retail stores, call center and e-commerce sites, while also supporting numerous independent accessory retailers/installers through their wholesale distribution network.

TAP conducts business through a three-pronged sales, service, and manufacturing paradigm. TAP has 76 brick-and-mortar retail centers, staffed with experienced product and installation specialists. TAP’s omni-channel retail strategy includes a significant e-commerce business including 4WheelParts.com and 4WD.com. The TAP e-commerce network facilitates consumer sales, service and support, including “pick-up-in-store.” TAP’s manufacturing system features a research and production facility that incorporates an in-house conceptualization, design, and development process. Industry-leading brands owned by TAP include Pro Comp, Smittybilt, Rubicon Express, Poison Spyder, Trail Master, LRG and G2 Axle & Gear.

Manufacturing and Distribution Operations

Our products are primarily assembled at our 18 global manufacturing facilities. We are vertically integrated in several key components of our manufacturing process, including plastic injection molding, welding, clutch assembly and painting. Fuel tanks, tracks, tires, seats and instruments, and certain other component parts are purchased from third-party vendors. Raw materials or standard parts are readily available from multiple sources for the components manufactured by us.

During 2016, approximately 80 percent of the total vehicles we produced were powered by engines designed and assembled by us, with the remainder purchased from other suppliers. We do not anticipate any significant difficulties in obtaining substitute supply arrangements for other raw materials or components that we generally obtain from limited sources.

Contract carriers ship our products from our manufacturing and distribution facilities to our customers. We maintain several leased wholegoods distribution centers where final set-up and up-fitting is completed for certain models before shipment to customers.

Our corporate headquarters facilities are in Medina and Plymouth, Minnesota, and we maintain 25 other sales and administrative facilities across the world. Our products are distributed to our dealers, distributors and customers through a network of 30 distribution centers, including third-party providers.

Production Scheduling

We produce and deliver our products throughout the year based on dealer, distributor and customer orders. Side-by-side orders are placed in approximately two-week intervals for the high volume dealers driven by retail sales trends at the individual dealership. Smaller dealers utilize a similar process, but on a less frequent ordering cycle. Side-by-side retail sales activity at the dealer level drives orders which are incorporated into each product’s production scheduling. International distributor ORV orders are taken throughout the year. Orders for each year’s production of snowmobiles are placed by the dealers and distributors in the spring. Non-refundable deposits made by consumers to dealers in the spring for pre-ordered snowmobiles assist in production planning.

We utilize our Retail Flow Management (RFM) ordering system for motorcycle and ATV dealers. The RFM system allows dealers to order daily, create a segment stocking order, and eventually reduce order fulfillment times to what we expect will be less than 18 days. We are implementing the RFM system for our side-by-side vehicles in 2017.

For snowmobiles, we offer a pre-order SnowCheck program for our customers. This program allows our customers to order a true factory-customized snowmobile by selecting various options, including chassis, track, suspension, colors and accessories. Manufacture of snowmobiles commences in late winter of the previous season and continues through late

autumn or early winter of the current season. We manufacture ORVs, motorcycles and people mobility vehicles year round.

Sales and Marketing

Our powersports products are sold through a network of approximately 1,800 independent dealers in North America, and approximately 1,700 independent international dealers through 29 subsidiaries and approximately 80 distributors in over 100 countries outside of North America. With the exception of France, the United Kingdom, Sweden, Norway, Australia, New Zealand, Germany, Spain, China, India, Mexico and Brazil, sales of our non-Global Adjacent Markets vehicles in Europe and other offshore markets are handled through independent distributors. A majority of our dealers are multi-line dealers and also carry competitor products.

ORV/Snowmobiles . We sell our ORVs directly to a network of over 1,500 dealers. Many of our ORV dealers and distributors are also authorized snowmobile dealers, and are located in the snow belt regions of the United States and Canada. We sell our snowmobiles to a network of over 700 dealers. Klim, Kolpin, Pro Armor, Timbersled and 509 each have their own dealer/distributor networks.

Motorcycles . Victory and Indian motorcycles and Slingshot are distributed directly through independently owned dealers and distributors, except in Australia where we have four Company-owned retail stores. Victory motorcycles are sold through a network of approximately 400 dealers, while Indian motorcycles are sold through a network of approximately 200 North American dealers. We expect the number of Indian retailing dealerships to continue to increase over the coming years. Slingshot currently has approximately 500 North American dealers retailing as of the end of 2016.

Global Adjacent Markets . Within Global Adjacent Markets, our Work and Transportation vehicles each have their own distribution networks through which their respective vehicles are distributed. GEM has approximately 200 dealers. Goupil and Aixam sell directly to customers in France, through subsidiaries in certain Western European countries and through several dealers and distributors for markets outside such countries. Taylor-Dunn has approximately 180 United States dealers and 50 international dealers.

In addition, we sell Polaris vehicles directly to military and government agencies and other national accounts and supply a highly differentiated side-by-side vehicle to Bobcat Company (“Bobcat”), to dealerships in North America. We have a partnership with Ariens Company (“Ariens”), a manufacturer of outdoor power equipment. Through the partnership, we leverage each other’s dealer networks, share certain technologies and research and development, and supply Ariens with a highly differentiated work vehicle to sell through its dealer network.

Dealer agreements . Dealers and distributors sell our products under contractual arrangements pursuant to which the dealer or distributor is authorized to market specified products and is required to carry certain replacement parts and perform certain warranty and other services. Changes in dealers and distributors take place from time to time. We believe a sufficient number of qualified dealers and distributors exist in all geographic areas to permit an orderly transition whenever necessary.

Polaris Acceptance. Polaris Acceptance provides floor plan financing to our dealers in the United States under our current partnership agreement with Wells Fargo. Wells Fargo acquired the business in the first quarter of 2016. We have a 50 percent equity interest in Polaris Acceptance, and do not guarantee the outstanding indebtedness of Polaris Acceptance. As part of the agreement, Polaris sells portions of its receivable portfolio to a securitization facility (“Securitization Facility”), from time to time on an ongoing basis. The partnership agreement is effective through February 2022. See Notes 5 and 9 of Notes to Consolidated Financial Statements for a discussion of this financial services arrangement.

We have arrangements with Polaris Acceptance (United States) and Wells Fargo affiliates (Australia, Canada, France, Germany, the United Kingdom, Ireland, China and New Zealand) to provide floor plan financing for our dealers. A majority of our North American sales of snowmobiles, ORVs, motorcycles, Global Adjacent Markets vehicles and related PG&A are financed under arrangements whereby we are paid within a few days of shipment of our product. We participate in the cost of dealer financing and have agreed to repurchase products from the finance companies under certain circumstances and subject to certain limitations. We have not historically been required to repurchase a significant number of units; however, there can be no assurance that this will continue to be the case. See Note 9 of Notes to Consolidated Financial Statements for a discussion of these financial services arrangements.

Customer financing. We do not offer consumer financing directly to the end users of our products. Instead, we have agreements in place with various third party financing companies, to provide financing services to those end consumers.

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A wholly-owned subsidiary of Polaris has a multi-year agreement with Sheffield Financial (“Sheffield”) pursuant to which Sheffield agreed to make available closed-end installment consumer and commercial credit to customers of our dealers for Polaris products. The current installment credit agreement under which Sheffield provides installment credit lending for ORVs, snowmobiles and certain other Polaris products expires in February 2021.

A wholly-owned subsidiary of Polaris entered into a multi-year agreement with Evergreen Bank Group in September 2016. The agreement established Performance Finance as a division of Evergreen Bank Group, and is exclusively focused on the financing of Polaris motorcycles. The agreement replaced our previous arrangement with Freedom Road. The current installment credit agreement under which Performance Finance provides installment credit lending for motorcycles expires in December 2021.

A wholly-owned subsidiary of Polaris has a multi-year contract with Synchrony Bank, under which Synchrony Bank makes available closed-end installment consumer and commercial credit to customers of our dealers for both Polaris and non-Polaris products. The current installment credit agreement under which Synchrony Bank provides installment credit lending for Polaris products expires in December 2020.

Marketing. Our marketing activities are designed primarily to promote and communicate directly with consumers to assist the selling and marketing efforts of our dealers and distributors. We make available and advertise discount or rebate programs, retail financing or other incentives for our dealers and distributors to remain price competitive in order to accelerate retail sales to consumers. We advertise our products directly to consumers using print advertising in the industry press and in user group publications and on the internet, social media, billboards, television and radio. We also provide media advertising and partially underwrite dealer and distributor media advertising to a degree and on terms which vary by product and from year to year. We produce promotional films for our products, which are available to dealers for use in the showroom or at special promotions. We also provide product brochures, posters, dealer signs and miscellaneous other promotional items for use by dealers.

We expended \$342.2 million, \$316.7 million and \$314.5 million for sales and marketing activities in 2016, 2015 and 2014, respectively.

Engineering, Research and Development, and New Product Introduction

We have approximately 850 employees who are engaged in the development and testing of existing products and research and development of new products and improved production techniques, located primarily in our Roseau and Wyoming, Minnesota facilities and in Burgdorf, Switzerland.

We utilize internal combustion engine testing facilities to design and optimize engine configurations for our products. We utilize specialized facilities for matching engine, exhaust system and clutch performance parameters in our products to achieve desired fuel consumption, power output, noise level and other objectives. Our engineering department is equipped to make small quantities of new product prototypes for testing and for the planning of manufacturing procedures. In addition, we maintain numerous facilities where each of the products is extensively tested under actual use conditions. We utilize our Wyoming, Minnesota facility for engineering, design and development personnel for our line of engines and powertrains, ORVs, motorcycles, and certain Global Adjacent Market vehicles, and our Roseau, Minnesota facility for our snowmobile and certain ATV research and development. We also own Swissauto Powersports Ltd., an engineering company that develops high performance and high efficiency engines and innovative vehicles.

We expended \$185.1 million, \$166.4 million and \$148.5 million for research and development activities in 2016, 2015 and 2014, respectively.

Intellectual Property

We rely on a combination of patents, trademarks, copyrights, trade secrets, and nondisclosure and non-competition agreements to establish and protect our intellectual property and proprietary technology. We have filed and obtained numerous patents in the United States and abroad, and regularly file patent applications worldwide in our continuing effort to establish and protect our proprietary technology. Additionally, we have numerous registered trademarks, trade names and logos in the United States, Canada and other international countries.

Competition

The off-road vehicle, snowmobile, motorcycle, people mobility and work utility solutions, and aftermarket markets in the United States, Canada and other global markets are highly competitive. Our competition primarily comes from North American and Asian manufacturers. Competition in such markets is based upon a number of factors, including price,

quality, reliability, styling, product features and warranties. At the dealer level, competition is based on a number of factors, including sales and marketing support programs (such as financing and cooperative advertising). Certain of our competitors are more diversified and have financial and marketing resources that are substantially greater than those of Polaris.

We believe that our products are competitively priced and our sales and marketing support programs for dealers are comparable to those provided by our competitors. Our products compete with many other recreational products for the discretionary spending of consumers, and to a lesser extent, with other vehicles designed for utility applications.

Product Safety and Regulation

Safety regulation. The federal government and individual states have promulgated or are considering promulgating laws and regulations relating to the use and safety of certain of our products. The federal government is currently the primary regulator of product safety. The Consumer Product Safety Commission (CPSC) has federal oversight over product safety issues related to snowmobiles, snow-bikes and off-road vehicles. The National Highway Transportation Safety Administration (NHTSA) has federal oversight over product safety issues related to motorcycles (including Slingshot) and on-road people mobility vehicles.

In August 2008, the Consumer Product Safety Improvement Act (“Act”) was passed which, among other things, required ATV manufacturers and distributors to comply with previously voluntary American National Standards Institute (ANSI) safety standards developed by the Specialty Vehicle Institute of America (SVIA). We believe that our products comply with the ANSI/SVIA standards, and we have had an action plan on file with the CPSC since 1998 regarding safety related issues. The Act also includes a provision that requires the CPSC to complete an ATV rulemaking process it started in August 2006 regarding the need for safety standards or increased safety standards for ATVs, which has not yet resulted in the issuance of a final rule.

We are a member of the Recreational Off-Highway Vehicle Association (ROHVA), which was established to promote the safe and responsible use of side-by-side vehicles also known as Recreational Off-Highway Vehicles (ROVs), a category that includes our *RANGER*, Polaris GENERAL, *RZR*, and Polaris ACE vehicles. Since early 2008, ROHVA has been engaged in a comprehensive process for developing and updating a voluntary standard for equipment, configuration and performance requirements of ROVs through ANSI. Comments on the draft standards have been actively solicited from the CPSC and other stakeholders as part of the ANSI process. The standard, which addresses stability, occupant retention and other safety performance criteria, was approved and published by ANSI in March 2010, and then revised in 2011, 2014 and 2016.

In October 2009, the CPSC published an advance notice of proposed rulemaking regarding ROV safety under the Consumer Product Safety Act. In December 2014, the CPSC published a Notice of Proposed Rulemaking that includes proposed mandatory safety standards for ROVs in the areas of lateral stability, steering and handling, and occupant retention. Polaris, by itself and through ROHVA, has expressed concerns about the proposed mandatory standards, whether they would actually reduce ROV incident rates, whether the proposed tests are repeatable and appropriate for ROVs, and the unintended safety consequences that could result from them. As a result of those concerns, revisions to the standard were proposed. In 2015, CPSC expressed support for the proposed 2016 revisions to the ANSI standard, which may allow CPSC to terminate its rule-making process. We are unable to predict the outcome of the CPSC rule-making process or the ultimate impact of any resulting rules on our business and operating results.

We are a member of the International Snowmobile Manufacturers Association (ISMA), a trade association formed to promote safety in the manufacture and use of snowmobiles, among other things. ISMA members include all of the major snowmobile manufacturers. The ISMA members are also members of the Snowmobile Safety and Certification Committee, which promulgated voluntary sound and safety standards for snowmobiles that have been adopted as regulations in some states of the United States and in Canada. These standards require testing and evaluation by an independent testing laboratory. We believe that our snowmobiles have always complied with safety standards relevant to snowmobiles.

Motorcycles and certain people mobility vehicles are subject to federal vehicle safety standards administered by the NHTSA and are also subject to various state vehicle equipment standards. Our Slingshot vehicle is classified as a motorcycle under U.S. federal law, but may be classified differently in other jurisdictions. We believe our motorcycles (including Slingshot) and people mobility vehicles comply with applicable federal and state safety standards.

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Our products are also subject to international standards related to safety in places where we sell our products outside the United States. We believe that our motorcycles, ORVs, snowmobiles, snow-bikes and people mobility vehicles have complied with applicable safety standards in the United States and other international locations.

Use regulation. Local, state and federal laws and regulations have been promulgated, and at various times, ordinances or legislation is introduced, relating to the use or manner of use of our products. Some states and municipalities have adopted, or are considering the adoption of, legislation and local ordinances that restrict the use of ORVs and snowmobiles to specified hours and locations. The federal government also has legislative and executive authority to restrict the use of ORVs and snowmobiles in some national parks and federal lands. In several instances, this restriction has been a ban on the recreational use of these vehicles.

Emissions. The federal Environmental Protection Agency (EPA) and the California Air Resources Board (CARB) have adopted emissions regulations applicable to our products.

Our products are also subject to international emission laws and regulations in places where we sell our products outside the United States. Canada's emission regulations for motorcycles, ORVs and snowmobiles are similar to those in the United States, and Polaris complies with the applicable Canada requirements. Europe currently regulates emissions from our motorcycles and certain of our ATV-based products for which we obtain whole vehicle type approvals, and these products meet the applicable requirements. In 2014, the European Parliament and Council finalized the details of new regulations that made these European emission requirements more stringent, beginning in 2016. The first motorcycle and ATV-based product certifications were successfully executed in 2016. Emissions from certain other Polaris ORV and snowmobile engines in the EU will be covered in the future by the non-road mobile machinery directive, which is currently being finalized. Polaris is developing compliance solutions for these future EU emissions regulations.

We believe that our products comply with applicable emission standards and related regulations in the United States and internationally. We are unable to predict the ultimate impact of the adopted or proposed new regulations on our business. We are currently developing and obtaining engine and emission technologies to meet the requirements of the future emission standards.

Employees

Due to the seasonality of our business and certain changes in production cycles, total employment levels vary throughout the year. Despite such variations in employment levels, employee turnover has not been high. During 2016, on a worldwide basis, we employed an average of approximately 8,600 full-time persons, a six percent increase from 2015. Including our 2016 acquisitions, we employed approximately 10,000 full-time persons as of December 31, 2016. Approximately 3,800 of our employees are salaried. We consider our relations with our employees to be excellent.

Available Information

Our Internet website is <http://www.polaris.com>. We make available free of charge, on or through our website, our annual, quarterly and current reports, and any amendments to those reports, as soon as reasonably practicable after electronically filing such reports with the Securities and Exchange Commission. We also make available through our website our corporate governance materials, including our Corporate Governance Guidelines, the charters of the Audit Committee, Compensation Committee, Corporate Governance and Nominating Committee and Technology Committee of our Board of Directors and our Code of Business Conduct and Ethics. Any shareholder or other interested party wishing to receive a copy of these corporate governance materials should write to Polaris Industries Inc., 2100 Highway 55, Medina, Minnesota 55340, Attention: Investor Relations. Information contained on our website is not part of this report.

Forward-Looking Statements

This 2016 Annual Report contains not only historical information, but also "forward-looking statements" intended to qualify for the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These "forward-looking statements" can generally be identified as such because the context of the statement will include words such as we or our management "believes," "anticipates," "expects," "estimates" or words of similar import. Similarly, statements that describe our 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 below under the heading entitled "Item 1A

—Risk Factors” and elsewhere in this report. The risks and uncertainties discussed in this report are not exclusive and other factors that we may consider immaterial or do not anticipate may emerge as significant risks and uncertainties.

Any forward-looking statements made in this report or otherwise speak only as of the date of such statement, and we undertake no obligation to update such statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements. We advise you, however, to consult any further disclosures made on related subjects in future quarterly reports on Form 10-Q and current reports on Form 8-K that are filed with or furnished to the Securities and Exchange Commission.

Executive Officers of the Registrant

Set forth below are the names of our executive officers as of February 16, 2017, their ages, titles, the year first appointed as an executive officer, and employment for the past five years:

Name	Age	Title
Scott W. Wine	49	Chairman of the Board of Directors and Chief Executive Officer
Kenneth J. Pucel	50	Executive Vice President—Global Operations, Engineering and Lean
Michael T. Speetzen	47	Executive Vice President—Finance and Chief Financial Officer
Robert P. Mack	47	Senior Vice President—Corporate Development and Strategy, and President—Adjacent Markets
Stacy L. Bogart	53	Senior Vice President—General Counsel, Compliance Officer and Secretary
Michael D. Dougherty	49	President—International
Stephen L. Eastman	52	President—Parts, Garments and Accessories
Matthew J. Homan	45	President—Off-Road Vehicles
James P. Williams	54	Senior Vice President—Chief Human Resources Officer

Executive officers of the Company are elected at the discretion of the Board of Directors with no fixed terms. There are no family relationships between or among any of the executive officers or directors of the Company.

Mr. Wine joined Polaris Industries Inc. as Chief Executive Officer on September 1, 2008, and was named Chairman of the Board of Directors in January 2013.

Mr. Pucel joined Polaris in December 2014 as Executive Vice President—Global Operations, Engineering and Lean. Prior to joining Polaris, Mr. Pucel was with Boston Scientific Corporation (BSC), a global provider of medical solutions, where Mr. Pucel held the position of Executive Vice President of Global Operations, Quality and Technology and was a member of BSC’s Executive Committee from 2004 to 2014.

Mr. Speetzen has been Executive Vice President—Finance and Chief Financial Officer of the Company since August 2015. Prior to joining Polaris, Mr. Speetzen was Senior Vice President and Chief Financial Officer of Xylem, Inc., a provider of fluid technology and equipment solutions for water issues, since 2011, when the company was formed from the spinoff of the water businesses of ITT Corporation.

Mr. Mack joined Polaris in April 2016 as Senior Vice President—Corporate Development and Strategy, and President—Adjacent Markets. Prior to joining Polaris, Mr. Mack was Vice President, Corporate Development for Ingersoll Rand plc, a diversified industrial company. In that role since July 2010, he had global responsibility for the company’s acquisition and divestiture activities.

Ms. Bogart has been Senior Vice President—General Counsel, Compliance Officer and Secretary of Polaris since September 2015. Prior to her current role, she was Vice President—General Counsel and Compliance Officer since November 2009 and Corporate Secretary since January 2010.

Mr. Dougherty has been President—International since September 2015. Prior to his current role, he was Vice President—Asia Pacific and Latin America since August 2011.

Mr. Eastman has been President—Parts, Garments and Accessories since September 2015. Prior to his current role, he was Vice President—Parts, Garments and Accessories since February 2012. Prior to joining Polaris, Mr. Eastman was President of Target.com for Target Corporation, a general merchandise retailer, from July 2008 to October 2011.

Mr. Homan was promoted to President—Off-Road Vehicles in January 2016. Mr. Homan has held several key leadership positions at Polaris. Prior to his current role, most recently he was President—Global Adjacent Markets since September 2015, Vice President—Global Adjacent Markets since July 2014, Vice President—EMEA since August 2011.

Mr. Williams was appointed Senior Vice President—Chief Human Resources Officer in September 2015. Prior to this Mr. Williams was Vice President—Human Resources since April 2011.

Item 1A. Risk Factors

The following are significant factors known to us that could materially adversely affect our business, financial condition, or operating results, as well as adversely affect the value of an investment in our common stock.

A significant adverse determination in any material product liability claim against us could adversely affect our operating results or financial condition.

The manufacture, sale and usage of our products expose us to significant risks associated with product liability claims. If our products are defective or used incorrectly by our customers, bodily injury, property damage or other injury, including death, may result and this could give rise to product liability claims against us or adversely affect our brand image or reputation. Any losses that we may suffer from any product liability claims, and the effect that any product liability litigation may have upon the reputation and marketability of our products, may have a negative impact on our business and operating results.

Because of the high cost of product liability insurance premiums and the historically insignificant amount of product liability claims paid by us, we were self-insured from 1985 to 1996 and from 2002 to 2012. From 1996 to 2002, and beginning again in 2012, we purchased excess insurance coverage for catastrophic product liability claims for incidents occurring subsequent to the policy date that exceeded our self-insured retention levels. The estimated costs resulting from any losses are charged to expense when it is probable a loss has been incurred and the amount of the loss is reasonably determinable.

We had a product liability reserve accrued on our balance sheet of \$45.1 million at December 31, 2016 for the probable payment of pending claims related to product liability litigation associated with our products. We believe such accrual is adequate. We do not believe the outcome of any pending product liability litigation will have a material adverse effect on our operations. However, no assurance can be given that our historical claims record, which did not include ATVs prior to 1985, motorcycles and side-by-side vehicles prior to 1998, and Global Adjacent Markets vehicles prior to 2011, will not change or that material product liability claims against us will not be made in the future. Adverse determination of material product liability claims made against us would have a material adverse effect on our financial condition.

Significant product repair and/or replacement due to product warranty claims or product recalls could have a material adverse impact on our results of operations.

We provide limited warranties for our vehicles. We may also provide longer warranties related to certain promotional programs, as well as longer warranties in certain geographical markets as determined by local regulations and market conditions. We also provide a limited emission warranty for certain emission-related parts in our ORVs, snowmobiles, and motorcycles as required by the EPA and CARB. Although we employ quality control procedures, sometimes a product is distributed that needs repair or replacement. Our standard warranties require us or our dealers to repair or replace defective products during such warranty periods at no cost to the consumer.

Historically, product recalls have been administered through our dealers and distributors. The repair and replacement costs we could incur in connection with a recall could adversely affect our business. For example, in April 2016, we issued a voluntary recall for certain RZR 900 and 1000 off-road vehicles manufactured since model year 2013 due to reports of thermal-related incidents, including fire, and in September 2016, we issued a voluntary recall for certain RZR XP Turbo off-road vehicles due to similar thermal-related incidents. In addition, product recalls could harm our reputation and cause us to lose customers, particularly if recalls cause consumers to question the safety or reliability of our products.

Our business may be sensitive to economic conditions that impact consumer spending.

Our results of operations may be sensitive to changes in overall economic conditions, primarily in North America and Europe, that impact consumer spending, including discretionary spending. Weakening of, and fluctuations in, economic conditions affecting disposable consumer income such as employment levels, business conditions, changes in housing market conditions, capital markets, tax rates, savings rates, interest rates, fuel and energy costs, the impacts of natural disasters and acts of terrorism and other matters, including the availability of consumer credit, could reduce overall consumer spending or reduce consumer spending on powersports and aftermarket products. A general reduction in consumer spending or a reduction in consumer spending on powersports and aftermarket products could adversely affect our sales growth and profitability. Overall demand for products sold in the Jeep and truck aftermarket is dependent upon

many factors including the total number of vehicle miles driven in the United States, the total number of registered vehicles in the United States, the age and quality of these registered vehicles and the level of unemployment in the United States. Adverse changes in these factors could lead to a decreased level of demand for our products, which could negatively impact our business, results of operations, financial condition and cash flows.

In addition, we have a financial services partnership arrangement with a subsidiary of Wells Fargo Bank, N.A. that requires us to repurchase products financed and repossessed by the partnership, subject to certain limitations. For calendar year 2016, our maximum aggregate repurchase obligation was approximately \$182.8 million. If adverse changes to economic conditions result in increased defaults on the loans made by this financial services partnership, our repurchase obligation under the partnership arrangement could adversely affect our liquidity and harm our business.

Termination or interruption of informal supply arrangements could have a material adverse effect on our business or results of operations.

We have informal supply arrangements with many of our suppliers. In the event of a termination of the supply arrangement, there can be no assurance that alternate supply arrangements will be made on satisfactory terms. If we need to enter into supply arrangements on unsatisfactory terms, or if there are any delays to our supply arrangements, it could adversely affect our business and operating results.

Increases in the cost of raw material, commodity and transportation costs and shortages of certain raw materials could negatively impact our business.

The primary commodities used in manufacturing our products are aluminum, steel, petroleum-based resins and certain rare earth metals used in our charging systems, as well as diesel fuel to transport the products. Our profitability is affected by significant fluctuations in the prices of the raw materials and commodities we use in our products. We may not be able to pass along any price increases in our raw materials to our customers. As a result, an increase in the cost of raw materials, commodities, labor or other costs associated with the manufacturing of our products could increase our costs of sales and reduce our profitability.

Fluctuations in foreign currency exchange rates could result in declines in our reported sales and net earnings.

The changing relationships of the United States dollar to the Canadian dollar, Australian dollar, the Euro, the Swiss franc, the Mexican peso, the Japanese yen and certain other foreign currencies have from time to time had a negative impact on our results of operations. Fluctuations in the value of the United States dollar relative to these foreign currencies can adversely affect the price of our products in foreign markets, the costs we incur to import certain components for our products, and the translation of our foreign balance sheets. While we actively manage our exposure to fluctuating foreign currency exchange rates by entering into foreign exchange hedging contracts from time to time, these contracts hedge foreign currency denominated transactions, and any change in the fair value of the contracts would be offset by changes in the underlying value of the transactions being hedged.

We face intense competition in all product lines, including from some competitors that have greater financial and marketing resources. Failure to compete effectively against competitors would negatively impact our business and operating results.

The markets we operate in are highly competitive. Competition in such markets is based upon a number of factors, including price, quality, reliability, styling, product features and warranties. At the dealer level, competition is based on a number of factors, including sales and marketing support programs (such as financing and cooperative advertising). Certain of our competitors are more diversified and have financial and marketing resources that are substantially greater than ours, which allow these competitors to invest more heavily in intellectual property, product development and advertising. If we are not able to compete with new products or models of our competitors, our future business performance may be materially and adversely affected. Internationally, our products typically face more competition where certain foreign competitors manufacture and market products in their respective countries. This allows those competitors to sell products at lower prices, which could adversely affect our competitiveness. In addition, our products compete with many other recreational products for the discretionary spending of consumers and, to a lesser extent, with other vehicles designed for utility applications. A failure to effectively compete with these other competitors could have a material adverse effect on our performance.

We manufacture our products at, and distribute our products from, several locations in North America and internationally. Any disruption at any of these facilities or manufacturing delays could adversely affect our business and operating results.

We manufacture most of our products at 18 locations, including North American and international facilities. We also have several locations that serve as wholegoods and PG&A distribution centers, warehouses and office facilities. In addition, we have agreements with other third-party manufacturers to manufacture products on our behalf. These facilities may be affected by natural or man-made disasters and other external events. In the event that one of our manufacturing facilities was affected by a disaster or other event, we could be forced to shift production to one of our other manufacturing facilities. Although we maintain insurance for damage to our property and disruption of our business from casualties, such insurance may not be sufficient to cover all of our potential losses. Any disruption in our manufacturing capacity could have an adverse impact on our ability to produce sufficient inventory of our products or may require us to incur additional expenses in order to produce sufficient inventory, and therefore, may adversely affect our net sales and operating results. Any disruption or delay at our manufacturing facilities could impair our ability to meet the demands of our customers, and our customers may cancel orders or purchase products from our competitors, which could adversely affect our business and operating results.

If we are unable to continue to enhance existing products and develop and market new products that respond to customer needs and preferences, we may experience a decrease in demand for our products and our business could suffer.

One of our growth strategies is to develop innovative, customer-valued products to generate revenue growth. Our sales from new products in the past have represented a significant component of our sales and are expected to continue to represent a significant component of our future sales. We may not be able to compete as effectively with our competitors, and ultimately satisfy the needs and preferences of our customers, unless we can continue to enhance existing products and develop new innovative products in the global markets in which we compete. Product development requires significant financial, technological and other resources. While we expended \$185.1 million, \$166.4 million and \$148.5 million for research and development efforts in 2016, 2015 and 2014, respectively, there can be no assurance that this level of investment in research and development will be sufficient to maintain our competitive advantage in product innovation, which could cause our business to suffer. Product improvements and new product introductions also require significant planning, design, development, and testing at the technological, product, and manufacturing process levels and we may not be able to timely develop product improvements or new products. Our competitors' new products may beat our products to market and be more attractive with more features and/or less expensive than our products.

We depend on suppliers, financing sources and other strategic partners who may be sensitive to economic conditions that could affect their businesses in a manner that adversely affects their relationship with us.

We source component parts and raw materials through numerous suppliers and have relationships with a limited number of product financing sources for our dealers and consumers. Our sales growth and profitability could be adversely affected if deterioration of economic or business conditions results in a weakening of the financial condition of a material number of our suppliers or financing sources, or if uncertainty about the economy or the demand for our products causes these business partners to voluntarily or involuntarily reduce or terminate their relationship with us.

We intend to grow our business through potential acquisitions, non-consolidating investments, alliances and new joint ventures and partnerships, which could be risky and could harm our business.

One of our growth strategies is to drive growth in our businesses and accelerate opportunities to expand our global presence through targeted acquisitions, non-consolidating investments, alliances, and new joint ventures and partnerships that add value while considering our existing brands and product portfolio. The benefits of an acquisition, non-consolidating investment, new joint venture or partnership may take more time than expected to develop or integrate into our operations, and we cannot guarantee that acquisitions, non-consolidating investments, alliances, joint ventures or partnerships will ultimately produce any benefits.

There can be no assurance that acquisitions will be consummated or that, if consummated, they will be successful. Acquisitions pose risks with respect to our ability to project and evaluate market demand, potential synergies and cost savings, make correct accounting estimates and achieve anticipated business goals and objectives. As we continue to grow, in part, through acquisitions, our success depends on our ability to anticipate and effectively manage these risks. If acquired businesses do not achieve forecasted results or otherwise fail to meet projections, it could affect our results of operations.

Acquisitions present a number of integration risks. For example, the acquisition may: disrupt operations in core, adjacent or acquired businesses; require more time than anticipated to be fully integrated into our operations and systems; create more costs than projected; divert management attention; create the potential of losing customer, supplier or other critical

business relationships; and pose difficulties retaining employees. The inability to successfully integrate new businesses may result in higher production costs, lost sales or otherwise negatively affect earnings and financial results.

Our products are subject to extensive United States federal and state and international safety, environmental and other government regulation that may require us to incur expenses or modify product offerings in order to maintain compliance with the actions of regulators and could decrease the demand for our products.

Our products are subject to extensive laws and regulations relating to safety, environmental and other regulations promulgated by the United States federal government and individual states as well as international regulatory authorities. Failure to comply with applicable regulations could result in fines, increased expenses to modify our products and harm to our reputation, all of which could have an adverse effect on our operations. In addition, future regulations could require additional safety standards or emission reductions that would require additional expenses and/or modification of product offerings in order to maintain compliance with applicable regulations. Our products are also subject to laws and regulations that restrict the use or manner of use during certain hours and locations, and these laws and regulations could decrease the popularity and sales of our products. We continue to monitor regulatory activities in conjunction with industry associations and support balanced and appropriate programs that educate the product user on safe use of our products and how to protect the environment.

Failure to establish and maintain the appropriate level of dealers and distributor relationships or weak economic conditions impacting those relationships may negatively impact our business and operating results.

We distribute our products through numerous dealers and distributors and rely on them to retail our products to the end customers. Our sales growth and profitability could be adversely affected if deterioration of economic or business conditions results in a weakening of the financial condition of a material number of our dealers and distributors. Additionally, weak demand for, or quality issues with, our products may cause dealers and distributors to voluntarily or involuntarily reduce or terminate their relationship with us. Further, if we fail to establish and maintain an appropriate level of dealers and distributors for each of our products, we may not obtain adequate market coverage for the desired level of retail sales of our products.

Retail credit market deterioration and volatility may restrict the ability of our retail customers to finance the purchase of our products and adversely affect our income from financial services.

We have arrangements with each of Performance Finance, Sheffield Financial and Synchrony Bank to make retail financing available to consumers who purchase our products in the United States. During 2016, consumers financed approximately 33 percent of the vehicles we sold in the United States through these installment retail credit programs. Furthermore, some customers use financing from lenders who do not partner with us, such as local banks and credit unions. There can be no assurance that retail financing will continue to be available in the same amounts and under the same terms that had been previously available to our customers. If retail financing is not available to customers on satisfactory terms, it is possible that our sales and profitability could be adversely affected. Our income from financial services is also affected by changes in interest rates.

Our reliance upon patents, trademark laws, and contractual provisions to protect our proprietary rights may not be sufficient to protect our intellectual property from others who may sell similar products and may lead to costly litigation.

We hold patents and trademarks relating to various aspects of our products, such as our patented “on demand” all-wheel drive, and believe that proprietary technical know-how is important to our business. Proprietary rights relating to our products are protected from unauthorized use by third parties only to the extent that they are covered by valid and enforceable patents or trademarks or are maintained in confidence as trade secrets. We cannot be certain that we will be issued any patents from any pending or future patent applications owned by or licensed to us or that the claims allowed under any issued patents will be sufficiently broad to protect our technology. In the absence of enforceable patent or trademark protection, we may be vulnerable to competitors who attempt to copy our products, gain access to our trade secrets and know-how or diminish our brand through unauthorized use of our trademarks, all of which could adversely affect our business. Others may initiate litigation to challenge the validity of our patents, or allege that we infringe their patents, or they may use their resources to design comparable products that do not infringe our patents. We may incur substantial costs if our competitors initiate litigation to challenge the validity of our patents, or allege that we infringe their patents, or if we initiate proceedings to protect our proprietary rights. If the outcome of any such litigation is unfavorable to us, our business, operating results, and financial condition could be adversely affected. Regardless of whether litigation relating to our intellectual property rights is successful, the litigation could significantly increase our

costs and divert management's attention from operation of our business, which could adversely affect our results of operations and financial condition. We also cannot be certain that our products or technologies have not infringed or will not infringe the proprietary rights of others. Any such infringement could cause third parties, including our competitors, to bring claims against us, resulting in significant costs, possible damages and substantial uncertainty.

Our international operations require significant management attention and financial resources, expose us to difficulties presented by international economic, political, legal, accounting, and business factors, and may not be successful or produce desired levels of sales and profitability.

Approximately fourteen percent of our total sales are generated outside of North America, and we intend to continue to expand our international operations. Expanding international sales and operations is a part of our long-term strategic objectives. To support that strategy, we must increase our presence outside of North America, including additional employees and investment in business infrastructure and operations. International operations and sales are subject to various risks, including political and economic instability, local labor market conditions, the imposition of foreign tariffs and other trade barriers, the impact of foreign government laws and regulations and United States laws and regulations that apply to international operations, and the effects of income and withholding taxes, governmental expropriation and differences in business practices. We may incur increased costs and experience delays or disruptions in product deliveries and payments in connection with international operations and sales that could cause loss of revenues and earnings. Unfavorable changes in the political, regulatory and business climate could have a material adverse effect on our total sales, financial condition, profitability or cash flows. Violations of laws that apply to our foreign operations, such as the United States Foreign Corrupt Practices Act, could result in severe criminal or civil sanctions, could disrupt our business and result in an adverse effect on our reputation, business and results of operations.

The results of the November 2016 United States elections have introduced greater uncertainty with respect to tax and trade policies, tariffs and government regulations affecting trade between the United States and other countries. We have sourcing and manufacturing operations in international locations. Major developments in tax policy or trade relations, such as the disallowance of tax deductions for imported products or the imposition of unilateral tariffs on imported products, could have a material adverse effect on our business and results of operations.

Changing weather conditions may reduce demand and negatively impact net sales and production of certain of our products.

Lack of snowfall in any year in any particular geographic region may adversely affect snowmobile retail sales and related PG&A sales in that region. Additionally, to the extent that unfavorable weather conditions are exacerbated by global climate change or other factors, our sales may be affected to a greater degree than we have previously experienced. There is no assurance that weather conditions or natural disasters could not have a material effect on our sales, production capability or component supply continuity for any of our products.

An impairment in the carrying value of goodwill and trade names could negatively impact our consolidated results of operations and net worth.

Goodwill and indefinite-lived intangible assets, such as our trade names, are recorded at fair value at the time of acquisition and are not amortized, but are reviewed for impairment at least annually or more frequently if impairment indicators arise. Our determination of whether goodwill impairment has occurred is based on a comparison of each of our reporting units' fair market value with its carrying value. Significant and unanticipated changes in circumstances, such as significant and long-term adverse changes in business climate, unanticipated competition, and/or changes in technology or markets, could require a provision for impairment in a future period that could negatively impact our reported earnings and reduce our consolidated net worth and shareholders' equity.

We have a significant amount of debt outstanding and must comply with restrictive covenants in our debt agreements.

Our credit agreement and other debt agreements contain financial and restrictive covenants that may limit our ability to, among other things, borrow additional funds or take advantage of business opportunities. While we are currently in compliance with the financial covenants, increases in our debt or decreases in our earnings could cause us to fail to comply with these financial covenants. Failing to comply with such covenants could result in an event of default that, if not cured or waived, could result in the acceleration of all our indebtedness or otherwise have a material adverse effect on our financial position, results of operation and debt service capability.

Our level of debt and the financial and restrictive covenants contained in our credit agreement could have important consequences on our financial position and results of operations, including increasing our vulnerability to increases in interest rates because debt under our credit agreement bears interest at variable rates.

Additional tax expense or tax exposure could impact our financial performance.

We are subject to income taxes and other business taxes in various jurisdictions in which we operate. Our tax liabilities are dependent upon the earnings generated in these different jurisdictions. Our provision for income taxes and cash tax liability could be adversely affected by numerous factors, including income before taxes being lower than anticipated in jurisdictions with lower statutory tax rates and higher than anticipated in jurisdictions with higher statutory tax rates, changes in the valuation of deferred tax assets and liabilities, a change in our assertion regarding the permanent reinvestment of the undistributed earnings of international affiliates and changes in tax laws and regulations in various jurisdictions. We are also subject to the continuous examination of our income tax returns by various tax authorities. The results of audits and examinations of previously filed tax returns and continuing assessments of our tax exposures may have an adverse effect on the Company's provision for income taxes and cash tax liability.

Our operations are dependent upon attracting and retaining skilled employees, including skilled labor. Our future success depends on our continuing ability to identify, hire, develop, motivate, retain and promote skilled personnel for all areas of our organization.

Our success depends on attracting and retaining qualified personnel. Our ability to sustain and grow our business requires us to hire, retain and develop a highly skilled and diverse management team and workforce. Failure to ensure that we have the leadership capacity with the necessary skill set and experience could impede our ability to deliver our growth objectives and execute our strategic plan. In addition, any unplanned turnover or inability to attract and retain key employees, including managers, could have a negative effect on our business, financial condition and/or results of operations.

We may be subject to information technology system failures, network disruptions and breaches in data security.

We use many information technology systems and their underlying infrastructure to operate our business. The size and complexity of our computer systems make them potentially vulnerable to breakdown, malicious intrusion and random attack. Recent acquisitions have resulted in additional decentralized systems that add to the complexity of our information technology infrastructure. Likewise, data privacy breaches by employees or others with permitted access to our systems may pose a risk that sensitive data may be exposed to unauthorized persons or to the public. While we have invested in layers of data and information technology protection, and continually monitor cybersecurity threats, there can be no assurance that our efforts will prevent disruptions or breaches in our systems that could adversely affect our business.

Item 1B. Unresolved Staff Comments

Not Applicable.

Item 2. Properties

The following sets forth the Company's principal and materially important facilities as of December 31, 2016 :

Location	Facility Type/Use	Owned or Leased	Square Footage
Medina, Minnesota	Headquarters	Owned	130,000
Plymouth, Minnesota	Headquarters	Primarily owned	175,000
Roseau, Minnesota	Wholegoods manufacturing and R&D	Owned	733,000
Huntsville, Alabama	Wholegoods manufacturing	Owned	725,000
Milford, Iowa	Wholegoods manufacturing	Primarily owned	460,000
Monterrey, Mexico	Wholegoods manufacturing	Owned	440,000
Opole, Poland	Wholegoods manufacturing	Leased	300,000
Osceola, Wisconsin	Component parts & engine manufacturing	Owned	286,000
Spirit Lake, Iowa	Wholegoods manufacturing	Owned	273,000
Chanas, France	Wholegoods manufacturing	Owned	196,000
Shanghai, China	Wholegoods manufacturing	Leased	158,000
Anaheim, California	Wholegoods manufacturing	Leased	151,000
Bourran, France	Wholegoods manufacturing and R&D	Leased	100,000
Aix-les-Bains, France	Wholegoods manufacturing and R&D	Owned	98,000
Spearfish, South Dakota	Component parts manufacturing	Owned	51,000
Wyoming, Minnesota	Research and development facility	Owned	272,000
Burgdorf, Switzerland	Research and development facility	Leased	17,000
Wilmington, Ohio	Distribution center	Leased	429,000
Vermillion, South Dakota	Distribution center	Primarily owned	643,000
Coppell, Texas	Distribution center	Leased	165,000
Jacksonville, Florida	Distribution center	Leased	144,000
Columbiana, Ohio	Distribution center	Owned	102,000
Compton, California	Distribution center and office facility	Leased	254,000
Rigby, Idaho	Distribution center and office facility	Owned	55,000
Shakopee, Minnesota	Wholegoods distribution	Leased	870,000
Altona, Australia	Wholegoods distribution	Leased	215,000
Milford, Iowa	Wholegoods distribution	Leased	100,000
Winnipeg, Canada	Office facility	Leased	15,000
Rolle, Switzerland	Office facility	Leased	8,000

Including the material properties listed above and those properties not listed, we have over 4.4 million square feet of global manufacturing and research and development space. Additionally, we have over 4.2 million square feet of global warehouse and distribution center space. In the United States and Canada, we lease 76 retail stores with approximately 900,000 square feet of space, and in Australia, we own four retail stores with approximately 30,000 square feet of space.

We also have approximately 150,000 square feet of international office facility square footage in Western Europe, Australia, Brazil, India, China and Mexico.

We own substantially all tooling and machinery (including heavy presses, conventional and computer-controlled welding facilities for steel and aluminum, assembly lines and paint lines) used in the manufacture of our products. We make ongoing capital investments in our facilities. These investments have increased production capacity for our products. We believe our current manufacturing and distribution facilities are adequate in size and suitable for our present manufacturing and distribution needs.

Item 3. Legal Proceedings

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

Class action lawsuit . Since September 16, 2016, three investors have filed two purported class action complaints in the United States District Court for the District of Minnesota naming the Company and two of its executive officers as defendants. On December 12, 2016, the District Court consolidated the two actions and appointed a lead plaintiff and lead counsel. In a later order, the court set a date of March 14, 2017, for plaintiff to file a consolidated amended complaint or to designate one of the filed complaints as the operative pleading. One of the complaints on file seeks to represent a class of persons who purchased or acquired Polaris securities during the time period from January 26 to September 11, 2016; the other seeks to represent a class of persons who purchased or acquired Polaris securities during the time period from February 20, 2015 through September 11, 2016. Both complaints allege that, during the respective time period, defendants made materially false or misleading public statements about the Company’s business, operations, and compliance policies relating to *RZR* products and product recalls. Each complaint alleges claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and seeks damages in an unspecified amount, pre-judgment and post-judgment interest, and an award of attorneys’ fees and expenses. The Company intends to vigorously defend the action.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The information under the caption “Other Investor Information” appearing on the inside back cover of the Company’s 2016 Annual Report is incorporated herein by reference. On February 14, 2017, the last reported sale price for shares of our common stock on the New York Stock Exchange was \$87.71 per share.

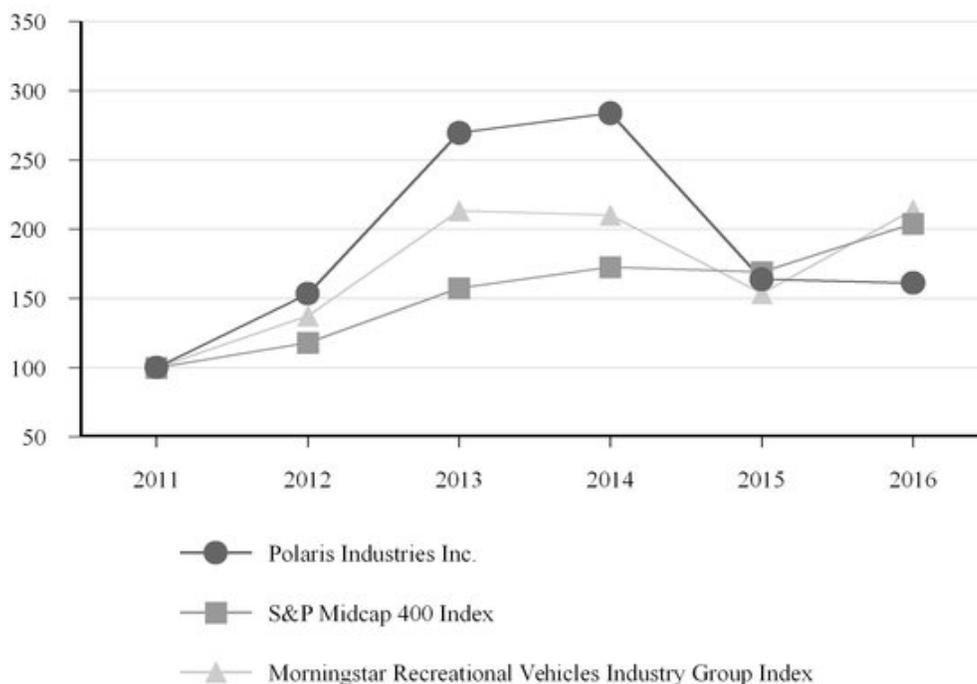
STOCK PERFORMANCE GRAPH

The graph below compares the five-year cumulative total return to shareholders (stock price appreciation plus reinvested dividends) for the Company’s common stock with the comparable cumulative return of two indexes: S&P Midcap 400 Index and Morningstar’s Recreational Vehicles Industry Group Index. The graph assumes the investment of \$100 at the close on December 31, 2011 in common stock of the Company and in each of the indexes, and the reinvestment of all dividends. Points on the graph represent the performance as of the last business day of each of the years indicated.

Assumes \$100 Invested at the close on December 31, 2011
Assumes Dividend Reinvestment
Fiscal Year Ended December 31, 2016

	2011	2012	2013	2014	2015	2016
Polaris Industries Inc.	\$ 100.00	\$ 153.29	\$ 269.62	\$ 283.83	\$ 163.91	\$ 161.08
S&P Midcap 400 Index	100.00	117.88	157.37	172.74	168.98	204.03
Recreational Vehicles Industry Group Index— Morningstar Group	100.00	137.54	213.25	210.28	153.46	213.95

Comparison of 5-Year Cumulative Total Return Among Polaris Industries Inc., S&P Midcap 400 Index and Morningstar’s Recreational Vehicles Group Index



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The table below sets forth the information with respect to purchases made by or on behalf of Polaris of its own stock during the fourth quarter of the fiscal year ended December 31, 2016 .

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares That May Yet Be Purchased Under the Program(1)
October 1–31, 2016	150,000	\$ 75.51	150,000	8,418,000
November 1–30, 2016	950,000	83.80	950,000	7,468,000
December 1–31, 2016	5,000	90.72	5,000	7,463,000
Total	1,105,000	\$ 82.71	1,105,000	7,463,000

- (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, 79.0 million shares have been repurchased cumulatively from 1996 through December 31, 2016 . This Program does not have an expiration date.

Item 6. Selected Financial Data

The following table presents our selected financial data. The table should be read in conjunction with Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K. The data presented for 2013 reflects the classification of the marine products division's financial results, including the loss from discontinued operations and the loss on disposal of the division, as discontinued operations.

Selected Financial Data

<u>(Dollars in millions, except per-share data)</u>	For the Years Ended December 31,				
	2016	2015	2014	2013	2012
Statement of Operations Data					
Sales Data:					
Total sales	\$ 4,516.6	\$ 4,719.3	\$ 4,479.6	\$ 3,777.1	\$ 3,209.8
Percent change from prior year	(4)%	5 %	19 %	18 %	21 %
Gross Profit Data:					
Total gross profit	\$ 1,105.6	\$ 1,339.0	\$ 1,319.2	\$ 1,120.9	\$ 925.3
Percent of sales	24.5 %	28.4 %	29.4 %	29.7 %	28.8 %
Operating Expense Data:					
Total operating expenses	\$ 833.8	\$ 692.2	\$ 666.2	\$ 588.9	\$ 480.8
Percent of sales	18.5 %	14.7 %	14.9 %	15.6 %	15.0 %
Operating Income Data:					
Total operating income	\$ 350.3	\$ 716.1	\$ 714.7	\$ 577.9	\$ 478.4
Percent of sales	7.8 %	15.2 %	16.0 %	15.3 %	14.9 %
Net Income Data:					
Net income from continuing operations	\$ 212.9	\$ 455.4	\$ 454.0	\$ 381.1	\$ 312.3
Percent of sales	4.7 %	9.6 %	10.1 %	10.1 %	9.7 %
Diluted net income per share from continuing operations	\$ 3.27	\$ 6.75	\$ 6.65	\$ 5.40	\$ 4.40
Net income	\$ 212.9	\$ 455.4	\$ 454.0	\$ 377.3	\$ 312.3
Diluted net income per share	\$ 3.27	\$ 6.75	\$ 6.65	\$ 5.35	\$ 4.40
Cash Flow Data:					
Cash flow provided by continuing operations	\$ 571.8	\$ 440.2	\$ 529.3	\$ 499.2	\$ 416.1
Purchase of property and equipment	209.1	249.5	205.1	251.4	103.1
Repurchase and retirement of common stock	245.8	293.6	81.8	530.0	127.5
Cash dividends to shareholders	140.3	139.3	126.9	113.7	101.5
Cash dividends per share	\$ 2.20	\$ 2.12	\$ 1.92	\$ 1.68	\$ 1.48
Balance Sheet Data (at end of year):					
Cash and cash equivalents	\$ 127.3	\$ 155.3	\$ 137.6	\$ 92.2	\$ 417.0
Current assets	1,191.0	1,152.9	1,096.6	865.7	1,017.8
Total assets	3,099.6	2,385.7	2,074.9	1,685.5	1,488.5
Current liabilities	959.8	826.8	850.8	748.1	631.0
Long-term debt and capital lease obligations	1,138.1	456.4	223.6	284.3	104.3

Shareholders' equity

867.0

981.5

861.3

535.6

690.5

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

The following discussion pertains to the results of operations and financial position of the Company for each of the three years in the period ended December 31, 2016, and should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included elsewhere in this report.

Overview

2016 was a difficult and challenging year, as sales decreased, and the overall North American powersports industry was down slightly. Our North America retail sales to consumers decreased five percent in 2016, which drove total full year Company sales down four percent to \$4.52 billion. Our 2016 results included approximately two months of activity related to our acquisition of TAP. With the global economy remaining challenged, and the U.S. dollar strengthening, our international sales were flat compared to 2015.

Full year net income of \$212.9 million was a 53 percent decrease from 2015, with diluted earnings per share decreasing 52 percent to \$3.27 per share. 2016 results were below expectations, as we responded to a series of vehicle recalls, and took the necessary steps to ensure that Polaris vehicles deliver the quality, safety and performance that our customers expect. We worked hard to serve our Off-Road Vehicle customers and dealers in 2016, and are accelerating that work into 2017.

In 2016, significant progress was made across our businesses, including mid-twenty percent growth in Indian Motorcycle retail sales, an eight percent reduction in dealer inventories year-over-year and improving operating cash flow by 30 percent. Further, we completed the acquisition of Taylor-Dunn Manufacturing Company (“Taylor-Dunn”) in the work and transportation space and the acquisition of TAP in the aftermarket space. Operationally, we completed the construction and started production in our new facility in Huntsville, Alabama.

On January 26, 2017, we announced that our Board of Directors approved a five percent increase in the regular quarterly cash dividend to \$0.58 per share for the first quarter of 2017, representing the 22nd consecutive year of increased dividends to shareholders effective with the 2017 first quarter dividend.

Results of Operations**Sales:**

Sales were \$4,516.6 million in 2016, a four percent decrease from \$4,719.3 million in 2015. The following table is an analysis of the percentage change in total Company sales for 2016 compared to 2015 and 2015 compared to 2014:

	Percent change in total Company sales compared to the prior year	
	2016	2015
Volume	(5)%	3 %
Product mix and price	(1)	6
Acquisitions	3	—
Currency	(1)	(4)
	(4)%	5 %

The volume decrease in 2016 is primarily the result of lower ORV and snowmobile shipments, primarily due to our decision to delay model year 2017 ORV shipments, as well as lower retail driven by a weak powersports market and a weak end to the 2016 snow season. The volume increase in 2015 was primarily the result of shipping more motorcycles and Global Adjacent Markets vehicles, given increased consumer retail demand for those products. Product mix and price contributed a one percent decrease for 2016, primarily due to negative impact of a lower number of higher priced ORVs sold to dealers relative to our other businesses. Product mix and price contributed to a six percent increase to the growth for 2015, primarily due to the positive benefit of a greater number of higher priced ORVs sold to dealers relative to our other businesses. Acquisitions contributed a three percent increase for 2016, primarily due to the TAP acquisition. The impact from currency rates on our Canadian and other foreign subsidiaries’ sales, when translated to U.S. dollars, decreased sales by one percent in 2016 and four percent in 2015 compared to the respective prior years. Specifically, 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 2016 sales by approximately \$27.0 million and our 2015 sales by approximately \$160.0 million when compared to the prior year period exchange rates.

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

For the Years Ended December 31,									
(\$ in millions)	2016	Percent of Sales	2015	Percent of Sales	Percent Change 2016 vs. 2015	2014	Percent of Sales	Percent Change 2015 vs. 2014	
ORV/Snowmobiles	\$ 3,357.5	74%	\$ 3,708.9	78%	(9)%	\$ 3,741.2	84%	(1)%	
Motorcycles	708.5	16%	698.3	15%	1 %	418.5	9%	67 %	
Global Adjacent Markets	341.9	8%	312.1	7%	10 %	319.9	7%	(2)%	
Other	108.7	2%	—	—	—	—	—	—	
Total Sales	\$ 4,516.6	100%	\$ 4,719.3	100%	(4)%	\$ 4,479.6	100%	5 %	

ORV/Snowmobiles

Off-Road Vehicles

ORV sales, inclusive of PG&A sales, of \$3,015.3 million in 2016, which include core ATV, *RANGER* and *RZR* side-by-side vehicles, decreased nine percent from 2015. This decrease reflects internal challenges such as delayed model year 2017 shipments, as well as external challenges such as currency pressures, heightened competitive product offerings, market share declines and slower retail sales, including in oil and gas producing regions of North America. Polaris' North American ORV unit retail sales to consumers decreased mid-single digits percent for 2016 compared to 2015, with ATV unit retail sales decreasing high-single digits percent and side-by-side vehicles unit retail sales decreasing mid-single digits percent over the prior year. North American dealer inventories of ORVs decreased 11 percent from 2015. ORV sales outside of North America decreased approximately three percent in 2016 compared to 2015. For 2016, the average ORV per unit sales price decreased approximately four percent compared to 2015's per unit sales price.

ORV sales, inclusive of PG&A sales, of \$3,304.4 million in 2015, which include core ATV, *RANGER* and *RZR* side-by-side vehicles, decreased one percent from 2014. This decrease reflects external challenges such as currency pressures, heightened competitive product offerings and slower retail sales, particularly in oil and gas producing regions of North America. Despite the external challenges, we continued North American market share gains for both ATVs and side-by-side vehicles driven by strong consumer enthusiasm for our ORV offerings, including an expanded line-up of innovative new models. Polaris' North American ORV unit retail sales to consumers increased low-single digits percent for 2015 compared to 2014, with both ATV and side-by-side vehicles unit retail sales growing low-single digits percent over the prior year. North American dealer inventories of ORVs decreased mid-single digits percent from 2014. ORV sales outside of North America decreased approximately 10 percent in 2015 compared to 2014, primarily due to decreased ATV sales and negative currencies. For 2015, the average ORV per unit sales price was approximately flat compared to 2014's per unit sales price.

Snowmobiles

Snowmobiles sales, inclusive of PG&A sales, decreased 15 percent to \$342.2 million for 2016 compared to 2015. This decrease is primarily due to lower wholegoods and PG&A sales, due to low snowfall levels in North America, currency pressures and market share declines. Retail sales to consumers for the 2016-2017 season-to-date period through December 31, 2016, decreased low double-digits percent. Sales of snowmobiles to customers outside of North America, principally within the Scandinavian region and Russia, decreased approximately 12 percent in 2016 as compared to 2015 due primarily to economic weakness in the region. The average unit sales price in 2016 increased three percent over 2015's per unit sales price, primarily due to a favorable mix of premium snowmobiles.

Snowmobiles sales, inclusive of PG&A sales, decreased three percent to \$404.5 million for 2015 compared to 2014. This decrease is primarily due to lower wholegoods and PG&A sales, partially offset by the acquisition of Timbersled in early 2015. Low snowfall levels in North America and currency pressures, were the primary drivers of the decreased sales for 2015. Retail sales to consumers for the 2015-2016 season-to-date period through December 31, 2015, decreased mid-teens percent; however, we realized North American market share gains for the same season-to-date period. Sales of snowmobiles to customers outside of North America, principally within the Scandinavian region and Russia, decreased over 20 percent in 2015 as compared to 2014 due primarily to economic weakness in the region. The average unit sales price in 2015 increased two percent over 2014's per unit sales price, primarily due to a favorable mix of premium snowmobiles.

Motorcycles

Sales of Motorcycles, inclusive of PG&A sales, which is comprised of Indian and Victory motorcycles, and the moto-roadster Slingshot, increased one percent to \$708.5 million for 2016 compared to 2015. The increase in 2016 sales is due to increased shipments for Indian and Victory motorcycles, partially offset by lower Slingshot shipments, which were negatively impacted by a recall during the fourth quarter. North American industry retail sales, 900cc and above (including Slingshot), decreased mid-single digits percent in 2016 compared to 2015. Over the same period, Polaris North American unit retail sales to consumers increased approximately ten percent, driven primarily by strong retail sales for Indian motorcycles. North American Polaris motorcycle dealer inventory increased approximately 30 percent in 2016 versus 2015 levels primarily due to stocking at appropriate RFM levels. Sales of motorcycles to customers outside of North America increased approximately eight percent in 2016 compared to 2015. The average per unit sales price for the Motorcycles segment in 2016 decreased four percent compared to 2015 due to the increased sales of our mid-sized motorcycles.

Sales of Motorcycles, inclusive of PG&A sales, which is comprised of Indian and Victory motorcycles, and the moto-roadster Slingshot, increased 67 percent to \$698.3 million for 2015 compared to 2014. The increase in 2015 sales is due to the continued high demand for Indian motorcycles and Slingshot, but was negatively impacted by constrained product availability during the first three quarters of 2015 at our Spirit Lake, Iowa production facility. North American industry retail sales, 900cc and above (including Slingshot), increased low-single digits percent in 2015 compared to 2014. Over the same period, Polaris North American unit retail sales to consumers increased approximately 60 percent, driven primarily by continued strong retail sales for Indian motorcycles and Slingshot. North American Polaris motorcycle dealer inventory increased over 50 percent in 2015 versus 2014 levels primarily due to stocking of the Indian motorcycles and Slingshot. Sales of motorcycles to customers outside of North America increased approximately 40 percent in 2015 compared to 2014. The average per unit sales price for the Motorcycles segment in 2015 decreased two percent compared to 2014 due to the increased sales of our mid-sized motorcycles.

Global Adjacent Markets

Global Adjacent Markets sales, inclusive of PG&A sales, increased ten percent to \$341.9 million for 2016 compared to 2015. The increase in sales is primarily due to the acquisition of Taylor-Dunn. Sales to customers outside of North America increased approximately three percent in 2016 compared to 2015. The average per unit sales price for the Global Adjacent Markets segment in 2016 was approximately flat compared to 2015.

Global Adjacent Markets sales, inclusive of PG&A sales, decreased two percent to \$312.1 million for 2015 compared to 2014. The decrease in sales is primarily due to ongoing currency pressures, as the number of units sold in our Global Adjacent Markets segment increased compared to 2014. However, sales for our government/defense business decreased compared to 2014. The average per unit sales price for the Global Adjacent Markets segment in 2015 decreased eight percent compared to 2014 due primarily to currency pressures.

Other

In November 2016, we acquired Transamerican Auto Parts. TAP provided \$108.7 million of sales for 2016.

Sales by geographic region were as follows:

<u>(\$ in millions)</u>	For the Years Ended December 31,							
	2016	Percent of Total Sales	2015	Percent of Total Sales	Percent Change 2016 vs. 2015	2014	Percent of Total Sales	Percent Change 2015 vs. 2014
United States	\$ 3,557.2	79%	\$ 3,689.0	78%	(4) %	\$ 3,339.9	75%	10 %
Canada	307.1	7%	378.7	8%	(19)%	454.6	10%	(17)%
Other foreign countries	652.3	14%	651.6	14%	0 %	685.1	15%	(5)%
Total sales	\$ 4,516.6	100%	\$ 4,719.3	100%	(4) %	\$ 4,479.6	100%	5 %

Significant regional trends were as follows:

United States:

Sales in the United States for 2016 decreased four percent compared to 2015, primarily resulting from lower shipments of ORVs. The United States represented 79 percent, 78 percent and 75 percent of total company sales in 2016, 2015 and

2014, respectively. Sales in the United States for 2015 increased 10 percent compared to 2014, primarily resulting from higher shipments in motorcycles and related PG&A.

Canada:

Canadian sales decreased 19 percent in 2016 compared to 2015. A slower retail environment, driven by the oil and gas producing regions of Canada, contributed to the decrease in 2016, as well as negative currency rate movement, which had an unfavorable three percent impact on sales for 2016 compared to 2015. Sales in Canada represented seven percent, eight percent and ten percent of total company sales in 2016, 2015 and 2014, respectively. Canadian sales decreased seventeen percent in 2015 compared to 2014. Negative currency rate movement was the primary contributor for the decrease in 2015, which had an unfavorable 14 percent impact on sales for 2015 compared to 2014, along with a slower retail environment, particularly in the oil and gas producing regions.

Other Foreign Countries:

Sales in other foreign countries, primarily in Europe, were approximately flat for 2016 compared to 2015. Sales of motorcycles and Global Adjacent Markets vehicles increased, but were offset by decreased sales of snowmobiles and ORVs, as well as negative currency rate movements, which had an unfavorable three percentage point impact on sales for 2016 compared to 2015. Sales in other foreign countries, primarily in Europe, decreased five percent for 2015 compared to 2014. The decrease was primarily driven by negative currency rate movements, which had an unfavorable 15 percentage point impact on sales for 2015 compared to 2014, as well as decreased sales of side-by-side vehicles, snowmobiles, and Global Adjacent Markets vehicles, partially offset by increased sales of motorcycles. The decrease in snowmobile sales was primarily due to poor economic conditions in Russia.

Cost of Sales:

The following table reflects our cost of sales in dollars and as a percentage of sales:

(\$ in millions)	For the Years Ended December 31,							
	2016	Percent of Total Cost of Sales	2015	Percent of Total Cost of Sales	Change 2016 vs. 2015	2014	Percent of Total Cost of Sales	Change 2015 vs. 2014
Purchased materials and services	\$ 2,840.8	83%	\$ 2,929.9	87%	(3)%	\$ 2,757.6	87%	6%
Labor and benefits	250.7	7%	258.7	8%	(3)%	244.1	8%	6%
Depreciation and amortization	124.5	4%	117.9	3%	6 %	96.9	3%	22%
Warranty costs	195.0	6%	73.7	2%	165 %	61.9	2%	19%
Total cost of sales	<u>\$ 3,411.0</u>	<u>100%</u>	<u>\$ 3,380.2</u>	<u>100%</u>	1 %	<u>\$ 3,160.5</u>	<u>100%</u>	7%
Percentage of sales	75.5%		71.6%		+389 basis points	70.6%		+108 basis points

For 2016, cost of sales increased one percent to \$3,411.0 million compared to \$3,380.2 million in 2015. The increase in cost of sales in 2016 is primarily attributed to higher warranty costs incurred related to product recalls, partially offset by decreased production. Additionally, depreciation and amortization increased due to higher capital expenditures to increase production capacity and capabilities.

For 2015, cost of sales increased seven percent to \$3,380.2 million compared to \$3,160.5 million in 2014. The increase in cost of sales in 2015 resulted primarily from the effect of a three percent increase in sales volume on purchased materials and services and labor and benefits. Additionally, depreciation and amortization increased due to higher capital expenditures to increase production capacity and capabilities.

Gross Profit:

The following table reflects our gross profit in dollars and as a percentage of sales:

(\$ in millions)	For the Years Ended December 31,							
	2016	Percent of Sales	2015	Percent of Sales	Change 2016 vs. 2015	2014	Percent of Sales	Change 2015 vs. 2014
ORV/Snowmobiles	\$ 930.2	27.7%	\$ 1,190.6	32.1%	(22)%	\$ 1,206.6	32.3%	(1)%
Motorcycles	91.4	12.9%	97.3	13.9%	(6)%	54.4	13.0%	79 %
Global Adjacent Markets	95.1	27.8%	84.2	27.0%	13 %	88.8	27.8%	(5)%
Other	19.8	18.3%	—	—	—	—	—	—
Corporate	(30.9)		(33.1)		(7)%	(30.6)		8 %
Total gross profit dollars	\$ 1,105.6		\$ 1,339.0		(17)%	\$ 1,319.2		2 %
Percentage of sales	24.5%		28.4%		389 basis points	29.4%		108 basis points

Consolidated . Consolidated gross profit, as a percentage of sales, decreased in 2016 due to increased warranty and promotional costs and negative currency impacts, partially offset by lower commodity costs and product cost reduction efforts. During 2016, we incurred additional warranty expense equating to approximately 250 basis points of negative impact to gross profit margins, related primarily to increased warranty costs associated with vehicle recalls, of which approximately 200 basis points is considered to be one-time in nature. Gross profit in absolute dollars decreased due to lower sales volume, unfavorable product mix, higher promotions and higher warranty costs, partially offset by lower commodity costs and cost savings from product cost reduction efforts. Foreign currencies had a negative impact to gross profit of approximately \$43.0 million for 2016, when compared to the prior year period.

Consolidated gross profit, as a percentage of sales, was 28.4 percent for 2015 , a decrease of 108 basis points from 2014 . Gross profit dollars increased two percent to \$1,339.0 million in 2015 compared to 2014 . The increase in gross profit dollars resulted from higher selling prices, lower commodity costs and product cost reduction efforts, partially offset by the negative impact of currency movements and higher promotions. Foreign currencies had a negative impact to gross profit of approximately \$70.0 million for 2015, when compared to the prior year period. The decrease in gross profit percentage resulted primarily from unfavorable foreign currency fluctuations, new plant start-up costs, higher promotional expenses and higher depreciation and amortization, partially offset by lower commodity costs, product cost reduction and higher selling prices.

ORV/Snowmobiles . Gross profit, as a percentage of sales, decreased from 2015 to 2016, primarily due to decreased volumes, higher warranty costs and higher promotions, partially offset by product cost reduction efforts. Included in warranty expense are costs related to recall activity, primarily for certain RZR vehicles. Gross profit, as a percentage of sales, was approximately flat from 2014 to 2015, primarily due to the negative impact of currency movements, decreased volumes and higher promotions, offset by product cost reduction efforts.

Motorcycles . Gross profit, as a percentage of sales, decreased from 2015 to 2016, primarily due to higher warranty costs associated with Slingshot, partially offset by increased sales volumes of Indian and Victory motorcycles, and the absence of costs incurred in 2015 related to additional manufacturing costs and inefficiencies associated with our Spirit Lake, Iowa motorcycle facility paint system. Gross profit, as a percentage of sales, increased from 2014 to 2015, primarily due to increased sales volumes of Indian and Slingshot, partially offset by additional manufacturing costs and inefficiencies associated with our efforts to scale-up production and add capacity to the paint system at our Spirit Lake, Iowa motorcycle facility.

Global Adjacent Markets . Gross profit, as a percentage of sales, increased from 2015 to 2016, primarily due to the acquisition of Taylor-Dunn and increased sales volumes of Aixam vehicles. Gross profit, as a percentage of sales, decreased from 2014 to 2015, primarily due to the negative impact of currency movements.

Other. Gross profit was \$19.8 million for 2016 due to the acquisition of TAP in November 2016, which includes approximately \$9.0 million related to a purchase accounting inventory step-up adjustment.

Operating Expenses:

The following table reflects our operating expenses in dollars and as a percentage of sales:

(\$ in millions)	For the Years Ended December 31,				
	2016	2015	Change 2016 vs. 2015	2014	Change 2015 vs. 2014
Selling and marketing	\$ 342.2	\$ 316.7	8%	\$ 314.5	1 %
Research and development	185.1	166.4	11%	148.5	12 %
General and administrative	306.5	209.1	47%	203.2	3%
Total operating expenses	\$ 833.8	\$ 692.2	20%	\$ 666.2	4 %
Percentage of sales	18.5%	14.7%	+379 basis points	14.9 %	-20 basis points

Operating expenses for 2016, as a percentage of sales and in absolute dollars, increased primarily due to higher general and administrative expenses due to increased legal expenses and other costs related to product recalls. Operating expenses also increased due to acquisitions and acquisition-related expenses, including approximately \$13.0 million of acquisition-related expenses for the TAP acquisition, as well as increased research and development expenses for ongoing product refinement and innovation.

Operating expenses for 2015, as a percentage of sales decreased 20 basis points compared to 2014. Operating expenses in absolute dollars increased in 2015 primarily due to higher research and development expenses, as well as increased general and administrative expenses, which includes infrastructure investments being made to support global growth initiatives. Operating expenses as a percent of sales declined primarily due to operating cost control measures and a reduction in incentive compensation plan expenses. Foreign currencies had a favorable impact to operating expenses of approximately \$15.0 million for 2015, when compared to the prior year period.

Income from Financial Services:

The following table reflects our income from financial services:

(\$ in millions)	For the Years Ended December 31,				
	2016	2015	Change 2016 vs. 2015	2014	Change 2015 vs. 2014
Income from Polaris Acceptance joint venture	\$ 31.1	\$ 30.7	1%	\$ 30.5	1%
Income from retail credit agreements	41.8	33.9	23%	27.6	23%
Income from other financial services activities	5.6	4.7	19%	3.6	31%
Total income from financial services	\$ 78.5	\$ 69.3	13%	\$ 61.7	12%
Percentage of sales	1.7%	1.5%	+27 basis points	1.4%	+9 basis points

Income from financial services increased 13 percent to \$78.5 million in 2016 compared to \$69.3 million in 2015. The increase in 2016 is primarily due to a 10 percent increase in retail credit contract volume and increased profitability generated from the retail credit portfolios with Performance Finance, Sheffield Financial and Synchrony Bank and higher income from the sale of extended service contracts.

Income from financial services increased 12 percent to \$69.3 million in 2015 compared to \$61.7 million in 2014. The increase in 2015 is primarily due to a 15 percent increase in retail credit contract volume and increased profitability generated from the retail credit portfolios with Sheffield Financial, Synchrony Bank, Capital One, Chrome Capital and FreedomRoad, and slightly higher income from dealer inventory financing through Polaris Acceptance, due primarily to a 14 percent increase in financed receivables as of December 31, 2015.

Remainder of the Income Statement:

(\$ in millions except per share data)	For the Years Ended December 31,				
	2016	2015	Change 2016 vs. 2015	2014	Change 2015 vs. 2014
Interest expense	\$ 16.3	\$ 11.5	42 %	\$ 11.2	2 %
Equity in loss of other affiliates	\$ 6.9	\$ 6.8	1 %	\$ 4.1	65 %
Other expense, net	\$ 13.8	\$ 12.1	14 %	\$ 0.0	NM
Income before income taxes	\$ 313.3	\$ 685.7	(54)%	\$ 699.3	(2)%
Provision for income taxes	\$ 100.3	\$ 230.4	(56)%	\$ 245.3	(6)%
Percentage of income before income taxes	32.0%	33.6%	-158 basis points	35.1%	-148 basis points
Net income	\$ 212.9	\$ 455.4	(53)%	\$ 454.0	0 %
Diluted net income per share	\$ 3.27	\$ 6.75	(52)%	\$ 6.65	2 %
Weighted average diluted shares outstanding	65.2	67.5	(3)%	68.2	(1)%

NM = not meaningful

Interest Expense. The increase in 2016 compared to 2015 is primarily due to increased debt levels through borrowings on our term loan facility and revolving credit facility, primarily to finance acquisitions. The increase in 2015 compared to 2014 is primarily due to increased debt levels through borrowings on our existing revolving credit facility.

Equity in loss of other affiliates. Increased losses at Eicher-Polaris Private Limited (EPPL) related to continued operating activities related to the production of the jointly-developed Multix™ personal vehicle, which is specifically designed to satisfy the varied transportation needs of consumers in India. During 2015, EPPL began production of the Multix vehicle. We have recorded our proportionate 50 percent share of EPPL losses.

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

Provision for income taxes. The income tax rate for 2016 was 32.0% as compared with 33.6% and 35.1% in 2015 and 2014, respectively. The lower income tax rate for 2016, compared with 2015 was primarily due to the decrease in 2016 pretax income, as the beneficial impact of discrete items increases with lower pretax earnings. The lower income tax rate for 2015 as compared to 2014 was primarily due to tax benefits recorded related to research and development credits from the filing of our 2014 federal income tax return and other amended returns. The favorable impact, net of related tax reserves in 2015, totaled approximately \$10.0 million. For 2016, 2015 and 2014, the income tax provision was positively impacted by the United States Congress extending and permanently enacting the research and development income tax credit.

Weighted average shares outstanding. The change in the weighted average diluted shares outstanding from 2015 to 2016 and from 2014 to 2015 is primarily due to share repurchases under our stock repurchase program.

Critical Accounting Policies

The significant accounting policies that management believes are the most critical to aid in fully understanding and evaluating our reported financial results include the following: revenue recognition, sales promotions and incentives, dealer holdback programs, share-based employee compensation, product warranties and product liability.

Revenue recognition. Revenues are recognized at the time of shipment to the dealer, distributor or other customers. Historically, product returns, whether in the normal course of business or resulting from repurchases made under the floorplan financing program, have not been material. However, we have agreed to repurchase products repossessed by the finance companies up to certain limits. Our financial exposure is limited to the difference between the amount paid to the finance companies and the amount received on the resale of the repossessed product. No material losses have been incurred under these agreements. We have not historically recorded any significant sales return allowances because we have not been required to repurchase a significant number of units. However, an adverse change in retail sales could cause this situation to change. Polaris sponsors certain sales incentive programs and accrues liabilities for estimated sales

promotion expenses and estimated holdback amounts that are recognized as reductions to sales when products are sold to the dealer or distributor customer.

Sales promotions and incentives. We provide for estimated sales promotion and incentive expenses, which are recognized as a reduction to sales at the time of sale to the dealer or distributor. Examples of sales promotion and incentive programs include dealer and consumer rebates, volume incentives, retail financing programs and sales associate incentives. Sales promotion and incentive expenses are estimated based on current programs and historical rates for each product line. We record these amounts as a liability in the consolidated balance sheet until they are ultimately paid. At December 31, 2016 and 2015, accrued sales promotions and incentives were \$158.6 million and \$141.1 million, respectively, resulting primarily from an increased competitive environment in 2016. Actual results may differ from these estimates if market conditions dictate the need to enhance or reduce sales promotion and incentive programs or if the customer usage rate varies from historical trends. Adjustments to sales promotions and incentives accruals are made from time to time as actual usage becomes known in order to properly estimate the amounts necessary to generate consumer demand based on market conditions as of the balance sheet date. Historically, actual sales promotion and incentive expenses have been within our expectations and differences have not been material.

Dealer holdback programs. Dealer holdback represents a portion of the invoiced sales price that is expected to be subsequently returned to the dealer or distributor as a sales incentive upon the ultimate retail sale of the product. Holdback amounts reduce the ultimate net price of the products purchased by our dealers or distributors and, therefore, reduce the amount of sales we recognize at the time of shipment. The portion of the invoiced sales price estimated as the holdback is recognized as “dealer holdback” liability on our balance sheet until paid or forfeited. The minimal holdback adjustments in the estimated holdback liability due to forfeitures are recognized in net sales. Payments are made to dealers or distributors at various times during the year subject to previously established criteria. Polaris recorded accrued liabilities of \$117.6 million and \$123.3 million for dealer holdback programs in the consolidated balance sheets as of December 31, 2016 and 2015, respectively.

Share-based employee compensation. We recognize in the financial statements the grant-date fair value of stock options and other equity-based compensation issued to employees. Determining the appropriate fair-value model and calculating the fair value of share-based awards at the date of grant requires judgment. We utilize the Black-Scholes option pricing model to estimate the fair value of employee stock options. Option pricing models, including the Black-Scholes model, also require the use of input assumptions, including expected volatility, expected life, expected dividend rate, and expected risk-free rate of return. We utilize historical volatility as we believe this is reflective of market conditions. The expected life of the awards is based on historical exercise patterns. The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of awards. The dividend yield assumption is based on our history of dividend payouts. We develop an estimate of the number of share-based awards that will be forfeited due to employee turnover. Changes in the estimated forfeiture rate can have a significant effect on reported share-based compensation, as the effect of adjusting the rate for all expense amortization is recognized in the period the forfeiture estimate is changed. If the actual forfeiture rate is higher or lower than the estimated forfeiture rate, then an adjustment is made to increase or decrease the estimated forfeiture rate, which will result in a decrease or increase to the expense recognized in the financial statements. If forfeiture adjustments are made, they would affect our gross margin and operating expenses. We estimate the likelihood and the rate of achievement for performance share-based awards, specifically long-term compensation grants of performance-based restricted stock awards. Changes in the estimated rate of achievement can have a significant effect on reported share-based compensation expenses as the effect of a change in the estimated achievement level is recognized in the period that the likelihood factor changes. If adjustments in the estimated rate of achievement are made, they would be reflected in our gross margin and operating expenses. At the end of 2016, if all long-term incentive program performance based awards were expected to achieve the maximum payout, we would have recorded an additional \$46.9 million of expense in 2016. Fluctuations in our stock price can have a significant effect on reported share-based compensation expenses for liability-based awards. The impact from fluctuations in our stock price is recognized in the period of the change, and is reflected in our gross margin and operating expenses. At December 31, 2016, the accrual for liability-based awards outstanding was \$6.1 million, and is included in accrued compensation in the consolidated balance sheets.

Product warranties. We provide a limited warranty for ORVs for a period of six months, for a period of one year for our snowmobiles, for a period of one or two years for our motorcycles depending on brand and model year, for a period of one year for our Taylor-Dunn vehicles, and for a two year period for GEM, Goupil and Aixam vehicles. We provide longer warranties in certain geographical markets as determined by local regulations and market conditions and may provide longer warranties related to certain promotional programs. Our standard warranties require us or our dealers to

repair or replace defective products during such warranty periods at no cost to the consumers. 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. We record these amounts as a liability in the consolidated balance sheet until they are ultimately paid. At December 31, 2016 and 2015, the accrued warranty liability was \$119.3 million and \$56.5 million, respectively. Adjustments to the warranty reserve are made from time to time based on actual claims experience in order to properly estimate the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. While management believes that the warranty reserve is adequate and that the judgment applied is appropriate, such amounts estimated to be due and payable could differ materially from what will ultimately transpire in the future.

Product liability. We are subject to product liability claims in the normal course of business. In late 2012, we purchased excess insurance coverage for catastrophic product liability claims for incidents occurring after the policy date. We self-insure product liability claims up to the purchased catastrophic insurance coverage. The estimated costs resulting from any uninsured losses are charged to operating expenses when it is probable a loss has been incurred and the amount of the loss is reasonably determinable. We utilize historical trends and actuarial analysis tools, along with an analysis of current claims, to assist in determining the appropriate loss reserve levels. At December 31, 2016 and 2015, we had accruals of \$45.1 million and \$19.7 million, respectively, for the probable payment of pending claims related to continuing operations product liability litigation associated with our products. These accruals are included in other accrued expenses in the consolidated balance sheets. While management believes the product liability reserves are adequate, adverse determination of material product liability claims made against us could have a material adverse effect on our financial condition.

New Accounting Pronouncements

See Item 8 of Part II, "Financial Statements and Supplementary Data—Note 1—Organization and Significant Accounting Policies—*New accounting pronouncements*."

Liquidity and Capital Resources

Our primary source of funds has been cash provided by operating 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.

The following table summarizes the cash flows from operating, investing and financing activities for the years ended December 31, 2016 and 2015:

(\$ in millions)	For the Years Ended December 31,		
	2016	2015	Change
Total cash provided by (used for):			
Operating activities	\$ 571.8	\$ 440.2	\$ 131.6
Investing activities	(909.3)	(289.1)	(620.2)
Financing activities	314.5	(120.1)	434.6
Impact of currency exchange rates on cash balances	(5.0)	(13.3)	8.3
Increase (decrease) in cash and cash equivalents	\$ (28.0)	\$ 17.7	\$ (45.7)

Operating Activities:

Net cash provided by operating activities totaled \$571.8 million and \$440.2 million in 2016 and 2015, respectively. The \$131.6 million increase in net cash provided by operating activities in 2016 is primarily the result of a \$335.3 million decrease in net working capital, partially offset by decreased net income. Changes in working capital (as reflected in our statements of cash flows) for the year ended 2016 was a decrease of \$179.7 million, compared to an increase of \$155.6 million in 2015. This was primarily due to a decrease in net cash used of \$260.7 million related to inventory purchases, and a decrease in net cash used of \$136.1 million related to payments made for accrued expenses due to our focused efforts on working capital required, partially offset by the timing of collections of trade receivables of \$46.8 million.

Investing Activities:

Net cash used for investing activities was \$909.3 million in 2016 compared to \$289.1 million in 2015 . The primary uses of cash in 2016 were the acquisitions of TAP and Taylor-Dunn. In 2016 , we made large capital expenditures related to continued capacity and capability expansion at many of our North America facilities, including the completion of our manufacturing facility in Huntsville, Alabama.

Financing Activities:

Net cash provided by financing activities was \$314.5 million in 2016 compared to cash used of \$120.1 million in 2015 . We paid cash dividends of \$140.3 million and \$139.3 million in 2016 and 2015 , respectively. Total common stock repurchased in 2016 and 2015 totaled \$245.8 million and \$293.6 million , respectively. In 2016 , we had net borrowings under our capital lease arrangements and debt arrangements of \$679.4 million , compared to net borrowings of \$245.6 million in 2015. Proceeds from the issuance of stock under employee plans were \$17.7 million and \$32.5 million in 2016 and 2015 , respectively.

The seasonality of production and shipments cause working capital requirements to fluctuate during the year. We are party to an unsecured \$600 million variable interest rate bank lending agreement that expires in May 2021. At December 31, 2016 , there were borrowings of \$172.1 million outstanding under this arrangement. We are also party to a \$750 million term loan facility, of which \$740 million is outstanding as of December 31, 2016 . Interest is charged at rates based on LIBOR or “prime.”

In December 2010, we entered into a Master Note Purchase Agreement to issue \$25.0 million of 3.81 percent unsecured Senior Notes due May 2018 and \$75.0 million of 4.60 percent unsecured Senior Notes due May 2021 (collectively, the “Senior Notes”). The Senior Notes were issued in May 2011. In December 2013, we entered into a First Supplement to Master Note Purchase Agreement, under which we issued \$100.0 million of 3.13 percent unsecured senior notes due December 2020. At December 31, 2016 and 2015 , outstanding borrowings under the amended Master Note Purchase Agreement totaled \$200.0 million for both periods.

At December 31, 2016 and 2015 , we were in compliance with all debt covenants. Our debt to total capital ratio was 57 percent and 32 percent at December 31, 2016 and 2015 , respectively.

The following table summarizes our significant future contractual obligations at December 31, 2016 :

(In millions):	Total	<1 Year	1-3 Years	3-5 Years	>5 Years
Senior notes	\$ 200.0	—	\$ 25.0	\$ 175.0	—
Borrowings under our credit facility	172.1	—	—	172.1	—
Term loan facility	740.0	—	—	740.0	—
Notes Payable	13.6	\$ 1.2	2.7	2.4	\$ 7.3
Interest expense	102.9	25.0	48.6	29.3	—
Capital leases	26.0	2.9	4.3	3.9	14.9
Operating leases	112.6	30.9	43.6	25.0	13.1
Total	\$ 1,367.2	\$ 60.0	\$ 124.2	\$ 1,147.7	\$ 35.3

In the table above, we assumed our December 31, 2016 , outstanding borrowings under the Senior Notes will be paid at their respective due dates. Additionally, at December 31, 2016 , we had letters of credit outstanding of \$13.4 million related to purchase obligations for raw materials. Not included in the above table are unrecognized tax benefits of \$26.4 million .

Our Board of Directors has authorized the cumulative repurchase of up to 86.5 million shares of our common stock through an authorized stock repurchase program. Of that total, approximately 79.0 million shares have been repurchased cumulatively from 1996 through December 31, 2016 . We repurchased a total of 2.9 million shares of our common stock for \$245.8 million during 2016 , which increased earnings per share by seven cents. We have authorization from our Board of Directors to repurchase up to an additional 7.5 million shares of our common stock as of December 31, 2016 . The repurchase of any or all such shares authorized remaining for repurchase will be governed by applicable SEC rules.

We have arrangements with certain finance companies (including Polaris Acceptance) to provide secured floor plan financing for our dealers. These arrangements provide liquidity by financing dealer purchases of our products without the use of our working capital. A majority of the worldwide sales of snowmobiles, ORVs, motorcycles and related PG&A

are financed under similar arrangements whereby we receive payment within a few days of shipment of the product. The amount financed by worldwide dealers under these arrangements at December 31, 2016 and 2015, was approximately \$1,438.8 million and \$1,562.0 million, respectively. We participate in the cost of dealer financing up to certain limits. We have agreed to repurchase products repossessed by the finance companies up to an annual maximum of no more than 15 percent of the average month-end balances outstanding during the prior calendar year. Our financial exposure under these agreements 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 these agreements. However, an adverse change in retail sales could cause this situation to change and thereby require us to repurchase repossessed units subject to the annual limitation referred to above.

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, and adopted the tradename Wells Fargo Commercial Distribution Finance (WFCDF).

Polaris Acceptance, a joint venture with Wells Fargo, provides floor plan financing to our dealers in the United States. Our subsidiary has a 50 percent equity interest in Polaris Acceptance. As part of the agreement, Polaris sells portions of its receivable portfolio ("Securitized Receivables") to a securitization facility ("Securitization Facility") from time to time on an ongoing basis. 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 ASC Topic 860. Polaris Acceptance is not responsible for any continuing servicing costs or obligations with respect to the Securitized Receivables. The remaining portion of the receivable portfolio is recorded on Polaris Acceptance's books, and is funded through a loan from an affiliate of WFCDF and through equity contributions from both partners.

We have not guaranteed the outstanding indebtedness of Polaris Acceptance. In addition, the two partners of Polaris Acceptance share equally a variable equity cash investment based on the sum of the portfolio balance in Polaris Acceptance. Our total investment in Polaris Acceptance at December 31, 2016 was \$94.0 million. Substantially all of our U.S. sales are financed through Polaris Acceptance whereby Polaris receives payment within a few days of shipment of the product. 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 Wells Fargo's subsidiary. Our exposure to losses associated with respect to the Polaris Acceptance is limited to our equity in Polaris Acceptance. We have agreed to repurchase products repossessed by Polaris Acceptance up to an annual maximum of 15 percent of the aggregate average month-end balances outstanding during the prior calendar year with respect to receivables retained by Polaris Acceptance and the Securitized Receivables. For calendar year 2017, the potential 15 percent aggregate repurchase obligation is approximately \$184.0 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. During 2016, Wells Fargo & Company purchased the ownership interests in Polaris Acceptance from GE. The partnership agreement is effective through February 2022.

Our investment in Polaris Acceptance is accounted for under the equity method and is recorded as investment in finance affiliate in the accompanying consolidated balance sheets. Our 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. At December 31, 2016, Polaris Acceptance's wholesale portfolio receivables from dealers in the United States (including the Securitized Receivables) was \$1,206.6 million, an eight percent decrease from \$1,305.1 million at December 31, 2015. Credit losses in the Polaris Acceptance portfolio have been modest, averaging less than one percent of the portfolio.

We have agreements with Performance Finance, Sheffield Financial and Synchrony Bank, under which these financial institutions provide financing to end consumers of our products. The income generated from these agreements has been included as a component of income from financial services in the accompanying consolidated statements of income. In September 2016, our Performance Finance agreement became effective, which replaced our previous agreement with Freedom Road. In September 2016, we also terminated our agreement with Chrome Capital. At December 31, 2016, the agreements in place were as follows:

<u>Financial institution</u>	<u>Agreement expiration date</u>
Performance Finance	December 2021
Sheffield Financial	February 2021
Synchrony Bank	December 2020

During 2016 , consumers financed 33 percent of our vehicles sold in the United States through the Sheffield Financial, Synchrony Bank and Performance Finance installment retail credit arrangements. The volume of revolving and installment credit contracts written in calendar year 2016 was \$1,145.0 million , a ten percent increase from 2015 .

We administer and provide extended service contracts to consumers and certain insurance contracts to dealers and consumers through various third-party suppliers. We finance our self-insured risks related to extended service contracts, but do not retain any insurance or financial risk under any of the other arrangements. The 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.

The balance of restricted cash and cash equivalents as of December 31, 2016 was \$17.8 million . There was no restricted cash as of December 31, 2015 . Restricted cash represents cash equivalents held in trust, as well as amounts held on deposit with regulatory agencies in the various jurisdictions in which our insurance entity does business.

We believe that existing cash balances, 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, share repurchases, acquisitions and capital requirements for the foreseeable future. At this time, we are not aware of any factors that would have a material adverse impact on cash flow.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Inflation, Foreign Exchange Rates, Equity Prices and Interest Rates

The changing relationships of the U.S. dollar to the Japanese yen, the Mexican peso, the Canadian dollar, the Australian dollar, the Euro, the Swiss franc and other foreign currencies have had a material impact 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 2016 , 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 impacts 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 impacts 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 Euros 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 December 31, 2016 , we had the following open foreign currency hedging contracts for 2016, and expect the following 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 compared to the prior year period	
		Notional amounts (in thousands of U.S. dollars)	Average exchange rate of open contracts	2016	2017
Australian Dollar (AUD)	Long	\$ 22,498	\$0.74 to 1 AUD	Neutral	Neutral
Canadian Dollar (CAD)	Long	65,154	\$0.76 to 1 CAD	Negative	Negative
Euro	Long	—	—	Slightly negative	Negative
Japanese Yen	Short	1,371	107.93 Yen to \$1	Negative	Slightly positive
Mexican Peso	Short	17,942	19.18 Peso to \$1	Positive	Positive
Norwegian Kroner	Long	—	—	Slightly negative	Slightly negative
Swedish Krona	Long	—	—	Slightly negative	Slightly negative
Swiss Franc	Short	—	—	Slightly positive	Slightly positive

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.

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. At December 31, 2016, we did not have any outstanding commodity derivative contracts in place. Based on our current outlook for commodity prices, the total impact of commodities is expected to have a slightly negative impact on our gross margins for 2017 when compared to 2016.

We are a party to a credit agreement with various lenders consisting of a \$600 million revolving loan facility and a \$750 million 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. At December 31, 2016, we had an outstanding balance of \$172.1 million on the revolving loan, and an outstanding balance of \$740.0 million on the term loan. Assuming no additional borrowings or payments on the debt, a one-percent fluctuation in interest rates would have an approximate \$4.0 million impact to interest expense in 2016.

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Item 8. Financial Statements and Supplementary Data

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting of the Company. This system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with United States generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of the system of internal control over financial reporting as of December 31, 2016. In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—2013 Integrated Framework. Based on management's evaluation and those criteria, management concluded that the Company's system of internal control over financial reporting was effective as of December 31, 2016.

Management has excluded from its assessment the internal control over financial reporting at Transamerican Auto Parts, which was acquired on November 10, 2016, and the other 2016 acquisitions, whose collective financial statements constitute 26 percent of total assets, three percent of revenues and less than one percent of operating income on the consolidated financial statement amounts as of and for the year ended December 31, 2016.

Management's internal control over financial reporting as of December 31, 2016 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report appearing on the following page, in which they expressed an unqualified opinion thereon.

/ s / S COTT W. WINE

Scott W. Wine
Chairman and Chief Executive Officer

/ s / M ICHAEL T. S PEETZEN

Michael T. Speetzen
Executive Vice President—Finance and
Chief Financial Officer

February 16, 2017

Further discussion of our internal controls and procedures is included in Item 9A of this report, under the caption "Controls and Procedures."

**Report of Independent Registered Public Accounting Firm
on Internal Control over Financial Reporting**

The Board of Directors and Shareholders of
Polaris Industries Inc.

We have audited Polaris Industries Inc.'s (the Company) internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Polaris Industries Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Transamerican Auto Parts, acquired by the Company on November 10, 2016, and the other 2016 acquisitions, the results of which are included in the 2016 consolidated financial statements of the Company. The collective financial statements constitute 26 percent of total assets as of December 31, 2016, and three percent and less than one percent of revenues and operating income, respectively, for the year then ended. Our audit of internal control over financial reporting of Polaris Industries Inc. also did not include an evaluation of the internal control over financial reporting of Transamerican Auto Parts and the other acquisitions.

In our opinion, Polaris Industries Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Polaris Industries Inc. as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016 of Polaris Industries Inc., and our report, dated February 16, 2017, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
February 16, 2017

**Report of Independent Registered Public Accounting Firm
on Consolidated Financial Statements**

The Board of Directors and Shareholders of
Polaris Industries Inc.

We have audited the accompanying consolidated balance sheets of Polaris Industries Inc. (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Polaris Industries Inc. at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Polaris Industries Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control-Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report, dated February 16, 2017, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
February 16, 2017

POLARIS INDUSTRIES INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

Assets	December 31, 2016	December 31, 2015
Current Assets:		
Cash and cash equivalents	\$ 127,325	\$ 155,349
Trade receivables, net	174,832	150,778
Inventories, net	746,534	710,001
Prepaid expenses and other	91,636	90,619
Income taxes receivable	50,662	46,175
Total current assets	1,190,989	1,152,922
Property and equipment:		
Land, buildings and improvements	386,366	301,874
Equipment and tooling	1,080,239	995,449
	1,466,605	1,297,323
Less: accumulated depreciation	(739,009)	(646,645)
Property and equipment, net	727,596	650,678
Investment in finance affiliate	94,009	99,073
Deferred tax assets	188,471	166,538
Goodwill and other intangible assets, net	792,979	236,117
Other long-term assets	105,553	80,331
Total assets	\$ 3,099,597	\$ 2,385,659
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of debt, capital lease obligations, and notes payable	\$ 3,847	\$ 5,059
Accounts payable	273,742	299,660
Accrued expenses:		
Compensation	122,214	106,486
Warranties	119,274	56,474
Sales promotions and incentives	158,562	141,057
Dealer holdback	117,574	123,276
Other	162,432	88,030
Income taxes payable	2,106	6,741
Total current liabilities	959,751	826,783
Long-term income taxes payable	26,391	23,416
Capital lease obligations	17,538	19,660
Long-term debt	1,120,525	436,757
Deferred tax liabilities	9,127	13,733
Other long-term liabilities	90,497	74,188
Total liabilities	\$ 2,223,829	\$ 1,394,537
Deferred compensation	8,728	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, 63,109 and 65,309 shares issued and outstanding, respectively	\$ 631	\$ 653
Additional paid-in capital	650,162	596,143
Retained earnings	300,084	447,173
Accumulated other comprehensive loss, net	(83,837)	(62,492)
Total shareholders' equity	867,040	981,477
Total liabilities and shareholders' equity	\$ 3,099,597	\$ 2,385,659

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



POLARIS INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	For the Years Ended December 31,		
	2016	2015	2014
Sales	\$ 4,516,629	\$ 4,719,290	\$ 4,479,648
Cost of sales	3,411,006	3,380,248	3,160,470
Gross profit	1,105,623	1,339,042	1,319,178
Operating expenses:			
Selling and marketing	342,235	316,669	314,449
Research and development	185,126	166,460	148,458
General and administrative	306,442	209,077	203,248
Total operating expenses	833,803	692,206	666,155
Income from financial services	78,458	69,303	61,667
Operating income	350,278	716,139	714,690
Non-operating expense:			
Interest expense	16,319	11,456	11,239
Equity in loss of other affiliates	6,873	6,802	4,124
Other expense, net	13,835	12,144	10
Income before income taxes	313,251	685,737	699,317
Provision for income taxes	100,303	230,376	245,288
Net income	\$ 212,948	\$ 455,361	\$ 454,029
Net income per share:			
Basic	\$ 3.31	\$ 6.90	\$ 6.86
Diluted	\$ 3.27	\$ 6.75	\$ 6.65
Weighted average shares outstanding:			
Basic	64,296	66,020	66,175
Diluted	65,158	67,484	68,229

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

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

	<u>For the Years Ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net income	\$ 212,948	\$ 455,361	\$ 454,029
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments, net of tax benefit of \$195, \$643 and \$65	(19,773)	(38,571)	(44,371)
Unrealized gain (loss) on derivative instruments, net of tax benefit (expense) of \$936, (\$1,975) and \$970	(1,572)	3,320	(1,631)
Comprehensive income	<u>\$ 191,603</u>	<u>\$ 420,110</u>	<u>\$ 408,027</u>

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

POLARIS INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands, except per share data)

	Number of Shares	Common Stock	Additional Paid- In Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance, December 31, 2013	65,623	\$ 656	\$ 360,616	\$ 155,572	\$ 18,761	\$ 535,605
Employee stock compensation	254	3	63,180	—	—	63,183
Deferred compensation	—	—	(3,020)	(2,087)	—	(5,107)
Proceeds from stock issuances under employee plans	984	10	31,303	—	—	31,313
Tax effect of exercise of stock options	—	—	36,966	—	—	36,966
Cash dividends declared (\$1.92 per share)	—	—	—	(126,908)	—	(126,908)
Repurchase and retirement of common shares	(554)	(6)	(3,040)	(78,766)	—	(81,812)
Net income	—	—	—	454,029	—	454,029
Other comprehensive income	—	—	—	—	(46,002)	(46,002)
Balance, December 31, 2014	66,307	663	486,005	401,840	(27,241)	861,267
Employee stock compensation	144	2	61,927	—	—	61,929
Deferred compensation	—	—	(2,994)	6,877	—	3,883
Proceeds from stock issuances under employee plans	1,037	10	32,525	—	—	32,535
Tax effect of exercise of stock options	—	—	34,654	—	—	34,654
Cash dividends declared (\$2.12 per share)	—	—	—	(139,285)	—	(139,285)
Repurchase and retirement of common shares	(2,179)	(22)	(15,974)	(277,620)	—	(293,616)
Net income	—	—	—	455,361	—	455,361
Other comprehensive loss	—	—	—	—	(35,251)	(35,251)
Balance, December 31, 2015	65,309	653	596,143	447,173	(62,492)	981,477
Employee stock compensation	303	3	57,924	—	—	57,927
Deferred compensation	—	—	1,379	(462)	—	917
Proceeds from stock issuances under employee plans	405	4	17,686	—	—	17,690
Tax effect of exercise of stock options	—	—	3,578	—	—	3,578
Cash dividends declared (\$2.20 per share)	—	—	—	(140,336)	—	(140,336)
Repurchase and retirement of common shares	(2,908)	(29)	(26,548)	(219,239)	—	(245,816)
Net income	—	—	—	212,948	—	212,948
Other comprehensive loss	—	—	—	—	(21,345)	(21,345)
Balance, December 31, 2016	63,109	\$ 631	\$ 650,162	\$ 300,084	\$ (83,837)	\$ 867,040

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

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

	For the Years Ended December 31,		
	2016	2015	2014
Operating Activities:			
Net income	\$ 212,948	\$ 455,361	\$ 454,029
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	167,512	152,138	127,507
Noncash compensation	57,927	61,929	63,183
Noncash income from financial services	(30,116)	(29,405)	(18,645)
Deferred income taxes	(26,056)	(16,343)	(50,388)
Excess tax benefits from share-based compensation	(3,578)	(34,654)	(36,966)
Other, net	13,462	6,802	6,124
Changes in operating assets and liabilities:			
Trade receivables	2,030	48,798	(24,174)
Inventories	111,999	(148,725)	(158,476)
Accounts payable	(62,693)	(46,095)	105,783
Accrued expenses	145,261	9,182	30,664
Income taxes payable/receivable	(1,997)	(247)	45,324
Prepaid expenses and others, net	(14,916)	(18,510)	(14,695)
Net cash provided by operating activities	571,783	440,231	529,270
Investing Activities:			
Purchase of property and equipment	(209,137)	(249,485)	(205,079)
Investment in finance affiliate	(8,641)	(23,087)	(32,582)
Distributions from finance affiliate	43,820	42,527	31,337
Investment in other affiliates	(11,595)	(17,848)	(12,445)
Acquisition of businesses, net of cash acquired	(723,705)	(41,195)	(28,013)
Net cash used for investing activities	(909,258)	(289,088)	(246,782)
Financing Activities:			
Borrowings under debt arrangements / capital lease obligations	3,232,137	2,631,067	2,146,457
Repayments under debt arrangements / capital lease obligations	(2,552,760)	(2,385,480)	(2,228,587)
Repurchase and retirement of common shares	(245,816)	(293,616)	(81,812)
Cash dividends to shareholders	(140,336)	(139,285)	(126,908)
Proceeds from stock issuances under employee plans	17,690	32,535	31,313
Excess tax benefits from share-based compensation	3,578	34,654	36,966
Net cash provided by (used for) financing activities	314,493	(120,125)	(222,571)
Impact of currency exchange rates on cash balances	(5,042)	(13,269)	(14,565)
Net increase (decrease) in cash and cash equivalents	(28,024)	17,749	45,352
Cash and cash equivalents at beginning of period	155,349	137,600	92,248
Cash and cash equivalents at end of period	\$ 127,325	\$ 155,349	\$ 137,600
Noncash Activity:			
Property and equipment obtained through capital leases and notes payable	—	\$ 14,500	\$ 24,908
Supplemental Cash Flow Information:			
Interest paid on debt borrowings	\$ 15,833	\$ 11,451	\$ 11,259
Income taxes paid	\$ 126,799	\$ 244,328	\$ 261,550

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

POLARIS INDUSTRIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Polaris Industries Inc. (“Polaris” or the “Company”), a Minnesota corporation, and its subsidiaries are engaged in the design, engineering, manufacturing and marketing of innovative, high-quality, high-performance Off-Road Vehicles (ORV), Snowmobiles, Motorcycles and Global Adjacent Markets vehicles. Polaris products, together with related parts, garments and accessories, as well as aftermarket accessories and apparel, are sold worldwide through a network of independent dealers and distributors and its subsidiaries. The primary markets for our products are the United States, Canada, Western Europe, Australia and Mexico.

Basis of presentation. The accompanying consolidated financial statements include the accounts of Polaris and its wholly-owned subsidiaries. All inter-company transactions and balances have been eliminated in consolidation. Income from financial services is reported as a component of operating income to better reflect income from ongoing operations, of which financial services has a significant impact.

The Company evaluates consolidation of entities under Accounting Standards Codification (ASC) Topic 810. This Topic requires management to evaluate whether an entity or interest is a variable interest entity and whether the company is the primary beneficiary. Polaris used the guidelines to analyze the Company’s relationships, including its relationship with Polaris Acceptance, and concluded that there were no variable interest entities requiring consolidation by the Company in 2016, 2015 and 2014.

Use of estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates.

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 the 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 interest rate volatility, 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 December 31, 2016			
	Total	Level 1	Level 2	Level 3
Non-qualified deferred compensation assets	\$ 49,330	\$ 49,330	—	—
Foreign exchange contracts, net	298	—	\$ 298	—
Total assets at fair value	\$ 49,628	\$ 49,330	\$ 298	—
Non-qualified deferred compensation liabilities	\$ (49,330)	\$ (49,330)	—	—
Total liabilities at fair value	\$ (49,330)	\$ (49,330)	\$ —	—
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)	—
Non-qualified deferred compensation liabilities	(48,238)	(48,238)	—	—
Total liabilities at fair value	\$ (48,592)	\$ (48,238)	\$ (354)	—

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 December 31, 2016 and December 31, 2015, the fair value of the Company's long-term debt was approximately \$1,156,181,000 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 \$1,141,910,000 and \$461,476,000 as of December 31, 2016 and December 31, 2015, respectively.

Polaris measures certain assets and liabilities at fair value on a nonrecurring basis. Assets acquired and liabilities assumed as part of acquisitions are measured at fair value. Refer to Notes 2 and 6 for additional information. Polaris will impair or write off an investment and recognize a loss when events or circumstances indicate there is impairment in the investment that is other-than-temporary. The amount of loss is determined by measuring the investment at fair value. Refer to Note 10 for additional information.

Cash equivalents. Polaris considers all highly liquid investments purchased with an original maturity of 90 days or less to be cash equivalents. Cash equivalents are stated at cost, which approximates fair value. Such investments consist principally of money market mutual funds.

Restricted Cash and Cash Equivalents. The Company classifies amounts of cash and cash equivalents that are restricted in terms of their use and withdrawal separately within Other long-term assets on the Consolidated Balance Sheets.

Allowance for doubtful accounts. Polaris' financial exposure to collection of accounts receivable is limited due to its agreements with certain finance companies. For receivables not serviced through these finance companies, the Company provides a reserve for doubtful accounts based on historical rates and trends. This reserve is adjusted periodically as information about specific accounts becomes available.

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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):

	December 31, 2016	December 31, 2015
Raw materials and purchased components	\$ 141,566	\$ 167,569
Service parts, garments and accessories	316,383	189,731
Finished goods	333,760	388,970
Less: reserves	(45,175)	(36,269)
Inventories	\$ 746,534	\$ 710,001

Investment in finance affiliate. The caption investment in finance affiliate in the consolidated balance sheets represents Polaris' fifty percent equity interest in Polaris Acceptance, a partnership agreement between Wells Fargo Commercial Distribution Finance Corporation and one of Polaris' wholly-owned subsidiaries. Polaris Acceptance provides floor plan financing to Polaris dealers in the United States. Polaris' investment in Polaris Acceptance is accounted for under the equity method, and is recorded as investment in finance affiliate in the consolidated balance sheets. Polaris' allocable share of the income of Polaris Acceptance has been included as a component of income from financial services in the consolidated statements of income. Refer to Note 9 for additional information regarding Polaris' investment in Polaris Acceptance.

Investment in other affiliates. Polaris' investment in other affiliates is included within other long-term assets in the consolidated balance sheets, and represents the Company's investment in nonmarketable securities of strategic companies. For each investment, Polaris assesses the level of influence in determining whether to account for the investment under the cost method or equity method. For equity method investments, Polaris' proportionate share of income or losses is recorded in the consolidated statements of income. Polaris will write down 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. Refer to Note 10 for additional information regarding Polaris' investment in other affiliates.

Property and equipment. Property and equipment is stated at cost. Depreciation is provided using the straight-line method over the estimated useful life of the respective assets, ranging from 10 - 40 years for buildings and improvements and from 1 - 7 years for equipment and tooling. Depreciation of assets recorded under capital leases is included with depreciation expense. Fully depreciated tooling is eliminated from the accounting records annually.

Goodwill and other intangible assets. ASC Topic 350 prohibits the amortization of goodwill and intangible assets with indefinite useful lives. Topic 350 requires that these assets be reviewed for impairment at least annually. An impairment charge for goodwill is recognized only when the estimated fair value of a reporting unit, including goodwill, is less than its carrying amount. Refer to Note 6 for additional information regarding goodwill and other intangible assets.

Revenue recognition. Revenues are recognized at the time of shipment to the dealer or distributor or other customers, or at the time of delivery for our retail aftermarket locations. Service revenues are recognized upon completion of the service. Product returns, whether in the normal course of business or resulting from repossession under the Company's customer financing program (see Note 9), have not been material. Polaris sponsors certain sales incentive programs and accrues liabilities for estimated sales promotion expenses and estimated holdback amounts that are recognized as reductions to sales when products are sold to the dealer or distributor customer.

Sales promotions and incentives. Polaris provides for estimated sales promotion and incentive expenses, which are recognized as a reduction to sales, at the time of sale to the dealer or distributor. Examples of sales promotion and incentive programs include dealer and consumer rebates, volume incentives, retail financing programs and sales associate incentives. Sales promotion and incentive expenses are estimated based on current programs and historical rates for each product line. Actual results may differ from these estimates if market conditions dictate the need to enhance or reduce sales promotion and incentive programs or if the customer usage rate varies from historical trends. Historically, sales promotion and incentive expenses have been within the Company's expectations and differences have not been material.

Dealer holdback programs. Dealer holdback represents a portion of the invoiced sales price that is expected to be subsequently returned to the dealer or distributor as a sales incentive upon the ultimate retail sale of the product. Holdback amounts reduce the ultimate net price of the products purchased by Polaris' dealers or distributors and, therefore, reduce the amount of sales Polaris recognizes at the time of shipment. The portion of the invoiced sales price estimated as the holdback is recognized as "dealer holdback" liability on the Company's balance sheet until paid or forfeited. The minimal holdback adjustments in the estimated holdback liability due to forfeitures are recognized in net sales. Payments are made to dealers or distributors at various times during the year subject to previously established criteria.

Shipping and handling costs. Polaris records shipping and handling costs as a component of cost of sales at the time the product is shipped.

Research and development expenses. Polaris records research and development expenses in the period in which they are incurred as a component of operating expenses.

Advertising expenses. Polaris records advertising expenses as a component of selling and marketing expenses in the period in which they are incurred. In the years ended December 31, 2016, 2015 and 2014, Polaris incurred \$85,199,000, \$80,090,000 and \$82,600,000, respectively.

Product warranties - Limited 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 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' limited 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: improved 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 limited warranty reserve during the periods presented was as follows (in thousands):

	For the Years Ended December 31,		
	2016	2015	2014
Balance at beginning of year	\$ 56,474	\$ 53,104	\$ 52,818

Additions to reserve through acquisitions	147	250	160
Additions charged to expense	194,996	73,716	61,888
Less: warranty claims paid	(132,343)	(70,596)	(61,762)
Balance at end of year	\$ 119,274	\$ 56,474	\$ 53,104

During 2016, the Company has incurred significant additions to the warranty reserve, primarily associated with recall activity for certain RZR vehicles. In April 2016, the Company issued a voluntary recall for certain RZR 900 and 1000 off-road vehicles manufactured since model year 2013 due to reports of thermal-related incidents, including fire, and in September 2016, the Company issued a voluntary recall for certain RZR XP Turbo off-road vehicles due to similar thermal-related incidents.

Deferred revenue. In 2016, Polaris began financing its self-insured risks related to extended service contracts (“ESCs”). The premiums for ESCs are primarily recognized in income in proportion to the costs expected to be incurred over the contract period. Additionally, in 2016, the Company acquired Transamerican Auto Parts (“TAP”), which recognizes revenues related to sales of its extended warranty programs for tires and other products over the term of the warranty period which vary from two to five years. Warranty costs are recognized as incurred. Revenues related to sales of its extended warranty program for powertrains and related accrued costs for claims are deferred and amortized over the warranty period, generally five years, while warranty administrative costs are recognized as incurred. The activity in the deferred revenue reserve during the periods presented was as follows (in thousands):

	For the Years Ended December 31,		
	2016	2015	2014
Balance at beginning of year	—	—	—
Additions to deferred revenue through acquisitions	\$ 7,944	—	—
New contracts sold	20,569	—	—
Less: reductions for revenue recognized	(2,356)	—	—
Balance at end of year	\$ 26,157	—	—

(1) The unamortized extended service contract premiums (deferred revenue) recorded in other current liabilities, totaled \$11,012,000 and \$15,145,000 in other long-term liabilities as of December 31, 2016 .

Share-based employee compensation. For purposes of determining the estimated fair value of share-based payment awards on the date of grant under ASC Topic 718, Polaris uses the Black-Scholes Model. The Black-Scholes Model requires the input of certain assumptions that require judgment. Because employee stock options and restricted stock awards have characteristics significantly different from those of traded options, and because changes in the input assumptions can materially affect the fair value estimate, the existing models may not provide a reliable single measure of the fair value of the employee stock options or restricted stock awards. Management will continue to assess the assumptions and methodologies used to calculate estimated fair value of share-based compensation. Circumstances may change and additional data may become available over time, which could result in changes to these assumptions and methodologies and thereby materially impact the fair value determination. If factors change and the Company employs different assumptions in the application of Topic 718 in future periods, the compensation expense that was recorded under Topic 718 may differ significantly from what was recorded in the current period. Refer to Note 3 for additional information regarding share-based compensation.

The Company estimates the likelihood and the rate of achievement for performance share-based awards. Changes in the estimated rate of achievement and fluctuation in the market based stock price can have a significant effect on reported share-based compensation expenses as the effect of a change in the estimated achievement level and fluctuation in the market based stock price is recognized in the period that the likelihood factor and stock price changes. If adjustments in the estimated rate of achievement and fluctuation in the market based stock price are made, they would be reflected in gross margin and operating expenses.

Derivative instruments and hedging activities. Changes in the fair value of a derivative are recognized in earnings unless the derivative qualifies as a hedge. To qualify as a hedge, the Company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

Polaris enters into foreign exchange contracts to manage currency exposures from certain of its purchase commitments denominated in foreign currencies and transfers of funds from time to time from its foreign subsidiaries. Polaris does not use any financial contracts for trading purposes. These contracts met the criteria for cash flow hedges. Gains and losses on the Canadian dollar and Australian dollar contracts at settlement are recorded in non-operating other expense (income), net in the consolidated income statements, and gains and losses on the Japanese yen and Mexican peso contracts at settlement are recorded in cost of sales in the consolidated income statements. Unrealized gains and losses are recorded as a component of accumulated other comprehensive loss, net.

Polaris is subject to market risk from fluctuating market prices of certain purchased commodity raw materials, including steel, aluminum, diesel fuel, and petroleum-based resins. In addition, the Company purchases components and parts containing various commodities, including steel, aluminum, rubber, rare earth metals 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. The Company generally buys these commodities and components based upon market prices that are established with the vendor as part of the purchase process. From time to time, Polaris utilizes derivative contracts to hedge a portion of the exposure to commodity risks. During 2015 , the Company entered into derivative contracts to hedge a portion of the exposure for diesel fuel and aluminum. The Company did not enter into any such derivative contracts during 2016 . The Company’s diesel fuel and aluminum hedging contracts do not meet the criteria for hedge accounting and therefore, the resulting unrealized gains and losses from those contracts are included in the consolidated statements of income in cost of sales. Refer to Note 12 for additional information regarding derivative instruments and hedging activities.

The gross unrealized gains and losses of these contracts are recorded in the accompanying balance sheets as other current assets or other current liabilities.

Foreign currency translation. The functional currency for each of the Polaris foreign subsidiaries is their respective local currencies. The assets and liabilities in all Polaris 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 in the shareholders’ equity section of the accompanying consolidated balance sheets. Revenues and expenses in all of Polaris’ foreign entities are translated at the average foreign exchange rate in effect for each month of the quarter. Transaction gains and losses including intercompany transactions denominated in a currency other than the functional currency of the entity involved are included in other expense (income), net in our consolidated statements of income.

Comprehensive income. Components of comprehensive income include net income, foreign currency translation adjustments, and unrealized gains or losses on derivative instruments. The Company has chosen to disclose comprehensive income in separate consolidated statements of comprehensive income.

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 beginning after December 15, 2016, and is effective for the Company's fiscal year beginning January 1, 2017. Early adoption is permitted, but the Company will adopt this ASU for the fiscal year beginning January 1, 2017. The impact of this ASU on the Company's financial statements will be dependent on the volume of stock option exercises and restricted share vestings that occur. When the Company adopts this ASU for the fiscal year beginning January 1, 2017, the excess tax benefits will be classified as cash flows from operating activities rather than cash flows from financing activities on a prospective basis. In addition, the Company will continue to estimate the number of awards expected to vest, rather than electing to account for forfeitures as they occur.

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. Subsequent to the issuance of ASU 2014-09, the FASB has issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, and ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. These ASUs do not change the core principle of the guidance stated in ASU 2014-09, instead these amendments are intended to clarify and improve operability of certain topics included within the revenue standard. These ASUs will have the same effective date and transition requirements as ASU 2014-09.

The Company has completed a preliminary assessment of the impact of ASU No. 2014-09 and other related ASUs, and does not anticipate the impact will be significant to the Company's financial statements, accounting policies or processes. The Company expects to adopt ASU No. 2014-09 for the Company's fiscal year beginning January 1, 2018, and expects to adopt the guidance using the modified retrospective approach.

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

Note 2. Acquisitions

2016 Acquisitions.

Taylor-Dunn Manufacturing Company

In March 2016, the Company acquired Taylor-Dunn Manufacturing Company ("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. Pro forma financial results for the Taylor-Dunn acquisition are not presented as the acquisition is not material to the consolidated financial statements. As of December 31, 2016, the purchase price allocations for the acquisition remain preliminary. Refer to Note 6 for additional information regarding the acquisition of Taylor-Dunn.

Transamerican Auto Parts

On October 11, 2016, the Company entered into a definitive agreement with TAP Automotive Holdings, LLC ("Transamerican Auto Parts" or "TAP"), to acquire the outstanding equity interests in Transamerican Auto Parts, a privately held, vertically integrated manufacturer, distributor, retailer and installer of off-road Jeep and truck accessories, for an aggregate consideration of \$668,848,000, net of cash acquired. TAP's products and services for customers in the off-road four-wheel-drive market correspond closely to our ORV business. The transaction closed on November 10, 2016. The Company funded the purchase price with borrowings under its existing credit facilities.

As of December 31, 2016, the purchase price allocation for the acquisition is preliminary. The following table summarizes the preliminary fair values assigned to the TAP net assets acquired and the determination of final net assets (in thousands):

Cash and cash equivalents	\$	3,017
Trade receivables		18,212
Inventory		144,912
Property, plant and equipment		32,814
Customer relationships		87,500
Trademarks / trade names		175,500
Goodwill		264,333
Other assets		18,434
Deferred revenue		(7,944)
Other liabilities assumed		(64,913)
Total fair value of net assets acquired		671,865
Less cash acquired		(3,017)
Total consideration for acquisition, less cash acquired	\$	668,848

On the acquisition date, amortizable intangible assets had a weighted-average useful life of 8.9 years . The customer relationships were valued based on the Discounted Cash Flow Method and are amortized over 5 - 10 years , depending on the customer class. The trademarks and trade names were valued on the Relief from Royalty Method and have indefinite remaining useful lives. Goodwill is deductible for tax purposes.

The following unaudited pro forma information represents the Company's results of operations as if the fiscal 2016 acquisition of TAP had occurred at the beginning of fiscal 2015 (in thousands, except per share data). These performance results may not be indicative of the actual results that would have occurred under the ownership and management of the Company.

	For the Years Ended December 31,	
	2016	2015
Net sales	\$ 5,161,688	\$ 5,389,173
Net income	240,400	431,991
Basic earnings per share	\$ 3.74	\$ 6.54
Diluted earnings per common share	\$ 3.69	\$ 6.40

The unaudited pro forma net income for the year ended December 31, 2015 excludes the impact of approximately \$21.0 million (pre-tax) in non-recurring items related to acquisition date fair value adjustments to inventory. The unaudited pro forma net income for the year ended December 31, 2016 excludes the impact of transaction costs incurred by TAP and approximately \$13.0 million of non-recurring transaction related costs incurred by the Company. The pro forma condensed consolidated financial information has been prepared for comparative purposes only and includes certain adjustments, as noted above. The adjustments are estimates based on currently available information and actual amounts may differ materially from these estimates. They do not reflect the effect of costs or synergies that would have been expected to result from the integration of the TAP acquisition. The pro forma information does not purport to be indicative of the results of operations that actually would have resulted had the TAP acquisition occurred on January 1, 2015. The Company's 2016 consolidated statements of income include \$108,699,000 of net sales and \$19,842,000 of gross profit related to TAP.

2015 acquisitions. In January 2015, the Company acquired the electric motorcycle business of Brammo, Inc. In April 2015, the Company completed the acquisitions of 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 Off-Road brand, along with maintaining key private label relationships with other original equipment manufacturers.

At the end of 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.

The Company has included the financial results of the acquisitions in its consolidated results of operations beginning on the respective acquisition dates; however, the acquisitions did not have a material impact on Polaris' consolidated financial position or results of operations.

Note 3. Share-Based Compensation

Share-based plans. The Company grants long-term equity-based incentives and rewards for the benefit of its employees and directors under the shareholder approved Polaris Industries Inc. 2007 Omnibus Incentive Plan (as amended) (the "Omnibus Plan"), which were previously provided under several separate incentive and compensatory plans. Upon approval by the shareholders of the Omnibus Plan in April 2007, the Polaris Industries Inc. 1995 Stock Option Plan ("Option Plan"), the 1999 Broad Based Stock Option Plan, the Restricted Stock Plan and the 2003 Non-Employee Director Stock Option Plan ("Director Stock Option Plan" and collectively the "Prior Plans") were frozen and no further grants or awards have since been or will be made under such plans. A maximum of 21,000,000 shares of common stock are available for issuance under the Omnibus Plan, together with additional shares canceled or forfeited under the Prior Plans.

Stock option awards granted to date under the Omnibus Plan generally vest two to four years from the award date and expire after ten years. In addition, since 2007, the Company has granted a total of 157,000 deferred stock units to its non-employee directors under the Omnibus Plan (11,000 , 8,000 and 9,000 in 2016 , 2015 and 2014 , respectively) which will be converted into common stock when the director's board service ends or upon a change in control. Restricted units and performance-based restricted units (collectively restricted stock) awarded under the Omnibus Plan generally vests after a one to four year period. The final number of shares issued under performance-based awards are dependent on achievement of certain performance measures.

The Option Plan, which is frozen, was used to issue incentive and nonqualified stock options to certain employees. Options granted to date generally vest three years from the award date and expire after ten years.

Under the Polaris Industries Inc. Deferred Compensation Plan for Directors ("Director Plan"), members of the Board of Directors who are not Polaris officers or employees may annually elect to receive common stock equivalents in lieu of director fees, which will be converted into common stock when board service ends. A maximum of 500,000 shares of common stock has been authorized under this plan of which 73,000 equivalents have been earned and 427,000 shares have been issued to retired directors as of December 31, 2016 . As of December 31, 2016 and 2015 , Polaris' liability under the plan totaled \$6,111,000 and \$9,167,000 , respectively.

Polaris maintains a long term incentive program under which awards are issued to provide incentives for certain employees to attain and maintain the highest standards of performance and to attract and retain employees of outstanding competence and ability with no cash payments required from the recipient. Long term incentive program awards are granted in restricted stock units and stock options and therefore treated as equity awards.

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Share-based compensation expense. 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 compensation expense for those awards expected to vest.

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

	For the Years Ended December 31,		
	2016	2015	2014
Option plan	\$ 23,876	\$ 26,191	\$ 24,428
Other share-based awards	23,368	23,275	26,574
Total share-based compensation before tax	47,244	49,466	51,002
Tax benefit	17,546	18,451	19,039
Total share-based compensation expense included in net income	\$ 29,698	\$ 31,015	\$ 31,963

These share-based compensation expenses are reflected in cost of sales and operating expenses in the accompanying consolidated statements of income. For purposes of determining the estimated fair value of option awards on the date of grant under ASC Topic 718, Polaris has used the Black-Scholes option-pricing model. Assumptions utilized in the model are evaluated and revised, as necessary, to reflect market conditions and experience.

At December 31, 2016, there was \$97,831,000 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 1.72 years. Included in unrecognized share-based compensation is approximately \$32,997,000 related to stock options and \$64,834,000 for restricted stock.

General stock option and restricted stock information. The following summarizes stock option activity and the weighted average exercise price for the following plans for the each of the three years ended December 31, 2016, 2015 and 2014 :

	Omnibus Plan (Active)		Option Plan (Frozen)	
	Outstanding Shares	Weighted Average Exercise Price	Outstanding Shares	Weighted Average Exercise Price
Balance as of December 31, 2013	4,466,080	\$ 49.29	162,431	\$ 23.74
Granted	705,564	130.10	—	—
Exercised	(866,917)	30.33	(96,398)	23.77
Forfeited	(98,215)	65.14	(2,800)	22.43
Balance as of December 31, 2014	4,206,512	\$ 66.38	63,233	\$ 23.76
Granted	743,062	150.81	—	—
Exercised	(706,750)	40.21	(44,283)	23.92
Forfeited	(137,285)	112.95	—	—
Balance as of December 31, 2015	4,105,539	\$ 84.61	18,950	\$ 23.37
Granted	1,326,430	78.72	—	—
Exercised	(348,206)	40.51	(18,950)	23.37
Forfeited	(366,702)	108.90	—	—
Balance as of December 31, 2016	4,717,061	\$ 84.32	—	—
Vested or expected to vest as of December 31, 2016	4,717,061	\$ 84.32	—	—
Options exercisable as of December 31, 2016	2,199,084	\$ 62.60	—	—

The weighted average remaining contractual life of options outstanding and of options outstanding and exercisable as of December 31, 2016 was 6.45 years and 4.47 years, respectively.

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The following assumptions were used to estimate the weighted average fair value of options of \$16.81 , \$37.64 and \$39.97 granted during the years ended December 31, 2016 , 2015 and 2014 , respectively:

	For the Years Ended December 31,		
	2016	2015	2014
Weighted-average volatility	32 %	32 %	40 %
Expected dividend yield	2.8 %	1.4 %	1.5 %
Expected term (in years)	4.5	4.5	4.5
Weighted average risk free interest rate	1.4 %	1.5 %	1.6 %

The total intrinsic value of options exercised during the year ended December 31, 2016 was \$17,522,000 . The total intrinsic value of options outstanding and of options outstanding and exercisable at December 31, 2016 , was \$68,311,000 and \$59,612,000 , respectively. The total intrinsic values are based on the Company's closing stock price on the last trading day of the applicable year for in-the-money options.

The following table summarizes restricted stock activity for the year ended December 31, 2016 :

	Shares Outstanding	Weighted Average Grant Price
Balance as of December 31, 2015	1,130,767	\$ 122.08
Granted	909,161	77.53
Vested	(233,841)	89.72
Canceled/Forfeited	(284,885)	108.08
Balance as of December 31, 2016	1,521,202	\$ 103.05
Expected to vest as of December 31, 2016	955,106	\$ 101.57

The total intrinsic value of restricted stock expected to vest as of December 31, 2016 was \$78,691,000 . The total intrinsic value is based on the Company's closing stock price on the last trading day of the year. The weighted average fair values at the grant dates of grants awarded under the Omnibus Plan for the years ended December 31, 2016 , 2015 and 2014 were \$77.53 , \$139.50 and \$134.34 , respectively.

Note 4. Employee Savings Plans

Employee Stock Ownership Plan (ESOP). Polaris sponsors a qualified non-leveraged ESOP under which a maximum of 7,200,000 shares of common stock can be awarded. The shares are allocated to eligible participants' accounts based on total cash compensation earned during the calendar year. An employee's ESOP account vests equally after two and three years of service and requires no cash payments from the recipient. Participants may instruct Polaris to pay respective dividends directly to the participant in cash or reinvest the dividends into the participants ESOP accounts. Employees who meet eligibility requirements can participate in the ESOP. Total expense related to the ESOP was \$7,849,000 , \$7,455,000 and \$10,789,000 , in 2016 , 2015 and 2014 , respectively. As of December 31, 2016 there were 3,811,000 shares held in the plan.

Defined contribution plans. Polaris sponsors a 401(k) defined contribution retirement plan covering substantially all U.S. employees. The Company matches 100 percent of employee contributions up to a maximum of five percent of eligible compensation. All contributions vest immediately. The cost of the defined contribution retirement plan was \$15,456,000 , \$14,178,000 , and \$12,486,000 , in 2016 , 2015 and 2014 , respectively.

Supplemental Executive Retirement Plan (SERP). Polaris sponsors a SERP that provides executive officers of the Company an alternative to defer portions of their salary, cash incentive compensation, and Polaris matching contributions. The deferrals and contributions are held in a rabbi trust and are in funds to match the liabilities of the plan. The assets are recorded as trading assets. The assets of the rabbi trust are included in other long-term assets on the consolidated balance sheets and the SERP liability is included in other long-term liabilities on the consolidated balance sheets. The asset and liability balances are both \$49,330,000 and \$48,238,000 at December 31, 2016 , and 2015 , respectively.

Executive officers of the Company have the opportunity to defer certain restricted stock units. After a holding period, the executive officer has the option to diversify the vested award into other funds available under the SERP. The deferrals are held in a rabbi trust and are invested in funds to match the liabilities of the SERP. The awards are redeemable in

Polaris stock or in cash based upon the occurrence of events not solely within the control of Polaris; therefore, awards probable of vesting, for which the executive has not yet made an election to defer, or awards that have been deferred but have not yet vested and are probable of vesting or have been diversified into other funds, are reported as deferred compensation in the temporary equity section of the consolidated balance sheets. The awards recorded in temporary equity are recognized at fair value as though the reporting date is also the redemption date, with any difference from stock-based compensation recorded in retained earnings. At December 31, 2016, 105,931 shares are recorded at a fair value of \$8,728,000 in temporary equity, which includes \$8,993,000 of compensation cost and \$(266,000) of cumulative fair value adjustment recorded through retained earnings.

Note 5. Financing Agreement

Debt, capital lease obligations, notes payable and the average related interest rates were as follows (in thousands):

	Average interest rate at December 31, 2016	Maturity	December 31, 2016	December 31, 2015
Revolving loan facility	1.66%	May 2021	\$ 172,142	\$ 225,707
Term loan facility	1.98%	May 2021	740,000	—
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	5.06%	Various through 2029	19,306	21,874
Notes payable and other	3.40%	June 2027	13,618	15,698
Debt issuance costs			(3,156)	(1,803)
Total debt, capital lease obligations, and notes payable			\$ 1,141,910	\$ 461,476
Less: current maturities			3,847	5,059
Total long-term debt, capital lease obligations, and notes payable			\$ 1,138,063	\$ 456,417

Bank financing. 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 term loan facility. In November 2016, Polaris amended the revolving loan facility to increase the loan facility to \$750,000,000, of which \$740,000,000 is outstanding as of December 31, 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 loan facility and the amended 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 December 31, 2016.

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. Construction of the 725,000 square-foot facility 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 is building 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.

The following summarizes activity under Polaris' credit arrangements (dollars in thousands):

	2016	2015	2014
Total borrowings at December 31	\$ 1,112,142	\$ 425,707	\$ 200,000
Average outstanding borrowings during year	\$ 638,614	\$ 403,097	\$ 361,715
Maximum outstanding borrowings during year	\$ 1,234,337	\$ 523,097	\$ 500,000
Interest rate at December 31	2.25 %	2.33 %	3.77 %

Letters of credit. At December 31, 2016, Polaris had open letters of credit totaling \$13,368,000. The amounts are primarily related to inventory purchases and are reduced as the purchases are received.

Dealer financing programs. Certain finance companies, including Polaris Acceptance, an affiliate (see Note 9), provide floor plan financing to dealers on the purchase of Polaris products. The amount financed by worldwide dealers under these arrangements at December 31, 2016, was approximately \$1,438,845,000. Polaris has agreed to repurchase products repossessed by the finance companies up to an annual maximum of no more than 15 percent of the average month-end balances outstanding during the prior calendar year. Polaris' financial exposure under these arrangements is limited to the difference between the amount paid to the finance companies for repurchases and the amount received on the resale of the repossessed product. No material losses have been incurred under these agreements during the periods presented. As a part of its marketing program, Polaris contributes to the cost of dealer financing up to certain limits and subject to certain conditions. Such expenditures are included as an offset to sales in the accompanying consolidated statements of income.

Note 6. Goodwill and Other Intangible Assets

ASC Topic 350 prohibits the amortization of goodwill and intangible assets with indefinite useful lives. Topic 350 requires that these assets be reviewed for impairment at least annually. An impairment charge for goodwill is recognized only when the estimated fair value of a reporting unit, including goodwill, is less than its carrying amount. The Company performed the annual impairment test as of December 31, 2016 and 2015. The results of the impairment test indicated that no goodwill or intangible impairment existed as of the test date. The Company has had no historical impairments of goodwill. In accordance with Topic 350, the Company will continue to complete an impairment analysis on an annual basis or more frequently if an event or circumstance that would more likely than not reduce the fair value of a reporting unit below its carrying amount occurs. Goodwill and other intangible assets, net of accumulated amortization, for the periods ended December 31, 2016 and 2015 are as follows (in thousands):

	2016	2015
Goodwill	\$ 421,563	\$ 131,014
Other intangible assets, net	371,416	105,103
Total goodwill and other intangible assets, net	\$ 792,979	\$ 236,117

Additions to goodwill and other intangible assets in 2016 relate primarily to the acquisitions of TAP in November 2016 and Taylor-Dunn in March 2016. For these acquisitions, the respective 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. TAP and Taylor-Dunn's financial results are included in the Company's consolidated results from the respective dates of acquisition. As of December 31, 2016, the purchase price allocations for these acquisitions remain preliminary. For TAP, the pro forma financial results and the preliminary purchase price allocation are included in Note 2.

The changes in the carrying amount of goodwill for the years ended December 31, 2016 and 2015 are as follows (in thousands):

	2016	2015
Balance as of beginning of year	\$ 131,014	\$ 123,031
Goodwill from businesses acquired	293,390	17,010
Currency translation effect on foreign goodwill balances	(2,841)	(9,027)
Balance as of end of year	\$ 421,563	\$ 131,014

For other intangible assets, the changes in the net carrying amount for the years ended December 31, 2016 and 2015 are as follows (in thousands):

	2016		2015	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Other intangible assets, beginning	\$ 138,831	\$ (33,728)	\$ 124,093	\$ (23,158)
Intangible assets acquired during the period	284,000	—	20,779	—
Amortization expense	—	(16,549)	—	(12,136)
Currency translation effect on foreign balances	(2,285)	1,147	(6,041)	1,566
Other intangible assets, ending	\$ 420,546	\$ (49,130)	\$ 138,831	\$ (33,728)

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

<u>December 31, 2016</u>	Estimated Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Non-compete agreements	5	\$ 540	\$ (485)	\$ 55
Dealer/customer related	5-10	164,837	(35,907)	128,930
Developed technology	5-7	26,048	(12,738)	13,310
Total amortizable		191,425	(49,130)	142,295
Non-amortizable—brand/trade names		229,121	—	229,121
Total other intangible assets, net		\$ 420,546	\$ (49,130)	\$ 371,416
<u>December 31, 2015</u>	Estimated Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Non-compete agreements	5	\$ 540	\$ (401)	\$ 139
Dealer/customer related	7	67,079	(24,069)	43,010
Developed technology	5-7	19,261	(9,258)	10,003
Total amortizable		86,880	(33,728)	53,152
Non-amortizable—brand/trade names		51,951	—	51,951
Total other intangible assets, net		\$ 138,831	\$ (33,728)	\$ 105,103

Amortization expense for intangible assets for the year ended December 31, 2016 and 2015 was \$16,549,000 and \$12,136,000. Estimated amortization expense for 2017 through 2021 is as follows: 2017, \$27,600,000; 2018, \$26,000,000; 2019, \$24,100,000; 2020, \$19,400,000; 2021, \$17,200,000; and after 2021, \$28,000,000. 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.

Note 7. Income Taxes

Polaris' income from continuing operations before income taxes was generated from its United States and foreign operations as follows (in thousands):

	For the Years Ended December 31,		
	2016	2015	2014
United States	\$ 262,403	\$ 640,604	\$ 666,323
Foreign	50,848	45,133	32,994
Income from continuing operations before income taxes	\$ 313,251	\$ 685,737	\$ 699,317

Components of Polaris' provision for income taxes for continuing operations are as follows (in thousands):

	For the Years Ended December 31,		
	2016	2015	2014
Current:			
Federal	\$ 103,717	\$ 211,017	\$ 255,299
State	4,780	16,609	20,438
Foreign	17,367	20,733	21,584
Deferred	(25,561)	(17,983)	(52,033)
Total provision for income taxes for continuing operations	\$ 100,303	\$ 230,376	\$ 245,288

Reconciliation of the Federal statutory income tax rate to the effective tax rate is as follows:

	For the Years Ended December 31,		
	2016	2015	2014
Federal statutory rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal benefit	1.4	1.5	1.5
Domestic manufacturing deduction	(2.1)	(0.8)	(1.1)
Research and development tax credit	(4.3)	(3.1)	(1.1)
Valuation allowance for foreign subsidiaries net operating losses	—	0.2	—
Non-deductible expenses	2.4	0.4	0.3
Other permanent differences	(0.4)	0.4	0.5
Effective income tax rate for continuing operations	32.0 %	33.6 %	35.1 %

The income tax rate for 2016 was 32.0% as compared with 33.6% and 35.1% in 2015 and 2014, respectively. The lower income tax rate for 2016, compared with 2015 was primarily due to the decrease in 2016 pretax income, as the beneficial impact of discrete items increases with lower pretax earnings. In December 2015, the President of the United States signed the Consolidated Appropriations Act, 2016, which retroactively reinstated the research and development tax credit for 2015, and also made the research and development tax credit permanent. In addition to the 2015 research and development credits, the Company filed amended returns in 2015 to claim additional credits related to qualified research expenditures incurred in prior years.

Undistributed earnings relating to certain non-U.S. subsidiaries of approximately \$155,386,000 and \$143,284,000 at December 31, 2016 and 2015, respectively, are considered to be permanently reinvested; accordingly, no provision for U.S. federal income taxes has been provided thereon. If the Company were to distribute these earnings, it would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits reflecting the amounts paid to non-U.S. taxing authorities) and withholding taxes payable to the non-U.S. countries. Determination of the unrecognized deferred U.S. income tax liability related to these undistributed earnings is not practicable due to the complexities associated with this hypothetical calculation.

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Polaris utilizes the liability method of accounting for income taxes whereby deferred taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of enacted tax laws.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*. This ASU requires entities to present deferred tax assets and deferred tax liabilities as noncurrent in the consolidated balance sheet. The Company has early adopted the requirements of ASU No. 2015-17, and applied the amended provisions prospectively. The net deferred income taxes consist of the following (in thousands):

	December 31,	
	2016	2015
Deferred income taxes:		
Inventories	\$ 13,252	\$ 10,047
Accrued expenses	152,798	107,767
Derivative instruments	(175)	(1,112)
Cost in excess of net assets of business acquired	(10,257)	(7,956)
Property and equipment	(56,240)	(28,853)
Compensation payable in common stock	73,297	67,222
Net operating loss carryforwards and impairments	13,650	12,374
Valuation allowance	(6,981)	(6,684)
Total net deferred income tax asset	<u>\$ 179,344</u>	<u>\$ 152,805</u>

At December 31, 2016, the Company had available unused international and acquired federal net operating loss carryforwards of \$42,776,000. The net operating loss carryforwards will expire at various dates from 2017 to 2034, with certain jurisdictions having indefinite carryforward terms.

Polaris classified liabilities related to unrecognized tax benefits as long-term income taxes payable in the accompanying consolidated balance sheets in accordance with ASC Topic 740. Polaris recognizes potential interest and penalties related to income tax positions as a component of the provision for income taxes on the consolidated statements of income. Reserves related to potential interest are recorded as a component of long-term income taxes payable. The entire balance of unrecognized tax benefits at December 31, 2016, if recognized, would affect the Company's effective tax rate. The Company does not anticipate that total unrecognized tax benefits will materially change in the next twelve months. Tax years 2011 through 2016 remain open to examination by certain tax jurisdictions to which the Company is subject. A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows (in thousands):

	For the Years Ended December 31,	
	2016	2015
Balance at January 1,	\$ 22,509	\$ 9,836
Gross increases for tax positions of prior years	3,065	9,683
Gross increases for tax positions of current year	4,672	4,961
Decreases due to settlements and other prior year tax positions	(3,424)	(178)
Decreases for lapse of statute of limitations	(1,782)	(1,364)
Currency translation effect on foreign balances	(39)	(429)
Balance at December 31,	25,001	22,509
Reserves related to potential interest at December 31,	1,389	907
Unrecognized tax benefits at December 31,	<u>\$ 26,390</u>	<u>\$ 23,416</u>

Note 8. Shareholders' Equity

Stock repurchase program. The Polaris Board of Directors has authorized the cumulative repurchase of up to 86,500,000 shares of the Company's common stock. As of December 31, 2016, 7,463,000 shares remain available for repurchases under the Board's authorization. The Company has made the following share repurchases (in thousands):

	For the Years Ended December 31,		
	2016	2015	2014
Total number of shares repurchased and retired	2,908	2,179	554
Total investment	\$ 245,816	\$ 293,616	\$ 81,812

Shareholder rights plan. During 2000, the Polaris Board of Directors adopted a shareholder rights plan. Under the plan, a dividend of preferred stock purchase rights will become exercisable if a person or group should acquire 15 percent or more of the Company's stock. The dividend will consist of one purchase right for each outstanding share of the Company's common stock held by shareholders of record on June 1, 2000. The shareholder rights plan was amended and restated in April 2010. The amended and restated rights agreement extended the final expiration date of the rights from May 2010 to April 2020, expanded the definition of "Beneficial Owner" to include certain derivative securities relating to the common stock of the Company and increased the purchase price for the rights from \$75 to \$125 per share. The Board of Directors may redeem the rights earlier for \$0.01 per right.

Stock purchase plan. Polaris maintains an employee stock purchase plan ("Purchase Plan"). A total of 3,000,000 shares of common stock are reserved for this plan. The Purchase Plan permits eligible employees to purchase common stock monthly at 95 percent of the average of the beginning and end of month stock prices. As of December 31, 2016, approximately 1,324,000 shares had been purchased under the Purchase Plan.

Dividends. Quarterly and total year cash dividends declared per common share for the year ended December 31, 2016 and 2015 were as follows:

	For the Years Ended December 31,	
	2016	2015
Quarterly dividend declared and paid per common share	\$ 0.55	\$ 0.53
Total dividends declared and paid per common share	\$ 2.20	\$ 2.12

On January 26, 2017, the Polaris Board of Directors declared a regular cash dividend of \$0.58 per share payable on March 15, 2017 to holders of record of such shares at the close of business on March 1, 2017.

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 Option Plan and certain shares issued under the Omnibus Plan. A reconciliation of these amounts is as follows (in thousands):

	For the Years Ended December 31,		
	2016	2015	2014
Weighted average number of common shares outstanding	64,033	65,719	65,904
Director Plan and deferred stock units	162	210	196
ESOP	101	91	75
Common shares outstanding—basic	64,296	66,020	66,175
Dilutive effect of restricted stock awards	150	255	359
Dilutive effect of stock option awards	712	1,209	1,695
Common and potential common shares outstanding—diluted	65,158	67,484	68,229

During 2016, 2015 and 2014, 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 2,463,000, 1,001,000 and 581,000, respectively.

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	—	4,643	4,643
Change in fair value	(19,773)	(6,215)	(25,988)
Balance as of December 31, 2016	\$ (84,133)	\$ 296	\$ (83,837)

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 year ended December 31, 2016 and 2015 (in thousands):

Derivatives in Cash Flow Hedging Relationships	Location of Gain (Loss) Reclassified from Accumulated OCI into Income	For the Years Ended December 31,	
		2016	2015
Foreign currency contracts	Other expense, net	\$ 1,325	\$ (8,399)
Foreign currency contracts	Cost of sales	3,318	4,549
Total		\$ 4,643	\$ (3,850)

The net amount of the existing gains or losses at December 31, 2016 that is expected to be reclassified into the income statement within the next 12 months is expected to not be material. See Note 12 for further information regarding Polaris' derivative activities.

Note 9. Financial Services Arrangements

Polaris Acceptance, a joint venture between Polaris and Wells Fargo Commercial Distribution Finance Corporation, 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. 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 \$94,009,000 at December 31, 2016 is accounted for under the equity method, and is recorded in investment in finance affiliate in the accompanying consolidated balance sheets. At December 31, 2016, the outstanding amount of net receivables financed for dealers under this arrangement was \$1,206,641,000, which included \$479,944,000 in the Polaris Acceptance portfolio and \$726,697,000 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 was 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.

Summarized financial information for Polaris Acceptance reflecting the effects of the Securitization Facility is presented as follows (in thousands):

	For the Years Ended December 31,		
	2016	2015	2014
Revenues	\$ 66,414	\$ 63,548	\$ 40,968
Interest and operating expenses	6,182	4,738	3,678
Net income	<u>\$ 60,232</u>	<u>\$ 58,810</u>	<u>\$ 37,290</u>
		As of December 31,	
		2016	2015
Finance receivables, net		\$ 479,944	\$ 472,029
Other assets		200	124
Total Assets		<u>\$ 480,144</u>	<u>\$ 472,153</u>
Notes payable		\$ 288,275	\$ 269,881
Other liabilities		3,851	4,126
Partners' capital		188,018	198,146
Total Liabilities and Partners' Capital		<u>\$ 480,144</u>	<u>\$ 472,153</u>

Polaris has agreements with Performance Finance, 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 10. Investment in Other Affiliates

The Company has certain investments in nonmarketable securities of strategic companies. As of December 31, 2016 and 2015, these investments are primarily comprised of investments in Eicher-Polaris Private Limited (EPPL) and Brammo, Inc. ("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. As of December 31, 2016 and 2015, the carrying value of the Company's investment in EPPL was \$20,182,000 and \$18,884,000, respectively. Through December 31, 2016, Polaris has invested \$43,321,000 in the joint venture. Polaris' share of EPPL loss for the years ended December 31, 2016 and 2015 was \$7,175,000 and \$6,802,000, respectively, and 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 vehicles, 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. Brammo 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. During 2014, Polaris recorded an immaterial

impairment expense within other expense (income), net in the consolidated statements of income, and reduced the Brammo investment. There were no impairments recorded during 2015 or 2016 related to these investments.

Note 11. Commitments and Contingencies

Product liability. Polaris is subject to product liability claims in the normal course of business. In 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 December 31, 2016, the Company had an accrual of \$45,075,000 for the probable payment of pending claims related to continuing operations product liability litigation associated with Polaris products. This accrual is included as a component of other accrued expenses in the accompanying consolidated balance sheets.

Litigation. 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.

Contingent purchase price. 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 December 31, 2016 and 2015 the fair value of contingent purchase price commitments are immaterial.

Leases. Polaris leases buildings and equipment under non-cancelable operating leases. Total rent expense under all operating lease agreements was \$22,534,000, \$16,823,000 and \$13,734,000 for 2016, 2015 and 2014, respectively.

A property lease agreement signed in 2013 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.

Future minimum annual lease payments under capital and operating leases with noncancelable terms in excess of one year as of December 31, 2016, are as follows (in thousands):

	Capital Leases	Operating Leases
2017	\$ 2,852	\$ 30,924
2018	2,250	23,437
2019	2,080	20,147
2020	1,995	14,785
2021	1,925	10,225
Thereafter	14,938	13,111
Total future minimum lease obligation	<u>\$ 26,040</u>	<u>\$ 112,629</u>

Note 12. 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 occasionally 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 occasionally 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.

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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.

At December 31, 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	\$	22,498	\$ 771
Canadian Dollar		65,154	1,357
Japanese Yen		1,371	(57)
Mexican Peso		17,942	(1,773)
Total	\$	106,965	\$ 298

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.

Polaris occasionally enters into derivative contracts to hedge a portion of the exposure related to diesel fuel and aluminum. As of December 31, 2016, there were no outstanding commodity derivative contracts in place. As of December 31, 2015, diesel fuel and aluminum derivative contracts did not meet the criteria for hedge accounting.

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

	Carrying Values of Derivative Instruments as of December 31, 2016		
	Fair Value— Assets	Fair Value— (Liabilities)	Derivative Net Carrying Value
Derivatives designated as hedging instruments			
Foreign exchange contracts(1)	\$ 2,128	\$ (1,830)	\$ 298
Total derivatives designated as hedging instruments	\$ 2,128	\$ (1,830)	\$ 298
Total derivatives	\$ 2,128	\$ (1,830)	\$ 298
	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.

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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 years ended December 31, 2016 and 2015 was \$(1,572,000) and \$3,320,000, respectively.

See Note 8 for information about the amount of gains and losses, net of tax, reclassified from accumulated other comprehensive income loss into the income statement for derivative instruments designated as hedging instruments. The ineffective portion of foreign currency contracts was not material for the years ended December 31, 2016 and 2015.

The Company recognized a loss of \$121,000 and \$2,994,000 in cost of sales on commodity contracts not designated as hedging instruments in 2016 and 2015, respectively.

Note 13. 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 five operating segments: 1) ORV, 2) Snowmobiles, 3) Motorcycles, 4) Global Adjacent Markets, and 5) Other, and four reportable segments: 1) ORV/Snowmobiles, 2) Motorcycles, 3) Global Adjacent Markets and 4) Other.

The ORV/Snowmobiles segment includes the aggregated results of our ORV and Snowmobiles operating segments. The Motorcycles, Global Adjacent Markets and Other segments include the results for those respective operating segments. Other includes our November 2016 acquisition of TAP. 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)	For the Years Ended December 31,		
	2016	2015	2014
Sales			
ORV/Snowmobiles	\$ 3,357,496	\$ 3,708,933	\$ 3,741,154
Motorcycles	708,497	698,257	418,546
Global Adjacent Markets	341,937	312,100	319,948
Other	108,699	—	—
Total sales	4,516,629	4,719,290	4,479,648
Gross profit			
ORV/Snowmobiles	930,181	1,190,630	1,206,553
Motorcycles	91,401	97,261	54,427
Global Adjacent Markets	95,149	84,211	88,797
Other	19,842	—	—
Corporate	(30,950)	(33,060)	(30,599)
Total gross profit	\$ 1,105,623	\$ 1,339,042	\$ 1,319,178

Sales to external customers based on the location of the customer and property and equipment, net, by geography are presented in the tables below (in thousands):

	For the Years Ended December 31,		
	2016	2015	2014
United States	\$ 3,557,228	\$ 3,688,980	\$ 3,339,905
Canada	307,094	378,725	454,608
Other foreign countries	652,307	651,585	685,135
Consolidated sales	\$ 4,516,629	\$ 4,719,290	\$ 4,479,648

	As of December 31,	
	2016	2015
United States	\$ 637,632	\$ 548,410
Other foreign countries	89,964	102,268
Consolidated property and equipment, net	\$ 727,596	\$ 650,678

Note 14. Subsequent Event

On January 9, 2017, our Board of Directors approved a strategic plan to wind down the Victory Motorcycles brand. The Company expects to commence the wind down activities and explore disposition options for the related assets in the near future. The Company estimates the total costs to wind down the brand could be in a range of \$50,000,000 to \$70,000,000 in 2017.

Note 15. Quarterly Financial Data (unaudited)

	Sales	Gross profit	Net income	Diluted net income per share
(In thousands, except per share data)				
2016				
First Quarter	\$ 982,996	\$ 247,578	\$ 46,889	\$ 0.71
Second Quarter	1,130,777	284,503	71,166	1.09
Third Quarter	1,185,067	260,770	32,312	0.50
Fourth Quarter	1,217,789	312,772	62,581	0.97
Totals	\$ 4,516,629	\$ 1,105,623	\$ 212,948	\$ 3.27
2015				
First Quarter	\$ 1,033,345	\$ 293,731	\$ 88,563	\$ 1.30
Second Quarter	1,124,327	319,414	100,943	1.49
Third Quarter	1,456,000	415,623	155,173	2.30
Fourth Quarter	1,105,618	310,274	110,682	1.66
Totals	\$ 4,719,290	\$ 1,339,042	\$ 455,361	\$ 6.75

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. 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 Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer along with the Company's Executive Vice President—Finance and Chief Financial Officer concluded that, as of the end of the period covered by this Annual Report on Form 10-K, 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, as amended, 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. No changes have occurred during the period covered by this report or since the evaluation date that would have a material effect on the disclosure controls and procedures.

The Company's internal control report is included in this report after Item 8, under the caption "Management's Report on Company's Internal Control over Financial Reporting."

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The sections entitled "Proposal 1 – Election of Directors—Information Concerning Nominees and Directors," "Corporate Governance—Committees of the Board and Meetings—Audit Committee," "Corporate Governance—Code of Business Conduct and Ethics" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Polaris definitive Proxy Statement to be filed on or about March 10, 2017 (the "2017 Proxy Statement"), are incorporated herein by reference. See also Item 1 "Executive Officers of the Registrant" on page 10 in Part I hereof.

Item 11. Executive Compensation

The sections entitled "Corporate Governance—Compensation Committee Interlocks and Insider Participation," "Compensation Discussion and Analysis," "Compensation Committee Report," "Executive Compensation" and "Director Compensation" in the Company's 2017 Proxy Statement are incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The sections entitled "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in the Company's 2017 Proxy Statement are incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The sections entitled "Corporate Governance—Corporate Governance Guidelines and Independence" and "Corporate Governance—Certain Relationships and Related Transactions" in the Company's 2017 Proxy Statement are incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The section entitled "Fees Paid to Independent Registered Public Accounting Firm" in the Company's 2017 Proxy Statement is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this report:

(1) Financial Statements

The financial statements listed in the Index to Financial Statements on page 35 are included in Part II of this Form 10-K.

(2) Financial Statement Schedules

Schedule II—Valuation and Qualifying Accounts is included on page 69 of this report.

All other supplemental financial statement schedules have been omitted because they are not applicable or are not required or the information required to be set forth therein is included in the Consolidated Financial Statements or Notes thereto.

(3) Exhibits

The Exhibits to this report are listed in the Exhibit Index to Annual Report on Form 10-K on pages 70 to 73.

A copy of any of these Exhibits will be furnished at a reasonable cost to any person who was a shareholder of the Company as of February 16, 2017, upon receipt from any such person of a written request for any such exhibit. Such request should be sent to Polaris Industries Inc., 2100 Highway 55, Medina, Minnesota 55340, Attention: Investor Relations.

(b) Exhibits

Included in Item 15(a)(3) above.

(c) Financial Statement Schedules

Included in Item 15(a)(2) above.

Item 16. Form 10-K Summary

None.

POLARIS INDUSTRIES INC.
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

<u>Allowance for Doubtful Accounts</u>	<u>Balance at Beginning of Period</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Additions Through Acquisition</u>	<u>Other Changes Add (Deduct)(1)</u>	<u>Balance at End of Period</u>
(In thousands)					
2014: Deducted from asset accounts—Allowance for doubtful accounts receivable	\$ 5,895	\$ 2,347	\$ 265	\$ (1,083)	\$ 7,424
2015: Deducted from asset accounts—Allowance for doubtful accounts receivable	\$ 7,424	\$ 2,169	\$ 59	\$ (1,008)	\$ 8,644
2016: Deducted from asset accounts—Allowance for doubtful accounts receivable	\$ 8,644	\$ 7,085	\$ 4,644	\$ (934)	\$ 19,439

(1) Uncollectible accounts receivable written off, net of recoveries.

<u>Inventory Reserve</u>	<u>Balance at Beginning of Period</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Additions Through Acquisition</u>	<u>Other Changes Add (Deduct)(2)</u>	<u>Balance at End of Period</u>
(In thousands)					
2014: Deducted from asset accounts—Allowance for obsolete inventory	\$ 21,603	\$ 12,868	\$ 600	\$ (8,900)	\$ 26,171
2015: Deducted from asset accounts—Allowance for obsolete inventory	\$ 26,171	\$ 21,648	\$ 1,942	\$ (13,492)	\$ 36,269
2016: Deducted from asset accounts—Allowance for obsolete inventory	\$ 36,269	\$ 19,770	\$ 5,165	\$ (16,029)	\$ 45,175

(2) Inventory disposals, net of recoveries.

POLARIS INDUSTRIES INC.
EXHIBIT INDEX TO ANNUAL REPORT ON
FORM 10-K
For Fiscal Year Ended December 31, 2016

Exhibit Number	Description
2.a	Purchase Agreement, dated as of October 11, 2016, by and among TAP Automotive Holdings, LLC, the members of TAP Automotive Holdings, LLC set forth in an annex to the Purchase Agreement, Polaris Industries Inc., a Delaware corporation, and ORIX Funds Corp., solely in its capacity as the seller's representative (<i>excluding schedules and exhibits, which the Company agrees to furnish supplementally to the Securities and Exchange Commission upon request</i>), incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed October 12, 2016.
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.
.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.
4.a	Specimen Stock Certificate of the Company, incorporated by reference to Exhibit 4 to the Company's Registration Statement on Form S-4/A, filed November 21, 1994 (No. 033-55769).
.b	Amended and Restated Rights Agreement, dated as of April 29, 2010 by and between the Company and Wells Fargo Bank Minnesota, N.A., as Rights Agent, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed April 30, 2010.
.c	Master Note Purchase Agreement by and among Polaris Industries Inc. and the purchasers party thereto, dated December 13, 2010, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed December 15, 2010.
.d	First Amendment to Master Note Purchase Agreement effective as of August 18, 2011, incorporated by reference to Exhibit 4.c to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011.
.e	First Supplement to Master Note Purchase Agreement effective as of December 19, 2013, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed December 20, 2013.
.f	Second Amendment to Master Note Purchase Agreement, as Supplemented by the First Supplement to the Master Note Amendment effective as of December 28, 2016.
10.a	Polaris Industries Inc. Supplemental Retirement/Savings Plan, as amended and restated effective July 23, 2014, incorporated by reference to Exhibit 10.a to the Company's Quarterly Report on Form 10-Q filed October 29, 2014.*
.b	Amendment to the Polaris Industries Inc. Deferred Compensation Plan for Directors, as amended and restated, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 12, 2009, subsequently amended on July 25, 2012, incorporated by reference to Exhibit 10.a to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012.*
.c	Polaris Industries Inc. Senior Executive Annual Incentive Compensation Plan, as amended and restated effective April 24, 2014, incorporated by reference to Annex A to the Company's Proxy Statement for the 2014 Annual Meeting of Shareholders filed on March 7, 2014.*
.d	Polaris Industries Inc. 2007 Omnibus Incentive Plan (As Amended and Restated April 30, 2015), incorporated by reference to Annex A to the Company's Proxy Statement for the 2015 Annual Meeting of Shareholders filed March 13, 2015.*
.e	Form of Performance Based Restricted Share Award Agreement (Single Trigger) made under the Polaris Industries Inc. 2007 Omnibus Incentive Plan (As Amended and Restated April 28, 2011) , incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on May 3, 2011.*
.f	Form of Performance Based Restricted Share Award Agreement (Double Trigger) made under the Polaris Industries Inc. 2007 Omnibus Incentive Plan (As Amended and Restated April 28, 2011) , incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on May 3, 2011.*

POLARIS INDUSTRIES INC.
EXHIBIT INDEX TO ANNUAL REPORT ON
FORM 10-K
For Fiscal Year Ended December 31, 2016 (cont.)

- .g Form of Stock Option Agreement and Notice of Exercise Form for options (cliff vesting) granted to executive officers under the Polaris Industries Inc. 2007 Omnibus Incentive Plan, incorporated by reference to Exhibit 10.ff to the Company's Current Report on Form 8-K filed February 4, 2008.*
- .h Form of Stock Option Agreement and Notice of Exercise Form for options (installment vesting) granted to executive officers under the Polaris Industries Inc. 2007 Omnibus Incentive Plan, incorporated by reference to Exhibit 10.t to the Company's Annual Report on Form 10-K for the year ended December 31, 2008.*
- .i Form of Nonqualified Stock Option Agreement (Single Trigger) made under the Polaris Industries Inc. 2007 Omnibus Incentive Plan (As Amended and Restated April 28, 2011) , incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 3, 2011.*
- .j Form of Nonqualified Stock Option Agreement (Double Trigger) made under the Polaris Industries Inc. 2007 Omnibus Incentive Plan (As Amended and Restated April 28, 2011) , incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on May 3, 2011.*
- .k Form of Restricted Stock Award Agreement made under the Polaris Industries Inc. 2007 Omnibus Incentive Plan (As Amended and Restated April 28, 2011), incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed on May 3, 2011.*
- .l Form of Deferred Stock Award Agreement for shares of deferred stock granted to non-employee directors in 2007 under the Polaris Industries Inc. 2007 Omnibus Incentive Plan, incorporated by reference to Exhibit 10.t to the Company's Annual Report on Form 10-K for the year ended December 31, 2007.*
- .m 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 to the Company's Current Report on Form 8-K filed May 3, 2016.*
- .n Form of Performance Restricted Stock Unit Award Agreement under the Polaris Industries Inc. 2007 Omnibus Incentive Plan, incorporated by reference to Exhibit 10.y to the Company's Annual Report on Form 10-K for the year ended December 31, 2011.*
- .o Form of Nonqualified Stock Option Agreement entered into with Kenneth J. Pucel, incorporated by reference to Exhibit 10.gg to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 .*
- .p Form of Performance Restricted Stock Unit Award Agreement entered into with Kenneth J. Pucel, incorporated by reference to Exhibit 10.hh to the Company's Annual Report on Form 10-K for the year ended December 31, 2014.*
- .q Form of Restricted Stock Unit Award Agreement made under the Polaris Industries Inc. 2007 Omnibus Incentive Plan (As Amended and Restated April 30, 2015), incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed July 13, 2015.*
- .r Form of Performance Restricted Stock Unit Award Agreement made under the Polaris Industries Inc. 2007 Omnibus Incentive Plan (As Amended and Restated April 30, 2015) , incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K as filed July 13, 2015.*
- .s Form of Nonqualified Stock Option Award Agreement made under the Polaris Industries Inc. 2007 Omnibus Incentive Plan (As Amended and Restated April 30, 2015) , incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K as filed July 13, 2015.*
- .t Employment Offer Letter dated July 28, 2008 by and between the Company and Scott W. Wine, incorporated by reference to Exhibit 10.a to the Company's Current Report on Form 8-K filed August 4, 2008.*
- .u Employment Offer Letter dated April 27, 2016 by and between Steve Eastman and Polaris Industries Inc., incorporated by reference to Exhibit 10.b to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.*
- .v Employment Offer Letter dated February 9, 2016 by and between the Company and Robert Mack.*

POLARIS INDUSTRIES INC.
EXHIBIT INDEX TO ANNUAL REPORT ON
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.w	Employment Offer Letter dated September 15, 2014 by and between the Company and Kenneth J. Pucel, incorporated by reference to Exhibit 10.w to the Company's Annual Report on Form 10-K for the year ended December 31, 2014.*
.x	Employment Offer Letter dated July 10, 2015 by and between the Company and Michael T. Speetzen, incorporated by reference to Exhibit 10.d to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015.*
.y	Severance, Proprietary Information and Noncompetition Agreement entered into with Scott W. Wine, incorporated by reference to Exhibit 10.b to the Company's Current Report on Form 8-K filed August 4, 2008.*
.z	Severance Agreement dated February 6, 2012 entered into with Stephen L. Eastman incorporated by reference to Exhibit 10.dd to the Company's Annual Report on Form 10-K for the year ended December 31, 2015.*
.aa	Severance Agreement entered into with Robert Mack.*
.bb	Severance Agreement entered into with Kenneth J. Pucel, incorporated by reference to Exhibit 10.ii to the Company's Annual Report on Form 10-K for the year ended December 31, 2014.*
.cc	Severance Agreement dated July 31, 2015 entered into with Michael T. Speetzen, incorporated by reference to Exhibit 10.ff to the Company's Annual Report on Form 10-K for the year ended December 31, 2015.*
.dd	Amended and Restated Joint Venture Agreement dated as of February 28, 2011, by and between the Company and GE Commercial Distribution Finance Corporation, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 1, 2011.
.ee	Amended and Restated Manufacturer's Repurchase Agreement dated as of February 28, 2011, by and among the Company, Polaris Industries Inc., a Delaware Corporation, Polaris Sales Inc., and Polaris Acceptance, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed March 1, 2011.
.ff	Third Amended and Restated Credit Agreement dated November 9, 2016 by and among Polaris Industries Inc., Polaris Sales Inc., any other Domestic Borrower (as defined therein) that thereafter becomes a party thereto, Polaris Sales Europe Sàrl, 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 to the Company's Current Report on Form 8-K, filed November 10, 2016.
.gg	First Amendment dated December 7, 2015 to the Amended and Restated Joint Venture Agreement dated as of February 28, 2011, by and between the Company and GE Commercial Distribution Finance LLC f/k/a GE Commercial Distribution Corporation, incorporated by reference to Exhibit 10.nn to the Company's Annual Report on Form 10-K for the year ended December 31, 2015.
.hh	Second Amendment dated December 7, 2015 to the Second Amended and Restated Partnership Agreement, by and between Polaris Acceptance Inc. and CDF Joint Ventures, Inc. dated as of June 1, 2014, incorporated by reference to Exhibit 10.oo to the Company's Annual Report on Form 10-K for the year ended December 31, 2015.
13	Portions of the Annual Report to Security Holders for the Year Ended December 31, 2016 included pursuant to Note 2 to General Instruction G.
21	Subsidiaries of Registrant.
23	Consent of Ernst & Young LLP.
24	Power of Attorney.

POLARIS INDUSTRIES INC.
EXHIBIT INDEX TO ANNUAL REPORT ON
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- 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 Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on February 17, 2016, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets as of December 31, 2016 and 2015, (ii) the Consolidated Statements of Income for the years ended December 31, 2016, 2015 and 2014 (iii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2016, 2015 and 2014, (iv) the Consolidated Statements of Shareholders' Equity for the years ended December 31, 2016, 2015 and 2014, (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2016 and 2015, and (vi) Notes to Consolidated Financial Statements

* Management contract or compensatory plan.

POLARIS INDUSTRIES INC.

SECOND AMENDMENT
TO MASTER NOTE PURCHASE AGREEMENT,
AS SUPPLEMENTED BY THE FIRST SUPPLEMENT TO
MASTER NOTE PURCHASE AGREEMENT

\$25,000,000 3.81% Senior Notes, Series 2011, Tranche A, due May 2, 2018
\$75,000,000 4.60% Senior Notes, Series 2011, Tranche B, due May 3, 2021
\$100,000,000 3.13% Senior Notes, Series 2013, due December 21, 2020

Dated as of December 28, 2016

To the Holders (as defined below) of
the above-referenced Notes named in
the attached Schedule I

Reference is made to the Master Note Purchase Agreement dated as of December 13, 2010, between Polaris Industries Inc., a Minnesota corporation (the "Company"), and each of the Purchasers named in Schedule A thereto pursuant to which the Company issued and sold \$100,000,000 aggregate principal amount of Senior Notes (the "2011 Senior Notes"), as amended by that certain First Amendment to Master Note Purchase Agreement dated as of August 19, 2011, and as supplemented by that certain First Supplement to Master Note Purchase Agreement, dated as of December 19, 2013, between the Company and each of the Purchasers named in Schedule A thereto, pursuant to which the Company issued and sold \$100,000,000 aggregate principal amount of Senior Notes (the "2013 Senior Notes" and, together with the 2011 Senior Notes, the "Notes"), as amended by that certain First Amendment to First Supplement to Master Note Purchase Agreement, dated as of February 24, 2014 (collectively, the "Note Agreement"). You are referred to in this Second Amendment to Master Note Purchase Agreement (this "Second Amendment") individually as a "Holder" and collectively as the "Holders." Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to them in the Note Agreement, as amended by this Second Amendment.

The Company has requested the modification of Section 9.7, Section 10.1, Section 10.2, Section 10.4, Section 10.9, and Section 11 of the Note Agreement; the addition of a new Section 1.4 and a new Section 10.10 of the Note Agreement; the modification of the definitions for "Credit Agreement," "Foreign Borrower," "Foreign Subsidiary," "Intercreditor Agreement," "Pledge Agreement," "Pledged Subsidiary," "Pledgor," "Priority Debt," and "Subsidiary Guarantor" in Schedule B of the Note Agreement; and the addition of definitions for "Blocked Person," "Controlled Entity," "Domestic Subsidiary," "Financial Covenant," "Incremental Interest," "Loan Agreement," "Most Favored Lender Notice," "OFAC," and "U.S. Economic Sanctions Laws" to Schedule B of the Note Agreement. The Holders have agreed to modify the Note Agreement on the terms and conditions set forth herein.

In consideration of the premises and for good and valuable consideration, the receipt and sufficiency of which are acknowledged, the Company and the Holders agree as follows:

1. **AMENDMENT TO NOTE AGREEMENT**

- a. Addition of new Section 1.4. A new Section 1.4 is added to the Note Agreement read in its entirety as follows:
" **1.4 Additional Interest.**

If the Leverage Ratio exceeds 3.00 to 1.00 as of the date of any fiscal quarter end pursuant to the terms of Section 10.1, as evidenced by an Officer's Certificate delivered pursuant to Section 7.2(a), the interest rate payable on the Notes shall be increased by 0.25% (the "Incremental Interest") for a period of time determined as follows: (a) such Incremental Interest shall begin to accrue on the first day of the fiscal quarter following the fiscal quarter in respect of which such Officer's Certificate was delivered, and (b) shall continue to accrue until the Company has provided an Officer's Certificate pursuant to Section 7.2(a) demonstrating that, as of the last day of the fiscal quarter in respect of which such Certificate is delivered, the Leverage Ratio is not more than 3.00 to 1.00, and in the event such Officer's Certificate is delivered, the Incremental Interest shall cease to accrue on the last day of the fiscal quarter in respect of which such Certificate is delivered. For the avoidance of doubt, if the Leverage Ratio exceeds 3.00 to 1.00 as of the last day of a fiscal quarter, Incremental Interest shall accrue as provided in this Section 1.4 regardless of whether an Officer's Certificate is delivered pursuant to Section 7.2(a)."

b. Amendment of Section 9.7. The first paragraph of Section 9.7(a) of the Note Agreement is amended to read in its entirety as follows:

"(a) Subsidiary Guarantors. The Company will cause any Domestic Subsidiary that, on or after the date of the Closing (whether or not required by the terms of the Credit Agreement), is a guarantor, borrower, or co-obligor in respect of the Credit Agreement, or otherwise becomes obligated in respect of Indebtedness under the Credit Agreement, to enter into the Subsidiary Guaranty concurrently therewith and as part thereof to deliver to each of the holders:"

c. Amendment of Section 10.1. Section 10.1 of the Note Agreement is amended to read in its entirety as follows:

" 10.1 Leverage Ratio.

The Company will not permit the Leverage Ratio, as of the last day of each fiscal quarter of the Company, to be more than 3.00 to 1.00; provided that the Leverage Ratio may be greater than 3.00 to 1.00, but in no event greater than 3.50 to 1.00, if the Company pays Incremental Interest to the extent required by Section 1.4."

d. Amendment of Section 10.2. Section 10.2 of the Note Agreement is amended to read in its entirety as follows:

" 10.2 Interest Coverage Ratio.

The Company will not permit the Interest Coverage Ratio, as of the last day of each fiscal quarter of the Company, to be less than 3.00 to 1.00."

e. Amendment of Section 10.4. Section 10.4 of the Note Agreement is amended as follows:

i. The word "and" is inserted after the ";" in Section 10.4(k).

ii. Section 10.4(l) is amended to read in its entirety as follows:

"(l) Liens securing Indebtedness not otherwise permitted by paragraphs (a) through (k) above, provided that Priority Debt does not at any time exceed 20% of Consolidated Net Worth as of the end of the most recently completed fiscal quarter of the Company."

iii. Section 10.4(m) is deleted in its entirety.

f. Amendment of Section 10.9. Section 10.9 of the Note Agreement is amended to read in its entirety as follows:

" 10.9 Terrorism Sanctions Regulations.

The Company will not, and will not permit any Controlled Entity to (a) become (including by virtue of being owned or controlled by a Blocked Person), own or control a Blocked Person or (b) directly or indirectly have any investment in or engage in any dealing or transaction (including any investment, dealing, or transaction involving the proceeds of the Notes) with any Person if such investment, dealing, or transaction (i) would cause any holder or any affiliate of such holder to be in violation of, or subject to sanctions under, any law or regulation applicable to such holder, or (ii) is prohibited by or subject to sanctions under any U.S. Economic Sanctions Laws."

g. Addition of New Section 10.10. A new Section 10.10 is added to the Note Agreement read in its entirety as follows:

“ **10.10 Most Favored Lender.**

(a) If the Company shall at any time amend the Credit Agreement or become a party, as a borrower or guarantor, to any other credit agreement or other agreement, instrument, or document evidencing or issuing Indebtedness (collectively with the Credit Agreement, the “Loan Agreements,”) that, in either case, requires the Company to comply with any financial covenant, undertaking, restriction, or other provision that limits or measures indebtedness, interest expense, shareholders’ equity, investment balances, debt service coverage, fixed charges, net worth, assets, asset sales, sale and leasebacks, liens, subsidiary indebtedness, restricted payments, dividends, or any similar items (however expressed and whether stated as a ratio, as a fixed threshold, as an event of default, as a right to be prepaid or offered to be prepaid or otherwise) (each a “Financial Covenant”) that is not at such time included or is more restrictive than what is included in this Agreement, then the Company shall provide a Most Favored Lender Notice to each holder of the Notes. Unless waived in writing by the Required Holders within 5 Business Days after the date on which such notice is required to be sent, each such Financial Covenant and each event of default, definition, and other provision relating to such Financial Covenant in the Loan Agreement shall be deemed to be incorporated by reference in this Agreement, mutatis mutandis, as if then set forth herein in full.

(b) The incorporation of any Financial Covenant pursuant to this Section 10.10 shall:

(i) automatically (without any further action being taken by the Company or any holder of a Note) take effect simultaneously with the effectiveness of such Financial Covenant under the applicable Loan Agreement; and

(ii) so long as no Default or Event of Default shall then exist under or in respect of such incorporated Financial Covenant, such financial covenants automatically (without any further action being taken by the Company or any holder of a Note other than as set forth below) shall be deleted or further modified if such Financial Covenant, definition, event of default or other provision relating thereto is deleted or made less restrictive on the Company and its Subsidiaries by way of a permanent written amendment or modification of such Loan Agreement (and not by temporary waiver of rights thereunder); provided that:

(A) if any fee or other consideration is paid or given to any bank or other party to any Loan Agreement in connection with such deletion or modification, each holder of a Note receives equivalent consideration on a pro rata basis, and such deletion or modification shall not be effective until such consideration is received by each such holder; provided, however, that no consideration shall be due any holder if the Financial Covenant shall have been deleted or modified in accordance with the terms of the underlying Loan Agreement as a result of a reduction of the outstanding balance or other previously agreed to provision of such Loan Agreement; and

(B) in no event shall any deletion or relaxation of any such Financial Covenant have the effect of deleting or making less restrictive any covenant or other provision specifically set forth in this Agreement.

(iii) subject to Section 10.10(b)(ii), continue in effect regardless of any subsequent termination of the Credit Agreement.”

h. Amendment of Section 11. Section 11 of the Note Agreement is amended as follows:

i. Section 11(j) of the Note Agreement is amended to read in its entirety as follows:

“(j) the Subsidiary Guaranty ceases to be in full force and effect with respect to any Subsidiary Guarantor (except as provided in Section 9.7(b)) for any reason, including by reason of (A) its being declared to be null and void in whole or in material part by a court or other governmental or regulatory authority having jurisdiction or (B) the validity or enforceability thereof being contested by any of the Company, any Subsidiary Guarantor or any of them renouncing any of the same or denying that it has any further liability thereunder.”

- ii. The final sentence of Section 11 is amended by deleting “(j)” and inserting “(i)” in its place.
- i. Amendments to Schedule B. Schedule B of the Note Agreement is amended as follows:
- i. The following new definitions are added to Schedule B in the appropriate alphabetical order:
- “Blocked Person”** means (a) a Person whose name appears on the list of Specially Designated Nationals and Blocked Persons published by OFAC, (b) a Person, entity, organization, country, or regime that is blocked or a target of sanctions that have been imposed under U.S. Economic Sanctions Laws, or (c) a Person that is an agent, department, or instrumentality of, or is otherwise beneficially owned by, controlled by, or acting on behalf of, directly or indirectly, any Person, entity, organization, country, or regime described in clause (a) or (b).
- “Controlled Entity”** means (a) any of the Subsidiaries of the Company and any of their or the Company’s respective Controlled Affiliates and (b) if the Company has a parent company, such parent company and its Controlled Affiliates. As used in this definition, **“Control”** means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.
- “Domestic Subsidiary”** means any Subsidiary of the Company incorporated or organized under the laws of the United States of America, any State thereof, or the District of Columbia, and any such Domestic Subsidiary’s respective successors and assigns.
- “Financial Covenant”** is defined in Section 10.10(a).
- “Incremental Interest”** is defined in Section 1.4.
- “Loan Agreement”** is defined in Section 10.10(a).
- “Most Favored Lender Notice”** means a written notice from the Company to each holder of the Notes delivered promptly, and in any event within 5 Business Days after the inclusion of any Financial Covenant or any event of default, definition or other provision relating to such Financial Covenant in a Loan Agreement (including by way of amendment or other modification of any existing provision thereof), pursuant to Section 10.10, by a Responsible Officer of the Company in reasonable detail, including reference to Section 10.10, a verbatim statement of such Financial Covenant, event of default, definition, or other provision relating to such Financial Covenant and related to explanatory calculations, as applicable.
- “OFAC”** means the Office of Foreign Assets Control of the United States Department of the Treasury.
- “U.S. Economic Sanctions Laws”** means those laws, executive orders, enabling legislation, or regulations administered and enforced by the United States pursuant to which economic sanctions have been imposed on any Person, entity, organization, country, or regime, including the Trading with the Enemy Act, the International Emergency Economic Powers Act, the Iran Sanctions Act, the Sudan Accountability and Divestment Act, and any other OFAC Sanctions Program.
- ii. The definitions of “Foreign Borrower,” “Foreign Subsidiary,” “Intercreditor Agreement,” “Pledge Agreement,” “Pledged Subsidiary,” and “Pledgor” are deleted in their entirety.
- iii. The following definitions in Schedule B are amended and restated in their entirety as follows:
- “Credit Agreement”** means the Third Amended and Restated Credit Agreement dated as of November 9, 2016 among the Company, certain Subsidiaries of the Company, the lenders identified therein, U.S. Bank National Association, as lead arranger, lead book runner, and administrative agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Wells Fargo Securities, LLC and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as joint lead arrangement, joint book runners and syndication agents, and Bank of the West, Fifth Third Bank, JPMorgan Chase Bank, N.A., PNC Bank, National Association, and BMO Harris Bank N.A., as documentation agents, as such agreement may be further amended, restated, supplemented, refinanced, increased or reduced from time to time, and any successor credit agreement or similar facility.

“Priority Debt” means, as of any date, the sum (without duplication) of (a) outstanding unsecured Indebtedness of Subsidiaries that are not Subsidiary Guarantors, and (b) Indebtedness of the Company and its Subsidiaries secured by Liens not otherwise permitted by Sections 10.4(a) through (k).

“Subsidiary Guarantor” means any Domestic Subsidiary of the Company that executes, or becomes a party to, the Subsidiary Guaranty.

2. CONSENT TO TERMINATION OF PLEDGE AGREEMENTS; RELEASE OF PLEDGED COLLATERAL.

The Holders hereby consent to the release of all Equity Interests pledged pursuant to any Pledge Agreement and the termination of any such Pledge Agreements and the Amended and Restated Intercreditor and Collateral Agency Agreement, dated as of December 19, 2013, by and between U.S. Bank National Association, as Administrative Agent under the Credit Agreement, U.S. Bank National Association as Collateral Agent, and each holder of Notes party thereto (the “Intercreditor Agreement”), subject to the Lenders’ consent to such release of the pledged collateral and termination of the Pledge Agreements and Intercreditor Agreement.

3. COVENANT TO DELIVER EVIDENCE OF TERMINATION OF PLEDGE AGREEMENT AND INTERCREDITOR AGREEMENT AND RELEASE OF COLLATERAL

No later than five (5) days after the effectiveness of this Second Amendment, the Holders shall have received a copy, certified by the Company as true and complete, of that certain Release and Termination Agreement (the “Release”) signed by U.S. Bank National Association, as Administrative Agent and Collateral Agent, the Company, and each Subsidiary of the Company that pledged Equity Interests of pledged Subsidiaries, which Release shall have (a) released all pledges of Equity Interests of pledged Subsidiaries; (b) terminated the Pledge Agreements pursuant to which such Equity Interests were pledged for the ratable benefit of the Lenders and each holder of notes under the Note Agreement; and (c) terminated the Intercreditor Agreement. A breach of this Section 3 shall constitute an Event of Default under Section 11(c) of the Note Agreement.

4. REAFFIRMATION; AUTHORIZATION

a. Reaffirmation of Note Agreement. The Company reaffirms its agreement to comply with each of the covenants, agreements, and other provisions of the Note Agreement and the Notes, including the amendments of such provisions effected by this Second Amendment.

b. No Default or Event of Default. There currently exists, and after giving effect to this Second Amendment there will exist, no Default or Event of Default.

c. Authorization. The execution, delivery, and performance by the Company of this Second Amendment have been duly authorized by all necessary corporate action and, except as provided herein, do not require any registration with, consent or approval of, notice to or any action by, any Person (including any Governmental Authority) in order to be effective and enforceable. The Note Agreement and this Second Amendment each constitute the legal, valid, and binding obligations of the Company, enforceable in accordance with their respective terms, except as such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting the enforcement of creditors’ rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

d. Section 5 of the Note Agreement. The Company represents and warrants that the representations and warranties contained in Section 5 of the Note Agreement are true and correct as of the date hereof, except (i) to the extent that any of such representations and warranties specifically relate to an earlier date, (ii) for such changes, facts, transactions, and occurrences that have arisen since December 19, 2013 in the ordinary course of business, and (iii) for other changes that could not reasonably be expected to have a Material Adverse Effect.

5. EFFECTIVE DATE

This Second Amendment shall become effective as of the date set forth above upon the satisfaction of the following conditions:

a. Consent of Holders to this Second Amendment. The execution by the Holders of 100% of the aggregate principal amount of the Notes outstanding and receipt by the Holders of a counterpart of this Second Amendment duly executed by the Company.

b. Acknowledgment of Subsidiary Guarantors. Each Subsidiary Guarantor shall have acknowledged this Amendment by executing the signature page hereto.

c. Expenses. The Company shall have paid all fees and expenses of Foley & Lardner LLP, special counsel to the Holders.

6. **MISCELLANEOUS**

a. Ratification. The Note Agreement, as amended hereby, shall remain in full force and effect and is ratified, approved, and confirmed in all respects.

b. Reference to and Effect on the Note Agreement. Upon the final effectiveness of this Second Amendment, each reference in the Note Agreement and in other documents describing or referencing the Note Agreement to the "Agreement," "Note Agreement," "hereunder," "hereof," "herein," or words of like import referring to the Note Agreement, shall mean and be a reference to the Note Agreement, as amended hereby.

c. Binding Effect. This Second Amendment shall be binding upon and inure to the benefit of the respective successors and assigns of the parties hereto.

d. Governing Law. This Second Amendment shall be governed by and construed in accordance with New York law, excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

e. Counterparts. This Second Amendment may be executed in any number of counterparts, each executed counterpart constituting an original, but altogether only one instrument.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Company and the Holders have caused this Second Amendment to be executed and delivered by their respective officer or officers thereunto duly authorized.

POLARIS INDUSTRIES INC.

By:
Name: Michael T. Speetzen
Title: Executive Vice President-Finance and Chief Financial Officer

HOLDERS:

The foregoing is agreed to
as of the date thereof.

METROPOLITAN LIFE INSURANCE COMPANY

METLIFE REINSURANCE COMPANY OF VERMONT

By: Metropolitan Life Insurance Company, its Investment Manager

METLIFE INVESTORS USA INSURANCE COMPANY

By: Metropolitan Life Insurance Company, its Investment Manager

MISSOURI REINSURANCE (BARBADOS), INC.

By: Metropolitan Life Insurance Company, its Investment Manager

By:
Name:
Title:

METLIFE ALICO LIFE INSURANCE K.K.

By: MetLife Investment Management, LLC, its Investment Manager

By:
Name:
Title:

VOYA RETIREMENT INSURANCE AND ANNUITY COMPANY (f/k/a ING Life Insurance and Annuity Company)
VOYA INSURANCE AND ANNUITY COMPANY (f/k/a ING USA ANNUITY AND LIFE INSURANCE COMPANY)
RELIASTAR LIFE INSURANCE COMPANY
RELIASTAR LIFE INSURANCE COMPANY OF NEW YORK
SECURITY LIFE OF DENVER INSURANCE COMPANY
By: Voya Investment Management LLC, as Agent

By:
Name:
Title:

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By:
Name:
Title:

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

By:
Name:
Title:

GIBRALTAR LIFE INSURANCE CO., LTD.

By: Prudential Investment Management (Japan), Inc.,
as Investment Manager

By: Prudential Investment Management, Inc.,
as Sub-Adviser

By:
Name:
Title:

MTL INSURANCE COMPANY

By: Prudential Private Placement Investors, L.P.
(as Investment Advisor)

By: Prudential Private Placement Investors, Inc.
(as its General Partner)

By:
Name:
Title:

BCBSM, INC. DBA BLUE CROSS AND BLUE SHIELD OF MINNESOTA

By: Prudential Private Placement Investors, L.P.
(as Investment Advisor)

By: Prudential Private Placement Investors, Inc.
(as its General Partner)

By:
Name:
Title:

MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY

By: Barings LLC, as Investment Adviser

By:

Name:

Title:

THE TRAVELERS INDEMNITY COMPANY

By:
Name:
Title:

THE NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY

By:
Name:
Title:

ALLIANZ GLOBAL RISKS US INSURANCE COMPANY

By:
Name:
Title:

FIREMAN'S FUND INSURANCE COMPANY

By: Allianz Investment Management LLC,
as the authorized signatory and investment manager

By:
Name:
Title:

AMERICAN UNITED LIFE INSURANCE COMPANY

By:
Name:
Title:

THE PHOENIX INSURANCE COMPANY

By:
Name:
Title:

Each of the undersigned Subsidiary Guarantors acknowledges the foregoing Second Amendment to Note Agreement.

**POLARIS ACCEPTANCE INC.
POLARIS SALES INC.
POLARIS DIRECT INC.
RESILIENT TECHNOLOGIES LLC
POLARIS INDUSTRIES INC. [DE]
INDIAN MOTORCYCLE COMPANY
INDIAN MOTORCYCLE INTERNATIONAL, LLC
INDIAN MOTORCYCLE USA, LLC
TETON OUTFITTERS, LLC
TAP AUTOMOTIVE HOLDINGS, LLC**

By:

Michael T. Speetzen,
Vice President-Finance, Chief Financial Officer and Treasurer

POLARIS SALES EUROPE INC.

By:

Michael T. Speetzen,
Vice President and Treasurer

NORTH 54 INSURANCE, INC.

By:

Michael T. Speetzen, President

Schedule I
SCHEDULE I

3.81% Senior Notes, Series 2011, Tranche A, due May 2, 2018:

<u>Holder</u>	<u>Note</u>	<u>Amount</u>
Metropolitan Life Insurance Company	AR-1	\$2,000,000
Missouri Reinsurance (Barbados), Inc.	AR-2	\$3,000,000
MetLife Reinsurance Company of Vermont	AR-3	\$5,000,000
Voya Insurance and Annuity Company (f/k/a ING USA Annuity and Life Insurance Company)	AR-4	\$5,100,000
Voya Retirement Insurance and Annuity Company (f/k/a ING Life Insurance and Annuity Company)	AR-5	\$2,000,000
Reliastar Life Insurance Company	AR-6	\$2,800,000
Reliastar Life Insurance Company of New York	AR-7	\$100,000
The Travelers Indemnity Company	AR-8	\$5,000,000
Total		\$25,000,000

4.60% Senior Notes, Series 2011, Tranche B, due May 3, 2021

<u>Holder</u>	<u>Note</u>	<u>Amount</u>
Metropolitan Life Insurance Company	BR-1	\$12,000,000
MetLife Investors USA Insurance Company	BR-2	\$4,000,000
Voya Insurance and Annuity Company (f/k/a ING USA Annuity and Life Insurance Company)	BR-3	\$8,200,000
Voya Retirement Insurance and Annuity Company (f/k/a ING Life Insurance and Annuity Company)	BR-4	\$3,200,000
Reliastar Life Insurance Company	BR-5	\$4,500,000
Reliastar Life Insurance Company of New York	BR-6	\$100,000
The Prudential Insurance Company of America	BR-7	\$2,300,000
Gibraltar Life Insurance Co., Ltd.	BR-8	\$11,200,000
Pruco Life Insurance Company of New Jersey	BR-16	\$5,000,000
MTL Insurance Company	BR-10	\$3,000,000
BCBSM, Inc. dba Blue Cross and Blue Shield of Minnesota	BR-11	\$1,500,000
Massachusetts Mutual Life Insurance Company	BR-12	\$20,000,000
Total		\$75,000,000

3.13% Senior Notes, Series 2013, due December 21, 2020

<u>Holder</u>	<u>Note</u>	<u>Amount</u>
<u>Reliastar Life Insurance Company</u>	AR-1	<u>\$4,400,000</u>
Voya Insurance and Annuity Company (f/k/a ING USA Annuity and Life Insurance Company)	AR-2	\$5,900,000
Voya Retirement Insurance and Annuity Company (f/k/a ING Life Insurance and Annuity Company)	AR-3	\$9,600,000
Security Life of Denver Insurance Company	AR-4	\$7,100,000
Voya Insurance and Annuity Company (f/k/a ING USA Annuity and Life Insurance Company)	AR-5	\$500,000
Reliastar Life Insurance Company of New York	AR-6	\$200,000
Security Life of Denver Insurance Company	AR-7	\$200,000
Reliastar Life Insurance Company	AR-8	\$100,000
The Northwestern Mutual Life Insurance Company	AR-9	\$28,000,000
MetLife Alico Life Insurance K.K.	AR-10	\$10,000,000
MetLife Alico Life Insurance K.K.	AR-11	\$10,000,000
Allianz Global Risks US Insurance Company	AR-12	\$5,000,000
Fireman's Fund Insurance Company	AR-13	\$5,000,000
American United Life Insurance Company	AR-14	\$9,000,000
The Phoenix Insurance Company	AR-15	\$5,000,000
Total		<u>\$100,000,000</u>

SEVERANCE AGREEMENT

THIS SEVERANCE AGREEMENT (the "Agreement"), is made and entered into as of March 31, 2016 between POLARIS INDUSTRIES INC., a Minnesota corporation (the "Company"), and Robert Mack (the "Employee").

RECITALS:

WHEREAS, Employee has been offered employment by the Company; and

WHEREAS, as an inducement to accept such employment and to enhance the loyalty and performance of Employee with the Company, the Company desires to provide the Employee with certain compensation and benefits in the event a termination of employment under the circumstances set forth herein.

NOW, THEREFORE, in consideration of the mutual premises and agreements set forth herein, the parties hereby agree as follows:

1. Definitions. As used in this Agreement, these terms shall have the following meanings:

(a) Cause. For purposes of this Agreement only, "Cause" means (i) repeated violations of the Employee's employment obligations (other than as a result of incapacity due to physical or mental illness), which are demonstrably willful and deliberate on Employee's part and which are not remedied in a reasonable period after written notice from the Company specifying such violations; or (ii) conviction for (or plea of nolo contendere to) a felony.

(b) Change in Control. A "Change in Control" shall be deemed to have occurred if, prior to the Termination Date (as defined below):

(i) Any election has occurred of persons to the Board that causes at least one-half of the Board to consist of persons other than (x) persons who were members of the Board as of the date of this Agreement and (y) persons who were nominated for election by the Board as members of the Board at a time when more than one-half of the members of the Board consisted of persons who were members of the Board as of the date of this Agreement; provided, however, that any person nominated for election by the Board at a time when at least one-half of the members of the Board were persons described in clauses (x) and/or (y) or by persons who were themselves nominated by such Board shall, for this purpose, be deemed to have been nominated by a Board composed of persons described in clause (x) (persons described or deemed described in clauses (x) and/or (y) are referred to herein as "Incumbent Directors"); or

(ii) The acquisition in one or more transactions, other than from the Company, by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of a number of Company Voting Securities equal to or greater than 35% of the Company Voting Securities unless such acquisition has been designated by the Incumbent Directors as an acquisition not constituting a Change in Control for purposes hereof; or

(iii) A liquidation or dissolution of the Company; or a reorganization, merger or consolidation of the Company unless, following such reorganization, merger or consolidation, the Company is the surviving entity resulting from such reorganization, merger or consolidation or at least one-half of the Board of Directors of the entity resulting from such reorganization, merger or consolidation consists of Incumbent Directors; or a sale or other disposition of all or substantially all of the assets of the Company unless, following such sale or disposition, at least one-half of the Board of Directors of the transferee consists of Incumbent Directors.

As used herein, "Company Voting Securities" means the combined voting power of all outstanding voting securities of the Company entitled to vote generally in the election of the Board.

(c) Change in Control Termination. "Change in Control Termination" shall have the meaning set forth in Paragraph 2.

(d) Code. "Code" means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

(e) Good Reason. "Good Reason" means (i) the assignment to Employee of any duties inconsistent in any material respect with Employee's position or any material reduction in the scope of the Employee's authority and responsibility; (ii) there is a material reduction in Employee's base compensation; (iii) there is a material change in the geographic location of the Employee's principal place of employment; or (iv) the Company otherwise fails to perform any of its material obligations to Employee. The Employee must give the Company notice of the existence of Good Reason during the 90-day period beginning on the date of the initial existence of Good Reason. If the Company remedies the condition giving rise to Good Reason within 30 days thereafter, Good Reason shall not exist and the Employee will not be entitled to terminate employment for Good Reason.

(f) Non-Change in Control Termination. "Non-Change in Control Termination" shall have the meaning set forth in Paragraph 3.

(g) Senior Executive Incentive Plan. "Senior Executive Incentive Plan" means the Polaris Industries Inc. Senior Executive Annual Incentive Plan.

(h) Termination Date. "Termination Date" means the date on which the Employee's employment with the Company is terminated, with termination of employment being deemed to have occurred using the standard under Section 409A of the Code (also referred to as a "separation from service").

2. Termination upon Change in Control. If a Change in Control occurs and, upon or within twenty-four (24) months after such Change in Control, the Employee terminates his or her employment for Good Reason or the Employee's employment is terminated by the Company for any reason other than for Cause (a " Change in Control Termination "), then the Employee shall, subject to the conditions set forth in Paragraph 4, be entitled to the following severance benefits:

(a) Termination Payment upon Change in Control. The Company shall pay the Employee a lump sum cash payment, no later than sixty (60) days after the Termination Date, in an amount equal to (i) two (2) times Employee's average annual cash compensation (including base salary and annual cash incentive awards, but excluding the award, exercise, vesting or settlement of stock options or other equity-based awards) for the three completed fiscal years (or lesser number of fiscal years if the Employee's employment has been of shorter duration) of the Company immediately preceding the Change in Control Termination, plus (ii) the amount of the Employee's earned but unused vacation time.

(b) Unpaid Annual Bonus Payment for Prior Fiscal Year upon Termination upon Change in Control. If the Termination Date occurs before a cash incentive award under the Senior Executive Incentive Plan has been paid for work performed in the last completed fiscal year immediately preceding the fiscal year in which the Termination Date occurs, the Company shall, in addition to the payment to be made pursuant to Paragraph 2(a), pay to the Employee the amount of the Employee's cash incentive award under the Senior Executive Incentive Plan for such preceding fiscal year as soon as it is determinable (but no later than two and one-half months after the end of such preceding fiscal year). Notwithstanding the foregoing regarding the payment of an unpaid cash incentive award for performance in the preceding fiscal year, no cash incentive award under the Senior Executive Incentive Plan or otherwise shall be paid for performance during any part of the fiscal year in which the Termination Date occurs.

3. Non-Change in Control Termination. Notwithstanding the foregoing, if the Employee's employment is terminated by the Company for any reason other than for Cause, and such termination does not occur upon or within twenty-four (24) months after a Change in Control such that a Change in Control Termination shall have occurred (a " Non-Change in Control Termination "), then the Employee shall, subject to the conditions set forth in Paragraph 4, be entitled to the following severance benefits:

(a) Non-Change in Control Termination Payment. The Company shall pay the Employee (i) an amount equal to the sum of (A) the Employee's annual base salary as of the Termination Date plus (B) the amount of the cash incentive award that was paid or payable to the Employee under the Senior Executive Incentive Plan for work performed in the last completed fiscal year immediately preceding the fiscal year in which the Termination Date occurs, which amount shall be payable over a period of one year beginning on the Termination Date in periodic installments in

accordance with the Company's normal payroll practices; provided, however, that any installments that otherwise would be paid during the first sixty (60) days after the Termination Date will be delayed and included in the first installment paid to the Employee on the first payroll date that is more than sixty (60) days after the Termination Date, and (ii) a lump cash payment, no later than sixty (60) days after the Termination Date, in an amount equal to the Employee's earned but unused vacation time. If the Employee is a "specified employee" (within the meaning of Section 409A of the Code), and if the amount otherwise payable to the Employee under this Paragraph 3(a)(i) during the six-month period beginning on the Termination Date exceeds two times the limitation applicable as of the Termination Date under Section 401(a)(17) of the Code, then such excess amount shall be paid at the end of such six-month period.

(b) Unpaid Annual Bonus Payment for Prior Fiscal Year upon Non-Change in Control Termination. If the Termination Date occurs before a cash incentive award under the Senior Executive Incentive Plan has been paid for work performed in the last completed fiscal year immediately preceding the fiscal year in which the Termination Date occurs, the Company shall, in addition to the payments to be made pursuant to Paragraph 3(a), pay to the Employee the amount of the Employee's cash incentive award under the Senior Executive Incentive Plan for such preceding fiscal year as soon as it is determinable (but no later than two and one-half months after the end of such preceding fiscal year). Notwithstanding the foregoing regarding the payment of an unpaid cash incentive award for performance in the preceding fiscal year, no cash incentive award under the Senior Executive Incentive Plan or otherwise shall be paid for performance during any part of the fiscal year in which the Termination Date occurs.

(c) COBRA Premium. If the Employee elects to receive COBRA benefits upon termination, the Company shall pay the premium for coverage of the Employee and the Employee's eligible spouse and/or dependents under the Company's group health plan(s) pursuant to the Consolidated Omnibus Budget Reconciliation Act for the one-year period beginning on the Termination Date.

(d) Outplacement Counseling. The Company shall provide the Employee with reasonable executive outplacement services, in accordance with Company policies for senior executives as in effect on the Termination Date.

(e) Lapse of Restrictions on Performance Based Restricted Share and Unit Awards. Notwithstanding the terms of any agreement pursuant to which performance-based restricted share and restricted stock unit awards have been granted to the Employee by the Company, all restrictions applicable to such awards shall lapse immediately upon the Termination Date if the measurement period and performance goals applicable thereto have been achieved on or before the Termination Date.

4. Condition to Receipt of Severance Benefits. As a condition to receiving any severance benefits in connection with a Change in Control Termination under Paragraph 2 or in connection with a Non-Change in Control Termination under Paragraph 3, the Employee shall have executed and not rescinded a general waiver and release (the "Waiver and Release") in the form provided by the Company at the time of termination of employment, and shall be and remain in compliance with Employee's continuing obligations to the Company under this Agreement or any other written agreement between the Employee and the Company (including the Non-Competition and Non-Solicitation Agreement referenced in Paragraph 16). The Waiver and Release shall become effective in accordance with the rescission provisions set forth therein.

5. Benefits in Lieu of Severance Pay. The severance benefits provided for in Paragraphs 2 and 3 are in lieu of any benefits that would otherwise be provided to the Employee under any Company severance pay policy or practice and the Employee shall not be entitled to any benefits under any Company severance pay policy or practice in the event that severance benefits are paid hereunder.

6. Rights in the Event of Dispute. In the event of a Change of Control Termination, if there is a claim or dispute arising out of or relating to this Agreement or any breach thereof, regardless of the party by whom such claim or dispute is initiated, the Company shall, in connection with settlement in the Employee's favor of any such matter or upon payment of any judgment entered in the Employee's favor, upon presentation of appropriate vouchers, pay all legal expenses, including reasonable attorneys' fees, court costs, and ordinary and necessary out-of-pocket cost of attorneys, billed to and payable by the Employee or by anyone claiming under or through the Employee.

7. Other Benefits. The benefits provided under this Agreement shall, except to the extent otherwise specifically provided herein, be in addition to, and not in derogation or diminution of, any benefits that Employee or his or her beneficiary may be entitled to receive under any other contract, plan or program now or hereafter maintained by the Company, or its subsidiaries, including any and all stock options and other equity-based award agreements.

8. Effect on Employment. Neither this Agreement nor anything contained herein shall be construed as conferring upon Employee the right to continue in the employment of the Company or any of its affiliates, or as interfering with or limiting the right of the Company to terminate the Employee's employment with or without cause at any time.

9. Limitation in Action. Prior to the occurrence of a Change in Control, the Board shall have the power and the rights, within its sole discretion, to modify or amend Paragraph 2 of this Agreement, but not in a manner that would be less favorable to the Employee without the consent of Employee. In all other cases, and notwithstanding the authority granted to the Board to exercise any discretion to modify or amend Paragraph 2 of this Agreement contained herein, the Board will not, following a Change in Control, have the power or right to exercise such authority or otherwise take any action that is inconsistent with the provisions of this Agreement.

10. Successors. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) to all or substantially all of the business and/or assets of the Company, to expressly assume and agree to perform its obligations under this Agreement in the same manner and to the same extent that the Company would be required to perform them if no succession had taken place unless, in the opinion of legal counsel mutually acceptable to the Company and the Employee, such obligations have been assumed by the successor as a matter of law. The Employee's rights under this Agreement shall inure to the benefit of, and shall be enforceable by, the Employee's legal representative or other successors in interest, but shall not otherwise be assignable or transferable.

11. Severability. If any provision of this Agreement or the application thereof is held invalid or unenforceable, the invalidity or unenforceability thereof shall not affect any other provisions or applications of this Agreement which can be given effect without the invalid or unenforceable provision or application.

12. Survival. The rights and obligations of the parties pursuant to this Agreement shall survive the termination of the Employee's employment with the Company to the extent that any performance is required hereunder after such termination.

13. Governing Law. This Agreement shall be governed by and construed under the laws of the State of Minnesota, without giving effect to the conflicts of law provisions thereof.

14. Notices. All notices under this Agreement shall be in writing and shall be deemed effective when delivered in person (in the Company's case, to its Secretary) or 48 hours after deposit thereof in the U.S. mails, postage prepaid, addressed, in the case of the Employee, to his last known address as carried on the personnel records of the Company and, in the case of the Company, to the corporate headquarters, attention of the Secretary, or to such other address as the party to be notified may specify by written notice to the other party.

15. Amendments and Construction. Except as set forth in Paragraph 8, this Agreement may only be amended in a writing signed by the parties hereto. Paragraph headings are for convenience only and shall not be considered a part of the terms and provisions of the Agreement.

16. Non-Competition and Non-Solicitation Agreement. The Non-Competition and Non-Solicitation Agreement entered into between the Employee and the Company remains in full force and effect and nothing contained herein is intended to amend or modify the provisions of that agreement or any replacements thereof.

17. Taxes. The Company may withhold from any amounts payable under this Agreement such federal, state and local income and employment taxes as the Company determines are required or authorized to be withheld pursuant to any applicable law or regulation. Except for any tax amounts withheld by the Company from any compensation that Employee may receive in connection with Employee's employment with the Company and any employer taxes required to be paid by the Company under applicable laws or regulations, Employee is solely responsible for payment of any and all taxes owed in connection with any compensation, benefits, reimbursement amounts or other payments Employee receives from the Company under this Agreement or otherwise in connection with Employee's employment with the Company.

18. Code Section 409A. It is intended that all of the payments satisfy, to the greatest extent possible, the exemptions from the application of Code Section 409A provided under Treasury Regulations Sections 1.409A-1(b)(4), 1.409A-1(b)(5) and 1.409A-1(b)(9), and this Agreement will be construed to the greatest extent possible as consistent with those provisions. For purposes of Code Section 409A (including, without limitation, for purposes of Treasury Regulation Section 1.409A-2(b)(2)(iii)), the Employee's right to receive any installment payments under this Agreement (whether severance payments, reimbursements or otherwise) will be treated as a right to receive a series of separate payments and,

accordingly, each installment payment hereunder will at all times be considered a separate and distinct payment. Notwithstanding any provision to the contrary in this Agreement, if the Employee is deemed by the Company at the time of separation from service to be a "specified employee" for purposes of Code Section 409A(a)(2)(B)(i), and if any of the payments set forth herein and/or under any other agreement with the Company are deemed to be "deferred compensation", then to the extent delayed commencement of any portion of such payments is required in order to avoid a prohibited distribution under Code Section 409A(a)(2)(B)(i) and the related adverse taxation under Section 409A, such payments will not be provided to the Employee prior to the earliest of (i) the expiration of the six-month period measured from the Termination Date, (ii) the date of the Employee's death or (iii) such earlier date as permitted under Code Section 409A without the imposition of adverse taxation. Upon the first business day following the expiration of such applicable Code Section 409A(a)(2)(B)(i) period, all Payments deferred pursuant to this Paragraph 18(c) will be paid in a lump sum to the Employee, and any remaining Payments due will be paid as otherwise provided herein or in the applicable agreement. No interest will be due on any amounts so deferred. Notwithstanding any other provision herein to the contrary, in the event of any ambiguity in the terms of this Agreement, such term(s) will be interpreted and at all times administered in a manner that avoids the inclusion of compensation in income under Code Section 409A, or the payment of increased taxes, excise taxes or other penalties under Code Section 409A. The parties intend all payments and benefits hereunder to be in compliance with Code Section 409A.

IN WITNESS WHEREOF, the parties have duly executed this Severance Agreement as of the day and year first written above.

POLARIS INDUSTRIES INC.

EMPLOYEE

By: /s/ Stacy Bogart

/s/ Robert Mack

Stacy Bogart

Name: Robert Mack

VP, General Counsel



2100 Highway 55
Medina, MN 55340-9770
763-542-0509

February 9, 2016

Bob Mack
XXXXXXXXXXXXXX
XXXXXXXXXXXXXX, XX XXXXX

Dear Bob:

On behalf of Polaris Industries Inc. (“Polaris” or “Company”), I am pleased to offer you the position of SVP, Corporate Development and Strategy and President, Adjacent Markets.

- I. **Title and reporting relationship**
Your title is SVP, Corporate Development and Strategy and President, Adjacent Markets. You will report to the Chairman & CEO.
- II. **Date of Employment**
Your employment date will be April 1, or sooner if possible. This will be the effective date for cash incentives and equity awards as set forth below.
- III. **Base Salary**
Your annual base salary will be \$400,000 paid bi-weekly. Your salary will be reviewed annually, subject to the approval of the Compensation Committee of the Board of Directors. Your salary review date for 2017 will be April 1.
- IV. **Cash Incentive Compensation**
You will be a “B1” Level (Company officer) under the terms of our Senior Executive Annual Incentive Plan. Your payment under the Senior Executive Annual Incentive Plan will be dependent upon your performance and the performance of the Company. Your target payout for the Senior Executive Annual Incentive Plan will be 80% of eligible earnings paid during a year, subject to adjustments by the Compensation Committee of the Board of Directors.

For the 2016 performance period, paid out in 2017, you will be guaranteed a minimum of \$320,000 subject to your continued employment.
- V. **Sign-on Bonus**
In Lieu of your relocation and to supplement your base salary, you will receive a \$100,000 lump sum bonus to be paid as soon as administratively feasible following your start date.

In the event of your voluntary termination of employment within twenty-four (24) months from the start of your employment, in signing this letter you agree to immediately reimburse the Company this signing bonus on a prorated basis, determined at the rate of 1/24th of the signing bonus amount for each uncompleted full month of employment.
- VI. **Long Term Incentive Plan (LTIP)**
You will participate in the LTIP for Officers which is a 3 year performance cycle. Your first LTIP award of performance restricted stock units (“PRSUs”) will be granted effective on your start date and will cover the performance cycle January 1, 2016 through December 31, 2018. The performance metrics for the LTIP are determined each year by the Compensation Committee of the Board of Directors during the January meeting. The target incentive opportunity will be expressed as a percentage of your total long term incentive (“LTI”) which for 2016 is targeted to

be \$750,000, prorated based on your hire date. You will receive a PRSU award equal to 20% of your prorated target LTI value, this equates to approximately \$150,000 as determined using the closing stock price on your date of hire.

This award is subject to all the terms and conditions of the award agreement and the Polaris Industries Inc. 2007 Omnibus Incentive Plan

VII. Stock Options

You will be granted options to purchase Polaris Common stock equal to 80% of your prorated target 2016 LTI value. This equates to approximately \$600,000 as determined using the closing stock price on your hire date and Black Scholes valuation. The options will have an exercise price equal to the closing price of Polaris stock on the grant date. The shares will vest in two equal installments on the second and fourth anniversaries of the grant date, subject to your continued employment.

This award is subject to all the terms and conditions of the award agreement and the Polaris Industries Inc. 2007 Omnibus Incentive Plan.

VIII. Restricted Stock Units

You will be granted 3,000 restricted stock units effective on your start date. One-half of the units will vest on the first anniversary of the grant date and one-half will vest on the second anniversary of the grant date, subject to your continued employment. This is intended as a buyout of your current unvested, in-the-money equity with a similar vesting schedule.

IX. Special Grant of Restricted Stock Units

As part of a strategy to replace the projected future value of your Key Management Plan, you will be granted 20,000 restricted stock units on your start date. The units will vest on the third anniversary of the grant date, subject to your continued employment. The remaining projected balance of your Key Management Plan is expected to be accounted for by virtue of the aggregated annual equity grant difference between your current plan and the Polaris plan.

X. Defined Benefit Replacement

In the event that the value of 20,000 shares of Polaris common stock (as adjusted for any stock splits or other equity restructurings) is less than or equal to \$3.5M on the date you attain age 55 and assuming continued employment until that time, Polaris will pay you in cash the difference between \$3.5M and the value of 20,000 shares. The value for these purposes will be determined using the closing market price of Polaris common stock on the date you attain age 55 .

XI. Benefits & Perquisites

You will be eligible to participate in Polaris' benefit programs and receive the perquisites made available by Polaris to its executives. The benefits and perquisites are subject to change by the Compensation Committee and at present include medical, dental, disability and life insurance coverage, financial planning and tax preparation services, 401(k) retirement savings plan and Supplemental Executive Retirement Plan participation, and a country club membership (tax gross-ups are not provided for club initiation and dues or financial planning and tax preparation). Additionally, you will have the use of Polaris' products in accordance with Polaris' guidelines. You will also be eligible for an annual physical examination at the Mayo Clinic paid for by Polaris. A summary of the current benefits is enclosed as Exhibit A.

XII. Severance Agreement

When you begin employment with Polaris, Polaris will enter into a Severance Agreement with you.

XIII. Ownership Guidelines and Section 16 Reporting Obligations

Polaris has established stock ownership guidelines for the Board of Directors and Company officers. The guidelines require executive officers to own a designated number of shares of the Company's Common Stock. As SVP, Corporate Development and Strategy you will be required to own 2x your base salary.

Remember, all your transactions in Polaris securities are subject to Polaris' Insider Trading Policy.

As an officer of Polaris you are also subject to Section 16(a) of the Securities Exchange Act of 1934, as amended, and will be required to file reports with the SEC disclosing your holdings and transactions in Polaris' equity securities. The Company will assist you in preparing and filing these reports with the SEC on a timely basis. Before engaging in

any transaction in Polaris securities you must pre-clear the transaction with the Chief Financial Officer. All transactions must be reported within two days.

Your employment with Polaris is at will and nothing in this offer letter should be construed as altering that status.

This offer is contingent on your execution and return of the enclosed Non-Competition and Non-Solicitation Agreement before your first day of employment. On or around your first day of employment, you will also be required to execute Polaris' Employee Proprietary Information and Conflict of Interest Agreement.

This offer is contingent on approval of the Polaris Compensation Committee of the Board of Directors. For clarification and the protection of both you and the Company, this letter, including the exhibits (and any ancillary agreements based on such exhibits), represents the sole agreement between the parties.

This offer also remains contingent upon verification of employment eligibility pursuant to regulations issued under the Immigration Reform and Control Act of 1986 and satisfactory completion of a drug and alcohol test paid by Polaris. We will arrange for this test once you have agreed to the terms of this offer.

Bob, we are very excited to have you join the Polaris team. We believe you can make a huge impact in the coming years and develop in several areas that will position you very well for the long term. Please sign and return a copy of this letter indicating that you accept our offer and confirming the terms of your employment. If you agree to this offer, which remains in effect through **Friday, February 12, 2016** please sign and return to Jim Williams at 2100 Highway 55, Medina, MN 55340.

Very truly yours,

/s/ Scott W. Wine

Scott Wine

Chairman & CEO

Accepted and Confirmed:

Date: 2/12/2016

/s/ Bob Mack

Bob Mack

Exhibit 13

STOCK EXCHANGE

Shares of common stock of Polaris Industries Inc. trade on the New York Stock Exchange under the symbol PII.

INDEPENDENT AUDITORS

Ernst & Young LLP, Minneapolis, MN

TRANSFER AGENT AND REGISTRAR

Communications concerning transfer requirements, address changes, dividends and lost certificates, as well as requests for Dividend Reinvestment Plan enrollment information, should be addressed to:

Wells Fargo Shareowner Services
1110 Centre Point Curve, Suite 101
Mendota Heights, MN 55120
1-800-468-9716
www.shareowneronline.com

ANNUAL SHAREHOLDERS' MEETING

The meeting will be held at 9:00 a.m. Central Time, April 27, 2017, at our corporate headquarters, 2100 Highway 55, Medina, MN 55340. The proxy statement will be available on or about March 10, 2017. The shareholder-of-record date is February 28, 2017.

SUMMARY OF TRADING

For the Years Ended December 31

Quarter	2016		2015	
	High	Low	High	Low
First	\$100.95	\$67.80	\$158.24	\$134.54
Second	104.25	77.58	152.50	136.16
Third	99.00	70.14	156.35	117.01
Fourth	92.50	73.07	124.39	81.42

CASH DIVIDENDS DECLARED

Cash dividends are declared quarterly and have been paid since 1995. On January 26, 2017, the quarterly dividend was increased five percent to \$0.58 per share.

Quarter	2016	2015
First	\$0.55	\$0.53
Second	0.55	0.53
Third	0.55	0.53
Fourth	0.55	0.53
Total	\$2.20	\$2.12

SHAREHOLDERS OF RECORD

Shareholders of record of the Company's common stock on February 10, 2017, were 2,094.

SHAREHOLDER COMPOSITION

Institutions: 89%
Officers, directors and employees: 9%
Individuals and others: 2%

DIVIDEND REINVESTMENT PLAN

Shareholders may automatically reinvest their dividends in additional Polaris common stock through the Dividend Reinvestment Plan, which also provides for purchase of common stock with voluntary cash contributions. For additional information, please contact Wells Fargo Shareowner Services at 1-800-468-9716 or visit the Wells Fargo Bank website at www.shareowneronline.com

INTERNET ACCESS

To view the Company's annual report and financial information, products and specifications, press releases, dealer locations and product brochures, access Polaris on the Internet at: www.polaris.com

INVESTOR RELATIONS

Security analysts and investment professionals should direct their business-related inquiries to:

Richard Edwards
Director of Investor Relations
Polaris Industries Inc.
2100 Highway 55
Medina, MN 55340-9770
763-513-3477
richard.edwards@polaris.com

RESEARCH COVERAGE AS OF FEBRUARY 2017

AllianceBernstein
B. Riley & Co.
BMO Capital Markets
C.L. King
Citigroup
Cleveland Research
Feltl and Company
Jefferies
KeyBanc Capital Markets
Lake Street Capital
Longbow Research

Morningstar
Northcoast Research
Raymond James & Associates
RBC Capital Markets
Robert W. Baird & Company
Stephens
Stifel
SunTrust Robinson
UBS Securities
Wedbush Securities
Wells Fargo Securities
Wunderlich Securities

STOCK-SPLIT HISTORY

August 1993	2 for 1
October 1995	3 for 2
March 2004	2 for 1
September 2011	2 for 1

Subsidiaries of Polaris Industries Inc. as of December 31, 2016

Name of Subsidiary	State or Other Jurisdiction of Incorporation or Organization
A.M. Holding S.A.S.	France
Aixam Immobilier S.A.S.	France
Aixam Lusitana Sociedad De Comercializacae de Automoveis, S.A.	Portugal
Aixam Mega S.A.S.	France
Aixam Production S.A.S.	France
Aixam Mega Engineering S.A.S.	France
AIXAM Mega GmbH	Austria
Aixam Mega Italia S.R.L.	Italy
Aixam Mega Ltd.	United Kingdom
Aixam Mega Nederland BV	Netherlands
Aixam-Mega Iberica, S.L.	Spain
BAIC TAP Off-Road Vehicle Technology Company Limited (25%)	China
Carmax SAS	France
Carmetal SAS	France
Compagnie Industrielle du Vencors SAS	France
Eicher Polaris Private Ltd. (50%)	India
FAM SAS	France
Goupil Industrie S.A.	France
HH Investment Limited	Hong Kong
Indian Motorcycle Company	Delaware
Indian Motorcycle International, LLC	Delaware
Indian Motorcycle USA, LLC	Delaware
KLIM Europe ApS	Denmark
KLIM Europe Sarl	Switzerland
Kolpin Outdoors, Inc.	Wisconsin
Mega Production S.A.	France
North Pole Star, LLC	Mexico
North 54 Insurance Company	Hawaii
Polaris Acceptance (50%)	Illinois
Polaris Acceptance Inc.	Minnesota
Polaris Britain Limited	United Kingdom
Polaris Canada Holdco LP	Canada
Polaris Direct Inc.	Minnesota
Polaris EMEA Support Center Sp. z.o.o.	Poland
Polaris Experience, LLC	Minnesota
Polaris Finance Co Sarl	Luxembourg
Polaris France Holdco SNC	France
Polaris France S.A.S.	France
Polaris Germany GmbH	Germany
Polaris India Private Ltd.	India
Polaris Industries Holdco LP	Cayman Islands
Polaris Industries Inc.	Delaware
Polaris Industries LLC	Delaware
Polaris Industries Ltd.	Manitoba, Canada
Polaris Limited China	China
Polaris Luxembourg I Sarl	Luxembourg
Polaris Luxembourg II Sarl	Luxembourg
Polaris Norway AS	Norway
Polaris of Brazil Import and Trade of Vehicles and Motorcycles LLC	Brazil
Polaris Poland Sp. z o.o	Poland

Polaris Sales Australia Pty Ltd.
Polaris Sales Europe Inc.
Polaris Sales Europe Sarl
Polaris Sales Inc.
Polaris Sales Mexico, S. de R.L. de C.V.
Polaris Sales Spain, S.L.

Australia
Minnesota
Switzerland
Minnesota
Mexico
Spain

Polaris Scandinavia AB	Sweden
Primordial, Inc.	Delaware
Resilient Technologies LLC	Wisconsin
SCI GEB	France
Shanghai Yi Zing Power Technology Co. Ltd.	China
swissauto powersport LLC	Switzerland
TAP Automotive Holdings, LLC	Delaware
TAP Automotive Holdings Canada, Inc.	Canada
TAP Manufacturing, LLC	Delaware
TAP Off Road Investment Company, Ltd.	Hong Kong
TAP Worldwide, LLC	Delaware
Taylor-Dunn Manufacturing Company	California
Teton Outfitters, LLC	Idaho
Trail Tech, Inc.	Washington
Transamerican (NINGBO) Automotive Technology Co. Ltd.	China
Victory Motorcycles Australia Pty Ltd	Australia

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-161919, 333-147799, 33-57503, 33-60157, 333-05463, 333-21007, 333-77765, 333-94451, 333-84478, 333-110541, 333-174159, 333-129335 and 333-207631) pertaining to our reports dated February 16, 2017 , with respect to the consolidated financial statements and schedule of Polaris Industries Inc. and the effectiveness of internal control over financial reporting of Polaris Industries Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2016 .

/s/ Ernst & Young LLP

Minneapolis, Minnesota
February 16, 2017

POWER OF ATTORNEY

(FORM 10-K)

POLARIS INDUSTRIES INC., a Minnesota corporation (the "Company"), and each of the undersigned directors of the Company, hereby constitutes and appoints Scott W. Wine and Michael T. Speetzen and each of them (with full power to each of them to act alone) its/his/her true and lawful attorney-in-fact and agent, for it/him/her and on its/his/her behalf and in its/his/her name, place and stead, in any and all capacities to sign, execute, affix its/his/her seal thereto and file the Annual Report on Form 10-K for the year ended December 31, 2016 under the Securities Exchange Act of 1934, as amended, with any amendment or amendments thereto, with all exhibits and any and all documents required to be filed with respect thereto with any regulatory authority.

There is hereby granted to said attorneys, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in respect of the foregoing as fully as it/he/she or itself/himself/herself might or could do if personally present, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

This Power of Attorney may be executed in any number of counterparts, each of which shall be an original, but all of which taken together shall constitute one and the same instrument and any of the undersigned directors may execute this Power of Attorney by signing any such counterpart.

POLARIS INDUSTRIES INC. has caused this Power of Attorney to be executed in its name by its Chief Executive Officer on the 26th day of January, 2017.

POLARIS INDUSTRIES INC.

By /s/ Scott W. Wine
Scott W. Wine
Chairman and Chief Executive Officer

The undersigned, directors of POLARIS INDUSTRIES INC., have hereunto set their hands as of the 26th day of January, 2017.

/s/ Annette K. Clayton
Annette K. Clayton

/s/ Bernd F. Kessler
Bernd F. Kessler

/s/ Kevin M. Farr
Kevin M. Farr

/s/ Lawrence D. Kingsley
Lawrence D. Kingsley

/s/ Gary E. Hendrickson
Gary E. Hendrickson

/s/ John P. Wiehoff
John P. Wiehoff

/s/ Gwenne A. Henricks
Gwenne A. Henricks

/s/ Scott W. Wine
Scott W. Wine

DIRECTORS

I, Scott W. Wine, certify that:

1. I have reviewed this annual report on Form 10-K of Polaris Industries Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/ s/ S C O T T W. W I N E

Scott W. Wine

Chairman and Chief Executive Officer

Date: February 16, 2017

I, Michael T. Speetzen, certify that:

1. I have reviewed this annual report on Form 10-K of Polaris Industries Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/ s / M I C H A E L T. S P E E T Z E N

Michael T. Speetzen
*Executive Vice President — Finance and
Chief Financial Officer*

Date: February 16, 2017

**POLARIS INDUSTRIES INC.
STATEMENT PURSUANT TO 18 U.S.C. §1350**

I, Scott W. Wine, Chief Executive Officer of Polaris Industries Inc., a Minnesota corporation (the “Company”), hereby certify as follows:

1. This statement is provided pursuant to 18 U.S.C. § 1350 in connection with the Company’s Annual Report on Form 10-K for the period ended December 31, 2016 (the “Periodic Report”);
2. The Periodic Report fully complies with the requirements of Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended; and
3. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods indicated therein.

Date: February 16, 2017

/ s/ S COTT W. W I N E

Scott W. Wine

Chairman and Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Polaris Industries Inc. and will be retained by Polaris Industries Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**POLARIS INDUSTRIES INC.
STATEMENT PURSUANT TO 18 U.S.C. §1350**

I, Michael T. Speetzen, Executive Vice President — Finance and Chief Financial Officer of Polaris Industries Inc., a Minnesota corporation (the “Company”), hereby certify as follows:

1. This statement is provided pursuant to 18 U.S.C. § 1350 in connection with the Company’s Annual Report on Form 10-K for the period ended December 31, 2016 (the “Periodic Report”);
2. The Periodic Report fully complies with the requirements of Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended; and
3. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods indicated therein.

Date: February 16, 2017

/ s/ M I C H A E L T. S P E E T Z E N

Michael T. Speetzen

Executive Vice President — Finance and Chief Financial
Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Polaris Industries Inc. and will be retained by Polaris Industries Inc. and furnished to the Securities and Exchange Commission or its staff upon request.