POLARIS INDUSTRIES INC/MN
Form 10-Q
July 24, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from to

Commission File Number 1-11411

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

Minnesota	41-1790959
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2100 Highway 55, Medina MN	55340
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

As of July 17, 2017, 62,558,720 shares of Common Stock, $.01 par value, of the registrant were outstanding.

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POLARIS INDUSTRIES INC.
FORM 10-Q
For Quarterly Period Ended June 30, 2017

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

	June 30, 2017 (Unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$127,378	$127,325
Trade receivables, net	169,314	174,832
Inventories, net	815,990	746,534
Prepaid expenses and other	85,221	91,636
Income taxes receivable	18,976	50,662
Total current assets	1,216,879	1,190,989
Property and equipment, net	736,866	727,596
Investment in finance affiliate	86,552	94,009
Deferred tax assets	192,167	188,471
Goodwill and other intangible assets, net	786,935	792,979
Other long-term assets	95,573	105,553
Total assets	$3,114,972	$3,099,597
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of debt, capital lease obligations and notes payable	$2,831	$3,847
Accounts payable	352,538	273,742
Accrued expenses:		
Compensation	116,341	122,214
Warranties	108,403	119,274
Sales promotions and incentives	176,978	158,562
Dealer holdback	116,804	117,574
Other	164,486	162,432
Income taxes payable	9,725	2,106
Total current liabilities	1,048,106	959,751
Long-term income taxes payable	27,764	26,391
Capital lease obligations	18,245	17,538
Long-term debt	1,046,721	1,120,525
Deferred tax liabilities	9,009	9,127
Other long-term liabilities	100,625	90,497
Total liabilities	$2,250,470	$2,223,829
Deferred compensation	$10,725	$8,728
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, 62,557 and 63,109 shares issued and outstanding, respectively	$626	$631
Additional paid-in capital	679,689	650,162
Retained earnings	227,904	300,084
Accumulated other comprehensive loss, net	(54,442)	(83,837)
Total shareholders' equity	853,777	867,040

Total liabilities and shareholders' equity	$3,114,972	$3,099,597

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

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Sales	$1,364,920	$1,130,777	$2,518,702	$2,113,773
Cost of sales	1,014,534	846,274	1,925,825	1,581,692
Gross profit	350,386	284,503	592,877	532,081
Operating expenses:				
Selling and marketing	118,531	77,820	232,844	155,061
Research and development	60,753	45,579	112,758	88,688
General and administrative	91,063	64,566	166,577	134,146
Total operating expenses	270,347	187,965	512,179	377,895
Income from financial services	19,143	20,464	39,573	39,960
Operating income	99,182	117,002	120,271	194,146
Non-operating expense:				
Interest expense	8,032	3,802	15,946	6,667
Equity in loss of other affiliates	1,336	1,583	3,236	3,641
Other expense (income), net	(2,152)	1,805	9,456	1,886
Income before income taxes	91,966	109,812	91,633	181,952
Provision for income taxes	29,925	38,646	32,503	63,897
Net income	$62,041	$71,166	$59,130	$118,055
Net income per share:				
Basic	$0.99	$1.10	$0.94	$1.82
Diluted	$0.97	$1.09	$0.92	$1.80
Weighted average shares outstanding:				
Basic	62,895	64,406	63,012	64,726
Diluted	63,807	65,297	63,970	65,639

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

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Net income	$62,041	$71,166	$59,130	$118,055
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments, net of tax benefit (expense) of ($265) and ($435) in 2017 and ($172) and $28 in 2016	17,020	(10,904)	30,436	(1,038)
Unrealized loss on derivative instruments, net of tax benefit of $860 and $649 in 2017 and $44 and $4,318 in 2016	(1,397)	(74)	(1,041)	(7,259)
Comprehensive income	$77,664	$60,188	$88,525	$109,758

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

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

	Six months ended June 30, 2017	2016
Operating Activities:		
Net income	$59,130	$118,055
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	91,124	78,109
Noncash compensation	31,416	38,382
Noncash income from financial services	(13,328)	(14,828)
Deferred income taxes	(4,083)	(4,876)
Impairment charges	18,760	—
Other, net	3,236	3,641
Changes in operating assets and liabilities:		
Trade receivables	12,370	14,744
Inventories	(59,421)	27,605
Accounts payable	75,576	45,598
Accrued expenses	6,406	4,910
Income taxes payable/receivable	40,727	28,527
Prepaid expenses and others, net	2,136	8,416
Net cash provided by operating activities	264,049	348,283
Investing Activities:		
Purchase of property and equipment	(81,803)	(117,628)
Investment in finance affiliate, net	20,785	20,030
Investment in other affiliates	(1,814)	(6,861)
Acquisition and disposal of businesses, net of cash acquired	1,645	(54,830)
Net cash used for investing activities	(61,187)	(159,289)
Financing Activities:		
Borrowings under debt arrangements / capital lease obligations	932,317	1,202,652
Repayments under debt arrangements / capital lease obligations	(1,010,870)	(1,198,337)
Repurchase and retirement of common shares	(65,622)	(143,876)
Cash dividends to shareholders	(72,612)	(70,583)
Proceeds from stock issuances under employee plans	7,027	11,758
Net cash used for financing activities	(209,760)	(198,386)
Impact of currency exchange rates on cash balances	6,951	676
Net increase (decrease) in cash and cash equivalents	53	(8,716)
Cash and cash equivalents at beginning of period	127,325	155,349
Cash and cash equivalents at end of period	$127,378	$146,633
Supplemental Cash Flow Information:		
Interest paid on debt borrowings	$15,466	$6,537
Income taxes paid (refunded)	$(4,735)	$34,966

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

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POLARIS INDUSTRIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Note 1. Significant Accounting Policies

Basis of presentation. The accompanying unaudited consolidated financial statements of Polaris Industries Inc. ("Polaris" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial statements and, therefore, do not include all information and disclosures of results of operations, financial position and changes in cash flow in conformity with accounting principles generally accepted in the United States for complete financial statements. Accordingly, such statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2016 previously filed with the Securities and Exchange Commission ("SEC"). In the opinion of management, such statements reflect all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. Due to the seasonality trends for certain products and to certain changes in production and shipping cycles, results of such periods are not necessarily indicative of the results to be expected for the complete year.

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

Level 1 — Quoted prices in active markets for identical assets or liabilities.

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

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

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

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

	Fair Value Measurements as of June 30, 2017			
Asset (Liability)	Total	Level 1	Level 2	Level 3
Non-qualified deferred compensation assets	$ 50,556	$ 50,556	—	—
Total assets at fair value	$ 50,556	$ 50,556	—	—
Non-qualified deferred compensation liabilities	(50,556)	$ (50,556)	—	—
Foreign exchange contracts, net	(1,428)	—	$ (1,428)	—
Total liabilities at fair value	$ (51,984)	$ (50,556)	$ (1,428)	—

	Fair Value Measurements as of December 31, 2016			
Asset (Liability)	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)	$ —	—

Fair value of other financial instruments. The carrying values of the Company's short-term financial instruments, including cash and cash equivalents, trade receivables and short-term debt, including current maturities of long-term debt, capital lease obligations and notes payable, approximate their fair values. At June 30, 2017 and December 31, 2016, the fair value of the Company's long-term debt, capital lease obligations and notes payable was approximately $1,080,788,000 and

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$1,156,181,000, 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, capital lease obligations and notes payable including current maturities was $1,067,797,000 and $1,141,910,000 as of June 30, 2017 and December 31, 2016, respectively.

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

	June 30, 2017	December 31, 2016
Raw materials and purchased components	$147,673	$141,566
Service parts, garments and accessories	318,378	316,383
Finished goods	411,383	333,760
Less: reserves	(61,444)	(45,175)
Inventories	$815,990	$746,534

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Balance at beginning of period	$109,852	$67,207	$119,274	$56,474
Additions to warranty reserve through acquisitions	—	42	—	147
Additions charged to expense	30,122	38,358	61,816	67,531
Warranty claims paid, net	(31,571)	(28,734)	(72,687)	(47,279)
Balance at end of period	$108,403	$76,873	$108,403	$76,873

During 2016, the Company incurred significant additions to the warranty reserve, primarily associated with recall activity for certain RZR ORVs. In April 2016, the Company issued a voluntary recall for certain RZR 900 and 1000 ORVs 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 the second quarter of 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 the fourth quarter of 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):

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Balance at beginning of period	$30,445	—	$26,157	—
New contracts sold	8,772	8,276	15,114	8,276
Less: reductions for revenue recognized	(3,029)	(176)	(5,083)	(176)
Balance at end of period (1)	$36,188	$8,100	$36,188	$8,100

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(1) Unamortized extended service contract premiums (deferred revenue) of $14,678,000 and $21,510,000 were recorded in other current liabilities, and other long-term liabilities, respectively, as of June 30, 2017.

New accounting pronouncements.

Share-based payment accounting. During the first quarter of 2017, the Company adopted Accounting Standards Update (ASU) No. 2016-09, Improvements to Employee Share-Based Payment Accounting. As a result of the adoption, the Company recognized a tax benefit of $1,225,000 and $3,149,000 of excess tax benefits related to share-based payments in our provision for income taxes for the three and six months ended June 30, 2017. These items were historically recorded in additional paid-in capital. In addition, for each period presented, cash flows related to excess tax benefits are now classified as an operating activity along with other income tax related cash flows. The Company elected to apply the change in presentation of excess tax benefits in the statements of cash flows on a prospective basis. The Company's compensation expense each period continues to reflect estimated forfeitures.

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.

Statement of cash flows. In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that restricted cash be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of ASU 2016-18 are effective for years beginning after December 15, 2017, with early adoption permitted. The Company expects to adopt the requirements of the new standard for the Company's fiscal year beginning January 1, 2018, using the retrospective transition method, as required by the new standard. The adoption of this ASU is not expected to have a material impact to the consolidated statements of cash flows.

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.

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

Note 2. Acquisitions

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 $668,348,000, 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 June 30, 2017, 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):

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Cash and cash equivalents	$3,017
Trade receivables	18,214
Inventory	145,612
Property, plant and equipment	32,814
Customer relationships	87,000
Trademarks / trade names	175,500
Goodwill	264,324
Other assets	18,578
Deferred revenue	(7,944)
Other liabilities assumed	(65,750)
Total fair value of net assets acquired	671,365
Less cash acquired	(3,017)
Total consideration for acquisition, less cash acquired	$668,348

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.

	Three months ended June 30, 2016	Six months ended June 30, 2016
Net sales	$1,328,647	$2,499,277
Net income	$78,018	$129,067
Basic earnings per share	$1.21	$1.99
Diluted earnings per common share	$1.19	$1.97

Note 3. Share-Based Compensation

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

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Option plan	$5,649	$6,158	$7,071	$11,562
Other share-based awards	13,018	9,362	22,110	18,819
Total share-based compensation before tax	18,667	15,520	29,181	30,381
Tax benefit	6,933	5,789	10,838	11,332
Total share-based compensation expense included in net income	$11,734	$9,731	$18,343	$19,049

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

At June 30, 2017, there was $125,826,000 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 1.89 years. Included in unrecognized share-based compensation is approximately $42,458,000 related to stock options and $83,368,000 for restricted stock.

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Note 4. Financing Agreements

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

	Average interest rate at June 30, 2017	Maturity	June 30, 2017	December 31, 2016
Revolving loan facility	2.15%	May 2021	$118,268	$172,142
Term loan facility	2.44%	May 2021	720,000	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	5.03%	Various through 2029	19,868	19,306
Notes payable and other	3.50%	June 2027	12,383	13,618
Debt issuance costs			(2,722)	(3,156)
Total debt, capital lease obligations, and notes payable			$1,067,797	$1,141,910
Less: current maturities			2,831	3,847
Total long-term debt, capital lease obligations, and notes payable			$1,064,966	$1,138,063

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 term loan facility to $750,000,000, of which $720,000,000 is outstanding as of June 30, 2017.

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

The unsecured revolving loan facility and the Master Note Purchase Agreement contain covenants that require Polaris to maintain certain financial ratios, including minimum interest coverage and maximum leverage ratios. Polaris was in compliance with all such covenants as of June 30, 2017.

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

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

The Company has a mortgage note payable agreement for land, on which Polaris built the Huntsville, Alabama manufacturing facility in 2016. The original mortgage note payable was for $14,500,000, of which $12,083,000 is outstanding as of June 30, 2017. 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. The Company has met the required commitments to date. Forgivable loans related to other Company facilities are also included within notes payable.

Note 5. Goodwill and Other Intangible Assets

Goodwill and other intangible assets, net of accumulated amortization, as of June 30, 2017 and December 31, 2016 are as follows (in thousands):

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	June 30, 2017	December 31, 2016
Goodwill	$427,790	$421,563
Other intangible assets, net	359,145	371,416
Total goodwill and other intangible assets, net	$786,935	$792,979

There have been no material additions to goodwill and other intangible assets in 2017. 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.

In November 2016, the Company acquired TAP, a vertically integrated manufacturer, distributor, retailer and installer of off-road Jeep and truck accessories. TAP is based in Compton, California, and is included in the Aftermarket reporting segment. As of June 30, 2017, the purchase price allocation for the TAP acquisition remains preliminary.

The changes in the carrying amount of goodwill for the six months ended June 30, 2017 were as follows (in thousands):

	Six months ended June 30, 2017
Goodwill, beginning of period	$421,563
Goodwill from businesses acquired	—
Currency translation effect on foreign goodwill balances	6,227
Goodwill, end of period	$427,790

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

	Total estimated life (years)	June 30, 2017	December 31, 2016
Non-amortizable—indefinite lived:			
Brand names		$230,082	$ 229,121
Amortizable:			
Non-compete agreements	5	540	540
Dealer/customer related	5-10	167,537	164,837
Developed technology	5-7	22,755	26,048
Total amortizable		190,832	191,425
Less: Accumulated amortization		(61,769)	(49,130)
Net amortized other intangible assets		129,063	142,295
Total other intangible assets, net		$359,145	$ 371,416

Amortization expense for intangible assets for the three months ended June 30, 2017 and 2016 was $6,238,000 and $3,774,000, respectively. Estimated amortization expense for the remainder of 2017 through 2022 is as follows: 2017 (remainder), $14,000,000; 2018, $25,900,000; 2019, $24,400,000; 2020, $19,500,000; 2021, $17,100,000; 2022, $15,900,000; and after 2022, $12,300,000. 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 6. Shareholders' Equity

During the six months ended June 30, 2017, Polaris paid $65,622,000 to repurchase and retire approximately 758,000 shares of its common stock. As of June 30, 2017, the Board of Directors has authorized the Company to repurchase up to an additional 6,705,000 shares of Polaris stock. The repurchase of any or all such shares authorized for repurchase will be governed by applicable SEC rules and dependent on management's assessment of market conditions. Polaris paid a regular cash dividend of $0.58 per share on June 15, 2017 to holders of record at the close of business on

June 1, 2017. Cash dividends declared per common share for the three and six months ended June 30, 2017 and 2016, were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Cash dividends declared and paid per common share	$0.58	$0.55	$1.16	$1.10

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Weighted average number of common shares outstanding	62,638	64,130	62,756	64,444
Director Plan and deferred stock units	157	166	151	181
ESOP	100	110	105	101
Common shares outstanding—basic	62,895	64,406	63,012	64,726
Dilutive effect of Omnibus Plan	912	891	958	913
Common and potential common shares outstanding—diluted	63,807	65,297	63,970	65,639

During the three and six months ended June 30, 2017, 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 3,626,000 and 3,398,000, respectively, compared to 1,809,000 and 1,672,000 for the same periods in 2016.

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, 2016	$(84,133)	$ 296	$ (83,837)
Reclassification to the income statement	—	(2,171)	(2,171)
Change in fair value	30,436	1,130	31,566
Balance as of June 30, 2017	$(53,697)	$ (745)	$ (54,442)

The table below provides data about the amount of gains and losses, net of tax, reclassified from accumulated other comprehensive loss into the income statement for cash flow derivatives designated as hedging instruments for the three and six months ended June 30, 2017 and 2016 (in thousands):

Derivatives in Cash Flow Hedging Relationships	Location of (Gain) Loss Reclassified from Accumulated OCI into Income	Three months ended June 30,		Six months ended June 30,	
		2017	2016	2017	2016
Foreign currency contracts	Other expense, net	$1,380	$493	$2,607	$2,423
Foreign currency contracts	Cost of sales	(32)	(278)	(436)	(849)
Total		$1,348	$215	$2,171	$1,574

The net amount of the existing gains or losses at June 30, 2017 that is expected to be reclassified into the income statement within the next 12 months is not expected to be material. See Note 10 for further information regarding Polaris' derivative activities.

Note 7. Financial Services Arrangements

Polaris Acceptance, a joint venture between Polaris and Wells Fargo Commercial Distribution Finance, a direct subsidiary of Wells Fargo Bank, N.A. ("Wells Fargo"), which is supported by a partnership agreement between their respective wholly owned subsidiaries, finances substantially all of Polaris' United States sales whereby Polaris receives payment within a few days of shipment of the product.

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"

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under Accounting Standards Codification ("ASC") 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 $86,552,000 at June 30, 2017 is accounted for under the equity method, and is recorded in investment in finance affiliate in the accompanying consolidated balance sheets. At June 30, 2017, the outstanding amount of net receivables financed for dealers under this arrangement was $1,078,043,000, which included $467,531,000 in the Polaris Acceptance portfolio and $610,512,000 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 2017, the potential 15 percent aggregate repurchase obligation is approximately $183,951,000. Polaris' financial exposure under this arrangement is limited to the difference between the amounts unpaid by the dealer with respect to the repossessed product plus costs of repossession and the amount received on the resale of the repossessed product. No material losses have been incurred under this agreement during the periods presented.

Polaris has agreements with 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 8. Investment in Other Affiliates

The Company has certain investments in nonmarketable securities of strategic companies. As of June 30, 2017 and December 31, 2016, the Company's investment in Eicher-Polaris Private Limited (EPPL) represents the majority of these investments and is recorded as a component 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 June 30, 2017 and December 31, 2016, the carrying value of the Company's investment in EPPL was $19,930,000 and $20,182,000, respectively. Through June 30, 2017, Polaris has invested $45,016,000 in the joint venture. Polaris' share of EPPL loss for the three and six months ended June 30, 2017 was $1,336,000 and $3,236,000, respectively, compared to $1,583,000 and $3,641,000, for the same respective periods in 2016. The loss is included in equity in loss of other affiliates on the consolidated statements of income.

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. As a result of the Victory Motorcycle wind down, the Company
recorded an impairment of a cost-method investment in Brammo, Inc. during the first quarter of 2017. See Note 12 for additional discussion related to charges incurred related to the Victory wind down.

Note 9. Commitments and Contingencies

Polaris is subject to product liability claims in the normal course of business. In late 2012, Polaris purchased excess insurance coverage for catastrophic product liability claims for incidents occurring after the policy date. Polaris self-insures product liability claims before the policy date and up to the purchased catastrophic insurance coverage after the policy date. The estimated costs resulting from any losses are charged to operating expenses when it is probable a loss has been incurred and the amount of the loss is reasonably determinable. The Company utilizes historical trends and actuarial analysis tools, along with an analysis of current claims, to assist in determining the appropriate loss reserve levels. At June 30, 2017, the Company had an accrual of $38,165,000 for the probable payment of pending claims related to product liability litigation associated with Polaris products. This accrual is included as a component of other accrued expenses in the accompanying consolidated balance sheets.

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

As a component of certain past acquisition agreements, Polaris has committed to make additional payments to certain sellers contingent upon either the passage of time or certain financial performance criteria. Polaris initially records the fair value of each commitment as of the respective opening balance sheet, and each reporting period the fair value is evaluated, using level 3 inputs, with the change in value reflected in the consolidated statements of income. As of June 30, 2017 and December 31, 2016, the fair values of contingent purchase price commitments are immaterial.

Note 10. 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 entered into in order to manage fluctuating market prices of certain purchased commodities and raw materials that are integrated into the Company's end products.

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

At June 30, 2017, Polaris had the following open foreign currency contracts (in thousands):

Foreign Currency	Notional Amounts (in U.S. Dollars)	Net Unrealized Gain (Loss)
Australian Dollar	$ 25,653	$ (307)
Canadian Dollar	129,555	(1,644)
Japanese Yen	2,533	(35)
Mexican Peso	8,040	558
Total	$ 165,781	$ (1,428)

These contracts, with maturities through June 2018, 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.

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The table below summarizes the carrying values of derivative instruments as of June 30, 2017 and December 31, 2016 (in thousands):

	Carrying Values of Derivative Instruments as of June 30, 2017		
	Fair Value—Assets	Fair Value—(Liabilities)	Derivative Net Carrying Value
Derivatives designated as hedging instruments			
Foreign exchange contracts(1)	$ 583	$ (2,011)	$ (1,428)
Total derivatives designated as hedging instruments	$ 583	$ (2,011)	$ (1,428)
Total derivatives	$ 583	$ (2,011)	$ (1,428)

	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

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

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

The amount of losses, net of tax, related to the effective portion of derivative instruments designated as cash flow hedges included in accumulated other comprehensive loss for the three and six months ended June 30, 2017 was $1,397,000 and $1,041,000, respectively, compared to $74,000 and $7,259,000 for the same respective periods in 2016.

See Note 6 for information about the amount of gains and losses, net of tax, reclassified from accumulated other comprehensive loss into the income statement for derivative instruments designated as hedging instruments. The ineffective portion of foreign currency contracts was not material for the three and six month periods ended June 30, 2017.

Note 11. 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) Aftermarket, and four reportable segments: 1) ORV/Snowmobiles, 2) Motorcycles, 3) Global Adjacent Markets, and 4) Aftermarket.

Through December 31, 2016, the Company reported under three segments for segment reporting. However, during the first quarter ended March 31, 2017, as a result of the acquisition of TAP, the Company established a new reporting segment, Aftermarket, which includes the results of TAP as well as the other aftermarket brands. The comparative 2016 results were reclassified to reflect the new reporting segment structure.

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

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	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Sales				
ORV/Snowmobiles	$845,508	$799,332	$1,569,611	$1,507,435
Motorcycles	197,997	228,392	318,286	413,659
Global Adjacent Markets	97,022	90,959	188,577	165,068
Aftermarket	224,393	12,094	442,228	27,611
Total sales	$1,364,920	$1,130,777	$2,518,702	$2,113,773
Gross profit				
ORV/Snowmobiles	$266,150	$228,494	$479,109	$434,481
Motorcycles	21,116	38,915	1,235	