POLARIS INDUSTRIES INC/MN
Form 10-K
February 21, 2014

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, 2013
Commission file number 001-11411
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)
Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value	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 x 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 x

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 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 x 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 x
The aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was approximately $6,541,011,000 as of June 30, 2013, 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 14, 2014, 65,721,035 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, 2013 (the “2013 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 24, 2014 to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this report (the “2014 Proxy Statement”), are incorporated by reference into Part III of this Form 10-K.

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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 the early 1950’s. We design, engineer and manufacture Off-Road Vehicles (ORV), including All-Terrain Vehicles (ATV) and side-by-side vehicles for recreational and utility use, Snowmobiles, Motorcycles and Small Vehicles (SV), together with the related replacement Parts, Garments and Accessories (PG&A). These products are sold through dealers and distributors principally located in the United States, Canada and Europe. Sales of ORVs, Snowmobiles, Motorcycles, SVs and PG&A accounted for the following approximate percentages of our sales for the years ended December 31:

	ORVs	Snowmobiles	Motorcycles	Small Vehicles	PG&A
2013	67%	8%	6%	3%	16%
2012	69%	9%	6%	2%	14%
2011	69%	11%	5%	—%	15%

Industry Background

Off-Road Vehicles. Our ORVs include core ATVs and RANGER® and RZR® side-by-side vehicles. ATVs are four-wheel vehicles with balloon style tires designed for off-road use and traversing rough terrain, swamps and marshland. Side-by-side vehicles are multi-passenger off-road, all-terrain vehicles that can carry up to six passengers in addition to cargo. ORVs are used for recreation, in such sports as fishing and hunting and for trail and dune riding, for utility purposes on farms, ranches, construction sites and for certain military applications.

ATVs were introduced to the North American market in 1971 by Honda Motor Co., Ltd. (“Honda”). Other Japanese motorcycle manufacturers, including Yamaha Motor Corporation (“Yamaha”), Kawasaki Motors Corp. (“Kawasaki”), and Suzuki Motor Corporation (“Suzuki”), entered the North American ATV market in the late 1970’s and early 1980’s. We entered the ATV market in 1985, Arctic Cat Inc. (“Arctic Cat”) entered in 1995 and Bombardier Recreational Products Inc. (BRP) entered in 1998 with their Can-Am product line. In addition, numerous Chinese and Taiwanese manufacturers of youth and small ATVs exist for which limited industry sales data is available. By 1985, the number of three- and four-wheel ATVs sold in North America had grown to approximately 650,000 units per year, then dropped dramatically to a low of 148,000 in 1989. The ATV industry then grew each year in North America from 1990 until 2005, but declined between 2005 and 2011, primarily due to weak overall economic conditions and a move to side-by-side vehicles, until returning to growth in 2012. Internationally, ATVs are also sold primarily in Western European countries by similar manufacturers as in North America. Due primarily to a decline in ATV sales in Western Europe, we estimate that during 2013 world-wide industry sales decreased approximately two percent from 2012 levels with an estimated 407,000 ATVs sold worldwide.

We estimate that the side-by-side vehicle market sales increased approximately ten percent during 2013 over 2012 levels with an estimated 385,000 side-by-side vehicles sold worldwide. The side-by-side market is up primarily due to continued innovation by existing and new manufacturers. The main competitors for our RANGER and RZR side-by-side vehicles are Deere & Company (“Deere”), Kawasaki, Yamaha, Arctic Cat, Kubota Tractor Corporation (“Kubota”), Honda and BRP's Can-Am product line.

We estimate that total off-road vehicle industry sales for 2013, which includes core ATVs and side-by-side vehicles, increased three percent from 2012 levels with an estimated 792,000 units sold worldwide.

Snowmobiles. In the early 1950’s, a predecessor to Polaris produced a “gas powered sled,” which became the forerunner of the Polaris snowmobile. Snowmobiles have been manufactured under the Polaris name since 1954. Originally conceived as a utility vehicle for northern, rural environments, over time the snowmobile gained popularity as a recreational vehicle. From the mid-1950’s through the late 1960’s, over 100 producers entered the snowmobile market and snowmobile sales reached a peak of approximately 495,000 units in 1971. The Polaris product survived the industry decline in which snowmobile sales fell to a low point of approximately 87,000 units in 1983 and the number of snowmobile manufacturers serving the North American market declined to four: Yamaha, BRP's Ski-Doo product line, Arctic Cat and Polaris. These four manufacturers also sell snowmobiles in certain overseas markets where the climate is conducive to snowmobile riding. From 1984 to 1997 the industry grew to approximately 260,000 units before gradually declining through the 2012 season. We estimate that during the season ended March 31, 2013, industry sales of

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snowmobiles on a worldwide basis are estimated at 136,000 units, up approximately four percent from the previous season.

Motorcycles. Polaris' Motorcycles division consists of Victory® and Indian® motorcycles. Heavyweight 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 heavyweight motorcycle market in 1998 with an initial Victory product in the cruiser segment. We entered the touring segment in 2000. In 2011, we purchased the Indian Motorcycle brand to complement our Victory brand of motorcycles. In 2013, we re-launched the Indian brand by releasing the first three Indian motorcycle models engineered by Polaris. The North America industry retail cruiser sales more than doubled from 1996 to 2006; however, the motorcycle industry declined in 2007 through 2010 due to weak overall economic conditions. The motorcycle industry has rebounded with growth beginning in 2011. We estimate that the combined 1,400cc and above cruiser and touring market segments increased six percent in 2013 compared to 2012 levels with an estimated 184,000 heavyweight cruiser and touring motorcycles sold in the North American market. Other major heavyweight cruiser and touring motorcycle manufacturers include BMW of North America, LLC ("BMW"), Triumph Motorcycles Ltd., Harley-Davidson, Inc., Honda, Yamaha, Kawasaki and Suzuki.

Small Vehicles. We introduced our initial SV product, the Polaris Breeze®, in 2009, which was an electric powered vehicle primarily used in master planned communities in the Sunbelt region of the United States. In 2011, we ceased production of the Breeze line of products and made two SV acquisitions, Global Electric Motorcars LLC (GEM) and Goupil Industries S.A. ("Goupil"). We expanded our SV portfolio in 2013 by acquiring A.M. Holding S.A.S., which operates under the name Aixam Mega S.A.S. (Aixam). Through these acquisitions, we now offer products in the light-duty hauling, people mover and urban/suburban commuting sub-sectors of the small vehicles industry. We estimate the worldwide target market for small vehicles at approximately $4.0 billion in 2013, which includes master planned communities and golf courses, light duty hauling, people movers, urban/suburban commuting and related quadricycles. Other major small vehicle manufacturers include Textron Inc.'s "E-Z-GO," Ingersoll-Rand Plc.'s "Club Car," Yamaha and DrivePlanet's "Ligier."

Products

Off-Road Vehicles. We entered the ORV market in 1985 with an ATV. We currently produce four-wheel ATVs, which provide more stability for the rider than earlier three-wheel versions. In 2000, we introduced our first youth ATV models. In 1998, we introduced the Polaris RANGER, a six-wheeled off-road side-by-side utility vehicle and in 2000, we introduced a four-wheeled version of the RANGER utility vehicle. In 2004, we introduced a military version ATV and side-by-side vehicles with features specifically designed for ultra-light tactical military applications. In 2007, we introduced our first recreational side-by-side vehicle, the RZR®, and our first six-passenger side-by-side vehicle, the RANGER Crew®. Our standard line of military and government vehicles for 2014 consists of 7 models at suggested United States retail prices ranging from approximately $7,000 to $55,000. Our full line of ORVs beyond military vehicles consists of approximately 40 models, including two-, four- and six-wheel drive general purpose, commercial, recreational and side-by-side models, with 2014 model year suggested United States retail prices ranging from approximately $2,100 to $22,000.

Most of our ORVs feature the totally 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 engines and both shaft and concentric chain drive. Over the past 11 years, we have introduced the industry's first electronic fuel injected ATV, the first independent rear suspension on a sport ATV and helped create the recreational side-by-side segment through introduction of our RZR vehicles. Our lineup of ORVs has continued to expand over the past years through introduction of electric ORVs and commercial focused ORVs. Our family of ORVs includes utility and recreational Sportsman® ATVs, sport-styled Scrambler® ATVs, utility and recreational RANGER side-by-side vehicles, commercial-utility BRUTUS® side-by-side vehicles and recreational RZR side-by-side vehicles. In many of these segments, we offer youth, value, mid-size, trail and high-performance vehicles, which come in both single passenger and multi-passenger seating arrangements. Our key ORV product introductions in 2013 included the Sportsman 570 EFI with an all-new liquid-cooled, single cylinder

Pro-Star 570 engine with electronic fuel injection, the commercial utility BRUTUS, the multi-passenger RANGER Crew 900 and the high-performance RZR XP® 1000.
Snowmobiles. We produce a full line of snowmobiles consisting of approximately 25 models, ranging from youth models to utility and economy models to performance and competition models. The 2014 model year suggested United States

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retail prices range from approximately $2,700 to $12,600. Polaris snowmobiles are sold principally in the United States, Canada and Europe. We believe our snowmobiles have a long-standing reputation for quality, dependability and performance. We believe that we were the first to develop several features for wide commercial use in snowmobiles, including independent front suspension, long travel rear suspension, hydraulic disc brakes, liquid cooling for brakes and a three cylinder engine. In 2001, we introduced a new, more environmentally-friendly snowmobile featuring a four-stroke engine designed specifically for snowmobiles. In 2009, we introduced the first true progressive-rate rear suspension snowmobile, the Polaris RUSH®.

Motorcycles. In 1998, we began manufacturing V-twin cruiser motorcycles under the Victory brand name. In 2008, we introduced our first luxury touring model, the Victory Vision®. In 2009, we expanded our touring product line to include the Victory Cross Roads® and Cross Country® models. In 2011, we acquired Indian Motorcycle Company, America's first motorcycle company, and in 2013 we re-launched the Indian brand by releasing the first three Indian motorcycle models engineered by Polaris: Indian Chief® Classic, Indian Chief® Vintage and Indian Chieftain™. Our 2014 model year line of motorcycles for both Victory and Indian consists of approximately 20 models with suggested U.S. retail prices ranging from approximately $12,500 to $30,000.

Small Vehicles. In 2009, we introduced our first SV, the Polaris Breeze. In 2011, we ceased production of the Breeze electric vehicles and acquired GEM and Goupil to expand and complement our small vehicle product line. In 2013, we further expanded our SV division by acquiring Aixam. GEM addresses the people mover segment of low emission vehicles, Goupil, a French company, addresses the light duty hauling segment and Aixam, also a French company, addresses both the passenger and light duty hauling segments. GEM has nine SV models, while Goupil and Aixam each have three base platforms that are modular and can be configured to meet numerous custom needs from park and garden maintenance to delivery and other commercial needs. Additionally, Aixam has 4 base models of passenger-based quadricycles that are sold primarily in Western Europe. Prices for SVs range from $8,000 to $40,000, depending on the model and application.

Parts, Garments and Accessories. We produce or supply a variety of replacement parts and accessories for our product lines. ORV accessories include winches, bumper/brushguards, plows, racks, mowers, tires, pull-behinds, cabs, cargo box accessories, tracks and oil. Snowmobile accessories include covers, traction products, reverse kits, electric starters, tracks, bags, windshields, oil and lubricants. 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 product lines, including helmets, jackets, bibs and pants, leathers and hats. In 2012, we acquired Teton Outfitters, LLC (d/b/a Klim), which specializes in premium technical riding gear for the snowmobile and motorcycle industries. 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.

Marine Products Division. We entered the personal watercraft market in 1992. In September 2004, we announced that we had decided to cease manufacturing marine products effective immediately. As technology and the distribution channel evolved, the marine products division's lack of commonality with our other product lines created challenges for us and our dealer base. The marine products division continued to experience escalating costs and increasing competitive pressures and was never profitable.

Manufacturing and Distribution Operations

Our products are assembled at our original manufacturing facility in Roseau, Minnesota and at our facilities in Spirit Lake, Iowa, and its surrounding areas, Osceola, Wisconsin, Monterrey, Mexico and in facilities across France. Since our product lines incorporate similar technology, substantially the same equipment and personnel are employed in their production in North America. We are vertically integrated in several key components of our manufacturing process, including plastic injection molding, welding, clutch assembly and balancing 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. Our work force is familiar with the use, operation and maintenance of the products since many employees own the products we manufacture. In 2010, we announced plans to realign our manufacturing operations. We have created manufacturing centers of excellence for our products by enhancing the existing Roseau and Spirit Lake production facilities and established a manufacturing facility in Monterrey, Mexico, which became operational in 2011, that assembles ORVs and certain engines. This realignment led to the sale of part of our Osceola, Wisconsin manufacturing operations, moving frame tube bending into Roseau and Monterrey, and outsourcing some operations including seat manufacturing and stamping. Several of the engines used in our vehicles continue to be manufactured in Osceola. In 2013, construction began on a new

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manufacturing facility in Opole, Poland, which is expected to be completed in 2014. The Opole, Poland facility is expected to manufacture ORVs to serve the European market. Goupil has its manufacturing operations in Bourran, France, while Aixam has its manufacturing operations in Aix-les-Bains and Chanas, France. Our Roseau, Minnesota facility primarily manufactures ORVs and snowmobiles and our Monterrey, Mexico facility primarily manufactures ORVs. Our facilities in Spirit Lake, Iowa and its surrounding areas primarily manufacture ORVs, motorcycles and GEM vehicles.

Pursuant to informal agreements between us and Fuji Heavy Industries Ltd. ("Fuji"), Fuji was the sole manufacturer of our two-cycle snowmobile engines from 1968 to 1995. Fuji has manufactured engines for our ATV products since their introduction in 1985. We had entered into an agreement with Fuji to form Robin Manufacturing, U.S.A. ("Robin") in 1995. Under the agreement, we made an investment for a 40 percent ownership position in Robin, which built engines in the United States for recreational and industrial products. The Robin facility was closed in 2011 as the production volume of engines made at the facility had declined significantly in recent years. Since 2011, our reliance on and use of Fuji manufactured engines in our products has steadily declined as our engine manufacturing capabilities have expanded. We expect our use of Fuji engines in our vehicles to continue to decline throughout 2014.

We have been designing and producing our own engines for select models of snowmobiles since 1995, for all Victory motorcycles since 1998, for select ORV models since 2001 and for Indian motorcycles since the re-launch in 2013. During 2013, approximately 65 percent of the total vehicles we produced were powered by engines designed and assembled by us.

In 2000, we entered into an agreement with a Taiwanese manufacturer to co-design, develop and produce youth ATVs. We have since expanded the agreement with the Taiwanese manufacturer in 2004 to include the design, development and production of value-priced smaller adult ATV models and in 2008 to include a youth side-by-side vehicle, the RANGER RZR 170.

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 setup and up-fitting is completed for certain models before shipment to customers.

We maintain sales and administration facilities in Medina and Plymouth, Minnesota; Rigby, Idaho; Winnipeg, Canada; Derrimut, Australia; Shanghai, China; Rolle, Switzerland; Sao Paulo, Brazil; New Delhi, India; and in most Western European countries. Our primary North American dealer PG&A distribution facilities are in Vermillion, South Dakota, Wilmington, Ohio, and Rigby, Idaho. We have various other locations around the world that distribute PG&A to our international dealers and distributors.

Production Scheduling

We produce and deliver our products throughout the year based on dealer, distributor and customer orders. Beginning in 2008, we began testing a new dealer ordering process called Maximum Velocity Program (MVP), where ORV 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 MVP process, but on a less frequent ordering cycle. Effective in 2010, the MVP process was being utilized by all North American ORV dealers. For MVP dealers, ORV 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. In 2012, we began utilizing our Retail Flow Management (RFM) ordering system for Victory motorcycles, and now also use it as the ordering system for Indian motorcycles. 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. Prior to RFM, Victory motorcycle dealers would place annual orders in the summer. For non-MVP and RFM dealers and products, units are built to order each year, subject to fluctuations in market conditions and supplier lead times. The anticipated volume of units to be produced is substantially committed to by dealers and distributors prior to production.

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 SV's year round. We have the ability to mix production of the various products on the existing manufacturing lines as demand dictates.

Sales and Marketing

Our products are sold through a network of approximately 1,750 independent dealers in North America, through 22 subsidiaries and approximately 85 distributors in over 100 countries outside of North America.

We sell our snowmobiles directly to dealers in the snowbelt regions of the United States and Canada. Many dealers and distributors of our snowmobiles also distribute our ORVs. At the end of 2013, approximately 750 Polaris dealers were located in areas of the United States where snowmobiles are not regularly sold. Unlike our primary competitors, which market their ORV products principally through their affiliated motorcycle dealers, we also sell our ORVs through lawn and garden and farm implement dealers.

With the exception of France, the United Kingdom, Sweden, Norway, Australia, New Zealand, Germany, Spain, China, India and Brazil, sales of our non-SV products in Europe and other offshore markets are handled through independent distributors. In 2011 through 2013, we acquired GEM, Goupil and Aixam in the SV division and Klim in the PG&A division, which each have their own dealer/distributor relationships established. See Notes 1 and 12 of Notes to Consolidated Financial Statements for further discussion of international operations.

Victory and Indian motorcycles are distributed directly through independently owned dealers and distributors, except in Australia where we have three Company-owned retail stores. We have a high quality dealer network for our other product lines from which many of the approximately 450 current North American Victory dealers were selected. Indian Motorcycle currently has approximately 140 North American dealers signed up, of which approximately 60 are retailing Indian motorcycles as of the end of 2013. We expect the number of Indian retailing dealerships to continue to increase over the coming years. In 2005, we began selling Victory motorcycles in the United Kingdom. Since 2005, we have been gradually expanding our international sales of motorcycles, primarily in Europe and Australia. We expect to further expand our motorcycle dealer network over the next few years in North America and internationally for both Victory and Indian motorcycles.

The SV businesses each have their own distribution networks through which their respective vehicles are distributed. GEM has approximately 270 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.

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. In addition, we sell Polaris vehicles directly to military and government agencies and other national accounts and we supply a highly differentiated side-by-side vehicle branded Bobcat to their dealerships in North America. In 2013, we entered into a partnership with Ariens Company ("Ariens"), a Brillion, Wisconsin based manufacturer of outdoor power equipment. Through the partnership, we anticipate leveraging each other's dealer networks, sharing certain technologies, research and development and supplying Ariens with a highly differentiated work vehicle to sell through its dealer network.

In 1996, a wholly-owned subsidiary of Polaris entered into a partnership agreement with a subsidiary of Transamerica Distribution Finance (TDF) to form Polaris Acceptance. Polaris Acceptance provides floor plan financing to our dealers in the United States. Under the partnership agreement, we have a 50 percent equity interest in Polaris Acceptance. We do not guarantee the outstanding indebtedness of Polaris Acceptance. In 2004, TDF was merged with a subsidiary of General Electric Company (GE) and, as a result of that merger, TDF’s name was changed to GE Commercial Distribution Finance Corporation (GECDF). No significant change in the Polaris Acceptance relationship resulted from the change of ownership from TDF. In November 2006, Polaris Acceptance sold a majority of its receivable portfolio to a securitization facility arranged by General Electric Capital Corporation, a GECDF affiliate (“Securitization Facility”), and the partnership agreement was amended to provide that Polaris Acceptance would continue to sell portions of its receivable portfolio to the Securitization Facility from time to time on an ongoing basis. See Notes 4 and 8 of Notes to Consolidated Financial Statements for a discussion of this financial services arrangement.

We have arrangements with Polaris Acceptance (United States) and GE affiliates (Australia, Canada, France, Germany, the United Kingdom, Ireland, Sweden, China and New Zealand) to provide floor plan financing for our dealers. A majority of our United States sales of snowmobiles, ORVs, motorcycles, SVs 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

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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. If necessary, we will adjust our sales return allowance at the time of sale should we anticipate material repurchases of units financed through the finance companies. See Note 8 of Notes to Consolidated Financial Statements for a discussion of these financial services arrangements.

In August 2005, a wholly-owned subsidiary of Polaris entered into a multi-year contract with HSBC Bank Nevada, National Association (“HSBC”), formerly known as Household Bank (SB), N.A., under which HSBC managed our private label credit card program under the StarCard label for the purchase of Polaris products. Since then, HSBC’s U.S. Credit Card and Retail Services business has been acquired by Capital One. Our current agreement with Capital One expires in October 2014.

In April 2006, a wholly-owned subsidiary of Polaris entered into a multi-year contract with GE Money Bank (“GE Bank”) under which GE 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 GE Bank provides installment credit lending for motorcycles expires in March 2016.

In January 2009, a wholly-owned subsidiary of Polaris entered into a multi-year contract 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 exclusive installment credit lending for ORVs, snowmobiles and certain other Polaris products expires in February 2016.

We promote our brands among the riding and non-riding public and provide a wide range of products for enthusiasts by licensing the name Polaris. We currently license the production and sale of a range of items, including die cast toys, ride-on toys and numerous other products.

We sell clothing and accessories through our e-commerce sites polaris.com and klim.com.

Our marketing activities are designed primarily to promote and communicate directly with consumers and secondarily 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 and gain market share. We advertise our products directly to consumers using print advertising in the industry press and in user group publications and on the internet, 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. From time to time, 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, leaflets, posters, dealer signs, and miscellaneous other promotional items for use by dealers.

We expended $270.3 million, $210.4 million, and $178.7 million for sales and marketing activities in 2013, 2012 and 2011, respectively.

Engineering, Research and Development, and New Product Introduction

We have approximately 600 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. Our recent SV acquisitions of GEM, Goupil and Aixam included research and development resources for their respective product lines. We believe Polaris was the first to develop, for wide commercial use, independent front suspensions for snowmobiles, long travel rear suspensions for snowmobiles, liquid cooled snowmobile brakes, hydraulic brakes for snowmobiles, the three cylinder engine in snowmobiles, the adaptation of the MacPherson strut front suspension, “on demand” all-wheel drive systems and the Concentric Drive System for use in ORVs, the application of a forced air cooled variable power transmission system in ORVs and the use of electronic fuel injection for ORVs.

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. In 2013, we completed a project which more than doubled our research and development facility in Wyoming, Minnesota to 272,000 square feet. We utilize our Wyoming, Minnesota facility for engineering, design and

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development personnel for our line of engines and powertrains, ORVs, Victory and Indian motorcycles, and SVs. In 2010, we acquired Swissauto Powersports Ltd., an engineering company that develops high performance and high efficiency engines and innovative vehicles.

We expended $139.2 million, $127.4 million, and $105.6 million for research and development activities in 2013, 2012 and 2011, 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 international locations.

Competition

The off-road vehicle, snowmobile, motorcycle and small vehicle markets in the United States, Canada and other global markets 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 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 and off-road vehicles. The National Highway Transportation Safety Administration (NHTSA) has federal oversight over product safety issues related to motorcycles and small 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 which 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 and RZR side-by-side vehicles. Since early 2008, ROHVA has been engaged in a comprehensive process for developing a voluntary standard for equipment, configuration and performance requirements of ROVs through ANSI. Comments on the draft standard were 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 revised in 2011. In November 2013, the standard was reopened for maintenance and additional revisions. Comments on proposed revisions will be actively solicited from the CPSC and other stakeholders as part of the ANSI process.

In October 2009, the CPSC published an advance notice of proposed rulemaking regarding ROV safety under the Consumer Product Safety Act. The CPSC noted the draft standard developed by ROHVA and expressed concerns with the draft standard in certain respects, which has resulted in meetings between ROHVA and CPSC Commissioners and staff and revisions to the ANSI standard. The CPSC has not yet issued a Notice of Proposed Rulemaking, and we are unable to predict the outcome of the CPSC rule-making procedure or the ultimate impact any resulting rules on our business and operating results.

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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.

Motorcycle and SVs are subject to federal vehicle safety standards administered by the NHTSA and are also subject to various state vehicle equipment standards. We believe our motorcycles and SVs have complied with applicable federal and state safety standards.

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, SVs, ORVs and snowmobiles 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.

The CARB has emission regulations for ORVs that we already meet. In 2002, the EPA established new corporate average emission standards effective for model years 2006 and later, for off-road recreational vehicles, including ATVs, off-road side-by-side vehicles and snowmobiles. We have developed engine and emission technologies along with our existing technology base to meet current and future requirements, including chassis-based emission requirements that became effective in model year 2014. In 2008, the EPA announced its intention to issue a future rulemaking on snowmobiles in or around 2010 and any new emission standards under this rule would be effective after model year 2012. No further EPA rulemaking activity has followed. In 2013, CARB proposed evaporative emission regulations that could take effect in model year 2018 ORVs, similar to what the Company already complies with for motorcycles.

Victory and Indian motorcycles are also subject to EPA and CARB emission standards. We believe that our motorcycles have complied with these standards. GEM electric vehicles are subject to CARB emissions certification requirements, which they meet.

Our products are also subject to international laws and regulations related to emissions 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, and these products meet the applicable requirements. The European Parliament and Council in 2013 issued new regulations that will change these European emission requirements as early as 2016. The details of the future EU regulations are being finalized in 2014. Emissions from other Polaris off-road products in the EU will be covered by the non-road mobile machinery directive, which is also currently being revised. Polaris is reviewing the technology requirements of these future EU regulations. We believe that our motorcycles, ORVs and snowmobiles have complied 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 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 2013, on a worldwide basis, we employed an average of approximately 5,400 full-time persons, a 20 percent increase from 2012. Approximately 2,400 of our employees are salaried. We consider our relations with our employees to be excellent.

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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 2013 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 21, 2014, their ages, titles, the year first appointed as an executive officer, and employment for the past five years:

Name	Age	Title
Scott W. Wine	46	Chairman of the Board of Directors and Chief Executive Officer
Bennett J. Morgan	50	President and Chief Operating Officer
Michael W. Malone	55	Vice President—Finance and Chief Financial Officer
Todd-Michael Balan	44	Vice President—Corporate Development
Stacy L. Bogart	50	Vice President—General Counsel, Compliance Officer and Secretary
Michael D. Dougherty	46	Vice President—Asia Pacific and Latin America
Stephen L. Eastman	49	Vice President—Parts, Garments and Accessories
Matthew J. Homan	42	Vice President—Europe, Middle East, Africa and Small Vehicles
Michael P. Jonikas	53	Vice President—Snowmobiles and Slingshot
Suresh Krishna	45	Vice President—Global Operations and Integration
David C. Longren	55	Vice President—Off-Road Vehicles and Off-Road Vehicles Engineering
James P. Williams	51	Vice President—Human Resources

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. Prior to joining Polaris, Mr. Wine was President of Fire Safety Americas, a division of United Technologies, a provider of high technology products and services to the building systems and aerospace industries, from 2007 to August 2008. Prior to that, Mr. Wine held senior leadership positions at Danaher Corp. in the United States and Europe from 2003 to 2007, including President of its Jacob Vehicle Systems and Veeder-Roots subsidiaries, and Vice President and General Manager, Manufacturing Programs in Europe. From 1996 to 2003, Mr. Wine held a number of operations and executive posts, both international and domestic with Allied Signal Corporations' Aerospace Division.

Mr. Morgan has been President and Chief Operating Officer of the Company since April 2005; prior to that he was Vice President and General Manager of the ATV division of Polaris. Prior to managing the ATV division, Mr. Morgan was General Manager of the PG&A division for Polaris from 1997 to 2001. He joined Polaris in 1987 and spent his early career in various product development, marketing and operations management positions of increasing responsibility.

Mr. Malone has been Vice President—Finance and Chief Financial Officer of the Company since January 1997. From January 1997 to January 2010, Mr. Malone also served as Corporate Secretary. Mr. Malone was Vice President and Treasurer of the Company from December 1994 to January 1997 and was Chief Financial Officer and Treasurer of a predecessor company of Polaris from January 1993 to December 1994. Prior thereto and since 1986, he was Assistant Treasurer of a predecessor company of Polaris. Mr. Malone joined Polaris in 1984 after four years with Arthur Andersen LLP.

Mr. Balan joined Polaris in July 2009 as Vice President—Corporate Development. Prior to joining Polaris, Mr. Balan was Director of Marketing and Strategy for United Technologies Fire & Security Business from 2007 to June 2009. Prior to that, Mr. Balan held various marketing, general management, business development, and strategy roles within Danaher Corp. from 2001 to 2007. Mr. Balan's work history also includes various strategy, marketing, and sales management roles with Emerson Electric and Colfax Corporation.

Ms. Bogart has been Vice President—General Counsel and Compliance Officer of Polaris since November 2009 and Corporate Secretary since January 2010. From February 2009 to November 2009, Ms. Bogart was General Counsel of Liberty Diversified International. From October 1999 until February 2009, Ms. Bogart held several positions at The Toro Company, including Assistant General Counsel and Assistant Secretary. Before joining The Toro Company, Ms. Bogart was a Senior Attorney for Honeywell Inc.

Mr. Dougherty has been Vice President—Asia Pacific and Latin America since August 2011. Mr. Dougherty joined the company in 1998 as International Sales Manager, and has held several positions, including Vice President of Global New Market Development and Vice President and General Manager of the ATV division during his tenure. Prior to Polaris, Mr. Dougherty was employed at Trident Medical International, a trading company.

Mr. Eastman has been 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. Prior to that, Mr. Eastman held several leadership positions at Target Corporation since 1982 in various areas, including General Merchandising, Consumer Electronics, Inventory Management and Merchandise Planning Operations.

Mr. Homan was appointed Vice President—Europe, Middle East, Africa in August 2011 and assumed responsibility for Small Vehicles in December 2012. Prior to this, Mr. Homan was Vice President of the Off-Road Vehicles division since August 2008, and was General Manager of the Side-by-Side division since December 2005. Mr. Homan joined Polaris in 2002 as Director of Marketing for the ATV division. Prior to working at Polaris, Mr. Homan spent nearly seven years at General Mills working in various marketing and brand management positions.

Mr. Jonikas is Vice President—Snowmobiles and Slingshot. Mr. Jonikas has been Vice President of Snowmobiles since August 2011. Mr. Jonikas was Vice President of Sales and Marketing beginning in November 2007 until January 2014 when he assumed the role of Vice President of Snowmobiles and Slingshot. Mr. Jonikas was also previously Vice President—On-Road Vehicles from May 2009 to August 2011. Mr. Jonikas joined Polaris in 2000, and during the past eleven years has held several key roles including Director of Product and Marketing Management for the ATV division and General Manager of the Polaris Side-by-Side division. Prior to joining Polaris, Mr. Jonikas spent 12 years at General Mills in numerous general management positions.

Mr. Krishna joined Polaris as Vice President—Supply Chain and Integration on March 29, 2010 and was promoted to Vice President—Global Operations and Integration in September 2010. Prior to joining Polaris, Mr. Krishna was Vice

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President Global Operations, Supply Chain and IT for a division of United Technologies Corporation's Fire & Security business where he was responsible for significant operations in China, Mexico, United States and Europe from August 2007 to March 2010. Prior to United Technologies Corporation, Mr. Krishna worked for Diageo, a global producer of famous drink brands, as Vice President Supply Chain for their North American business from February 2002 to July 2007.

Mr. Longren was appointed Vice President—Off-Road Vehicles and Off-Road Vehicles Engineering in August 2011. Prior to this, Mr. Longren was Chief Technical Officer since May 2006. Mr. Longren joined Polaris in January 2003 as the Director of Engineering for the ATV Division. Prior to joining Polaris, Mr. Longren was a Vice President in the Weapons Systems Division of Alliant Techsystems and Vice President, Engineering and Marketing at Blount Sporting Equipment Group.

Mr. Williams joined Polaris as Vice President—Human Resources in April 2011. Prior to joining Polaris, Mr. Williams was Vice President of Human Resources for Cooper Industries, a diversified manufacturing Company, since 2006. Between 2005 and 2006, Mr. Williams was Vice President of Human Resources for Danaher Corp. Previous to that, Mr. Williams held various executive positions of increasing responsibility with Honeywell Inc. from 1995 to 2005. Prior to that, Mr. Williams held a number of posts in Human Resources with Monsanto and General Motors Corporation.

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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.

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.

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 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 $17.1 million at December 31, 2013 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 SVs 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 a limited warranty for ORVs for a period of six months, for a period of one year for our snowmobiles and motorcycles and two years for SVs. We may 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. 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.

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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 otherwise, 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.

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 snowmobile, off-road vehicle, motorcycle and small vehicle markets 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 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.

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.

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

The changing relationships of primarily the United States dollar to the Canadian dollar, Australian dollar, the Euro, 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.

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 consumer spending or reduce consumer spending on powersports products. A general reduction in consumer spending or a reduction in consumer spending on powersports products could adversely affect our sales growth and profitability. In addition, we have a financial services partnership arrangement with a subsidiary of General Electric Company that requires us to repurchase products financed and repossessed by the partnership, subject to certain limitations. For calendar year 2013, our maximum aggregate repurchase obligation was approximately $97.9 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.

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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.

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 sources of product financing 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.

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 Capital One, Sheffield and GE Bank to make retail financing available to consumers who purchase our products in the United States. During 2013, consumers financed approximately 32 percent of the vehicles we sold in the United States through the Capital One revolving retail credit and Sheffield and GE Bank installment retail credit programs. Furthermore, some customers use financing from lenders who do not partner with us. 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.

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 in fact produce any benefits. In addition, acquisitions, non-consolidating investments, alliances, joint ventures and partnerships involve a number of risks, including:

- diversion of management’s attention;
- difficulties in integrating and assimilating the operations and products of an acquired business or in realizing projected efficiencies, cost savings, and synergies;
- potential loss of key employees or customers of the acquired businesses or adverse effects on existing business relationships with suppliers and customers;
- adverse impact on overall profitability if acquired businesses or affiliates do not achieve the financial results projected in our valuation models;
- reallocation of amounts of capital from other operating initiatives and/or an increase in our leverage and debt service requirements to pay the acquisition purchase prices, which could in turn restrict our ability to access additional capital when needed or to pursue other important elements of our business strategy;
- inaccurate assessment of undisclosed, contingent or other liabilities or problems, unanticipated costs associated with an acquisition, and an inability to recover or manage such liabilities and costs;

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- incorrect estimates made in the accounting for acquisitions, incurrence of non-recurring charges and impairment of significant amounts of goodwill, investments or other related assets that could adversely affect our operating results;
- dilution to existing shareholders if our securities are issued as part of transaction consideration or to fund transaction consideration; and
- inability to direct the management and policies of a joint venture, alliance, or partnership, where other participants may be able to take action contrary to our instructions or requests and against our policies and objectives.

Our ability to grow through acquisitions will depend, in part, on the availability of suitable acquisition targets at acceptable prices, terms, and conditions, our ability to compete effectively for these acquisition candidates, and the availability of capital and personnel to complete such acquisitions and run the acquired business effectively. These risks could be heightened if we complete a large acquisition or multiple acquisitions within a relatively short period of time. Any potential acquisition could impair our operating results, and any large acquisition could impair our financial condition, among other things.

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.

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 any 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.

Sixteen percent of our total sales are generated outside of North America, and we intend to continue to expand our international operations. 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.

We currently manufacture our products in the United States, Mexico, and France. We sell our products throughout the world and maintain sales and administration facilities in the United States, Canada, Switzerland and several other Western European countries, Australia, China, Brazil and India. Our primary distribution facilities are in Vermillion, South Dakota, Wilmington, Ohio, and Rigby, Idaho, which distribute PG&A products to our North American dealers and

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we have various other locations around the world that distribute PG&A to our international dealers and distributors and one of our significant engine suppliers is located in Japan. Our total sales outside North America were 16 percent, 14 percent, and 16 percent of our total sales for fiscal 2013, 2012, and 2011, respectively. International markets have, and will continue to be, a focus for sales growth. We believe many opportunities exist in the international markets, and over time we intend for international sales to comprise a larger percentage of our total sales. Several factors, including weakened international economic conditions, could adversely affect such growth. In 2013, we began construction of a manufacturing facility in Europe. The expansion of our existing international operations and entry into additional international markets require significant management attention and financial resources. Some of the countries in which we manufacture and/or sell our products, or otherwise have an international presence, are to some degree subject to political, economic and/or social instability. Our international operations expose us and our representatives, agents and distributors to risks inherent in operating in foreign jurisdictions. These risks include:

- increased costs of customizing products for foreign countries;
- difficulties in managing and staffing international operations and increases in infrastructure costs including legal, tax, accounting, and information technology;
- the imposition of additional United States and foreign governmental controls or regulations;
- new or enhanced trade restrictions and restrictions on the activities of foreign agents, representatives, and distributors; and the imposition of increases in costly and lengthy import and export licensing and other compliance requirements, customs duties and tariffs, license obligations, and other non-tariff barriers to trade;
- the imposition of United States and/or international sanctions against a country, company, person, or entity with whom we do business that would restrict or prohibit our continued business with the sanctioned country, company, person, or entity;
- international pricing pressures;
- laws and business practices favoring local companies;
- adverse currency exchange rate fluctuations;
- longer payment cycles and difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
- difficulties in enforcing or defending intellectual property rights; and
- multiple, changing, and often inconsistent enforcement of laws, rules, and regulations, including rules relating to environmental, health, and safety matters.

Our international operations may not produce desired levels of total sales or one or more of the factors listed above may harm our business and operating results. Any material decrease in our international sales or profitability could also adversely impact our operating results.

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.

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If we are unable to continue to enhance existing products and develop and market new products that respond to customer needs and preferences and achieve market acceptance, 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 $139.2 million, $127.4 million, and $105.6 million for research and development efforts in 2013, 2012 and 2011, 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, be more effective with more features and/or less expensive than our products, obtain better market acceptance, or render our products obsolete. Any new products that we develop may not receive market acceptance or otherwise generate any meaningful sales or profits for us relative to our expectations based on, among other things, existing and anticipated investments in manufacturing capacity and commitments to fund advertising, marketing, promotional programs, and research and development.

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 which 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 protection of data and information technology, there can be no assurance that our efforts will prevent breakdowns or breaches in our systems that could adversely affect our business.

Item 1B. Unresolved Staff Comments

Not Applicable.

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Item 2. Properties

The following sets forth the Company’s material facilities as of December 31, 2013:

Location	Facility Type/Use	Owned or Leased	Square Footage
Medina, Minnesota	Headquarters	Owned	130,000
Roseau, Minnesota	Wholegoods manufacturing and R&D	Owned	733,200
Monterrey, Mexico	Wholegoods manufacturing	Owned	425,000
Milford, Iowa	Wholegoods manufacturing	Primarily owned	460,400
Spirit Lake, Iowa	Wholegoods manufacturing	Owned	298,400
Osceola, Wisconsin	Component parts & engine manufacturing	Owned	285,800
Chanas, France	Wholegoods manufacturing	Owned	196,000
Bourran, France	Wholegoods manufacturing and R&D	Leased	100,000
Aix-les-Bains, France	Wholegoods manufacturing and R&D	Owned	97,800
Wyoming, Minnesota	Research and development facility	Owned	272,000
Burgdorf, Switzerland	Research and development facility	Leased	13,600
Wilmington, Ohio	Distribution center	Leased	429,000
Vermillion, South Dakota	Distribution center	Primarily owned	418,000
Rigby, Idaho	Distribution center and office facility	Owned	54,600
St. Paul, Minnesota	Wholegoods distribution	Leased	160,000
Irving, Texas	Wholegoods distribution	Leased	126,000
Milford, Iowa	Wholegoods distribution	Leased	100,000
Plymouth, Minnesota	Office facility (various locations)	Leased	55,000
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 2.8 million square feet of manufacturing and research and development space located in North America and Europe. We have over 1.7 million square feet of warehouse and distribution center space in the United States and countries occupied by our subsidiaries that is owned or leased. We also have approximately 130,000 square feet of international office facility square footage in Canada, Western Europe, Australia and Brazil. In Australia, we own three retail stores with approximately 25,000 square feet of space.

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. We expect a significant amount of capital expenditures in 2014 which will expand our current manufacturing facilities in anticipation of the capacity and capability requirements of expected future growth.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

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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 2013 Annual Report is incorporated herein by reference. On February 18, 2014, the last reported sale price for shares of our common stock on the New York Stock Exchange was $130.97 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, 2008 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, 2008
Assumes Dividend Reinvestment
Fiscal Year Ended December 31, 2013

	2008	2009	2010	2011	2012	2013
Polaris Industries Inc.	$100.00	$159.88	$293.84	$429.16	$657.87	$1,157.11
S&P Midcap 400 Index	100.00	137.38	173.98	170.96	201.53	269.04
Recreational Vehicles Industry Group Index—Morningstar Group	100.00	165.03	230.57	261.08	360.83	559.47

Comparison of 5-Year Cumulative Total Return Among Polaris Industries Inc., S&P Midcap 400 Index and Recreational Vehicles 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, 2013.
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(1)	Maximum Number of Shares That May Yet Be Purchased Under the Program(2)
October 1–31, 2013	1,000	$ 132.55	1,000	1,607,000
November 1–30, 2013 (1)	3,960,000	125.62	—	1,607,000
December 1–31, 2013	3,000	145.64	3,000	1,604,000
Total	3,964,000	$ 125.64	4,000	1,604,000

(1) In November 2013, the Board of Directors approved a special repurchase of the 3.96 million shares held by Fuji. We executed the repurchase on November 12, 2013 for a cumulative purchase price of $497.5 million. This special repurchase is outside of the Board of Directors previously authorized share repurchase program.

(2) The Board of Directors previously authorized a share repurchase program to repurchase up to an aggregate of 75.0 million shares of the Company’s common stock (the “Program”). Of that total, 73.4 million shares have been repurchased cumulatively from 1996 through December 31, 2013. This Program does not have an expiration date.

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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. All periods presented reflect 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. Per share data has been adjusted to give effect of all stock splits through 2013.

11-Year Selected Financial Data

	For the Years Ended December 31,					
(Dollars in millions, except per-share data)	2013	2012	2011	2010	2009	2008
Statement of Operations Data						
Sales Data:						
Total sales	$3,777.1	$3,209.8	$2,656.9	$1,991.1	$1,565.9	$1,948.3
Percent change from prior year	18%	21%	33%	27%	-20%	9%
Sales mix by product:						
Off-Road Vehicles	67%	69%	69%	69%	65%	67%
Snowmobiles	8%	9%	11%	10%	12%	10%
Motorcycles	6%	6%	5%	4%	3%	5%
Small Vehicles	3%	2%	—%	—%	—%	—%
Parts, Garments and Accessories	16%	14%	15%	17%	20%	18%
Gross Profit Data:						
Total gross profit	$1,120.9	$925.3	$740.6	$530.2	$393.2	$445.7
Percent of sales	29.7%	28.8%	27.9%	26.6%	25.1%	22.9%
Operating Expense Data:						
Total operating expenses	$588.9	$480.8	$414.7	$326.3	$245.3	$284.1
Percent of sales	15.6%	15.0%	15.6%	16.4%	15.7%	14.6%
Operating Income Data:						
Total operating income	$577.9	$478.4	$349.9	$220.7	$165.0	$182.8
Percent of sales	15.3%	14.9%	13.2%	11.1%	10.5%	9.4%
Net Income Data:						
Net income from continuing operations	$381.1	$312.3	$227.6	$147.1	$101.0	$117.4
Percent of sales	10.1%	9.7%	8.6%	7.4%	6.5%	6.0%
Diluted net income per share from continuing operations	$5.40	$4.40	$3.20	$2.14	$1.53	$1.75
Net income	$377.3	$312.3	$227.6	$147.1	$101.0	$117.4
Diluted net income per share	$5.35	$4.40	$3.20	$2.14	$1.53	$1.75
Cash Flow Data:						
Cash flow provided by continuing operations	$499.2	$416.1	$302.5	$297.9	$193.2	$176.2
Purchase of property and equipment for continuing operations	251.4	103.1	84.5	55.7	43.9	76.6
Repurchase and retirement of common stock	530.0	127.5	132.4	27.5	4.6	107.2
Cash dividends to shareholders	113.7	101.5	61.6	53.0	50.2	49.6
Cash dividends per share	$1.68	$1.48	$0.90	$0.80	$0.78	$0.76

Balance Sheet Data (at end of year):						
Cash and cash equivalents	$92.2	$417.0	$325.3	$393.9	$140.2	$27.2
Current assets	865.7	1,017.8	875.0	808.1	491.5	443.6
Total assets	1,685.5	1,488.5	1,228.0	1,061.6	763.7	751.1
Current liabilities	748.1	631.0	586.3	584.2	343.1	404.8
Long-term debt and capital lease obligations	284.3	104.3	104.6	100.0	200.0	200.0
Shareholders’ equity	535.6	690.5	500.1	371.0	204.5	137.0

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	For the Years Ended December 31,				
(Dollars in millions, except per-share data)	2007	2006	2005	2004	2003
Statement of Operations Data					
Sales Data:					
Total sales	$1,780.0	$1,656.5	$1,869.8	$1,773.2	$1,552.4
Percent change from prior year	7%	-11%	5%	14%	6%
Sales mix by product:					
Off-Road Vehicles	67%	67%	66%	66%	67%
Snowmobiles	10%	10%	14%	16%	15%
Motorcycles	6%	7%	5%	4%	4%
Small Vehicles	—%	—%	—%	—%	—%
Parts, Garments and Accessories	17%	16%	15%	14%	14%
Gross Profit Data:					
Total gross profit	$393.0	$359.4	$411.0	$416.6	$356.0
Percent of sales	22.1%	21.7%	22.0%	23.5%	22.9%
Operating Expense Data:					
Total operating expenses	$262.3	$238.4	$244.7	$242.7	$206.0
Percent of sales	14.7%	14.4%	13.1%	13.7%	13.3%
Operating Income Data:					
Total operating income	$176.0	$168.1	$205.0	$205.9	$173.5
Percent of sales	9.9%	10.1%	11.0%	11.6%	11.2%
Net Income Data:					
Net income from continuing operations	$112.6	$112.8	$137.7	$132.3	$115.2
Percent of sales	6.3%	6.8%	7.4%	7.5%	7.4%
Diluted net income per share from continuing operations	$1.55	$1.36	$1.57	$1.49	$1.29
Net income	$111.7	$107.0	$136.7	$99.9	$106.3
Diluted net income per share	$1.54	$1.29	$1.56	$1.12	$1.19
Cash Flow Data:					
Cash flow provided by continuing operations	$213.2	$152.8	$162.5	$237.1	$162.5
Purchase of property and equipment for continuing operations	63.7	52.6	89.8	88.8	59.2
Repurchase and retirement of common stock	103.1	307.6	132.3	66.8	73.1
Cash dividends to shareholders	47.7	50.2	47.0	38.9	26.7
Cash dividends per share	$0.68	$0.62	$0.56	$0.46	$0.31
Balance Sheet Data (at end of year):					
Cash and cash equivalents	$63.3	$19.6	$19.7	$138.5	$82.8
Current assets	447.6	393.0	374.0	465.7	387.7
Total assets	769.9	778.8	770.6	792.9	674.2
Current liabilities	388.2	361.4	375.6	405.2	330.5
Long-term debt and capital lease obligations	200.0	250.0	18.0	18.0	18.0
Shareholders’ equity	173.0	167.4	377.0	368.1	325.7

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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, 2013, and should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included elsewhere in this report.

Overview

In 2013, we had record sales and net income from continuing operations, with our fourth straight year of sales growth exceeding 15 percent and net income growth exceeding 20 percent. This growth is fueled by award-winning innovative new products leading to continued market share leadership in side-by-side vehicles and ATV's. In 2013, we also experienced growth in our motorcycles, international and adjacent market businesses. The overall North American powersports industry continued its positive trend with mid-single digit percentage growth in 2013. Our North America retail sales to consumers increased 10 percent in 2013, helping to drive total full year Company sales up 18 percent to a record $3.78 billion. Despite the global economy remaining difficult, our international sales increased 29 percent due to continued market share growth in all product categories and strong results by our recent European acquisitions.

Full year earnings reflect the success of our margin expansion efforts, as we delivered a 40 basis point increase in net income margin from continuing operations to a record 10.1 percent of sales. The combination of increased sales growth and the expansion of gross margins by 90 basis points drove net income from continuing operations up 22 percent to $381.1 million, with diluted earnings per share from continuing operations increasing 23 percent to a record $5.40 per share. These increases came while we continued to invest in numerous longer-term diversification and growth opportunities.

In 2013, we received a benefit from prior investments while continuing to invest in both product development and strategic initiatives. In August 2013, we re-launched the iconic Indian Motorcycle brand, headlined by three all-new models: Chief Classic, Chief Vintage and Chieftain. Additionally, in 2013 we introduced 11 new ORV products and eight new snowmobile models. Our late 2012 acquisition of Klim, a market leader in the design, development and distribution of premium technical riding gear for the snowmobile and motorcycle divisions, performed exceptionally well in 2013. Meanwhile, in the second quarter of 2013, we acquired Aixam, a leader in the European on-road quadricycles market. Our footprint expanded with the doubling of our Wyoming, Minnesota research and development facility being completed in 2013, and we broke ground on a new manufacturing plant in Poland and a new manufacturing plant for our joint venture with Eicher Motors Limited, which intends to design, develop and manufacture a full range of new vehicles in India and other emerging markets.

In November 2013, we repurchased 3.96 million shares held by Fuji Heavy Industries Ltd. ("Fuji") for $497.5 million. The repurchase was funded from cash on hand and borrowings under our revolving credit facility and Master Note Purchases Agreement. The repurchase is expected to decrease our 2014 diluted share count while leaving available borrowing capacity to fund future growth.

On January 30, 2014, we announced that our Board of Directors approved a 14 percent increase in the regular quarterly cash dividend to $0.48 per share for the first quarter of 2014, representing the 19th consecutive year of increased dividends to shareholders. This increase reflects the continued momentum and potential of our business and the strength of our balance sheet.

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Results of Operations

Sales:

Sales were $3,777.1 million in 2013, an 18 percent increase from $3,209.8 million for the same period in 2012. The following table is an analysis of the percentage change in total Company sales for 2013 compared to 2012 and 2012 compared to 2011:

	Percent change in total Company sales compared to the prior year	
	2013	2012
Volume	12 %	18 %
Product mix and price	7	4
Currency	(1)	(1)
	18 %	21 %

Volume for 2013 and 2012 increased 12 percent and 18 percent, respectively, compared to 2012 and 2011. The volume increase in 2013 and 2012 is primarily the result of shipping more ORVs, snowmobiles, motorcycles and related PG&A items to dealers given increased consumer retail demand for our products worldwide, along with the inclusion of Aixam in our consolidated financial statements since it was acquired on April 10, 2013. Product mix and price contributed seven percent and four percent to the growth for 2013 and 2012, respectively, primarily due to the positive benefit of a greater number of higher priced ORVs sold to dealers relative to our other businesses. 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 both 2013 and 2012 compared to the respective prior years.

Our sales by product line were as follows:

	For the Years Ended December 31,							
($ in millions)	2013	Percent of Total Sales	2012	Percent of Total Sales	Percent Change 2013 vs. 2012	2011	Percent of Total Sales	Percent Change 2012 vs. 2011
Off-Road Vehicles	$2,521.5	67 %	$2,225.8	69 %	13 %	$1,822.3	69 %	22 %
Snowmobiles	301.7	8 %	283.0	9 %	7 %	280.1	11 %	1 %
Motorcycles	219.8	6 %	195.8	6 %	12 %	134.3	5 %	46 %
Small Vehicles	122.8	3 %	44.4	2 %	177 %	12.0	— %	268 %
PG&A	611.3	16 %	460.8	14 %	33 %	408.2	15 %	13 %
Total Sales	$3,777.1	100 %	$3,209.8	100 %	18 %	$2,656.9	100 %	21 %

ORV sales of $2,521.5 million in 2013, which include core ATV and RANGER and RZR side-by-side vehicles, increased 13 percent from 2012. This increase reflects continued 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 ATVs and side-by-side vehicles introduced in the 2013 third and fourth quarters. Polaris' North American ORV unit retail sales to consumers increased high-single digits percent for 2013 compared to 2012, with ATV unit retail sales growing mid-single digits percent and side-by-side vehicle unit retail sales increasing more than ten percent over the prior year. North American dealer inventories of ORVs increased mid-teens percent from 2012, in support of continued strong retail demand for side-by-side vehicles and incremental new market segments. ORV sales outside of North America increased nine percent in 2013 compared to 2012 resulting in market share gains. For 2013, the average ORV per unit sales price increased seven percent over 2012's per unit sales price, primarily as a result of the increased sales of higher priced side-by-side vehicle models.

ORV sales of $2,225.8 million in 2012, which include core ATV and RANGER and RZR side-by-side vehicles, increased 22 percent from 2011. This increase reflects continued market share gains for both ATVs and side-by-side vehicles driven by industry leading product offerings. Polaris' North American ORV unit retail sales to consumers increased mid-teens percent for 2012 compared to 2011, with ATV unit retail sales growing mid-single digits percent and side-by-side vehicle unit retail sales increasing more than 20 percent over the prior year. North American dealer inventories of ORVs increased 26 percent from 2011, in support of continued strong retail demand for side-by-side vehicles and incremental

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new market segments. ORV sales outside of North America decreased six percent in 2012 compared to 2011, primarily due to weak demand in Europe. Despite decreased sales outside of North America, we widened our market share leadership in ORVs worldwide in 2012 compared to 2011. For 2012, the average ORV per unit sales price increased two percent over 2011's per unit sales price, primarily as a result of the increased sales of higher priced side-by-side vehicle models.

Snowmobile sales increased seven percent to $301.7 million for 2013 compared to 2012. This increase is primarily due to lower dealer inventory coming out of the 2012-2013 snowmobile season and success of the model year 2014 new product introductions. Retail sales to consumers for the 2013-2014 season-to-date period through December 31, 2013, increased nearly ten percent. Sales of snowmobiles to customers outside of North America, principally within the Scandinavian region and Russia, increased 18 percent in 2013 as compared to 2012. The average unit sales price in 2013 decreased two percent when compared to 2012, resulting primarily from increased sales of our value-priced snowmobiles.

Snowmobile sales increased one percent to $283.0 million for 2012 compared to 2011. This increase is primarily due to increased market share in North America driven by the success of model year 2013 new product introductions. Sales of snowmobiles to customers outside of North America, principally within the Scandinavian region and Russia, increased nine percent as compared to 2011. The average unit sales price in 2012 was flat when compared to 2011.

Sales from the motorcycles division, which is comprised of Victory and Indian motorcycles, increased 12 percent to $219.8 million for 2013 compared to 2012. The increase in 2013 sales is due to the initial shipments of the new model year 2014 Indian motorcycles. North American industry heavyweight cruiser and touring motorcycle retail sales increased mid-single digits percent in 2013 compared to 2012. Over the same period, Polaris North American unit retail sales to consumers increased over 20 percent, driven by an unprecedented number of new product introductions in 2013, which includes three new Indian Motorcycle models. North American Polaris motorcycle dealer inventory increased high-single digits percent in 2013 versus 2012 levels due to stocking of the new Indian motorcycles. Sales of motorcycles to customers outside of North America increased three percent in 2013 compared to 2012. The average per unit sales price for the motorcycles division in 2013 increased five percent compared to 2012 due to the increased sales of higher priced Indian motorcycles.

Sales from the motorcycle division, which in 2012 was comprised primarily of Victory motorcycles, increased 46 percent to $195.8 million for 2012 compared to 2011. The 2012 sales increase reflects an increase of Victory North American unit retail sales to consumers over ten times the North American heavyweight cruiser and touring motorcycle industry percentage growth rate. North American Victory dealer inventory increased over 2011 levels to support the sales increases, market share gains, new dealer additions and our new RFM ordering system. The RFM ordering system allows dealers to place more frequent orders based on retail sell-through along with encouraging display of each Victory model. Sales from the motorcycle division to customers outside of North America increased over 50 percent due to increased market share gains of our Victory motorcycles. The average per unit sales price for the motorcycle division increased two percent in 2012 compared to 2011.

In April 2013, we acquired Aixam. Aixam is based in France and manufactures and sells enclosed on-road quadricycles and light duty commercial vehicles. Aixam complements our SV division, which also includes GEM and Goupil vehicles. SV sales of $122.8 million in 2013 represents an increase of 177 percent compared to 2012. The increase in sales over the comparable prior year periods is primarily due to the inclusion of Aixam in our consolidated financial statements since it was acquired in April 2013. Also, both GEM and Goupil experienced an increase in sales during 2013 compared to 2012.

Sales of the SV division in 2012, which included the 2011 acquisitions of GEM and Goupil, were $44.4 million, which represented an increase of 268 percent compared to 2011. The increase in sales was due to the inclusion of GEM and Goupil in our consolidated financial statements for the full 2012 year, compared to inclusion in 2011 for the shortened periods since the acquisition of these companies in June and November of 2011, respectively.

PG&A sales increased 33 percent to $611.3 million for 2013 compared to 2012. Sales of PG&A to customers outside of North America increased 26 percent during 2013 compared to 2012. The sales increase in 2013 was driven by double digit percent increases in all product lines and categories, which was primarily driven by the addition of over 300 new model year 2014 accessories, including additions to the family of Lock and Ride® attachments that add comfort, style and utility to ORVs and motorcycles. PG&A sales also increased over the prior year periods due to the inclusion of Klim in our consolidated financial statements since it was acquired in December 2012, and Aixam related PG&A since it was acquired in April 2013.

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PG&A sales increased 13 percent to $460.8 million for 2012 compared to 2011. Sales of PG&A to customers outside of North America increased 16 percent during 2012 compared to 2011. The sales increase in 2012 was driven by increased sales in all product lines and product categories driven by the addition of over 250 model year 2013 accessories, and higher PG&A related sales to owners of the Company's large installed base of vehicles. The acquisition of Klim late in the 2012 fourth quarter did not have a significant impact on the 2012 PG&A sales results.

Sales by geographic region were as follows:

	For the Years Ended December 31,							
($ in millions)	2013	Percent of Total Sales	2012	Percent of Total Sales	Percent Change 2013 vs. 2012	2011	Percent of Total Sales	Percent Change 2012 vs. 2011
United States	$2,721.3	72 %	$2,311.0	72 %	18 %	$1,864.1	70 %	24 %
Canada	463.3	12 %	438.2	14 %	6 %	368.5	14 %	19 %
Other foreign countries	592.5	16 %	460.6	14 %	29 %	424.3	16 %	9 %
Total sales	$3,777.1	100 %	$3,209.8	100 %	18 %	$2,656.9	100 %	21 %

Significant regional trends were as follows:

United States:

Sales in the United States for 2013 increased 18 percent compared to 2012, primarily resulting from higher shipments in all product lines and related PG&A, improved pricing and more sales of higher priced side-by-side vehicles. The United States represented 72 percent, 72 percent and 70 percent of total company sales in 2013, 2012 and 2011, respectively. Sales in the United States for 2012 increased 24 percent compared to 2011, primarily resulting from higher shipments in all product lines due to market share gains driven by innovative products.

Canada:

Canadian sales increased six percent in 2013 compared to 2012. Increased shipments of ORVs and snowmobiles was the primary contributor for the increase in 2013, partially offset by currency rate movements which had an unfavorable three percent impact on sales for 2013 compared to 2012. Sales in Canada represented 12 percent, 14 percent and 14 percent of total company sales in 2013, 2012, and 2011, respectively. Canadian sales increased 19 percent in 2012 compared to 2011 due to increased volume from strong retail sales demand in Canada for our products, offset by an unfavorable one percent impact on sales from fluctuation in the Canadian currency compared to the United States dollar.

Other Foreign Countries:

Sales in other foreign countries, primarily in Europe, increased 29 percent for 2013 compared to 2012. The increase was primarily driven by the acquisition of Aixam in April 2013, along with increased sales of side-by-side vehicles and PG&A. This increase was partially offset by currency rate movements, which had an unfavorable one percent impact on sales for 2013 compared to 2012. Sales in other foreign countries, primarily in Europe, increased nine percent for 2012 compared to 2011. The increase was primarily driven by the additional sales from the Goupil acquisition, higher sales of Victory motorcycles and snowmobiles, and a 21 percent increase in the Asia/Pacific and Latin America region sales. Currency rates had an unfavorable two percent impact on sales for 2012 compared to 2011.

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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, 2013	Percent of Total Cost of Sales	2012	Percent of Total Cost of Sales	Change 2013 vs. 2012	2011	Percent of Total Cost of Sales	Change 2012 vs. 2011
Purchased materials and services	$2,336.1	88 %	$2,008.9	88 %	16 %	$1,650.8	86 %	22 %
Labor and benefits	198.7	8 %	177.7	8 %	12 %	165.5	9 %	7 %
Depreciation and amortization	64.5	2 %	51.8	2 %	25 %	53.9	3 %	(4)%
Warranty costs	56.9	2 %	46.1	2 %	23 %	46.2	2 %	— %
Total cost of sales	$2,656.2	100 %	$2,284.5	100 %	16 %	$1,916.4	100 %	19 %
Percentage of sales	70.3 %		71.2 %		-90 basis points	72.1 %		-90 basis points

For 2013, cost of sales increased 16 percent to $2,656.2 million compared to $2,284.5 million in 2012. The increase in cost of sales in 2013 resulted primarily from the effect of a 12 percent increase in sales volume on purchased materials and services and labor and benefits, and also includes an unfavorable resolution regarding a contract dispute resulting in an approximate $10.0 million charge for additional royalties in 2013.

For 2012, cost of sales increased 19 percent to $2,284.5 million compared to $1,916.4 million in 2011. The increase in cost of sales in 2012 resulted primarily from the effect of an 18 percent increase in sales volumes on purchased materials and services and labor and benefits offset somewhat by continued product cost reduction efforts in 2012.

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, 2013	2012	Change 2013 vs. 2012	2011	Change 2012 vs. 2011
Gross profit dollars	$1,120.9	$925.3	21 %	$740.6	25 %
Percentage of sales	29.7 %	28.8 %	+90 basis points	27.9 %	+90 basis points

Gross profit, as a percentage of sales, was 29.7 percent for 2013, an increase of 90 basis points from 2012. Gross profit dollars increased 21 percent to $1,120.9 million in 2013 compared to 2012. The increases in gross profit dollars and the increase in gross profit margin percentage resulted primarily from continued product cost reduction, production efficiencies on increased volumes and higher selling prices, partially offset by unfavorable foreign currency fluctuations, higher promotional costs and royalty expenses as a result of a contract dispute resolution.

For 2012, gross profit dollars increased 25 percent to $925.3 million compared to 2011. Gross profit, as a percentage of sales, increased 90 basis points to 28.8 percent compared to 27.9 percent for 2011. The increase in gross profit dollars and the 90 basis points increase in the gross profit margin percentage in 2012 resulted primarily from continued product cost reduction efforts, production efficiencies on increased volumes, higher selling prices, and ongoing cost savings from the manufacturing realignment project, partially offset by higher sales promotions and unfavorable product mix.

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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, 2013	2012	Change 2013 vs. 2012	2011	Change 2012 vs. 2011
Selling and marketing	$270.3	$210.4	28 %	$178.7	18 %
Research and development	139.2	127.3	9 %	105.6	21 %
General and administrative	179.4	143.1	25 %	130.4	10 %
Total operating expenses	$588.9	$480.8	22 %	$414.7	16 %
Percentage of sales	15.6 %	15.0 %	+60 basis points	15.6 %	-60 basis points

Operating expenses for 2013 increased 22 percent to $588.9 million, compared to $480.8 million in 2012. Operating expenses as a percentage of sales increased 60 basis points in 2013 to 15.6 percent compared to 15.0 percent in 2012. Operating expenses in absolute dollars and as a percentage of sales increased in 2013 primarily due to higher selling, marketing and advertising expenses related, in part, to the re-launch of Indian Motorcycle, increased general and administrative expenses, which includes infrastructure investments being made to support global growth initiatives and higher accrued incentive compensation due to a higher stock price. Operating expenses in absolute dollars also increased due to the inclusion of Klim and Aixam operating expenses in our consolidated financial statements since these companies were acquired in December 2012 and April 2013, respectively.

Operating expenses for 2012 increased 16 percent to $480.8 million compared to $414.7 million for 2011. Operating expenses as a percentage of sales decreased 60 basis points to 15.0 percent compared to 15.6 percent in 2011. Operating expenses in absolute dollars for 2012 increased primarily due to higher research and development expenses as we invest in growth initiatives and higher selling and marketing expenses due to sales growth, preparation for the Indian Motorcycle re-launch, and implementation of the new go-to-market program for motorcycles. Operating expenses as a percentage of sales decreased in 2012 compared to 2011 due to leverage achieved from the increased sales volume during the year.

Income from Financial Services:

The following table reflects our income from financial services:

($ in millions)	For the Years Ended December 31, 2013	2012	Change 2013 vs. 2012	2011	Change 2012 vs. 2011
Equity in earnings of Polaris Acceptance	$5.0	$3.9	28 %	$4.4	(12)%
Income from Securitization Facility	15.2	11.8	28 %	7.7	54 %
Income from Capital One, Sheffield and GE Bank retail credit agreements	22.5	15.3	47 %	9.1	69 %
Income from other financial services activities	3.2	2.9	14 %	2.9	(1)%
Total income from financial services	$45.9	$33.9	35 %	$24.1	41 %

Income from financial services increased 35 percent to $45.9 million in 2013 compared to $33.9 million in 2012. The increase in 2013 is primarily due to a nine percent increase in retail credit contract volume and increased profitability generated from the retail credit portfolios with Sheffield Financial ("Sheffield"), GE and Capital One, and higher income from dealer inventory financing through Polaris Acceptance and the Securitization Facility.

Income from financial services increased 41 percent to $33.9 million in 2012 compared to $24.1 million in 2011. The increase was primarily due to increased profitability generated from retail credit arrangements with Sheffield, GE, and Capital One, an 11 percent increase in the retail credit volume, and higher income from dealer inventory financing through the Securitization Facility.

Interest Expense:

Interest expense increased to $6.2 million in 2013 compared to $5.9 million in 2012. In the 2013 fourth quarter, we increased debt levels through borrowings on our existing revolving credit facility and additional borrowings of $100.0 million through our amended Master Note Purchases Agreement used to partially fund the $497.5 million buyback of outstanding Polaris shares held by Fuji. The additional debt resulted in an increase to interest expense in 2013. Interest

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expense increased to $5.9 million in 2012 compared to $4.0 million in 2011. This increase was due to both sustained increased levels of capital lease obligations and interest bearing long-term senior notes being outstanding throughout all of 2012.

Other (Income), Net:

Non-operating other income was $5.1 million, $7.5 million and $0.7 million for 2013, 2012 and 2011. The change in income primarily relates to foreign currency exchange rate movements and the resulting effects on foreign currency transactions and balance sheet positions related to our foreign subsidiaries from period to period. Additionally, in 2013, we recorded a $5.0 million charge due to an other-than-temporary impairment of our Brammo, Inc. cost-based investment.

Provision for Income Taxes:

The income tax provision was similar for 2013, 2012 and 2011 and reflected a rate of 33.7 percent, 34.9 percent and 34.3 percent of pretax income. The lower income tax rate for 2013, and higher rate in 2012, was primarily due to the timing of the extension of the research and development income tax credit in the first quarter 2013. The credit was recorded in 2013 but applied retroactively to 2012 resulting in a lower tax rate in 2013. In addition, in 2013 we also had a favorable impact from the release of certain income tax reserves due to favorable conclusions of federal income tax audits. The favorable impact from these items totaled $8.2 million and was recorded as a reduction to income tax expense in the first quarter of 2013.

Net Income from Continuing Operations:

The following table reflects our reported net income from continuing operations:

($ in millions, except per share data)	For the Years Ended December 31, 2013	2012	Change 2013 vs. 2012		2011	Change 2012 vs. 2011	
Net income from continuing operations	$381.1	$312.3	22	%	$227.6	37	%
Diluted net income per share	$5.40	$4.40	23	%	$3.20	38	%

Net Income, Including Loss From Discontinued Operations:

The following table reflects our reported net income:

($ in millions, except per share data)	For the Years Ended December 31, 2013	2012	Change 2013 vs. 2012		2011	Change 2012 vs. 2011	
Net income	$377.3	$312.3	21	%	$227.6	37	%
Diluted net income per share	$5.35	$4.40	22	%	$3.20	38	%

Net income, including the loss from discontinued operations, increased 21 percent in 2013 compared to 2012. The 2013 loss from discontinued operations is a result of a 2013 unfavorable jury verdict in a previously disclosed lawsuit involving a collision between a 2001 Polaris Virage personal watercraft and a boat. The jury awarded approximately $21.0 million in damages of which our liability was $10.0 million. We reported a loss from discontinued operations, net of tax, of $3.8 million in 2013 for an additional provision for our portion of the jury award and legal fees. The liability was fully paid by the end of 2013. There was no income or loss from discontinued operations in 2012 or 2011. In September 2004, we announced our decision to cease manufacturing marine products. Since then, any material financial results of that division have been recorded in discontinued operations. No additional charges are expected from this lawsuit.

Weighted Average Shares Outstanding:

The weighted average diluted shares outstanding for 2013, 2012 and 2011 were 70.5 million, 71.0 million, and 71.1 million shares, respectively. In November 2013, Polaris entered into and executed a Share Repurchase Agreement with Fuji pursuant to which Polaris purchased 3.96 million shares of Polaris stock held by Fuji. This buyback more than offset the issuance of shares under employee compensation plans and resulted in a decrease to the 2013 weighted average diluted shares outstanding; however, as a result of the timing of the buyback, it will have a more significant impact on our 2014 weighted average diluted shares outstanding. In 2012, the issuance of shares under employee compensation plans offset market share repurchases under our stock repurchase program, resulting in flat weighted average shares outstanding compared to 2011.

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, product warranties, share-based employee compensation 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, 2013 and 2012, accrued sales promotions and incentives were $123.1 million and $107.0 million, respectively, resulting primarily from an increase in the volume of units sold and an increase in the level of dealer inventories in 2013. 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 $100.6 million and $86.7 million for dealer holdback programs in the consolidated balance sheets as of December 31, 2013 and 2012, 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. The Company utilizes 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. The Company utilizes historical volatility as it believes 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 sensitive share-based

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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 2013, if all long-term incentive program performance based awards were expected to achieve the maximum payout, we would have recorded an additional $2.6 million of expense in 2013. 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, 2013, the accrual for liability-based awards outstanding was $74.2 million.

Product warranties. We provide a limited warranty for ORVs for a period of six months, for a period of one year for our snowmobiles and motorcycles and two years for SVs. 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, 2013 and 2012, the accrued warranty liability was $52.8 million and $47.7 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 busi