POLARIS INDUSTRIES INC/MN
Form 10-Q
April 26, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2018
OR

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

For the transition period from to
Commission File Number 1-11411

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

Emerging growth company ¨

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

As of April 19, 2018, 63,144,648 shares of Common Stock, $.01 par value, of the registrant were outstanding.

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FORM 10-Q
For Quarterly Period Ended March 31, 2018

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

	March 31, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$166,357	$138,345
Trade receivables, net	186,044	200,144
Inventories, net	922,925	783,961
Prepaid expenses and other	96,247	101,453
Income taxes receivable	13,013	29,601
Total current assets	1,384,586	1,253,504
Property and equipment, net	759,957	747,189
Investment in finance affiliate	95,511	88,764
Deferred tax assets	114,881	115,511
Goodwill and other intangible assets, net	777,844	780,586
Other long-term assets	86,828	104,039
Total assets	$3,219,607	$3,089,593
Liabilities and Shareholders’ Equity		
Current liabilities:		
Current portion of debt, capital lease obligations and notes payable	$65,245	$47,746
Accounts payable	366,872	317,377
Accrued expenses:		
Compensation	85,997	168,014
Warranties	116,286	123,840
Sales promotions and incentives	174,610	162,298
Dealer holdback	107,829	114,196
Other	191,057	186,103
Income taxes payable	6,599	10,737
Total current liabilities	1,114,495	1,130,311
Long-term income taxes payable	22,432	20,114
Capital lease obligations	18,497	18,351
Long-term debt	945,737	846,915
Deferred tax liabilities	10,006	10,128
Other long-term liabilities	123,680	120,398
Total liabilities	$2,234,847	$2,146,217
Deferred compensation	$11,298	$11,717
Shareholders’ equity:		
Preferred stock $0.01 par value, 20,000 shares authorized, no shares issued and outstanding	—	—
Common stock $0.01 par value, 160,000 shares authorized, 63,098 and 63,075 shares issued and outstanding, respectively	$631	$631
Additional paid-in capital	755,888	733,894
Retained earnings	246,980	242,763
Accumulated other comprehensive loss, net	(30,037)	(45,629)
Total shareholders’ equity	973,462	931,659

Total liabilities and shareholders’ equity	$3,219,607	$3,089,593

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

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

	Three months ended March 31,	
	2018	2017
Sales	$1,297,473	$1,153,782
Cost of sales	973,992	911,291
Gross profit	323,481	242,491
Operating expenses:		
Selling and marketing	117,707	114,313
Research and development	65,230	52,005
General and administrative	78,693	75,514
Total operating expenses	261,630	241,832
Income from financial services	21,425	20,430
Operating income	83,276	21,089
Non-operating expense:		
Interest expense	8,048	7,914
Equity in loss of other affiliates	21,511	1,900
Other expense (income), net	(19,975)	11,608
Income (loss) before income taxes	73,692	(333)
Provision for income taxes	17,978	2,578
Net income (loss)	$55,714	$(2,911)
Net income (loss) per share:		
Basic	$0.88	$(0.05)
Diluted	$0.85	$(0.05)
Weighted average shares outstanding:		
Basic	63,303	63,128
Diluted	65,219	64,133

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

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

	Three months ended March 31,	
	2018	2017
Net income (loss)	$55,714	$(2,911)
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	10,978	13,416
Unrealized gain on derivative instruments	4,529	356
Retirement benefit plan activity	85	—
Comprehensive income	$71,306	$10,861

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

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

	Three months ended March 31,	
	2018	2017
Operating Activities:		
Net income (loss)	$55,714	$(2,911)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	52,720	44,538
Noncash compensation	12,032	12,336
Noncash income from financial services	(7,003)	(7,088)
Deferred income taxes	113	2,565
Impairment charges	18,733	18,760
Other, net	(10,700)	1,900
Changes in operating assets and liabilities:		
Trade receivables	15,587	1,372
Inventories	(135,850)	(48,949)
Accounts payable	48,138	73,091
Accrued expenses	(75,722)	(47,184)
Income taxes payable/receivable	14,747	(3,801)
Prepaid expenses and others, net	8,302	2,400
Net cash provided by (used for) operating activities	(3,189)	47,029
Investing Activities:		
Purchase of property and equipment	(55,558)	(38,391)
Investment in finance affiliate, net	256	13,699
Investment in other affiliates, net	11,183	(1,694)
Acquisition and disposal of businesses, net of cash acquired	—	1,644
Net cash used for investing activities	(44,119)	(24,742)
Financing Activities:		
Borrowings under debt arrangements / capital lease obligations	694,401	478,248
Repayments under debt arrangements / capital lease obligations	(578,342)	(444,386)
Repurchase and retirement of common shares	(14,987)	(21,807)
Cash dividends to shareholders	(37,796)	(36,384)
Proceeds from stock issuances under employee plans	11,905	4,321
Net cash provided by (used for) financing activities	75,181	(20,008)
Impact of currency exchange rates on cash balances	1,856	4,003
Net increase in cash, cash equivalents and restricted cash	29,729	6,282
Cash, cash equivalents and restricted cash at beginning of period	161,618	145,170
Cash, cash equivalents and restricted cash at end of period	$191,347	$151,452
Supplemental Cash Flow Information:		
Interest paid on debt borrowings	$7,626	$6,045
Income taxes paid	$1,807	$3,703

The following presents cash, cash equivalents and restricted cash by category within the consolidated balance sheets:

Cash and cash equivalents	$166,357	$137,494
Other long-term assets	24,990	13,958
Total	$191,347	$151,452

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

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POLARIS INDUSTRIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Note 1. Significant Accounting Policies
Basis of presentation. The accompanying unaudited consolidated financial statements of Polaris Industries Inc. (“Polaris” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial statements and, therefore, do not include all information and disclosures of results of operations, financial position and changes in cash flow in conformity with accounting principles generally accepted in the United States for complete financial statements. Accordingly, such statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 previously filed with the Securities and Exchange Commission (“SEC”). In the opinion of management, such statements reflect all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. Due to the seasonality trends for certain products and to certain changes in production and shipping cycles, results of such periods are not necessarily indicative of the results to be expected for the complete year.
Fair value measurements. Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Assets and liabilities measured at fair value are classified using the following hierarchy, which is based upon the transparency of inputs to the valuation as of the measurement date:
Level 1 — Quoted prices in active markets for identical assets or liabilities.
Level 2 — Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.
In making fair value measurements, observable market data must be used when available. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement. The Company utilizes the market approach to measure fair value for its non-qualified deferred compensation assets and liabilities, and the income approach for foreign currency contracts and commodity contracts. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities, and for the income approach, the Company uses significant other observable inputs to value its derivative instruments used to hedge foreign currency and commodity transactions.
Assets and liabilities measured at fair value on a recurring basis are summarized below (in thousands):

	Fair Value Measurements as of March 31, 2018			
Asset (Liability)	Total	Level 1	Level 2	Level 3
Non-qualified deferred compensation assets	$ 55,400	$ 55,400	$ —	$ —
Foreign exchange contracts, net	5,264	—	5,264	—
Total assets at fair value	$ 60,664	$ 55,400	$ 5,264	$ —
Non-qualified deferred compensation liabilities	$ (55,400)	$ (55,400)	$ —	$ —
Total liabilities at fair value	$ (55,400)	$ (55,400)	$ —	$ —

	Fair Value Measurements as of December 31, 2017			
Asset (Liability)	Total	Level 1	Level 2	Level 3
Non-qualified deferred compensation assets	$ 54,244	$ 54,244	$ —	$ —
Total assets at fair value	$ 54,244	$ 54,244	$ —	$ —
Non-qualified deferred compensation liabilities	$ (54,244)	$ (54,244)	$ —	$ —
Foreign exchange contracts, net	(426)	—	(426)	—
Total liabilities at fair value	$ (54,670)	$ (54,244)	$ (426)	$ —

Fair value of other financial instruments. The carrying values of the Company’s short-term financial instruments, including cash and cash equivalents, trade receivables and short-term debt, including current maturities of long-term debt, capital lease

obligations and notes payable, approximate their fair values. At March 31, 2018 and December 31, 2017, the fair value of the Company's long-term debt, capital lease obligations and notes payable was approximately $1,035,424,000 and $922,123,000, respectively, and was determined using Level 2 inputs, including quoted market prices or discounted cash flows based on quoted market rates for similar types of debt. The carrying value of long-term debt, capital lease obligations and notes payable including current maturities was $1,029,479,000 and $913,012,000 as of March 31, 2018 and December 31, 2017, respectively.

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

	March 31, 2018	December 31, 2017
Raw materials and purchased components	$220,301	$194,108
Service parts, garments and accessories	320,237	307,684
Finished goods	428,894	329,288
Less: reserves	(46,507)	(47,119)
Inventories	$922,925	$783,961

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

	Three months ended March 31,	
	2018	2017
Balance at beginning of period	$123,840	$119,274
Additions charged to expense	16,031	31,694
Warranty claims paid, net	(23,585)	(41,116)
Balance at end of period	$116,286	$109,852

New accounting pronouncements.

Revenue from contracts with customers. Effective January 1, 2018, the Company adopted ASU No. 2014-09, Revenue from Contracts with Customers, ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), and ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients using the modified retrospective approach. The adoption of these ASUs did not have a material impact on the Company's consolidated financial position, results of operations, equity or cash flows as of the adoption date or for the three months ended March 31, 2018. The Company has included the disclosures required by ASU 2014-09 in Note 2.

Statement of cash flows. During the first quarter of 2018, the Company adopted ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that restricted cash be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Prior periods were retrospectively adjusted to conform to the current period's presentation. Upon adoption of ASU 2016-18, the Company recorded a decrease of $3,887,000 in net cash provided by operating activities for the

three months ended March 31, 2017 related to reclassifying the changes in our restricted cash balance from operating activities to the cash and cash equivalent balances within the Consolidated Statements of Cash Flows.
Leases. In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This ASU requires most lessees to recognize right of use assets and lease liabilities, but recognize expenses in a manner similar with current accounting standards. The standard is effective for fiscal years and interim periods beginning after December 15, 2018 and is effective

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for the Company's fiscal year beginning January 1, 2019. Entities are required to use a modified retrospective approach, with early adoption permitted. The Company is evaluating the impact of this new standard on the financial statements.
Derivatives and hedging. In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU better aligns accounting rules with a company's risk management activities; better reflects economic results of hedging in financial statements; and simplifies hedge accounting treatment. The standard is effective for fiscal years and interim periods beginning after December 15, 2018 and is effective for the Company's fiscal year beginning January 1, 2019, with early adoption permitted. The Company is evaluating the impact of this new standard on the financial statements.
Income Taxes. The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign-sourced earnings.
The Company has applied the guidance in ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, when accounting for the enactment-date effects of the Act. At March 31, 2018, the Company has not completed its accounting for the tax effects of the Act, as the Company is in the process of analyzing certain aspects of the Act, obtaining information, and refining its calculations of the Act's impact. There have been no material measurement period adjustments made during the quarter ended March 31, 2018 related to the provisional amounts recorded and disclosed in the Company's fiscal 2017 Annual Report filed on Form 10-K. The Company expects to complete the accounting for the tax effects of the Act during 2018.
There are no other new accounting pronouncements that are expected to have a significant impact on the Company's consolidated financial statements.

Note 2. Revenue Recognition
The following tables disaggregate the Company's revenue by major product type and geography (in thousands):

	For the period ended March 31, 2018				
	ORV / Snowmobiles	Motorcycles	Global Adj. Markets	Aftermarket	Consolidated
Revenue by product type					
Wholegoods	$683,504	$ 114,108	$92,012	—	$ 889,624
PG&A	149,060	17,449	21,315	$ 220,025	407,849
Total revenue	$832,564	$ 131,557	$113,327	$ 220,025	$ 1,297,473
Revenue by geography					
United States	$662,595	$ 83,897	$50,053	$ 210,994	$ 1,007,539
Canada	57,755	6,940	5,369	9,031	79,095
EMEA	78,929	26,671	56,921	—	162,521
APLA	33,285	14,049	984	—	48,318
Total revenue	$832,564	$ 131,557	$113,327	$ 220,025	$ 1,297,473

Revenue is recognized when obligations under the terms of a contract with the Company's customer are satisfied which generally occurs with the transfer of control of the wholegood vehicles, parts, garments or accessories, or services. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods or providing services. Sales, value add, and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue. Incidental items that are immaterial in the context of the contract are recognized as expense. The expected costs associated with the Company's limited warranties and field service bulletin actions continue to be recognized as expense when the products are sold. The Company recognizes revenue for vehicle service contracts that extend mechanical and maintenance beyond the Company's limited warranties over the life of the contract.
ORV/Snowmobiles, Motorcycles and Global Adjacent Markets segments

Wholegood vehicles and parts, garments and accessories. For the majority of wholegood vehicles, parts, garments and accessories (PG&A), the Company transfers control and recognizes a sale when it ships the product from its manufacturing facility, distribution center, or vehicle holding center to its customer (primarily dealers and distributors). The amount of consideration the Company receives and revenue it recognizes varies with changes in marketing incentives and returns it

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offers to its dealers and their customers. Sales returns are not material. The Company adjusts its estimate of revenue at the earlier of when the most likely amount of consideration it expects to receive changes or when the consideration becomes fixed.

Depending on the terms of the arrangement, the Company may also defer the recognition of a portion of the consideration received because it has to satisfy a future obligation (e.g., free extended service contracts). The Company uses an observable price to determine the stand-alone selling price for separate performance obligations.

The Company has elected to recognize the cost for freight and shipping when control over vehicles, parts, garments or accessories have transferred to the customer as an expense in Cost of sales.

Extended Service Contracts. The Company sells separately-priced service contracts that extend mechanical and maintenance coverages beyond its base limited warranty agreements to vehicle owners. The separately priced service contracts range from 12 months to 84 months. The Company receives payment at the inception of the contract and recognizes revenue over the term of the agreement in proportion to the costs expected to be incurred in satisfying the obligations under the contract.

Aftermarket segment

The Company’s Aftermarket products are sold through dealer, distributor, retail, and e-commerce channels. The Company transfers control and recognizes a sale when products are shipped or delivered to its customer. The amount of consideration the Company receives and revenue it recognizes varies with changes in marketing incentives and return rights it offers to its customers and their customers. When the Company gives its customers the right to return eligible parts and accessories, it estimates the expected returns based on an analysis of historical experience. The Company adjusts its estimate of revenue at the earlier of when the most likely amount of consideration it expects to receive changes or when the consideration becomes fixed.

Service revenue. At the Company’s Transamerican Auto Parts (“TAP”) retail stores (4 Wheel Parts), it offers installation services for parts that the retail store sells. Service revenues are recognized upon completion of the service.

Depending on the terms of the arrangement, the Company may also defer the recognition of a portion of the consideration received because it has to satisfy a future obligation (e.g., extended service contracts). The Company uses an observable price to determine the stand-alone selling price for separate performance obligations. The Company has elected to recognize the cost for freight and shipping when control over parts, garments or accessories have transferred to the customer as an expense in cost of sales.

Deferred revenue

In 2016, Polaris began financing its self-insured risks related to extended service contracts (“ESCs”). The premiums for ESCs are primarily recognized in income in proportion to the costs expected to be incurred over the contract period. TAP recognizes revenues related to sales of its extended warranty programs for tires and other products over the term of the warranty period, which varies from two to five years. Warranty costs are recognized as incurred. Revenues related to sales of its extended warranty program for powertrains and related accrued costs for claims are deferred and amortized over the warranty period, generally five years, while warranty administrative costs are recognized as incurred.

At January 1, 2018, $45,760,000 of unearned revenue associated with outstanding contracts was reported in other current liabilities and other long-term liabilities. At March 31, 2018, the unearned amount was $49,345,000. The Company expects to recognize approximately $20,510,000 of the unearned amount in 2018 and $28,835,000 thereafter. The activity in the deferred revenue reserve during the periods presented was as follows (in thousands):

	Three months ended March 31,	
	2018	2017
Balance at beginning of period	$45,760	$26,157
New contracts sold	8,324	6,342
Less: reductions for revenue recognized	(4,739)	(2,054)
Balance at end of period (1)	$49,345	$30,445

(1) The unamortized ESC premiums (deferred revenue) recorded in other current liabilities totaled $20,510,000 and $12,569,000 as of March 31, 2018 and 2017, respectively, while the amount recorded in other long-term liabilities

totaled $28,835,000 and $17,876,000 as of March 31, 2018 and 2017, respectively.

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Note 3. Share-Based Compensation

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

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

	Three months ended March 31,	
	2018	2017
Option plan	$3,057	$1,422
Other share-based awards	5,889	9,092
Total share-based compensation before tax	8,946	10,514
Tax benefit	2,129	3,905
Total share-based compensation expense included in net income	$6,817	$6,609

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

At March 31, 2018, there was $152,169,000 of total unrecognized share-based compensation expense related to unvested share-based equity awards. Unrecognized share-based compensation expense is expected to be recognized over a weighted-average period of 1.89 years. Included in unrecognized share-based compensation expense is approximately $44,181,000 related to stock options and $107,988,000 for restricted stock.

Note 4. Financing Agreements

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

	Average interest rate at March 31, 2018	Maturity	March 31, 2018	December 31, 2017
Revolving loan facility	2.82%	May 2021	$120,600	$3,000
Term loan facility	3.11%	May 2021	680,000	680,000
Senior notes—fixed rate	3.81%	May 2018	25,000	25,000
Senior notes—fixed rate	4.60%	May 2021	75,000	75,000
Senior notes—fixed rate	3.13%	December 2020	100,000	100,000
Capital lease obligations	5.18%	Various through 2029	20,035	19,889
Notes payable and other	3.50%	June 2027	10,874	12,384
Debt issuance costs			(2,030)	(2,261)
Total debt, capital lease obligations, and notes payable			$1,029,479	$913,012
Less: current maturities			65,245	47,746
Total long-term debt, capital lease obligations, and notes payable			$964,234	$865,266

In August 2011, Polaris entered into a $350,000,000 unsecured revolving loan facility. In March 2015, Polaris amended the loan facility to increase the facility to $500,000,000 and to provide more beneficial covenant and interest rate terms. The amended terms also extended the expiration date to March 2020. Interest is charged at rates based on a LIBOR or "prime" base rate. In May 2016, Polaris amended the revolving loan facility to increase the facility to $600,000,000 and extend the expiration date to May 2021. The amended terms also established a $500,000,000 term loan facility. In November 2016, Polaris amended the revolving loan facility to increase the term loan facility to

$750,000,000, of which $680,000,000 is outstanding as of March 31, 2018. Under the facility, the Company is required to make principal payments totaling $37,500,000 over the next 12 months, which are classified as current maturities.

In December 2010, the Company entered into a Master Note Purchase Agreement to issue $25,000,000 of unsecured senior notes due May 2018 and $75,000,000 of unsecured senior notes due May 2021 (collectively, the “Senior Notes”). The Senior

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Notes were issued in May 2011. In December 2013, the Company entered into a First Supplement to Master Note Purchase Agreement, under which the Company issued $100,000,000 of unsecured senior notes due December 2020. The unsecured revolving loan facility and the Master Note Purchase Agreement contain covenants that require Polaris to maintain certain financial ratios, including minimum interest coverage and maximum leverage ratios. Polaris was in compliance with all such covenants as of March 31, 2018.
The debt issuance costs are recognized as a reduction in the carrying value of the related long-term debt in the consolidated balance sheets and are being amortized to interest expense in our consolidated statements of income over the expected remaining terms of the related debt.
A property lease agreement for a manufacturing facility which Polaris began occupying in Opole, Poland commenced in February 2014. The Poland property lease is accounted for as a capital lease.
The Company has a mortgage note payable agreement for land, on which Polaris built the Huntsville, Alabama manufacturing facility in 2016. The original mortgage note payable was for $14,500,000, of which $10,874,000 is outstanding as of March 31, 2018. The payment of principal and interest for the note payable is forgivable if the Company satisfies certain job commitments over the term of the note. The Company has met the required commitments to date. Forgivable loans related to other Company facilities are also included within notes payable.

Note 5. Goodwill and Other Intangible Assets

Goodwill and other intangible assets, net of accumulated amortization, as of March 31, 2018 and December 31, 2017 are as follows (in thousands):

	March 31, 2018	December 31, 2017
Goodwill	$435,640	$433,374
Other intangible assets, net	342,204	347,212
Total goodwill and other intangible assets, net	$777,844	$780,586

There were no material additions to goodwill and other intangible assets in 2018 or 2017.
The changes in the carrying amount of goodwill for the three months ended March 31, 2018 were as follows (in thousands):

	Three months ended March 31, 2018
Goodwill, beginning of period	$433,374
Currency translation effect on foreign goodwill balances	2,266
Goodwill, end of period	$435,640

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

	Total estimated life (years)	March 31, 2018	December 31, 2017
Non-amortizable—indefinite lived:			
Brand names		$231,084	$ 230,709
Amortizable:			
Non-compete agreements	5	540	540
Dealer/customer related	5-10	170,958	169,694
Developed technology	5-7	23,707	22,903
Total amortizable		195,205	193,137
Less: Accumulated amortization		(84,085)	(76,634)
Net amortized other intangible assets		111,120	116,503
Total other intangible assets, net		$342,204	$ 347,212

Amortization expense for intangible assets for the three months ended March 31, 2018 and 2017 was $6,126,000 and $6,210,000, respectively. Estimated amortization expense for the remainder of 2018 through 2023 is as follows: 2018 (remainder), $18,400,000; 2019, $22,600,000; 2020, $17,400,000; 2021, $14,500,000; 2022, $9,800,000; 2023, $28,200,000; and after 2023, $200,000. The preceding expected amortization expense is an estimate and actual amounts could differ due to additional intangible asset acquisitions, changes in foreign currency rates or impairment of intangible assets.

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Note 6. Shareholders' Equity

During the three months ended March 31, 2018, Polaris paid $14,987,000 to repurchase and retire approximately 133,000 shares of its common stock. As of March 31, 2018, the Board of Directors has authorized the Company to repurchase up to an additional 6,303,000 shares of Polaris stock. The repurchase of any or all such shares authorized for repurchase will be governed by applicable SEC rules and dependent on management's assessment of market conditions. Polaris paid a regular cash dividend of $0.60 per share on March 15, 2018 to holders of record at the close of business on March 1, 2018. On April 25, 2018, the Polaris Board of Directors declared a regular cash dividend of $0.60 per share payable on June 15, 2018 to holders of record of such shares at the close of business on June 1, 2018.

Cash dividends declared and paid per common share for the three months ended March 31, 2018 and 2017, were as follows:

	Three months ended March 31,	
	2018	2017
Cash dividends declared and paid per common share	$0.60	$0.58

Net income (loss) per share

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

	Three months ended March 31,	
	2018	2017
Weighted average number of common shares outstanding	63,050	62,873
Director Plan and deferred stock units	166	145
ESOP	87	110
Common shares outstanding—basic	63,303	63,128
Dilutive effect of Omnibus Plan	1,916	1,005
Common and potential common shares outstanding—diluted	65,219	64,133

During the three months ended March 31, 2018, the number of options that were not included in the computation of diluted income (loss) per share because the option exercise price was greater than the market price, and therefore, the effect would have been anti-dilutive, was 1,540,000 compared to 3,167,000 for the same period in 2017.

Accumulated other comprehensive loss

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

	Foreign Currency Items	Cash Flow Hedging Derivatives	Retirement Benefit Plan Activity	Accumulated Other Comprehensive Loss
Balance as of December 31, 2017	$(42,442)	$ (34)	$ (3,153)	$ (45,629)
Reclassification to the statement of income	—	(125)	85	(40)
Change in fair value	10,978	4,654	—	15,632
Balance as of March 31, 2018	$(31,464)	$ 4,495	$ (3,068)	$ (30,037)

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The table below provides data about the amount of gains and losses, net of tax, reclassified from accumulated other comprehensive loss into the statements of income for cash flow derivatives designated as hedging instruments for the three months ended March 31, 2018 and 2017 (in thousands):

Derivatives in Cash Flow Hedging Relationships	Location of (Gain) Loss Reclassified from Accumulated Other Comprehensive Loss into Income	Three months ended March 31,	
		2018	2017
Foreign currency contracts	Other expense, net	$157	$1,227
Foreign currency contracts	Cost of sales	(32)	(404)
Retirement benefit plan activity	Operating expenses	(85)	—
Total		$40	$823

The net amount of the existing gains or losses at March 31, 2018 that is expected to be reclassified into the statements of income within the next 12 months is not expected to be material. See Note 10 for further information regarding Polaris' derivative activities.

Note 7. Financial Services Arrangements

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

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

Polaris' total investment in Polaris Acceptance of $95,511,000 at March 31, 2018 is accounted for under the equity method, and is recorded in investment in finance affiliate in the accompanying consolidated balance sheets. At March 31, 2018, the outstanding amount of net receivables financed for dealers under this arrangement was $1,203,580,000, which included $539,574,000 in the Polaris Acceptance portfolio and $664,006,000 of receivables within the Securitization Facility ("Securitized Receivables").

Polaris has agreed to repurchase products repossessed by Polaris Acceptance up to an annual maximum of 15 percent of the aggregate average month-end outstanding Polaris Acceptance receivables and Securitized Receivables during the prior calendar year. For calendar year 2018, the potential 15 percent aggregate repurchase obligation is approximately $164,969,000. Polaris' financial exposure under this arrangement is limited to the difference between the amounts unpaid by the dealer with respect to the repossessed product plus costs of repossession and the amount received on the resale of the repossessed product. No material losses have been incurred under this agreement during the periods presented.

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

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

Note 8. Investment in Other Affiliates

The Company has certain investments in nonmarketable securities of strategic companies. As of December 31, 2017, the Company's investment in Eicher-Polaris Private Limited (EPPL) represented the majority of these investments and is recorded as a component of other long-term assets in the accompanying consolidated balance sheets.