



# MOMENTUM

POLARIS INDUSTRIES INC. 2007 ANNUAL REPORT



**POLARIS**

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## POLARIS FINANCIAL OBJECTIVES FOR 2009

### The Goals

**\$2.2**

billion in sales  
by 2009

**\$150**

million in net  
income by 2009

**\$4.25**

earnings per share  
by 2009

### The Strategies

#### 1. Win in the Core

- Grow market share in snowmobiles and ATVs.
- Leverage PG&A and financial services to deliver superior total value.

#### 2. Deliver Operational Excellence

- Industry-leading quality in every product line.
- Greater than 5 percent productivity gains every year.
- A lean enterprise, driven by robust, simple designs and a lean supply chain.

#### 3. Grow by \$500 million by 2009

- Victory®: Obtain 5 percent market share in cruiser and touring segments.
- RANGER™: Dominate utility and recreational side-by-side market.
- International: Expand global presence.
- Expand military opportunity.
- Enter at least one new adjacent market segment.

### Supported by...

#### People and Culture

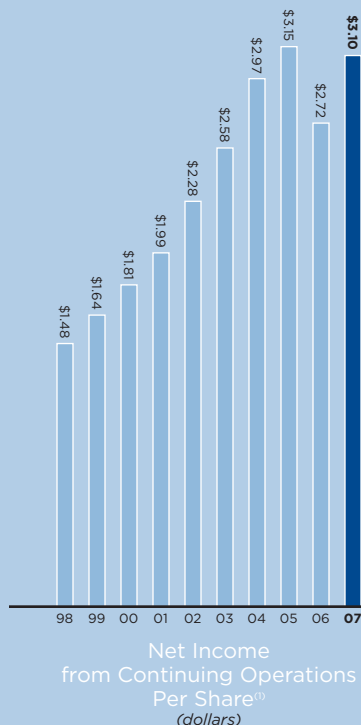
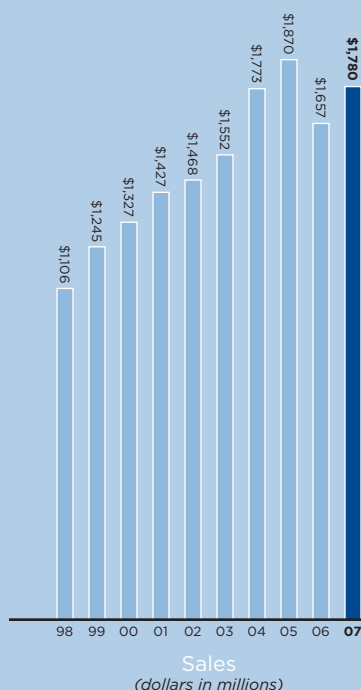
- Externally focused employee owners with a can-do drive to consistently deliver outstanding results.
- The best team in powersports.
- Passion to ride and win.

#### Technology

- Consistent, flawless introduction of compelling new products.
- Class-leading ride and handling.
- Control our destiny in powertrains.
- Class-leading information technology.

#### Brand

- Ever-improving brand awareness and image through stronger, better and bigger dealer network.
- Consistent advertising and brand support.

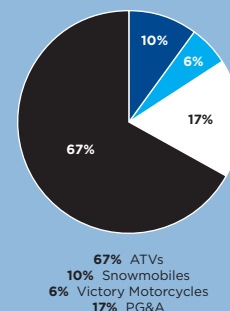


## POLARIS AT A GLANCE

### PRODUCTS

Polaris designs, manufactures and markets innovative, high-quality, high-performance motorized products for recreation and utility use. Our product lines consist of all-terrain recreational, utility and side-by-side vehicles (ATVs); snowmobiles; motorcycles; and related parts, garments and accessories (PG&A).

New products drive sales and profitability at Polaris. During 2007, the Company introduced some of the most successful new products in the Company's history.



Percentage of Sales  
by Product Line

## FINANCIAL HIGHLIGHTS

(dollars and shares in thousands, except per-share data)

	2007	2006	% Change
<b>FOR THE YEAR</b>			
Sales	<b>\$1,780,009</b>	\$1,656,518	7%
Operating income	<b>176,036</b>	168,057	5
Net income from continuing operations	<b>112,598</b>	112,791	—
Percent of sales	<b>6.3%</b>	6.8%	
<b>PER SHARE</b>			
Net income from continuing operations (diluted)	<b>\$ 3.10</b>	\$ 2.72	14%
Dividends paid	<b>1.36</b>	1.24	10
Average shares outstanding (diluted)	<b>36,324</b>	41,451	-12
<b>FINANCIAL POSITION</b>			
Total assets	<b>\$ 769,881</b>	\$ 778,791	-1%
Stockholders' equity	<b>172,982</b>	167,371	3
<b>OTHER INFORMATION</b>			
Property and equipment (net)	<b>\$ 204,351</b>	\$ 204,001	—%
Capital expenditures	<b>63,747</b>	52,636	21
Depreciation and amortization	<b>62,093</b>	71,164	-13
Borrowings under credit agreement	<b>200,000</b>	250,000	-20
Return on average shareholder equity	<b>66%</b>	41%	
Average dividend yield	<b>2.9%</b>	2.6%	
Number of employees – average	<b>3,200</b>	3,400	-6

**NOTE:** 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.

(1) In 1998, Polaris entered into a settlement agreement related to a trade secret infringement claim brought by Injection Research Specialists, Inc. The one-time provision for litigation loss of \$61.4 million pretax, or \$0.77 per diluted share, has been excluded from the 1998 financial data presented.

### DISTRIBUTION

Polaris products are sold through a network of approximately 1,600 independent dealers in North America, and through six subsidiaries and 43 distributors in approximately 130 countries outside of North America.

#### North American Dealers

- ATVs – 1,600
- Side-by-Sides – 1,300
- Snowmobiles – 800
- Victory – 340
- PG&A – 1,600

### MANUFACTURING/ RESEARCH & DEVELOPMENT

Polaris designs, tests and assembles its products at its manufacturing and research and development facilities in the upper Midwest United States. The Company prides itself in being close to the customer and extremely flexible and efficient in designing, testing and manufacturing Polaris products.

New product introductions are the lifeblood of the Company. In 2005, the Company opened a \$35 million state-of-the-art Product Development Center in Wyoming, Minnesota, which will continue to drive new product introductions and, more importantly, help improve the success rate of those new products introduced each year.



Forward-looking statements made herein involve certain important factors that could change and cause actual results to differ materially from those anticipated. See "Management's Discussion and Analysis of Financial Condition and Results of Operation" beginning on page 17 of the Form 10-K included with this report.



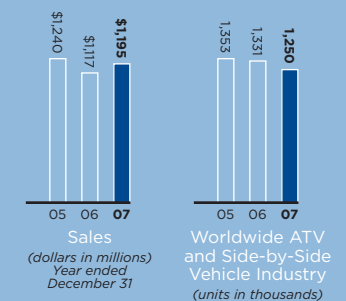
**ATVs/RANGER**

**New for 2007**

- Sportsman® 400 HO
- Sportsman Touring 500/800 EFI
- Sportsman X2 700 EFI
- Outlaw® 525S/450 MXR
- *RANGER RZR™*
- *RANGER Crew™*

**Competitive Advantage**

- ATVs – Industry-leading performance and features; full line of products
- *RANGERS* – Hardest working, smoothest riding; unbeatable torque and power; easy customization; *RZR* sharp side-by-side performance



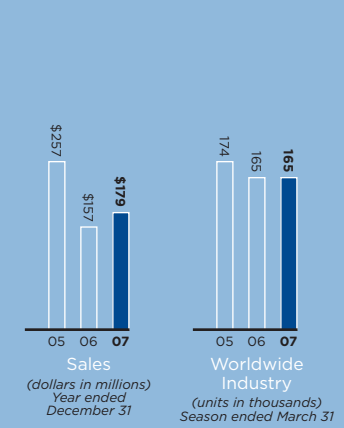
**SNOWMOBILES**

**New for 2007**

- 800 CFI RMK® Dragon®
- 600 RR (Race Replica)
- IQ Shift™

**Competitive Advantage**

- 53 years of experience
- Strong brand recognition
- Industry-leading ride and handling



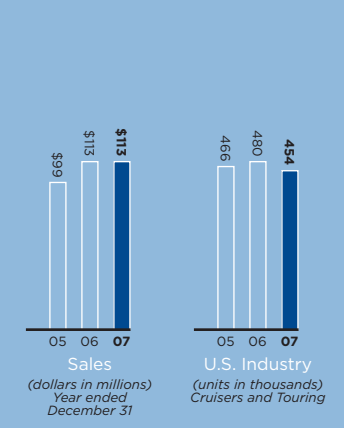
**VICTORY MOTORCYCLES**

**New for 2007**

- Victory Vision Tour™
- Victory Vision Street™
- Victory Vegas Low™

**Competitive Advantage**

- Unique designs
- Highest quality
- American made



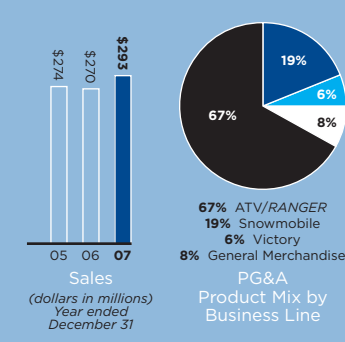
**PG&A**

**New for 2007**

- Introduced over 75 *RANGER RZR* accessories and over 100 Victory Vision® accessories
- All-season ATV tracks
- Expanded line of Polaris winches and ATV/*RANGER* rims/wheels
- *RANGER* hydraulic plow

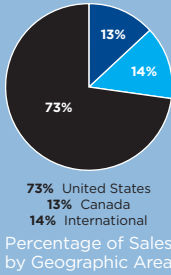
**Competitive Advantage**

- Full line of accessories and garments specifically designed for Polaris products (i.e., Lock & Ride®)

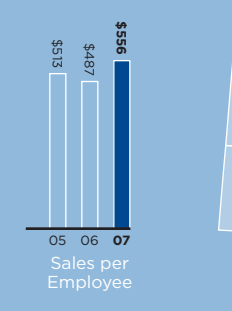


**International Subsidiaries**

- United Kingdom
- France
- Germany
- Norway
- Sweden
- Australia



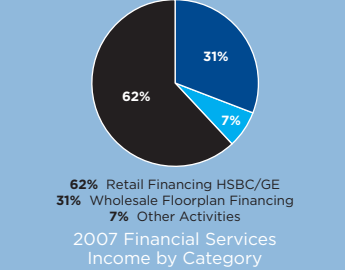
**Polaris Has Approximately 3,200 Employee Owners**



- Headquarters**
- 1 Medina, MN
- Manufacturing**
- 2 Roseau, MN
    - Snowmobiles
    - ATVs
    - *RANGER RZR*
    - Plastics injection molding
  - 3 Osceola, WI
    - Fabricated components
    - Exhaust systems
    - Clutches
    - Seats
    - Engines
  - 4 Spirit Lake, IA
    - *RANGER*
    - *RANGER Crew*
    - Victory motorcycles
  - 5 Hudson, WI
    - Engines from a joint venture with Fuji Heavy Industries, Ltd. (Robin)
- PG&A Distribution**
- 6 Vermillion, SD
  - 7 Winnipeg, MB, Canada
- Research & Development**
- 8 Wyoming, MN
  - 2 Roseau, MN

**FINANCIAL SERVICES**

Polaris has a 50/50 joint venture with GE to provide floor plan financing to Polaris' dealers in the United States. Polaris also has arrangements with HSBC and GE to provide revolving and installment consumer and commercial credit to customers of Polaris dealers in the United States. During 2007, income from the Company's financial services arrangements totaled \$45 million. Polaris has no credit, interest rate or funding risk under the retail credit contracts with HSBC or GE. Polaris also provides extended service contracts to consumers and certain other insurance contracts to dealers and consumers through various third-party suppliers.



## A LETTER FROM THE CEO AND COO

### Dear Fellow Shareholders:

A year ago, Polaris developed an ambitious three-year plan for getting back to great. Investors were understandably skeptical. Our 2006 performance was disappointing. And 2007 looked bleak: The housing market crashed. The economy was slow. Durable goods were hit hard and discretionary goods even harder.

But we made the tough decisions and took bold actions. We reduced inventory at the dealer and factory levels and streamlined operations well before competitors. We did this while continuing to introduce revolutionary new products like the *RANGER RZR* and Victory Vision, and gained market share in every business, both domestically and internationally.

As a result, we delivered a strong 2007 and got the company back on track. Here's a quick recap of 2007:

- Sales increased by 7 percent to \$1.78 billion.
- Earnings per share from continuing operations increased 14 percent to \$3.10 per diluted share.
- Gross margins increased by 40 basis points to 22.1 percent.
- We won the competitive battle in 2007. We gained market share in every business we compete in — both in North America and internationally.
- Dealer inventories are at much lower levels today than a year ago.
- We grew aggressively in our side-by-side business, particularly with the introduction of the new *RANGER RZR*, and made good progress in further developing our military business.
- Our snowmobile business is on the road to recovery. We grew sales 14 percent in 2007 and gained market share for the calendar year.
- The accelerated share repurchase transaction executed in December 2006, together with the 1.9 million shares repurchased during 2007, have resulted in a 12 percent reduction in average diluted shares outstanding in 2007.
- Our total annual return to shareholders was 5 percent. Over the past five years, our total return to shareholders has been 83 percent.

As in most years, there were some things that did not go well in 2007:

- We expected the overall North American core ATV market environment to remain challenging in 2007, and that was the case. But it was even tougher than we expected, declining 13 percent for the full year.
- Even more unexpected was the decline of the U.S. motorcycle industry. It had grown consistently for 16 years, but the cruiser and touring markets combined declined 5 percent in 2007. The slowdown in the motorcycle industry negatively impacted the cruiser side of our motorcycle business, so we reduced cruiser production to maintain a balance of supply and demand. However, we continue to be excited about our Victory motorcycle business, and particularly the luxury touring segment we entered in 2007 with the all-new Victory Vision.
- We did not anticipate the significant decline in our financial services income during the second half of 2007. This was due to our revolving retail credit provider, HSBC, no longer financing non-Polaris products at our dealerships beginning July 2007.



**Thomas C. Tiller**  
*Chief Executive Officer*

**Bennett J. Morgan**  
*President and  
Chief Operating Officer*

## A LETTER FROM THE CEO AND COO (CONT.)

In 2007, we challenged ourselves to get the company back on track, and we did. 2008 will have its own set of challenges to navigate, but we have generated momentum in 2007 that will carry into 2008.

### MOMENTUM FOR 2008

How was our 2007 momentum achieved — in an environment that punished just about everyone else? We did it by successfully executing on the plan we laid out over a year ago (highlighted on the facing page). In 2008, expected to be an even tougher economic environment, we will take the Company to the next level of performance. To deliver on that objective, we will continue to execute on the strategies outlined below, as we did in 2007. But in 2008, we are starting from a stronger position:

#### 1. WIN IN THE CORE

In a declining market, we know we simply have to fight harder for our fair share, and we are. In 2007, we gained market share in our core ATV and snowmobile markets. We balanced supply and demand by reducing inventories, we sharpened our pricing, and we got much more aggressive with advertising and sales promotions.

On top of that, we continued the Polaris legacy of introducing innovative new products like the value-priced ATV Sportsman 400 and 500 HO; the high-performance 800 CFI RMK Dragon, which was named “the number one mountain sled” by *SnoWest* magazine; and the potent, value-priced IQ Shift snowmobile. As a result, many of our dealers are healthier today in a tough economic environment.

We expect to continue the momentum in our core businesses in 2008 by:

- Further reducing dealer inventory in core ATVs, given the continued slow ATV industry environment
- Achieving industry-leading quality in ATVs and snowmobiles
- Growing market share
- Achieving the financial targets we have set in our core businesses

#### 2. DELIVER OPERATIONAL EXCELLENCE

We began to deliver on our Operational Excellence initiative in 2007. Operational excellence at Polaris is centered on meeting and exceeding our end customer's needs better than anyone in our industry. In other words, to become the “Toyota of the Powersports business.” There are three areas of focus — quality, cost and speed.

**Quality:** For 2007, our quality improved significantly. Our net promoter score — a measurement of the customer's positive word of mouth — improved by over 10 percent, and our two key new product introductions, the *RANGER RZR* and the Victory Vision, both had outstanding net promoter scores.

**Costs:** Our system-wide cost and investments declined by 3 percent in 2007, fueled by reductions in dealer and factory inventory, cost reductions in products and tooling, and more efficient capital allocation. Our gross margins expanded and productivity improved. That system-wide cost reduction also benefited our supplier and dealer partners.

## WIN IN THE CORE

ATVs, snowmobiles and their related parts, garments and accessories continue to be good businesses for Polaris, even in a tough economic environment. We are one of the top three global players in both ATVs and snowmobiles. Innovative product introductions continue to be our competitive advantage in each category, including the two new model year 2008 products shown here.



The ride on a new Sportsman Touring 800 EFI is the most comfortable trip two people can have on an ATV. Key features include rolled independent rear suspension, active descent control, engine-breaking system, adjustable-height vibration-isolating footrest, ultra-comfortable seat and backrest, and multi-position passenger handholds.



The new 800 CFI RMK Dragon is one of our lightest, more powerful snowmobiles, weighing in at 487 pounds. Key features include more power, with the new Liberty® 800 CleanFire Injection® engine delivering 154 horsepower to the ground, series 5.1 track with 2.4-inch lugs in three track sizes, and a new freestyle seat to improve ergonomics.

Our PG&A business offers high-quality Pure Polaris™ parts and over 5,000 garments and accessories to make the experience with the product even better. An example of state-of-the-art innovation is the Freedom™ Cab System, which features doors that swing back flush to the rear of the *RANGER*, greater visibility, and automotive fit and finish (pictured at right).





*RANGER XP™* with the Freedom Cab System installed



## A LETTER FROM THE CEO AND COO (CONT.)

**Speed:** We got faster in 2007 as well — over 15 percent faster to our consumers by eliminating waste and unnecessary steps. The speed improvements came in a number of important areas, including the new product development cycle, logistics, factory and dealer inventory, and the quality feedback loop. A tangible example of this improvement in speed was visible with the introduction of the new *RANGER* Crew, which was brought to market in the fourth quarter of 2007. This project was done several months faster than would have been the case even a year ago. Speed will become a competitive weapon for Polaris.

For 2008, we expect to improve even more. Quality, as measured by our customers, should improve by more than 10 percent, our system-wide costs should go down by at least 5 percent, and we should improve our speed by another 15 percent. We are more confident than ever that the Operational Excellence initiative will, over time, transform our competitive position.

### 3. GROW THE COMPANY

In year one of our plan, we delivered over \$200 million in additional sales in our growth businesses, putting us on track toward reaching our 2009 goal of \$500 million in incremental sales. Here's how we're achieving it:

**Victory:** The New American Motorcycle® had another strong year, with retail sales growing at 10 percent while the overall cruiser and touring markets declined. This was our fourth consecutive year of market share growth. In 2007, we introduced two new models targeting the attractive and growing luxury touring motorcycle segment: the Victory Vision Street and Victory Vision Tour. These new models are designed to deliver what touring riders told us most influences their buying decision: forward-looking style and comfort. In 2008 and beyond, we expect to continue to capitalize on our brand positioning as The New American Motorcycle company with these and other new, innovative products.

**RANGER:** The side-by-side market is the fastest-growing category in powersports today, and our goal is to dominate in this business. Polaris significantly outperformed the market in 2007 with industry-leading products. The Polaris *RANGER*, the hardest working, smoothest riding side-by-side, is a leader in its class, and our new *RANGER* Crew six-passenger people mover, introduced in the fourth quarter of 2007, continues the *RANGER* legacy. The *RANGER RZR* is the most successful product we have introduced in the last decade. It is the lightest side-by-side vehicle, and at 50 inches wide, *RANGER RZR* is the only trail-capable side-by-side vehicle in its class. It's built with a patented design that places the engine behind the seat, creating the lowest center of gravity of all the sport side-by-sides to give it unmatched off-road responsiveness, speed and safety. The *RANGER RZR* has far exceeded our initial sales expectations. This is the kind of product some companies only dream about, but it's the kind of game-changing product Polaris customers have come to expect from us.

## OPERATIONAL EXCELLENCE



2008 *RANGER* Crew

**Here is how we plan to meet our aggressive goals for improving operations:**

#### QUALITY

*Improve consumer satisfaction by 50% by 2010*

- Increase percentage of vehicles with no warranty claims
- Reduce experiential product defects
- Increase market share each year
- Reduce rework

#### COST

*Reduce system-wide cost by 20%+ by 2010*

- Reduce dealer and factory inventory
- Reduce product cost
- Reduce operational overhead expense
- Reduce tooling and capital spending
- Improve marketing effectiveness spending as a percentage of sales
- Increase dealer profitability to powersports-leading level

#### SPEED

*Improve speed to consumer by 50% by 2010*

- Improve inventory turns
- Reduce purchasing lead times
- Reduce new product development cycle time
- Reduce customer feedback quality loop cycle time
- Reduce wholesale order process time
- Deliver right product, right time, right place





2008 Victory Vision Tour

## A LETTER FROM THE CEO AND COO (CONT.)

**Military:** We invested in a dedicated team with extensive military sales experience and pursued this opportunity aggressively. It is beginning to pay off with our largest military contract to date, \$18 million, received during 2007. While our Polaris Defense business is still relatively small, we're supplying custom products (see details at right) to more than 20 military agencies around the world, and we expect to continue to see rapid growth for the foreseeable future.

**International:** In the next 10 years, we want to transition from being a North American company with a small international presence to a truly global company. This year, we took another key step in that direction by moving international leadership out of our corporate headquarters and closer to our international markets. We promoted one of our talented employees to be our first non-U.S. international general manager, and assigned key non-U.S. regional managers. We also launched a subsidiary in Germany, Europe's third-largest ATV market. These changes will continue to drive an already successful international business. Our teams and products are strong, and in 2007, we gained market share in Europe in both ATVs and snowmobiles, while total international sales grew 11 percent. With the *RANGER RZR* being launched in these markets in 2008, we're confident in our aggressive international sales projections.

**Additional Adjacent Markets:** While we are not yet ready to disclose our next adjacency, we have identified, selected and dedicated internal resources to this new opportunity. The following areas demonstrate the kinds of opportunities we are exploring for the company for future growth: more global, more products designed for on-road use, and more products or distribution opportunities outside the powersports industry.

In summary, we're proud of our performance in 2007. We got the company back on track and gained momentum. 2008 is expected to be even better than 2007. Our focus for 2008 remains consistent: Win in the core, deliver operational excellence, and grow our business. We'll continue to deliver game-changing products, dominate the fast-growing side-by-side vehicle market, and begin to transform our core businesses through operational excellence. Finally, we will continue to explore adjacent long-term market opportunities that will diversify us into a more global and more on-road company with a reach that extends beyond powersports.

We remain committed to our 2009 goals, but rest assured there are no rose-colored glasses at Polaris. We know the journey won't be easy. We expect that our markets and the economy will continue to get tougher in the short term, so we'll have to work harder and execute better. But our vision is clear, our focus is unmatched, and our 3,200 employee-owners are committed to being the very best in the industry.

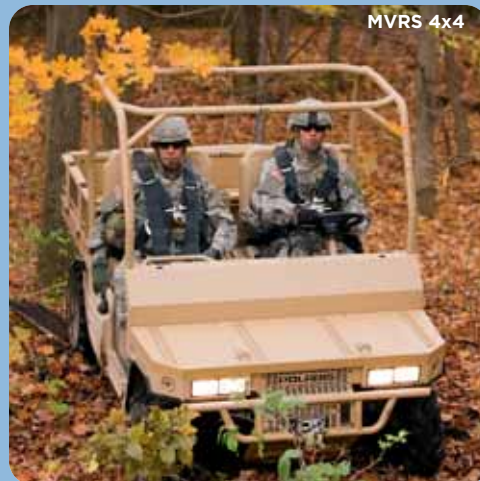
*Thomas C. Tiller*

**Thomas C. Tiller** - Chief Executive Officer

*Bj Morgan*

**Bennett J. Morgan** - President and Chief Operating Officer

## ADJACENT MARKETS: MILITARY



### NUMBER OF MILITARY AGENCY CUSTOMERS TO DATE:

- 20

### NEW PRODUCTS:

- MV800 4X4, based on our ATV platform (pictured at right)
- MVRS, based on our *RANGER* platform (pictured above)

### CUSTOM FEATURES:

- Available with either a 40 horsepower gasoline engine or a Polaris Patriot Engine, which runs on JP8, the U.S. military's standard fuel
- High-capacity fuel tank
- Completely sealed power train that can ford up to 30 inches of water
- Steel exoskeleton
- Run-flat tires
- NATO litter rack attachments
- Modular attachments for ancillary equipment, tools and containers





Military Version (MV) 800 4x4

## A LETTER FROM THE CHAIRMAN



Dear Shareholders,

Two of the Board's most important priorities are shaping Polaris' growth strategy, and leadership development and succession planning. We have spent a considerable amount of time over the years thinking about each of these. In fact, this past summer, management and the Board conducted a strategic session covering the next 10 years, looking at the industry, worldwide trends and economic factors.

After much deliberation, discussion and analysis, we came away feeling that the current strategic direction for our existing businesses is on target: winning in our core businesses (ATVs and snowmobiles) and growing in our current growth businesses (Victory, *RANGER*, international and military).

However, we feel we must also look beyond our current product and customer sets to remain a successful company in the future. We believe the key to Polaris' longer-term success will be to expand globally, expand the on-road business, and continue to expand our presence in businesses outside of powersports, such as the military.

If we are successful in accomplishing these strategic objectives, we will be a much bigger and more profitable company, perhaps approaching \$5 billion in sales in 10 years.

The Board is confident Polaris can successfully adapt to these longer-term objectives because our management team is deep and our product development pipeline is strong. The \$35 million we invested in the Wyoming R&D center a few years ago — the largest single facility investment the company has ever made — has proved itself with new products like the *RANGER RZR* and Victory Vision, two of the most successful products the company has ever made. So the momentum is building, the opportunities are there, and we believe we can make Polaris even more successful in the future.

That leads me to another Board priority, leadership development and succession planning. As many of you have heard by now, CEO Tom Tiller has decided not to extend his contract after 2008. First and foremost, I want to make it clear the Board of Directors is extremely pleased with Polaris' superb performance in a tough external environment and its overall strategic direction. Tom's decision to leave Polaris is personal and based on his belief that innovative companies like Polaris need an infusion of fresh ideas every decade or so. It's not any more complicated than that.

While we are sad to see Tom leave, the Board felt comfortable with his decision because we have a sound succession-planning process in place. We worked for several years to develop a comprehensive plan that ensures we do a thorough search — both internally and externally — for the right person to lead Polaris in its next phase.

Polaris President and COO Bennett Morgan is a strong internal candidate, but we won't know if he is the best candidate until we have evaluated all the best external candidates. Once we do choose a successor, Tom will remain on the Board for a transitional period to ensure a smooth transition.

I would also like to acknowledge some changes in our Board that occurred in 2007. Rick Zona decided to step down, and we thank him for his many years of service and oversight on the Board. We also welcomed a new Board member in 2007, John Wiehoff, CEO of C.H. Robinson, a global provider of multimodal transportation services and logistics solutions. John's skills complement the many and varied talents we have on the Board, and his contribution will be valuable as Polaris pursues a more global future.

So, in the short term, it's business as usual at Polaris — working toward the 2009 goals outlined in Tom and Bennett's letter, while at the same time positioning the company for success longer term. Our 10-year plan is achievable, with sensible investments and good execution. As a Board, we are very excited about the future of Polaris.

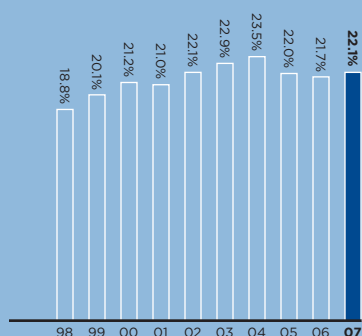
A stylized, handwritten signature in black ink, appearing to read 'G. Palen'.

**Gregory R. Palen** - Chairman

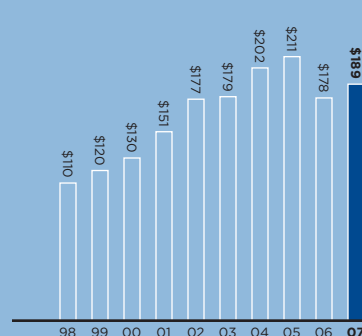


# THE SCORECARD

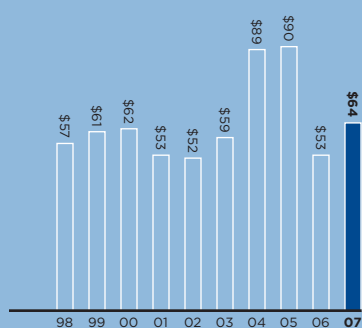
In 2007, we intended to get the business back on track, and we accomplished our goal. Sales grew 7 percent, and net income from continuing operations per diluted share increased 14 percent. Gross margins expanded, and all businesses increased market share. Additionally, we launched two important products in 2007, the *RANGER RZR* and *Victory Vision*, both with leading-edge technology and design in their respective classes.



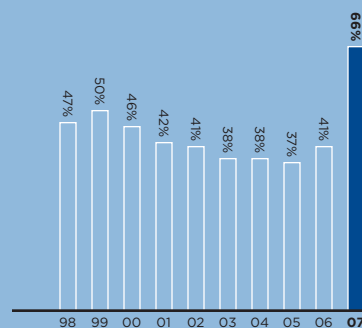
Gross Margin Percentage from Continuing Operations



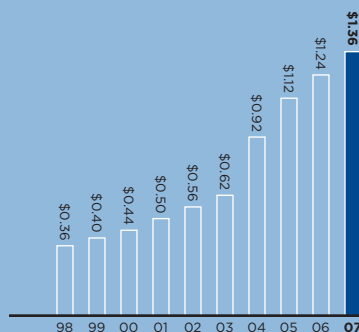
Cash Flow Provided from Continuing Operations<sup>(1,2)</sup>  
(dollars in millions, before changes in current operating items and deferred taxes)



Purchase of Property and Equipment from Continuing Operations  
(dollars in millions)

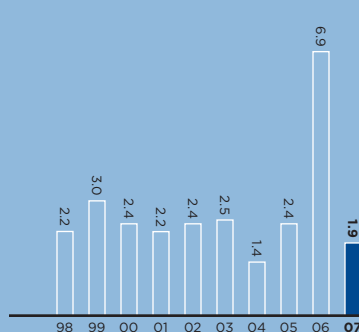


Return on Average Shareholder Equity from Continuing Operations



Dividends per Share (dollars)

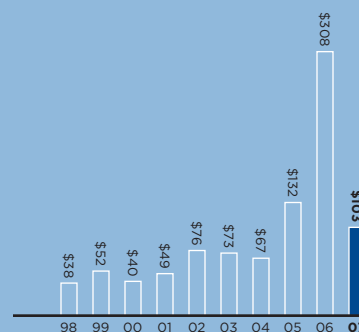
In January 2008, Polaris announced a 12% increase in the regular quarterly dividend, the 13th straight year of increases, to \$1.52 per share.



(shares in millions)

## Polaris Shares Repurchased

Since inception of the share repurchase program in 1996, approximately 31.1 million shares have been repurchased at an average price of \$31.88 per share.



(dollars in millions)

**NOTE:** 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.

- (1) In 1998, Polaris entered into a settlement agreement related to a trade secret infringement claim brought by Injection Research Specialists, Inc. The one-time provision for litigation loss of \$61.4 million pretax, or \$0.77 per diluted share, has been excluded from the 1998 financial data presented.
- (2) A reconciliation of the Company's calculation of Cash Flow Provided to the most directly comparable cash flow measure, as required by Regulation G, appears on page 11 of this Annual Report.

## 11-YEAR SELECTED FINANCIAL DATA (in thousands, except per-share and per-unit data)

The selected financial data presented below is qualified in its entirety by, and should be read in conjunction with, the Consolidated Financial Statements and Notes thereto and other financial and statistical information, including the information referenced under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operation," located in the Form 10-K included in this report.

Prior years' results have been adjusted to reflect the adoption in 2006 of SFAS 123(R) under the modified retrospective method.

For the Years Ended December 31,	2007	2006	2005	2004
<b>STATEMENT OF OPERATIONS DATA</b>				
Sales data:				
Total sales	<b>\$1,780,009</b>	\$1,656,518	\$1,869,819	\$1,773,206
Percent change from prior year	<b>7%</b>	(11%)	5%	14%
Sales mix by product:				
All-terrain vehicles	<b>67%</b>	67%	66%	66%
Snowmobiles	<b>10%</b>	10%	14%	16%
Motorcycles	<b>6%</b>	7%	5%	4%
Parts, garments & accessories	<b>17%</b>	16%	15%	14%
Gross profit data:				
Total gross profit	<b>\$ 393,020</b>	\$ 359,359	\$ 411,032	\$ 416,600
Percent of sales	<b>22%</b>	22%	22%	23%
Operating expense data:				
Total operating expenses	<b>\$ 262,269</b>	\$ 238,363	\$ 244,660	\$ 242,690
Percent of sales	<b>15%</b>	14%	13%	14%
Net income data:				
Net income from continuing operations	<b>\$ 112,598</b>	\$ 112,791	\$ 137,721	\$ 132,257
Diluted net income per share from continuing operations	<b>\$ 3.10</b>	\$ 2.72	\$ 3.15	\$ 2.97
Net income	<b>\$ 111,650</b>	\$ 106,985	\$ 136,714	\$ 99,948
Diluted net income per share	<b>\$ 3.07</b>	\$ 2.58	\$ 3.12	\$ 2.25
<b>CASH FLOW DATA</b>				
Cash flow from continuing operating activities	<b>\$ 213,166</b>	\$ 152,754	\$ 162,463	\$ 237,061
Purchase of property and equipment for continuing operations	<b>63,747</b>	52,636	89,770	88,836
Repurchase and retirement of common stock	<b>103,100</b>	307,621	132,280	66,830
Cash dividends to shareholders	<b>47,739</b>	50,234	46,956	38,856
Cash dividends per share	<b>\$ 1.36</b>	\$ 1.24	\$ 1.12	\$ 0.92
<b>BALANCE SHEET DATA</b>				
(at end of year)				
Cash and cash equivalents	<b>\$ 63,281</b>	\$ 19,566	\$ 19,675	\$ 138,469
Current assets	<b>447,556</b>	392,961	373,988	465,655
Total assets	<b>769,881</b>	778,791	770,633	792,925
Current liabilities	<b>388,246</b>	361,420	375,614	405,193
Borrowings under credit agreements	<b>200,000</b>	250,000	18,000	18,000
Shareholders' equity	<b>172,982</b>	167,371	377,019	368,058

**NOTE:** 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.

(1) In 1998, Polaris entered into a settlement agreement related to a trade secret infringement claim brought by Injection Research Specialists, Inc. The one-time provision for litigation loss amounted to \$61.4 million pretax, or \$0.77 per diluted share in 1998. The settlement had no effect on the future operations of the Company. Excluding this charge, other operating expenses, net income and diluted net income per share from continuing operations for 1998 would have been \$98.0 million, \$76.7 million and \$1.48 per share, respectively.



2003	2002	2001	2000	1999	1998	1997
\$1,552,351	\$1,468,170	\$1,427,400	\$1,327,030	\$1,244,782	\$1,105,685	\$ 947,775
6%	3%	8%	7%	13%	17%	(4%)
67%	64%	58%	62%	59%	58%	48%
15%	20%	26%	23%	25%	28%	37%
4%	2%	1%	1%	3%	1%	—
14%	14%	15%	14%	13%	13%	15%
\$ 355,961	\$ 324,618	\$ 299,194	\$ 281,264	\$ 250,528	\$ 207,807	\$ 190,853
23%	22%	21%	21%	20%	19%	20%
\$ 206,013	\$ 181,764	\$ 164,532	\$ 153,193	\$ 127,079	\$ 159,354	\$ 82,767
13%	12%	12%	12%	10%	14% <sup>(1)</sup>	9%
\$ 115,178	\$ 107,143	\$ 93,773	\$ 85,733	\$ 81,816	\$ 37,082 <sup>(1)</sup>	\$ 74,927
\$ 2.58	\$ 2.28	\$ 1.99	\$ 1.81	\$ 1.64	\$ 0.71 <sup>(1)</sup>	\$ 1.40
\$ 106,284	\$ 99,405	\$ 87,471	\$ 79,076	\$ 73,500	\$ 29,336 <sup>(1)</sup>	\$ 64,346
\$ 2.38	\$ 2.12	\$ 1.86	\$ 1.67	\$ 1.48	\$ 0.56 <sup>(1)</sup>	\$ 1.20
\$ 162,540	\$ 195,803	\$ 192,023	\$ 105,055	\$ 134,469	\$ 124,701	\$ 97,655
59,209	52,313	52,856	61,590	60,659	56,796	32,389
73,125	76,389	49,207	39,622	52,412	37,728	39,903
26,657	25,273	22,846	20,648	19,732	18,582	16,958
\$ 0.62	\$ 0.56	\$ 0.50	\$ 0.44	\$ 0.40	\$ 0.36	\$ 0.32
\$ 82,761	\$ 81,193	\$ 40,530	\$ 2,369	\$ 6,184	\$ 1,466	\$ 1,233
387,716	343,659	305,317	240,912	214,714	183,840	217,458
674,178	614,378	567,979	492,156	443,686	380,093	385,498
330,478	313,513	308,337	238,384	233,800	204,964	191,111
18,008	18,027	18,043	47,068	40,000	20,500	24,400
325,692	282,838	241,599	206,704	169,886	154,629	169,987

**Cash Flow Provided to Net Cash Provided by Operating Activities from Continuing Operations** (dollars in millions)

Year	Cash Flow Provided	Deferred Income Taxes	Changes in Current Operating Items	One-time Provision for Litigation Loss, Net <sup>(9)</sup>	Net Cash Provided by Operating Activities
1998	\$109.5	\$ 4.4	\$ 50.4	\$(39.6)	\$124.7
1999	119.8	2.8	11.9	—	134.5
2000	129.7	1.3	(25.9)	—	105.1
2001	150.8	(10.6)	51.8	—	192.0
2002	176.9	4.3	14.6	—	195.8
2003	179.1	(8.7)	(7.9)	—	162.5
2004	202.3	(1.5)	36.3	—	237.1
2005	211.4	1.6	(50.5)	—	162.5
2006	177.8	1.3	(26.3)	—	152.8
2007	189.1	(10.3)	34.4	—	213.2

## BOARD OF DIRECTORS, OFFICERS AND GENERAL MANAGERS

### BOARD OF DIRECTORS

**THOMAS C. TILLER**  
Chief Executive Officer  
of Polaris Industries Inc.  
*Committee: Technology*

**GREGORY R. PALEN**  
Chairman of the Board  
of Polaris Industries Inc.  
and Chairman  
of Spectro Alloys and  
Chief Executive Officer  
of Palen/Kimball Company  
*Committees: Audit, Technology*

**ANDRIS A. BALTINS**  
Member of the law firm  
of Kaplan, Strangis and  
Kaplan, P.A.  
*Committees: Compensation,  
Corporate Governance and  
Nominating\**

**ROBERT L. CAULK**  
Former Chairman and  
Chief Executive Officer  
of United Industries  
Corporation  
*Committee: Compensation\**

**ANNETTE K. CLAYTON**  
Vice President of Operations  
for the Americas,  
Dell Corporation  
*Committees: Audit, Technology*

**JOHN R. MENARD, JR.**  
President of Menard, Inc.  
*Committees: Corporate  
Governance and Nominating,  
Technology*

**R.M. (MARK) SCHRECK**  
Professor, University of  
Louisville Speed School  
of Engineering and  
retired Vice President  
of Technology,  
General Electric  
*Committees: Corporate  
Governance and Nominating,  
Technology\**

**WILLIAM G. VAN DYKE**  
Retired Chairman  
of Donaldson Company, Inc.  
*Committee: Audit\**

**JOHN P. WIEHOFF**  
Chief Executive Officer  
of C.H. Robinson  
*Committee: Audit*

*\*Committee Chair*

### CORPORATE OFFICERS & GENERAL MANAGERS

**THOMAS C. TILLER**  
Chief Executive Officer

**BENNETT J. MORGAN**  
President and  
Chief Operating Officer

**JEFFREY A. BJORKMAN**  
Vice President – Operations

**MARK E. BLACKWELL**  
Vice President –  
Victory Motorcycles and  
International Operations

**JOHN B. CORNESS**  
Vice President –  
Human Resources

**MICHAEL D. DOUGHERTY**  
Vice President and  
General Manager – ATVs

**WILLIAM C. FISHER**  
Vice President,  
Chief Information Officer  
and General Manager –  
Service

**MATTHEW J. HOMAN**  
General Manager –  
Side-by-Side Vehicles

**MICHAEL P. JONIKAS**  
Vice President –  
Sales and Marketing

**DAVID C. LONGREN**  
Vice President and  
Chief Technical Officer

**MICHAEL W. MALONE**  
Vice President –  
Finance, Chief Financial  
Officer and Secretary

**MARY P. McCONNELL**  
Vice President –  
General Counsel

**SCOTT A. SWENSON**  
Vice President and  
General Manager –  
Snowmobiles and  
Parts, Garments and  
Accessories

**TRULS TVETE**  
General Manager –  
International

## OTHER INVESTOR INFORMATION



### STOCK EXCHANGE

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

### INDEPENDENT AUDITORS

Ernst & Young LLP  
Minneapolis, MN

### TRANSFER AGENT AND REGISTRAR

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

Wells Fargo Bank N.A.  
Shareowner Services  
161 North Concord Exchange  
South St. Paul, MN 55075-1139  
1-800-468-9716  
[www.wellsfargo.com/com/shareowner\\_services](http://www.wellsfargo.com/com/shareowner_services)

### ANNUAL SHAREHOLDERS' MEETING

The meeting will be held at 9 a.m. CST, Thursday, May 1, 2008, at the Polaris Industries Inc. corporate headquarters, 2100 Highway 55, Medina, Minnesota. A proxy statement will be mailed on or about March 10, 2008, to each shareholder of record as of March 3, 2008.

### SUMMARY OF TRADING

For the Years Ended December 31,

	2007		2006	
Quarter	High	Low	High	Low
First	<b>\$52.20</b>	<b>\$42.38</b>	\$54.90	\$46.65
Second	<b>55.80</b>	<b>47.25</b>	53.62	42.33
Third	<b>58.78</b>	<b>42.91</b>	45.17	34.24
Fourth	<b>54.66</b>	<b>43.41</b>	47.61	39.00

### CASH DIVIDENDS DECLARED

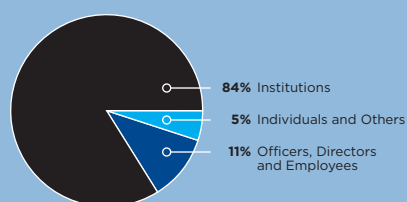
Cash dividends are declared quarterly and have been paid since 1995. On January 24, 2008, the quarterly dividend was increased to \$0.38 per share.

Quarter	2007	2006
First	<b>\$0.34</b>	\$0.31
Second	<b>0.34</b>	0.31
Third	<b>0.34</b>	0.31
Fourth	<b>0.34</b>	0.31
Total	<b>\$1.36</b>	\$1.24

### SHAREHOLDERS OF RECORD

Shareholders of record of the Company's common stock on February 21, 2008, were 2,810.

### SHAREHOLDER COMPOSITION



### DIVIDEND REINVESTMENT PLAN

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

### PRODUCT BROCHURES

For product brochures and dealer locations, write or call:

Polaris Industries Inc.  
2100 Highway 55  
Medina, MN 55340  
1-800-Polaris (1-800-765-2747)

### INTERNET ACCESS

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

[www.polarisindustries.com](http://www.polarisindustries.com)  
[www.victory-usa.com](http://www.victory-usa.com)

### INVESTOR RELATIONS

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

Richard Edwards  
Director of Investor Relations  
Polaris Industries Inc.  
2100 Highway 55  
Medina, MN 55340  
763-513-3477  
[richard.edwards@polarisind.com](mailto:richard.edwards@polarisind.com)

### RESEARCH COVERAGE AS OF FEBRUARY 2008

Avondale Partners  
Bank of America Securities  
BMO Capital Markets Corp.  
Citigroup  
Craig-Hallum Partners  
FTN Midwest Securities Corp.  
KeyBanc Capital Markets (McDonald)  
Merrill Lynch  
Raymond James & Associates  
RBC Capital Markets  
Robert W. Baird & Co.  
Rochdale Securities  
Wachovia Capital Markets  
Wedbush Morgan Securities

### STOCK-SPLIT HISTORY

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

### CERTIFICATIONS

The Company's chief executive officer submitted the annual CEO certification to the New York Stock Exchange, certifying that he is not aware of any violation by the Company of the New York Stock Exchange's corporate governance listing standards.

The chief executive officer and chief financial officer certifications required by section 302 of the Sarbanes-Oxley Act of 2002 have been filed as exhibits to the Form 10-K included with this report.





Polaris Industries Inc.  
2100 Highway 55  
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763-542-0599 fax

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