

OSHKOSH CORP
Form 10-Q
April 26, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2017

or

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

Commission file number: 1-31371

Oshkosh Corporation

(Exact name of registrant as specified in its charter)

Wisconsin 39-0520270

(State or other jurisdiction (I.R.S. Employer
of incorporation or organization) Identification No.)

P.O. Box 2566 54903-2566

Oshkosh, Wisconsin (Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (920) 235-9151

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

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

Indicate by check mark 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.

Large accelerated filer 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 Act). Yes No

As of April 19, 2017, 74,794,526 shares of the registrant's Common Stock were outstanding.

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PART I - FINANCIAL INFORMATION

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ITEM 1. FINANCIAL STATEMENTS

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OSHKOSH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share amounts; unaudited)

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2017	2016	2017	2016
Net sales	\$1,618.3	\$1,524.3	\$2,829.7	\$2,776.3
Cost of sales	1,357.0	1,265.0	2,368.7	2,334.2
Gross income	261.3	259.3	461.0	442.1
Operating expenses:				
Selling, general and administrative	169.8	154.7	320.8	294.0
Amortization of purchased intangibles	11.1	13.2	23.6	26.4
Total operating expenses	180.9	167.9	344.4	320.4
Operating income	80.4	91.4	116.6	121.7
Other income (expense):				
Interest expense	(15.1)	(15.6)	(29.8)	(30.2)
Interest income	1.0	0.5	1.8	1.0
Miscellaneous, net	1.2	(1.0)	2.5	(1.0)
Income before income taxes and equity in earnings of unconsolidated affiliates	67.5	75.3	91.1	91.5
Provision for income taxes	23.6	20.3	28.8	22.0
Income before equity in earnings of unconsolidated affiliates	43.9	55.0	62.3	69.5
Equity in earnings of unconsolidated affiliates	0.4	1.1	1.2	1.2
Net income	\$44.3	\$56.1	\$63.5	\$70.7
Earnings per share attributable to common shareholders:				
Basic	\$0.59	\$0.77	\$0.85	\$0.96
Diluted	0.58	0.76	0.84	0.95
Cash dividends declared per share on Common Stock	0.21	0.19	0.42	0.38

The accompanying notes are an integral part of these financial statements

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OSHKOSH CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (In millions; unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2017	2016	2017	2016
Net income	\$44.3	\$56.1	\$63.5	\$70.7
Other comprehensive income (loss), net of tax:				
Employee pension and postretirement benefits	0.8	0.4	1.6	0.9
Currency translation adjustments	10.7	18.9	(19.7)	7.7
Change in fair value of derivative instruments	—	(0.2)	—	—
Total other comprehensive income (loss), net of tax	11.5	19.1	(18.1)	8.6
Comprehensive income	\$55.8	\$75.2	\$45.4	\$79.3

The accompanying notes are an integral part of these financial statements

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OSHKOSH CORPORATION
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In millions, except share and per share amounts; unaudited)

	March 31, 2017	September 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$413.4	\$ 321.9
Receivables, net	945.1	1,021.9
Inventories, net	1,455.1	979.8
Other current assets	90.1	93.9
Total current assets	2,903.7	2,417.5
Property, plant and equipment, net	445.7	452.1
Goodwill	994.4	1,003.5
Purchased intangible assets, net	529.7	553.5
Other long-term assets	115.3	87.2
Total assets	\$4,988.8	\$ 4,513.8
Liabilities and Shareholders' Equity		
Current liabilities:		
Revolving credit facilities and current maturities of long-term debt	\$10.0	\$ 20.0
Accounts payable	694.6	466.1
Customer advances	672.0	471.8
Payroll-related obligations	143.3	147.9
Other current liabilities	273.4	261.8
Total current liabilities	1,793.3	1,367.6
Long-term debt, less current maturities	817.1	826.2
Other long-term liabilities	345.1	343.5
Commitments and contingencies		
Shareholders' equity:		
Preferred Stock (\$.01 par value; 2,000,000 shares authorized; none issued and outstanding)	—	—
Common Stock (\$.01 par value; 300,000,000 shares authorized; 92,101,465 shares issued)	0.9	0.9
Additional paid-in capital	794.2	782.3
Retained earnings	2,209.2	2,177.0
Accumulated other comprehensive loss	(193.1)	(175.0)
Common Stock in treasury, at cost (17,306,939 and 18,175,669 shares, respectively)	(777.9)	(808.7)
Total shareholders' equity	2,033.3	1,976.5
Total liabilities and shareholders' equity	\$4,988.8	\$ 4,513.8

The accompanying notes are an integral part of these financial statements

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OSHKOSH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions, except per share amounts; unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Stock in Treasury, at Cost	Total
Balance at September 30, 2015	\$ 0.9	\$ 771.5	\$2,016.5	\$ (144.4)	\$ (733.4)	\$1,911.1
Net income	—	—	70.7	—	—	70.7
Employee pension and postretirement benefits, net of tax of \$0.6	—	—	—	0.9	—	0.9
Currency translation adjustments	—	—	—	7.7	—	7.7
Cash dividends (\$0.38 per share)	—	—	(28.0)	—	—	(28.0)
Repurchases of Common Stock	—	—	—	—	(100.1)	(100.1)
Exercise of stock options	—	(0.3)	—	—	2.2	1.9
Stock-based compensation expense	—	11.4	—	—	—	11.4
Payment of earned performance shares	—	(2.6)	—	—	2.6	—
Shares tendered for taxes on stock-based compensation	—	—	—	—	(1.5)	(1.5)
Other	—	(0.5)	—	—	0.8	0.3
Balance at March 31, 2016	\$ 0.9	\$ 779.5	\$2,059.2	\$ (135.8)	\$ (829.4)	\$1,874.4

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Stock in Treasury, at Cost	Total
Balance at September 30, 2016	\$ 0.9	\$ 782.3	\$2,177.0	\$ (175.0)	\$ (808.7)	\$1,976.5
Net income	—	—	63.5	—	—	63.5
Employee pension and postretirement benefits, net of tax of \$0.9	—	—	—	1.6	—	1.6
Currency translation adjustments	—	—	—	(19.7)	—	(19.7)
Cash dividends (\$0.42 per share)	—	—	(31.3)	—	—	(31.3)
Exercise of stock options	—	4.3	—	—	28.9	33.2
Stock-based compensation expense	—	12.2	—	—	—	12.2
Payment of earned performance shares	—	(1.3)	—	—	1.3	—
Shares tendered for taxes on stock-based compensation	—	—	—	—	(3.0)	(3.0)
Other	—	(3.3)	—	—	3.6	0.3
Balance at March 31, 2017	\$ 0.9	\$ 794.2	\$2,209.2	\$ (193.1)	\$ (777.9)	\$2,033.3

The accompanying notes are an integral part of these financial statements

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OSHKOSH CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In millions; unaudited)

	Six Months Ended March 31,	
	2017	2016
Operating activities:		
Net income	\$63.5	\$70.7
Depreciation and amortization	64.4	63.7
Stock-based compensation expense	12.2	11.4
Deferred income taxes	1.0	(7.0)
Gain on sale of assets	(4.2)	(6.3)
Foreign currency transaction losses	0.2	0.3
Other non-cash adjustments	0.5	(0.2)
Changes in operating assets and liabilities	10.5	(36.6)
Net cash provided by operating activities	148.1	96.0
Investing activities:		
Additions to property, plant and equipment	(28.0)	(40.3)
Additions to equipment held for rental	(24.6)	(22.7)
Proceeds from sale of equipment held for rental	19.8	26.1
Other investing activities	(0.9)	(1.0)
Net cash used by investing activities	(33.7)	(37.9)
Financing activities:		
Proceeds from issuance of debt (original maturities greater than three months)	—	273.5
Repayments of debt (original maturities greater than three months)	(20.0)	(190.0)
Net decrease in short-term debt	—	(21.3)
Repurchases of Common Stock	(3.0)	(101.6)
Dividends paid	(31.3)	(28.0)
Proceeds from exercise of stock options	33.2	1.9
Excess tax benefit from stock-based compensation	—	0.9
Net cash used by financing activities	(21.1)	(64.6)
Effect of exchange rate changes on cash	(1.8)	2.0
Increase (decrease) in cash and cash equivalents	91.5	(4.5)
Cash and cash equivalents at beginning of period	321.9	42.9
Cash and cash equivalents at end of period	\$413.4	\$38.4
Supplemental disclosures:		
Cash paid for interest	\$28.4	\$26.6
Cash paid for income taxes	22.2	37.3

The accompanying notes are an integral part of these financial statements

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OSHKOSH CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

In the opinion of management, the accompanying unaudited Condensed Consolidated Financial Statements contain all adjustments (which include normal recurring adjustments, unless otherwise noted) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) have been condensed or omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. These Condensed Consolidated Financial Statements should be read in conjunction with the audited financial statements and notes thereto included in the Annual Report on Form 10-K of Oshkosh Corporation for the year ended September 30, 2016. The interim results are not necessarily indicative of results for the full year. “Oshkosh” refers to Oshkosh Corporation not including its subsidiaries and “the Company” refers to Oshkosh Corporation and its subsidiaries. Certain reclassifications have been made to the fiscal 2016 financial statements to conform to the fiscal 2017 presentation.

2. New Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), and the FASB has since issued several amendments to this standard, which clarify the principles for recognizing revenue. This guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard supersedes all existing U.S. GAAP guidance on revenue recognition and is expected to require the use of more judgment and result in additional disclosures. The Company will be required to adopt ASU 2014-09 as of October 1, 2018. The Company is currently evaluating the impact of ASU 2014-09 on the Company’s financial statements and has not yet determined its method of adoption.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330), Simplifying the Measurement of Inventory. ASU 2015-11 is part of the FASB’s initiative to simplify accounting standards. The guidance requires an entity to recognize inventory within the scope of the standard at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The Company will be required to adopt ASU 2015-11 as of October 1, 2017. The Company is currently evaluating the impact of ASU 2015-11 on the Company’s financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which is expected to increase transparency and comparability among organizations. The standard requires lessees to reflect most leases on their balance sheet as lease liabilities with a corresponding right-of-use asset, while leaving presentation of lease expense in the statement of income largely unchanged. The standard also eliminates the real-estate specific provisions that exist under current U.S. GAAP and modifies the classification criteria and accounting lessors must apply to sales-type and direct financing leases. The standard is effective for fiscal years and interim periods beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact of ASU 2016-02 on the Company's financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 is part of the FASB's initiative to simplify accounting standards. The standard requires that all tax effects of share-based payments at settlement (or expiration) be recorded in the income statement at the time the tax effects arise. The standard also clarifies that cash flows resulting from share-based payments be reported as operating activities within the statement of cash flows, permits employers to withhold shares upon settlement of an award to satisfy an employee's tax liability up to the employee's maximum individual tax rate in the relevant jurisdiction without resulting in liability classification of the award and permits entities to make an accounting policy election to estimate or use actual forfeitures when recognizing the expense of share-based compensation. The Company adopted ASU 2016-09 as of October 1, 2016 following a prospective approach for the income tax and earnings per share impacts and a retrospective approach for the cash flow impacts. The adoption of ASU 2016-09 did not have a material impact on the Company's financial statements.

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OSHKOSH CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments. The standard requires a change in the measurement approach for credit losses on financial assets measured on an amortized cost basis from an incurred loss method to an expected loss method, thereby eliminating the requirement that a credit loss be considered probable to impact the valuation of a financial asset measured on an amortized cost basis. The standard requires the measurement of expected credit losses to be based on relevant information about past events, including historical experience, current conditions, and a reasonable and supportable forecast that affects the collectibility of the related financial asset. The Company will be required to adopt ASU 2016-13 as of October 1, 2020. The Company is currently evaluating the impact of ASU 2016-13 on the Company's financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740), Intra-Entity Transfers of Assets Other Than Inventory. The standard requires that an entity recognize the income tax consequences of an intra-entity transfer of an asset when the transfer occurs as opposed to when the asset is transferred to an outside party as required under current U.S. GAAP. The standard does not apply to intra-entity transfers of inventory, which will continue to follow current U.S. GAAP. The Company will be required to adopt ASU 2016-16 as of October 1, 2018. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2016-16 on the Company's financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment. The standard simplifies the measurement of goodwill impairment by eliminating the requirement that an entity compute the implied fair value of goodwill based on the fair values of its assets and liabilities to measure impairment. Instead, goodwill impairment will be measured as the difference between the fair value of the reporting unit and the carrying value of the reporting unit. The standard also clarifies the treatment of the income tax effect of tax deductible goodwill when measuring goodwill impairment loss. The Company will be required to adopt ASU 2017-04 as of October 1, 2020. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2017-04 on the Company's financial statements.

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The standard requires that an entity report the service cost component of net periodic pension and postretirement cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The remaining components of net benefit costs are required to be presented in the income statement separately from the service component and outside a subtotal of income from operations, if one is presented. The amendment further allows only the service cost component of net periodic pension and postretirement costs to be eligible for capitalization, when applicable. The Company will be required to adopt ASU 2017-07 as of October 1, 2018. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2017-07 on the Company's financial statements.

3. Receivables

Receivables consisted of the following (in millions):

March	September 30,
31,	
2017	2016

U.S. government:

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Amounts billed	\$59.9	\$ 49.0
Costs and profits not billed	85.1	55.3
	145.0	104.3
Other trade receivables	754.9	881.8
Finance receivables	44.8	7.6
Notes receivable	34.6	36.1
Other receivables	39.9	38.6
	1,019.2	1,068.4
Less allowance for doubtful accounts	(19.5)	(21.2)
	\$999.7	\$ 1,047.2

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OSHKOSH CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Classification of receivables in the Condensed Consolidated Balance Sheets consisted of the following (in millions):

	March 31, 2017	September 30, 2016
Current receivables	\$945.1	\$ 1,021.9
Long-term receivables (included in "Other long-term assets")	\$4.6	25.3
	\$999.7	\$ 1,047.2

Finance and notes receivable aging and accrual status consisted of the following (in millions):

	Finance Receivables		Notes Receivable	
	March 31, 2017	September 30, 2016	March 31, 2017	September 30, 2016
Aging of receivables that are past due:				
Greater than 30 days and less than 60 days	\$ —	\$ —	\$ —	\$ —
Greater than 60 days and less than 90 days	—	—	—	—
Greater than 90 days	2.4	2.9	0.2	—
Receivables on nonaccrual status	4.3	4.5	23.2	25.1
Receivables past due 90 days or more and still accruing	—	—	—	—
Receivables subject to general reserves	2.4	3.1	—	—
Allowance for doubtful accounts	(0.1)	(0.1)	—	—
Receivables subject to specific reserves	42.4	4.5	34.6	36.1
Allowance for doubtful accounts	(2.4)	(0.9)	(11.3)	(13.0)

Finance Receivables: Finance receivables represent sales-type leases resulting from the sale of the Company's products and the purchase of finance receivables from lenders pursuant to customer defaults under program agreements with finance companies. Finance receivables originated by the Company generally include a residual value component. Residual values are determined based on the expectation that the underlying equipment will have a minimum fair market value at the end of the lease term. This residual value accrues to the Company at the end of the lease. The Company uses its experience and knowledge as an original equipment manufacturer and participant in end markets for the related products along with third-party studies to estimate residual values. The Company monitors these values for impairment on a periodic basis and reflects any resulting reductions in value in current earnings.

Delinquency is the primary indicator of credit quality of finance receivables. The Company maintains a general allowance for finance receivables considered doubtful of future collection based upon historical experience. Additional allowances are established based upon the Company's perception of the quality of the finance receivables, including the length of time the receivables are past due, past experience of collectibility and underlying economic conditions. In circumstances where the Company believes collectibility is no longer reasonably assured, a specific allowance is recorded to reduce the net recognized receivable to the amount reasonably expected to be collected. Finance receivables are written off if management determines that the specific borrower does not have the ability to repay the loan amounts due in full. The terms of the finance agreements generally give the Company the ability to take possession of the underlying collateral. The Company may incur losses in excess of recorded allowances if the financial condition of its customers were to deteriorate or the full amount of any anticipated proceeds from the sale of the collateral supporting its customers' financial obligations is not realized.

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OSHKOSH CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Notes Receivable: Notes receivable include amounts related to refinancing of trade accounts and finance receivables. As of March 31, 2017, approximately 88% of the notes receivable balance outstanding was due from four parties. The Company routinely evaluates the creditworthiness of its customers and establishes reserves where the Company believes collectibility is no longer reasonably assured. Certain notes receivable are collateralized by a security interest in the underlying assets and/or other assets owned by the debtor. The Company may incur losses in excess of recorded allowances if the financial condition of its customers were to deteriorate or the full amount of any anticipated proceeds from the sale of the collateral supporting its customers' financial obligations is not realized.

Quality of Finance and Notes Receivable: The Company does not accrue interest income on finance and notes receivable in circumstances where the Company believes collectibility is no longer reasonably assured. Any cash payments received on nonaccrual finance and notes receivable are applied first to the principal balances. The Company does not resume accrual of interest income until the customer has shown that it is capable of meeting its financial obligations by making timely payments over a sustained period of time. The Company determines past due or delinquency status based upon the due date of the receivable.

Receivables subject to specific reserves also include loans that the Company has modified in troubled debt restructurings as a concession to customers experiencing financial difficulty. To minimize the economic loss, the Company may modify certain finance and notes receivable. Modifications generally consist of restructured payment terms and time frames in which no payments are required. At March 31, 2017, restructured finance and notes receivables were \$3.4 million and \$11.3 million, respectively. Losses on troubled debt restructurings were not significant during the three and six months ended March 31, 2017 and 2016, respectively.

Changes in the Company's allowance for doubtful accounts by type of receivable were as follows (in millions):

	Three Months Ended March 31, 2017				Three Months Ended March 31, 2016			
	Finance	Notes	Trade	Total	Finance	Notes	Trade	Total
			and Other				and Other	
Allowance for doubtful accounts at beginning of period	\$2.1	\$11.6	\$6.5	\$20.2	\$0.1	\$12.6	\$6.1	\$18.8
Provision for doubtful accounts, net of recoveries	0.4	(0.1)	0.1	0.4	0.3	0.1	2.3	2.7
Charge-off of accounts	—	(0.4)	(0.8)	(1.2)	—	—	(0.1)	(0.1)
Foreign currency translation	—	0.2	(0.1)	0.1	—	0.5	—	0.5
Allowance for doubtful accounts at end of period	\$2.5	\$11.3	\$5.7	\$19.5	\$0.4	\$13.2	\$8.3	\$21.9
	Six Months Ended March 31, 2017				Six Months Ended March 31, 2016			
	Finance	Notes	Trade	Total	Finance	Notes	Trade	Total
			and Other				and Other	
Allowance for doubtful accounts at beginning of period	\$1.0	\$13.0	\$7.2	\$21.2	\$0.1	\$12.7	\$7.5	\$20.3
Provision for doubtful accounts, net of recoveries	1.5	(0.7)	(0.4)	0.4	0.3	0.3	1.2	1.8
Charge-off of accounts	—	(0.5)	(1.0)	(1.5)	—	—	(0.4)	(0.4)
Foreign currency translation	—	(0.5)	(0.1)	(0.6)	—	0.2	—	0.2
Allowance for doubtful accounts at end of period	\$2.5	\$11.3	\$5.7	\$19.5	\$0.4	\$13.2	\$8.3	\$21.9

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OSHKOSH CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

4. Inventories

Inventories consisted of the following (in millions):

	March 31, 2017	September 30, 2016
Raw materials	\$597.9	\$ 481.2
Partially finished products	442.6	307.8
Finished products	503.6	286.9
Inventories at FIFO cost	1,544.1	1,075.9
Less: Progress/performance-based payments on U.S. government contracts	(8.0)	(17.8)
Excess of FIFO cost over LIFO cost	(81.0)	(78.3)
	\$1,455.1	\$ 979.8

Title to all inventories related to U.S. government contracts, which provide for progress or performance-based payments, vests with the U.S. government to the extent of unliquidated progress or performance-based payments.

5. Property, Plant and Equipment

Property, plant and equipment consisted of the following (in millions):

	March 31, 2017	September 30, 2016
Land and land improvements	\$57.8	\$ 56.8
Buildings	286.3	283.4
Machinery and equipment	605.7	597.3
Software and related costs	150.8	147.4
Equipment on operating lease to others	34.4	25.7
	1,135.0	1,110.6
Less accumulated depreciation	(689.3)	(658.5)
	\$445.7	\$ 452.1

Depreciation expense was \$20.4 million and \$18.7 million for the three months ended March 31, 2017 and 2016, respectively. Depreciation expense was \$39.3 million and \$35.8 million for the six months ended March 31, 2017 and 2016, respectively. Capitalized interest was insignificant for all reported periods.

Equipment on operating lease to others represents the cost of equipment shipped to customers for whom the Company has guaranteed the residual value and equipment on short-term leases. These transactions are accounted for as operating leases with the related assets capitalized and depreciated over their estimated economic lives of five to ten years. Cost less accumulated depreciation for equipment on operating lease at March 31, 2017 and September 30, 2016 was \$26.8 million and \$18.6 million, respectively.

6. Goodwill and Purchased Intangible Assets

Goodwill and other indefinite-lived intangible assets are not amortized, but are reviewed for impairment annually or more frequently if potential interim indicators exist that could result in impairment. The Company performs its annual impairment test in the fourth quarter of its fiscal year.

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The following table presents changes in goodwill during the six months ended March 31, 2017 (in millions):

	Access Equipment	Fire & Emergency	Commercial	Total
Net goodwill at September 30, 2016	\$ 876.6	\$ 106.1	\$ 20.8	\$1,003.5
Foreign currency translation	(9.1)	—	—	(9.1)
Net goodwill at March 31, 2017	\$ 867.5	\$ 106.1	\$ 20.8	\$994.4

The following table presents details of the Company's goodwill allocated to the reportable segments (in millions):

	March 31, 2017			September 30, 2016		
	Gross	Accumulated Impairment	Net	Gross	Accumulated Impairment	Net
Access equipment	\$1,799.6	\$(932.1)	\$867.5	\$1,808.7	\$(932.1)	\$876.6
Fire & emergency	108.1	(2.0)	106.1	108.1	(2.0)	106.1
Commercial	196.7	(175.9)	20.8	196.7	(175.9)	20.8
	\$2,104.4	\$(1,110.0)	\$994.4	\$2,113.5	\$(1,110.0)	\$1,003.5

Details of the Company's total purchased intangible assets are as follows (in millions):

	March 31, 2017			
	Weighted- Average Life (in years)	Gross	Accumulated Amortization	Net
Amortizable intangible assets:				
Distribution network	39.1	\$55.4	\$(28.7)	\$26.7
Technology-related	11.9	104.7	(95.7)	9.0
Customer relationships	12.8	546.6	(442.0)	104.6
Other	16.2	16.4	(14.7)	1.7
	14.8	723.1	(581.1)	142.0
Non-amortizable trade names		387.7	—	387.7
		\$1,110.8	\$(581.1)	\$529.7

	September 30, 2016			
	Weighted- Average Life (in years)	Gross	Accumulated Amortization	Net
Amortizable intangible assets:				
Distribution network	39.1	\$55.4	\$(28.0)	\$27.4
Technology-related	11.9	104.7	(91.5)	13.2
Customer relationships	12.8	550.8	(427.4)	123.4
Other	16.3	16.5	(14.7)	1.8
	14.5	727.4	(561.6)	165.8
Non-amortizable trade names		387.7	—	387.7
		\$1,115.1	\$(561.6)	\$553.5

The estimated future amortization expense of purchased intangible assets for the remainder of fiscal 2017 and the five years succeeding September 30, 2017 are as follows: 2017 (remaining six months) - \$22.2 million; 2018 -

\$38.3 million; 2019 - \$36.9 million; 2020 - \$11.0 million; 2021 - \$5.3 million; and 2022 - \$4.9 million.

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7. Credit Agreements

The Company was obligated under the following debt instruments (in millions):

	March 31, 2017		
	Debt Principal	Debt Issuance Costs	Debt, Net
Senior Secured Term Loan	\$335.0	\$ (1.1)	\$333.9
5.375% Senior Notes due March 2022	250.0	(3.9)	246.1
5.375% Senior Notes due March 2025	250.0	(2.9)	247.1
	\$835.0	\$ (7.9)	827.1
Less current maturities			(10.0)
			\$817.1
Revolving Credit Facility			\$—
Current maturities of long-term debt			10.0
			\$10.0

	September 30, 2016		
	Debt Principal	Debt Issuance Costs	Debt, Net
Senior Secured Term Loan	\$355.0	\$ (1.4)	\$353.6
5.375% Senior Notes due March 2022	250.0	(4.3)	245.7
5.375% Senior Notes due March 2025	250.0	(3.1)	246.9
	\$855.0	\$ (8.8)	846.2
Less current maturities			(20.0)
			\$826.2
Revolving Credit Facility			\$—
Current maturities of long-term debt			20.0
			\$20.0

In March 2014, the Company entered into an Amended and Restated Credit Agreement with various lenders (the “Credit Agreement”). The Credit Agreement provides for (i) a revolving credit facility (Revolving Credit Facility) that matures in March 2019 with an initial maximum aggregate amount of availability of \$600 million and (ii) a \$400 million term loan (Term Loan) due in quarterly principal installments of \$5 million with a balloon payment of \$310 million due at maturity in March 2019. During the first quarter of fiscal 2017, the Company prepaid all quarterly principal installments required during fiscal 2017. In January 2015, the Company entered into an agreement with lenders under the Credit Agreement that increased the Revolving Credit Facility to an aggregate maximum amount of \$850 million. At March 31, 2017, there was no outstanding balance under the Revolving Credit Facility. At March 31, 2017, outstanding letters of credit of \$100.5 million reduced available capacity under the Revolving Credit Facility to \$749.5 million.

The Company's obligations under the Credit Agreement are guaranteed by certain of its domestic subsidiaries, and the Company will guarantee the obligations of certain of its subsidiaries under the Credit Agreement. Subject to certain exceptions, the Credit Agreement is collateralized by (i) a first-priority perfected lien and security interests in substantially all of the personal property of the Company, each material subsidiary of the Company and each subsidiary guarantor, (ii) mortgages upon certain real property of the Company and certain of its domestic subsidiaries and (iii) a pledge of the equity of each material subsidiary of the Company.

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Under the Credit Agreement, the Company must pay (i) an unused commitment fee ranging from 0.225% to 0.35% per annum of the average daily unused portion of the aggregate revolving credit commitments under the Credit Agreement and (ii) a fee ranging from 0.625% to 2.00% per annum of the maximum amount available to be drawn for each letter of credit issued and outstanding under the Credit Agreement.

Borrowings under the Credit Agreement bear interest at a variable rate equal to (i) LIBOR plus a specified margin, which may be adjusted upward or downward depending on whether certain criteria are satisfied, or (ii) for dollar-denominated loans only, the base rate (which is the highest of (a) the administrative agent's prime rate, (b) the federal funds rate plus 0.50% or (c) the sum of 1% plus one-month LIBOR) plus a specified margin, which may be adjusted upward or downward depending on whether certain criteria are satisfied. At March 31, 2017, the interest spread on the Revolving Credit Facility and Term Loan was 150 basis points. The weighted-average interest rate on borrowings outstanding under the Term Loan was 2.29% at March 31, 2017.

The Credit Agreement contains various restrictions and covenants, including requirements that the Company maintain certain financial ratios at prescribed levels and restrictions, subject to certain exceptions, on the ability of the Company and certain of its subsidiaries to consolidate or merge, create liens, incur additional indebtedness, dispose of assets, consummate acquisitions and make investments in joint ventures and foreign subsidiaries.

The Credit Agreement contains the following financial covenants:

Leverage Ratio: A maximum leverage ratio (defined as, with certain adjustments, the ratio of the Company's consolidated indebtedness to consolidated net income before interest, taxes, depreciation, amortization, non-cash charges and certain other items (EBITDA)) as of the last day of any fiscal quarter of 4.50 to 1.00.

Interest Coverage Ratio: A minimum interest coverage ratio (defined as, with certain adjustments, the ratio of the Company's consolidated EBITDA to the Company's consolidated cash interest expense) as of the last day of any fiscal quarter of 2.50 to 1.00.

Senior Secured Leverage Ratio: A maximum senior secured leverage ratio (defined as, with certain adjustments, the ratio of the Company's consolidated secured indebtedness to the Company's consolidated EBITDA) of 3.00 to 1.00.

With certain exceptions, the Company may elect to have the collateral pledged in connection with the Credit Agreement released during any period that the Company maintains an investment grade corporate family rating from either Standard & Poor's Ratings Group or Moody's Investor Service Inc. During any such period when the collateral has been released, the Company's leverage ratio as of the last day of any fiscal quarter must not be greater than 3.75 to 1.00, and the Company would not be subject to any additional requirement to limit its senior secured leverage ratio.

The Company was in compliance with the financial covenants contained in the Credit Agreement as of March 31, 2017.

Additionally, with certain exceptions, the Credit Agreement limits the ability of the Company to pay dividends and other distributions, including repurchases of shares of its Common Stock. However, so long as no event of default exists under the Credit Agreement or would result from such payment, the Company may pay dividends and other distributions after March 3, 2010 in an aggregate amount not exceeding the sum of:

50% of the consolidated net income of the Company and its subsidiaries (or if such consolidated net income is a deficit, minus 100% of such deficit), accrued on a cumulative basis during the period beginning on January 1, 2010 and ending on the last day of the fiscal quarter immediately preceding the date of the applicable proposed dividend or distribution; and

- ii. 100% of the aggregate net proceeds received by the Company subsequent to March 3, 2010 either as a contribution to its common equity capital or from the issuance and sale of its Common Stock.

In February 2014, the Company issued \$250.0 million of 5.375% unsecured senior notes due March 1, 2022 (the “2022 Senior Notes”). In March 2015, the Company issued \$250.0 million of 5.375% unsecured senior notes due March 1, 2025 (the “2025 Senior Notes”). The Company has the option to redeem the 2022 Senior Notes and the 2025 Senior Notes for a premium after March 1, 2017 and March 1, 2020, respectively.

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The 2022 Senior Notes and the 2025 Senior Notes were issued pursuant to separate indentures (the “Indentures”) among the Company, the subsidiary guarantors named therein and a trustee. The Indentures contain customary affirmative and negative covenants. Certain of the Company’s subsidiaries jointly, severally, fully and unconditionally guarantee the Company’s obligations under the 2022 Senior Notes and 2025 Senior Notes. See Note 21 of the Notes to Condensed Consolidated Financial Statements for separate financial information of the subsidiary guarantors.

The fair value of the long-term debt is estimated based upon Level 2 inputs to reflect market rate of the Company’s debt. At March 31, 2017, the fair value of the 2022 Senior Notes and the 2025 Senior Notes was estimated to be \$260 million (\$262 million at September 30, 2016) and \$257 million (\$263 million at September 30, 2016), respectively. The fair value of the Term Loan approximated book value at both March 31, 2017 and September 30, 2016. See Note 12 of the Notes to Condensed Consolidated Financial Statements for the definition of a Level 2 input.

8. Warranties

The Company’s products generally carry explicit warranties that extend from six months to five years, based on terms that are generally accepted in the marketplace. Selected components (such as engines, transmissions, tires, etc.) included in the Company’s end products may include manufacturers’ warranties. These manufacturers’ warranties are generally passed on to the end customer of the Company’s products, and the customer would generally deal directly with the component manufacturer. Accrued warranty is reported in “Other current liabilities” in the Condensed Consolidated Balance Sheets.

The Company offers a variety of extended warranty programs. The premiums received for an extended warranty are generally deferred until after the expiration of the standard warranty period. The unearned premium is then recognized in income over the term of the extended warranty period in proportion to the costs that are expected to be incurred. Unamortized extended warranty premiums totaled \$29.2 million and \$29.5 million at March 31, 2017 and 2016, respectively.

Changes in the Company’s warranty liability and unearned extended warranty premiums were as follows (in millions):

	Six Months Ended March 31,	
	2017	2016
Balance at beginning of period	\$89.6	\$92.1
Warranty provisions	24.7	19.8
Settlements made	(25.7)	(27.1)
Changes in liability for pre-existing warranties, net	(0.5)	1.4
Premiums received	5.4	7.4
Amortization of premiums received	(5.8)	(5.4)
Foreign currency translation	(0.7)	0.2
Balance at end of period	\$87.0	\$88.4

Provisions for estimated warranty and other related costs are recorded at the time of sale and are periodically adjusted to reflect actual experience. Certain warranty and other related claims involve matters of dispute that ultimately are resolved by negotiation, arbitration or litigation. At times, warranty issues arise that are beyond the scope of the

Company's historical experience. It is reasonably possible that additional warranty and other related claims could arise from disputes or other matters in excess of amounts accrued; however, the Company does not expect that any such amounts, while not determinable, would have a material effect on the Company's consolidated financial condition, results of operations or cash flows.

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9. Guarantee Arrangements

The Company is party to multiple agreements whereby at March 31, 2017 it guaranteed an aggregate of \$583.5 million in indebtedness of customers. The Company estimated that its maximum loss exposure under these contracts at March 31, 2017 was \$118.1 million. Under the terms of these and various related agreements and upon the occurrence of certain events, the Company generally has the ability to, among other things, take possession of the underlying collateral. If the financial condition of the customers were to deteriorate and result in their inability to make payments, then loss provisions in excess of amounts provided for at inception may be required. While the Company does not expect to experience losses under these agreements that are materially in excess of the amounts reserved, it cannot provide any assurance that the financial condition of the third parties will not deteriorate resulting in the third parties' inability to meet their obligations. In the event that this occurs, the Company cannot guarantee that the collateral underlying the agreements will be sufficient to avoid losses materially in excess of the amounts reserved. Any losses under these guarantees would generally be mitigated by the value of any underlying collateral, including financed equipment, and are generally subject to the finance company's ability to provide the Company clear title to foreclosed equipment and other conditions. During periods of economic weakness, collateral values generally decline and can contribute to higher exposure to losses.

Changes in the Company's credit guarantee liability were as follows (in millions):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2017	2016	2017	2016
Balance at beginning of period	\$8.5	\$5.8	\$8.4	\$5.6
Provision for new credit guarantees	0.9	1.5	1.5	2.3
Changes for pre-existing guarantees, net	0.4	0.3	0.5	0.6
Amortization of previous guarantees	(0.8)	(0.6)	(1.3)	(1.5)
Foreign currency translation	0.1	—	—	—
Balance at end of period	\$9.1	\$7.0	\$9.1	\$7.0

10. Shareholders' Equity

On August 31, 2015, the Company's Board of Directors increased the Company's Common Stock repurchase authorization by 10,000,000 shares, increasing the repurchase authorization to 10,299,198 shares. Between August 31, 2015 and March 31, 2017, the Company repurchased 2,786,624 shares under this authorization at a cost of \$112.0 million. As a result, the Company had 7,512,574 shares of Common Stock remaining under this repurchase authorization as of March 31, 2017. The Company is restricted by its Credit Agreement from repurchasing shares in certain situations. See Note 7 of the Notes to Condensed Consolidated Financial Statements for information regarding these restrictions.

11. Derivative Financial Instruments and Hedging Activities

The Company has used forward foreign currency exchange contracts (derivatives) to reduce the exchange rate risk of specific foreign currency denominated transactions. These derivatives typically require the exchange of a foreign currency for U.S. dollars at a fixed rate at a future date. At times, the Company has designated these hedges as either cash flow hedges or fair value hedges under FASB Accounting Standards Codification (ASC) Topic 815, Derivatives and Hedging. At March 31, 2017, the total notional U.S. dollar equivalent of outstanding forward foreign exchange contracts designated as hedges in accordance with ASC Topic 815 was \$7.4 million. Net gains or losses related to hedge ineffectiveness were insignificant for the three and six month periods ended March 31, 2017 and 2016. Ineffectiveness is included in "Miscellaneous, net" in the Condensed Consolidated Statements of Income along with mark-to-market adjustments on outstanding non-designated derivatives. At March 31, 2017, the maximum length of time the Company is hedging its exposure to the variability in future cash flows was ten months.

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The Company has entered into forward foreign currency exchange contracts to create an economic hedge to manage foreign exchange risk exposure associated with non-functional currency denominated payables resulting from global sourcing activities. The Company has not designated these derivative contracts as hedge transactions under FASB ASC Topic 815, and accordingly, the mark-to-market impact of these derivatives is recorded each period in current earnings. At March 31, 2017, the U.S. dollar equivalent of these outstanding forward foreign exchange contracts totaled \$106.4 million in notional amounts covering a variety of foreign currencies.

The Company has entered into interest rate contracts to create an economic hedge to manage changes in interest rates on executory sales contracts that exposes the Company to interest rate risk based on changes in market interest rates. The Company has not designated these interest rate contracts as hedge transactions under FASB ASC Topic 815, and accordingly, the mark-to-market impact of these derivatives is recorded each period in current earnings. At March 31, 2017, the U.S. dollar equivalent notional amount of these outstanding interest rate contracts totaled \$19.8 million.

Fair Market Value of Financial Instruments — The fair values of all open derivative instruments were as follows (in millions):

	March 31, 2017		September 30, 2016	
	Other Current Assets	Other Current Liabilities	Other Current Assets	Other Current Liabilities
Not designated as hedging instruments:				
Foreign exchange contracts	\$0.5	\$ 0.3	\$0.1	\$ 0.4
Interest rate contracts	0.5	1.2	—	0.4