

OSHKOSH CORP  
Form 10-Q  
August 02, 2017  
Table of Contents

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 June 30, 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 July 26, 2017, 74,829,467 shares of the registrant's Common Stock were outstanding.

Table of Contents

OSHKOSH CORPORATION  
FORM 10-Q INDEX  
FOR THE QUARTER ENDED JUNE 30, 2017

	Page
<u>PART I - FINANCIAL INFORMATION</u>	
<u>ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)</u>	<u>1</u>
<u>Condensed Consolidated Statements of Income for the</u> <u>Three Months and Nine Months Ended June 30, 2017 and 2016</u>	<u>1</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the</u> <u>Three Months and Nine Months Ended June 30, 2017 and 2016</u>	<u>2</u>
<u>Condensed Consolidated Balance Sheets at</u> <u>June 30, 2017 and September 30, 2016</u>	<u>3</u>
<u>Condensed Consolidated Statements of Shareholders' Equity for the</u> <u>Nine Months Ended June 30, 2017 and 2016</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows for the</u> <u>Nine Months Ended June 30, 2017 and 2016</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS</u> <u>OF OPERATIONS</u>	<u>32</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>44</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>44</u>
<u>PART II - OTHER INFORMATION</u>	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>45</u>
<u>ITEM</u> <u>1A. RISK FACTORS</u>	<u>45</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>46</u>
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	<u>46</u>
<u>ITEM 6. EXHIBITS</u>	<u>47</u>
<u>SIGNATURES</u>	<u>48</u>
<u>EXHIBIT INDEX</u>	<u>49</u>



Table of Contents

## PART I - FINANCIAL INFORMATION

1

## ITEM 1. FINANCIAL STATEMENTS

1

## OSHKOSH CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share amounts; unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Net sales	\$2,036.9	\$1,747.5	\$4,866.6	\$4,523.8
Cost of sales	1,650.0	1,432.9	4,018.7	3,767.1
Gross income	386.9	314.6	847.9	756.7
Operating expenses:				
Selling, general and administrative	163.9	154.7	484.7	448.7
Amortization of purchased intangibles	11.1	13.1	34.7	39.5
Total operating expenses	175.0	167.8	519.4	488.2
Operating income	211.9	146.8	328.5	268.5
Other income (expense):				
Interest expense	(15.3 )	(15.8 )	(45.1 )	(46.0 )
Interest income	1.4	0.5	3.2	1.5
Miscellaneous, net	0.6	0.8	3.1	(0.2 )
Income before income taxes and equity in earnings of unconsolidated affiliates	198.6	132.3	289.7	223.8
Provision for income taxes	70.1	48.4	98.9	70.4
Income before equity in earnings of unconsolidated affiliates	128.5	83.9	190.8	153.4
Equity in earnings of unconsolidated affiliates	0.1	0.3	1.3	1.5
Net income	\$128.6	\$84.2	\$192.1	\$154.9
Earnings per share attributable to common shareholders:				
Basic	\$1.72	\$1.15	\$2.57	\$2.11
Diluted	1.69	1.13	2.54	2.08
Cash dividends declared per share on Common Stock	\$0.21	\$0.19	\$0.63	\$0.57

The accompanying notes are an integral part of these financial statements

1

Table of Contents

OSHKOSH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions; unaudited)

	Three Months Ended June 30, 2017		Nine Months Ended June 30, 2016	
Net income	\$128.6	\$84.2	\$192.1	\$154.9
Other comprehensive income (loss), net of tax:				
Employee pension and postretirement benefits	0.8	0.6	2.4	1.5
Currency translation adjustments	27.0	(12.6 )	7.3	(4.9 )
Change in fair value of derivative instruments	(0.2 )	(0.1 )	(0.2 )	(0.1 )
Total other comprehensive income (loss), net of tax	27.6	(12.1 )	9.5	(3.5 )
Comprehensive income	\$156.2	\$72.1	\$201.6	\$151.4

The accompanying notes are an integral part of these financial statements

1

2

---

Table of Contents

## OSHKOSH CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share and per share amounts; unaudited)

	June 30, 2017	September 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$373.2	\$ 321.9
Receivables, net	1,182.3	1,021.9
Inventories, net	1,410.7	979.8
Other current assets	84.0	93.9
Total current assets	3,050.2	2,417.5
Property, plant and equipment, net	443.4	452.1
Goodwill	1,006.5	1,003.5
Purchased intangible assets, net	518.8	553.5
Other long-term assets	73.7	87.2
Total assets	\$5,092.6	\$ 4,513.8
Liabilities and Shareholders' Equity		
Current liabilities:		
Revolving credit facilities and current maturities of long-term debt	\$18.0	\$ 20.0
Accounts payable	686.9	466.1
Customer advances	559.4	471.8
Payroll-related obligations	167.0	147.9
Other current liabilities	341.8	261.8
Total current liabilities	1,773.1	1,367.6
Long-term debt, less current maturities	812.5	826.2
Other long-term liabilities	327.9	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	798.5	782.3
Retained earnings	2,322.0	2,177.0
Accumulated other comprehensive loss	(165.5 )	(175.0 )
Common Stock in treasury, at cost (17,280,023 and 18,175,669 shares, respectively)	(776.8 )	(808.7 )
Total shareholders' equity	2,179.1	1,976.5
Total liabilities and shareholders' equity	\$5,092.6	\$ 4,513.8

The accompanying notes are an integral part of these financial statements

Table of Contents

## 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	—	—	154.9	—	—	154.9
Employee pension and postretirement benefits, net of tax of \$0.8	—	—	—	1.5	—	1.5
Currency translation adjustments	—	—	—	(4.9 )	—	(4.9 )
Cash dividends (\$0.57 per share)	—	—	(41.9 )	—	—	(41.9 )
Repurchases of Common Stock	—	—	—	—	(100.1 )	(100.1 )
Exercise of stock options	—	(1.8 )	—	—	10.6	8.8
Stock-based compensation expense	—	16.0	—	—	—	16.0
Excess tax benefit from stock-based compensation	—	0.4	—	—	—	0.4
Payment of earned performance shares	—	(2.6 )	—	—	2.6	—
Shares tendered for taxes on stock-based compensation	—	—	—	—	(1.6 )	(1.6 )
Other	—	(0.7 )	—	(0.1 )	1.0	0.2
Balance at June 30, 2016	\$ 0.9	\$ 782.8	\$ 2,129.5	\$ (147.9 )	\$ (820.9 )	\$ 1,944.4
	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	—	—	192.1	—	—	192.1
Employee pension and postretirement benefits, net of tax of \$1.4	—	—	—	2.4	—	2.4
Currency translation adjustments	—	—	—	7.3	—	7.3
Cash dividends (\$0.63 per share)	—	—	(47.1 )	—	—	(47.1 )
Exercise of stock options	—	4.2	—	—	30.0	34.2
Stock-based compensation expense	—	16.8	—	—	—	16.8
Payment of earned performance shares	—	(1.3 )	—	—	1.3	—
Shares tendered for taxes on stock-based compensation	—	—	—	—	(3.0 )	(3.0 )
Other	—	(3.5 )	—	(0.2 )	3.6	(0.1 )
Balance at June 30, 2017	\$ 0.9	\$ 798.5	\$ 2,322.0	\$ (165.5 )	\$ (776.8 )	\$ 2,179.1

The accompanying notes are an integral part of these financial statements

Table of Contents

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

	Nine Months Ended June 30, 2017      2016	
Operating activities:		
Net income	\$192.1	\$154.9
Depreciation and amortization	97.3	95.9
Stock-based compensation expense	16.8	16.0
Deferred income taxes	3.8	(4.5 )
Gain on sale of assets	(5.2 )	(7.6 )
Foreign currency transaction losses	2.1	0.1
Other non-cash adjustments	0.4	0.7
Changes in operating assets and liabilities	(183.4 )	(92.0 )
Net cash provided by operating activities	123.9	163.5
Investing activities:		
Additions to property, plant and equipment	(45.2 )	(62.3 )
Additions to equipment held for rental	(26.3 )	(30.9 )
Proceeds from sale of equipment held for rental	42.3	33.7
Other investing activities	(1.4 )	(1.5 )
Net cash used by investing activities	(30.6 )	(61.0 )
Financing activities:		
Net increase (decrease) in short-term debt	3.0	(16.5 )
Proceeds from issuance of debt (original maturities greater than three months)	—	323.5
Repayments of debt (original maturities greater than three months)	(20.0 )	(278.5 )
Repurchases of Common Stock	(3.0 )	(101.7 )
Dividends paid	(47.1 )	(41.9 )
Proceeds from exercise of stock options	34.2	8.8
Excess tax benefit from stock-based compensation	—	1.3
Net cash used by financing activities	(32.9 )	(105.0 )
Effect of exchange rate changes on cash	(9.1 )	5.1
Increase in cash and cash equivalents	51.3	2.6
Cash and cash equivalents at beginning of period	321.9	42.9
Cash and cash equivalents at end of period	\$373.2	\$45.5
Supplemental disclosures:		
Cash paid for interest	\$36.5	\$34.4
Cash paid for income taxes	40.3	65.6

The accompanying notes are an integral part of these financial statements



Table of Contents

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. Early adoption is permitted. 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. Early adoption is permitted. 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 Company will be required to adopt ASU 2016-02 as of October 1, 2019. 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.

Table of Contents

## 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. Early adoption is permitted. 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):

	June 30, 2017	September 30, 2016
U.S. government:		
Amounts billed	\$23.2	\$ 49.0

Edgar Filing: OSHKOSH CORP - Form 10-Q

Costs and profits not billed	119.6	55.3
	142.8	104.3
Other trade receivables	992.8	881.8
Finance receivables	9.1	7.6
Notes receivable	35.9	36.1
Other receivables	44.9	38.6
	1,225.5	1,068.4
Less allowance for doubtful accounts	(19.0 )	(21.2 )
	\$1,206.5	\$ 1,047.2

Table of Contents

## OSHKOSH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	June 30, 2017	September 30, 2016
Current receivables	\$ 1,182.3	\$ 1,021.9
Long-term receivables (included in "Other long-term assets")	24.2	25.3
	\$ 1,206.5	\$ 1,047.2

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

	Finance Receivables		Notes Receivable	
	June 30, 2017	September 30, 2016	June 30, 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	2.3	2.9	0.2	—
Receivables on nonaccrual status	4.1	4.5	22.1	25.1
Receivables past due 90 days or more and still accruing	—	—	—	—
Receivables subject to general reserves	2.0	3.1	—	—
Allowance for doubtful accounts	(0.1 )	(0.1 )	—	—
Receivables subject to specific reserves	7.1	4.5	35.9	36.1
Allowance for doubtful accounts	(1.6 )	(0.9 )	(10.9)	(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.

Notes Receivable: Notes receivable include amounts related to refinancing of trade accounts and finance receivables. As of June 30, 2017, approximately 83% 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.

Table of Contents

## OSHKOSH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 June 30, 2017, restructured finance and notes receivables were \$3.3 million and \$10.9 million, respectively. Losses on troubled debt restructurings were not significant during the three and nine months ended June 30, 2017 and 2016.

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

	Three Months Ended June 30, 2017				Three Months Ended June 30, 2016			
	Finance	Notes	Trade and Other	Total	Finance	Notes	Trade and Other	Total
Allowance for doubtful accounts at beginning of period	\$2.5	\$11.3	\$5.7	\$19.5	\$0.4	\$13.2	\$8.3	\$21.9
Provision for doubtful accounts, net of recoveries	—	(0.6)	0.7	0.1	0.4	0.1	0.6	1.1
Charge-off of accounts	(0.8)	(0.5)	(0.1)	(1.4)	—	—	—	—
Foreign currency translation	—	0.7	0.1	0.8	—	(0.3)	—	(0.3)
Allowance for doubtful accounts at end of period	\$1.7	\$10.9	\$6.4	\$19.0	\$0.8	\$13.0	\$8.9	\$22.7

  

	Nine Months Ended June 30, 2017				Nine Months Ended June 30, 2016			
	Finance	Notes	Trade and Other	Total	Finance	Notes	Trade and Other	Total
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	(1.3)	0.3	0.5	0.7	0.4	1.8	2.9
Charge-off of accounts	(0.8)	(1.0)	(1.1)	(2.9)	—	—	(0.4)	(0.4)
Foreign currency translation	—	0.2	—	0.2	—	(0.1)	—	(0.1)
Allowance for doubtful accounts at end of period	\$1.7	\$10.9	\$6.4	\$19.0	\$0.8	\$13.0	\$8.9	\$22.7

## 4. Inventories

Inventories consisted of the following (in millions):

	June 30, 2017	September 30, 2016
Raw materials	\$572.0	\$ 481.2

Edgar Filing: OSHKOSH CORP - Form 10-Q

Partially finished products	432.7	307.8	
Finished products	504.9	286.9	
Inventories at FIFO cost	1,509.6	1,075.9	
Less: Progress/performance-based payments on U.S. government contracts	(15.3	) (17.8	)
Excess of FIFO cost over LIFO cost	(83.6	) (78.3	)
	\$1,410.7	\$ 979.8	



Table of Contents

## OSHKOSH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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):

	June 30, September 30,	
	2017	2016
Land and land improvements	\$58.6	\$ 56.8
Buildings	291.0	283.4
Machinery and equipment	620.6	597.3
Software and related costs	150.5	147.4
Equipment on operating lease to others	31.6	25.7
	1,152.3	1,110.6
Less accumulated depreciation	(708.9 )	(658.5 )
	\$443.4	\$ 452.1

Depreciation expense was \$21.1 million and \$18.4 million for the three months ended June 30, 2017 and 2016, respectively. Depreciation expense was \$60.4 million and \$54.2 million for the nine months ended June 30, 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 June 30, 2017 and September 30, 2016 was \$24.0 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.

The following table presents changes in goodwill during the nine months ended June 30, 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	2.9	—	0.1	3.0
Net goodwill at June 30, 2017	\$ 879.5	\$ 106.1	\$ 20.9	\$1,006.5

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

June 30, 2017			September 30, 2016	
Gross	Accumulated	Net	Gross	Accumulated Net

Edgar Filing: OSHKOSH CORP - Form 10-Q

	Impairment				Impairment		
Access equipment	\$1,811.6	\$ (932.1 )	\$ 879.5	\$1,808.7	\$ (932.1 )	\$ 876.6	
Fire & emergency	108.1	(2.0 )	106.1	108.1	(2.0 )	106.1	
Commercial	196.8	(175.9 )	20.9	196.7	(175.9 )	20.8	
	\$2,116.5	\$ (1,110.0 )	\$ 1,006.5	\$2,113.5	\$ (1,110.0 )	\$ 1,003.5	

Table of Contents

## OSHKOSH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	June 30, 2017			
	Weighted-	Gross	Accumulated	Net
	Average		Amortization	
	Life (in years)			
Amortizable intangible assets:				
Distribution network	39.1	\$55.4	\$ (29.1 )	\$26.3
Technology-related	11.9	104.7	(97.6 )	7.1
Customer relationships	12.8	552.2	(456.2 )	96.0
Other	16.3	16.4	(14.7 )	1.7
	14.5	728.7	(597.6 )	131.1
Non-amortizable trade names		387.7	—	387.7
		\$1,116.4	\$ (597.6 )	\$518.8

	September 30, 2016			
	Weighted-	Gross	Accumulated	Net
	Average		Amortization	
	Life (in years)			
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 three months) - \$11.1 million; 2018 - \$38.3 million; 2019 - \$36.9 million; 2020 - \$11.0 million; 2021 - \$5.3 million; and 2022 - \$4.9 million.

## 7. Credit Agreements

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

	June 30, 2017			
	Debt	Debt,		
	Principal	Issuance	Net	
	Costs			
Senior Secured Term Loan	\$335.0	\$ (1.0 )	\$334.0	
5.375% Senior Notes due March 2022	250.0	(3.7 )	246.3	
5.375% Senior Notes due March 2025	250.0	(2.8 )	247.2	
	\$835.0	\$ (7.5 )	827.5	
Less current maturities		(15.0 )		
		\$812.5		

Revolving Credit Facility	\$—
Other short term debt	3.0
Current maturities of long-term debt	15.0
	\$18.0

Table of Contents

## OSHKOSH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

	September 30, 2016		
	Debt Principal	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. In January 2015, the Revolving Credit Facility was increased to an aggregate maximum amount of \$850 million. During the first quarter of fiscal 2017, the Company prepaid all quarterly principal installments required in fiscal 2017. At June 30, 2017, outstanding letters of credit of \$98.3 million reduced available capacity under the Revolving Credit Facility to \$751.7 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.

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 June 30, 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 2.55% at June 30, 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.

Table of Contents

OSHKOSH CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 S&P Global Ratings or Moody's Investor Service. 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 June 30, 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:

- i. 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.

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 June 30, 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 \$261 million (\$263 million at September 30, 2016), respectively. The fair value of the Term Loan approximated book value at both June 30, 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.



Table of Contents

## OSHKOSH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 \$30.2 million and \$29.7 million at June 30, 2017 and 2016, respectively.

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

	Nine Months Ended June 30,	
	2017	2016
Balance at beginning of period	\$89.6	\$92.1
Warranty provisions	38.0	34.0
Settlements made	(37.7 )	(40.1 )
Changes in liability for pre-existing warranties, net	4.8	2.0
Premiums received	9.2	11.0
Amortization of premiums received	(8.9 )	(8.2 )
Foreign currency translation	0.2	(0.4 )
Balance at end of period	\$95.2	\$90.4

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.

## 9. Guarantee Arrangements

The Company is party to multiple agreements whereby at June 30, 2017 it guaranteed an aggregate of \$580.0 million in indebtedness of customers. The Company estimated that its maximum loss exposure under these contracts at June 30, 2017 was \$108.6 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 June 30, 2017		Nine Months Ended June 30, 2016	
	2017	2016	2017	2016
Balance at beginning of period	\$9.1	\$7.0	\$8.4	\$5.6
Provision for new credit guarantees	0.8	1.2	2.3	3.5
Changes for pre-existing guarantees, net	—	0.6	0.5	1.2
Amortization of previous guarantees	(1.1 )	(0.7 )	(2.4 )	(2.2 )
Balance at end of period	\$8.8	\$8.1	\$8.8	\$8.1

Table of Contents

OSHKOSH CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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. As of June 30, 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 June 30, 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 June 30, 2017, the total notional U.S. dollar equivalent of outstanding forward foreign exchange contracts designated as hedges in accordance with ASC Topic 815 was \$8.2 million. Net gains or losses related to hedge ineffectiveness were insignificant for the three and nine month periods ended June 30, 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 June 30, 2017, the maximum length of time the Company is hedging its exposure to the variability in future cash flows was ten months.

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 receivables and payables resulting from global sales and 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 June 30, 2017, the U.S. dollar equivalent of these outstanding forward foreign exchange contracts totaled \$84.5 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 June 30, 2017, the U.S. dollar equivalent notional amount of these outstanding interest rate contracts totaled \$13.8 million.

Table of Contents

## OSHKOSH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	June 30, 2017		September 30, 2016	
	Other Current Asset	Other Current Liabilities	Other Current Asset	Other Current Liabilities
Cash flow hedges:				
Foreign exchange contracts	\$—	\$ 0.3	\$—	\$ —
Not designated as hedging instruments:				
Foreign exchange contracts	0.9	0.7	0.1	0.4
Interest rate contracts	0.3	0.9	—	0.4
	\$1.2	\$ 1.9	\$0.1	\$ 0.8

The pre-tax effects of derivative instruments consisted of the following (in millions):

	Classification of Gains (Losses)	Three Months Ended June 30, 2017		Nine Months Ended June 30, 2016	
Cash flow hedges:					
Foreign exchange contracts	Miscellaneous, net	\$—	\$(0.1)	\$—	\$(0.2)
Foreign exchange contracts	Cost of sales	—	—	0.1	—
Not designated as hedging instruments:					
Foreign exchange contracts	Miscellaneous, net	2.3	0.1	3.3	(5.7 )
Interest rate contracts	Miscellaneous, net	(0.1 )	—	0.3	(0.2 )
		\$2.2	\$—	\$3.7	\$(6.1)

## 12. Fair Value Measurement

FASB ASC Topic 820, Fair Value Measurements and Disclosures, defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., exit price) in an orderly transaction between market participants at the measurement date. FASB ASC Topic 820 requires disclosures that categorize assets and liabilities measured at fair value into one of three different levels depending on the assumptions (i.e., inputs) used in the valuation. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment.

The three levels are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than quoted prices in active markets for identical assets or liabilities, such as quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.

Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

There were no transfers of assets between levels during the three and nine months ended June 30, 2017.

Table of Contents

## OSHKOSH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The fair values of the Company's financial assets and liabilities were as follows (in millions):

	Level 1	Level 2	Level 3	Total
June 30, 2017				
Assets:				
SERP plan assets <sup>(a)</sup>	\$ 21.8	\$ —	\$ —	—\$21.8
Foreign currency exchange derivatives <sup>(b)</sup>	—	0.9	—	0.9
Interest rate contracts <sup>(c)</sup>	—	0.3	—	0.3
Liabilities:				
Foreign currency exchange derivatives <sup>(b)</sup>	\$ —	\$ 1.0	\$ —	—\$1.0
Interest rate contracts <sup>(c)</sup>	—	0.9	—	0.9
September 30, 2016				
Assets:				
SERP plan assets <sup>(a)</sup>	\$ 21.7	\$ —	\$ —	—\$21.7
Foreign currency exchange derivatives <sup>(b)</sup>	—	0.1	—	0.1
Liabilities:				
Foreign currency exchange derivatives <sup>(b)</sup>	\$ —	\$ 0.4	\$ —	—\$0.4
Interest rate contracts <sup>(c)</sup>	—	0.4	—	0.4

Represents investments in a rabbi trust for the Company's non-qualified supplemental executive retirement plan (SERP). The fair values of these investments are determined using a market approach. Investments include mutual funds for which quoted prices in active markets are available. The Company records changes in the fair value of investments in "Miscellaneous, net" in the Condensed Consolidated Statements of Income.

<sup>(b)</sup> Based on observable market transactions of forward currency prices.

<sup>(c)</sup> Based on observable market transactions of interest rate swap prices.

### 13. Stock-Based Compensation

In February 2017, the Company's shareholders approved the 2017 Incentive Stock and Awards Plan (the "2017 Stock Plan"). The 2017 Stock Plan replaced the 2009 Incentive Stock and Awards Plan (as amended, the "2009 Stock Plan"), which succeeded the 2004 Incentive Stock and Awards Plan (as amended, the "2004 Stock Plan"). While no new awards will be granted under the 2004 Stock Plan or the 2009 Stock Plan, awards previously made under either plan that were outstanding as of the approval date of the 2017 Stock Plan will remain outstanding and continue to be governed by the provisions of the respective stock plan under which they were issued. At June 30, 2017, the Company had reserved 9,135,761 shares of Common Stock available for issuance to provide for the exercise of outstanding stock options and the issuance of Common Stock under incentive compensation awards, including awards issued prior to the effective date of the 2017 Stock Plan.

The Company recognizes stock-based compensation expense over the requisite service period for vesting of an award, or to an employee's eligible retirement date, if earlier and applicable. Total stock-based compensation expense, including cash-based liability awards, for the three and nine months ended June 30, 2017 was \$4.8 million (\$3.0 million net of tax) and \$19.2 million (\$12.1 million net of tax), respectively. Total stock-based compensation

expense, including cash-based liability awards, for the three and nine months ended June 30, 2016 was \$6.1 million (\$3.8 million net of tax) and \$18.6 million (\$11.7 million net of tax), respectively.

Table of Contents

## OSHKOSH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## 14. Restructuring and Other Charges

In September 2016, the Company committed to transition its access equipment aftermarket parts distribution network to a third party logistics company. As a result, the access equipment segment will cease operations at its Orrville, Ohio parts distribution center by the end of fiscal 2017. This initiative is intended to improve customer service levels, increase operational efficiency and allow the Company to reallocate resources to invest in future growth. The Company expects to incur cash charges related to severance costs and other employment-related benefits of approximately \$3.0 million related to this decision, of which \$0.5 million and \$1.6 million were incurred in the three and nine months ended June 30, 2017, respectively.

On January 26, 2017, as part of simplification activities in support of the Company's MOVE strategy, the access equipment segment announced it had committed to certain restructuring plans. The plans include the closure of its manufacturing plant and pre-delivery inspection facilities in Belgium, the streamlining of telehandler product offerings to a reduced range in Europe, the transfer of remaining European telehandler manufacturing to the Company's facility in Romania and reductions in engineering staff supporting European telehandlers, including the closure of the UK-based engineering facility. The announced plans also include the move of North American telehandler production from Ohio to facilities in Pennsylvania. The Company expects total implementation costs for these actions to be approximately \$45.0 million to \$50.0 million, including approximately \$11.0 million of operating costs related to the plans that are expected to result in future benefit to the Company. Approximately \$41.0 million of the pre-tax implementation costs are expected to be incurred in fiscal 2017 with the remainder to be incurred in fiscal 2018. The access equipment segment recognized \$6.6 million and \$22.9 million of restructuring costs under this plan for both the three and nine months ended June 30, 2017, respectively. In addition, the access equipment segment recognized \$4.0 million and \$4.9 million of operating expenses related to this plan in the three and nine months ended June 30, 2017, respectively.

Pre-tax restructuring charges for the three months ended June 30, 2017 were as follows (in millions):

Cost of Sales	Access equipment \$ 7.1
---------------------	-------------------------

Pre-tax restructuring charges for the nine months ended June 30, 2017 were as follows (in millions):

	Cost of Sales	Selling, General and Administrative Expenses	Total
Access equipment	\$ 24.5	\$ —	\$ 24.5
Commercial	—	0.4	0.4
Total	\$ 24.5	\$ 0.4	\$ 24.9

Changes in the Company's restructuring reserves, included within "Other current liabilities" in the Condensed Consolidated Balance Sheets, were as follows (in millions):

Employee Severance	Property, Plant and	Other Costs	Total
-----------------------	------------------------	----------------	-------



	and Termination Benefits	Equipment Impairment		
Balance at September 30, 2016	\$ 0.9	\$ —	\$—	\$0.9
Restructuring provision	20.2	2.9	1.8	24.9
Utilized - cash	(3.0 )	—	(0.9 )	(3.9 )
Utilized - noncash	—	(2.9 )	—	(2.9 )
Foreign currency translation	0.8	—	0.1	0.9
Balance at June 30, 2017	\$ 18.9	\$ —	\$ 1.0	\$19.9

Table of Contents

## OSHKOSH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## 15. Employee Benefit Plans

Components of net periodic pension benefit cost were as follows (in millions):

	Three Months Ended June 30, 2017 2016		Nine Months Ended June 30, 2017 2016	
Components of net periodic benefit cost				
Service cost	\$3.3	\$2.9	\$9.8	\$8.6
Interest cost	4.4	4.5	13.2	13.6
Expected return on plan assets	(4.5 )	(4.5 )	(13.6 )	(13.5 )
Amortization of prior service cost	0.4	0.4	1.3	1.3
Amortization of net actuarial loss	1.0	0.6	3.0	1.8
Net periodic benefit cost	\$4.6	\$3.9	\$13.7	\$11.8

Components of net periodic other post-employment benefit cost were as follows (in millions):

	Three Months Ended June 30, 2017 2016		Nine Months Ended June 30, 2017 2016	
Components of net periodic benefit cost				
Service cost	\$0.6	\$0.4	\$1.9	\$1.1
Interest cost	0.4	0.3	1.2	1.1
Amortization of prior service cost	(0.2 )	(0.2 )	(0.7 )	(0.7 )
Amortization of net actuarial loss (gain)	0.1	—	0.2	(0.1 )
Net periodic benefit cost	\$0.9	\$0.5	\$2.6	\$1.4

The Company made a \$14.0 million contribution to fund its defined benefit pension plans in June 2017. No other material contributions are expected to be made in fiscal 2017.

## 16. Income Taxes

The Company recorded income tax expense of \$70.1 million for the three months ended June 30, 2017, or 35.3% of pre-tax income, compared to \$48.4 million, or 36.6% of pre-tax income, for the three months ended June 30, 2016. Results for the three months ended June 30, 2017 were favorably impacted by \$3.9 million of net discrete tax benefits, including a \$2.1 million federal provision-to-return adjustment and a \$1.4 million tax benefit related to state tax matters. Results for the three months ended June 30, 2016 were unfavorably impacted by \$1.8 million of discrete tax charges, including \$0.9 million related to the recording of a deferred tax liability for the undistributed earnings of an equity method affiliate, \$0.6 million related to an increase in reserves for uncertain tax positions, and \$0.3 million related to a state audit settlement.

The Company recorded income tax expense of \$98.9 million for the nine months ended June 30, 2017, or 34.1% of pre-tax income, compared to \$70.4 million, or 31.5% of pre-tax income for the nine months ended June 30, 2016. Tax expense included net discrete tax benefits of \$8.7 million and \$6.2 million for the nine months ended June 30, 2017 and 2016, respectively. Discrete tax benefits recorded in the nine months ended June 30, 2017 included \$2.2 million of tax benefits related to employee share-based payments, \$3.3 million of net tax benefits related to the release of valuation allowances on federal capital loss carryforwards and state net operating losses, a \$2.1 million tax benefit related to the federal provision-to-return adjustment and a \$1.4 million tax benefit related to state tax matters. Discrete tax benefits recorded in the nine months ended June 30, 2016 included a \$3.5 million benefit related to provision-to-return adjustments and a \$2.4 million benefit related to the reinstatement of the U.S. research and development tax credit.

Table of Contents

## OSHKOSH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The Company's liability for gross unrecognized tax benefits, excluding related interest and penalties, was \$44.3 million and \$37.4 million as of June 30, 2017 and September 30, 2016, respectively. As of June 30, 2017, net unrecognized tax benefits, excluding interest and penalties, of \$30.3 million would affect the Company's net income if recognized.

The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits in the "Provision for income taxes" in the Condensed Consolidated Statements of Income. During the nine months ended June 30, 2017 and 2016, the Company recognized costs of \$1.3 million and benefits of \$1.0 million, respectively, related to interest and penalties. At June 30, 2017, the Company had accruals for the payment of interest and penalties of \$11.8 million. During the next twelve months, it is reasonably possible that federal, state and foreign tax audit resolutions could reduce net unrecognized tax benefits by approximately \$3.4 million because the Company's tax positions are sustained on audit, the Company agrees to their disallowance or the statutes of limitations close.

The Company files federal income tax returns as well as multiple state, local and non-U.S. jurisdiction tax returns. The Company is regularly audited by federal, state and foreign tax authorities.

## 17. Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) by component were as follows (in millions):

Three Months Ended June 30, 2017				
	Employee Pension and Postretirement Benefits, Net of Tax	Cumulative Translation Adjustments	Derivative Instruments	Accumulated Other Comprehensive Income (Loss)
Balance at beginning of period	\$(72.3)	\$ (120.8 )	\$ —	\$ (193.1 )
Other comprehensive income (loss) before reclassifications	—	27.0	(0.2 )	26.8
Amounts reclassified from accumulated other comprehensive income (loss)	0.8	—	—	0.8
Net current period other comprehensive income (loss)	0.8	27.0	(0.2 )	27.6
Balance at end of period	\$(71.5)	\$ (93.8 )	\$ (0.2 )	\$ (165.5 )

  

Three Months Ended June 30, 2016				
	Employee Pension and Postretirement Benefits, Net of Tax	Cumulative Translation Adjustments	Derivative Instruments	Accumulated Other Comprehensive Income (Loss)
Balance at beginning of period	\$(45.5)	\$ (90.4 )	\$ 0.1	\$ (135.8 )
Other comprehensive income (loss) before reclassifications	—	(12.6 )	(0.1 )	(12.7 )

Edgar Filing: OSHKOSH CORP - Form 10-Q

Amounts reclassified from accumulated other comprehensive income (loss)	0.6	—	—	0.6
Net current period other comprehensive income (loss)	0.6	(12.6	) (0.1	) (12.1
Balance at end of period	\$(44.9)	\$ (103.0	) \$ —	\$ (147.9

20

---

Table of Contents

## OSHKOSH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

	Nine Months Ended June 30, 2017			
	Employee Pension and Postretirement Benefits, Net of Tax	Cumulative Translation Adjustments	Derivative Instruments	Accumulated Other Comprehensive Income (Loss)
Balance at beginning of period	\$(73.9)	\$ (101.1 )	\$ —	\$ (175.0 )
Other comprehensive income (loss) before reclassifications	—	7.3	(0.2 )	7.1
Amounts reclassified from accumulated other comprehensive income (loss)	2.4	—	—	2.4
Net current period other comprehensive income (loss)	2.4	7.3	(0.2 )	9.5
Balance at end of period	\$(71.5)	\$ (93.8 )	\$ (0.2 )	\$ (165.5 )

	Nine Months Ended June 30, 2016			
	Employee Pension and Postretirement Benefits, Net of Tax	Cumulative Translation Adjustments	Derivative Instruments	Accumulated Other Comprehensive Income (Loss)
Balance at beginning of period	\$(46.4)	\$ (98.1 )	\$ 0.1	\$ (144.4 )
Other comprehensive income (loss) before reclassifications	—	(4.9 )	(0.1 )	(5.0 )
Amounts reclassified from accumulated other comprehensive income (loss)	1.5	—	—	1.5
Net current period other comprehensive income (loss)	1.5	(4.9 )	(0.1 )	(3.5 )
Balance at end of period	\$(44.9)	\$ (103.0 )	\$ —	\$ (147.9 )

Reclassifications out of accumulated other comprehensive income (loss) included in the computation of net periodic pension and postretirement benefit cost (refer to Note 15 of the Notes to Condensed Consolidated Financial Statements for additional details regarding employee benefit plans) were as follows (in millions):

	Three Months Ended June 30, 2017		Nine Months Ended June 30, 2016	
Amortization of employee pension and postretirement benefits items				
Prior service costs	\$(0.2)	\$(0.2)	\$(0.6)	\$(0.6)
Actuarial losses	(1.1 )	(0.6 )	(3.2 )	(1.7 )
Total before tax	(1.3 )	(0.8 )	(3.8 )	(2.3 )
Tax benefit	0.5	0.2	1.4	0.8
Net of tax	\$(0.8)	\$(0.6)	\$(2.4)	\$(1.5)



Table of Contents

## OSHKOSH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## 18. Earnings Per Share

The calculation of basic and diluted earnings per common share was as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Basic Earnings Per Share:				
Weighted-average common shares outstanding	74,806,775	73,390,624	74,593,065	73,526,081
Diluted Earnings Per Share:				
Basic weighted-average common shares outstanding	74,806,775	73,390,624	74,593,065	73,526,081
Dilutive stock options and other equity-based compensation awards	1,086,050	876,338	1,092,479	803,060
Diluted weighted-average common shares outstanding	75,892,825	74,266,962	75,685,544	74,329,141

Options not included in the computation of diluted earnings per share attributable to common shareholders because they would have been anti-dilutive were as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Stock options	388,625	1,050,269	390,850	1,468,052

## 19. Contingencies, Significant Estimates and Concentrations

**Personal Injury Actions and Other** - Product and general liability claims are made against the Company from time to time in the ordinary course of business. The Company is generally self-insured for future claims up to \$5.0 million per claim. Accordingly, a reserve is maintained for the estimated costs of such claims. At June 30, 2017 and September 30, 2016, the estimated net liabilities for product and general liability claims totaled \$36.2 million and \$38.3 million, respectively. There is inherent uncertainty as to the eventual resolution of unsettled claims. Management, however, believes that any losses in excess of established reserves will not have a material effect on the Company's financial condition, results of operations or cash flows.

**Market Risks** - The Company was contingently liable under bid, performance and specialty bonds totaling \$550.1 million and \$503.6 million at June 30, 2017 and September 30, 2016, respectively. Open standby letters of credit issued by the Company's banks in favor of third parties totaled \$98.3 million and \$110.8 million at June 30, 2017 and September 30, 2016, respectively.

**Other Matters** - The Company is subject to environmental matters and legal proceedings and claims, including patent, antitrust, product liability, warranty and state dealership regulation compliance proceedings, that arise in the ordinary course of business. Although the final results of all such matters and claims cannot be predicted with certainty, management believes that the ultimate resolution of all such matters and claims will not have a material effect on the Company's financial condition, results of operations or cash flows. Actual results could vary, among other things, due to the uncertainties involved in litigation.



Major contracts for military systems are performed over extended periods of time and are subject to changes in scope of work and delivery schedules. Pricing negotiations on changes and settlement of claims often extend over prolonged periods of time. The Company's ultimate profitability on such contracts may depend on the eventual outcome of an equitable settlement of contractual issues with the Company's customers.

The Company was one of several bidders on a large, multi-year military truck solicitation for the Canadian government. The Company's bid was not selected and the Company subsequently submitted a legal challenge of that conclusion. In May 2016, the Canadian International Trade Tribunal ruled in the Company's favor in connection with that challenge. At this time, the Company is unable to estimate the ultimate impact of this challenge and subsequent ruling in the Company's favor.

Table of Contents

## OSHKOSH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## 20. Business Segment Information

The Company is organized into four reportable segments based on the internal organization used by management for making operating decisions and measuring performance and based on the similarity of customers served, common management, common use of facilities and economic results attained.

In accordance with FASB ASC Topic 280, Segment Reporting, for purposes of business segment performance measurement, the Company does not allocate to individual business segments costs or items that are of a non-operating nature or organizational or functional expenses of a corporate nature. The caption "Corporate" includes corporate office expenses, share-based compensation, costs of certain business initiatives and shared services or operations benefiting multiple segments, including start-up costs related to a shared manufacturing facility in Mexico, and results of insignificant operations. Identifiable assets of the business segments exclude general corporate assets, which principally consist of cash and cash equivalents, certain property, plant and equipment, and certain other assets pertaining to corporate activities. Intersegment sales generally include amounts invoiced by a segment for work performed for another segment. Amounts are based on actual work performed and agreed-upon pricing, which is intended to be reflective of the contribution made by the supplying business segment.

Selected financial information concerning the Company's reportable segments and product lines is as follows (in millions):

	Three Months Ended June 30,					
	2017			2016		
	External	Inter-	Net	External	Inter-	Net
	Customer	segment	Sales	Customer	segment	Sales
Access equipment						
Aerial work platforms	\$583.1	\$ —	\$583.1	\$511.4	\$ —	\$511.4
Telehandlers	202.9	—	202.9	266.6	—	266.6
Other	194.2	—	194.2	174.5	—	174.5
Total access equipment	980.2	—	980.2	952.5	—	952.5
Defense	482.2	0.5	482.7	264.0	0.3	264.3
Fire & emergency	278.9	4.0	282.9	244.2	4.3	248.5
Commercial						
Concrete placement	158.5	—	158.5	164.6	—	164.6
Refuse collection	107.8	—	107.8	96.5	—	96.5
Other	27.3	1.6	28.9	25.7	1.1	26.8
Total commercial	293.6	1.6	295.2	286.8	1.1	287.9
Corporate and intersegment eliminations	2.0	(6.1 )	(4.1 )	—	(5.7 )	(5.7 )
Consolidated	\$2,036.9	\$ —	\$2,036.9	\$1,747.5	\$ —	\$1,747.5

Table of Contents

## OSHKOSH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

	Nine Months Ended June 30, 2017			2016		
	External Customer	Inter- segment	Net Sales	External Customer	Inter- segment	Net Sales
Access equipment						
Aerial work platforms	\$1,186.2	\$ —	\$1,186.2	\$1,128.5	\$ —	\$1,128.5
Telehandlers	457.8	—	457.8	593.1	—	593.1
Other	548.6	—	548.6	515.0	—	515.0
Total access equipment	2,192.6	—	2,192.6	2,236.6	—	2,236.6
Defense	1,222.1	1.2	1,223.3	877.7	1.6	879.3
Fire & emergency	741.5	11.4	752.9	686.8	9.6	696.4
Commercial						
Concrete placement	355.6	—	355.6	348.2	—	348.2
Refuse collection	279.1	—	279.1	295.0	—	295.0
Other	71.1	4.6	75.7	79.5	2.2	81.7
Total commercial	705.8	4.6	710.4	722.7	2.2	724.9
Corporate and intersegment eliminations	4.6	(17.2)	(12.6 )	—	(13.4)	(13.4 )
Consolidated	\$4,866.6	\$ —	\$4,866.6	\$4,523.8	\$ —	\$4,523.8

	Three Months Ended June 30, 2017		2016		Nine Months Ended June 30, 2017		2016	
Operating income (loss):								
Access equipment	\$130.2	\$122.1	\$196.7	\$218.2				
Defense	62.4	19.1	134.9	70.1				
Fire & emergency	30.8	19.7	69.6	44.7				
Commercial	21.6	23.8	32.2	49.9				
Corporate	(33.1 )	(37.9 )	(104.9 )	(114.4 )				
Intersegment eliminations	—	—	—	—				
Consolidated	211.9	146.8	328.5	268.5				
Interest expense, net of interest income	(13.9 )	(15.3 )	(41.9 )	(44.5 )				
Miscellaneous other income (expense)	0.6	0.8	3.1	(0.2 )				
Income before income taxes and equity in earnings of unconsolidated affiliates	\$198.6	\$132.3	\$289.7	\$223.8				

Table of Contents

## OSHKOSH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

	June 30, 2017	September 30, 2016
Identifiable assets:		
Access equipment:		
U.S.	\$2,032.7	\$ 1,856.0
Europe	520.7	521.5
Rest of the World	238.6	193.7
Total access equipment	2,792.0	2,571.2
Defense:		
U.S.	698.1	522.2
Rest of the World	3.6	3.0
Total defense	701.7	525.2
Fire & emergency - U.S.	559.2	522.7
Commercial:		
U.S.	395.2	358.4
Rest of the World	42.4	33.4
Total commercial	437.6	391.8
Corporate:		
U.S. <sup>(a)</sup>	497.6	408.3
Rest of the World <sup>(b)</sup>	104.5	94.6
Total corporate	602.1	502.9
Consolidated	\$5,092.6	\$ 4,513.8

<sup>(a)</sup> Primarily includes cash and short-term investments.

<sup>(b)</sup> Primarily includes a corporate-led manufacturing facility that supports multiple operating segments.

The following table presents net sales by geographic region based on product shipment destination (in millions):

	Nine Months Ended June 30,	
	2017	2016
Net sales:		
United States	\$3,714.9	\$3,492.5
Other North America	137.8	177.8
Europe, Africa and Middle East	742.9	558.2
Rest of the World	271.0	295.3
Consolidated	\$4,866.6	\$4,523.8

## 21. Separate Financial Information of Subsidiary Guarantors of Indebtedness

The 2022 Senior Notes and the 2025 Senior Notes are jointly, severally, fully and unconditionally guaranteed on a senior unsecured basis by all of the Company's 100% owned existing and future subsidiaries that from time to time guarantee obligations under the Credit Agreement, with certain exceptions (the "Guarantors").

Under the Indentures governing the 2022 Senior Notes and 2025 Senior Notes, a Guarantor's guarantee of such Senior Notes will be automatically and unconditionally released and will terminate upon the following customary circumstances: (i) the sale of such Guarantor or substantially all of the assets of such Guarantor if such sale complies with the Indentures; (ii) if such Guarantor no longer guarantees certain other indebtedness of the Company; or (iii) the defeasance or satisfaction and discharge of the Indentures.

Table of Contents

## OSHKOSH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following condensed supplemental consolidating financial information reflects the summarized financial information of Oshkosh Corporation, the Guarantors on a combined basis and Oshkosh Corporation's non-guarantor subsidiaries on a combined basis (in millions):

## Condensed Consolidating Statement of Income and Comprehensive Income

For the Three Months Ended June 30, 2017

	Oshkosh Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	\$ —	\$ 1,727.9	\$ 358.4	\$ (49.4 )	\$ 2,036.9
Cost of sales	0.3	1,433.6	265.3	(49.2 )	1,650.0
Gross income (loss)	(0.3 )	294.3	93.1	(0.2 )	386.9
Selling, general and administrative expenses	31.1	114.2	18.6	—	163.9
Amortization of purchased intangibles	—	9.6	1.5	—	11.1
Operating income (loss)	(31.4 )	170.5	73.0	(0.2 )	211.9
Interest expense	(14.2 )	(13.8 )	(0.5 )	13.2	(15.3 )
Interest income	0.9	4.5	9.2	(13.2 )	1.4
Miscellaneous, net	20.2	(25.8 )	6.2	—	0.6
Income (loss) before income taxes	(24.5 )	135.4	87.9	(0.2 )	198.6
Provision for (benefit from) income taxes	(9.1 )	47.0	32.3	(0.1 )	70.1
Income (loss) before equity in earnings of affiliates	(15.4 )	88.4	55.6	(0.1 )	128.5
Equity in earnings of consolidated subsidiaries	144.0	37.1	34.6	(215.7 )	—
Equity in earnings of unconsolidated affiliates	—	—	0.1	—	0.1
Net income	128.6	125.5	90.3	(215.8 )	128.6
Other comprehensive income (loss), net of tax	27.6	0.8	26.2	(27.0 )	27.6
Comprehensive income	\$ 156.2	\$ 126.3	\$ 116.5	\$ (242.8 )	\$ 156.2

## Condensed Consolidating Statement of Income and Comprehensive Income

For the Three Months Ended June 30, 2016

	Oshkosh Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	\$ —	\$ 1,471.5	\$ 312.4	\$ (36.4 )	\$ 1,747.5
Cost of sales	0.8	1,207.2	261.1	(36.2 )	1,432.9
Gross income (loss)	(0.8 )	264.3	51.3	(0.2 )	314.6
Selling, general and administrative expenses	30.2	105.6	18.9	—	154.7
Amortization of purchased intangibles	—	9.6	3.5	—	13.1
Operating income (loss)	(31.0 )	149.1	28.9	(0.2 )	146.8
Interest expense	(68.9 )	(16.4 )	(0.6 )	70.1	(15.8 )
Interest income	0.4	21.9	48.3	(70.1 )	0.5
Miscellaneous, net	14.8	(42.4 )	28.4	—	0.8
Income (loss) before income taxes	(84.7 )	112.2	105.0	(0.2 )	132.3
Provision for (benefit from) income taxes	(41.5 )	44.1	45.8	—	48.4
Income (loss) before equity in earnings of affiliates	(43.2 )	68.1	59.2	(0.2 )	83.9
Equity in earnings of consolidated subsidiaries	127.4	21.1	49.7	(198.2 )	—
Equity in earnings of unconsolidated affiliates	—	—	0.3	—	0.3
Net income	84.2	89.2	109.2	(198.4 )	84.2

Edgar Filing: OSHKOSH CORP - Form 10-Q

Other comprehensive income (loss), net of tax	(12.1	) (0.4	) (11.9	) 12.3	(12.1	)
Comprehensive income	\$ 72.1	\$ 88.8	\$ 97.3	\$ (186.1	) \$72.1	

Table of Contents

## OSHKOSH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## Condensed Consolidating Statement of Income and Comprehensive Income

For the Nine Months Ended June 30, 2017

	Oshkosh Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	\$ —	\$ 4,155.8	\$ 846.4	\$ (135.6 )	\$ 4,866.6
Cost of sales	(0.7 )	3,441.0	713.7	(135.3 )	4,018.7
Gross income	0.7	714.8	132.7	(0.3 )	847.9
Selling, general and administrative expenses	98.3	309.6	76.8	—	484.7
Amortization of purchased intangibles	—	28.8	5.9	—	34.7
Operating income (loss)	(97.6 )	376.4	50.0	(0.3 )	328.5
Interest expense	(41.4 )	(41.1 )	(1.5 )	38.9	(45.1 )
Interest income	2.2	12.8	27.1	(38.9 )	3.2
Miscellaneous, net	67.0	(132.7 )	68.8	—	3.1
Income (loss) before income taxes	(69.8 )	215.4	144.4	(0.3 )	289.7
Provision for (benefit from) income taxes	(23.5 )	72.4	50.1	(0.1 )	98.9
Income (loss) before equity in earnings of affiliates	(46.3 )	143.0	94.3	(0.2 )	190.8
Equity in earnings of consolidated subsidiaries	238.4	60.7	31.9	(331.0 )	—
Equity in earnings of unconsolidated affiliates	—	—	1.3	—	1.3
Net income	192.1	203.7	127.5	(331.2 )	192.1
Other comprehensive income (loss), net of tax	9.5	1.4	6.4	(7.8 )	9.5
Comprehensive income	\$ 201.6	\$ 205.1	\$ 133.9	\$ (339.0 )	\$ 201.6

## Condensed Consolidating Statement of Income and Comprehensive Income

For the Nine Months Ended June 30, 2016

	Oshkosh Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	\$ —	\$ 3,812.3	\$ 802.2	\$ (90.7 )	\$ 4,523.8
Cost of sales	1.5	3,177.2	679.0	(90.6 )	3,767.1
Gross income (loss)	(1.5 )	635.1	123.2	(0.1 )	756.7
Selling, general and administrative expenses	88.8	291.8	68.1	—	448.7
Amortization of purchased intangibles	—	29.1	10.4	—	39.5
Operating income (loss)	(90.3 )	314.2	44.7	(0.1 )	268.5
Interest expense	(198.9 )	(47.3 )	(1.7 )	201.9	(46.0 )
Interest income	1.3	61.2	140.9	(201.9 )	1.5
Miscellaneous, net	43.3	(134.3 )	90.8	—	(0.2 )
Income (loss) before income taxes	(244.6 )	193.8	274.7	(0.1 )	223.8
Provision for (benefit from) income taxes	(81.4 )	64.5	87.3	—	70.4
Income (loss) before equity in earnings of affiliates	(163.2 )	129.3	187.4	(0.1 )	153.4
Equity in earnings of consolidated subsidiaries	318.4	75.2	62.9	(456.5 )	—
Equity in earnings of unconsolidated affiliates	(0.3 )	—	1.8	—	1.5
Net income	154.9	204.5	252.1	(456.6 )	154.9
Other comprehensive income (loss), net of tax	(3.5 )	(2.6 )	(2.0 )	4.6	(3.5 )
Comprehensive income	\$ 151.4	\$ 201.9	\$ 250.1	\$ (452.0 )	\$ 151.4





Table of Contents

## OSHKOSH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## Condensed Consolidating Balance Sheet

As of June 30, 2017

	Oshkosh Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 319.9	\$ 3.9	\$ 49.4	\$ —	\$373.2
Receivables, net	26.1	890.8	308.0	(42.6 )	1,182.3
Inventories, net	—	989.6	421.1	—	1,410.7
Other current assets	32.2	41.9	9.9	—	84.0
Total current assets	378.2	1,926.2	788.4	(42.6 )	3,050.2
Investment in and advances to consolidated subsidiaries	2,987.4	1,319.4	(70.3 )	(4,236.5 )	—
Intercompany receivables	48.0	160.5	1,887.9	(2,096.4 )	—
Intangible assets, net	—	918.7	606.6	—	1,525.3
Other long-term assets	66.3	230.8	220.0	—	517.1
Total assets	\$ 3,479.9	\$ 4,555.6	\$ 3,432.6	\$ (6,375.5 )	\$5,092.6
Liabilities and Shareholders' Equity					
Current liabilities:					
Accounts payable	\$ 13.0	\$ 547.8	\$ 168.4	\$ (42.3 )	\$686.9
Customer advances	—	554.8	4.6	—	559.4
Other current liabilities	137.0	273.8	116.3	(0.3 )	526.8
Total current liabilities	150.0	1,376.4	289.3	(42.6 )	1,773.1
Long-term debt, less current maturities	812.5	—	—	—	812.5
Intercompany payables	267.9	1,780.5	48.0	(2,096.4 )	—
Other long-term liabilities	70.4	132.4	125.1	—	327.9
Total shareholders' equity	2,179.1	1,266.3	2,970.2	(4,236.5 )	2,179.1
Total liabilities and shareholders' equity	\$ 3,479.9	\$ 4,555.6	\$ 3,432.6	\$ (6,375.5 )	\$5,092.6

Table of Contents

## OSHKOSH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## Condensed Consolidating Balance Sheet

As of September 30, 2016

	Oshkosh Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 285.4	\$ 1.7	\$ 34.8	\$—	\$321.9
Receivables, net	13.0	734.3	319.6	(45.0 )	1,021.9
Inventories, net	—	679.1	300.7	—	979.8
Other current assets	28.0	58.5	7.4	—	93.9
Total current assets	326.4	1,473.6	662.5	(45.0 )	2,417.5
Investment in and advances to consolidated subsidiaries	6,148.2	1,253.6	(120.0 )	(7,281.8 )	—
Intercompany receivables	48.0	1,353.7	4,632.2	(6,033.9 )	—
Intangible assets, net	—	947.5	609.5	—	1,557.0
Other long-term assets	87.3	232.7	219.3	—	539.3
Total assets	\$ 6,609.9	\$ 5,261.1	\$ 6,003.5	\$(13,360.7 )	\$4,513.8
Liabilities and Shareholders' Equity					
Current liabilities:					
Accounts payable	\$ 13.3	\$ 375.0	\$ 122.6	\$(44.8 )	\$466.1
Customer advances	—	465.8	6.0	—	471.8
Other current liabilities	85.5	246.5	97.9	(0.2 )	429.7
Total current liabilities	98.8	1,087.3	226.5	(45.0 )	1,367.6
Long-term debt, less current maturities	826.2	—	—	—	826.2
Intercompany payables	3,639.4	2,346.5	48.0	(6,033.9 )	—
Other long-term liabilities	69.0	147.9	126.6	—	343.5
Total shareholders' equity	1,976.5	1,679.4	5,602.4	(7,281.8 )	1,976.5
Total liabilities and shareholders' equity	\$ 6,609.9	\$ 5,261.1	\$ 6,003.5	\$(13,360.7 )	\$4,513.8

Table of Contents

## OSHKOSH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## Condensed Consolidating Statement of Cash Flows

For the Nine Months Ended June 30, 2017

	Oshkosh Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total
Net cash provided by operating activities	\$ 38.6	\$ 31.1	\$ 54.2	\$ —	\$123.9
Investing activities:					
Additions to property, plant and equipment	(2.4 )	(32.1 )	(10.7 )	—	(45.2 )
Additions to equipment held for rental	—	—	(26.3 )	—	(26.3 )
Proceeds from sale of equipment held for rental	—	—	42.3	—	42.3
Intercompany investing	—	559.5	(38.7 )	(520.8 )	—
Other investing activities	(1.4 )	—	—	—	(1.4 )
Net cash provided (used) by investing activities	(3.8 )	527.4	(33.4 )	(520.8 )	(30.6 )
Financing activities:					
Repayments of debt (original maturities greater than three months)	(20.0 )	—	—	—	(20.0 )
Net increase in short-term debt	—	—	3.0	—	3.0
Repurchases of Common Stock	(3.0 )	—	—	—	(3.0 )
Dividends paid	(47.1 )	—	—	—	(47.1 )
Proceeds from exercise of stock options	34.2	—	—	—	34.2
Intercompany financing	35.6	(556.4 )	—	520.8	—
Net cash provided (used) by financing activities	(0.3 )	(556.4 )	3.0	520.8	(32.9 )
Effect of exchange rate changes on cash	—	0.1	(9.2 )	—	(9.1 )
Increase in cash and cash equivalents	34.5	2.2	14.6	—	51.3
Cash and cash equivalents at beginning of period	285.4	1.7	34.8	—	321.9
Cash and cash equivalents at end of period	\$ 319.9	\$ 3.9	\$ 49.4	\$ —	\$373.2

Table of Contents

## OSHKOSH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## Condensed Consolidating Statement of Cash Flows

For the Nine Months Ended June 30, 2016

	Oshkosh Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net cash provided (used) by operating activities	\$ (124.6 )	\$ 85.0	\$ 203.1	\$ —	\$ 163.5
Investing activities:					
Additions to property, plant and equipment	(19.2 )	(21.8 )	(21.3 )	—	(62.3 )
Additions to equipment held for rental	—	—	(30.9 )	—	(30.9 )
Proceeds from sale of equipment held for rental	—	0.6	33.1	—	33.7
Intercompany investing	(0.7 )	(47.4 )	(181.4 )	229.5	—
Other investing activities	(1.5 )	—	—	—	(1.5 )
Net cash used by investing activities	(21.4 )	(68.6 )	(200.5 )	229.5	(61.0 )
Financing activities:					
Proceeds from issuance of debt (original maturities greater than three months)	320.0	—	3.5	—	323.5
Repayments of debt (original maturities greater than three months)	(275.0 )	—	(3.5 )	—	(278.5 )
Net decrease in short-term debt	(16.5 )	—	—	—	(16.5 )
Repurchases of Common Stock	(101.7 )	—	—	—	(101.7 )
Dividends paid	(41.9 )	—	—	—	(41.9 )
Proceeds from exercise of stock options	8.8	—	—	—	8.8
Excess tax benefit from stock-based compensation	1.3	—	—	—	1.3
Intercompany financing	248.3	(19.5 )	0.7	(229.5)	—
Net cash provided (used) by financing activities	143.3	(19.5 )	0.7	(229.5)	(105.0 )
Effect of exchange rate changes on cash	—	0.2	4.9	—	5.1
Increase (decrease) in cash and cash equivalents	(2.7 )	(2.9 )	8.2	—	2.6
Cash and cash equivalents at beginning of period	14.8	6.3	21.8	—	42.9
Cash and cash equivalents at end of period	\$ 12.1	\$ 3.4	\$ 30.0	\$ —	\$ 45.5

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement About Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly Report on Form 10-Q contain statements that Oshkosh Corporation (the "Company") believes to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact included in this Quarterly Report on Form 10-Q, including, without limitation, statements regarding the Company's future financial position, business strategy, targets, projected sales, costs, earnings, capital expenditures, debt levels and cash flows, and plans and objectives of management for future operations, including those under the caption "Executive Overview" are forward-looking statements. When used in this Quarterly Report on Form 10-Q, words such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe," "should," or "plan" or the negative thereof or variations thereon or similar terminology are generally intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, assumptions and other factors, some of which are beyond the Company's control, which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These factors include the cyclical nature of the Company's access equipment, commercial and fire & emergency markets, which are particularly impacted by the strength of U.S. and European economies and construction seasons; the Company's estimates of access equipment demand which, among other factors, is influenced by customer historical buying patterns and rental company fleet replacement strategies; the strength of the U.S. dollar and its impact on Company exports, translation of foreign sales and purchased materials; the expected level and timing of U.S. Department of Defense (DoD) and international defense customer procurement of products and services and acceptance of and funding or payments for such products and services; higher material costs resulting from production variability due to uncertainty of timing of funding or payments from international defense customers; risks related to reductions in government expenditures in light of U.S. defense budget pressures, sequestration and an uncertain DoD tactical wheeled vehicle strategy; the impact of any DoD solicitation for competition for future contracts to produce military vehicles, including a future Family of Medium Tactical Vehicle (FMTV) production contract; the Company's ability to increase prices to raise margins or offset higher input costs; increasing commodity and other raw material costs, particularly in a sustained economic recovery; risks related to facilities expansion, consolidation and alignment, including the amounts of related costs and charges and that anticipated cost savings may not be achieved; global economic uncertainty, which could lead to impairment charges related to many of the Company's intangible assets and/or a slower recovery in the Company's cyclical businesses than Company or equity market expectations; projected adoption rates of work at height machinery in emerging markets; the impact of severe weather or natural disasters that may affect the Company, its suppliers or its customers; risks related to the collectability of receivables, particularly for those businesses with exposure to construction markets; the cost of any warranty campaigns related to the Company's products; risks associated with international operations and sales, including compliance with the Foreign Corrupt Practices Act; the Company's ability to comply with complex laws and regulations applicable to U.S. government contractors; cybersecurity risks and costs of defending against, mitigating and responding to a data security breach; and risks related to the Company's ability to successfully execute on its strategic road map and meet its long-term financial goals. Additional information concerning these and other factors that could cause actual results to differ materially from those in the forward-looking statements is contained from time to time in the Company's U.S. Securities and Exchange Commission (SEC) filings, including, but not limited to, the Company's Current Report on Form 8-K filed with the SEC on August 2, 2017 and Item 1A. of Part II of this Quarterly Report on Form 10-Q.

All forward-looking statements, including those under the caption "Executive Overview," speak only as of the date the Company files this Quarterly Report on Form 10-Q with the SEC. The Company assumes no obligation, and disclaims any obligation, to update information contained in this Quarterly Report on Form 10-Q. Investors should be aware that the Company may not update such information until the Company's next quarterly earnings conference call, if at all.

All references herein to earnings per share refer to earning per share assuming dilution.

## Table of Contents

### General

Major products manufactured and marketed by each of the Company's business segments are as follows:

Access equipment — aerial work platforms and telehandlers used in a wide variety of construction, agricultural, industrial, institutional and general maintenance applications to position workers and materials at elevated heights, as well as carriers and wreckers. Access equipment customers include equipment rental companies, construction contractors, manufacturing companies, home improvement centers and towing companies in the U.S. and abroad.

Defense — tactical trucks, trailers and supply parts and services sold to the U.S. military and to other militaries around the world.

Fire & emergency — custom and commercial firefighting vehicles and equipment, aircraft rescue and firefighting vehicles, snow removal vehicles, simulators and other emergency vehicles primarily sold to fire departments, airports and other governmental units, and broadcast vehicles sold to broadcasters and TV stations in the U.S. and abroad.

Commercial — concrete mixers, refuse collection vehicles, portable and stationary concrete batch plants and vehicle components sold to ready-mix companies and commercial and municipal waste haulers in the Americas and other international markets and field service vehicles and truck-mounted cranes sold to mining, construction and other companies in the U.S. and abroad.

### Executive Overview

The Company reported earnings per share of \$1.69 in the third quarter of fiscal 2017 compared to \$1.13 in the third quarter of fiscal 2016. Third quarter fiscal 2017 results included \$10.6 million, or \$0.15 per share, of restructuring-related costs recorded in the access equipment segment as part of a restructuring plan announced in January 2017. The Company's strong results for the third quarter of fiscal 2017 were driven by higher sales in all four segments and solid execution of the Company's MOVE strategy. Macroeconomic factors that support the markets the Company participates in have held up, or improved, since the Company communicated its outlook and strategies at an Analyst Day in September 2016, including construction markets in the U.S. This has translated into strong order rates and higher backlogs at the end of the third quarter in each of the Company's non-defense segments as compared to the prior year quarter. Rental equipment markets in North America remained healthy as evidenced by strong utilization rates, improved used equipment values and commentary from leading rental equipment companies regarding positive trends for rental rates, leading to demand for access equipment that was higher than the Company anticipated. The defense segment successfully ramped up sales from the first half of the year. Based on current backlog for fiscal 2018 of \$1.2 billion, a \$195 million Joint Light Tactical Vehicle (JLTV) order received in July 2017, expected orders in the fourth quarter of fiscal 2017 and normal annual aftermarket volume, the Company expects to have line of sight to \$1.7 billion of defense segment sales for fiscal 2018 by September 30, 2017 and believes there are other opportunities to add to this amount in fiscal 2018. The fire & emergency segment continued to deliver improved results in the third quarter as it works toward its objective of reaching annual double digit operating income margins. Finally, the commercial segment reported improved results in the third quarter compared to the first half of the year, but there is still substantial work to be done to achieve the results that the Company expects from this segment.

Consolidated net sales increased \$289.4 million, or 16.6%, to \$2.04 billion in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016. All segments reported higher sales in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016. The primary driver of the increase in sales was a \$218.4 million sales increase in the defense segment, led by increases in sales of Mine Resistant Ambush Protected - All Terrain Vehicle



(M-ATV) and JLTV.

Consolidated operating income increased 44.3% to \$211.9 million, or 10.4% of sales, in the third quarter of fiscal 2017 compared to \$146.8 million, or 8.4% of sales, in the third quarter of fiscal 2016. Third quarter fiscal 2017 results included \$10.6 million of restructuring-related costs recorded in the access equipment segment as part of the restructuring plan announced in January 2017. The improvement in operating income in the third quarter of fiscal 2017 as compared to the third quarter of fiscal 2016 was primarily the result of higher gross margin associated with higher sales volumes, improved pricing in the fire & emergency segment and improved product mix.

## Table of Contents

In January 2017, as part of simplification activities in support of the Company's MOVE strategy, the Company announced its intention to rationalize operations in the access equipment segment. These plans include the closure of its manufacturing plant and pre-delivery inspection facilities in Belgium, the streamlining of telehandler product offerings to a reduced range in Europe, the transfer of remaining European telehandler manufacturing to the Company's facility in Romania and reductions in engineering staff supporting European telehandlers, including the closure of the UK-based engineering facility. The announced plans also include the move of North American telehandler production from Ohio to facilities in Pennsylvania. In total, the Company expects these actions will result in ongoing savings of about \$20 million to \$25 million per year. The Company expects to realize \$15 million to \$20 million of benefits in fiscal 2018 before achieving full run rate savings in fiscal 2019. The Company expects the pre-tax cost of implementing these actions will be approximately \$45 million to \$50 million, including approximately \$10 million of non-cash charges. The Company expects to incur approximately \$41 million of the cost of implementing these actions in fiscal 2017, of which it recognized \$27.8 million in the second and third quarters of fiscal 2017.

As a result of its strong performance and positive outlook for the remainder of fiscal 2017, the Company increased its fiscal 2017 earnings per share estimate range from \$2.70 to \$3.00 to a range of \$3.33 to \$3.43 on estimated operating income of \$439 million to \$449 million. Excluding expected access equipment segment restructuring-related charges, the Company also increased its fiscal 2017 adjusted earnings per share estimate range from \$3.20 to \$3.50 to a range of \$3.80 to \$3.90 on estimated adjusted operating income of \$480 million to \$490 million. The Company now expects full year fiscal 2017 sales to be approximately \$6.75 billion, compared to the Company's previous expectation of \$6.6 billion to \$6.7 billion.

The Company now expects access equipment segment fiscal 2017 sales to be approximately \$2.95 billion, compared to the Company's previous expectation of \$2.8 billion. The improvement in expected sales from previous expectations is driven by improved rental industry market conditions, which have translated into solid demand for access equipment. The revised sales estimate for fiscal 2017 represents an estimated 2% decline from fiscal 2016 sales. The Company is also increasing its fiscal 2017 operating income margin outlook range for the access equipment segment from 7.20% to 7.45% to a range of 8.35% to 8.60%, reflecting both the benefit of improved absorption on the expected higher volume and an expected more favorable product mix. Likewise, the Company also increased its adjusted operating income margin outlook range for this segment from 8.75% to 9.00% to a range of 9.75% to 10.00%.

The Company now expects defense segment fiscal 2017 sales to be approximately \$1.825 billion, down slightly from the Company's previous expectations of \$1.85 billion as a result of the timing of aftermarket sales. The Company is increasing its fiscal 2017 operating income margin estimate for the defense segment from approximately 10.00% to a range of 11.00% to 11.20%. The increased margin estimate range is a result of the strong operational execution shown by the defense segment in the third quarter of fiscal 2017 as it ramped up sales from the first half of the fiscal year and an expectation that the solid execution will continue through the fourth quarter of fiscal 2017.

The Company now expects fire & emergency segment fiscal 2017 sales to be approximately \$1.025 billion, compared to the Company's previous expectation of \$1.0 billion. The Company is also increasing its fiscal 2017 operating income margin outlook for the fire & emergency segment from approximately 8.5% to approximately 9.7%. The higher margin expectation is the result of continued benefits realized from execution of simplification initiatives and the benefit of improved absorption on the expected higher volume.

The Company now expects commercial segment fiscal 2017 sales to be approximately \$950 million, compared to the Company's previous expectation of \$975 million. The Company is also lowering its fiscal 2017 operating income margin outlook for the commercial segment from a range of 5.0% to 5.5% to a range of 4.5% to 5.0%, reflecting the continued operational challenges that the commercial segment is working through. After a weak first half of fiscal

2017, the commercial segment needed to execute at a high level in the second half of the fiscal year to achieve the previous estimates. While the commercial segment made progress in the third quarter, the Company now believes it is going to fall short of previous sales and operating income expectations.

The Company is now estimating that fiscal 2017 corporate expenses will be approximately \$150 million, compared to the previous expectation of \$145 million, reflecting higher incentive compensation expense as a result of the higher estimated fiscal 2017 consolidated results. The Company now expects its effective tax rate to be approximately 34.5%, down from the Company's previous expected effective tax rate range of 35.4% to 35.9%. Excluding the tax impact of the expected access equipment segment restructuring-related charges, the adjusted effective tax rate estimate is now expected to be approximately 32.5%, at the low end of the previous adjusted effective tax rate range of 32.5% to 33.0%. The Company continues to expect its estimated share count to be approximately 76 million shares.

Table of Contents

## Results of Operations

## Analysis of Consolidated Net Sales

The following table presents net sales by business segment (in millions):

	Third Quarter Fiscal		First Nine Months Fiscal	
	2017	2016	2017	2016
Net sales:				
Access equipment	\$980.2	\$952.5	\$2,192.6	\$2,236.6
Defense	482.7	264.3	1,223.3	879.3
Fire & emergency	282.9	248.5	752.9	696.4
Commercial	295.2	287.9	710.4	724.9
Intersegment eliminations and other	(4.1 )	(5.7 )	(12.6 )	(13.4 )
	\$2,036.9	\$1,747.5	\$4,866.6	\$4,523.8

## Third Quarter Fiscal 2017 Compared to 2016

Consolidated net sales increased \$289.4 million, or 16.6%, in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016. All segments reported an increase in sales, led by an 82.6% increase in sales in the defense segment.

Access equipment segment net sales increased \$27.7 million, or 2.9%, in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016. The increase in sales was primarily due to higher aerial work platform unit sales volumes (up \$76 million), offset in part by lower telehandler unit sales volumes (down \$66 million).

Defense segment net sales increased \$218.4 million, or 82.6%, in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016. The increase in sales was primarily due to international M-ATV sales and the ramp-up of sales to the U.S. government under the JLTV program, offset in part by lower sales to the U.S. government under the FMTV program.

Fire & emergency segment net sales increased \$34.4 million, or 13.8%, in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016. The increase in sales was primarily due to higher domestic fire apparatus deliveries as a result of increased production rates (up \$15 million), the timing of international fire apparatus deliveries (up \$10 million) and improved pricing (up \$9 million).

Commercial segment net sales increased \$7.3 million, or 2.5%, in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016. The increase in sales was primarily due to higher refuse collection vehicle unit volume.

## First Nine Months of Fiscal 2017 Compared to 2016

Consolidated net sales increased \$342.8 million, or 7.6%, in the first nine months of fiscal 2017 compared to the first nine months of fiscal 2016. An increase in sales in the defense and fire & emergency segments was offset in part by lower sales in the access equipment and commercial segments.

Access equipment segment net sales decreased \$44.0 million, or 2.0%, in the first nine months of fiscal 2017 compared to the first nine months of fiscal 2016. The decline in sales was primarily due to lower telehandler unit sales volumes (down \$139 million), offset in part by higher aerial work platform unit sales volumes (up \$64 million).

Defense segment net sales increased \$344.0 million, or 39.1%, in the first nine months of fiscal 2017 compared to the first nine months of fiscal 2016. The increase in sales was primarily due to the ramp-up of sales under the JLTV program, higher international sales of M-ATVs and higher sales of Family of Heavy Tactical Vehicles (FHTV) to the U.S. government, offset in part by lower sales to the U.S. government under the FMTV program. During the first nine months of fiscal 2016, production of FHTVs was ramping back up after a break in production experienced in fiscal 2015.

Table of Contents

Fire & emergency segment net sales increased \$56.5 million, or 8.1%, in the first nine months of fiscal 2017 compared to the first nine months of fiscal 2016. The increase in sales was primarily due to improved pricing (up \$22 million), the timing of fire apparatus deliveries as a result of increased production rates (up \$17 million) and the sale of higher content units (up \$13 million).

Commercial segment net sales decreased \$14.5 million, or 2.0%, in the first nine months of fiscal 2017 compared to the first nine months of fiscal 2016. The decrease in sales was primarily due to lower refuse collection vehicle unit volume (down \$50 million), offset in part by sales of higher content units (up \$28 million) and higher concrete mixer unit volume (up \$13 million).

## Analysis of Consolidated Cost of Sales

The following table presents cost of sales by business segment (in millions):

	Third Quarter Fiscal		First Nine Months Fiscal	
	2017	2016	2017	2016
Cost of sales:				
Access equipment	\$777.4	\$756.1	\$1,781.6	\$1,807.5
Defense	396.8	226.9	1,020.2	751.6
Fire & emergency	231.9	209.8	626.4	599.0
Commercial	248.3	240.7	603.8	604.3
Intersegment eliminations and other	(4.4 )	(0.6 )	(13.3 )	4.7
	\$1,650.0	\$1,432.9	\$4,018.7	\$3,767.1

## Third Quarter Fiscal 2017 Compared to 2016

Consolidated cost of sales was \$1.65 billion, or 81.0% of sales, in the third quarter of fiscal 2017 compared to \$1.43 billion, or 82.0% of sales, in the third quarter of fiscal 2016. The 100 basis point decrease in cost of sales as a percentage of sales in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016 was largely due to relatively flat new product development spending on higher sales (50 basis points), improved operating results related to a corporate-led manufacturing facility, which incurred higher start-up costs during the third quarter of fiscal 2016 (30 basis points) and improved price realization (30 basis points), offset in part by restructuring-related charges incurred in the access equipment segment (50 basis points).

Access equipment segment cost of sales was \$777.4 million, or 79.3% of sales, in the third quarter of fiscal 2017 compared to \$756.1 million, or 79.4% of sales, in the third quarter of fiscal 2016. The 10 basis point decrease in cost of sales as a percentage of sales in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016 was largely due to more efficient material usage (70 basis points) and improved product mix (60 basis points), offset in part by restructuring-related costs (110 basis points).

Defense segment cost of sales was \$396.8 million, or 82.2% of sales, in the third quarter of fiscal 2017 compared to \$226.9 million, or 85.9% of sales, in the third quarter of fiscal 2016. The 370 basis point decrease in cost of sales as a percentage of sales in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016 was primarily attributable to lower new product development spending on higher sales (300 basis points) and favorable contract performance (90 basis points).

Fire & emergency segment cost of sales was \$231.9 million, or 82.0% of sales, in the third quarter of fiscal 2017 compared to \$209.8 million, or 84.4% of sales, in the third quarter of fiscal 2016. The 240 basis point decrease in cost of sales as a percentage of sales in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016 was

primarily attributable to improved pricing.

Commercial segment cost of sales was \$248.3 million, or 84.1% of sales, in the third quarter of fiscal 2017 compared to \$240.7 million, or 83.6% of sales, in the third quarter of fiscal 2016. The 50 basis point increase in cost of sales as a percentage of sales in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016 was largely due to operational inefficiencies associated with changes in production volumes.

Intersegment eliminations and other includes intercompany profit on inter-segment sales not yet sold to third party customers, net of start-up costs of a corporate-led manufacturing facility not allocated to segments.

Table of Contents

## First Nine Months of Fiscal 2017 Compared to 2016

Consolidated cost of sales was \$4.02 billion, or 82.6% of sales, in the first nine months of fiscal 2017 compared to \$3.77 billion, or 83.3% of sales, in the first nine months of fiscal 2016. The 70 basis point decrease in cost of sales as a percentage of sales in the first nine months of fiscal 2017 compared to the first nine months of fiscal 2016 was largely due to improved operating results related to a corporate-led manufacturing facility, which incurred higher start-up costs during the third quarter of fiscal 2016 (40 basis points), relatively flat new product development spending on higher sales (40 basis points) and more efficient material usage (30 basis points), offset in part by restructuring-related costs incurred in the access equipment segment (60 basis points).

Access equipment segment cost of sales was \$1.78 billion, or 81.3% of sales, in the first nine months of fiscal 2017 compared to \$1.81 billion, or 80.8% of sales, in the first nine months of fiscal 2016. The 50 basis point increase in cost of sales as a percentage of sales in the first nine months of fiscal 2017 compared to the first nine months of fiscal 2016 was largely due to restructuring-related costs (130 basis points) and a more competitive pricing environment (60 basis points), offset in part by favorable product mix (70 basis points) and more efficient material usage (60 basis points).

Defense segment cost of sales was \$1.02 billion, or 83.4% of sales, in the first nine months of fiscal 2017 compared to \$751.6 million, or 85.5% of sales, in the first nine months of fiscal 2016. The 210 basis point decrease in cost of sales as a percentage of sales in the first nine months of fiscal 2017 compared to the first nine months of fiscal 2016 was primarily attributable to relatively flat new product development spending on higher sales (100 basis points) and improved absorption as a result of increased production (90 basis points).

Fire & emergency segment cost of sales was \$626.4 million, or 83.2% of sales, in the first nine months of fiscal 2017 compared to \$599.0 million, or 86.0% of sales, in the first nine months of fiscal 2016. The 280 basis point decrease in cost of sales as a percentage of sales in the first nine months of fiscal 2017 compared to the first nine months of fiscal 2016 was largely due to improved pricing.

Commercial segment cost of sales was \$603.8 million, or 85.0% of sales, in the first nine months of fiscal 2017 compared to \$604.3 million, or 83.4% of sales, in the first nine months of fiscal 2016. The 160 basis point increase in cost of sales as a percentage of sales in the first nine months of fiscal 2017 compared to the first nine months of fiscal 2016 was largely due to operational inefficiencies associated with changes in production volumes (100 basis points) and adverse product mix (40 basis points).

Intersegment eliminations and other includes intercompany profit on inter-segment sales not yet sold to third party customers as well as shared manufacturing start-up costs not allocated to segments.

## Analysis of Consolidated Operating Income (Loss)

The following table presents operating income (loss) by business segment (in millions):

	Third Quarter Fiscal		First Nine Months Fiscal	
	2017	2016	2017	2016
Operating income (loss):				
Access equipment	\$ 130.2	\$ 122.1	\$ 196.7	\$ 218.2
Defense	62.4	19.1	134.9	70.1
Fire & emergency	30.8	19.7	69.6	44.7
Commercial	21.6	23.8	32.2	49.9



Edgar Filing: OSHKOSH CORP - Form 10-Q

Corporate	(33.1 )	(37.9 )	(104.9 )	(114.4 )
Intersegment eliminations	—	—	—	—
	\$211.9	\$146.8	\$328.5	\$268.5

Table of Contents

Third Quarter Fiscal 2017 Compared to 2016

Consolidated operating income increased 44.3% to \$211.9 million, or 10.4% of sales, in the third quarter of fiscal 2017 compared to \$146.8 million, or 8.4% of sales, in the third quarter of fiscal 2016. The increase in operating income in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016 was primarily the result of higher gross margin associated with higher sales volumes, improved pricing in the fire & emergency segment and improved product mix, offset in part by restructuring-related charges in the access equipment segment of \$10.6 million.

Access equipment segment operating income increased 6.6% to \$130.2 million, or 13.3% of sales, in the third quarter of fiscal 2017 compared to \$122.1 million, or 12.8% of sales, in the third quarter of fiscal 2016. The increase in operating income in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016 was primarily the result of higher gross margin associated with higher sales volume (up \$6 million), a more favorable product mix (up \$6 million), and more efficient material usage (up \$6 million), offset in part by restructuring-related charges of \$10.6 million.

Defense segment operating income increased 226.7% to \$62.4 million, or 12.9% of sales, in the third quarter of fiscal 2017 compared to \$19.1 million, or 7.2% of sales, in the third quarter of fiscal 2016. The increase in operating income in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016 was largely due to the impact of higher gross margin associated with higher sales volume (up \$47 million) and lower new product development spending (down \$5 million), offset in part by higher selling, general and administrative costs (up \$5 million), primarily related to incentive compensation on the higher earnings.

Fire & emergency segment operating income increased 56.3% to \$30.8 million, or 10.9% of sales, in the third quarter of fiscal 2017 compared to \$19.7 million, or 7.9% of sales, in the third quarter of fiscal 2016. The increase in operating income in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016 was primarily a result of improved pricing (up \$9 million) and higher gross margin associated with higher sales volume.

Commercial segment operating income decreased 9.2% to \$21.6 million, or 7.3% of sales, in the third quarter of fiscal 2017 compared to \$23.8 million, or 8.3% of sales, in the third quarter of fiscal 2016. The decrease in operating income in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016 was primarily a result of operational inefficiencies associated with changes in production volumes.

Corporate operating costs decreased \$4.8 million to \$33.1 million in the third quarter of fiscal 2017 compared to \$37.9 million in the third quarter of fiscal 2016. The decrease in corporate operating costs in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016 was primarily due to improved operating results related to a corporate-led manufacturing facility, which incurred higher start-up costs during the third quarter of fiscal 2016.

Consolidated selling, general and administrative expenses increased 5.9% to \$163.9 million, or 8.0% of sales, in the third quarter of fiscal 2017 compared to \$154.7 million, or 8.9% of sales, in the third quarter of fiscal 2016. The increase in consolidated selling, general and administrative expenses in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016 was generally a result of higher incentive compensation expense and higher trade show costs.

First Nine Months of Fiscal 2017 Compared to 2016

Consolidated operating income increased 22.3% to \$328.5 million, or 6.8% of sales, in the first nine months of fiscal 2017 compared to \$268.5 million, or 5.9% of sales, in the first nine months of fiscal 2016. The increase in operating income in the first nine months of fiscal 2017 compared to the first nine months of fiscal 2016 was driven by higher

gross margin associated with higher sales, improved performance in the fire & emergency, defense and access equipment segments and lower start-up costs of a corporate-led manufacturing facility, offset in part by \$27.8 million of restructuring-related charges in the access equipment segment and lower performance in the commercial segment.

Access equipment segment operating income decreased 9.9% to \$196.7 million, or 9.0% of sales, in the first nine months of fiscal 2017 compared to \$218.2 million, or 9.8% of sales, in the first nine months of fiscal 2016. The decline in operating income in the first nine months of fiscal 2017 compared to the first nine months of fiscal 2016 was primarily the result of restructuring-related charges of \$27.8 million.

## Table of Contents

Defense segment operating income increased 92.4% to \$134.9 million, or 11.0% of sales, in the first nine months of fiscal 2017 compared to \$70.1 million, or 8.0% of sales, in the first nine months of fiscal 2016. The increase in operating income in the first nine months of fiscal 2017 compared to the first nine months of fiscal 2016 was primarily the result of higher gross margin associated with higher sales volume (up \$72 million), offset in part by higher selling, general and administrative costs (up \$11 million), primarily related to incentive compensation on the higher earnings.

Fire & emergency segment operating income increased 55.7% to \$69.6 million, or 9.2% of sales, in the first nine months of fiscal 2017 compared to \$44.7 million, or 6.4% of sales, in the first nine months of fiscal 2016. The increase in operating income in the first nine months of fiscal 2017 compared to the first nine months of fiscal 2016 was primarily the result of improved pricing.

Commercial segment operating income decreased 35.5% to \$32.2 million, or 4.5% of sales, in the first nine months of fiscal 2017 compared to \$49.9 million, or 6.9% of sales, in the first nine months of fiscal 2016. The decrease in operating income in the first nine months of fiscal 2017 compared to the first nine months of fiscal 2016 was primarily a result of lower gross margin associated with lower sales volume (down \$12 million) and operational inefficiencies associated with changes in production volumes (up \$7 million). Commercial segment results in the first nine months of fiscal 2017 also included \$1.3 million of costs related to an accident at one of its manufacturing facilities.

Corporate operating costs decreased \$9.5 million to \$104.9 million in the first nine months of fiscal 2017 compared to \$114.4 million in the first nine months of fiscal 2016. The decrease in corporate operating costs in the first nine months of fiscal 2017 compared to the first nine months of fiscal 2016 was primarily due to improved operating results related to a corporate-led manufacturing facility which incurred higher start-up costs during the first nine months of fiscal 2016, offset in part by higher incentive compensation expense (up \$6 million) in the first nine months of fiscal 2017.

Consolidated selling, general and administrative expenses increased 8.0% to \$484.7 million, or 10.0% of sales, in the first nine months of fiscal 2017 compared to \$448.7 million, or 9.9% of sales, in the first nine months of fiscal 2016. The increase in consolidated selling, general and administrative expenses in the first nine months of fiscal 2017 compared to the first nine months of fiscal 2016 was generally a result of higher incentive compensation expense, increased salaries and higher trade show costs.

## Analysis of Non-Operating Income Statement Items

### Third Quarter Fiscal 2017 Compared to 2016

Interest expense net of interest income decreased \$1.4 million to \$13.9 million in the third quarter of fiscal 2017 compared to \$15.3 million in the third quarter of fiscal 2016.

Other miscellaneous income of \$0.6 million in the third quarter of fiscal 2017 and \$0.8 million in the third quarter of fiscal 2016 primarily related to net foreign currency transaction gains and losses.

The Company recorded income tax expense of \$70.1 million in the third quarter of fiscal 2017, or 35.3% of pre-tax income, compared to \$48.4 million, or 36.6% of pre-tax income, in the third quarter of fiscal 2016. Results for the third quarter of fiscal 2017 were favorably impacted by discrete tax benefits of \$3.9 million, primarily as a result of a \$2.1 million tax benefit due to a provision-to-return adjustment on the Company's 2016 federal income tax return (110 basis points) and a \$1.4 million tax benefit related to state tax matters (70 basis points). Results for the third quarter of fiscal 2016 were adversely impacted by a year-to-date adjustment to increase tax expense as a result of a higher estimated mix of domestic income versus lower-tax rate foreign income.

Equity in earnings of unconsolidated affiliates of \$0.1 million in the third quarter of fiscal 2017 and \$0.3 million in the third quarter of fiscal 2016 primarily represented the Company's equity interest in a commercial entity in Mexico and a joint venture in Europe.

First Nine Months of Fiscal 2017 Compared to 2016

Interest expense net of interest income decreased \$2.6 million to \$41.9 million in the first nine months of fiscal 2017 compared to \$44.5 million in the first nine months of fiscal 2016.

Table of Contents

Other miscellaneous income of \$3.1 million in the first nine months of fiscal 2017 and other miscellaneous expense of \$0.2 million in the first nine months of fiscal 2016 primarily related to net foreign currency transaction gains and losses.

The Company recorded income tax expense of \$98.9 million in the first nine months of fiscal 2017, or 34.1% of pre-tax income, compared to \$70.4 million, or 31.5% of pre-tax income, in the first nine months of fiscal 2016. Results for the first nine months of fiscal 2017 were favorably impacted by discrete tax benefits of \$8.7 million largely due to net tax benefits related to the release of valuation allowances on a federal capital loss and state net operating losses (110 basis points), tax benefits from stock-based compensation (80 basis points), benefits due to a provision-to-return adjustment on the Company's 2016 federal income tax return (70 basis points) and a \$1.4 million tax benefit related to state tax matters (50 basis points). Results for the first nine months of fiscal 2016 were favorably impacted by discrete tax benefits, including a \$3.5 million benefit due to a provision-to-return adjustment on the Company's 2015 federal income tax return (160 basis points) and a \$2.4 million benefit for the retroactive reinstatement of the U.S. research and development tax credit (110 basis points).

Equity in earnings of unconsolidated affiliates of \$1.3 million in the first nine months of fiscal 2017 and \$1.5 million in the first nine months of fiscal 2016 primarily represented the Company's equity interest in a commercial entity in Mexico and a joint venture in Europe.

#### Liquidity and Capital Resources

The Company generates significant capital resources from operating activities, which is the expected primary source of funding for its operations. Other resources of liquidity are available under the Revolving Credit Facility (as defined in "Liquidity") and available cash and cash equivalents. At June 30, 2017, the Company had cash and cash equivalents of \$373.2 million. In addition to cash and cash equivalents, the Company had \$751.7 million of unused available capacity under the Revolving Credit Facility as of June 30, 2017. Borrowings under the Revolving Credit Facility could, as discussed below, be limited by the financial covenants contained in the Credit Agreement (as defined in "Liquidity"). These sources of liquidity are needed to fund the Company's working capital requirements, debt service requirements, capital expenditures, dividends and share repurchases. As of June 30, 2017, the Company had approximately 7.5 million shares of Common Stock remaining under the repurchase authorization approved by the Company's Board of Directors in August 2015. The Company does not expect to repurchase any shares of Common Stock under this authorization during the remainder of fiscal 2017. In addition, the Company expects to meet its fiscal 2017 U.S. funding needs without repatriating undistributed profits that are indefinitely reinvested outside the United States.

#### Financial Condition at June 30, 2017

The Company's capitalization was as follows (in millions):

	June 30, 2017	September 30, 2016
Cash and cash equivalents	\$373.2	\$321.9
Total debt	830.5	846.2
Total shareholders' equity	2,179.1	1,976.5
Total capitalization (debt plus equity)	3,009.6	2,822.7
Debt to total capitalization	27.6 %	30.0 %

The Company's ratio of debt to total capitalization of 27.6% at June 30, 2017 remained within its targeted range.

Consolidated days sales outstanding (defined as “Trade Receivables” at quarter end divided by “Net Sales” for the most recent quarter multiplied by 90 days) were 49 days at both September 30, 2016 and June 30, 2017. Days sales outstanding for segments other than the defense segment increased slightly from 51 days at September 30, 2016 to 52 days at June 30, 2017. Consolidated inventory turns (defined as “Cost of Sales” on an annualized basis, divided by the average “Inventory” at the past five quarter end periods) increased slightly from 4.1 times at September 30, 2016 to 4.2 times at June 30, 2017.

## Table of Contents

### Cash Flows

#### Operating Cash Flows

Operating activities generated \$123.9 million of cash in the first nine months of fiscal 2017 compared to \$163.5 million in the first nine months of fiscal 2016. The decline in operating cash flow from the first nine months of fiscal 2016 compared to the first nine months of fiscal 2017 was primarily the result of increases in inventories in the access equipment and defense segments. The increases in inventory were generally a result of the seasonal build of inventory in the access equipment segment and the build of inventory in the defense segment in anticipation of M-ATV deliveries under the international contract award received in the second quarter of fiscal 2016.

#### Investing Cash Flows

Investing activities used cash of \$30.6 million in the first nine months of fiscal 2017 compared to \$61.0 million in the first nine months of fiscal 2016. Capital spending, excluding equipment held for rental, of \$45.2 million in the first nine months of fiscal 2017 reflected a decrease of \$17.1 million compared to capital spending in the first nine months of fiscal 2016. In fiscal 2017, the Company expects capital spending to be approximately \$90 million.

#### Financing Cash Flows

Financing activities used cash of \$32.9 million in the first nine months of fiscal 2017 compared to \$105.0 million in the first nine months of fiscal 2016. In the first nine months of fiscal 2016, the Company repurchased shares of its Common Stock at an aggregate cost of \$100.1 million under the repurchase authorization approved by the Company's Board of Directors. The Company does not expect to repurchase any shares of Common Stock under this authorization during fiscal 2017. In addition, the Company also received \$34.2 million of cash from the exercise of stock options during the first nine months of fiscal 2017 as compared to only \$8.8 million in the first nine months of fiscal 2016.

### Liquidity

#### Senior Secured Credit Agreement

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 due in quarterly principal installments of \$5 million with a balloon payment of \$310 million due at maturity in March 2019. In January 2015, the Revolving Credit Facility was increased to an aggregate maximum amount of \$850 million. The Company prepaid all fiscal 2017 mandatory payments on its term loan during the first quarter of fiscal 2017. Refer to Note 7 of the Notes to Condensed Consolidated Financial Statements for additional information regarding the Credit Agreement.

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.



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.

## Table of Contents

### Covenant Compliance

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 1.0.

**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 1.0.

**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 1.0.

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 S&P Global Ratings or Moody's Investor Service. 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 1.0, 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 June 30, 2017 and expects to be able to meet the financial covenants contained in the Credit Agreement over the next twelve months.

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:

- i. 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.

### Senior Notes

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 proceeds of both note issuances were used to repay existing outstanding notes of the Company. 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.

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.

Refer to Note 7 of the Notes to Condensed Consolidated Financial Statements for additional information regarding the Company's outstanding debt as of June 30, 2017.

## Table of Contents

### Contractual Obligations, Commercial Commitments and Off-Balance Sheet Arrangements

The Company's contractual obligations, commercial commitments and off-balance sheet arrangement disclosures in its Annual Report on Form 10-K for the year ended September 30, 2016 have not materially changed since that report was filed.

### Application of Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires the Company to make judgments, assumptions and estimates that affect the amounts reported in the Condensed Consolidated Financial Statements and accompanying notes. The Company's disclosures of critical accounting policies in its Annual Report on Form 10-K for the year ended September 30, 2016 have not materially changed since that report was filed.

### Critical Accounting Estimates

The Company's disclosures of critical accounting estimates in its Annual Report on Form 10-K for the year ended September 30, 2016 have not materially changed since that report was filed.

### New Accounting Standards

Refer to Note 2 of the Notes to Condensed Consolidated Financial Statements for a discussion of the impact on the Company's Condensed Consolidated Financial Statements of new accounting standards.

### Customers and Backlog

Sales to the U.S. government comprised approximately 20% of the Company's net sales in the first nine months of fiscal 2017. No other single customer accounted for more than 10% of the Company's net sales for this period. A significant portion of the Company's net sales are derived from customer orders prior to commencing production.

The Company's backlog at June 30, 2017 decreased 1.8% to \$3.66 billion compared to \$3.72 billion at June 30, 2016 as a result of a decrease in defense segment backlog. All non-defense segments reported an increase in backlog at June 30, 2017 as compared to June 30, 2016. Access equipment segment backlog increased 39.6% to \$523.0 million at June 30, 2017 compared to \$374.6 million at June 30, 2016 primarily due to improved market conditions in North America. Defense segment backlog decreased 16.8% to \$1.90 billion at June 30, 2017 compared to \$2.29 billion at June 30, 2016 primarily due to performance on the large international contract for the delivery of M-ATVs. Fire & emergency segment backlog increased 4.8% to \$894.1 million at June 30, 2017 compared to \$852.8 million at June 30, 2016. The fire & emergency segment experienced strong orders in the second quarter of fiscal 2017 driven by the timing of the annual price increase implemented in the quarter. Commercial segment backlog increased 61.6% to \$333.5 million at June 30, 2017 compared to \$206.3 million at June 30, 2016. Unit backlog for concrete mixers and refuse collection vehicles as of June 30, 2017 was up 63.6% and 49.9%, respectively, compared to June 30, 2016. The increase in commercial segment backlog can be attributed to both production inefficiencies that prevented timely sales and strong order patterns. The commercial segment experienced a rebound in orders in the second and third quarters of fiscal 2017 as a result of atypical order patterns that resulted in customers ordering later in the fiscal year.

Reported backlog excludes purchase options and announced orders for which definitive contracts have not been executed. Backlog information and comparisons thereof as of different dates may not be accurate indicators of future sales or the ratio of the Company's future sales to the U.S. government versus its sales to other customers.

Approximately 56% of the Company's June 30, 2017 backlog is not expected to be filled in fiscal 2017.

#### Non-GAAP Financial Measures

The Company is forecasting operating income and earnings per share excluding items that affect comparability. When the Company forecasts operating income and earnings per share, excluding items, these are considered non-GAAP financial measures. The Company believes excluding the impact of these items is useful to investors to allow a more accurate comparison of the Company's operating performance to prior year results. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, the Company's results prepared in accordance with GAAP.

Table of Contents

The table below presents a reconciliation of the Company's presented non-GAAP measures to the most directly comparable GAAP measures (in millions, except per share amounts):

	Fiscal 2017 Expectations			
	Low		High	
Adjusted access equipment segment operating income margin (non-GAAP)	9.75	%	10.00	%
Restructuring-related costs	(1.40)	)%	(1.40)	)%
Access equipment segment operating income margin (GAAP)	8.35	%	8.60	%
Adjusted consolidated operating income (non-GAAP)	\$480		\$490	
Restructuring-related costs	(41)	)	(41)	)
Consolidated operating income (GAAP)	\$439		\$449	
Adjusted effective income tax rate (non-GAAP)	32.5	%	32.5	%
Impact of restructuring-related costs on the effective income tax rate	2.0	%	2.0	%
Effective income tax rate (GAAP)	34.5	%	34.5	%
Adjusted earnings per share-diluted (non-GAAP)	\$3.80		\$3.90	
Restructuring-related costs, net of tax	(0.47)	)	(0.47)	)
Earnings per share-diluted (GAAP)	\$3.33		\$3.43	

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's quantitative and qualitative disclosures about market risk for changes in interest rates and commodity risk, which are incorporated by reference to Item 7A of the Company's Annual Report on Form 10-K for the year ended September 30, 2016, have not materially changed since that report was filed.

### ITEM 4. CONTROLS AND PROCEDURES

**Evaluation of Disclosure Controls and Procedures.** In accordance with Rule 13a-15(b) of the Exchange Act, the Company's management evaluated, with the participation of the Company's President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the quarter ended June 30, 2017. Based upon their evaluation of these disclosure controls and procedures, the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the quarter ended June 30, 2017 to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange Commission rules and forms, and to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting.** There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



Table of Contents

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

The Company's financial position, results of operations and cash flows are subject to various risks, many of which are not exclusively within the Company's control, which may cause actual performance to differ materially from historical or projected future performance. In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Item 1A. of our Annual Report on Form 10-K for the year ended September 30, 2016, which have not materially changed other than as reflected below.

We expect to incur costs and charges as a result of restructuring of facilities or operations that we expect will reduce on-going costs. These actions may be disruptive to our business and may not result in anticipated cost savings.

Periodically we restructure facilities and operations in an effort to make our business more efficient. During the fourth quarter of fiscal 2016 we announced our plan to outsource aftermarket parts distribution in the access equipment segment to a third party logistics company. In January 2017, we announced plans to close our access equipment manufacturing plant and pre-delivery inspection facilities in Belgium, the streamlining of telehandler product offerings to a reduced range in Europe, the transfer of remaining European telehandler manufacturing to our facility in Romania and a reduction in engineering staff supporting European telehandlers, including the closure of our UK-based engineering facility. The announced plans also included the move of North American telehandler production from Ohio to facilities in Pennsylvania. We expect implementation costs for these actions to be between \$45 million and \$50 million, pre-tax, including approximately \$10 million of non-cash charges. We recognized \$27.8 million of restructuring-related costs in the second and third quarters of fiscal 2017 and expect to recognize the majority of the remaining costs to implement these actions in the fourth quarter of fiscal 2017. In the future, we may incur additional costs, asset impairments and restructuring charges in connection with such consolidations, workforce reductions and other cost reduction measures that have adversely affected, and to the extent incurred in the future would adversely affect, our future earnings and cash flows. Such actions may be disruptive to our business. This may result in production inefficiencies, product quality issues, late product deliveries or lost orders as we begin production at consolidated facilities or outsource activities to third parties, which would adversely impact our sales levels, operating results and operating margins. Furthermore, we may not realize the cost savings that we expect to realize as a result of such actions.

Changes in the tax regimes and related government policies and regulations in the countries in which we operate could adversely affect our results and our effective tax rate.

As a multinational corporation, we are subject to various taxes in both U.S. and non-U.S. jurisdictions. Due to economic and political conditions, tax laws, regulations and rates in these various jurisdictions may be subject to significant change. Our future effective income tax rate could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets or changes in tax laws or their interpretation. Recent developments, including potential U.S. tax reform discussions, the European Commission's investigations of illegal state aid as well as the Organisation for Economic Co-operation and Development project on Base Erosion and Profit Shifting may result in changes to long-standing tax principles, which could adversely affect our effective tax rate or result in higher cash tax liabilities. Increases in our effective tax rate or tax liabilities could have a material adverse effect on our financial condition, profitability and/or cash flows.





## Table of Contents

Our financial statements are subject to changes in accounting standards that could adversely impact our profitability or financial position.

Our financial statements are subject to the application of generally accepted accounting principles in the United States of America, which are periodically revised and/or expanded. Accordingly, from time to time, we must adopt new or revised accounting standards that recognized authoritative bodies, including the Financial Accounting Standards Board, have issued. Recently, accounting standard setters issued new guidance that further interprets or seeks to revise accounting pronouncements related to revenue recognition and lease accounting and issued new standards expanding disclosures. We discuss the impact of accounting pronouncements that have been issued but not yet implemented in our annual and quarterly reports on Form 10-K and Form 10-Q. We do not provide an assessment of proposed standards, as such proposals are subject to change through the exposure process and, therefore, we cannot meaningfully assess their effects on our financial statements. It is possible that accounting standards we must adopt in the future could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse effect on our reported results of operations and/or financial condition.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

### Common Stock Repurchases

On August 31, 2015, the Company's Board of Directors increased the Company's authorization to repurchase shares of the Company's Common Stock by 10,000,000 shares, taking the authorized number of shares of Common Stock available for repurchase to 10,299,198 as of that date. As of June 30, 2017, the Company had repurchased 2,786,624 shares of Common Stock under this authorization. As a result, 7,512,574 shares of Common Stock remained available for repurchase under the repurchase authorization at June 30, 2017. The Company can use this authorization at any time as there is no expiration date associated with the authorization. From time to time, the Company may enter into a Rule 10b5-1 trading plan for the purpose of repurchasing shares under this authorization. The Company did not repurchase any shares of the Company's Common Stock under this authorization during the third quarter of fiscal 2017.

The Company intends to declare and pay dividends on a regular basis. However, the payment of future dividends is at the discretion of the Company's Board of Directors and will depend upon, among other things, future earnings and cash flows, capital requirements, the Company's general financial condition, general business conditions and other factors. In addition, the Company's credit agreement limits the amount of dividends and other distributions, including repurchases of shares of Common Stock, the Company may pay on or after March 3, 2010 to (i) 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; plus (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. The Company's indentures for its senior notes due 2022 and senior notes due 2025 also contain restrictive covenants that may limit the Company's ability to repurchase shares of its Common Stock or make dividends and other types of distributions to shareholders.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.



Table of Contents

ITEM 6. EXHIBITS

Exhibit No. Description

- 31.1 Certification by the President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act, dated August 2, 2017.
- 31.2 Certification by the Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act, dated August 2, 2017.
- 32.1 Written Statement of the President and Chief Executive Officer, pursuant to 18 U.S.C. §1350, dated August 2, 2017.
- 32.2 Written Statement of the Executive Vice President and Chief Financial Officer, pursuant to 18 U.S.C. §1350, dated August 2, 2017.

101 The following materials from Oshkosh Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 are filed herewith, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Shareholders' Equity, (v) the Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OSHKOSH CORPORATION

August 2, 2017 By/s/ Wilson R. Jones  
Wilson R. Jones, President and  
Chief Executive Officer

August 2, 2017 By/s/ David M. Sagehorn  
David M. Sagehorn, Executive  
Vice President and Chief  
Financial Officer  
(Principal Financial Officer)

August 2, 2017 By/s/ James C. Freeders  
James C. Freeders, Senior Vice  
President Finance and  
Controller  
(Principal Accounting Officer)

Table of Contents

EXHIBIT INDEX

Exhibit No. Description

- 31.1 Certification by the President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act, dated August 2, 2017.
- 31.2 Certification by the Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act, dated August 2, 2017.
- 32.1 Written Statement of the President and Chief Executive Officer, pursuant to 18 U.S.C. §1350, dated August 2, 2017.
- 32.2 Written Statement of the Executive Vice President and Chief Financial Officer, pursuant to 18 U.S.C. §1350, dated August 2, 2017.

101 The following materials from Oshkosh Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 are filed herewith, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Shareholders' Equity, (v) the Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements.