

OSHKOSH CORP
Form 10-Q
January 26, 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 December 31, 2016

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes

No

As of January 19, 2017, 74,611,447 shares of the registrant's Common Stock were outstanding.

Table of Contents

OSHKOSH CORPORATION
FORM 10-Q INDEX
FOR THE QUARTER ENDED DECEMBER 31, 2016

	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 Ended December 31, 2016 and 2015</u>	<u>1</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the</u> <u>Three Months Ended December 31, 2016 and 2015</u>	<u>2</u>
<u>Condensed Consolidated Balance Sheets at</u> <u>December 31, 2016 and September 30, 2016</u>	<u>3</u>
<u>Condensed Consolidated Statements of Shareholders' Equity for the</u> <u>Three Months Ended December 31, 2016 and 2015</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows for the</u> <u>Three Months Ended December 31, 2016 and 2015</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>30</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>40</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>40</u>
<u>PART II - OTHER INFORMATION</u>	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>41</u>
<u>ITEM</u> <u>1A. RISK FACTORS</u>	<u>41</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>42</u>
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	<u>42</u>
<u>ITEM 5. OTHER INFORMATION</u>	<u>42</u>
<u>ITEM 6. EXHIBITS</u>	<u>43</u>
<u>SIGNATURES</u>	<u>44</u>

EXHIBIT INDEX

45

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 December 31,			
	2016		2015	
Net sales	\$	1,211.4	\$	1,252.0
Cost of sales		1,011.7		1,069.2
Gross income		199.7		182.8
Operating expenses:				
Selling, general and administrative		151.0		139.3
Amortization of purchased intangibles		12.5		13.2
Total operating expenses		163.5		152.5
Operating income		36.2		30.3
Other income (expense):				
Interest expense	(14.7)	(14.6)
Interest income	0.8		0.5	
Miscellaneous, net	1.3		—	
Income before income taxes and equity in earnings of unconsolidated affiliates		23.6		16.2
Provision for income taxes		5.2		1.7
Income before equity in earnings of unconsolidated affiliates		18.4		14.5
Equity in earnings of unconsolidated affiliates		0.8		0.1
Net income	\$	19.2	\$	14.6
Earnings per share attributable to common shareholders:				
Basic	\$	0.26	\$	0.20

Diluted

0.26

0.19

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 December 31,	
	2016	2015
Net income	\$19.2	\$14.6
Other comprehensive income (loss), net of tax:		
Employee pension and postretirement benefits	0.8	0.5
Currency translation adjustments	(30.4)	(11.2)
Change in fair value of derivative instruments	—	0.2
Total other comprehensive income (loss), net of tax	(29.6)	(10.5)
Comprehensive income (loss)	\$(10.4)	\$4.1

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)

	December 31, 2016	September 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$369.6	\$ 321.9
Receivables, net	699.0	1,021.9
Inventories, net	1,208.7	979.8
Other current assets	118.7	93.9
Total current assets	2,396.0	2,417.5
Property, plant and equipment, net	446.9	452.1
Goodwill	991.0	1,003.5
Purchased intangible assets, net	540.7	553.5
Other long-term assets	116.4	87.2
Total assets	\$4,491.0	\$ 4,513.8
Liabilities and Shareholders' Equity		
Current liabilities:		
Revolving credit facilities and current maturities of long-term debt	\$5.0	\$ 20.0
Accounts payable	477.7	466.1
Customer advances	502.8	471.8
Payroll-related obligations	109.0	147.9
Other current liabilities	243.5	261.8
Total current liabilities	1,338.0	1,367.6
Long-term debt, less current maturities	821.6	826.2
Deferred income taxes, net	20.3	11.3
Other long-term liabilities	330.8	332.2
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	790.1	782.3
Retained earnings	2,180.6	2,177.0
Accumulated other comprehensive loss	(204.6)	(175.0)
Common Stock in treasury, at cost (17,532,618 and 18,175,669 shares, respectively)	(786.7)	(808.7)
Total shareholders' equity	1,980.3	1,976.5
Total liabilities and shareholders' equity	\$4,491.0	\$ 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	—	—	14.6	—	—	14.6
Employee pension and postretirement benefits, net of tax of \$0.3	—	—	—	0.5	—	0.5
Currency translation adjustments	—	—	—	(11.2)	—	(11.2)
Cash dividends (\$0.19 per share)	—	—	(14.1)	—	—	(14.1)
Repurchases of Common Stock	—	—	—	—	(100.1)	(100.1)
Exercise of stock options	—	—	—	—	1.4	1.4
Stock-based compensation expense	—	5.3	—	—	—	5.3
Excess tax benefit from stock-based compensation	—	0.1	—	—	—	0.1
Payment of earned performance shares	—	(2.6)	—	—	2.6	—
Shares tendered for taxes on stock-based compensation	—	—	—	—	(1.4)	(1.4)
Derivative instruments	—	—	—	0.2	—	0.2
Balance at December 31, 2015	\$ 0.9	\$ 774.3	\$ 2,017.0	\$ (154.9)	\$ (830.9)	\$ 1,806.4
	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	—	—	19.2	—	—	19.2
Employee pension and postretirement benefits, net of tax of \$0.5	—	—	—	0.8	—	0.8
Currency translation adjustments	—	—	—	(30.4)	—	(30.4)
Cash dividends (\$0.21 per share)	—	—	(15.6)	—	—	(15.6)
Exercise of stock options	—	5.7	—	—	20.5	26.2
Stock-based compensation expense	—	6.5	—	—	—	6.5
Payment of earned performance shares	—	(1.3)	—	—	1.3	—
Shares tendered for taxes on stock-based compensation	—	—	—	—	(3.0)	(3.0)
Other	—	(3.1)	—	—	3.2	0.1
Balance at December 31, 2016	\$ 0.9	\$ 790.1	\$ 2,180.6	\$ (204.6)	\$ (786.7)	\$ 1,980.3

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)

	Three Months Ended December 31,	
	2016	2015
Operating activities:		
Net income	\$19.2	\$14.6
Depreciation and amortization	32.1	31.0
Stock-based compensation expense	6.5	5.3
Deferred income taxes	8.4	(1.6)
Gain on sale of assets	(0.3)	(5.7)
Foreign currency transaction (gains) losses	0.4	(4.1)
Other non-cash adjustments	0.8	0.9
Changes in operating assets and liabilities	16.7	32.8
Net cash provided by operating activities	83.8	73.2
Investing activities:		
Additions to property, plant and equipment	(14.2)	(21.3)
Additions to equipment held for rental	(12.9)	(15.0)
Proceeds from sale of equipment held for rental	5.3	18.7
Other investing activities	(0.2)	(0.6)
Net cash used by investing activities	(22.0)	(18.2)
Financing activities:		
Proceeds from issuance of debt (original maturities greater than three months)	—	153.6
Repayments of debt (original maturities greater than three months)	(20.0)	(135.0)
Net increase in short-term debt	—	28.2
Repurchases of Common Stock	(3.0)	(101.5)
Dividends paid	(15.6)	(14.1)
Proceeds from exercise of stock options	26.2	1.4
Excess tax benefit from stock-based compensation	—	0.8
Net cash used by financing activities	(12.4)	(66.6)
Effect of exchange rate changes on cash	(1.7)	2.4
Increase (decrease) in cash and cash equivalents	47.7	(9.2)
Cash and cash equivalents at beginning of period	321.9	42.9
Cash and cash equivalents at end of period	\$369.6	\$33.7
Supplemental disclosures:		
Cash paid for interest	\$6.6	\$6.0
Cash paid for income taxes	22.5	26.5

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.

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 clarifies 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 standard becomes effective for fiscal years and interim periods beginning after December 15, 2017, with early adoption permitted one year earlier. The Company is currently evaluating the impact of ASU 2014-09 on the Company’s financial statements and has not yet determined its method of adoption.

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

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

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 is part of the FASB’s initiative to simplify accounting

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

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. 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.

3. Receivables

Receivables consisted of the following (in millions):

	December 31, 2016	September 30, 2016
U.S. government:		
Amounts billed	\$ 50.8	\$ 49.0
Costs and profits not billed	65.5	55.3
	116.3	104.3
Other trade receivables	545.9	881.8
Finance receivables	46.3	7.6
Notes receivable	35.1	36.1
Other receivables	33.0	38.6
	776.6	1,068.4
Less allowance for doubtful accounts	(20.2)	(21.2)
	\$ 756.4	\$ 1,047.2

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

	December 31, 2016	September 30, 2016
Current receivables	\$ 699.0	\$ 1,021.9
Long-term receivables (included in "Other long-term assets")	\$ 57.4	25.3
	\$ 756.4	\$ 1,047.2

Table of Contents

OSHKOSH CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	Finance Receivables		Notes Receivable	
	December 31,	September 30,	December 31,	September 30,
	2016	2016	2016	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	2.6	2.9	0.2	—
Receivables on nonaccrual status	4.4	4.5	23.4	25.1
Receivables past due 90 days or more and still accruing	—	—	—	—
Receivables subject to general reserves	41.9	3.1	—	—
Allowance for doubtful accounts	(0.7)	(0.1)	—	—
Receivables subject to specific reserves	4.4	4.5	35.1	36.1
Allowance for doubtful accounts	(1.4)	(0.9)	(11.6)	(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 December 31, 2016, approximately 87% of the notes receivable balance outstanding was due from four parties. The Company routinely evaluates the creditworthiness of its customers and establishes reserves where the Company believes collectibility is no longer reasonably assured. Certain notes receivable are collateralized by a security interest in the underlying assets and/or other assets owned by the debtor. The Company may incur losses in excess of recorded allowances if the financial condition of its customers were to deteriorate or the full amount of any anticipated proceeds from the sale of the collateral supporting its customers' financial obligations is not realized.

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

Table of Contents

OSHKOSH CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 December 31, 2016, restructured finance and notes receivables were \$3.7 million and \$11.6 million, respectively. Losses on troubled debt restructurings were not significant during the three months ended December 31, 2016 and 2015, respectively.

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

	Three Months Ended December 31, 2016			
	Finance Receivables	Notes Receivables	Trade and Other Receivables	Total
Allowance for doubtful accounts at beginning of period	\$ 1.0	\$ 13.0	\$ 7.2	\$ 21.2
Provision for doubtful accounts, net of recoveries	1.1	(0.6)	(0.5)	—
Charge-off of accounts	—	(0.1)	(0.2)	(0.3)
Foreign currency translation	—	(0.7)	—	(0.7)
Allowance for doubtful accounts at end of period	\$ 2.1	\$ 11.6	\$ 6.5	\$ 20.2

	Three Months Ended December 31, 2015			
	Finance Receivables	Notes Receivables	Trade and Other Receivables	Total
Allowance for doubtful accounts at beginning of period	\$ 0.1	\$ 12.7	\$ 7.5	\$ 20.3
Provision for doubtful accounts, net of recoveries	—	0.2	(1.1)	(0.9)
Charge-off of accounts	—	—	(0.3)	(0.3)
Foreign currency translation	—	(0.3)	—	(0.3)
Allowance for doubtful accounts at end of period	\$ 0.1	\$ 12.6	\$ 6.1	\$ 18.8

4. Inventories

Inventories consisted of the following (in millions):

	December 31, 2016	September 30, 2016
Raw materials	\$ 559.2	\$ 481.2
Partially finished products	360.8	307.8
Finished products	379.4	286.9
Inventories at FIFO cost	1,299.4	1,075.9
Less: Progress/performance-based payments on U.S. government contracts	(10.6)	(17.8)
Excess of FIFO cost over LIFO cost	(80.1)	(78.3)
	\$ 1,208.7	\$ 979.8

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

Table of Contents

OSHKOSH CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

5. Property, Plant and Equipment

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

	December 31, 2016	September 30, 2016
Land and land improvements	\$ 56.6	\$ 56.8
Buildings	283.1	283.4
Machinery and equipment	596.9	597.3
Software and related costs	148.9	147.4
Equipment on operating lease to others	33.5	25.7
	1,119.0	1,110.6
Less accumulated depreciation	(672.1)	(658.5)
	\$ 446.9	\$ 452.1

Depreciation expense was \$18.9 million and \$17.1 million for the three months ended December 31, 2016 and 2015, 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 December 31, 2016 and September 30, 2016 was \$26.3 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 three months ended December 31, 2016 (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	(12.5)	—	—	(12.5)
Net goodwill at December 31, 2016	\$ 864.1	\$ 106.1	\$ 20.8	\$991.0

Table of Contents

OSHKOSH CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	December 31, 2016			September 30, 2016		
	Gross	Accumulated Impairment	Net	Gross	Accumulated Impairment	Net
Access equipment	\$1,796.2	\$ (932.1)	\$864.1	\$1,808.7	\$ (932.1)	\$876.6
Fire & emergency	108.1	(2.0)	106.1	108.1	(2.0)	106.1
Commercial	196.7	(175.9)	20.8	196.7	(175.9)	20.8
	\$2,101.0	\$ (1,110.0)	\$991.0	\$2,113.5	\$ (1,110.0)	\$1,003.5

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

	December 31, 2016		
	Weighted- Average Life (in years)	Gross	Accumulated Amortization Net
Amortizable intangible assets:			
Distribution network	39.1	\$55.4	\$ (28.4) \$27.0
Non-compete	10.5	56.4	(56.4)