NUVEEN ARIZONA PREMIUM INCOME MUNICIPAL FUND INC
Form N-CSR
October 05, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-07278

Nuveen Arizona Premium Income Municipal Fund, Inc.
(Exact name of registrant as specified in charter)

Nuveen Investments
333 West Wacker Drive
Chicago, IL 60606
(Address of principal executive offices) (Zip code)

Kevin J. McCarthy
Nuveen Investments
333 West Wacker Drive
Chicago, IL 60606
(Name and address of agent for service)

Registrant's telephone number, including area code: (312) 917-7700

Date of fiscal year end: July 31

Date of reporting period: July 31, 2007

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

ITEM 1. REPORTS TO STOCKHOLDERS.

Annual Report
July 31, 2007

Nuveen Investments
Municipal Closed-End Funds

Photo of: Small child

NUVEEN ARIZONA
PREMIUM INCOME
MUNICIPAL FUND, INC.
NAZ

NUVEEN ARIZONA
DIVIDEND ADVANTAGE
MUNICIPAL FUND
NFZ

NUVEEN ARIZONA
DIVIDEND ADVANTAGE
MUNICIPAL FUND 2
NKR

NUVEEN ARIZONA
DIVIDEND ADVANTAGE
MUNICIPAL FUND 3
NXE

NUVEEN TEXAS
QUALITY INCOME
MUNICIPAL FUND
NTX

It's not what you earn, it's what you keep.(R)

Logo: NUVEEN Investments

Photo of: Man working on computer

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makes things
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Chairman's
LETTER TO SHAREHOLDERS

Photo of: Timothy R. Schwertfeger

Timothy R. Schwertfeger

Chairman of the Board

Once again, I am pleased to report that over the twelve-month period covered by this report your Fund continued to provide you with monthly tax-free income. For more details about the management strategy and performance of your Fund, please read the Portfolio Managers' Comments, the Dividend and Share Price Information, and the Performance Overview sections of this report.

I also wanted to take this opportunity to report some important news about Nuveen Investments. We have accepted a "buyout" offer from Madison Dearborn Partners, LLC. While this will affect the corporate structure of Nuveen Investments, it will have no impact on the investment objectives of the Funds, portfolio management strategies or their dividend policies. We will provide you with additional information about this transaction as more details become available.

With the recent volatility in the stock market, many have begun to wonder which way the market is headed, and whether they need to adjust their holdings of investments. No one knows what the future will bring, which is why we think a well-balanced portfolio that is structured and carefully monitored with the help of an investment professional is an important component in achieving your long-term financial goals. A well-diversified portfolio may actually help to reduce your overall investment risk, and we believe that investments like your Nuveen Investments Fund can be important building blocks in a portfolio crafted to perform well through a variety of market conditions.

We also are pleased to be able to offer you a choice concerning how you receive your shareholder reports and other Fund information. As an alternative to mailed copies, you can sign up to receive future Fund reports and other Fund information by e-mail and the internet. The inside front cover of this report contains information on how you can sign up.

We are grateful that you have chosen us as a partner as you pursue your financial goals and we look forward to continuing to earn your trust in the months and years ahead. At Nuveen Investments, our mission continues to be to assist you and your financial advisor by offering investment services and products that can help you to secure your financial objectives.

Sincerely,

/s/ Timothy R. Schwertfeger

Timothy R. Schwertfeger
Chairman of the Board
September 14, 2007

Portfolio Managers' COMMENTS

Nuveen Investments Municipal Closed-End Funds

NAZ, NFZ, NKR, NXE, NTX

Portfolio managers Scott Romans and Daniel Close review national and state economic and municipal market environments, key investment strategies and the annual performance of these five Nuveen Funds. Scott, who has been with Nuveen since 2000, has managed the Arizona Funds since 2003. Dan, who also joined Nuveen in 2000, assumed portfolio management responsibility for NTX in March 2007.

WHAT FACTORS AFFECTED THE U.S. ECONOMY AND MUNICIPAL MARKET DURING THE ANNUAL REPORTING PERIOD ENDED JULY 31, 2007?

Between August 1, 2006 and July 31, 2007, we saw interest rates at the short end of the municipal bond yield curve hold relatively steady, while longer-term rates declined during much of the period. For the entire 12-month period, the yield on the benchmark 10-year U.S. Treasury note dropped more than 20 basis points to end July 2007 at 4.77%. In the municipal market, the yield on the Bond Buyer 25 Revenue Bond Index, a widely followed measure of longer-term municipal market rates, fell to 4.63% at the end of July 2007, a decline of 50 basis points from the end of July 2006. Over the reporting period as a whole, the municipal bond yield curve continued to flatten as shorter-term rates remained steady and longer-term rates fell. In this environment, longer duration[1] bonds generally outperformed those with shorter durations.

July 2006 marked the end of the Federal Reserve's unprecedented series of 17 consecutive 0.25% rate hikes that brought the fed funds rate to 5.25% over a two-year span. Although many market observers expected the Fed to act on rates in early 2007, the Fed stayed on the sidelines throughout this reporting period, leaving monetary policy unchanged as it kept close tabs on the pace of economic growth, a slumping housing market, and inflationary pressures, including higher energy prices. Through much of this period, the U.S. gross domestic product (GDP), a closely watched measure of economic growth, operated at below-trend levels, expanding at a rate of 1.1% in the third quarter of 2006, 2.1% in the fourth quarter of 2006, and 0.6% in the first quarter of 2007, the weakest reading since 2002 (all GDP numbers annualized). However, in the second quarter of 2007, increases in government and business spending and exports helped GDP growth rebound sharply to 4.0%, overcoming the 12% decline in residential investment and a noticeable deceleration in consumer spending. While the Consumer Price Index registered a 2.4% year-over-year gain as of July 2007, the increase in this inflation gauge for the first seven months of 2007 was 4.5%, driven largely by gains in energy and food prices. By comparison, the core CPI (which excludes food and energy prices) rose 2.3% between January and July 2007.

1 Duration is a measure of a bond's price sensitivity as interest rates change, with longer duration bonds displaying more sensitivity to these changes than

bonds with shorter durations.

Over the 12 months ended July 2007, municipal bond issuance nationwide totaled $439.6 billion, up more than 22% from the previous 12 months. This total reflected increased supply during the first seven months of 2007, when $261.3 billion in new securities came to market, up 26% over the same period in 2006. A major factor in 2007 volume was the 59% increase in advance refundings,2 driven by attractive borrowing rates for issuers during the first half of the year. The strength and diversity of demand for municipal bonds were as important as the increase in supply, as the surge in issuance was easily absorbed by a broad-based universe of buyers, including retail investors, institutional investors such as hedge funds and arbitragers, and overseas investors.

HOW WERE THE ECONOMIC AND MARKET ENVIRONMENTS IN ARIZONA AND TEXAS DURING THIS PERIOD?

In terms of gross domestic product by state, Arizona had the third fastest growing economy in the nation in 2006, with growth of 6.8%, twice the national average of 3.4%. During this period, the government sector as well as manufacturing, finance, and retail trade were among the main economic drivers for the state. Real estate and construction also played major roles, although weakness in the housing market could slow development, especially around Phoenix, the hub of Arizona's growth. However, consumer spending remained strong, as did employment growth. As of July 2007, Arizona's jobless rate was 3.7%, down from 4.1% in July 2006. With a year-round climate that both retirees and younger workers find attractive, Arizona's population trends continued to be strong, with growth of more than 20% over the past six years, ranking the state second only to Nevada in rate of population growth. Reflecting this growth and the state's expanding infrastructure needs, Arizona's $10.6 billion fiscal 2008 budget called for an increase of almost 9% over 2007's budget. As of July 2007, Moody's issuer rating for Arizona was Aa3, while Standard & Poor's reconfirmed its rating of AA with a stable outlook in June 2007. For the 12 months ended July 31, 2007, municipal issuance in Arizona totaled $7.6 billion, an increase of 6% over the previous 12 months. During the first seven months of 2007, Arizona issuance rose sharply to $5.35 billion, up 64% from that of January-July 2006. According to Moody's, Arizona's debt levels were moderate in relation to the state's economic base, with both tax-supported debt per capita and debt as a percentage of personal income ranking below national medians.

With a 4.3% increase in GDP by state, Texas ranked as the 10th fastest growing state economy in the nation in 2006. Although the Texas economy remained resource-based, industries in the state continued to be well diversified, with contributions from agriculture and technology as well as from services and transportation spurred by NAFTA and its impact on cross-border trade. High crude oil prices resulted in increased employment as well as improved income. Over the past 12 months, the unemployment rate in Texas fell from 4.9% in July 2006 to 4.4% in July 2007. Population trends in the state also remained positive, as growth of almost 13% over the past six years (compared with the national average of 6.4%) placed Texas among the top seven states in population growth. Educational funding accounted for approximately 60% of

2 Advance refundings, also known as pre-refundings or refinancings, occur when an issuer sells new bonds and uses the proceeds to fund principal and interest payments of older existing bonds. This process often results in lower borrowing costs for bond issuers.

the $71.4 billion Texas state budget for fiscal 2008, reflecting the state's commitment to education as well as continuing growth in the school-age population. As of July 31, 2007, Moody's, S&P, and Fitch maintained their ratings on Texas-backed debt at Aa1, AA, and AA+, respectively, with stable outlooks. For the 12 months ended July 31, 2007, municipal issuance in Texas reached $46.1 billion, an increase of 66% over the previous 12 months. Issuance during the first seven months of 2007 was up 47% from the same period in 2006, to $27.2 billion, making Texas the second largest state issuer in the nation (behind California) for both periods. According to Moody's, Texas ranked 41st among the 50 states in terms of tax-supported debt per capita, and the state's debt as a percentage of personal income ratio was 1.3%, compared with the national median of 2.4%.

WHAT KEY STRATEGIES WERE USED TO MANAGE THE ARIZONA AND TEXAS FUNDS DURING THIS REPORTING PERIOD?

In the municipal bond interest rate environment of the past 12 months, where the flattening yield curve remained a dominant market factor, we continued to emphasize a disciplined approach to duration management and yield curve positioning. In all five of these Funds, our duration management strategies during this period included the use of inverse floating rate trusts,3 a type of derivative financial instrument. The inverse floaters had the dual benefit of bringing the Funds' durations closer to our preferred strategic target and increasing their distributable income.

As discussed in past shareholder reports, we have also used Treasury futures contracts and forward interest rate swaps (additional types of derivative instruments) as duration management tools when we believed this supported our overall investment performance strategies. The goal of this strategy is to help us manage net asset value (NAV) volatility without having a negative impact on the Funds' income streams or common share dividends over the short term. During this reporting period, we used swaps in NXE and futures contracts in NFZ. As of July 31, 2007, the swaps in NXE had been removed, while the futures contracts remained in place in NFZ.

During the first part of this reporting period, NTX also added bonds that could help to manage duration and increase the Fund's income-generating potential, including zero coupon bonds. As progress was made toward the Fund's duration goal, our purchases in NTX during the second part of this period focused mainly on attractively priced bonds maturing in 20 to 25 years, while the Arizona Funds emphasized bonds maturing in 20 to 30 years and longer throughout this period. In Arizona, however, our purchase decisions were generally more heavily influenced by credit ratings and sectors than by maturity.

3 An inverse floating rate trust is a financial instrument designed to pay long-term tax-exempt interest at a rate that varies inversely with a short-term tax-exempt interest rate index. For the Nuveen Funds, the index typically used is the Securities Industry and Financial Markets (SIFM) Municipal Swap Index (previously referred to as the Bond Market Association Index or BMA). Inverse floaters, including those inverse floating rate securities in which the Funds invested during the 12-month period, are further defined within the "Notes to Financial Statements" and "Glossary of Terms Used in This Report" sections of this shareholder report.

We also continued to emphasize individual credit selection. As previously mentioned, both Arizona and Texas saw increased municipal issuance during this period, and steady new issuance as well as a number of advance refundings and debt restructurings provided us with a greater variety of bonds and sectors from which to choose. Since Arizona and Texas are high-quality states, much of the new supply was highly rated and/or insured. However, we also found opportunities to diversify our exposure to lower credit quality bonds by incrementally adding credits that we considered attractive based on their strong performance and the support they could provide for the Funds' income streams.

This was particularly true in Arizona, where rapid population growth and expanding infrastructure needs resulted in a number of value opportunities in the lower-rated and non-rated sectors. During this period, we added new positions in non-rated community facilities district bonds to NFZ, NKR, and NXE. The relative newness of this type of credit in the Arizona market, plus the state's continued growth, made these bonds attractive value prospects. Also during this period, a number of noninsured, lower-rated hospital offerings came to market at very attractive prices. We found these opportunities attractive based not only on their price, but also on their performance potential and the support they could provide for the Funds' income streams. Apart from credit quality, we also purchased higher-rated single family housing bonds as a good way to add income to all of the Arizona Funds.

In NTX during this period, we added to the Fund's positions in tax-supported bonds (i.e., general obligation, revenue, and appropriation bonds), lower-rated health care bonds (both hospital and long-term/continuing care facility issues), and insured education bonds. NTX also sold a GNMA collateralized multi-family housing project issue maturing in 2035 that was priced at a premium to par because we were of the opinion that declining underlying project financials may cause the issue to be called at par.

To generate cash for purchases and to help maintain the Funds' durations within our preferred strategic range, we selectively sold some of the Funds' holdings with shorter durations, including pre-refunded bonds and short-dated paper. In the Arizona Funds, we also found some opportunities to sell a few of our insured holdings that were purchased when yields were lower and replace them with similar, newer credits that yielded comparatively more. This process allowed us to maintain the Funds' current portfolio characteristics while strengthening their future income streams.

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HOW DID THE FUNDS PERFORM?

Individual results for these Arizona and Texas Funds, as well as relevant index and peer group information, are presented in the accompanying table.

Total Returns on Net Asset Value*
For periods ended 7/31/07

	1-Year	5-Year	10-Year
Arizona Funds			
NAZ	3.62%	5.34%	4.88%
NFZ	3.24%	5.68%	NA

NKR	3.59%	5.84%	NA
NXE	3.81%	NA	NA
Texas Fund			
NTX	3.82%	5.60%	5.55%
Lehman Brothers Municipal Bond Index4	4.27%	4.50%	5.23%
Lipper Other States Municipal Debt Funds Average5	3.92%	5.88%	5.75%

For the 12 months ended July 31, 2007, the total returns on NAV for all five of these Funds underperformed the return on the Lehman Brothers Municipal Bond Index. NXE and NTX performed in line with the average return for the Lipper Other States Municipal Debt Funds Average peer group, while NAZ, NFZ, and NKR trailed this average. Shareholders should note that the performance of the Lipper Other States category represents the overall average of returns for funds from 10 different states with a wide variety of municipal market conditions, making direct comparisons less meaningful.

Factors that influenced the Funds' returns during this period included yield curve and duration positioning, individual security selection and sector allocations, exposure to lower-rated credits, and advance refunding activity.

As the yield curve continued to flatten over the course of this period, municipal bonds with maturities of 10 years and longer, as measured by the Lehman Brothers Municipal Bond Index, performed best, generally outpacing municipal bonds with shorter maturities. While our strategies during this period included adding longer-term bonds to our portfolios, most of these Funds remained slightly short of our strategic target in terms of their holdings of bonds in the longest part of the yield curve, which was negative for performance. However, this was generally offset by the Funds' heavier exposure to the intermediate part of the curve, which performed well, and lower allocations to the shorter part of the curve, which underperformed the general municipal market.

*Annualized.

Past performance is not predictive of future results. Current performance may be higher or lower than the data shown. Returns do not reflect the deduction of taxes that shareholders may have to pay on Fund distributions or upon the sale of Fund shares.

For additional information, see the individual Performance Overview for your Fund in this report.

4 The Lehman Brothers Municipal Bond Index is an unleveraged, unmanaged national index comprising a broad range of investment-grade municipal bonds. Results for the Lehman index do not reflect any expenses.

5 The Lipper Other State Municipal Debt Funds category average is calculated using the returns of all closed-end funds in this category for each period as follows: 1 year, 46; 5 years, 37; and 10 years, 18. Fund and Lipper returns assume reinvestment of dividends.

During this reporting period, NTX benefited from its positions in tax-supported credits. Other sectors of the market that performed well during this period included transportation, education and zero coupon bonds.

In general, lower-rated credits, especially securities rated BB or lower and non-rated bonds, continued to outperform other credit quality sectors during this period. This outperformance was largely the result of investor demand for the higher yields typically associated with lower-rated bonds. While NTX benefited from its weightings of bonds rated BBB or lower during this period, the performance story in the Arizona Funds was more mixed. Holdings of non-rated bonds in the Arizona Funds tended to have higher coupons and remained at a premium as interest rates backed up in June and July 2007, enabling these bonds to outperform or at least perform in line with the market during this period. However, some of the BBB-rated hospital bonds added to the Funds during the earlier part of this period did not have higher coupons and were priced at par or even a slight discount, leading to underperformance as rates rose and credit spreads widened. In addition, the Funds' holdings of lower-rated waste management bonds had very short durations, which meant that they did not capture as much of the outperformance of the lower-rated sector as other BBB-rated bonds during the first 10 months of this period.

We continued to see positive contributions from advance refunding activity, which benefited the Funds through price appreciation and enhanced credit quality. Pre-refunded bonds, especially those that were advance refunded before the rise in interest rates in June 2007, were among the best performing holdings in the Arizona Funds for this period, including a Phoenix Children's Hospital issue that had been rated Baa3 prior to refinancing. The different rates of pre-refundings in each of the Funds also had a direct effect on relative performance during this period, as advance refundings totaled approximately 19% in NXE, 27% in NAZ, 17% in NKR and 16% in NTX, but only 8% of NFZ's portfolio.

At the same time, holdings of older, previously pre-refunded bonds tended to underperform the general municipal market during this period, due primarily to their shorter effective maturities. In addition, the health care sector, which had ranked among the top performing revenue sectors in the Lehman Brothers Municipal Bond Index over the past few years, underperformed the general municipal market for this period as rates rose and credit spreads widened in June and July 2007. Among these Funds, exposure to the health care sector ranged from 7% to 12%, which generally detracted from the Funds' performance. NTX also held some individual housing bonds that did not perform well during this period.

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Dividend and Share Price INFORMATION

As previously noted, these five Arizona and Texas Funds use leverage to potentially enhance opportunities for additional income for common shareholders. Although the Funds' use of this strategy continued to provide incremental income, the extent of this benefit was reduced during this period due to short-term interest rates that remained relatively high, which--in turn--kept the Funds' borrowing costs high. The Funds' income streams were also impacted as the proceeds from older, higher-yielding bonds that matured or were called were reinvested into bonds currently available in the market, which generally offered lower yields during this period. The combination of these factors resulted in one monthly dividend reduction in NKR, NXE, and NTX and three in NFZ over the 12-month period ended July 31, 2007. The dividend of NAZ remained stable throughout this reporting period.

Due to normal portfolio activity, common shareholders of the following Funds received capital gains and net ordinary income distributions at the end of December 2006, as follows:

	Long-Term Capital Gains (per share)	Short-Term Capital Gains and/or Ordinary Income (per share)
NFZ	$0.0614	$0.0016
NKR	$0.0405	--
NTX	$0.0363	--

All of the Funds in this report seek to pay stable dividends at rates that reflect each Fund's past results and projected future performance. During certain periods, each Fund may pay dividends at a rate that may be more or less than the amount of net investment income actually earned by the Fund during the period. If a Fund has cumulatively earned more than it has paid in dividends, it holds the excess in reserve as undistributed net investment income (UNII) as part of the Fund's NAV. Conversely, if a Fund has cumulatively paid dividends in excess of its earnings, the excess constitutes negative UNII that is likewise reflected in the Fund's NAV. Each Fund will, over time, pay all of its net investment income as dividends to shareholders. As of July 31, 2007, all of the Funds in this report had positive UNII balances for tax purposes and negative UNII balances for financial statement purposes.

As of July 31, 2007, the Funds' share prices were trading at premiums or discounts to their NAVs as shown in the accompanying chart:

	7/31/07 Premium/Discount	12-Month Average Premium/Discount
NAZ	-6.64%	-3.18%
NFZ	-7.80%	+2.64%
NKR	+3.46%	+2.41%
NXE	-5.35%	-2.93%
NTX	-6.59%	-3.71%

NAZ
Performance
OVERVIEW

Nuveen Arizona
Premium Income
Municipal Fund, Inc.

as of July 31, 2007

Pie Chart:
Credit Quality (as a % of total investments)

AAA/U.S. Guaranteed	75%
AA	8%
A	5%
BBB	10%
N/R	2%

Bar Chart:
Monthly Tax-Free Dividends Per Share -- 2006-2007

Aug	0.051
Sep	0.051
Oct	0.051
Nov	0.051
Dec	0.051
Jan	0.051
Feb	0.051
Mar	0.051
Apr	0.051
May	0.051
Jun	0.051
Jul	0.051

Line Chart:
Share Price Performance -- Weekly Closing Price

Aug 1, 2006	13.73
	13.82
	13.68
	13.767
	13.75
	13.72
	13.69
	13.85
	13.8
	13.69
	13.8
	13.7
	13.7501
	13.86
	13.75
	13.88
	14.01
	13.86
	13.9212
	14.2
	13.97
	13.75
	13.81
	13.88
	13.94
	13.88
	13.85
	14.03
	14.16
	14.05
	14.05
	14.099
	14.1501
	14.09
	14.35

	14.34
	14.35
	14.35
	14.34
	14.26
	14.15
	14.1
	13.93
	13.78
	13.69
	13.5601
	13.26
	13.3401
	13.42
	13.4
	13.32
	13
	12.9401
Jul 31, 2007	13.0701

FUND SNAPSHOT

Common Share Price	$13.07
Common Share Net Asset Value	$14.00
Premium/(Discount) to NAV	-6.64%
Market Yield	4.68%
Taxable-Equivalent Yield1	6.81%
Net Assets Applicable to Common Shares ($000)	$62,534
Average Effective Maturity on Securities (Years)	14.28
Leverage-Adjusted Duration	9.00

AVERAGE ANNUAL TOTAL RETURN
(Inception 11/19/92)

	ON SHARE PRICE	ON NAV
1-Year	-0.22%	3.62%
5-Year	0.11%	5.34%
10-Year	3.73%	4.88%

INDUSTRIES
(as a % of total investments)

U.S. Guaranteed	28.9%
Tax Obligation/Limited	22.6%

Water and Sewer	14.5%
Health Care	11.2%
Utilities	7.9%
Education and Civic Organizations	6.2%
Housing/Single Family	5.0%
Other	3.7%

1 Taxable-Equivalent Yield represents the yield that must be earned on a fully taxable investment in order to equal the yield of the Fund on an after-tax basis. It is based on a combined federal and state income tax rate of 31.3%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.

NFZ
Performance
OVERVIEW

Nuveen Arizona
Dividend Advantage
Municipal Fund

as of July 31, 2007

Pie Chart:
Credit Quality (as a % of total investments)

AAA/U.S. Guaranteed	67%
AA	11%
A	7%
BBB	11%
N/R	4%

Bar Chart:
Monthly Tax-Free Dividends Per Share -- 2006-2007(2)

Aug	0.0655
Sep	0.0615
Oct	0.0615
Nov	0.0615
Dec	0.0585
Jan	0.0585
Feb	0.0585
Mar	0.0585
Apr	0.0585
May	0.0585
Jun	0.0555
Jul	0.0555

Line Chart:
Share Price Performance -- Weekly Closing Price

Aug 1, 2006	15.75
	16
	16.45
	16.13
	16
	16.18
	15.97
	16
	16.1
	15.9
	16.22
	15.79
	15.54
	15.66
	15.7699
	15.85
	15.65
	15.51
	15.7
	15.5
	15.29
	15.24
	15.045
	15.35
	15.24
	14.98
	14.9
	14.79
	14.93
	15.03
	14.85
	15.15
	14.93
	14.96
	14.86
	14.9501
	15.2
	15.32
	15.07
	15.35
	15.4
	15.26
	15.22
	15
	15.18
	15.1
	14.8
	14.75
	14.75
	14.78
	14.21
	13.78
	13.2
Jul 31, 2007	13.35

FUND SNAPSHOT

Common Share Price	$13.35
Common Share Net Asset Value	$14.48

Premium/(Discount) to NAV	-7.80%
Market Yield	4.99%
Taxable-Equivalent Yield1	7.26%
Net Assets Applicable to Common Shares ($000)	$22,439
Average Effective Maturity on Securities (Years)	17.77
Leverage-Adjusted Duration	10.65

AVERAGE ANNUAL TOTAL RETURN
(Inception 1/30/01)

	ON SHARE PRICE	ON NAV
1-Year	-11.63%	3.24%
5-Year	2.48%	5.68%
Since Inception	3.92%	6.23%

INDUSTRIES
(as a % of total investments)

Tax Obligation/Limited	29.3%
Utilities	15.2%
Housing/Single Family	10.8%
Tax Obligation/General	10.7%
Health Care	9.5%
U.S. Guaranteed	7.9%
Water and Sewer	7.8%
Other	8.8%

1 Taxable-Equivalent Yield represents the yield that must be earned on a fully taxable investment in order to equal the yield of the Fund on an after-tax basis. It is based on a combined federal and state income tax rate of 31.3%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.

2 The Fund paid shareholders capital gains and net ordinary income distributions in December 2006 of $0.0630 per share.

NKR
Performance
OVERVIEW

Nuveen Arizona
Dividend Advantage
Municipal Fund 2

as of July 31, 2007

Pie Chart:
Credit Quality (as a % of total investments)

AAA/U.S. Guaranteed	69%
AA	5%
A	10%
BBB	12%
N/R	4%

Bar Chart:
Monthly Tax-Free Dividends Per Share -- 2006-2007(2)

Aug	0.0645
Sep	0.0615
Oct	0.0615
Nov	0.0615
Dec	0.0615
Jan	0.0615
Feb	0.0615
Mar	0.0615
Apr	0.0615
May	0.0615
Jun	0.0615
Jul	0.0615

Line Chart:
Share Price Performance -- Weekly Closing Price

Aug 1, 2006	15.37
	15.95
	15.9
	15.75
	15.9
	15.66
	15.55
	15.35
	15.55
	15.71
	16.28
	15.73
	15.55
	15.47
	15.7
	15.82
	15.24
	15.35
	15.27
	15.23
	15.2
	15.19
	15.0307
	15.21

	14.94
	14.89
	15.0501
	14.94
	15.31
	15.17
	15.5
	15.29
	15.4645
	15.34
	15.49
	15.2999
	15.32
	15.65
	15.75
	15.87
	15.96
	15.9
	16.23
	16.06
	16.6
	15.6
	15.05
	14.86
	15
	15.2
	15.45
	15.2
	15.42
Jul 31, 2007	15.27

FUND SNAPSHOT

Common Share Price	$15.27
Common Share Net Asset Value	$14.76
Premium/(Discount) to NAV	3.46%
Market Yield	4.83%
Taxable-Equivalent Yield1	7.03%
Net Assets Applicable to Common Shares ($000)	$35,976
Average Effective Maturity on Securities (Years)	15.51
Leverage-Adjusted Duration	9.54

AVERAGE ANNUAL TOTAL RETURN
(Inception 3/25/02)

	ON SHARE PRICE	ON NAV
1-Year	4.52%	3.59%
5-Year	5.29%	5.84%

Since Inception	6.23%	6.48%

INDUSTRIES
(as a % of total investments)

Tax Obligation/Limited	29.0%
U.S. Guaranteed	17.0%
Health Care	13.6%
Tax Obligation/General	13.5%
Water and Sewer	8.1%
Housing/Multifamily	5.1%
Housing/Single Family	5.0%
Other	8.7%

1 Taxable-Equivalent Yield represents the yield that must be earned on a fully taxable investment in order to equal the yield of the Fund on an after-tax basis. It is based on a combined federal and state income tax rate of 31.3%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.

2 The Fund paid shareholders a capital gains distribution in December 2006 of $0.0405 per share.

NXE
Performance
OVERVIEW

Nuveen Arizona
Dividend Advantage
Municipal Fund 3

as of July 31, 2007

Pie Chart:
Credit Quality (as a % of total investments)

AAA/U.S. Guaranteed	67%
AA	7%
A	10%
BBB	12%
N/R	4%

Bar Chart:
Monthly Tax-Free Dividends Per Share -- 2006-2007

Aug	0.0565
Sep	0.0565
Oct	0.0565
Nov	0.0565

Dec	0.0565
Jan	0.0565
Feb	0.0565
Mar	0.0545
Apr	0.0545
May	0.0545
Jun	0.0545
Jul	0.0545

Line Chart:
Share Price Performance -- Weekly Closing Price

Aug 1, 2006	13.72
	13.89
	13.81
	14
	13.95
	13.98
	13.8201
	13.78
	13.8635
	13.8
	14.05
	13.75
	13.8
	13.99
	14.1
	13.9
	14.08
	14
	14.19
	14.4
	14.42
	13.8
	13.85
	13.9
	14.1
	13.76
	13.99
	14.1
	14.45
	14.41
	14.26
	14.15
	14.49
	14.29
	14.24
	14.3
	14.46
	14.36
	14.6
	14.49
	14.51
	14.48
	14.53
	14.39
	14.22
	14.55
	13.88
	13.92
	14
	13.95
	13.91

	13.58
	13.4
Jul 31, 2007	13.44

FUND SNAPSHOT

Common Share Price	$13.44
Common Share Net Asset Value	$14.20
Premium/(Discount) to NAV	-5.35%
Market Yield	4.87%
Taxable-Equivalent Yield1	7.09%
Net Assets Applicable to Common Shares ($000)	$43,552
Average Effective Maturity on Securities (Years)	16.16
Leverage-Adjusted Duration	9.26

AVERAGE ANNUAL TOTAL RETURN
(Inception 9/25/02)

	ON SHARE PRICE	ON NAV
1-Year	4.21%	3.81%
Since Inception	3.05%	5.10%

INDUSTRIES
(as a % of total investments)

Tax Obligation/Limited	21.9%
U.S. Guaranteed	18.6%
Health Care	15.4%
Education and Civic Organizations	8.7%
Transportation	8.6%
Water and Sewer	7.8%
Utilities	7.7%
Housing/Single Family	5.0%
Other	6.3%

1 Taxable-Equivalent Yield represents the yield that must be earned on a fully

taxable investment in order to equal the yield of the Fund on an after-tax basis. It is based on a combined federal and state income tax rate of 31.3%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.

NTX
Performance
OVERVIEW

Nuveen Texas
Quality Income
Municipal Fund

as of July 31, 2007

Pie Chart:
Credit Quality (as a % of total investments)

AAA/U.S. Guaranteed	72%
AA	11%
A	3%
BBB	11%
BB or Lower	1%
N/R	2%

Bar Chart:
Monthly Tax-Free Dividends Per Share -- 2006-2007(2)

Aug	0.0635
Sep	0.0605
Oct	0.0605
Nov	0.0605
Dec	0.0605
Jan	0.0605
Feb	0.0605
Mar	0.0605
Apr	0.0605
May	0.0605
Jun	0.0605
Jul	0.0605

Line Chart:
Share Price Performance -- Weekly Closing Price

Aug 1, 2006	14.6599
	14.79
	15
	14.95
	14.86
	14.96
	14.88
	14.84
	14.9
	14.83
	14.73
	14.59
	14.64
	14.67

	14.86
	14.81
	14.87
	14.87
	14.87
	14.8
	14.58
	14.62
	14.64
	14.6
	14.69
	14.61
	14.63
	14.61
	14.5801
	14.7
	14.56
	14.75
	14.7
	14.6806
	14.72
	14.64
	14.697
	14.53
	14.58
	14.61
	14.69
	14.62
	14.4
	14.42
	14.44
	14.3
	14.2
	14.2999
	14.4
	14.5499
	14.16
	13.87
	13.83
Jul 31, 2007	13.89

FUND SNAPSHOT

Common Share Price	$13.89
Common Share Net Asset Value	$14.87
Premium/(Discount) to NAV	-6.59%
Market Yield	5.23%
Taxable-Equivalent Yield1	7.26%
Net Assets Applicable to Common Shares ($000)	$141,238
Average Effective Maturity on Securities (Years)	15.72
Leverage-Adjusted Duration	7.67

AVERAGE ANNUAL TOTAL RETURN
(Inception 10/17/91)

	ON SHARE PRICE	ON NAV
1-Year	-0.52%	3.82%
5-Year	4.40%	5.60%
10-Year	5.18%	5.55%

INDUSTRIES
(as a % of total investments)

Tax Obligation/General	29.3%
U.S. Guaranteed	16.9%
Education and Civic Organizations	12.4%
Health Care	10.6%
Water and Sewer	7.3%
Utilities	6.5%
Transportation	4.3%
Other	12.7%

1 Taxable-Equivalent Yield represents the yield that must be earned on a fully taxable investment in order to equal the yield of the Fund on an after-tax basis. It is based on a federal income tax rate of 28%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.

2 The Fund paid shareholders a capital gains distribution in December 2006 of $.0363 per share.

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Report of
INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

THE BOARDS OF DIRECTORS/TRUSTEES AND SHAREHOLDERS
NUVEEN ARIZONA PREMIUM INCOME MUNICIPAL FUND, INC.
NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND
NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 2
NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3
NUVEEN TEXAS QUALITY INCOME MUNICIPAL FUND

We have audited the accompanying statements of assets and liabilities, including the portfolios of investments, of Nuveen Arizona Premium Income Municipal Fund, Inc., Nuveen Arizona Dividend Advantage Municipal Fund, Nuveen Arizona Dividend Advantage Municipal Fund 2, Nuveen Arizona Dividend Advantage Municipal Fund 3 and Nuveen Texas Quality Income Municipal Fund (the "Funds"), as of July 31, 2007, and the related statements of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the periods indicated therein. These financial statements and financial highlights are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Funds' internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of July 31, 2007, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial positions of Nuveen Arizona Premium Income Municipal Fund, Inc., Nuveen Arizona Dividend Advantage Municipal Fund, Nuveen Arizona Dividend Advantage Municipal Fund 2, Nuveen Arizona Dividend Advantage Municipal Fund 3 and Nuveen Texas Quality Income Municipal Fund at July 31, 2007, the results of their operations for the year then ended, the changes in their net assets for each of the two years in the period then ended, and the financial highlights for each of the periods indicated therein in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Chicago, Illinois
September 24, 2007

NAZ
Nuveen Arizona Premium Income Municipal Fund, Inc.
Portfolio of INVESTMENTS

July 31, 2007

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
	CONSUMER STAPLES - 1.4% (0.9% OF TOTAL INVESTMENTS)	

$ 875	Puerto Rico, The Children's Trust Fund, Tobacco Settlement Asset-Backed Refunding Bonds, Series 2002, 5.375%, 5/15/33	5/12 at 100
	EDUCATION AND CIVIC ORGANIZATIONS - 9.5% (6.2% OF TOTAL INVESTMENTS)	
1,000	Arizona State University, System Revenue Bonds, Series 2002, 5.000%, 7/01/25 - FGIC Insured	7/12 at 100
	Arizona State University, System Revenue Bonds, Series 2005:	
2,455	5.000%, 7/01/20 - AMBAC Insured	7/15 at 100
750	5.000%, 7/01/21 - AMBAC Insured	7/15 at 100
1,500	Tempe Industrial Development Authority, Arizona, Lease Revenue Bonds, Arizona State University Foundation Project, Series 2003, 5.000%, 7/01/34 - AMBAC Insured	7/13 at 100
5,705	Total Education and Civic Organizations	
	HEALTH CARE - 17.3% (11.2% OF TOTAL INVESTMENTS)	
1,430	Arizona Health Facilities Authority, Hospital Revenue Bonds, Banner Health Systems, Series 2007A, 5.000%, 1/01/25	1/17 at 100
675	Glendale Industrial Development Authority, Arizona, Revenue Bonds, John C. Lincoln Health Network, Series 2005B, 5.000%, 12/01/37	12/15 at 100
1,110	Glendale Industrial Development Authority, Arizona, Revenue Bonds, John C. Lincoln Health Network, Series 2007, 5.000%, 12/01/42	12/17 at 100
550	Maricopa County Industrial Development Authority, Arizona, Health Facilities Revenue Bonds, Mayo Clinic, Series 2006, 5.000%, 11/15/36	5/16 at 100
2,150	Maricopa County Industrial Development Authority, Arizona, Health Facility Revenue Bonds, Catholic Healthcare West, Series 2004A, 5.375%, 7/01/23 (UB)	7/14 at 100
2,800	Maricopa County Industrial Development Authority, Arizona, Health Facility Revenue Bonds, Catholic Healthcare West, Series 2007A, 5.250%, 7/01/32 (UB)	7/17 at 100
385	Maricopa County, Arizona, Hospital Revenue Bonds, Sun Health Corporation, Series 2005, 5.000%, 4/01/16	4/15 at 100
515	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority, Hospital Revenue Bonds, Hospital de la Concepcion, Series 2000A, 6.375%, 11/15/15	11/10 at 101
1,055	Winslow Industrial Development Authority, Arizona, Hospital Revenue Bonds, Winslow Memorial Hospital, Series 1998, 5.500%, 6/01/22	6/08 at 101
10,670	Total Health Care	

	HOUSING/MULTIFAMILY - 1.5% (1.0% OF TOTAL INVESTMENTS)	
400	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Campaigne Place on Jackson, Series 2001, 5.700%, 6/20/31 (Alternative Minimum Tax)	6/11 at 102
530	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Park Lee Apartments, Series 2004A, 5.050%, 10/20/44 (Alternative Minimum Tax)	4/15 at 100
930	Total Housing/Multifamily	

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PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
	HOUSING/SINGLE FAMILY - 7.8% (5.0% OF TOTAL INVESTMENTS)	
$ 1,690	The Industrial Development Authority of The City of Tucson, Arizona, Tax-Exempt Single Family Mortgage Revenue Bonds, Series 2007A-1, 5.100%, 7/01/38	1/17 at 103
3,010	Tucson and Pima County Industrial Development Authority, Arizona, Single Family Mortgage Revenue Bonds, Series 2007B, 5.350%, 6/01/47 (Alternative Minimum Tax)	6/17 at 101
4,700	Total Housing/Single Family	
	INDUSTRIALS - 2.2% (1.4% OF TOTAL INVESTMENTS)	
1,345	Yavapai County Industrial Development Authority, Arizona, Solid Waste Disposal Revenue Bonds, Waste Management Inc., Series 2003B, 4.450%, 3/01/28 (Mandatory put 3/01/08) (Alternative Minimum Tax)	No Opt. C
	TAX OBLIGATION/GENERAL - 0.6% (0.4% OF TOTAL INVESTMENTS)	
330	Puerto Rico, General Obligation and Public Improvement Bonds, Series 2001A, 5.375%, 7/01/28	7/11 at 100
	TAX OBLIGATION/LIMITED - 34.8% (22.6% OF TOTAL INVESTMENTS)	
	Bullhead City, Arizona, Special Assessment Bonds, Parkway District Improvements, Series 1993:	

720	6.100%, 1/01/08	No Opt. C
775	6.100%, 1/01/09	1/08 at 100
454	Estrella Mountain Ranch Community Facilities District, Goodyear, Arizona, Special Assessment Lien Bonds, Series 2001A, 7.875%, 7/01/25	7/10 at 102
	Greater Arizona Development Authority, Infrastructure Revenue Bonds, Series 2006A:	
740	5.000%, 8/01/23 - MBIA Insured	8/16 at 100
875	5.000%, 8/01/25 - MBIA Insured	8/16 at 100
1,280	Greater Arizona Development Authority, Infrastructure Revenue Bonds, Series 2006, 5.000%, 8/01/22 - MBIA Insured	8/16 at 100
575	Marana Municipal Property Corporation, Arizona, Revenue Bonds, Series 2003, 5.000%, 7/01/28 - AMBAC Insured	7/13 at 100
1,110	Marana, Arizona, Tangerine Farms Road Improvement District Revenue Bonds, Series 2006, 4.600%, 1/01/26	7/16 at 100
3,400	Maricopa County Stadium District, Arizona, Revenue Refunding Bonds, Series 2002, 5.375%, 6/01/18 - AMBAC Insured	6/12 at 100
3,400	Mesa, Arizona, Street and Highway User Tax Revenue Bonds, Series 2005, 5.000%, 7/01/24 - FSA Insured	7/15 at 100
1,200	Prescott Valley Municipal Property Corporation, Arizona, Municipal Facilities Revenue Bonds, Series 2003, 5.000%, 1/01/27 - FGIC Insured	1/13 at 100
	Puerto Rico Infrastructure Financing Authority, Special Tax Revenue Bonds, Series 2005A:	
7,160	0.000%, 7/01/42 - FGIC Insured (UB)	No Opt. C
2,875	0.000%, 7/01/43 - AMBAC Insured (UB)	No Opt. C
343	Puerto Rico Infrastructure Financing Authority, Special Tax Bonds Residual, Series 1534, 5.604%, 7/01/42 (IF)	No Opt. C
1,000	Puerto Rico Public Buildings Authority, Guaranteed Government Facilities Revenue Refunding Bonds, Series 2002D, 5.125%, 7/01/24	7/12 at 100
1,610	San Luis Civic Improvement Corporation, Arizona, Municipal Facilities Excise Tax Revenue Bonds, Series 2005, 5.000%, 7/01/25 - XLCA Insured	7/15 at 100
1,350	Tempe, Arizona, Excise Tax Revenue Bonds, Series 2004, 5.250%, 7/01/20 - AMBAC Insured	7/14 at 100
500	Tucson, Arizona, Certificates of Participation, Series 2000, 5.700%, 7/01/20 - MBIA Insured	7/08 at 100
29,367	Total Tax Obligation/Limited	

NAZ
Nuveen Arizona Premium Income Municipal Fund, Inc. (continued)

Portfolio of INVESTMENTS July 31, (2007)

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
	U.S. GUARANTEED - 44.6% (28.9% OF TOTAL INVESTMENTS) (4)	
$ 800	Arizona Health Facilities Authority, Hospital Revenue Bonds, Catholic Healthcare West, Series 1999A, 6.625%, 7/01/20 (Pre-refunded 7/01/10)	7/10 at 101
1,000	Arizona Health Facilities Authority, Hospital System Revenue Bonds, John C. Lincoln Health Network, Series 2000, 7.000%, 12/01/25 (Pre-refunded 12/01/10)	12/10 at 102
1,000	Arizona State University, Certificates of Participation, Series 2002, 5.375%, 7/01/19 (Pre-refunded 7/01/12) - MBIA Insured	7/12 at 100
	Arizona Tourism and Sports Authority, Tax Revenue Bonds, Multipurpose Stadium Facility Project, Series 2003A:	
500	5.375%, 7/01/20 (Pre-refunded 7/01/13) - MBIA Insured	7/13 at 100
1,000	5.375%, 7/01/21 (Pre-refunded 7/01/13) - MBIA Insured	7/13 at 100
1,250	Glendale Industrial Development Authority, Arizona, Revenue Bonds, Midwestern University, Series 2001A, 5.875%, 5/15/31 (Pre-refunded 5/15/11)	5/11 at 101
1,250	Maricopa County Industrial Development Authority, Arizona, Hospital Revenue Refunding Bonds, Samaritan Health Services, Series 1990A, 7.000%, 12/01/16 - MBIA Insured (ETM)	No Opt. C
630	Maricopa County Union High School District 210 Phoenix, Arizona, General Obligation Bonds, Series 2006C, 5.000%, 7/01/24 (Pre-refunded 7/01/16) - MBIA Insured	7/16 at 100
1,525	Maricopa County Union High School District 210, Phoenix, Arizona, General Obligation Bonds, Series 2004A, 5.000%, 7/01/21 (Pre-refunded 7/01/14) - FSA Insured	7/14 at 100
3,000	Mesa Industrial Development Authority, Arizona, Revenue Bonds, Discovery Health System, Series 1999A, 5.750%, 1/01/25 (Pre-refunded 1/01/10) - MBIA Insured	1/10 at 101
1,050	Northern Arizona University, System Revenue Bonds, Series 2002, 5.000%, 6/01/34 (Pre-refunded 6/01/12) - FGIC Insured	6/12 at 100
2,000	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Wastewater System Revenue Bonds, Series 2000, 6.000%, 7/01/24 (Pre-refunded 7/01/10) - FGIC Insured	7/10 at 101
2,000	Phoenix Civic Improvement Corporation, Arizona, Subordinate Lien Excise Tax Revenue Bonds, Series 2003A, 5.000%, 7/01/21 (Pre-refunded 7/01/13) - MBIA Insured	7/13 at 100
	Phoenix Industrial Development Authority, Arizona, Government Office Lease Revenue Bonds, Capitol Mall LLC, Series 2000:	
700	5.375%, 9/15/22 (Pre-refunded 9/15/10) - AMBAC Insured	9/10 at 100
2,000	5.500%, 9/15/27 (Pre-refunded 9/15/10) - AMBAC Insured	9/10 at 100
1,000	Puerto Rico Highway and Transportation Authority, Highway	7/10 at 101

	Revenue Bonds, Series 2000B, 6.500%, 7/01/27 (Pre-refunded 7/01/10)	
1,500	Scottsdale Industrial Development Authority, Arizona, Hospital Revenue Bonds, Scottsdale Healthcare, Series 2001, 5.800%, 12/01/31 (Pre-refunded 12/01/11)	12/11 at 101
3,215	Tucson Industrial Development Authority, Arizona, Senior Living Facilities Revenue Bonds, Christian Care Project, Series 2000A, 5.625%, 7/01/20 (Pre-refunded 7/01/10) - RAAI Insured	7/10 at 101
600	Tucson, Arizona, Junior Lien Street and Highway User Revenue Bonds, Series 2000E, 5.000%, 7/01/18 (Pre-refunded 7/01/10) - FGIC Insured	7/10 at 100
26,020	Total U.S. Guaranteed	
	UTILITIES - 12.2% (7.9% OF TOTAL INVESTMENTS)	
1,000	Arizona Power Authority, Special Obligation Power Resource Revenue Refunding Crossover Bonds, Hoover Project, Series 2001, 5.250%, 10/01/15	No Opt. C
620	Pima County Industrial Development Authority, Arizona, Lease Obligation Revenue Refunding Bonds, Tucson Electric Power Company, Series 1988A, 7.250%, 7/15/10 - FSA Insured	1/08 at 100
2,170	Puerto Rico Electric Power Authority, Power Revenue Bonds, Series 2005RR, 5.000%, 7/01/27 - XLCA Insured	7/15 at 100
530	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Bonds, Series 2002B, 5.000%, 1/01/22	1/13 at 100

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PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
	UTILITIES (continued)	
	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Refunding Bonds, Series 2002A:	
$ 2,000	5.125%, 1/01/27	1/12 at 101
1,000	5.000%, 1/01/31	1/12 at 101
7,320	Total Utilities	
	WATER AND SEWER - 22.4% (14.5% OF TOTAL INVESTMENTS)	
1,005	Cottonwood, Arizona, Senior Lien Water System Revenue Bonds, Municipal Property Corporation, Series 2004, 5.000%, 7/01/24 -	7/14 at 100

	XLCA Insured	
3,500	Glendale, Arizona, Water and Sewer Revenue Bonds, Subordinate Lien, Series 2003, 5.000%, 7/01/28 - AMBAC Insured	7/13 at 100
600	Oro Valley Municipal Property Corporation, Arizona, Senior Lien Water Revenue Bonds, Series 2003, 5.000%, 7/01/23 - MBIA Insured	7/13 at 100
1,000	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Wastewater System Revenue Bonds, Series 2004, 5.000%, 7/01/24 - MBIA Insured	7/14 at 100
1,500	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Bonds, Series 2002, 5.000%, 7/01/26 - FGIC Insured	7/12 at 100
3,295	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Bonds, Series 2005, 5.000%, 7/01/23 - MBIA Insured	7/15 at 100
1,250	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Refunding Bonds, Series 2001, 5.500%, 7/01/21 - FGIC Insured	No Opt. C
	Surprise Municipal Property Corporation, Arizona, Wastewater System Revenue Bonds, Series 2007:	
600	4.700%, 4/01/22	4/14 at 100
695	4.900%, 4/01/32	4/17 at 100
13,445	Total Water and Sewer	
$ 100,707	Total Investments (cost $94,092,719) - 154.3%	
	Floating Rate Obligations - (7.5)%	
	Other Assets Less Liabilities - 1.2%	
	Preferred Shares, at Liquidation Value - (48.0)%	
	Net Assets Applicable to Common Shares - 100%	

The Fund may invest in "zero coupon" securities. A zero coupon security does not pay a regular interest coupon to its holders during the life of the security. Tax-exempt income to the holder of the security comes from accretion of the difference between the original purchase price of the security at issuance and the par value of the security at maturity and is effectively paid at maturity. Such securities are included in the portfolio with a 0.00% coupon rate in their description. The market prices of zero coupon securities generally are more volatile than the market prices of securities that pay interest periodically.

All of the bonds in the Portfolio of Investments are either covered by Original Issue Insurance, Secondary Market Insurance or Portfolio Insurance, or are backed by an escrow or trust containing sufficient U.S. Government or U.S Government agency securities, any of which ensure the timely payment of principal and interest.

(1) All percentages shown in the Portfolio of Investments are based on net assets applicable to Common shares unless otherwise noted.

(2) Optional Call Provisions (not covered by the report of independent registered public accounting firm): Dates (month and year) and prices of the earliest optional call or redemption. There may be other call provisions at varying prices at later dates. Certain mortgage-backed securities may be subject to periodic principal paydowns.

(3) Ratings (not covered by the report of independent registered public accounting firm): Using the higher of Standard & Poor's or Moody's rating. Ratings below BBB by Standard & Poor's Group or Baa by Moody's Investor Service, Inc. are considered to be below investment grade.

(4) Backed by an escrow or trust containing sufficient U.S. Government or U.S. Government agency securities which ensure the timely payment of principal and interest. Such investments are normally considered to be equivalent to AAA rated securities.

N/R Not rated.

(ETM) Escrowed to maturity.

(IF) Inverse floating rate investment.

(UB) Underlying bond of an inverse floating rate trust reflected as a financing transaction pursuant to the provisions of SFAS No. 140.

See accompanying notes to financial statements.

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NFZ
Nuveen Arizona Dividend Advantage Municipal Fund
Portfolio of INVESTMENTS

July 31, 2007

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
	EDUCATION AND CIVIC ORGANIZATIONS - 7.3% (4.6% OF TOTAL INVESTMENTS)	
$ 1,000	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority, Higher Education Revenue Bonds, Ana G. Mendez University System, Series 1999, 5.375%, 2/01/29	2/09 at 101
300	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority, Higher Education Revenue Bonds, University of the Sacred Heart, Series 2001, 5.250%, 9/01/21	9/11 at 100

305	Tucson Industrial Development Authority, Arizona, Charter School Revenue Bonds, Arizona Agribusiness and Equine Center Charter School, Series 2004A, 6.125%, 9/01/34	9/14 at 100
1,605	Total Education and Civic Organizations	
	HEALTH CARE - 15.2% (9.5% OF TOTAL INVESTMENTS)	
565	Arizona Health Facilities Authority, Hospital Revenue Bonds, Banner Health Systems, Series 2007A, 5.000%, 1/01/25	1/17 at 100
10	California Health Facilities Financing Authority, Health Facility Revenue Bonds, Adventist Health System/West, Series 2003A, 5.000%, 3/01/28	3/13 at 100
250	Glendale Industrial Development Authority, Arizona, Revenue Bonds, John C. Lincoln Health Network, Series 2005B, 5.000%, 12/01/37	12/15 at 100
415	Glendale Industrial Development Authority, Arizona, Revenue Bonds, John C. Lincoln Health Network, Series 2007, 5.000%, 12/01/42	12/17 at 100
200	Maricopa County Industrial Development Authority, Arizona, Health Facilities Revenue Bonds, Mayo Clinic, Series 2006, 5.000%, 11/15/36	5/16 at 100
750	Maricopa County Industrial Development Authority, Arizona, Health Facility Revenue Bonds, Catholic Healthcare West, Series 2004A, 5.375%, 7/01/23 (UB)	7/14 at 100
1,025	Maricopa County Industrial Development Authority, Arizona, Health Facility Revenue Bonds, Catholic Healthcare West, Series 2007A, 5.250%, 7/01/32 (UB)	7/17 at 100
140	Maricopa County, Arizona, Hospital Revenue Bonds, Sun Health Corporation, Series 2005, 5.000%, 4/01/16	4/15 at 100
3,355	Total Health Care	
	HOUSING/MULTIFAMILY - 6.8% (4.2% OF TOTAL INVESTMENTS)	
1,000	Maricopa County Industrial Development Authority, Arizona, Multifamily Housing Revenue Bonds, Whispering Palms Apartments, Series 1999A, 5.900%, 7/01/29 - MBIA Insured	7/09 at 102
275	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Campaigne Place on Jackson, Series 2001, 5.700%, 6/20/31 (Alternative Minimum Tax)	6/11 at 102
205	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Park Lee Apartments, Series 2004A, 5.050%, 10/20/44 (Alternative Minimum Tax)	4/15 at 100

1,480	Total Housing/Multifamily	

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
	HOUSING/SINGLE FAMILY - 17.3% (10.8% OF TOTAL INVESTMENTS)	
$ 10	Pima County Industrial Development Authority, Arizona, FNMA/GNMA Single Family Mortgage Revenue Bonds, Series 2001A-4, 5.050%, 5/01/17	11/10 at 101
2,000	The Industrial Development Authority of The City of Tucson, Arizona, Tax-Exempt Single Family Mortgage Revenue Bonds, Series 2006A-1, 5.350%, 1/01/38 (Alternative Minimum Tax)	7/16 at 103
635	The Industrial Development Authority of The City of Tucson, Arizona, Tax-Exempt Single Family Mortgage Revenue Bonds, Series 2007A-1, 5.100%, 7/01/38	1/17 at 103
1,085	Tucson and Pima County Industrial Development Authority, Arizona, Single Family Mortgage Revenue Bonds, Series 2007B, 5.350%, 6/01/47 (Alternative Minimum Tax)	6/17 at 101
3,730	Total Housing/Single Family	
	TAX OBLIGATION/GENERAL - 15.7% (9.8% OF TOTAL INVESTMENTS)	
1,000	Maricopa County Unified School District 11, Peoria, Arizona, General Obligation Bonds, Second Series 2005, 5.000%, 7/01/20 - FGIC Insured	7/15 at 100
2,340	Yuma & La Paz Counties Community College District, Arizona, General Obligation Bonds, Series 2006, 5.000%, 7/01/21 - MBIA Insured	7/16 at 100
3,340	Total Tax Obligation/General	
	TAX OBLIGATION/LIMITED - 46.7% (29.3% OF TOTAL INVESTMENTS)	
1,220	Arizona Tourism and Sports Authority, Tax Revenue Bonds, Multipurpose Stadium Facility Project, Series 2003A, 5.000%, 7/01/31 - MBIA Insured	7/13 at 100
96	Centerra Community Facilities District, Goodyear, Arizona, General Obligation Bonds, Series 2005, 5.500%, 7/15/29	7/15 at 100
210	Estrella Mountain Ranch Community Facilities District, Arizona, Special Assessment Bonds, Montecito Assessment District,	1/17 at 100

	Series 2007, 5.700%, 7/01/27	
176	Estrella Mountain Ranch Community Facilities District, Goodyear, Arizona, Special Assessment Lien Bonds, Series 2001A, 7.875%, 7/01/25	7/10 at 102
275	Greater Arizona Development Authority, Infrastructure Revenue Bonds, Series 2006A, 5.000%, 8/01/23 - MBIA Insured	8/16 at 100
1,000	Greater Arizona Development Authority, Infrastructure Revenue Bonds, Series 2006, 5.000%, 8/01/22 - MBIA Insured	8/16 at 100
1,180	Marana Municipal Property Corporation, Arizona, Revenue Bonds, Series 2003, 5.000%, 7/01/23 - AMBAC Insured	7/13 at 100
415	Marana, Arizona, Tangerine Farms Road Improvement District Revenue Bonds, Series 2006, 4.600%, 1/01/26	7/16 at 100
330	Palm Valley Community Facility District 3, Goodyear, Arizona, General Obligation Bonds, Series 2006, 5.300%, 7/15/31	7/16 at 100
100	Parkway Community Facilities District 1, Prescott Valley, Arizona, General Obligation Bonds, Series 2006, 5.350%, 7/15/31	7/16 at 100
900	Phoenix Industrial Development Authority, Arizona, Government Bonds, Capitol Mall LLC II, Series 2001, 5.250%, 9/15/16 - AMBAC Insured	3/12 at 100
680	Pinal County Industrial Development Authority, Arizona, Correctional Facilities Contract Revenue Bonds, Florence West Prison LLC, Series 2002A, 5.000%, 10/01/18 - ACA Insured	No Opt. C
4,495	Puerto Rico Infrastructure Financing Authority, Special Tax Revenue Bonds, Series 2005A, 0.000%, 7/01/42 - FGIC Insured (UB)	No Opt. C
77	Puerto Rico Infrastructure Financing Authority, Special Tax Bonds, Residual Series 1534, 5.604%, 7/01/43 (IF)	No Opt. C
600	San Luis Civic Improvement Corporation, Arizona, Municipal Facilities Excise Tax Revenue Bonds, Series 2005, 5.000%, 7/01/25 - XLCA Insured	7/15 at 100

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NFZ

Nuveen Arizona Dividend Advantage Municipal Fund (continued)
Portfolio of INVESTMENTS July 31, (2007)

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
	TAX OBLIGATION/LIMITED (continued)	
$ 1,000	Tempe, Arizona, Excise Tax Revenue Bonds, Series 2004, 5.250%, 7/01/20 - AMBAC Insured	7/14 at 100
500	Vistancia Community Facilities District, Arizona, Restricted	7/15 at 100

	General Obligation Bonds, Series 2005, 5.750%, 7/15/24	
355	Watson Road Community Facilities District, Arizona, Special Assessment Revenue Bonds, Series 2005, 6.000%, 7/01/30	7/16 at 100
225	Westpark Community Facilities District, Buckeye, Arizona, General Obligation Tax Increment Bonds Series 2006, 5.250%, 7/15/31	7/16 at 100
13,834	Total Tax Obligation/Limited	
	U.S. GUARANTEED - 12.6% (7.9% OF TOTAL INVESTMENTS) (4)	
365	Arizona Health Facilities Authority, Hospital Revenue Bonds, Catholic Healthcare West, Series 1999A, 6.625%, 7/01/20 (Pre-refunded 7/01/10)	7/10 at 101
1,000	Arizona Tourism and Sports Authority, Tax Revenue Bonds, Multipurpose Stadium Facility Project, Series 2003A, 5.375%, 7/01/21 (Pre-refunded 7/01/13) - MBIA Insured	7/13 at 100
240	Maricopa County Union High School District 210 Phoenix, Arizona, General Obligation Bonds, Series 2006C, 5.000%, 7/01/24 (Pre-refunded 7/01/16) - MBIA Insured	7/16 at 100
1,000	Scottsdale Industrial Development Authority, Arizona, Hospital Revenue Bonds, Scottsdale Healthcare, Series 2001, 5.800%, 12/01/31 (Pre-refunded 12/01/11)	12/11 at 101
2,605	Total U.S. Guaranteed	
	UTILITIES - 24.3% (15.2% OF TOTAL INVESTMENTS)	
1,500	Arizona Power Authority, Special Obligation Power Resource Revenue Refunding Crossover Bonds, Hoover Project, Series 2001, 5.250%, 10/01/17	No Opt. C
1,000	Mesa, Arizona, Utility System Revenue Refunding Bonds, Series 2002, 5.250%, 7/01/17 - FGIC Insured	No Opt. C
	Puerto Rico Electric Power Authority, Power Revenue Bonds, Series 2005RR:	
1,000	5.000%, 7/01/26 - XLCA Insured	7/15 at 100
170	5.000%, 7/01/27 - XLCA Insured	7/15 at 100
200	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Bonds, Series 2002B, 5.000%, 1/01/22	1/13 at 100
235	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Refunding Bonds, Series 1997A, 5.000%, 1/01/20	1/08 at 101
1,000	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Refunding Bonds, Series 2002A, 5.250%, 1/01/18	1/12 at 101

5,105	Total Utilities	
	WATER AND SEWER - 12.4% (7.8% OF TOTAL INVESTMENTS)	
225	Oro Valley Municipal Property Corporation, Arizona, Senior Lien Water Revenue Bonds, Series 2003, 5.000%, 7/01/23 - MBIA Insured	7/13 at 100
1,500	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Bonds, Series 2002, 5.000%, 7/01/26 - FGIC Insured	7/12 at 100
520	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Bonds, Series 2005, 5.000%, 7/01/23 - MBIA Insured	7/15 at 100
	Surprise Municipal Property Corporation, Arizona, Wastewater System Revenue Bonds, Series 2007:	
225	4.700%, 4/01/22	4/14 at 100
260	4.900%, 4/01/32	4/17 at 100
2,730	Total Water and Sewer	
$ 37,784	Total Long-Term Investments (cost $34,973,190) - 158.3%	

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PRINCIPAL AMOUNT (000)	DESCRIPTION (1)
	SHORT-TERM INVESTMENTS - 1.3% (0.9% OF TOTAL INVESTMENTS)
$ 300	Puerto Rico Government Development Bank, Adjustable Refunding Bonds, Variable Rate Demand Obligations, Series 1985, 3.490%, 12/01/15 - MBIA Insured (5)
	Total Short-Term Investments (cost $300,000)
	Total Investments (cost $35,273,190) - 159.6%
	Floating Rate Obligations - (8.1)%
	Other Assets Less Liabilities - 2.0%
	Preferred Shares, at Liquidation Value - (53.5)%
	Net Assets Applicable to Common Shares - 100%

FUTURES CONTRACTS OUTSTANDING AT JULY 31, 2007:

COUNTERPARTY	CONTRACT POSITION	NUMBER OF CONTRACTS	CONTRACT EXPIRATION

U.S. 3-Year Treasury Bond	Short	(14)	9/07

The Fund may invest in "zero coupon" securities. A zero coupon security does not pay a regular interest coupon to its holders during the life of the security. Tax-exempt income to the holder of the security comes from accretion of the difference between the original purchase price of the security at issuance and the par value of the security at maturity and is effectively paid at maturity. Such securities are included in the portfolio with a 0.00% coupon rate in their description. The market prices of zero coupon securities generally are more volatile than the market prices of securities that pay interest periodically.

All of the bonds in the Portfolio of Investments are either covered by Original Issue Insurance, Secondary Market Insurance or Portfolio Insurance, or are backed by an escrow or trust containing sufficient U.S. Government or U.S Government agency securities, any of which ensure the timely payment of principal and interest.

(1) All percentages shown in the Portfolio of Investments are based on net assets applicable to Common shares unless otherwise noted.

(2) Optional Call Provisions (not covered by the report of independent registered public accounting firm): Dates (month and year) and prices of the earliest optional call or redemption. There may be other call provisions at varying prices at later dates. Certain mortgage-backed securities may be subject to periodic principal paydowns.

(3) Ratings (not covered by the report of independent registered public accounting firm): Using the higher of Standard & Poor's or Moody's rating. Ratings below BBB by Standard & Poor's Group or Baa by Moody's Investor Service, Inc. are considered to be below investment grade.

(4) Backed by an escrow or trust containing sufficient U.S. Government or U.S. Government agency securities which ensure the timely payment of principal and interest. Such investments are normally considered to be equivalent to AAA rated securities.

(5) Investment has a maturity of more than one year, but has variable rate and demand features which qualify it as a short-term investment. The rate disclosed is that in effect at the end of the reporting period. This rate changes periodically based on market conditions or a specified market index.

N/R Not rated.

(IF) Inverse floating rate investment.

(UB) Underlying bond of an inverse floating rate trust reflected as a financing transaction pursuant to the provisions of SFAS No. 140.

See accompanying notes to financial statements.

NKR
Nuveen Arizona Dividend Advantage Municipal Fund 2
Portfolio of INVESTMENTS

July 31, 2007

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
	EDUCATION AND CIVIC ORGANIZATIONS - 4.0% (2.5% OF TOTAL INVESTMENTS)	
$ 460	Pima County Industrial Development Authority, Arizona, Charter School Revenue Bonds, Noah Webster Basic Schools Inc., Series 2004, 6.000%, 12/15/24	12/14 at 100
320	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority, Higher Education Revenue Bonds, Ana G. Mendez University System, Series 1999, 5.375%, 2/01/19	2/09 at 101
480	Tucson Industrial Development Authority, Arizona, Charter School Revenue Bonds, Arizona Agribusiness and Equine Center Charter School, Series 2004A, 6.125%, 9/01/34	9/14 at 100
	University of Arizona, Certificates of Participation, Series 2002A:	
65	5.500%, 6/01/18 - AMBAC Insured	6/12 at 100
40	5.125%, 6/01/22 - AMBAC Insured	6/12 at 100
1,365	Total Education and Civic Organizations	
	HEALTH CARE - 21.5% (13.6% OF TOTAL INVESTMENTS)	
845	Arizona Health Facilities Authority, Hospital Revenue Bonds, Banner Health Systems, Series 2007A, 5.000%, 1/01/25	1/17 at 100
600	Arizona Health Facilities Authority, Revenue Bonds, Blood Systems Inc., Series 2004, 5.000%, 4/01/20	4/14 at 100
400	Glendale Industrial Development Authority, Arizona, Revenue Bonds, John C. Lincoln Health Network, Series 2005B, 5.000%, 12/01/37	12/15 at 100
655	Glendale Industrial Development Authority, Arizona, Revenue Bonds, John C. Lincoln Health Network, Series 2007, 5.000%, 12/01/42	12/17 at 100
320	Maricopa County Industrial Development Authority, Arizona, Health Facilities Revenue Bonds, Mayo Clinic, Series 2006, 5.000%, 11/15/36	5/16 at 100
500	Maricopa County Industrial Development Authority, Arizona, Hospital Revenue Bonds, Mayo Clinic Hospital, Series 1998,	5/08 at 101

	5.250%, 11/15/37	
1,375	Maricopa County Industrial Development Authority, Arizona, Health Facility Revenue Bonds, Catholic Healthcare West, Series 2004A, 5.375%, 7/01/23 (UB)	7/14 at 100
1,650	Maricopa County Industrial Development Authority, Arizona, Health Facility Revenue Bonds, Catholic Healthcare West, Series 2007A, 5.250%, 7/01/32 (UB)	7/17 at 100
225	Maricopa County, Arizona, Hospital Revenue Bonds, Sun Health Corporation, Series 2005, 5.000%, 4/01/16	4/15 at 100
1,000	Yavapai County Industrial Development Authority, Arizona, Hospital Revenue Bonds, Yavapai Regional Medical Center, Series 2003A, 6.000%, 8/01/33	8/13 at 100
7,570	Total Health Care	
	HOUSING/MULTIFAMILY - 8.0% (5.1% OF TOTAL INVESTMENTS)	
1,000	Maricopa County Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Refunding Bonds, Pine Ridge, Cambridge Court, Cove on 44th and Fountain Place Apartments, Series 2001A-1, 6.000%, 10/20/31	10/11 at 105
325	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Park Lee Apartments, Series 2004A, 5.050%, 10/20/44 (Alternative Minimum Tax)	4/15 at 100
1,425	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Summit Apartments, Series 2002, 6.450%, 7/20/32	7/12 at 105
2,750	Total Housing/Multifamily	

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
	HOUSING/SINGLE FAMILY - 8.0% (5.0% OF TOTAL INVESTMENTS)	
$ 1,000	The Industrial Development Authority of The City of Tucson, Arizona, Tax-Exempt Single Family Mortgage Revenue Bonds, Series 2007A-1, 5.100%, 7/01/38	1/17 at 103
1,775	Tucson and Pima County Industrial Development Authority, Arizona, Single Family Mortgage Revenue Bonds, Series 2007B, 5.350%, 6/01/47 (Alternative Minimum Tax)	6/17 at 101
2,775	Total Housing/Single Family	

	TAX OBLIGATION/GENERAL - 20.5% (13.0% OF TOTAL INVESTMENTS)	
670	Goodyear Community Facilities Utility District 1, Arizona, General Obligation Bonds, Series 2003, 5.350%, 7/15/28 - ACA Insured	7/13 at 100
1,000	Maricopa County School District 6, Arizona, General Obligation Refunding Bonds, Washington Elementary School, Series 2002A, 5.375%, 7/01/16 - FSA Insured	No Opt. C
1,165	Maricopa County Unified School District 69, Paradise Valley, Arizona, General Obligation Refunding Bonds, Series 2002A, 5.250%, 7/01/14 - FGIC Insured	No Opt. C
1,405	Mesa, Arizona, General Obligation Bonds, Series 2002, 5.375%, 7/01/15 - FGIC Insured	No Opt. C
	Phoenix, Arizona, Various Purpose General Obligation Bonds, Series 2002B:	
1,700	5.000%, 7/01/22	7/12 at 100
500	5.000%, 7/01/27	7/12 at 100
510	Scottsdale, Arizona, General Obligation Bonds, Series 2002, 5.000%, 7/01/24	7/11 at 100
6,950	Total Tax Obligation/General	
	TAX OBLIGATION/LIMITED - 46.0% (29.0% OF TOTAL INVESTMENTS)	
	Arizona State, Certificates of Participation, Series 2002A:	
750	5.000%, 11/01/17 - MBIA Insured	5/12 at 100
1,000	5.000%, 11/01/18 - MBIA Insured	5/12 at 100
500	5.000%, 11/01/20 - MBIA Insured	5/12 at 100
134	Centerra Community Facilities District, Goodyear, Arizona, General Obligation Bonds, Series 2005, 5.500%, 7/15/29	7/15 at 100
345	Estrella Mountain Ranch Community Facilities District, Arizona, Special Assessment Bonds, Montecito Assessment District, Series 2007, 5.800%, 7/01/32	1/17 at 100
278	Estrella Mountain Ranch Community Facilities District, Goodyear, Arizona, Special Assessment Lien Bonds, Series 2001A, 7.875%, 7/01/25	7/10 at 102
650	Marana, Arizona, Tangerine Farms Road Improvement District Revenue Bonds, Series 2006, 4.600%, 1/01/26	7/16 at 100
	Maricopa County Stadium District, Arizona, Revenue Refunding Bonds, Series 2002:	
840	5.375%, 6/01/18 - AMBAC Insured	6/12 at 100
2,645	5.375%, 6/01/19 - AMBAC Insured	6/12 at 100
530	Palm Valley Community Facility District 3, Goodyear, Arizona, General Obligation Bonds, Series 2006, 5.300%, 7/15/31	7/16 at 100
140	Parkway Community Facilities District 1, Prescott Valley, Arizona,	7/16 at 100

	General Obligation Bonds, Series 2006, 5.350%, 7/15/31	
1,500	Phoenix Industrial Development Authority, Arizona, Government Bonds, Capitol Mall LLC II, Series 2001, 5.250%, 9/15/16 - AMBAC Insured	3/12 at 100
1,070	Pinal County Industrial Development Authority, Arizona, Correctional Facilities Contract Revenue Bonds, Florence West Prison LLC, Series 2002A, 5.000%, 10/01/18 - ACA Insured	No Opt. C
7,065	Puerto Rico Infrastructure Financing Authority, Special Tax Revenue Bonds, Series 2005A, 0.000%, 7/01/42 - FGIC Insured (UB)	No Opt. C
113	Puerto Rico Infrastructure Financing Authority, Special Tax Bonds, Residual Series 1534, 5.604%, 7/01/43 - (IF)	No Opt. C
1,000	Puerto Rico Public Buildings Authority, Guaranteed Government Facilities Revenue Refunding Bonds, Series 2002D, 5.125%, 7/01/24	7/12 at 100
960	San Luis Civic Improvement Corporation, Arizona, Municipal Facilities Excise Tax Revenue Bonds, Series 2005, 5.000%, 7/01/25 - XLCA Insured	7/15 at 100

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
	TAX OBLIGATION/LIMITED (continued)	
$ 750	Vistancia Community Facilities District, Arizona, Restricted General Obligation Bonds, Series 2005, 5.750%, 7/15/24	7/15 at 100
560	Watson Road Community Facilities District, Arizona, Special Assessment Revenue Bonds, Series 2005, 6.000%, 7/01/30	7/16 at 100
350	Westpark Community Facilities District, Buckeye, Arizona, General Obligation Tax Increment Bonds Series 2006, 5.250%, 7/15/31	7/16 at 100
640	Yuma Municipal Property Corporation, Arizona, Municipal Facilities Tax Revenue Bonds, Series 2001, 5.000%, 7/01/21 - AMBAC Insured	7/10 at 100
21,820	Total Tax Obligation/Limited	
	TRANSPORTATION - 5.7% (3.6% OF TOTAL INVESTMENTS)	
1,000	Phoenix Civic Improvement Corporation, Arizona, Senior Lien Airport Revenue Bonds, Series 1998A, 5.000%, 7/01/25 - FSA Insured	7/08 at 101
1,000	Phoenix, Arizona, Civic Improvement Corporation, Senior Lien	7/12 at 100

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                 Airport Revenue Bonds, Series 2002B, 5.250%, 7/01/27 -
                 FGIC Insured (Alternative Minimum Tax)
-------------------------------------------------------------------------------------------------------------
        2,000   Total Transportation
-------------------------------------------------------------------------------------------------------------

                U.S. GUARANTEED - 26.9% (17.0% OF TOTAL INVESTMENTS) (4)

          400   Arizona Health Facilities Authority, Hospital Revenue Bonds,          7/10 at 101
                 Catholic Healthcare West, Series 1999A, 6.625%, 7/01/20
                 (Pre-refunded 7/01/10)

          735   Arizona Health Facilities Authority, Hospital System Revenue          2/12 at 101
                 Bonds, Phoenix-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;
```

$70.7
Other comprehensive income (loss), net of tax:
Employee pension and postretirement benefits0.8
0.4
1.6
0.9
Currency translation adjustments10.7
18.9
(19.7) 7.7
Change in fair value of derivative instruments—
(0.2) —
—
Total other comprehensive income (loss), net of tax11.5
19.1
(18.1) 8.6
Comprehensive income$55.8
$75.2
$45.4
$79.3

The accompanying notes are an integral part of these financial statements
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OSHKOSH CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share and per share amounts; unaudited)

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

The accompanying notes are an integral part of these financial statements

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OSHKOSH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In millions, except per share amounts; unaudited)

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

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

The accompanying notes are an integral part of these financial statements

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

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

The accompanying notes are an integral part of these financial statements

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1. Basis of Presentation

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

2. New Accounting Standards

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

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

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

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

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

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

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

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

3. Receivables

Receivables consisted of the following (in millions):

	March 31, 2017	September 30, 2016
U.S. government:		

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

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

	March 31, 2017	September 30, 2016
Current receivables	$945.1	$ 1,021.9
Long-term receivables (included in "Other long-term assets")	54.6	25.3
	$999.7	$ 1,047.2

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

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

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

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

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

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

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

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

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

	Six Months Ended March 31, 2017				Six Months Ended March 31, 2016			
	Finance	Notes	Trade 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	(0.7)	(0.4)	0.4	0.3	0.3	1.2	1.8
Charge-off of accounts	—	(0.5)	(1.0)	(1.5)	—	—	(0.4)	(0.4)
Foreign currency translation	—	(0.5)	(0.1)	(0.6)	—	0.2	—	0.2
Allowance for doubtful accounts at end of period	$2.5	$11.3	$5.7	$19.5	$0.4	$13.2	$8.3	$21.9

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4. Inventories

Inventories consisted of the following (in millions):

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

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

5. Property, Plant and Equipment

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

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

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

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

6. Goodwill and Purchased Intangible Assets

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

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

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

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

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

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

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

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

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

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

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7. Credit Agreements

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

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

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

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

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

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

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

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

The Credit Agreement contains the following financial covenants:

- Leverage Ratio: A maximum leverage ratio (defined as, with certain adjustments, the ratio of the Company's consolidated indebtedness to consolidated net income before interest, taxes, depreciation, amortization, non-cash charges and certain other items (EBITDA)) as of the last day of any fiscal quarter of 4.50 to 1.00.
- Interest Coverage Ratio: A minimum interest coverage ratio (defined as, with certain adjustments, the ratio of the Company's consolidated EBITDA to the Company's consolidated cash interest expense) as of the last day of any fiscal quarter of 2.50 to 1.00.
- Senior Secured Leverage Ratio: A maximum senior secured leverage ratio (defined as, with certain adjustments, the ratio of the Company's consolidated secured indebtedness to the Company's consolidated EBITDA) of 3.00 to 1.00.

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

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

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

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 March 31, 2017, the fair value of the 2022 Senior Notes and the 2025 Senior Notes was estimated to be $260 million ($262 million at September 30, 2016) and $257 million ($263 million at September 30, 2016), respectively. The fair value of the Term Loan approximated book value at both March 31, 2017 and September 30, 2016. See Note 12 of the Notes to Condensed Consolidated Financial Statements for the definition of a Level 2 input.

8. Warranties

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

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

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

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

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

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

9. Guarantee Arrangements

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

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

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

10. Shareholders' Equity

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

11. Derivative Financial Instruments and Hedging Activities

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

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

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

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

	March 31, 2017		September 30, 2016	
	Other Current Assets	Other Current Liabilities	Other Current Assets	Other Current Liabilities
Not designated as hedging instruments:				
Foreign exchange contracts	$0.5	$ 0.3	$0.1	$ 0.4
Interest rate contracts	0.5	1.2	—	0.4
	$1.0	$ 1.5	$0.1	$ 0.8

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

	Classification of Gains (Losses)	Three Months Ended March 31,		Six Months Ended March 31,	
		2017	2016	2017	2016
Cash flow hedges:					
Foreign exchange contracts	Miscellaneous, net	$—	$(0.1)	$—	$(0.1)
Foreign exchange contracts	Cost of sales	—	—	0.1	—
Not designated as hedging instruments:					
Foreign exchange contracts	Miscellaneous, net	(1.7)	(4.5)	1.0	(5.8)
Interest rate contracts	Miscellaneous, net	—	(0.1)	0.4	(0.2)
		$(1.7)	$(4.7)	$1.5	$(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.

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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 six months ended March 31, 2017.

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

	Level 1	Level 2	Level 3	Total
March 31, 2017				
Assets:				
SERP plan assets [a]	$ 21.6	$ —	$ —	$21.6
Foreign currency exchange derivatives [b]	—	0.5	—	0.5
Interest rate contracts [c]	—	0.5	—	0.5
Liabilities:				
Foreign currency exchange derivatives [b]	$ —	$ 0.3	$ —	$0.3
Interest rate contracts [c]	—	1.2	—	1.2
September 30, 2016				
Assets:				
SERP plan assets [a]	$ 21.7	$ —	$ —	$21.7
Foreign currency exchange derivatives [b]	—	0.1	—	0.1
Liabilities:				
Foreign currency exchange derivatives [b]	$ —	$ 0.4	$ —	$0.4
Interest rate contracts [c]	—	0.4	—	0.4

(a) 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.

(b) Based on observable market transactions of forward currency prices.

(c) 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 March 31, 2017, the Company had reserved 9,180,842 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.

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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 six months ended March 31, 2017 was $6.5 million ($4.1 million net of tax) and $14.4 million ($9.1 million net of tax), respectively. Total stock-based compensation expense, including cash-based liability awards, for the three and six months ended March 31, 2016 was $6.5 million ($4.1 million net of tax) and $12.5 million ($7.9 million net of tax), respectively.

14. Restructuring and Other Charges

On September 21, 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 August 1, 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 $0.4 million and $1.1 million were incurred in the three and six months ended March 31, 2017, respectively.

In November 2016, the commercial segment recognized $0.4 million of restructuring costs to better align the commercial segment cost structure for long term success. This program is now complete.

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 $43.0 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 $16.3 million of restructuring costs under this plan for both the three and six months ended March 31, 2017. In addition, the access equipment segment recognized $0.9 million of operating expenses related to this plan in the three and six months ended March 31, 2017.

Pre-tax restructuring charges for the three months ended March 31, 2017 were as follows (in millions):

	Cost of Sales
Access equipment	$ 16.7

Pre-tax restructuring charges for the six months ended March 31, 2017 were as follows (in millions):

	Cost of Sales	Selling, General and Administrative	Total

		Expenses	
Access equipment	$17.4	$ —	$17.4
Commercial	—	0.4	0.4
Total	$17.4	$ 0.4	$17.8

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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 and Termination Benefits	Property, Plant and Equipment Impairment	Other Costs	Total
Balance at September 30, 2016	$ 0.9	$ —	$—	$0.9
Restructuring provision	15.3	1.5	1.0	17.8
Utilized - cash	(1.2)	—	(0.2)	(1.4)
Utilized - noncash	—	(1.5)	—	(1.5)
Balance as of March 31, 2017	$ 15.0	$ —	$0.8	$15.8

15. Employee Benefit Plans

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2017	2016	2017	2016
Components of net periodic benefit cost				
Service cost	$3.2	$2.8	$6.5	$5.7
Interest cost	4.4	4.5	8.8	9.1
Expected return on plan assets	(4.6)	(4.5)	(9.1)	(9.0)
Amortization of prior service cost	0.5	0.5	0.9	0.9
Amortization of net actuarial loss	1.0	0.6	2.0	1.2
Net periodic benefit cost	$4.5	$3.9	$9.1	$7.9

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2017	2016	2017	2016
Components of net periodic benefit cost				
Service cost	$0.7	$0.4	$1.3	$0.7
Interest cost	0.4	0.4	0.8	0.8
Amortization of prior service cost	(0.3)	(0.3)	(0.5)	(0.5)
Amortization of net actuarial loss (gain)	—	(0.1)	0.1	(0.1)
Net periodic benefit cost	$0.8	$0.4	$1.7	$0.9

The Company made contributions to fund benefit payments under its other post-employment benefit plans of $0.9 million and $1.0 million for the six months ended March 31, 2017 and 2016, respectively. The Company estimates that it will make additional contributions of approximately $0.9 million under these other post-employment benefit plans prior to the end of fiscal 2017.

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16. Income Taxes

The Company recorded income tax expense of $23.6 million for the three months ended March 31, 2017, or 35.0% of pre-tax income, compared to $20.3 million, or 27.0% of pre-tax income, for the three months ended March 31, 2016. Results for the three months ended March 31, 2017 were favorably impacted by $1.5 million of net discrete tax benefits, including a $1.8 million tax benefit related to employee-share based payments. Results for the three months ended March 31, 2016 were favorably impacted by $4.4 million of discrete tax benefits, including $3.5 million related to provision to return adjustments and $0.8 million related to reduction in reserves for uncertain tax benefits resulting from statues of limitations lapses.

The Company recorded income tax expense of $28.8 million for the six months ended March 31, 2017, or 31.6% of pre-tax income, compared to $22.0 million, or 24.1% of pre-tax income for the six months ended March 31, 2016. Tax expense included net discrete tax benefits of $4.9 million and $8.0 million for the six months ended March 31, 2017 and 2016, respectively. Discrete tax benefits recorded in the six months ended March 31, 2017 included $2.0 million of tax benefits related to employee share-based payments and $2.9 million of tax benefits related to the release of valuation allowances on federal capital loss carryforwards and state net operating losses. Discrete tax benefits recorded in the six months ended March 31, 2016 included a $2.4 million benefit related to the reinstatement of the U.S. research and development tax credit in December 2015, a $3.5 million benefit related to provision to return adjustments, and a $2.0 million benefit related to reduction in reserves for uncertain tax benefits relating to interest adjustments and statutes of limitations lapses.

The Company's liability for gross unrecognized tax benefits, excluding related interest and penalties, was $39.8 million and $37.4 million as of March 31, 2017 and September 30, 2016, respectively. As of March 31, 2017, net unrecognized tax benefits, excluding interest and penalties, of $26.2 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 six months ended March 31, 2017 and 2016, the Company recognized costs of $0.9 million and benefits of $1.4 million, respectively, related to interest and penalties. At March 31, 2017, the Company had accruals for the payment of interest and penalties of $11.3 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 $1.8 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 March 31, 2017		
	Employee	Cumulative Translation	Accumulated Other

	Pension and Postretirement Benefits, Net of Tax	Adjustments	Comprehensive Income (Loss)
Balance at beginning of period	$(73.1)	$ (131.5)	$ (204.6)
Other comprehensive income (loss) before reclassifications	—	10.7	10.7
Amounts reclassified from accumulated other comprehensive income	0.8	—	0.8
Net current period other comprehensive income (loss)	0.8	10.7	11.5
Balance at end of period	$(72.3)	$ (120.8)	$ (193.1)

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	Three Months Ended March 31, 2016			
	Employee Pension and Postretirement Benefits, Net of Tax	Cumulative Translation Adjustments	Derivative Instruments	Accumulated Other Comprehensive Income (Loss)
Balance at beginning of period	$(45.9)	$ (109.3)	$ 0.3	$ (154.9)
Other comprehensive income (loss) before reclassifications	—	18.9	(0.2)	18.7
Amounts reclassified from accumulated other comprehensive income	0.4	—	—	0.4
Net current period other comprehensive income (loss)	0.4	18.9	(0.2)	19.1
Balance at end of period	$(45.5)	$ (90.4)	$ 0.1	$ (135.8)

	Six Months Ended March 31, 2017		
	Employee Pension and Postretirement Benefits, Net of Tax	Cumulative Translation Adjustments	Accumulated Other Comprehensive Income (Loss)
Balance at beginning of period	$(73.9)	$ (101.1)	$ (175.0)
Other comprehensive income (loss) before reclassifications	—	(19.7)	(19.7)
Amounts reclassified from accumulated other comprehensive income	1.6	—	1.6
Net current period other comprehensive income (loss)	1.6	(19.7)	(18.1)
Balance at end of period	$(72.3)	$ (120.8)	$ (193.1)

	Six Months Ended March 31, 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	—	7.7	—	7.7
Amounts reclassified from accumulated other comprehensive income	0.9	—	—	0.9
Net current period other comprehensive income (loss)	0.9	7.7	—	8.6
Balance at end of period	$(45.5)	$ (90.4)	$ 0.1	$ (135.8)

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 March 31,		Six Months Ended March 31,	
	2017	2016	2017	2016
Amortization of employee pension and postretirement benefits items				
Prior service costs	$(0.2)	$(0.2)	$(0.4)	$(0.4)
Actuarial losses	(1.0)	(0.5)	(2.1)	(1.1)
Total before tax	(1.2)	(0.7)	(2.5)	(1.5)
Tax benefit	0.4	0.3	0.9	0.6
Net of tax	$(0.8)	$(0.4)	$(1.6)	$(0.9)

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18. Earnings Per Share

The calculation of basic and diluted earnings per common share was as follows (in millions, except number of share amounts):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2017	2016	2017	2016
Earnings available to common shareholders	$44.3	$ 56.1	$63.5	$ 70.7
Basic Earnings Per Share:				
Weighted-average common shares outstanding	74,696,616	73,618,295	74,486,209	73,593,439
Diluted Earnings Per Share:				
Basic weighted-average common shares outstanding	74,696,616	73,618,295	74,486,209	73,593,439
Dilutive stock options and other equity-based compensation awards	1,086,846	743,045	1,095,693	766,421
Diluted weighted-average common shares outstanding	75,783,462	74,361,340	75,581,902	74,359,860

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 March 31,		Six Months Ended March 31,	
	2017	2016	2017	2016
Stock options	389,950	1,656,741	391,962	1,676,943

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 March 31, 2017 and September 30, 2016, the estimated net liabilities for product and general liability claims totaled $36.8 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 $608.8 million and $503.6 million at March 31, 2017 and September 30, 2016, respectively. Open standby letters of credit issued by the Company’s banks in favor of third parties totaled $100.5 million and $110.8 million at March 31, 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.

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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.

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 March 31,					
	2017			2016		
	External Customers	Inter-segment	Net Sales	External Customers	Inter-segment	Net Sales
Access equipment						
Aerial work platforms	$369.4	$ —	$369.4	$375.1	$ —	$375.1
Telehandlers	161.6	—	161.6	214.7	—	214.7
Other	192.2	—	192.2	164.5	—	164.5
Total access equipment	723.2	—	723.2	754.3	—	754.3
Defense	445.7	0.4	446.1	296.8	0.2	297.0
Fire & emergency	233.5	4.0	237.5	237.2	3.2	240.4
Commercial						
Concrete placement	112.7	—	112.7	111.3	—	111.3
Refuse collection	79.1	—	79.1	99.5	—	99.5
Other	22.3	1.9	24.2	25.2	0.7	25.9
Total commercial	214.1	1.9	216.0	236.0	0.7	236.7

Corporate and intersegment eliminations	1.8	(6.3)	(4.5)	—	(4.1)	(4.1)
Consolidated	$1,618.3	$ —	$1,618.3	$1,524.3	$ —	$1,524.3

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	Six Months Ended March 31,					
	2017			2016		
	External Customers	Inter-segment	Net Sales	External Customers	Inter-segment	Net Sales
Access equipment						
Aerial work platforms	$603.1	$ —	$603.1	$617.1	$ —	$617.1
Telehandlers	254.9	—	254.9	326.5	—	326.5
Other	354.4	—	354.4	340.5	—	340.5
Total access equipment	1,212.4	—	1,212.4	1,284.1	—	1,284.1
Defense	739.9	0.7	740.6	613.7	1.3	615.0
Fire & emergency	462.6	7.4	470.0	442.6	5.3	447.9
Commercial						
Concrete placement	197.1	—	197.1	183.6	—	183.6
Refuse collection	171.3	—	171.3	198.5	—	198.5
Other	43.8	3.0	46.8	53.8	1.1	54.9
Total commercial	412.2	3.0	415.2	435.9	1.1	437.0
Corporate and intersegment eliminations	2.6	(11.1)	(8.5)	—	(7.7)	(7.7)
Consolidated	$2,829.7	$ —	$2,829.7	$2,776.3	$ —	$2,776.3

	Three Months Ended March 31,		Six Months Ended March 31,	
	2017	2016	2017	2016
Operating income (loss):				
Access equipment	$42.1	$75.7	$66.5	$96.1
Defense	48.7	27.8	72.5	51.0
Fire & emergency	21.8	14.9	38.8	25.0
Commercial	6.0	17.2	10.6	26.1
Corporate	(38.2)	(44.2)	(71.8)	(76.5)
Intersegment eliminations	—	—	—	—
Consolidated	80.4	91.4	116.6	121.7
Interest expense, net of interest income	(14.1)	(15.1)	(28.0)	(29.2)
Miscellaneous other income (expense)	1.2	(1.0)	2.5	(1.0)
Income before income taxes and equity in earnings of unconsolidated affiliates	$67.5	$75.3	$91.1	$91.5

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OSHKOSH CORPORATION
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	March 31, 2017	September 30, 2016
Identifiable assets:		
Access equipment:		
U.S.	$ 1,993.8	$ 1,856.0
Europe	491.6	521.5
Rest of the World	218.6	193.7
Total access equipment	2,704.0	2,571.2
Defense:		
U.S.	708.4	522.2
Rest of the World	2.6	3.0
Total defense	711.0	525.2
Fire & emergency - U.S.	537.3	522.7
Commercial:		
U.S.	374.5	358.4
Rest of the World	32.3	33.4
Total commercial	406.8	391.8
Corporate:		
U.S. [(a)]	531.2	408.3
Rest of the world [(b)]	98.5	94.6
Total corporate	629.7	502.9
Consolidated	$ 4,988.8	$ 4,513.8

(a) Primarily includes cash and short-term investments.
(b) 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):

	Six Months Ended March 31, 2017	2016
Net sales:		
United States	$2,237.5	$2,070.4
Other North America	82.7	116.3
Europe, Africa and Middle East	351.2	388.1
Rest of the World	158.3	201.5
Consolidated	$2,829.7	$2,776.3

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.

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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 March 31, 2017

	Oshkosh Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	$ —	$ 1,378.1	$ 285.1	$ (44.9)	$1,618.3
Cost of sales	(0.2)	1,132.9	268.9	(44.6)	1,357.0
Gross income	0.2	245.2	16.2	(0.3)	261.3
Selling, general and administrative expenses	35.6	103.9	30.3	—	169.8
Amortization of purchased intangibles	—	9.6	1.5	—	11.1
Operating income (loss)	(35.4)	131.7	(15.6)	(0.3)	80.4
Interest expense	(13.6)	(13.7)	(0.5)	12.7	(15.1)
Interest income	0.6	4.2	8.9	(12.7)	1.0
Miscellaneous, net	24.3	(54.7)	31.6	—	1.2
Income (loss) before income taxes	(24.1)	67.5	24.4	(0.3)	67.5
Provision for (benefit from) income taxes	(9.3)	22.4	10.6	(0.1)	23.6
Income (loss) before equity in earnings of affiliates	(14.8)	45.1	13.8	(0.2)	43.9
Equity in earnings of consolidated subsidiaries	59.1	7.9	8.0	(75.0)	—
Equity in earnings of unconsolidated affiliates	—	—	0.4	—	0.4
Net income	44.3	53.0	22.2	(75.2)	44.3
Other comprehensive income (loss), net of tax	11.5	1.5	9.4	(10.9)	11.5
Comprehensive income	$ 55.8	$ 54.5	$ 31.6	$ (86.1)	$55.8

Condensed Consolidating Statement of Income and Comprehensive Income
For the Three Months Ended March 31, 2016

	Oshkosh Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	$ —	$ 1,284.0	$ 269.4	$ (29.1)	$1,524.3
Cost of sales	0.4	1,071.0	222.8	(29.2)	1,265.0
Gross income (loss)	(0.4)	213.0	46.6	0.1	259.3
Selling, general and administrative expenses	35.0	96.9	22.8	—	154.7
Amortization of purchased intangibles	—	9.7	3.5	—	13.2
Operating income (loss)	(35.4)	106.4	20.3	0.1	91.4
Interest expense	(70.4)	(16.2)	(0.4)	71.4	(15.6)
Interest income	0.4	23.1	48.4	(71.4)	0.5
Miscellaneous, net	13.6	(50.5)	35.9	—	(1.0)
Income (loss) before income taxes	(91.8)	62.8	104.2	0.1	75.3
Provision for (benefit from) income taxes	(34.1)	18.8	35.6	—	20.3
Income (loss) before equity in earnings of affiliates	(57.7)	44.0	68.6	0.1	55.0
Equity in earnings of consolidated subsidiaries	113.8	36.0	19.6	(169.4)	—
Equity in earnings of unconsolidated affiliates	—	—	1.1	—	1.1
Net income	56.1	80.0	89.3	(169.3)	56.1

Other comprehensive income (loss), net of tax	19.1	0.7	18.0	(18.7)	19.1
Comprehensive income	$ 75.2	$ 80.7	$ 107.3	$ (188.0)	$75.2

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Condensed Consolidating Statement of Income and Comprehensive Income
For the Six Months Ended March 31, 2017

	Oshkosh Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	$ —	$ 2,427.9	$ 488.0	$ (86.2)	$2,829.7
Cost of sales	(1.0)	2,007.4	448.4	(86.1)	2,368.7
Gross income	1.0	420.5	39.6	(0.1)	461.0
Selling, general and administrative expenses	67.2	195.4	58.2	—	320.8
Amortization of purchased intangibles	—	19.2	4.4	—	23.6
Operating income (loss)	(66.2)	205.9	(23.0)	(0.1)	116.6
Interest expense	(27.2)	(27.3)	(1.0)	25.7	(29.8)
Interest income	1.3	8.3	17.9	(25.7)	1.8
Miscellaneous, net	46.8	(106.9)	62.6	—	2.5
Income (loss) before income taxes	(45.3)	80.0	56.5	(0.1)	91.1
Provision for (benefit from) income taxes	(14.4)	25.4	17.8	—	28.8
Income (loss) before equity in earnings of affiliates	(30.9)	54.6	38.7	(0.1)	62.3
Equity in earnings of consolidated subsidiaries	94.4	23.6	(2.7)	(115.3)	—
Equity in earnings of unconsolidated affiliates	—	—	1.2	—	1.2
Net income	63.5	78.2	37.2	(115.4)	63.5
Other comprehensive income (loss), net of tax	(18.1)	0.6	(19.8)	19.2	(18.1)
Comprehensive income	$ 45.4	$ 78.8	$ 17.4	$ (96.2)	$45.4

Condensed Consolidating Statement of Income and Comprehensive Income
For the Six Months Ended March 31, 2016

	Oshkosh Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	$ —	$ 2,340.8	$ 489.8	$ (54.3)	$2,776.3
Cost of sales	0.7	1,970.0	417.9	(54.4)	2,334.2
Gross income (loss)	(0.7)	370.8	71.9	0.1	442.1
Selling, general and administrative expenses	58.6	186.2	49.2	—	294.0
Amortization of purchased intangibles	—	19.5	6.9	—	26.4
Operating income (loss)	(59.3)	165.1	15.8	0.1	121.7
Interest expense	(130.0)	(30.9)	(1.1)	131.8	(30.2)
Interest income	0.9	39.3	92.6	(131.8)	1.0
Miscellaneous, net	28.5	(91.9)	62.4	—	(1.0)
Income (loss) before income taxes	(159.9)	81.6	169.7	0.1	91.5
Provision for (benefit from) income taxes	(39.9)	20.4	41.5	—	22.0
Income (loss) before equity in earnings of affiliates	(120.0)	61.2	128.2	0.1	69.5
Equity in earnings of consolidated subsidiaries	191.0	54.1	13.2	(258.3)	—
Equity in earnings of unconsolidated affiliates	(0.3)	—	1.5	—	1.2
Net income	70.7	115.3	142.9	(258.2)	70.7
Other comprehensive income (loss), net of tax	8.6	(2.2)	9.9	(7.7)	8.6
Comprehensive income	$ 79.3	$ 113.1	$ 152.8	$ (265.9)	$79.3

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OSHKOSH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Condensed Consolidating Balance Sheet
As of March 31, 2017

	Oshkosh Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	$ 373.5	$ 2.7	$ 37.2	$ —	$ 413.4
Receivables, net	30.2	725.8	233.2	(44.1)	945.1
Inventories, net	—	1,002.9	452.2	—	1,455.1
Other current assets	31.5	50.3	8.3	—	90.1
Total current assets	435.2	1,781.7	730.9	(44.1)	2,903.7
Investment in and advances to consolidated subsidiaries	2,816.1	1,282.4	(104.8)	(3,993.7)	—
Intercompany receivables	48.0	343.2	1,808.0	(2,199.2)	—
Intangible assets, net	—	928.2	595.9	—	1,524.1
Other long-term assets	82.6	227.8	250.6	—	561.0
Total assets	$ 3,381.9	$ 4,563.3	$ 3,280.6	$ (6,237.0)	$ 4,988.8
Liabilities and Shareholders' Equity					
Current liabilities:					
Accounts payable	$ 15.8	$ 571.9	$ 150.8	$ (43.9)	$ 694.6
Customer advances	—	668.0	4.0	—	672.0
Other current liabilities	80.2	247.6	99.1	(0.2)	426.7
Total current liabilities	96.0	1,487.5	253.9	(44.1)	1,793.3
Long-term debt, less current maturities	817.1	—	—	—	817.1
Intercompany payables	364.2	1,787.0	48.0	(2,199.2)	—
Other long-term liabilities	71.3	148.8	125.0	—	345.1
Total shareholders' equity	2,033.3	1,140.0	2,853.7	(3,993.7)	2,033.3
Total liabilities and shareholders' equity	$ 3,381.9	$ 4,563.3	$ 3,280.6	$ (6,237.0)	$ 4,988.8

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OSHKOSH CORPORATION
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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

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OSHKOSH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Condensed Consolidating Statement of Cash Flows
For the Six Months Ended March 31, 2017

	Oshkosh Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net cash provided (used) by operating activities	$ (20.4)	$ 193.2	$ (24.7)	$ —	$ 148.1
Investing activities:					
Additions to property, plant and equipment	(1.6)	(19.6)	(6.8)	—	(28.0)
Additions to equipment held for rental	—	—	(24.6)	—	(24.6)
Proceeds from sale of equipment held for rental	—	—	19.8	—	19.8
Intercompany investing	—	387.0	—	(387.0)	—
Other investing activities	(0.8)	(0.1)	—	—	(0.9)
Net cash provided (used) by investing activities	(2.4)	367.3	(11.6)	(387.0)	(33.7)
Financing activities:					
Repayments of debt (original maturities greater than three months)	(20.0)	—	—	—	(20.0)
Repurchases of Common Stock	(3.0)	—	—	—	(3.0)
Dividends paid	(31.3)	—	—	—	(31.3)
Proceeds from exercise of stock options	33.2	—	—	—	33.2
Intercompany financing	132.0	(559.5)	40.5	387.0	—
Net cash provided (used) by financing activities	110.9	(559.5)	40.5	387.0	(21.1)
Effect of exchange rate changes on cash	—	—	(1.8)	—	(1.8)
Increase in cash and cash equivalents	88.1	1.0	2.4	—	91.5
Cash and cash equivalents at beginning of period	285.4	1.7	34.8	—	321.9
Cash and cash equivalents at end of period	$ 373.5	$ 2.7	$ 37.2	$ —	$ 413.4

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OSHKOSH CORPORATION
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Condensed Consolidating Statement of Cash Flows
For the Six Months Ended March 31, 2016

	Oshkosh Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net cash provided (used) by operating activities	$ (124.3)	$ 99.3	$ 121.0	$ —	$ 96.0
Investing activities:					
Additions to property, plant and equipment	(12.7)	(12.3)	(15.3)	—	(40.3)
Additions to equipment held for rental	—	—	(22.7)	—	(22.7)
Proceeds from sale of equipment held for rental	—	0.6	25.5	—	26.1
Intercompany investing	(0.7)	(76.4)	(108.4)	185.5	—
Other investing activities	(1.0)	—	—	—	(1.0)
Net cash used by investing activities	(14.4)	(88.1)	(120.9)	185.5	(37.9)
Financing activities:					
Proceeds from issuance of debt (original maturities greater than three months)	270.0	—	3.5	—	273.5
Repayments of debt (original maturities greater than three months)	(190.0)	—	—	—	(190.0)
Net decrease in short-term debt	(21.3)	—	—	—	(21.3)
Repurchases of Common Stock	(101.6)	—	—	—	(101.6)
Dividends paid	(28.0)	—	—	—	(28.0)
Proceeds from exercise of stock options	1.9	—	—	—	1.9
Excess tax benefit from stock-based compensation	0.9	—	—	—	0.9
Intercompany financing	197.8	(13.0)	0.7	(185.5)	—
Net cash provided (used) by financing activities	129.7	(13.0)	4.2	(185.5)	(64.6)
Effect of exchange rate changes on cash	—	0.3	1.7	—	2.0
Increase (decrease) in cash and cash equivalents	(9.0)	(1.5)	6.0	—	(4.5)
Cash and cash equivalents at beginning of period	14.8	6.3	21.8	—	42.9
Cash and cash equivalents at end of period	$ 5.8	$ 4.8	$ 27.8	$ —	$ 38.4

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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 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 additional 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 related to production or shipment delays arising from quality or production issues, including any delays as a result of an accident at the Company’s Dodge Center manufacturing facility; 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 April 26, 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.

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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 positive momentum the Company generated in the first quarter of fiscal 2017 continued in the Company’s second quarter, as the Company reported earnings per share that exceeded the Company's expectations. The Company also exited the quarter with backlog up compared to the prior year quarter in all of the Company’s segments. The Company reported earnings per share of $0.58 in the second quarter of fiscal 2017 compared to $0.76 in the second quarter of fiscal 2016. Second quarter fiscal 2017 results included $17.2 million, or $0.18 per share, of restructuring-related costs recorded in the access equipment segment as part of a restructuring plan announced in January 2017. The better than expected results for the second quarter of fiscal 2017 were driven by the defense and access equipment segments. Defense segment results compared to the Company’s expectations benefited from the timing of sales and stronger than expected program execution. Access equipment segment results compared to the Company’s expectations benefited from a favorable product mix and a delay in the timing of discretionary spend.

Consolidated net sales increased $94.0 million, or 6.2%, to $1.62 billion in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016. A 50% increase in defense segment sales in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016, led by Joint Light Tactical Vehicle (JLTV) and Mine Resistant Ambush Protected - All Terrain Vehicle (M-ATV) sales increases, more than offset single digit percentage sales declines in the access equipment and commercial segments. Access equipment segment sales in the second quarter of fiscal 2017 were down 4.1% compared to the second quarter of fiscal 2016, which was better than the Company's expected full fiscal 2017 percentage sales decline for this segment. Commercial segment sales were down 8.7% in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016, with refuse collection vehicle sales down 20.5% as a result of order weakness experienced in the first quarter of fiscal 2017.

Consolidated operating income decreased 12.0% to $80.4 million, or 5.0% of sales, in the second quarter of fiscal 2017 compared to $91.4 million, or 6.0% of sales, in the second quarter of fiscal 2016. Second quarter fiscal 2017 results included $17.2 million of restructuring-related costs recorded in the access equipment segment as part of the restructuring plan announced in January 2017. Higher defense and fire & emergency segment results along with lower corporate expenses were more than offset by lower access equipment and commercial segment operating income.

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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 $43 million of the cost of implementing these actions in fiscal 2017, of which it recognized $17.2 million in the second quarter of fiscal 2017.

As a result of the solid performance in the first half of the year and positive outlook for the remainder of the year, the Company increased its fiscal 2017 earnings per share estimate range from $2.50 to $2.90 to $2.70 to $3.00 on operating income of $372 million to $402 million. Excluding expected access equipment segment restructuring-related charges, the Company also increased its fiscal 2017 adjusted earnings per share estimate range from $3.00 to $3.40 to $3.20 to $3.50 on adjusted operating income of $415 million to $445 million. Although the Company is only partially through the seasonally important Spring and early Summer time period, which typically drives how the segments with exposure to the construction season in the Northern Hemisphere will perform, the Company is encouraged by the strong backlogs in all of the segments at March 31, 2017. Full year fiscal 2017 sales are now expected to be $6.6 billion to $6.7 billion, compared to the Company's previous expectation of $6.5 billion to $6.7 billion.

The Company now expects access equipment segment fiscal 2017 sales to be approximately $2.8 billion, the high end of its previous range. The revised sales estimate for fiscal 2017 represents an estimated 7% decline from fiscal 2016 sales. The Company is also increasing its fiscal 2017 operating income margin outlook range for the access equipment segment from 6.15% to 6.95% to a range of 7.20% to 7.45%, reflecting both the higher sales estimate and an expected more favorable mix. Likewise, the Company also increased its adjusted operating income margin outlook range for this segment from 7.75% to 8.50% to a range of 8.75% to 9.00%.

The Company still expects fiscal 2017 defense segment sales to be approximately $1.85 billion. The Company is slightly increasing its fiscal 2017 defense segment operating income margin estimate, from 9.75% to 10.0%, reflecting stronger program execution.

The Company continues to believe fire & emergency segment fiscal 2017 sales will be approximately $1.0 billion with operating income margin of approximately 8.5%.

The Company still expects fiscal 2017 commercial segment sales to be approximately $975 million. The Company is reducing the commercial segment operating income margin expectation from 6.5% to a range of 5.0% to 5.5%, reflecting higher than previously expected inefficiencies related to a more pronounced production ramp from the first half to the second half of the year, a less favorable mix and a more challenging price/cost dynamic.

The Company is now estimating that fiscal 2017 corporate expenses will be approximately $145 million, compared to the previous expectation of a range of $140 million to $145 million.

The Company expects higher consolidated sales in the third quarter of fiscal 2017 compared to the prior year quarter as it expects higher defense and, to a lesser extent, fire & emergency segment sales to offset the impact of continued lower access equipment segment sales and lower expected commercial segment operating income margins. The

Company expects higher earnings per share in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016.

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Results of Operations

Analysis of Consolidated Net Sales

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

	Second Quarter Fiscal		First Six Months Fiscal	
	2017	2016	2017	2016
Net sales:				
Access equipment	$723.2	$754.3	$1,212.4	$1,284.1
Defense	446.1	297.0	740.6	615.0
Fire & emergency	237.5	240.4	470.0	447.9
Commercial	216.0	236.7	415.2	437.0
Intersegment eliminations and other	(4.5)	(4.1)	(8.5)	(7.7)
	$1,618.3	$1,524.3	$2,829.7	$2,776.3

Second Quarter Fiscal 2017 Compared to 2016

Consolidated net sales increased $94.0 million, or 6.2%, to $1.62 billion in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016. A significant increase in sales in the defense segment was offset in part by lower sales in the access equipment and commercial segments.

Access equipment segment net sales decreased $31.1 million, or 4.1%, to $723.2 million in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016. The decline in sales was primarily due to lower telehandler sales volumes in North America and Europe (down $54 million) and a more competitive pricing environment (down $10 million), offset in part by higher sales of used equipment and service (up $14 million).

Defense segment net sales increased $149.1 million, or 50.2%, to $446.1 million in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016. The increase in sales was primarily due to the ramp-up of sales to the U.S. government under the JLTV program and higher international M-ATV sales under the international contract award received in the second quarter of fiscal 2016.

Fire & emergency segment net sales decreased $2.9 million, or 1.2%, to $237.5 million in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016. The decrease in sales was primarily due to lower Airport Products unit volume (down $9 million), primarily due to the timing of international deliveries, offset in part by improved pricing (up $8 million).

Commercial segment net sales decreased $20.7 million, or 8.7%, to $216.0 million in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016. The decrease in sales was primarily due to lower refuse collection vehicle unit volumes (down $34 million), offset in part by higher package sales, which include third-party chassis (up $10 million).

First Six Months of Fiscal 2017 Compared to 2016

Consolidated net sales increased $53.4 million, or 1.9%, to $2.83 billion in the first six months of fiscal 2017 compared to the first six 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 $71.7 million, or 5.6%, to $1.21 billion in the first six months of fiscal 2017 compared to the first six months of fiscal 2016. The decline in sales was primarily due to lower telehandler sales volumes in North America and Europe (down $72 million).

Defense segment net sales increased $125.6 million, or 20.4%, to $740.6 million in the first six months of fiscal 2017 compared to the first six months of fiscal 2016. The increase in sales was primarily due to higher sales of heavy tactical wheeled vehicles to the U.S. government and the ramp-up of sales under the JLTV program, offset by lower international sales of M-ATVs. During the first six months of fiscal 2016, production of heavy tactical wheeled vehicles was ramping back up after a break in production experienced in fiscal 2015.

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Fire & emergency segment net sales increased $22.1 million, or 4.9%, to $470.0 million in the first six months of fiscal 2017 compared to the first six months of fiscal 2016. The increase in sales was primarily due to improved pricing (up $13 million) and the sale of higher content units (up $7 million).

Commercial segment net sales decreased $21.8 million, or 5.0%, to $415.2 million in the first six months of fiscal 2017 compared to the first six months of fiscal 2016. The decrease in sales was primarily due to lower refuse collection vehicle unit volume (down $57 million), offset in part by sales of higher content units (up $22 million) and higher concrete mixer unit volume (up $6 million).

Analysis of Consolidated Cost of Sales

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

	Second Quarter Fiscal		First Six Months Fiscal	
	2017	2016	2017	2016
Cost of sales:				
Access equipment	$604.7	$608.9	$1,004.2	$1,051.4
Defense	374.5	250.1	623.4	524.7
Fire & emergency	196.3	208.4	394.5	389.2
Commercial	185.6	194.8	355.5	363.6
Intersegment eliminations and other	(4.1)	2.8	(8.9)	5.3
	$1,357.0	$1,265.0	$2,368.7	$2,334.2

Second Quarter Fiscal 2017 Compared to 2016

Consolidated cost of sales was $1.36 billion, or 83.9% of sales, in the second quarter of fiscal 2017 compared to $1.27 billion, or 83.0% of sales, in the second quarter of fiscal 2016. The 90 basis point increase in cost of sales as a percentage of sales in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016 was largely due to restructuring-related charges incurred in the access equipment segment (110 basis points).

Access equipment segment cost of sales was $604.7 million, or 83.6% of sales, in the second quarter of fiscal 2017 compared to $608.9 million, or 80.7% of sales, in the second quarter of fiscal 2016. The 290 basis point increase in cost of sales as a percentage of sales in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016 was largely due to restructuring-related costs (240 basis points) and a more competitive pricing environment (100 basis points), offset in part by improved product mix (70 basis points).

Defense segment cost of sales was $374.5 million, or 83.9% of sales, in the second quarter of fiscal 2017 compared to $250.1 million, or 84.2% of sales, in the second quarter of fiscal 2016. The 30 basis point decrease in cost of sales as a percentage of sales in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016 was primarily attributable to improved absorption as a result of increased production (320 basis points) and favorable warranty performance (80 basis points), offset in part by adverse product mix (350 basis points).

Fire & emergency segment cost of sales was $196.3 million, or 82.7% of sales, in the second quarter of fiscal 2017 compared to $208.4 million, or 86.7% of sales, in the second quarter of fiscal 2016. The 400 basis point decrease in cost of sales as a percentage of sales in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016 was primarily attributable to improved pricing (260 basis points) and improved product mix (140 basis points).

Commercial segment cost of sales was $185.6 million, or 85.9% of sales, in the second quarter of fiscal 2017 compared to $194.8 million, or 82.3% of sales, in the second quarter of fiscal 2016. The 360 basis point increase in cost of sales as a percentage of sales in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016 was largely due to under absorption as a result of lower production (130 basis points), adverse product mix (70 basis points), increased warranty reserves (80 basis points) and costs related to an accident at one of its manufacturing facilities (50 basis points).

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.

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First Six Months of Fiscal 2017 Compared to 2016

Consolidated cost of sales was $2.37 billion, or 83.7% of sales, in the first six months of fiscal 2017 compared to $2.33 billion, or 84.1% of sales, in the first six months of fiscal 2016. The 40 basis point decrease in cost of sales as a percentage of sales in the first six months of fiscal 2017 compared to the first six months of fiscal 2016 was largely due to improved absorption in the defense segment as a result of increased production (80 basis points) and improved operating results related to a corporate-led manufacturing facility which was incurring start-up costs during the first six months of fiscal 2016 (40 basis points), offset in part by restructuring-related costs incurred in the access equipment segment (50 basis points).

Access equipment segment cost of sales was $1.00 billion, or 82.8% of sales, in the first six months of fiscal 2017 compared to $1.05 billion, or 81.9% of sales, in the first six months of fiscal 2016. The 90 basis point increase in cost of sales as a percentage of sales in the first six months of fiscal 2017 compared to the first six months of fiscal 2016 was largely due to restructuring-related costs (140 basis points) and a more competitive pricing environment (110 basis points), offset in part by favorable product mix (70 basis points), the timing of new product development spending (30 basis points) and more efficient material usage (50 basis points).

Defense segment cost of sales was $623.4 million, or 84.2% of sales, in the first six months of fiscal 2017 compared to $524.7 million, or 85.3% of sales, in the first six months of fiscal 2016. The 110 basis point decrease in cost of sales as a percentage of sales in the first six months of fiscal 2017 compared to the first six months of fiscal 2016 was primarily attributable to improved absorption as a result of increased production (120 basis points) and favorable contract performance on multi-year contracts (40 basis points), offset in part by adverse product mix (130 basis points).

Fire & emergency segment cost of sales was $394.5 million, or 83.9% of sales, in the first six months of fiscal 2017 compared to $389.2 million, or 86.9% of sales, in the first six months of fiscal 2016. The 300 basis point decrease in cost of sales as a percentage of sales in the first six months of fiscal 2017 compared to the first six months of fiscal 2016 was largely due to improved pricing (220 basis points) and improved product mix (70 basis points).

Commercial segment cost of sales was $355.5 million, or 85.6% of sales, in the first six months of fiscal 2017 compared to $363.6 million, or 83.2% of sales, in the first six months of fiscal 2016. The 240 basis point increase in cost of sales as a percentage of sales in the first six months of fiscal 2017 compared to the first six months of fiscal 2016 was largely due to under absorption as a result of lower production (130 basis points) and adverse product mix (90 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):

	Second Quarter Fiscal		First Six Months Fiscal	
	2017	2016	2017	2016
Operating income (loss):				
Access equipment	$42.1	$75.7	$66.5	$96.1
Defense	48.7	27.8	72.5	51.0
Fire & emergency	21.8	14.9	38.8	25.0

Commercial	6.0	17.2	10.6	26.1
Corporate	(38.2)	(44.2)	(71.8)	(76.5)
Intersegment eliminations	—	—	—	—
	$80.4	$91.4	$116.6	$121.7

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Second Quarter Fiscal 2017 Compared to 2016

Consolidated operating income decreased 12.0% to $80.4 million, or 5.0% of sales, in the second quarter of fiscal 2017 compared to $91.4 million, or 6.0% of sales, in the second quarter of fiscal 2016. The decrease in operating income in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016 was primarily the result of $17.2 million of restructuring-related charges in the access equipment segment.

Access equipment segment operating income decreased 44.4% to $42.1 million, or 5.8% of sales, in the second quarter of fiscal 2017 compared to $75.7 million, or 10.0% of sales, in the second quarter of fiscal 2016. The decrease in operating income in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016 was primarily the result of restructuring-related charges of $17.2 million. In addition, a more competitive pricing environment (down $10 million), higher selling, general and administrative salaries (up $6 million) and increased trade show expenses (up $4 million) all contributed to the decrease in operating income in the access equipment segment in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016.

Defense segment operating income increased 75.2% to $48.7 million, or 10.9% of sales, in the second quarter of fiscal 2017 compared to $27.8 million, or 9.4% of sales, in the second quarter of fiscal 2016. The increase in operating income in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016 was largely due to higher gross income associated with higher sales volume (up $32 million) and improved manufacturing absorption as a result of higher sales (up $6 million), offset in part by adverse product mix (down $13 million) and higher incentive compensation expense (up $3 million).

Fire & emergency segment operating income increased 46.3% to $21.8 million, or 9.2% of sales, in the second quarter of fiscal 2017 compared to $14.9 million, or 6.2% of sales, in the second quarter of fiscal 2016. The increase in operating income in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016 was primarily a result of improved pricing (up $8 million).

Commercial segment operating income decreased 65.1% to $6.0 million, or 2.8% of sales, in the second quarter of fiscal 2017 compared to $17.2 million, or 7.3% of sales, in the second quarter of fiscal 2016. The decrease in operating income in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016 was primarily a result of lower gross income associated with lower sales volume (down $8 million) and under absorption as a result of lower production (up $2 million). Commercial segment second quarter fiscal 2017 results also included $1.3 million of costs related to the accident at one of its manufacturing facilities.

Corporate operating costs decreased $6.0 million to $38.2 million in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016. The decrease in corporate operating costs in the second quarter of fiscal 2017 compared to the second 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 second quarter of fiscal 2016.

Consolidated selling, general and administrative expenses increased 9.8% to $169.8 million, or 10.5% of sales, in the second quarter of fiscal 2017 compared to $154.7 million, or 10.1% of sales, in the second quarter of fiscal 2016. The increase in consolidated selling, general and administrative expenses in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016 was generally a result of higher incentive compensation expense, increased salaries and higher trade show costs.

First Six Months of Fiscal 2017 Compared to 2016

Consolidated operating income decreased 4.2% to $116.6 million, or 4.1% of sales, in the first six months of fiscal 2017 compared to $121.7 million, or 4.4% of sales, in the first six months of fiscal 2016. The decline in operating income in the first six months of fiscal 2017 compared to the first six months of fiscal 2016 was driven by $17.2 million of restructuring-related charges in the access equipment segment, lower gross margin associated with lower access equipment segment sales, lower performance in the commercial segment and higher incentive compensation expense, offset in part by higher gross margin associated with higher defense segment sales, improved performance in the fire & emergency segment and lower start-up costs of a corporate-led manufacturing facility.

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Access equipment segment operating income decreased 30.8% to $66.5 million, or 5.5% of sales, in the first six months of fiscal 2017 compared to $96.1 million, or 7.5% of sales, in the first six months of fiscal 2016. The decline in operating income in the first six months of fiscal 2017 compared to the first six months of fiscal 2016 was primarily the result of restructuring-related charges of $17.2 million. In addition, a more competitive pricing environment (down $17 million), lower gross income associated with lower sales volume (down $14 million) and higher selling, general and administrative salaries (up $6 million) were offset in part by a favorable product mix (up $11 million).

Defense segment operating income increased 42.2% to $72.5 million, or 9.8% of sales, in the first six months of fiscal 2017 compared to $51.0 million, or 8.3% of sales, in the first six months of fiscal 2016. The increase in operating income in the first six months of fiscal 2017 compared to the first six months of fiscal 2016 was primarily the result of higher gross margin associated with higher sales volume (up $27 million) and improved absorption as a result of higher production (up $5 million), offset in part by adverse product mix (down $10 million).

Fire & emergency segment operating income increased 55.2% to $38.8 million, or 8.3% of sales, in the first six months of fiscal 2017 compared to $25.0 million, or 5.6% of sales, in the first six months of fiscal 2016. The increase in operating income in the first six months of fiscal 2017 compared to the first six months of fiscal 2016 was primarily the result of improved pricing (up $13 million).

Commercial segment operating income decreased 59.4% to $10.6 million, or 2.6% of sales, in the first six months of fiscal 2017 compared to $26.1 million, or 6.0% of sales, in the first six months of fiscal 2016. The decrease in operating income in the first six months of fiscal 2017 compared to the first six months of fiscal 2016 was primarily a result of lower gross margin associated with lower sales volume (down $12 million) and under absorption as a result of lower production (up $4 million). Commercial segment results in the first six months of fiscal 2017 also included $1.3 million of costs related to the accident at one of its manufacturing facilities.

Corporate operating costs decreased $4.7 million to $71.8 million in the first six months of fiscal 2017 compared to the first six months of fiscal 2016. The decrease in corporate operating costs in the first six months of fiscal 2017 compared to the first six 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 six months of fiscal 2016, offset in part by higher incentive and share-based compensation expense (up $7 million) in the first six months of fiscal 2017.

Consolidated selling, general and administrative expenses increased 9.1% to $320.8 million, or 11.3% of sales, in the first six months of fiscal 2017 compared to $294.0 million, or 10.6% of sales, in the first six months of fiscal 2016. The increase in consolidated selling, general and administrative expenses in the first six months of fiscal 2017 compared to the first six 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

Second Quarter Fiscal 2017 Compared to 2016

Interest expense net of interest income decreased $1.0 million to $14.1 million in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016.

Other miscellaneous income of $1.2 million in the second quarter of fiscal 2017 and other miscellaneous expense of $1.0 million in the second quarter of fiscal 2016 primarily related to net foreign currency transaction gains and losses.

The Company recorded income tax expense of $23.6 million in the second quarter of fiscal 2017, or 35.0% of pre-tax income, compared to $20.3 million, or 27.0% of pre-tax income, in the second quarter of fiscal 2016. Results for the second quarter of fiscal 2017 were favorably impacted by discrete tax benefits, largely related to excess tax benefits from stock-based compensation (260 basis points). Results for the second quarter of fiscal 2016 were favorably impacted by discrete tax benefits related to a change in a filing position on the Company's fiscal 2015 income tax return and reduction in liability related to expiration of statutes of limitations (580 basis points). Further, the reinstatement of the U.S. research and development tax credit favorably benefited the second quarter of fiscal 2016 by 100 basis points.

Equity in earnings of unconsolidated affiliates of $0.4 million in the second quarter of fiscal 2017 and $1.1 million in the second quarter of fiscal 2016 primarily represented the Company’s equity interest in a commercial entity in Mexico and a joint venture in Europe.

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First Six Months of Fiscal 2017 Compared to 2016

Interest expense net of interest income decreased $1.2 million to $28.0 million in the first six months of fiscal 2017 compared to the first six months of fiscal 2016.

Other miscellaneous income of $2.5 million in the first six months of fiscal 2017 and other miscellaneous expense of $1.0 million in the first six months of fiscal 2016 primarily related to net foreign currency transaction gains and losses.

The Company recorded income tax expense of $28.8 million in the first six months of fiscal 2017, or 31.6% of pre-tax income, compared to $22.0 million, or 24.1% of pre-tax income, in the first six months of fiscal 2016. Results for the first six months of fiscal 2017 were favorably impacted by discrete tax benefits, largely related to state tax matters (230 basis points) and excess tax benefits from stock-based compensation (220 basis points). Results for the first six months of fiscal 2016 were favorably impacted by discrete tax benefits, including a change in filing position on the Company's 2015 federal income tax return (380 basis points), the retroactive reinstatement of the U.S. research and development tax credit (260 basis points) and reductions in reserves for uncertain tax benefits (220 basis points), related to interest and expiration of statutes of limitations. Results for the first six months of fiscal 2016 also include the ongoing benefit of the U.S. research and development tax credit (100 basis points).

Equity in earnings of unconsolidated affiliates of $1.2 million in the first six months of fiscal 2017 and $1.2 million in the first six 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 March 31, 2017, the Company had cash and cash equivalents of $413.4 million. The Company expects to meet its fiscal 2017 U.S. funding needs without repatriating undistributed profits that are indefinitely reinvested outside the United States. In addition to cash and cash equivalents, the Company had $749.5 million of unused available capacity under the Revolving Credit Facility as of March 31, 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, share repurchases and dividends. As of March 31, 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 fiscal 2017.

Financial Condition at March 31, 2017

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

	March 31, 2017	September 30, 2016
Cash and cash equivalents	$413.4	$321.9
Total debt	827.1	846.2
Total shareholders’ equity	2,033.3	1,976.5
Total capitalization (debt plus equity)	2,860.4	2,822.7
Debt to total capitalization	28.9 %	30.0 %

The Company's ratio of debt to total capitalization of 28.9% at March 31, 2017 remained within its targeted range.

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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 March 31, 2017. Days sales outstanding for segments other than the defense segment increased from 51 days at September 30, 2016 to 54 days at March 31, 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) decreased from 4.1 times at September 30, 2016 to 3.7 times at March 31, 2017 as a result of the Company building inventory in its defense segment in anticipation of M-ATV vehicle deliveries under the international contract award received in the second quarter of fiscal 2016 and seasonal build of inventory in the access equipment segment.

Cash Flows

Operating Cash Flows

Operating activities generated $148.1 million of cash in the first six months of fiscal 2017 compared to $96.0 million in the first six months of fiscal 2016. During the first six months of fiscal 2017, increases in inventory in the access equipment and defense segments were offset in part by higher customer advances and accounts payable.

Investing Cash Flows

Investing activities used cash of $33.7 million in the first six months of fiscal 2017 compared to $37.9 million in the first six months of fiscal 2016. Capital spending, excluding equipment held for rental, of $28.0 million in the first six months of fiscal 2017 reflected a decrease of $12.3 million compared to capital spending in the first six months of fiscal 2016. In fiscal 2017, the Company expects capital spending to be approximately $100 million.

Financing Cash Flows

Financing activities used cash of $21.1 million in the first six months of fiscal 2017 compared to $64.6 million in the first six months of fiscal 2016. In the first six months of fiscal 2017 and 2016, the Company repurchased shares of its Common Stock at an aggregate cost of $3.0 million and $101.6 million, respectively. During the first six months of fiscal 2016, the Company utilized net proceeds under the Revolving Credit Facility of $68.7 million to fund capital needs and stock repurchases. The Company prepaid all fiscal 2017 mandatory payments on its term loan during the first quarter of fiscal 2017. In addition, the Company also received $33.2 million of cash from the exercise of stock options during the first six months of fiscal 2017, whereas only $1.9 million was received in the first six 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 Company entered into an agreement with lenders under the Credit Agreement that increased the Revolving Credit Facility to an aggregate maximum amount of $850 million. 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.

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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.

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 Standard & Poor’s Ratings Group or Moody’s Investor Service Inc. During any such period when the collateral has been released, the Company’s leverage ratio as of the last day of any fiscal quarter must not be greater than 3.75 to 1.0, 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 March 31, 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.

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

Refer to Note 7 of the Notes to Condensed Consolidated Financial Statements for additional information regarding the Company’s outstanding debt as of March 31, 2017.

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 23% of the Company’s net sales in the first six 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 March 31, 2017 increased 10.9% to $3.93 billion compared to $3.54 billion at March 31, 2016. Access equipment segment backlog increased 11.0% to $737.9 million at March 31, 2017 compared to $664.8 million at March 31, 2016 primarily due to improved market conditions in North America. Defense segment backlog increased 8.8% to $1.83 billion at March 31, 2017 compared to $1.68 billion at March 31, 2016 primarily due to the receipt of a large international contract for the delivery of M-ATVs in the third quarter of fiscal 2016 and increased funding for the JLTV program. Fire & emergency segment backlog increased 11.3% to $1.01 billion at March 31, 2017 compared to $903.4 million at March 31, 2016. The fire & emergency segment experienced very strong orders in the second quarter of fiscal 2017, some of which were likely related to the timing of a February 1 price increase at Pierce. Commercial segment backlog increased 22.2% to $353.8 million at March 31, 2017 compared to $289.4 million at March 31, 2016. Unit backlog for concrete mixers and refuse collection vehicles as of March 31, 2017 was up 4.7% and 23.4%, respectively, compared to March 31, 2016. The commercial segment experienced a rebound in orders in the second quarter of fiscal 2017 as a result of an atypical order pattern 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 DoD versus its sales to other customers. Approximately 31% of the Company's March 31, 2017 backlog is not expected to be filled in fiscal 2017.

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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.

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)	8.75 %	9.00 %
Restructuring-related costs	(1.55)	(1.55)
Access equipment segment operating income margin (GAAP)	7.20 %	7.45 %
Adjusted consolidated operating income (non-GAAP)	$415	$445
Restructuring-related costs	(43)	(43)
Consolidated operating income (GAAP)	$372	$402
Adjusted effective income tax rate (non-GAAP)	33.0 %	32.5 %
Impact of restructuring-related costs on the effective income tax rate	2.9	2.9
Effective income tax rate (GAAP)	35.9 %	35.4 %
Adjusted earnings per share-diluted (non-GAAP)	$3.20	$3.50
Restructuring-related costs, net of tax	(0.50)	(0.50)
Earnings per share-diluted (GAAP)	$2.70	$3.00

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 March 31, 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 March 31, 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.

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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 March 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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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 reduce engineering staff supporting European telehandlers, including the closure of our UK-based engineering facility. The announced plans also include 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 $17.2 million of restructuring-related costs in the second quarter of fiscal 2017 and expect to recognize the majority of the remaining costs to implement these actions in 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. This is particularly true in our commercial segment where additional restructuring actions may be required as a result of challenging market conditions we are experiencing in this segment. 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.

The explosion and fire in one of our Dodge Center, Minnesota production facilities in January 2017 may impact our expectations of future results in our Commercial Segment.

In January 2017, we experienced an explosion and fire in one of our production facilities in our commercial segment that injured five team members and resulted in a partial shutdown of our production facility. We maintain workers' compensation, property/casualty and business interruption insurance for situations like these, subject to customary deductible/self-retention amounts. To the extent that the accident adversely impacts our ability to achieve our operating plan and/or results in costs that are not covered by insurance, our expected financial results may be adversely impacted. Further, if the accident adversely impacts our production capacity for an extended period of time and we are not able to make appropriate adjustments, the result may be a loss of business.

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.

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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 March 31, 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 March 31, 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 second 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.

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ITEM 6. EXHIBITS

Exhibit No.	Description
10.1	Oshkosh Corporation 2017 Incentive Stock and Awards Plan (incorporated by reference to Attachment B to Oshkosh Corporation's definitive proxy statement on Schedule 14A for the Oshkosh Corporation Annual Meeting of Shareholders held on February 7, 2017 (File No. 1-31371)).*
31.1	Certification by the President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act, dated April 26, 2017.
31.2	Certification by the Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act, dated April 26, 2017.
32.1	Written Statement of the President and Chief Executive Officer, pursuant to 18 U.S.C. §1350, dated April 26, 2017.
32.2	Written Statement of the Executive Vice President and Chief Financial Officer, pursuant to 18 U.S.C. §1350, dated April 26, 2017.
101	The following materials from Oshkosh Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 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.

* Denotes a management contract or compensatory plan arrangement.

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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

April 26, 2017	By	/s/ Wilson R. Jones Wilson R. Jones, President and Chief Executive Officer
April 26, 2017	By	/s/ David M. Sagehorn David M. Sagehorn, Executive Vice President and Chief Financial Officer (Principal Financial Officer)
April 26, 2017	By	/s/ James C. Freeders James C. Freeders, Senior Vice President Finance and Controller (Principal Accounting Officer)

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