

NAVISTAR INTERNATIONAL CORP

Form 10-Q

September 06, 2012

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

Form 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2012

OR

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

For the transition period from _____ to _____
Commission file number 1-9618

NAVISTAR INTERNATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware 36-3359573
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

2701 Navistar Drive, Lisle, Illinois 60532
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (331) 332-5000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of August 31, 2012, the number of shares outstanding of the registrant's common stock was 68,588,952, net of treasury shares.

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Disclosure Regarding Forward-Looking Statements

Information provided and statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act"), Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"), and the Private Securities Litigation Reform Act of 1995. Such forward-looking statements only speak as of the date of this report and Navistar International Corporation assumes no obligation to update the information included in this report.

Such forward-looking statements include, but are not limited to, statements concerning:

- estimates we have made in preparing our financial statements;
- our development of new products and technologies;
- the anticipated sales, volume, demand, and markets for our products;
- the anticipated performance and benefits of our products and technologies, including our advanced clean engine solutions;
- our business strategies relating to, and our ability to meet federal and state regulatory heavy duty diesel emission standards applicable to certain of our engines, including the timing and costs of compliance and consequences of noncompliance with such standards;
- our business strategies and long-term goals, and activities to accomplish such strategies and goals;
- anticipated benefits from acquisitions, strategic alliances, and joint ventures we complete;
- our expectations relating to the dissolution of our Blue Diamond Truck joint venture with Ford expected in December 2014;
- our expectations and estimates relating to restructuring activities, including restructuring and integration charges and timing of cash payments related thereto, and operational flexibility, savings, and efficiencies from such restructurings;
- our expectations relating to our cost reduction initiatives, including our voluntary separation program, involuntary reduction in force, and other reductions to reduce discretionary spending;
- our expectations relating to our retail finance receivables and retail finance revenues;
- our anticipated costs relating to the development of our emissions solutions products;
- our anticipated capital expenditures;
- our expectations relating to payments of taxes;
- our expectations relating to warranty costs;
- our expectations relating to interest expenses;
- costs relating to litigation and similar matters;
- estimates relating to pension plan contributions;
- trends relating to commodity prices; and
- anticipated trends, expectations, and outlook relating to matters affecting our financial condition or results of operations.

These statements often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate," or similar expressions. These statements are not guarantees of performance or results and they involve risks, uncertainties, and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, there are many factors that could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements. Factors that could cause or contribute to differences in our future results include those discussed in Part I, Item 1A, Risk Factors, included within our Annual Report on Form 10-K for the year ended October 31, 2011, which was filed with the United States Securities and Exchange Commission ("SEC") on December 20, 2011 and Part II, Item 1A, Risk Factors, of our Quarterly Report on Form 10-Q for the fiscal quarters ended January 31, 2012 and April 30, 2012, which were filed with the SEC on March 8, 2012 and June 6, 2012, respectively, as well as those discussed elsewhere in this report. All future written and oral forward-looking statements by us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained herein or referred to above. Except for our ongoing obligations to disclose material information as required by the federal securities laws, we do not have any obligations or intention to release publicly any revisions to any forward-looking statements to reflect events or circumstances in the future or to reflect the occurrence of unanticipated events.

Available Information

We are subject to the reporting and information requirements of the Exchange Act and as a result, are obligated to file annual, quarterly, and current reports, proxy statements, and other information with the SEC. We make these filings available free of charge on our website (<http://www.navistar.com>) as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. Information on our website does not constitute part of this Quarterly Report on Form 10-Q. In addition, the SEC maintains a website (<http://www.sec.gov>) that contains our annual, quarterly, and current reports, proxy and information statements, and other information we electronically file with, or furnish to, the SEC. Any materials we file with, or furnish to, the SEC may also be read and/or copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

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PART I—Financial Information

Item 1. Financial Statements

Navistar International Corporation and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

(in millions, except per share data)	Three Months		Nine Months Ended	
	Ended July 31, 2012	2011	July 31, 2012	2011
Sales and revenues				
Sales of manufactured products, net	\$3,277	\$3,490	\$9,540	\$9,481
Finance revenues	42	47	129	154
Sales and revenues, net	3,319	3,537	9,669	9,635
Costs and expenses				
Costs of products sold	2,876	2,930	8,518	7,830
Restructuring charges	4	56	24	80
Impairment of property and equipment and intangible assets	—	64	38	64
Selling, general and administrative expenses	328	334	1,068	1,006
Engineering and product development costs	137	141	408	407
Interest expense	59	62	182	187
Other expense (income), net	5	(18)	26	(39)
Total costs and expenses	3,409	3,569	10,264	9,535
Equity in loss of non-consolidated affiliates	(10)	(22)	(21)	(55)
Income (loss) before income taxes	(100)	(54)	(616)	45
Income tax benefit	196	1,463	410	1,458
Net income (loss)	96	1,409	(206)	1,503
Less: Net income attributable to non-controlling interests	12	9	35	35
Net income (loss) attributable to Navistar International Corporation	\$84	\$1,400	\$(241)	\$1,468
Earnings (loss) per share attributable to Navistar International Corporation:				
Basic	\$1.22	\$19.10	\$(3.49)	\$20.13
Diluted	1.22	18.24	(3.49)	19.04
Weighted average shares outstanding:				
Basic	68.7	73.3	69.1	73.0
Diluted	68.9	76.8	69.1	77.1

See Notes to Condensed Consolidated Financial Statements

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Table of ContentsNavistar International Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

(in millions)	Three Months		Nine Months Ended	
	Ended July 31,		July 31,	
	2012	2011	2012	2011
Net income (loss) attributable to Navistar International Corporation	\$84	\$1,400	\$(241)	\$1,468
Other comprehensive income (loss)				
Foreign currency translation adjustment	(61)	4	(139)	65
Defined benefit plans (net of tax of \$13, \$31, \$36, and \$31, respectively)	23	(14)	63	65
Total other comprehensive income (loss)	(38)	(10)	(76)	130
Total comprehensive income (loss) attributable to Navistar International Corporation	\$46	\$1,390	\$(317)	\$1,598

See Notes to Condensed Consolidated Financial Statements

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Navistar International Corporation and Subsidiaries

Consolidated Balance Sheets

(in millions, except per share data)

	July 31, 2012	October 31, 2011	
	(Unaudited)		
ASSETS			
Current assets			
Cash and cash equivalents	\$547	\$539	
Restricted cash	125	100	
Marketable securities	159	718	
Trade and other receivables, net	822	1,219	
Finance receivables, net	1,812	2,198	
Inventories	1,877	1,714	
Deferred taxes, net	480	474	
Other current assets	293	273	
Total current assets	6,115	7,235	
Restricted cash	154	227	
Trade and other receivables, net	110	122	
Finance receivables, net	523	715	
Investments in non-consolidated affiliates	46	60	
Property and equipment (net of accumulated depreciation and amortization of \$2,170 and \$2,056 at the respective dates)	1,646	1,570	
Goodwill	280	319	
Intangible assets (net of accumulated amortization of \$100 and \$99, at the respective dates)	179	234	
Deferred taxes, net	1,926	1,583	
Other noncurrent assets	164	226	
Total assets	\$11,143	\$12,291	
LIABILITIES and STOCKHOLDERS' EQUITY (DEFICIT)			
Liabilities			
Current liabilities			
Notes payable and current maturities of long-term debt	\$1,416	\$1,379	
Accounts payable	1,816	2,122	
Other current liabilities	1,298	1,297	
Total current liabilities	4,530	4,798	
Long-term debt	2,996	3,477	
Postretirement benefits liabilities	3,057	3,210	
Deferred taxes, net	56	59	
Other noncurrent liabilities	862	719	
Total liabilities	11,501	12,263	
Redeemable equity securities	5	5	
Stockholders' equity (deficit)			
Series D convertible junior preference stock	3	3	
Common stock (\$0.10 par value per share, 220.0 shares authorized, and 75.4 shares issued, at both dates)	8	7	
Additional paid in capital	2,274	2,253	
Accumulated deficit	(396)	(155))
Accumulated other comprehensive loss	(2,020)	(1,944))
Common stock held in treasury, at cost (6.8 and 4.9 shares, at the respective dates)	(276)	(191))
Total stockholders' deficit attributable to Navistar International Corporation	(407)	(27))

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Stockholders' equity attributable to non-controlling interests	44	50
Total stockholders' equity (deficit)	(363) 23
Total liabilities and stockholders' equity (deficit)	\$11,143	\$12,291

See Notes to Condensed Consolidated Financial Statements

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Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended July 31,	
(in millions)	2012	2011
Cash flows from operating activities		
Net income (loss)	\$(206)	\$1,503
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	209	217
Depreciation of equipment leased to others	37	28
Deferred taxes, including change in valuation allowance	(405)	(1,472)
Impairment of property and equipment and intangible assets	38	73
Amortization of debt issuance costs and discount	31	33
Stock-based compensation	16	33
Provision for doubtful accounts, net of recoveries	—	(5)
Equity in loss of non-consolidated affiliates, net of dividends	27	57
Write-off of debt issuance cost and discount	8	—
Other non-cash operating activities	5	(9)
Changes in other assets and liabilities, exclusive of the effects of businesses acquired and disposed	586	81
Net cash provided by operating activities	346	539
Cash flows from investing activities		
Purchases of marketable securities	(672)	(1,109)
Sales or maturities of marketable securities	1,230	1,075
Net change in restricted cash and cash equivalents	48	21
Capital expenditures	(250)	(291)
Purchase of equipment leased to others	(49)	(35)
Proceeds from sales of property and equipment	12	27
Investments in non-consolidated affiliates	(18)	(48)
Proceeds from sales of affiliates	1	6
Business acquisitions, net of cash received	(12)	(1)
Acquisition of intangibles	(14)	(15)
Net cash provided by (used in) investing activities	276	(370)
Cash flows from financing activities		
Proceeds from issuance of securitized debt	1,155	348
Principal payments on securitized debt	(1,532)	(560)
Proceeds from issuance of non-securitized debt	717	158
Principal payments on non-securitized debt	(582)	(73)
Net decrease in notes and debt outstanding under revolving credit facilities	(195)	(85)
Principal payments under financing arrangements and capital lease obligations	(30)	(81)
Debt issuance costs	(20)	(6)
Purchase of treasury stock	(75)	(11)
Proceeds from exercise of stock options	2	36
Dividends paid by subsidiaries to non-controlling interest	(44)	(43)
Other financing activities	(3)	—
Net cash used in financing activities	(607)	(317)
Effect of exchange rate changes on cash and cash equivalents	(7)	7
Increase (decrease) in cash and cash equivalents	8	(141)

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Cash and cash equivalents at beginning of the period	539	585
Cash and cash equivalents at end of the period	\$547	\$444

See Notes to Condensed Consolidated Financial Statements

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Consolidated Statements of Stockholders' Equity (Deficit)
(Unaudited)

(in millions)	Series D Convertible Junior Preference Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Common Stock Held in Treasury, at cost	Stockholders' Equity Attributable to Noncontrolling Interests	Total
Balance as of October 31, 2011	\$ 3	\$ 7	\$ 2,253	\$ (155)	\$ (1,944)	\$ (191)	\$ 50	\$ 23
Net income (loss)				(241)			35	(206)
Total other comprehensive loss					(76)			(76)
Stock-based compensation			14					14
Stock ownership programs			(10)			11		1
Stock repurchase programs			20			(95)		(75)
Cash dividends paid to non-controlling interest							(44)	(44)
Increase in ownership interest acquired from non-controlling interest holder			(3)				3	—
Other		1				(1)		—
Balance as of July 31, 2012	\$ 3	\$ 8	\$ 2,274	\$ (396)	\$ (2,020)	\$ (276)	\$ 44	\$ (363)
Balance as of October 31, 2010	\$ 4	\$ 7	\$ 2,206	\$ (1,878)	\$ (1,196)	\$ (124)	\$ 49	\$ (932)
Net income				1,468			35	1,503
Total other comprehensive income					130			130
Transfer from redeemable equity securities upon exercise or expiration of stock options			3					3
Stock-based compensation			24					24
Stock ownership programs			10			23		33
Stock repurchase programs						(11)		(11)
Cash dividends paid to non-controlling interest							(43)	(43)
Impact to additional paid-in capital for valuation allowance release			45					45
Other	(1)		1					—
Balance as of July 31, 2011	\$ 3	\$ 7	\$ 2,289	\$ (410)	\$ (1,066)	\$ (112)	\$ 41	\$ 752

See Notes to Condensed Consolidated Financial Statements

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Navistar International Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Summary of Significant Accounting Policies

Organization and Description of the Business

Navistar International Corporation ("NIC"), incorporated under the laws of the State of Delaware in 1993, is a holding company whose principal operating subsidiaries are Navistar, Inc. and Navistar Financial Corporation ("NFC"). References herein to the "Company," "we," "our," or "us" refer collectively to NIC, its subsidiaries, and certain variable interest entities ("VIEs") of which we are the primary beneficiary. We operate in four principal industry segments: Truck, Engine, Parts (collectively called "manufacturing operations"), and Financial Services, which consists of NFC and our foreign finance operations (collectively called "financial services operations"). These segments are discussed in Note 13, Segment Reporting.

Basis of Presentation and Consolidation

The accompanying unaudited consolidated financial statements include the assets, liabilities, and results of operations of our manufacturing operations, majority-owned dealers ("Dealcors"), financial services operations, and VIEs of which we are the primary beneficiary. The effects of transactions among consolidated entities have been eliminated to arrive at the consolidated amounts.

We prepared the accompanying unaudited consolidated financial statements in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X issued by the United States Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and notes required by U.S. GAAP for comprehensive annual financial statements.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting policies described in our Annual Report on Form 10-K for the year ended October 31, 2011 and should be read in conjunction with the disclosures therein. In our opinion, these interim consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial condition, results of operations, and cash flows for the periods presented. Operating results for interim periods are not necessarily indicative of annual operating results.

Variable Interest Entities

We have an interest in several VIEs, primarily joint ventures, established to manufacture or distribute products and enhance our operational capabilities. We have determined for certain of our VIEs that we are the primary beneficiary because we have the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and have the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Accordingly, we include in our consolidated financial statements the assets and liabilities and results of operations of those entities, even though we may not own a majority voting interest. The liabilities recognized as a result of consolidating these VIEs do not represent additional claims on our general assets; rather they represent claims against the specific assets of the consolidated entities. Assets of these entities are not available to satisfy claims against our general assets.

We are the primary beneficiary of our Blue Diamond Parts ("BDP") and Blue Diamond Truck ("BDT") joint ventures with Ford Motor Company ("Ford"). As a result, our Consolidated Balance Sheets include assets of \$250 million and \$306 million and liabilities of \$117 million and \$158 million as of July 31, 2012 and October 31, 2011, respectively, from BDP and BDT, including \$28 million and \$38 million of cash and cash equivalents, at the respective dates, which are not readily available to satisfy our other obligations. The creditors of BDP and BDT do not have recourse to our general credit. In December 2011, Ford notified the Company of its intention to dissolve the BDT joint venture effective December 2014. We do not expect the dissolution of the BDT joint venture to have a material impact on our consolidated financial statements.

Our Financial Services segment consolidates several VIEs. As a result, our Consolidated Balance Sheets include assets of \$1.4 billion and \$1.8 billion as of July 31, 2012 and October 31, 2011, respectively, and liabilities of \$1.2 billion and \$1.5 billion as of July 31, 2012 and October 31, 2011, respectively, all of which are involved in

securitizations that are treated as borrowings. In addition, our Consolidated Balance Sheets include assets of \$372 million and \$468 million and related liabilities of \$132 million and \$216 million as of July 31, 2012 and October 31, 2011, respectively, all of which are involved in transactions that do not qualify for sale accounting treatment and are therefore treated as borrowings. Investors that hold securitization debt have a priority claim on the cash flows generated by their respective securitized assets to the extent that those trusts are entitled to make principal and interest payments. Investors in securitizations of these entities have no recourse to our general credit.

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Navistar International Corporation and Subsidiaries
 Notes to Condensed Consolidated Financial Statements—(Continued)
 (Unaudited)

We are also involved with other VIEs, which we do not consolidate because we are not the primary beneficiary. Our financial support and maximum loss exposure relating to these non-consolidated VIEs are not material to our financial condition, results of operations, or cash flows.

We use the equity method to account for our investments in entities that we do not control under the voting interest or variable interest models, but where we have the ability to exercise significant influence over operating and financial policies. Equity in loss of non-consolidated affiliates includes our share of the net income (loss) of these entities.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses. Significant estimates and assumptions are used for, but are not limited to, pension and other postretirement benefits, allowance for doubtful accounts, income tax contingency accruals and valuation allowances, product warranty accruals, asbestos and other product liability accruals, asset impairment, and litigation-related accruals. Actual results could differ from our estimates.

Concentration Risks

Our financial condition, results of operations, and cash flows are subject to concentration risks related to concentrations of union employees and one customer. As of July 31, 2012, approximately 4,700, or 48%, of our hourly workers and approximately 400, or 4%, of our salaried workers are represented by labor unions and are covered by collective bargaining agreements. For a discussion of customer concentration, see Note 13, Segment Reporting. Additionally, our future operations may be affected by changes in governmental procurement policies, budget considerations, changing national defense requirements, and global, political, regulatory and economic developments in the U.S. and certain foreign countries (primarily Canada, Mexico, and Brazil).

Product Warranty Liability

Accrued product warranty and deferred warranty revenue activity is as follows:

(in millions)	Nine Months Ended July 31,	
	2012	2011
Balance, at beginning of period	\$598	\$506
Costs accrued and revenues deferred	353	281
Adjustments to pre-existing warranties ^{(A)(B)}	255	66
Payments and revenues recognized	(324)	(288)
Balance at end of period	882	565
Less: Current portion	448	254
Noncurrent accrued product warranty and deferred warranty revenue	\$434	\$311

Adjustments to pre-existing warranties reflect changes in our estimate of warranty costs for products sold in prior periods. Such adjustments typically occur when claims experience deviates from historic and expected trends. Our warranty liability is generally affected by component failure rates, repair costs, and the timing of failures. Future events and circumstances related to these factors could materially change our estimates and require adjustments to our liability. In addition, new product launches require a greater use of judgment in developing estimates until historical experience becomes available. In the first quarter of 2012, we recorded adjustments for changes in estimates of \$123 million (\$75 million, or \$1.07 per diluted share, net of tax). In the second quarter of 2012, we recorded adjustments for changes in estimates of \$104 million (\$63 million, or \$0.92 per diluted share, net of tax). The impacts of income taxes on the adjustments reflect the Company's estimated annual effective tax rate as of July 31, 2012.

(B)

In the third quarter of 2012, we recognized \$10 million of adjustments to pre-existing warranties for a specific warranty issue related to component parts from a supplier. Also during the quarter, we reached agreement for reimbursement from such supplier and recognized a recovery for that amount and recorded a receivable within Other current assets.

The amount of deferred revenue related to extended warranty programs was \$332 million and \$257 million at July 31, 2012 and October 31, 2011, respectively. Revenue recognized under our extended warranty programs was \$17 million and \$48 million for the three and nine months ended July 31, 2012, respectively, and \$13 million and \$39 million for the three and nine months ended July 31, 2011, respectively. In the second quarter of 2012, the Truck segment recognized a charge of \$24 million related to the extended warranty contracts on our 2010 emission standard MaxxForce Big-Bore engines. The majority of the charge has been included in the adjustments to pre-existing warranties.

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Navistar International Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

Recently Issued and Recently Adopted Accounting Standards

There are no recently issued accounting standards for which the Company expects a material impact on our consolidated financial statements. In addition, for the three months ended July 31, 2012, the Company has not adopted any new accounting guidance that has had a material impact on our consolidated financial statements.

2. Restructurings and Impairments

Restructuring charges recorded are based on restructuring plans that have been committed to by management and are, in part, based upon management's best estimates of future events. Changes to the estimates may require future adjustments to the restructuring liabilities.

Engineering Integration

In the first quarter of 2011, the Company committed to a plan for the consolidation of the truck and engine engineering operations as well as the relocation of our world headquarters. The Company is utilizing proceeds from the October 2010 loan agreement related to the 6.5% Tax Exempt Bonds due 2040 to finance the relocation of the Company's world headquarters and engineering center, the expansion of an existing warehouse facility, and the development of certain industrial facilities to facilitate the consolidation of certain operations. In the first quarter of 2011, the Company finalized the purchase of the property and buildings for the consolidation of the truck and engine engineering operations, as well as the relocation of our world headquarters. The Company continues to develop plans for efficient transitions related to these activities and the optimization of the operations and management structure. In the second quarter of 2012, the Company vacated the premises of its former world headquarters in Warrenville, Illinois and recorded a charge of \$16 million, consisting of \$19 million for the recognition of the fair value of the lease vacancy obligation, partially offset by \$3 million for the reversal of deferred rent expense. This charge was recorded in Corporate and recognized in Restructuring charges. The cash payments associated with the lease vacancy obligation are expected to be completed by the end of 2016.

In the first quarter of 2011, the Company committed to a plan to wind-down and transfer certain operations at the Fort Wayne facility. As a result of the restructuring activities, the Truck segment has recognized \$34 million of restructuring charges to date, of which \$2 million and \$5 million was recognized during the three and nine months ended July 31, 2012, respectively, and \$4 million and \$23 million was recognized during the three and nine months ended July 31, 2011, respectively. To date, the restructuring charges consist of \$13 million in personnel costs for employee termination and related benefits, \$7 million of charges for pension and other postretirement contractual termination benefits, and \$14 million of employee relocation costs.

We anticipate additional engineering integration charges to range between \$30 million and \$40 million through 2013.

North American Manufacturing Restructuring Activities and Impairments of Intangible Assets

In the third quarter of 2011, the Company committed to plans for the restructuring of certain North American manufacturing operations.

Chatham restructuring activities and impairment of property and equipment

In the third quarter of 2011, the Company committed to close its Chatham, Ontario heavy truck plant, which had been idled since June 2009 due to an inability to reach a collective bargaining agreement with the Canadian Auto Workers ("CAW"). Under the Company's flexible manufacturing strategy, products previously built in Chatham were transitioned to other assembly plants in North America. The commitment to close the plant was also driven by economic, industry, and operational conditions that rendered the plant uncompetitive. As a result of the restructuring activities, the Truck segment has recognized \$48 million of restructuring charges since these actions were commenced, substantially all of which were recognized during the third quarter of 2011. Restructuring charges to date consist of \$7 million in personnel costs for employee termination and related benefits, \$33 million of charges for pension and other postretirement statutory and contractual termination benefits and related charges, and \$8 million of other costs. Ultimate pension and postretirement costs and termination benefits are subject to employee negotiation and acceptance rates. We anticipate additional charges of \$30 million to \$70 million in future periods. We expect the restructuring charges, excluding pension and other postretirement costs, will be paid over the next year.

In the third quarter of 2011, the Truck segment recognized \$8 million of charges for impairments of property and equipment at our Chatham facility. The closure of the facility permanently eliminated future cash flows associated with that property and equipment and its carrying values were determined to not be fully recoverable. We utilized the cost approach and market approach to determine the fair value of certain assets within the asset group. The impairment charges reflect the impact of the restructuring activities and closure of the Chatham facility.

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Custom Products restructuring activities and impairment of intangible assets

In the third quarter of 2011, the Company committed to a restructuring plan of its Workhorse Custom Chassis ("WCC") and Monaco RV ("Monaco") recreational vehicles operations (collectively "Custom Products"), including the closure of the Union City, Indiana chassis facility and the wind-down and transfer of certain operations at the RV motor coach plant in Coburg, Oregon. In the second quarter of 2012, the Company decided to discontinue accepting orders for its WCC business and take certain actions to idle the business, which are expected to occur in late 2012. As a result of these restructuring activities relating to Custom Products, the Truck segment has recognized \$10 million of restructuring charges to date, of which \$5 million was recognized in each of the third and fourth quarters of 2011. To date, the restructuring charges consisted of \$6 million in personnel costs for employee termination and related benefits and \$4 million of charges due to a curtailment of other postretirement employee benefit plan and postretirement contractual termination benefits. These actions are expected to be completed by the end of 2012. The Company also expects the restructuring charges, excluding other postretirement costs, will be paid over the next two years.

In the third quarter of 2011, the Truck segment recognized \$51 million of charges for impairments of intangible assets, primarily customer relationships and trade names, associated with the WCC asset group. The asset group was reviewed for recoverability by comparing the carrying value to estimated future undiscounted cash flows and those carrying values were determined to not be fully recoverable. We utilized the income and market approaches to determine the fair value of the asset group. The impairment charges for the asset group reflected market deterioration and reduction in demand below previously anticipated levels.

As a result of the decision in the second quarter of 2012 to idle the WCC business, the WCC asset group was again reviewed in the second quarter of 2012 for recoverability and determined not to be recoverable. We determined that the remaining intangible asset balances were fully impaired, and the Truck segment recognized asset impairment charges of \$28 million. In addition, the Parts segment recognized a charge of \$10 million for the impairment of certain intangible assets of the parts distribution operations related to the WCC business.

Other

Springfield Assembly Plant Actions

In the first quarter of 2011, certain employees at our Springfield Assembly Plant accepted retirement and separation incentive agreements. As a result, the Truck segment recorded \$4 million of employee termination charges.

Subsequent Event

In August 2012, the Company announced that it is taking actions to control spending across the Company with targeted reductions in certain costs. The Company is focusing on continued reductions of the amount of discretionary spending, including but not limited to reductions from efficiencies, or prioritizing or eliminating certain programs or projects.

These actions included offering to the majority of the Company's U.S.-based non-represented salaried employees the opportunity to apply for a voluntary separation program ("VSP"). Employees who applied and were accepted in the VSP will receive enhanced exit benefits. Along with the employees who chose to participate in the VSP, through the use of attrition and an involuntary reduction in force, the Company will eliminate additional positions in order to meet our targeted reduction goals. Severance benefits of various amounts, depending on the pay and length of service of the affected employees, will be payable under the reduction in force. The Company expects to complete the VSP and involuntary reduction in force in the fourth quarter of 2012 and estimates that it will incur charges between \$40 million and \$60 million.

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Reconciliation of Restructuring Liability

The following table summarizes the activity for the nine months ended July 31, 2012 in the restructuring liability, which excludes pension and other postretirement contractual termination benefits:

(in millions)	Balance at October 31, 2011	Additions	Payments	Adjustments	Balance at July 31, 2012
Employee termination charges	\$31	\$2	\$(8)	\$(4)	\$21
Employee relocation costs	—	6	(6)	—	—
Lease vacancy	—	19	(2)	1	18
Other	8	2	(7)	(1)	2
Restructuring liability	\$39	\$29	\$(23)	\$(4)	\$41

The following table summarizes the activity for the nine months ended July 31, 2011, in the restructuring liability, which excludes pension and other postretirement contractual termination benefits charges, and the pension curtailment:

(in millions)	Balance at October 31, 2010	Additions	Payments	Adjustments	Balance at July 31, 2011
Employee termination charges	\$ 5	\$25	\$(4)	\$—	\$26
Employee relocation costs	—	4	(4)	—	—
Other	—	7	—	—	7
Restructuring liability	\$ 5	\$36	\$(8)	\$—	\$33

3. Finance Receivables

Finance receivables are receivables of our financial services operations, which generally can be repaid without penalty prior to contractual maturity. Finance receivables generally consist of retail and wholesale accounts and retail and wholesale notes. Total finance receivables reported on the Consolidated Balance Sheets are net of an allowance for doubtful accounts. Total on-balance sheet assets of our financial services operations net of intercompany balances are \$2.9 billion and \$3.5 billion as of July 31, 2012 and October 31, 2011, respectively. Included in total assets are on-balance sheet finance receivables of \$2.3 billion and \$2.9 billion as of July 31, 2012 and October 31, 2011, respectively. We have two portfolio segments of finance receivables based on the type of financing inherent to each portfolio. The retail portfolio segment represents loans or leases to end-users for the purchase or lease of vehicles. The wholesale portfolio segment represents loans to dealers to finance their inventory.

Our finance receivables by major classification are as follows:

(in millions)	July 31, 2012	October 31, 2011
Retail portfolio	\$1,188	\$1,613
Wholesale portfolio	1,175	1,334
Total finance receivables	2,363	2,947
Less: Allowance for doubtful accounts	28	34
Total finance receivables, net	2,335	2,913
Less: Current portion, net ^(A)	1,812	2,198
Noncurrent portion, net	\$523	\$715

The current portion of finance receivables is computed based on contractual maturities. Actual cash collections (A) typically vary from the contractual cash flows because of prepayments, extensions, delinquencies, credit losses, and renewals.

Securitizations

Our Financial Services segment transfers wholesale notes, retail accounts receivable, retail notes, finance leases, and operating leases through special purpose entities ("SPEs"), which generally are only permitted to purchase these assets, issue asset-backed securities, and make payments on the securities. In addition to servicing receivables, our continued involvement in the SPEs includes an economic interest in the transferred receivables, and, historically, managing exposure to interest rates using interest rate swaps, interest rate caps, and forward contracts. Some of these transactions may qualify as sales of financial assets and are accounted for off-balance sheet. For sales that do qualify for off-balance sheet treatment, an initial gain (loss) is

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recorded at the time of the sale while servicing fees and excess spread income are recorded as revenue when earned over the life of the finance receivables. For transactions that are accounted for as secured borrowings, we record the interest revenue earned on the finance receivables and the interest expense paid on secured borrowings issued in connection with the finance receivables sold.

There were no transfers of finance receivables that qualified for sale accounting treatment during the three and nine months ended July 31, 2012 and 2011. Securitization income for the three and nine months ended July 31, 2011 relates to the excess spread received and fair value changes on retail accounts sold prior to November 1, 2010. For more information on assets and liabilities of consolidated VIEs and other securitizations accounted for as secured borrowings by our Financial Services segment, see Note 1, Summary of Significant Accounting Policies.

Our Financial Services segment securitizes wholesale notes through an SPE, which has in place a revolving wholesale note trust ("Master Trust") that provides for funding of eligible wholesale notes. The Master Trust's assets and liabilities are consolidated into the assets and liabilities of the Company. Components of available wholesale note trust funding facilities were as follows:

(in millions)	Maturity	July 31, 2012	October 31, 2011
Variable funding notes ("VFN")	October 2012	\$500	\$500
Investor notes	October 2012	350	350
Investor notes	October 2013	224	—
Investor notes	January 2012	—	250
Total wholesale note funding		\$1,074	\$1,100

Unutilized funding related to the variable funding notes was \$320 million and \$170 million at July 31, 2012 and October 31, 2011, respectively. For more information on the variable funding notes, see Note 7, Debt, to the accompanying consolidated financial statements.

In November 2011, NFC completed the sale of \$224 million of two-year investor notes within the wholesale note trust funding facility.

Our Financial Services segment securitizes eligible retail accounts receivable through Truck Retail Accounts Corporation ("TRAC"), a consolidated SPE. In March 2012, the TRAC funding was renewed with a \$125 million facility. The facility is secured by \$123 million of retail accounts and \$35 million of cash equivalents as of July 31, 2012, as compared to \$174 million of retail accounts and \$33 million of cash equivalents as of October 31, 2011. There were \$85 million and \$9 million of unutilized funding at July 31, 2012 and October 31, 2011, respectively. The renewed TRAC funding facility has a maturity date of March 2013.

Finance Revenues

Finance revenues consist of the following:

(in millions)	Three Months Ended July 31,		Nine Months Ended July 31,	
	2012	2011	2012	2011
Retail notes and finance leases revenue	\$24	\$32	\$76	\$108
Operating lease revenue	10	8	30	23
Wholesale notes interest	22	25	67	76
Retail and wholesale accounts interest	8	8	26	20
Securitization income	—	—	—	2
Gross finance revenues	64	73	199	229
Less: Intercompany revenues	22	26	70	75
Finance revenues	\$42	\$47	\$129	\$154

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4. Allowance for Doubtful Accounts

We have two portfolio segments of finance receivables based on the type of financing inherent to each portfolio segment. The retail portfolio segment represents loans or leases to end-users for the purchase or lease of vehicles. The wholesale portfolio segment represents loans to dealers to finance their inventory. Each portfolio segment consists of one class of receivable based on: (i) initial measurement attributes of the receivables, and (ii) the assessment and monitoring of risk and performance of the receivables.

The activity related to our allowance for doubtful accounts for our retail portfolio segment, wholesale portfolio segment, and trade and other receivables is summarized as follows:

(in millions)	Three Months Ended July 31, 2012				Three Months Ended July 31, 2011			
	Retail Portfolio	Wholesale Portfolio	Trade and Other Receivables	Total	Retail Portfolio	Wholesale Portfolio	Trade and Other Receivables	Total
Allowance for doubtful accounts, at beginning of period	\$26	\$ 2	\$ 17	\$45	\$40	\$ 2	\$ 34	\$76
Provision for doubtful accounts, net of recoveries	1	—	—	1	(1)	—	(2)	(3)
Charge-off of accounts ^(A)	(1)	—	(2)	(3)	(2)	—	(4)	(6)
Allowance for doubtful accounts, at end of period	\$26	\$ 2	\$ 15	\$43	\$37	\$ 2	\$ 28	\$67
(in millions)	Nine Months Ended July 31, 2012				Nine Months Ended July 31, 2011			
	Retail Portfolio	Wholesale Portfolio	Trade and Other Receivables	Total	Retail Portfolio	Wholesale Portfolio	Trade and Other Receivables	Total
Allowance for doubtful accounts, at beginning of period	\$31	\$ 2	\$ 17	\$50	\$58	\$ 2	\$ 36	\$96
Provision for doubtful accounts, net of recoveries	(1)	—	2	1	(1)	—	(4)	(5)
Charge-off of accounts ^(A)	(4)	—	(4)	(8)	(20)	—	(4)	(24)
Allowance for doubtful accounts, at end of period	\$26	\$ 2	\$ 15	\$43	\$37	\$ 2	\$ 28	\$67

We repossess sold and leased vehicles on defaulted finance receivables and leases, and place them into Inventories. Losses recognized at the time of repossession and charged against the allowance for doubtful accounts were \$1 million and \$4 million for the three and nine months ended July 31, 2012, respectively, and \$2 million and \$17 million for the three and nine months ended July 31, 2011, respectively.

The accrual of interest income is discontinued on certain impaired finance receivables. Impaired finance receivables include accounts with specific loss reserves and certain accounts that are on non-accrual status. In certain cases, we continue to collect payments on our impaired finance receivables.

Information regarding impaired finance receivables is as follows:

(in millions)	As of July 31, 2012			October 31, 2011		
	Retail Portfolio	Wholesale Portfolio	Total	Retail Portfolio	Wholesale Portfolio	Total
Impaired finance receivables with specific loss reserves	\$14	\$ —	\$14	\$15	\$ —	\$15
Impaired finance receivables without specific loss reserves	1	—	1	2	—	2

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Specific loss reserves on impaired finance receivables	11	—	11	10	—	10
Finance receivables on non-accrual status	11	—	11	14	—	14

For the impaired finance receivables in the retail portfolio as of July 31, 2012 and 2011, the average balances of those receivables were \$13 million and \$37 million during the nine months ended July 31, 2012 and 2011, respectively.

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The Company uses the aging of its receivables as well as other inputs when assessing credit quality. The aging analysis for finance receivables is summarized as follows:

(in millions)	As of July 31, 2012			October 31, 2011		
	Retail Portfolio	Wholesale Portfolio	Total	Retail Portfolio	Wholesale Portfolio	Total
Current	\$1,116	\$ 1,172	\$2,288	\$1,515	\$ 1,328	\$2,843
30-90 days past due	59	2	61	85	5	90
Over 90 days past due	13	1	14	13	1	14
Total finance receivables	\$1,188	\$ 1,175	\$2,363	\$1,613	\$ 1,334	\$2,947

5. Inventories

The components of inventories are as follows:

(in millions)	As of July 31, 2012	October 31, 2011
Finished products	\$958	\$873
Work in process	203	174
Raw materials	716	667
Total inventories	\$1,877	\$1,714

6. Investments in Non-consolidated Affiliates

Investments in non-consolidated affiliates is comprised of our interests in partially-owned affiliates of which our ownership percentages range from 10% to 50%. We do not control these affiliates, but have the ability to exercise significant influence over their operating and financial policies. Our investment in these affiliates is an integral part of our operations, and we account for them using the equity method of accounting.

Prior to the termination of our NC² Global, LLC ("NC²") joint venture agreement with Caterpillar, our 50% interest in NC² was included in Investments in non-consolidated affiliates. In September 2011, the Company acquired all of Caterpillar's ownership interest in NC², thereby increasing our equity interest in NC² from 50% to 100%. We have consolidated the operating results of NC² within our Truck segment since September 30, 2011.

Presented below is summarized financial information representing 100% of NC², which was considered a significant non-consolidated affiliate during the three and nine months ended July 31, 2011, prior to the increase of our equity interest in September 2011. Balance sheet information for NC² was insignificant to our Consolidated Balance Sheet as of July 31, 2011.

(in millions)	Three Months Ended July 31, 2011	Nine Months Ended July 31, 2011
Net revenue	\$82	\$161
Net expenses	105	218
Loss before tax expense	(23) (57
Net loss	(24) (58

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7. Debt

(in millions)	July 31, 2012	October 31, 2011
Manufacturing operations		
8.25% Senior Notes, due 2021, net of unamortized discount of \$28 and \$33, respectively	\$872	\$967
3.0% Senior Subordinated Convertible Notes, due 2014, net of unamortized discount of \$56 and \$73, respectively	514	497
Debt of majority-owned dealerships	75	94
Financing arrangements and capital lease obligations	146	118
Loan Agreement related to 6.5% Tax Exempt Bonds, due 2040	225	225
Promissory Note	33	40
Asset-Based Credit Facility	238	—
Other	43	39
Total manufacturing operations debt	2,146	1,980
Less: Current portion	356	99
Net long-term manufacturing operations debt	\$1,790	\$1,881
Financial Services operations		
Asset-backed debt issued by consolidated SPEs, at fixed and variable rates, due serially through 2019	\$1,299	\$1,664
Bank revolving, at fixed and variable rates, due dates from 2013 through 2017	857	1,072
Commercial paper, at variable rates, due serially through 2012	53	70
Borrowings secured by operating and finance leases, at various rates, due serially through 2017	57	70
Total financial services operations debt	2,266	2,876
Less: Current portion	1,060	1,280
Net long-term financial services operations debt	\$1,206	\$1,596

Manufacturing Operations

Term Loan Credit Facility

In August 2012, NIC and Navistar, Inc. signed a definitive credit agreement relating to a senior secured, term loan credit facility in an aggregate principal amount of \$1 billion (the "Term Loan Credit Facility"). The maturity date of the Term Loan Credit Facility is July 16, 2014, provided that if, prior to such date, in accordance with the terms of the Company's 3.0% Senior Subordinated Convertible Notes indenture (the "Convertible Notes"), either (i) the Convertible Notes (other than Convertible Notes in an aggregate principal amount not exceeding \$100 million) shall have been redeemed or repurchased and canceled or defeased and, pursuant to the terms of the Convertible Notes Indenture, shall have ceased to be outstanding, or (ii) the Company shall have irrevocably deposited with the Trustee (as defined in the Convertible Notes indenture) in trust for payment to the Holders (as defined in the Convertible Notes indenture), or irrevocably delivered to such Holders, as applicable, cash funds and/or (in the case of conversion) shares of Common Stock (as defined in the Convertible Notes indenture) sufficient to pay all amounts due or deliverable on all Convertible Notes (other than Convertible Notes in an aggregate principal amount not exceeding \$100 million), in which case the Term Loan Credit Facility will mature on August 17, 2017.

The Term Loan Credit Facility is secured by a first priority security interest in certain assets of NIC, Navistar, Inc., and fifteen of its direct and indirect subsidiaries, and contains customary provisions for financings of this type, including, without limitation, representations and warranties, affirmative and negative covenants and events of default. Generally, if an event of default occurs and is not cured within any specified grace period, the administrative agent, at the request of (or with the consent of) the lenders holding not less than a majority in principal amount of the outstanding term loans, may declare the term loan to be due and payable immediately. Borrowings under the Term

Loan Credit Facility accrue interest at a rate equal to a base rate plus a spread of 450 basis points or a Eurodollar rate plus a spread of 550 basis points with a LIBOR floor of 150 basis points.

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In August 2012, Navistar, Inc. borrowed an aggregate principal amount of \$1 billion under the Term Loan Credit Facility. A portion of the proceeds were used to repay all outstanding loans under Navistar, Inc.'s existing five-year inventory secured, asset-based revolving senior line of credit facility entered into in October 2011 (the "Asset-Based Credit Facility") and to pay certain fees and expenses incurred in connection with the Term Loan Credit Facility. The Term Loan Credit Facility agreement requires quarterly amortization payments of \$2.5 million, with the balance due at maturity.

Amended Asset-Based Credit Facility

In October 2011, Navistar, Inc. and various other U.S. subsidiaries signed a definitive loan agreement relating to the Asset-Based Credit Facility, containing an aggregate principal amount of \$355 million. In November 2011, the Company borrowed \$100 million under the Asset-Based Credit Facility and, in June 2012, borrowed an additional \$138 million. In August 2012, in conjunction with the Company's Term Loan Credit Facility transaction, we used a portion of the proceeds from the Term Loan Credit Facility to repay all of the borrowings under the Asset-Based Credit Facility and Navistar, Inc. entered into an amended and restated asset-based credit agreement in an aggregate principal amount of \$175 million (the "Amended Asset-Based Credit Facility") providing for a term of up to four years and nine months. Following the amendment and restatement of the Asset-Based Credit Facility, each of the subsidiaries was released from its obligations under the Asset-Based Credit Facility. The Amended Asset-Based Credit Facility is secured by a first priority security interest in Navistar, Inc.'s aftermarket parts inventory that is stored at certain parts distribution centers, storage facilities and third party processor or logistics provider locations. The Amended Asset-Based Credit Facility contains customary provisions for financings of this type, including, without limitation, representations and warranties, affirmative and negative covenants and events of default. All borrowings under the Amended Asset-Based Credit Facility accrue interest at a rate equal to a base rate or an adjusted LIBOR rate plus a spread. The spread, which will be based on an availability-based measure, ranges from 175 basis points to 225 basis points for Base Rate borrowings and 275 basis points to 325 basis points for LIBOR borrowings. The initial LIBOR spread is 275 basis points.

Senior Notes

The Company's 8.25% Senior Notes, due in 2021 (the "Senior Notes") contain an optional redemption feature allowing the Company not more than once during each twelve-month period ending on November 1, 2010, 2011, 2012, 2013, and 2014, to redeem up to \$50 million in principal amount of the Senior Notes, at a redemption price equal to 103% of the principal amount of the Senior Notes redeemed, plus accrued and unpaid interest, if any. The Company exercised this early redemption feature for a total principal amount of \$100 million, by redeeming \$50 million of Senior Notes on November 1, 2011 and an additional \$50 million of Senior Notes on November 2, 2011. In the first quarter of 2012, the Company recorded \$8 million of charges, relating to the early redemption premium and write-off of related discount and debt issuance costs.

Other

In January 2012, the Company began leasing an existing manufacturing facility in Cherokee, Alabama and purchased certain machinery and equipment within that facility. In relation to the machinery and equipment, the Company entered into a \$40 million promissory note with the lessor. This amount is payable in monthly installments over a ten-year term, in conjunction with the lease of the facility. The Company recorded the machinery and equipment, and the associated liability, at the relative fair value of \$58 million. Accordingly, this arrangement is included within our financing arrangements and capital lease obligations.

Financial Services Operations

In August 2012, our Mexican financial services affiliate Navistar Financial, S.A. de C.V., SOFOM, E.N.R., signed an agreement for a five-year, \$95 million funding facility, which will be used to support trade receivables for the sale of our trucks and buses manufactured in Mexico and exported to Colombian dealers.

In July 2012, NFC extended the maturity date of its \$500 million dealer floor plan VFN facility from July 2012 to October 2012. In August 2012, the VFN facility was renewed for \$750 million with a maturity date of August 2013.

In June 2012, NFC issued \$502 million of borrowings secured by retail asset-backed securities that matures in January 2019. Proceeds were used to settle the borrowings secured by retail asset-backed securities of \$372 million issued in May 2012, and to settle a portion of NFC's bank credit facility revolving line of credit.

In December 2011, NFC refinanced its bank credit facility dated December 2009, as amended, with a five-year \$840 million facility consisting of a \$340 million term loan and a \$500 million revolving line of credit. The new facility is subject to customary operational and financial covenants. Quarterly principal payments on the term portion are \$4 million for the first eight quarters and \$9 million for the next eleven quarters, with the balance due at maturity.

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8. Postretirement Benefits

Defined Benefit Plans

We provide postretirement benefits to a substantial portion of our employees. Costs associated with postretirement benefits include pension and postretirement health care expenses for employees, retirees, and surviving spouses and dependents. Generally, the pension plans are non-contributory. Our policy is to fund the pension plans in accordance with applicable U.S. and Canadian government regulations and to make additional contributions from time to time. For the three and nine months ended July 31, 2012, we contributed \$30 million and \$112 million, respectively, and for the three and nine months ended July 31, 2011, we contributed \$28 million and \$80 million, respectively, to our pension plans to meet regulatory funding requirements. In July 2012, the Moving Ahead for Progress in the 21st Century Act ("MAP-21 Act") was signed into law. The MAP-21 Act legislation impacts minimum funding requirements for pension plans, but does not otherwise impact our accounting for pension benefits. As a result of the MAP-21 Act, we lowered our funding expectations. We currently anticipate additional contributions of \$45 million to our pension plans during the remainder of 2012.

We primarily fund other post-employment benefit ("OPEB") obligations, such as retiree medical, in accordance with a 1993 Settlement Agreement (the "1993 Settlement Agreement"), which requires us to fund a portion of the plans' annual service cost to a retiree benefit trust (the "Base Trust"). That 1993 Settlement Agreement resolved a class action lawsuit originally filed in 1992 regarding the restructuring of the Company's then applicable retiree health care and life insurance benefits. Contributions for the nine months ended July 31, 2012 and 2011 were \$2 million and \$1 million, respectively, and we anticipate contributions for the remainder of 2012 to be \$17 million.

The Early Retiree Reinsurance Program ("ERRP") was created under the Patient Protection and Affordable Care Act ("PPACA") of 2010 to provide temporary financial assistance to health plan sponsors who provide retirement health coverage to pre-Medicare retirees. Under the terms of ERRP, for the nine months ended July 31, 2012 and 2011, \$3 million and \$5 million, respectively, was collected and deposited into the Base Trust. In the three months ended July 31, 2012 and 2011, no amounts were collected or deposited into the Base Trust.

During the third quarter of 2011, the Company committed to close its Chatham, Ontario plant. The plant closure resulted in a pension curtailment gain of \$8 million that was recognized as a component of Accumulated other comprehensive loss and contractual termination charges of \$35 million. The closure also resulted in an OPEB charge of \$13 million during the third quarter of 2011 representing a plan curtailment and related contractual termination benefits. For more information regarding restructuring activities and the closure of the Chatham, Ontario plant, see Note 2, Restructurings and Impairments.

The Company also incurred an OPEB charge of \$4 million during the third quarter of 2011 due to an OPEB plan curtailment and contractual termination charges related to the closure of the WCC Union City plant. For more information regarding restructuring activities at the WCC Union City plant, see Note 2, Restructurings and Impairments.

During the first quarter of 2011, the Company incurred a charge of \$5 million due to a plan curtailment and contractual termination benefits related to restructuring activities at the Fort Wayne facility. For more information regarding restructuring activities at the Fort Wayne facility, see Note 2, Restructurings and Impairments.

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Components of Net Periodic Benefit Expense

Net postretirement benefits expense included in our Consolidated Statements of Operations is comprised of the following:

	Three Months Ended July 31,				Nine Months Ended July 31,			
	Pension Benefits		Health and Life Insurance Benefits		Pension Benefits		Health and Life Insurance Benefits	
(in millions)	2012	2011	2012	2011	2012	2011	2012	2011
Service cost for benefits earned during the period	\$5	\$4	\$1	\$2	\$13	\$13	\$5	\$6
Interest on obligation	43	47	20	13	129	141	62	40
Amortization of cumulative loss	27	25	10	—	82	75	30	—
Amortization of prior service benefit	1	1	(2)	(7)	1	1	(4)	(22)
Settlements and curtailments	—	—	—	11	—	2	—	11
Contractual termination benefits	—	35	—	6	—	38	(3)	6
Premiums on pension insurance	—	—	—	—	1	1	—	—
Expected return on assets	(49)	(53)	(8)	(10)	(145)	(158)	(26)	(31)
Net postretirement benefits expense	\$27	\$59	\$21	\$15	\$81	\$113	\$64	\$10

Defined Contribution Plans and Other Contractual Arrangements

Our defined contribution plans cover a substantial portion of domestic salaried employees and certain domestic represented employees. The defined contribution plans contain a 401(k) feature and provide most participants with a matching contribution from the Company. Many participants covered by the plan receive annual Company contributions to their retirement accounts based on an age-weighted percentage of the participant's eligible compensation for the calendar year. Defined contribution expense pursuant to these plans was \$8 million and \$32 million for the three and nine months ended July 31, 2012 respectively, and \$7 million and \$25 million for the three and nine months ended July 31, 2011, respectively.

In accordance with the 1993 Settlement Agreement, an independent Retiree Supplemental Benefit Trust (the "Supplemental Trust") was established. The Supplemental Trust, and the benefits it provides to certain retirees, is not part of the Company's consolidated financial statements. The assets of the Supplemental Trust arise from three sources: (i) the Company's 1993 contribution to the Supplemental Trust of 25.5 million shares of our Class B common stock, which were subsequently sold by the Supplemental Trust prior to 2000, (ii) contingent profit-sharing contributions made by the Company, and (iii) net investment gains on the Supplemental Trust's assets, if any. The Company's contingent profit sharing obligations will continue until certain funding targets defined by the 1993 Settlement Agreement are met ("Profit Sharing Cessation"). Upon Profit Sharing Cessation, the Company would assume responsibility for (i) establishing the investment policy for the Supplemental Trust, (ii) approving or disapproving of certain additional supplemental benefits to the extent such benefits would result in higher expenditures than those contemplated upon the Profit Sharing Cessation, and (iii) making additional contributions to the Supplemental Trust as necessary to make up for investment and / or actuarial losses. We have recorded no profit sharing accruals based on our estimate of 2012 results.

9. Income Taxes

We compute on a quarterly basis an estimated annual effective tax rate considering ordinary income and related income tax expense. Certain foreign results in 2012 and 2011 are excluded from ordinary income due to ordinary losses for which no benefit can be recognized. Ordinary income refers to income (loss) before income tax expense excluding significant unusual or infrequently occurring items. Our effective tax rate in the first nine months of 2012 was higher than the U.S. statutory rate due to the impact of changes in valuation allowances related to our Canadian deferred tax assets, the geographical mix of the jurisdictions recognizing earnings or losses, and the favorable results from uncertain tax positions. Our effective tax rate for the third quarter of 2012 was higher than the U.S. statutory rate

due to \$173 million of income tax benefit resulting from a third quarter change in the estimated 2012 annual effective tax rate, resulting from a significant change in the 2012 forecasted results, which was caused by a change in the geographical mix of the jurisdictions in which we recognize earnings or losses, and the favorable results from uncertain tax positions. The tax effect of a significant unusual or infrequently occurring item is recorded in the interim period in which it occurs. Items included in income tax expense in the periods in which they occur include the tax effects of material restructurings and impairments, cumulative effect of changes in tax laws or rates, foreign exchange gains and losses, adjustments to uncertain tax positions, and adjustments to our valuation allowance due to changes in judgment regarding the ability to realize deferred tax assets in future years.

We have evaluated the need to maintain a valuation allowance for deferred tax assets based on our assessment of whether it is more likely than not that deferred tax benefits will be realized through the generation of future taxable income. Appropriate consideration is given to all available evidence, both positive and negative, in assessing the need for a valuation allowance. This evaluation resulted in the determination that we would be unable to realize a portion of our U.S. research and development credits and a valuation allowance of \$14 million was, therefore, established as of July 31, 2012. We continue to maintain a valuation allowance on certain federal, state, and foreign deferred tax assets that we believe on a more-likely-than-not basis will not be realized based on current forecasted results. Based on our current domestic performance, as well as the risks associated with our strategy for meeting 2010 EPA emission standards, we also believe that it is reasonably possible that a significant additional U.S. deferred tax assets valuation allowance could be required in the next twelve months. Future events that may contribute to the need to establish an additional U.S. deferred tax asset valuation allowance include, but are not limited to: (i) continued deterioration of our domestic performance, (ii) significant warranty charges, and (iii) adverse developments with respect to our strategy for meeting 2010 EPA emission standards. For additional discussion on risks associated with our strategy for meeting 2010 EPA emission standards see section Meeting U.S. Federal and State 2010 Emission Standards Requirements of Note 12, Commitments and Contingencies.

During the second quarter 2012, our evaluation resulted in the determination that a significant portion of our valuation allowance on our Canadian deferred tax assets could be released. As a result of our analysis, we recognized an income tax benefit of \$181 million from the release of valuation allowances in the nine months ended July 31, 2012.

Similarly, during the third quarter of 2011, we conducted an evaluation and determined that a significant portion of our valuation allowance on our U.S. deferred tax assets could be released as of July 31, 2011. As a result, we recognized an income tax benefit of \$1.5 billion and an adjustment to Additional paid in capital of \$45 million for the release of the valuation allowances on our U.S. deferred tax assets during the three months ended July 31, 2011.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. As of July 31, 2012, the amount of liability for uncertain tax positions was \$14 million. If the unrecognized tax benefits are recognized, \$6 million would impact our effective tax rate.

We recognize interest and penalties related to uncertain tax positions as part of Income tax benefit. For the three and nine months ended July 31, 2012, the tax benefit includes interest and penalties related to our uncertain tax positions of an expense of \$2 million and a benefit of \$9 million, respectively, reflecting the ongoing resolution of audits in various jurisdictions. We have open tax years back to 2005 with various significant taxing jurisdictions including the U.S., Canada, Mexico, and Brazil. In connection with the examination of tax returns, contingencies may arise that generally result from differing interpretations of applicable tax laws and regulations as they relate to the amount, timing, or inclusion of revenues or expenses in taxable income, or the sustainability of tax credits to reduce income taxes payable. We believe we have sufficient accruals for our contingent tax liabilities. Interim tax provisions include amounts considered sufficient to pay assessments that may result from examinations of prior year tax returns, although actual results may differ. The liability for unrecognized tax benefits may increase or decrease during the next twelve months. The impact of any such change on our financial condition and results of operation could be in the range of \$0 to \$25 million. We do not expect any such change to have a material effect on our cash flows.

10. Fair Value Measurements

For assets and liabilities measured at fair value on a recurring and nonrecurring basis, a three-level hierarchy of measurements based upon observable and unobservable inputs is used to arrive at fair value. Observable inputs are

developed based on market data obtained from independent sources, while unobservable inputs reflect our assumptions about valuation based on the best information available in the circumstances. Depending on the inputs, we classify each fair value measurement as follows:

• Level 1—based upon quoted prices for identical instruments in active markets,

• Level 2—based upon quoted prices for similar instruments, prices for identical or similar instruments in markets that are not active, or model-derived valuations, all of whose significant inputs are observable, and

• Level 3—based upon one or more significant unobservable inputs.

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The following section describes key inputs and assumptions in our valuation methodologies:

Cash Equivalents and Restricted Cash Equivalents—We classify highly liquid investments, with a maturity of 90 days or less at the date of purchase, including U.S. Treasury bills, federal agency securities, and commercial paper, as cash equivalents. The carrying amounts of cash and cash equivalents and restricted cash and cash equivalents approximate fair value because of the short-term maturity and highly liquid nature of these instruments.

Marketable Securities—Our marketable securities portfolios are classified as available-for-sale and primarily include investments in U.S. government and commercial paper with a maturity of greater than 90 days at the date of purchase. We use quoted prices from active markets to determine fair value.

Derivative Assets and Liabilities—We measure the fair value of derivatives assuming that the unit of account is an individual derivative transaction and that each derivative could be sold or transferred on a stand-alone basis. We classify within Level 2 our derivatives that are traded over-the-counter and valued using internal models based on observable market inputs. In certain cases, market data is not available and we estimate inputs such as in situations where trading in a particular commodity is not active. Measurements based upon these unobservable inputs are classified within Level 3. For more information regarding derivatives, see Note 11, Financial Instruments and Commodity Contracts.

Retained Interests—We retain certain interests in receivables sold in off-balance sheet securitization transactions prior to November 1, 2010. We estimate the fair value of retained interests using internal valuation models that incorporate market inputs and our own assumptions about future cash flows. The fair value of retained interests is estimated based on the present value of monthly collections on the sold finance receivables in excess of amounts accruing to investors and other obligations arising in securitization transactions. In addition to the amount of debt and collateral held by the securitization vehicle, the three key inputs that affect the valuation of the retained interests include credit losses, payment speed, and the discount rate. We classify these assets within Level 3.

Guarantees—We provide certain guarantees of payments and residual values to specific counterparties. Fair value of these guarantees is based upon internally developed models that utilize current market-based assumptions and historical data. We classify these liabilities within Level 3. For more information regarding guarantees, see Note 12, Commitments and Contingencies.

The following tables present the financial instruments measured at fair value on a recurring basis:

(in millions)	As of July 31, 2012			
	Level 1	Level 2	Level 3	Total
Assets				
Marketable securities:				
U.S. Treasury bills	\$ 139	\$—	\$—	\$ 139
Other U.S. and non-U.S. government bonds	—	—	—	—
Other	20	—	—	20
Derivative financial instruments:				
Foreign currency contracts	—	1	—	1
Commodity contracts	—	—	—	—
Total assets	\$ 159	\$ 1	\$—	\$ 160
Liabilities				
Derivative financial instruments:				
Foreign currency contracts	\$—	\$ 2	\$—	\$ 2
Commodity contracts	—	6	—	6
Guarantees	—	—	7	7
Total liabilities	\$—	\$ 8	\$ 7	\$ 15

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(in millions)	As of October 31, 2011			Total
	Level 1	Level 2	Level 3	
Assets				
Marketable securities:				
U.S. Treasury bills	\$283	\$—	\$—	\$283
Other U.S and non-U.S. government bonds	415	—	—	415
Other	20	—	—	20
Derivative financial instruments:				
Commodity contracts	—	—	1	1
Foreign currency contracts	—	3	—	3
Total assets	\$718	\$3	\$1	\$722
Liabilities				
Derivative financial instruments:				
Commodity contracts	\$—	\$3	\$3	\$6
Cross currency swaps	—	4	—	4
Guarantees	—	—	6	6
Total liabilities	\$—	\$7	\$9	\$16

The tables below present the changes for those financial instruments classified within Level 3 of the valuation hierarchy:

(in millions)	2012			2011		
	Guarantees	Retained interests	Commodity contracts	Guarantees	Retained interests	Commodity contracts
Three Months Ended July 31						
Balance at May 1	\$7	\$—	\$—	\$—	\$—	\$6
Total losses (realized/unrealized) included in earnings ^(A)	—	—	—	—	—	(1)
Settlements	—	—	—	—	—	(3)
Balance at July 31	\$7	\$—	\$—	\$—	\$—	\$2
Change in unrealized gains on assets and liabilities still held	\$—	\$—	\$—	\$—	\$—	\$2
Nine Months Ended July 31						
Balance at November 1	\$6	\$—	\$(2)	\$—	\$53	\$2
Total gains (losses) (realized/unrealized) included in earnings ^(A)	—	—	(1)	—	1	5
Transfers into Level 3	—	—	—	—	—	—
Transfers out of Level 3	—	—	2	—	—	—
Issuances	1	—	—	—	—	—
Settlements	—	—	1	—	(54)	(5)
Balance at July 31	\$7	\$—	\$—	\$—	\$—	\$2
Change in unrealized gains on assets and liabilities still held	\$—	\$—	\$—	\$—	\$—	\$2

^(A) For commodity contracts, gains (losses) are included in Costs of products sold. For retained interests, gains recognized are included in Finance revenues.

During the three and nine months ended July 31, 2012 and 2011, there were no purchases or sales of Level 3 financial instruments. Additionally, for the three months ended July 31, 2012 and 2011, there were no issuances of Level 3

financial instruments and there were no transfers into or out of Level 3.

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The following table presents the financial instruments measured at fair value on a nonrecurring basis:

(in millions)	Level 2	
	July 31, 2012	October 31, 2011
Finance receivables ^(A)	\$4	\$5

Certain impaired finance receivables are measured at fair value on a nonrecurring basis. An impairment charge is recorded for the amount by which the carrying value of the receivables exceeds the fair value of the underlying collateral, net of remarketing costs. As of July 31, 2012, impaired receivables with a carrying amount of \$15 million had specific loss reserves of \$11 million and a fair value of \$4 million. As of October 31, 2011, impaired receivables with a carrying amount of \$15 million had specific loss reserves of \$10 million and a fair value of \$5 million. Fair values of the underlying collateral are determined by reference to dealer vehicle value publications adjusted for certain market factors.

In addition to the methods and assumptions we use for the financial instruments recorded at fair value as discussed above, we use the following methods and assumptions to estimate the fair value for our other financial instruments that are not marked to market on a recurring basis. The carrying amounts of Cash and cash equivalents, Restricted cash, and Accounts payable approximate fair values because of the short-term maturity and highly liquid nature of these instruments. Finance receivables generally consist of retail and wholesale accounts and retail and wholesale notes. The carrying amounts of Trade and other receivables and retail and wholesale accounts approximate fair values as a result of the short-term nature of the receivables. The carrying amounts of wholesale notes approximate fair values as a result of the short-term nature of the wholesale notes and their variable interest rate terms. The fair values of these financial instruments are classified as Level 1. Due to the nature of the aforementioned financial instruments, they have been excluded from the fair value amounts presented in the table below.

The fair values of our retail notes are estimated by discounting expected cash flows at estimated current market rates. The fair values of our retail notes are classified as Level 3 financial instruments.

The fair values of our debt instruments classified as Level 1 were estimated using quoted market prices. Our Loan Agreement underlying the Tax Exempt Bonds are traded but are illiquid and as a result are classified as Level 2. The fair values of our Level 3 debt instruments are generally determined using internally developed valuation techniques such as discounted cash flow modeling. Inputs such as discount rates and credit spreads reflect our estimates of assumptions that market participants would use in pricing the instrument and may be unobservable.

The carrying values and estimated fair values of financial instruments are summarized in the tables below:

(in millions)	As of July 31, 2012				Carrying Value
	Estimated Fair Value				
	Level 1	Level 2	Level 3	Total	
Assets					
Retail notes	\$—	\$—	\$689	\$689	\$687
Notes receivable	—	—	59	59	61
Liabilities					
Debt:					
Manufacturing operations					
8.25% Senior Notes, due 2021	865	—	—	865	872
3.0% Senior Subordinated Convertible Notes, due 2014 ^(A)	517	—	—	517	514
Debt of majority-owned dealerships	—	—	74	74	75
Financing arrangements	—	—	115	115	122
Loan Agreement related to 6.5% Tax Exempt Bonds, due 2040	—	236	—	236	225
Promissory Note	—	—	33	33	33

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Asset-Based Credit Facility	—	—	238	238	238
Other	—	—	42	42	43
Financial Services operations					
Asset-backed debt issued by consolidated SPEs, at various rates, due serially through 2019	—	—	1,301	1,301	1,299
Bank revolvers, at fixed and variable rates, due dates from 2013 through 2017	—	—	818	818	857
Commercial paper, at variable rates, due serially through 2012	53	—	—	53	53
Borrowings secured by operating and finance leases, at various rates, due serially through 2017	—	—	56	56	57

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(in millions)	As of October 31, 2011				Carrying Value
	Estimated Fair Value				
	Level 1	Level 2	Level 3	Total	
Assets					
Retail notes	\$—	\$—	\$954	\$954	\$958
Notes receivable	—	—	47	47	47
Liabilities					
Debt:					
Manufacturing operations					
8.25% Senior Notes, due 2021	1,131	—	—	1,131	967
3.0% Senior Subordinated Convertible Notes, due 2014 ^(A)	633	—	—	633	497
Debt of majority-owned dealerships	—	—	88	88	94
Financing arrangements	—	—	112	112	114
Loan Agreement related to 6.5% Tax Exempt Bonds, due 2040	—	234	—	234	225
Promissory Note	—	—	39	39	40
Asset-Based Credit Facility	—	—	—	—	—
Other	—	—	26	26	39
Financial Services operations					
Asset-backed debt issued by consolidated SPEs, at various rates, due serially through 2018	—	—	1,695	1,695	1,664
Bank revolvers, at fixed and variable rates, due dates from 2013 through 2017	—	—	1,091	1,091	1,072
Commercial paper, at variable rates, due serially through 2012	70	—	—	70	70
Borrowings secured by operating and finance leases, at various rates, due serially through 2017	—	—	70	70	70

The carrying value represents the financial statement amount of the debt after allocation of the conversion feature (A) to equity, while the fair value is based on quoted market prices for the convertible note which includes the equity feature.

11. Financial Instruments and Commodity Contracts

Derivative Financial Instruments

We use derivative financial instruments as part of our overall interest rate, foreign currency, and commodity risk management strategies to reduce our interest rate exposure, reduce exchange rate risk for transactional exposures denominated in currencies other than the functional currency, and minimize the effect of commodity price volatility. From time to time, we use foreign currency forward and option contracts to manage the risk of exchange rate movements that would affect the value of our foreign currency cash flows. Foreign currency exchange rate movements create a degree of risk by affecting the value of sales made and costs incurred in currencies other than the functional currency. From time to time, we also use commodity forward contracts to manage our exposure to variability in certain commodity prices. In connection with the sale of the 3.0% Senior Subordinated Convertible Notes due 2014 (the "Convertible Notes"), we purchased call options for \$125 million. The call options are intended to minimize share dilution associated with the Convertible Notes. As the call options and warrants are indexed to our common stock, we recognized them in permanent equity in Additional paid in capital, and will not recognize subsequent changes in fair value as long as the instruments remain classified as equity.

We generally do not enter into derivative financial instruments for speculative or trading purposes and did not during the three and nine months ended July 31, 2012 and 2011. None of our derivatives qualified for hedge accounting treatment during the three and nine months ended July 31, 2012 or 2011.

Certain of our derivative contracts contain provisions that require us to provide collateral if certain thresholds are exceeded. Collateral of \$2 million was provided at July 31, 2012 and no collateral was provided at October 31, 2011. Collateral is generally not required to be provided by our counter-parties for derivative contracts. We manage exposure to counter-party credit risk by entering into derivative financial instruments with various major financial institutions that can be expected to fully perform under the terms of such instruments. We do not anticipate nonperformance by any of the counter-parties. Our

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exposure to credit risk in the event of nonperformance by the counter-parties is limited to those gains that have been recorded, but have not yet been received in cash. At July 31, 2012 and October 31, 2011, our exposure to the credit risk of others was \$1 million and \$4 million, respectively.

The fair values of all derivatives are recorded as assets or liabilities on a gross basis in our Consolidated Balance Sheets. At July 31, 2012 and October 31, 2011, the fair values of our derivatives and their respective balance sheet locations are presented in the following tables:

(in millions)	As of July 31, 2012		Liability Derivatives	
	Asset Derivatives		Location in	
	Location in	Fair Value	Consolidated Balance Sheets	Fair Value
Foreign currency contracts	Other current assets	\$1	Other current liabilities	\$2
Cross currency swaps	Other current assets	—	Other current liabilities	—
Commodity contracts	Other current assets	—	Other current liabilities	3
Commodity contracts	Other noncurrent assets	—	Other noncurrent liabilities	3
Total fair value		\$1		\$8

(in millions)	As of October 31, 2011		Liability Derivatives	
	Asset Derivatives		Location in	
	Location in	Fair Value	Consolidated Balance Sheets	Fair Value
Foreign currency contracts	Other current assets	\$3	Other current liabilities	\$—
Cross currency swaps	Other current assets	—	Other current liabilities	4
Commodity contracts	Other current assets	1	Other current liabilities	6
Total fair value		\$4		\$10

The location and amount of gain (loss) recognized in income on derivatives are as follows:

(in millions)	Location in Consolidated Statements of Operations	Amount of Gain (Loss) Recognized		
		Three Months Ended July 31, 2012	Three Months Ended July 31, 2011	
		Cross currency swaps	Other expense (income), net	\$—
Foreign currency contracts	Other expense (income), net	(2) (1)
Commodity forward contracts	Costs of products sold	(5) (1)
Total loss		\$(7) \$(2)

(in millions)	Location in Consolidated Statements of Operations	Amount of Gain (Loss) Recognized	
		Nine Months Ended July 31, 2012	Nine Months Ended July 31, 2011
		Cross currency swaps	Other expense (income), net
Foreign currency contracts	Other expense (income), net	(5) —
Commodity forward contracts	Costs of products sold	(7) 21
Total gain (loss)		\$(11) \$21

Foreign Currency Contracts

During 2012 and 2011, we entered into foreign exchange forward and option contracts as economic hedges of anticipated cash flows denominated in Canadian dollars, Brazilian reais, South African rand, and Euros. As of July 31, 2012, we had outstanding forward exchange contracts with notional amounts of €10 million Euros and R62 million South African rand with maturity dates ranging from July 2012 through April 2013. As of October 31, 2011, we had

outstanding forward exchange contracts with notional amounts of €54 million Euros and C\$6 million Canadian dollars. All of these contracts were entered into to protect against the risk that the eventual cash flows resulting from certain transactions will be affected by changes in exchange rates between the U.S. dollar and the respective foreign currency.

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Commodity Forward Contracts

During 2012 and 2011, we entered into commodity forward contracts as economic hedges of our exposure to variability in commodity prices for diesel fuel, lead, steel, and natural rubber. As of July 31, 2012, we had outstanding diesel fuel contracts with aggregate notional values of \$12 million and outstanding steel contracts with aggregate notional values of \$89 million. The commodity forward contracts have maturity dates ranging from July 2012 to December 2013. As of October 31, 2011, we had outstanding diesel fuel contracts with aggregate notional values of \$19 million, outstanding lead contracts with aggregate notional values of \$1 million, outstanding steel contracts with aggregate notional values of \$41 million, and outstanding natural rubber contracts with aggregate notional values of \$14 million. All of these contracts were entered into to protect against the risk that the eventual cash flows related to purchases of the commodities will be affected by changes in prices.

Interest-Rate Contracts

We enter into various interest-rate contracts, including interest-rate swaps and cross currency interest-rate swaps. Interest-rate swaps involve the exchange of fixed for floating rate or floating for fixed rate interest payments based on the contractual notional amounts in a single currency. Cross currency interest-rate swaps involve the exchange of notional amounts and interest payments in different currencies. We are exposed to interest rate and exchange rate risk as a result of our borrowing activities. The objective of these contracts is to mitigate fluctuations in earnings, cash flows, and fair value of borrowings. As of July 31, 2012 and October 31, 2011, the notional amount of our outstanding interest-rate contracts was \$29 million and \$50 million, respectively.

12. Commitments and Contingencies

Guarantees

We occasionally provide guarantees that could obligate us to make future payments if the primary entity fails to perform under its contractual obligations. We have recognized liabilities for some of these guarantees in our Consolidated Balance Sheets as they meet the recognition and measurement provisions of U.S. GAAP. In addition to the liabilities that have been recognized, we are contingently liable for other potential losses under various guarantees. We do not believe that claims that may be made under such guarantees would have a material effect on our financial condition, results of operations, or cash flows.

In March 2010, we entered into a three-year operating agreement (with one-year automatic extensions and subject to early termination provisions) with GE Capital Corporation and GE Capital Commercial, Inc. (collectively "GE") (the "GE Operating Agreement"). Under the terms of the GE Operating Agreement, GE became our preferred source of retail customer financing for equipment offered by us and our dealers in the U.S. We provide GE a loss sharing arrangement for certain credit losses. The primary features of the loss sharing arrangement include us reimbursing GE for credit losses in excess of the first 10% of the original value of a financed contract. The Company's exposure to loss is mitigated since receivables financed under the GE Operating Agreement are secured by the financed equipment. We do not carry the receivables financed under the GE Operating Agreement on our Consolidated Balance Sheets. There were \$1.1 billion and \$723 million of outstanding finance receivables as of July 31, 2012 and October 31, 2011, respectively, financed through the operating agreement and subject to the loss sharing arrangement. The related originations of these outstanding finance receivables were \$1.4 billion and \$818 million as of July 31, 2012 and October 31, 2011, respectively.

Based on our historic experience of losses on similar finance receivables and GE's first loss position, we do not believe our share of losses related to balances currently outstanding will be material. Historically, our losses, representing the entire loss amount, on similar finance receivables, measured as a percentage of the average balance of the related finance receivable, ranged from 0.3% to 2.1%. While under limited circumstances NFC retains the rights to originate retail customer financing, we expect retail finance receivables and retail finance revenues will decline as our retail portfolio pays down.

For certain independent dealers' wholesale inventory financed by third-party banks or finance companies, we provide limited repurchase agreements to the respective financing institution. The amount of losses related to these

arrangements has not been material to our Consolidated Statements of Operations or Cash Flows and the value of the guarantees and accruals recorded are not material to our Consolidated Balance Sheets.

We also have issued limited residual value guarantees in connection with various leases primarily financed by our financial services operations. The amounts of the guarantees are estimated and recorded as liabilities as of July 31, 2012. Our guarantees are contingent upon the fair value of the leased assets at the end of the lease term. The amount of losses related to these arrangements has not been material to our Consolidated Statements of Operations or Cash Flows and the value of the guarantees and accruals recorded are not material to our Consolidated Balance Sheets.

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We obtain certain stand-by letters of credit and surety bonds from third-party financial institutions in the ordinary course of business when required under contracts or to satisfy insurance-related requirements. The amount of available stand-by letters of credit and surety bonds was \$65 million at July 31, 2012.

We extend credit commitments to certain truck fleet customers, which allow them to purchase parts and services from participating dealers. The participating dealers receive accelerated payments from us with the result that we carry the receivables and absorb the credit risk related to these customers. At July 31, 2012, we have \$36 million of unused credit commitments outstanding under this program.

In addition, as of July 31, 2012, we have entered into various purchase commitments of \$99 million and contracts that have cancellation fees of \$40 million with various expiration dates through 2017.

In the ordinary course of business, we also provide routine indemnifications and other guarantees, the terms of which range in duration and often are not explicitly defined. We do not believe these will result in claims that would have a material impact on our financial condition, results of operations, or cash flows.

The terms of the Ford/Navistar Settlement Agreement (as defined and described below) of January 9, 2009 require us to indemnify Ford with respect to intellectual property infringement claims, if any, that are brought against Ford or others that use the 6.0 liter or 6.4 liter engines on behalf of Ford. The maximum amount of future payments that we could potentially be required to pay under the indemnification would depend on the magnitude of potential infringement claims and the associated damages and cannot currently be determined. For more information, see 6.0 Liter Diesel Engine Litigation, below.

Environmental Liabilities

We have been named a potentially responsible party ("PRP"), in conjunction with other parties, in a number of cases arising under an environmental protection law, the Comprehensive Environmental Response, Compensation, and Liability Act, popularly known as the "Superfund" law. These cases involve sites that allegedly received wastes from current or former Company locations. Based on information available to us which, in most cases, consists of data related to quantities and characteristics of material generated at current or former Company locations, material allegedly shipped by us to these disposal sites, as well as cost estimates from PRPs and/or federal or state regulatory agencies for the cleanup of these sites, a reasonable estimate is calculated of our share, if any, of the probable costs and accruals are recorded in our consolidated financial statements. These accruals are generally recognized no later than completion of the remedial feasibility study and are not discounted to their present value. We review all accruals on a regular basis and believe that, based on these calculations, our share of the potential additional costs for the cleanup of each site will not have a material effect on our financial condition, results of operations, or cash flows.

Three sites formerly owned by us; (i) Solar Turbines in San Diego, California, (ii) the Canton Plant in Canton, Illinois, and (iii) Wisconsin Steel in Chicago, Illinois; were identified as having soil and groundwater contamination. Two sites in Sao Paulo, Brazil, where we are currently operating, were identified as having soil and groundwater contamination. While investigations and cleanup activities continue at these and other sites, we believe that we have adequate accruals to cover costs to complete the cleanup of all sites.

We have accrued \$21 million for these and other environmental matters, which are included within Other current liabilities and Other noncurrent liabilities, as of July 31, 2012. The majority of these accrued liabilities are expected to be paid subsequent to 2013.

Along with other vehicle manufacturers, we have been subject to an increased number of asbestos-related claims in recent years. In general, these claims relate to illnesses alleged to have resulted from asbestos exposure from component parts found in older vehicles, although some cases relate to the alleged presence of asbestos in our facilities. In these claims, we are not the sole defendant, and the claims name as defendants numerous manufacturers and suppliers of a wide variety of products allegedly containing asbestos. We have strongly disputed these claims, and it has been our policy to defend against them vigorously. Historically, the actual damages paid out to claimants have not been material in any year to our financial condition, results of operations, or cash flows. It is possible that the number of these claims will continue to grow, and that the costs for resolving asbestos related claims could become

significant in the future.

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Legal Proceedings

Overview

We are subject to various claims arising in the ordinary course of business, and are party to various legal proceedings that constitute ordinary, routine litigation incidental to our business. The majority of these claims and proceedings relate to commercial, product liability, and warranty matters. In addition, from time to time we are subject to various claims and legal proceedings related to employee compensation, benefits, and benefits administration including, but not limited to, compliance with the Employee Retirement Income Security Act of 1974, as amended, and Department of Labor requirements. In our opinion, apart from the actions set forth below, the disposition of these proceedings and claims, after taking into account recorded accruals and the availability and limits of our insurance coverage, will not have a material adverse effect on our business or our financial condition, results of operations, or cash flows.

Retiree Health Care Litigation

In April 2010, the United Auto Workers ("UAW") and others ("Plaintiffs") filed a "Motion of Plaintiffs Art Shy, UAW, et al for an Injunction to Compel Compliance with the 1993 Settlement Agreement" (the "Shy Motion") in the U.S. District Court for the Southern District of Ohio (the "Court"). The Shy Motion sought to enjoin the Company from implementing an administrative change relating to prescription drug benefits under a healthcare plan for Medicare-eligible retirees (the "Part D Change"). Specifically, Plaintiffs claimed that the Part D Change violated the terms of the 1993 Settlement Agreement previously approved by the Court. That 1993 Settlement Agreement resolved a class action originally filed in 1992 regarding the restructuring of the Company's then applicable retiree health care and life insurance benefits. In May 2010, the Company filed its Opposition to the Shy Motion.

The Part D Change was effective July 1, 2010, and made the Company's prescription drug coverage for post-65 retirees ("Plan 2 Retirees") supplemental to the coverage provided by Medicare. Plan 2 retirees paid the premiums for Medicare Part D drug coverage under the Part D Change.

In February 2011, the Court ruled on the Shy Motion (the "February 2011 Order"). The February 2011 Order sustained the Plaintiffs' argument that the Company did not have authority to unilaterally substitute Medicare Part D for the prescription drug benefit that Plaintiffs had been receiving under the 1993 Settlement Agreement. However, the February 2011 Order denied as moot Plaintiffs' request for injunctive relief to prevent the Company from implementing the Part D Change, because the change already had gone into effect. In February 2011, the Company filed a notice of appeal with the United States Court of Appeals for the Sixth Circuit (the "Appellate Court") concerning the February 2011 Order.

On September 30, 2011, the Court issued an order directing the Company to reinstate the prescription drug benefit that was in effect before the Company unilaterally substituted Medicare Part D for the prior prescription drug benefit (the "September 2011 Order"). The September 2011 Order also requires the Company to reimburse Plan 2 Retirees for any Medicare Part D premiums they have paid since the Part D Change and the extra cost, if any, for the retirees' prescriptions under the Part D Change. On October 14, 2011, the Company filed a notice of appeal with the Appellate Court concerning the September 2011 Order. The Appellate Court consolidated the Company's appeal of the February 2011 Order and the September 2011 Order, and the scheduled briefing was completed in May 2012. Pending the appeal, Plan 2 Retirees do not pay premiums for Medicare Part D drug coverage and the prescription drug formulary available to such retirees reflects the prescription drug benefit in effect prior to the implementation of the Part D Change.

FATMA Notice

International Indústria de Motores da América do Sul Ltda. ("IIAA"), formerly known as Macion International Motores S/A ("Macion"), now a wholly owned subsidiary of the Company, received a notice in July 2010 from the State of Santa Catarina Environmental Protection Agency ("FATMA") in Brazil. The notice alleged that Macion had sent wastes to a facility owned and operated by a company known as Natureza and that soil and groundwater contamination had occurred at the Natureza facility. The notice asserted liability against Macion and assessed an initial penalty in the amount of R\$2 million (the equivalent of approximately US\$1 million at July 31, 2012), which is

not due and final until all administrative appeals are exhausted. Maxion was one of numerous companies that received similar notices. IIAA filed an administrative defense in August 2010 and has not yet received a decision following that appearance. IIAA disputes the allegations in the notice and intends to vigorously defend itself.

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6.0 Liter Diesel Engine Litigation

On May 20, 2011, 9046-9478 Quebec Inc. ("Quebec Inc.") filed a motion to authorize the bringing of a class action against the Company, as well as Ford and Ford Motor Company of Canada, Limited (collectively, "Ford Defendants") in Superior Court (the "Superior Court") in Quebec, Canada (the "Quebec Action"). The Quebec Action seeks authorization to bring a claim on behalf of a class of Canadian owners and lessees of model year 2003-07 Ford vehicles powered by the 6.0L Power Stroke® engine that the Company previously supplied to Ford. Quebec Inc. alleged that the engines in question have design and manufacturing defects, and that the Company and Ford Defendants are solidarily liable for those defects. For relief, the Quebec Action seeks monetary damages sufficient to remedy the alleged defects, compensate the alleged damages incurred by the proposed class, and compensate plaintiffs' counsel. The Quebec Action also asks the Superior Court to order the Company and the Ford Defendants to recall, repair, or replace the Ford vehicles at issue free of charge. In December 2011, the Company and Quebec Inc. reached an agreement in principle whereby the Company voluntarily would produce certain documents to Quebec Inc. pursuant to a protective order and Quebec Inc. voluntarily would dismiss the Company from the Quebec Action without prejudice. In June 2012, the Company was dismissed without prejudice from the matter.

We also have been made aware of the Kruse Technology Partnership ("Kruse") vs. Ford lawsuit (the "Kruse Case") filed against Ford regarding a potential patent infringement of three patents in the U.S. District Court for the Central District of California. An amended complaint against Ford was filed by Kruse in August 2010. The amended complaint alleges that Ford has infringed the patents by sale or use of engines, such as the Power Stroke diesel engines. The general subject matter of the patents is pilot injection of fuel in the combustion cycle. Navistar formerly supplied Power Stroke diesel engines to Ford, although today Ford manufactures its own Power Stroke engines. In the Ford/Navistar Settlement Agreement of January 9, 2009, Navistar agreed to indemnify Ford for claims of infringement based upon Ford's manufacture, sale, or use of the 6.0 and 6.4 liter Power Stroke engines sold by Navistar to Ford. Ford has not requested Navistar to defend Ford at this time. The judge assigned to the Kruse Case has stayed the case pending resolution of a similar suit against Daimler Chrysler, Detroit Diesel, Freightliner, Western Star, Volkswagen, Cummins, and Chrysler Group. In November 2011, Kruse disclaimed all the claims in one of the patents (U.S. Patent 6,405,704), which effectively terminates the patent rights for this patent. The U.S. Patent Office ended the first re-examinations on the two remaining patents (U.S. Patent 6,058,904 and U.S. Patent 5,265,562), and ruled that these will be in force with all claims intact. The U.S. Patent Office agreed to commence a new re-examination of U.S. Patent 6,058,904 in April 2012 and U.S. Patent 5,265,562 in May 2012 as a result of third party requests based upon substantial new questions of patentability. In July 2012, the U.S. Patent Office issued a Notice of Intent to allow all the claims of U.S. Patent 6,058,904, rejecting the third party arguments.

Based on our assessment of the facts underlying the claims in the above action, we are unable to provide meaningful quantification of how the final resolution of these claims may impact our future consolidated financial condition, results of operations, or cash flows.

Lis Franco de Toledo, et. al. vs. Syntex do Brasil and IIAA

In 1973, Syntex do Brasil Industria e Comercio Ltda. ("Syntex"), a predecessor of IIAA, our Brazilian engine manufacturing subsidiary formerly known as MWM International Industria de Motores da America do Sul Ltda ("MWM"), filed a lawsuit in Brazilian court against Dr. Lis Franco de Toledo and others (collectively, "Lis Franco"). Syntex claimed Lis Franco had improperly terminated a contract which provided for the transfer from Lis Franco to Syntex of a patent for the production of a certain vaccine. Lis Franco filed a counterclaim alleging that he was entitled to royalties under the contract. In 1975, the Brazilian court ruled in favor of Lis Franco, a decision which was affirmed on appeal in 1976. In 1984, while the case was still pending, Syntex' owner, Syntex Comercio e Participacoes Ltda ("Syntex Parent") sold the stock of Syntex to MWM, and in connection with that sale Syntex Parent agreed to indemnify and hold harmless MWM for any and all liabilities of Syntex, including its prior pharmaceutical operations (which had been previously spun-off to another subsidiary wholly-owned by the Syntex Parent) and any payments that might be payable under the Lis Franco lawsuit. In the mid to late 1990s, Syntex

Parent was merged with an entity known as Wyeth Industria Farmaceutica LTDA ("Wyeth").

In 1999, Lis Franco amended its pleadings to add MWM to the lawsuit as a defendant. In 2000, Wyeth acknowledged to the Brazilian court its sole responsibility for amounts due in the Lis Franco lawsuit and MWM asked the court to be dismissed from that action. The judge denied that request. MWM appealed and lost.

In his pleadings, Lis Franco alleged that the royalties payable to him were approximately R\$42 million. MWM believed the appropriate amount payable was approximately R\$16 million. In December 2009, the court appointed expert responsible for the preparation of the royalty calculation filed a report with the court indicating royalty damages of approximately R\$70 million. MWM challenged the expert's calculation. In August 2010, the court asked the parties to consider the appointment of a new expert. MWM agreed with this request but Lis Franco objected and, in September 2010, the court accepted and ratified the

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expert's calculation as of May 2010 in the amount of R\$74 million (the equivalent of approximately US\$36 million at July 31, 2012) and entered judgment against MWM. In May 2010, MWM filed a lawsuit against Wyeth seeking recognition that Wyeth is liable for any and all liabilities, costs, expenses, and payments related to the Lis Franco lawsuit.

In September 2010, MWM filed a motion for clarification of the decision which would suspend its enforcement. The Brazilian court denied this motion and MWM appealed the matter to the Rio de Janeiro State Court of Appeals (the "Court of Appeals"). In January 2011, the Court of Appeals granted the appeal and issued an injunction suspending the lower Court's decision and judgment in favor of Lis Franco. In January 2011, MWM merged into IIAA and is now known as IIAA. An expert appointed by the Court of Appeals submitted his calculation report on October 24, 2011, and determined the amount to be R\$10.85 million (the equivalent of approximately US\$5 million at July 31, 2012). The parties submitted their comments to such report in December 2011. The Court of Appeals is now reviewing the expert's calculation criteria report and the parties' comments to that report.

Deloitte & Touche LLP

In April 2011, the Company filed a complaint against Deloitte and Touche LLP ("Deloitte") in the Circuit Court of Cook County, Illinois County Department, Law Division ("Illinois Circuit Court") for fraud, fraudulent concealment, negligent misrepresentation, violation of the Illinois Consumer Fraud and Deceptive Business Practices Act, professional malpractice, negligence, breach of contract, and breach of fiduciary duty. The matters giving rise to the allegations contained in the complaint arise from Deloitte's service as the Company's independent auditor prior to April 2006 and the Company is seeking monetary damages against Deloitte. In May 2011, Deloitte filed a Notice of Removal to remove the case to the United States District Court for the Northern District of Illinois. In June 2011, the Company filed in the federal court a motion to remand the case to Illinois Circuit Court. In July 2011, Deloitte filed a motion to dismiss the Company's complaint and in August 2011, the Company responded to Deloitte's motion to dismiss. In October 2011, the court remanded the case back to the Illinois Circuit Court and denied the motion to dismiss as moot. The Company amended its complaint in January 2012 in Illinois Circuit Court. In February 2012, Deloitte moved to dismiss the Company's amended complaint. In July 2012, the Illinois Circuit Court granted in part and denied in part Deloitte's motion to dismiss. Specifically, the Illinois Circuit Court dismissed without prejudice with leave to replead the Company's counts for fraud, fraudulent concealment and breach of fiduciary duty and otherwise denied Deloitte's motion with respect to the remaining causes of action.

Westbrook vs. Navistar. et. al.

In April 2011, a False Claims Act qui tam complaint against Navistar, Inc., Navistar Defense, LLC, a wholly owned subsidiary of the Company ("Navistar Defense"), and unrelated third parties was unsealed by the United States District Court for the Northern District of Texas. The complaint was initially filed under seal in August 2010 by a qui tam relator on behalf of the federal government. The complaint alleged violations of the False Claims Act based on allegations that parts of vehicles delivered by Navistar Defense were not painted according to the contract specification, and improper activities in dealing with one of the vendors who painted certain of the vehicle parts. The complaint seeks monetary damages and civil penalties on behalf of the federal government, as well as costs and expenses. The U.S. government notified the Court that it has declined to intervene at this time. Navistar, Inc. was served with the complaint in July 2011, and a scheduling order and a revised scheduling order have been entered by the Court. In December 2011, the Court granted a motion by Navistar, Inc. and Navistar Defense, along with the other named defendants to judicially estop the relator and his affiliated company from participating in any recovery from the action, and to substitute his bankruptcy trustee as the only person with standing to pursue the relator's claims. In March 2012, the Court granted motions by Navistar, Inc., Navistar Defense, and the other named defendants to dismiss the complaint. The dismissal was without prejudice and the relator filed an amended complaint in April 2012. In May 2012, Navistar, Inc., Navistar Defense, and the other named defendants filed motions to dismiss the amended complaint. In addition, the parties jointly filed a motion to stay discovery pending resolution of the motions to dismiss. In July 2012, the court granted all of the defendants' motions to dismiss with prejudice, dismissing all of the claims

except the claim against Navistar Defense for retaliation and the claim against Navistar, Inc. for retaliation, which was dismissed without prejudice. Plaintiff was granted leave to file an amended complaint including only the retaliation claims against Navistar Defense and Navistar, Inc. The Relator did not file a retaliation claim against Navistar, Inc. and voluntarily dismissed without prejudice the retaliation claim against Navistar Defense. The Relator also filed a motion for reconsideration of the dismissal of the False Claims Act claims against Navistar Defense which the court denied. The court issued final judgment dismissing the matter on July 30, 2012. The Relator filed a notice of appeal to the Fifth Circuit in August 2012 as to the Final Judgment and the Motion for Reconsideration as to Navistar Defense only.

Based on our assessment of the facts underlying the claims in the above action, we are unable to provide meaningful quantification of how the final resolution of these claims may impact our future consolidated financial condition, results of operations, or cash flows.

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EPA Notice of Violation

In February 2012, Navistar, Inc. received a Notice of Violation ("NOV") from the Environmental Protection Agency ("EPA"). The NOV pertains to approximately 7,600 diesel engines which, according to EPA, were produced by Navistar, Inc. in 2010 and, therefore, should have met EPA's 2010 emissions standards. Navistar, Inc. previously provided information to EPA showing that the engines were in fact produced in 2009. The NOV contains EPA's conclusion that Navistar, Inc.'s alleged production of the engines in 2010 violated the Federal Clean Air Act. The NOV states that EPA reserves the right to file an administrative complaint or to refer this matter to the U.S.

Department of Justice with a recommendation that a civil complaint be filed in federal district court.

Based on our assessment of the facts underlying the NOV above, we are unable to provide meaningful quantification of how the final resolution of this matter may impact our future consolidated financial condition, results of operations or cash flows.

Other

SEC Inquiry

On June 21, 2012, Navistar received an informal inquiry from the Chicago Office of the Enforcement Division of the SEC seeking a number of categories of documents for the periods dating back to November 1, 2010, relating to various accounting and disclosure issues. We are cooperating with the SEC's inquiry. On July 16, 2012, pursuant to a formal order of private investigation, we received a subpoena from the SEC requesting the same categories of documents sought via the informal inquiry. To date, we have produced certain documents and intend to continue our full cooperation with the SEC in this matter. At this time, we are unable to predict the outcome of this matter or provide meaningful quantification of how the final resolution of this matter may impact our future consolidated financial condition, results of operations or cash flows.

Meeting U.S. Federal and State 2010 Emission Standards Requirements

Truck and engine manufacturers continue to face significant governmental regulation of their products, especially in the areas of environmental and safety. We have incurred, and will continue to incur, significant research, development, and tooling costs to design and produce our engine product lines to meet the EPA and California Air Resources Board ("CARB") on-highway heavy-duty diesel ("HDD") emission standards that have reduced the allowable levels of nitrogen oxide ("NOx") to the current limit of 0.20g NOx and include the required on-board diagnostics. The regulations requiring on-board diagnostics ("OBD") began the initial phase-in during 2010 for truck engines and are a part of our product plans. These changes in emission standards have resulted in and will continue to result in a significant increase in the cost of our products to meet these emission standards.

In 2011 and 2010, certain of our engine families met EPA and CARB certification requirements by using emission credits we earned by producing low-NOx engines earlier than was required by the EPA. We began using non-conformance penalties ("NCPs") for trucks using certain of our HDD engines in 2012. As described in more detail below, the need to use NCPs, any inability to continue to utilize NCPs, and the rate at which we use our emission credits could materially and adversely affect our business, financial condition, results of operations, liquidity and capital resources, or cash flows.

In January 2012, the EPA promulgated the Interim Final Rule establishing NCPs for heavy HDD engines. In June 2012, the D.C. Circuit Court ruled that EPA did not follow the required rulemaking processes in promulgating the Interim Final Rule and issued an order vacating the Interim Final Rule. The Company, as intervenor in that action, asked for a rehearing and in August 2012, the D.C. Circuit Court denied that request. The Court's ruling became final on August 24, 2012. Some of our competitors filed an additional lawsuit asking the D.C. Circuit Court to invalidate the emissions certificates issued to us under the Interim Final Rule. The D.C. Circuit Court has not yet ruled on that request.

Also in January 2012, the EPA published a Notice of Proposed Rulemaking for a final NCP rule (the "Final Rule"), which would make NCPs available in model years 2012 and later for emissions of NOx above the 0.20g limit and would supersede the Interim Final Rule. On August 30, 2012, EPA approved the Final Rule and it became effective

upon publication in the Federal Register on September 5, 2012. It is possible that the Final Rule will be challenged by our competitors and we cannot provide assurances that the Final Rule will be upheld in the event of such a challenge. Currently, CARB and the corresponding agencies of nine other states that have adopted California's emission standards do not make available engine certification using NCPs. Therefore, we continue to sell engines and trucks in these ten states (the "10 CARB States") using the NOx emission credits previously described. Under current conditions and at the current pace, however, our emission credits for heavy HDD engines will be consumed some time in 2013. Unless CARB (and the corresponding agencies of the nine other states) begin allowing NCPs for engine sales, or unless CARB certifies our HDD engines to the 0.20g NOx standard, we will no longer be able to sell trucks with our HDD engines in the 10 CARB States after our credits are consumed.

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We submitted to the EPA and to CARB applications for a 0.20g NO_x engine certificate for one 13L engine family during the first half of 2012, but after discussions with both agencies, we withdrew both applications in July 2012. We announced in July 2012 that we are changing our engines' emission strategy from an EGR only strategy to a strategy incorporating both EGR and SCR after-treatment systems ("In-Cylinder Technology Plus" or "ICT+"). We plan to apply ICT+ to our medium and heavy duty engines. In August 2012, we announced that we reached a non-binding Memorandum of Understanding ("MOU") with Cummins Inc. ("Cummins") under which Cummins Emission Solutions will supply its SCR after-treatment system. We also announced that as a part of our expanded relationship with Cummins we plan to offer the Cummins ISX 15 liter engine (the "Cummins 15L").

Our business, financial condition, results of operations, liquidity and capital resources or cash flows could be materially and adversely affected based on numerous factors relating to our ICT+ strategy as well as our shorter term plans for continued use of engines using EGR pending the full implementation of the ICT+ strategy. Some of those factors include, but are not necessarily limited to, the following:

- The Company will incur additional costs associated with this change and there is no assurance that we will implement this strategy within the anticipated timelines.

- Our non-binding MOU with Cummins for the Cummins 15L as well as for the SCR after treatment system is subject to the execution of definitive agreements.

We currently anticipate commencing the phasing in of the Cummins 15L engine in December 2012, the ICT+ engines beginning with the highest volume 13L engines in April 2013 and our lower volume 13L engines later in 2013 in stages. We may experience product gaps in our offerings in the 10 CARB States for certain of these engines prior to full introduction of our ICT+ engines. The duration of the gaps will be dependent on a number of factors including but not limited to our ability to execute as planned, the availability of emissions credits, and our ability to comply with the testing protocols required for the Final Rule.

As a condition to NCP certification, the EPA requires us to submit the engines to certain testing protocols to establish that the engines to be certified are no greater than 0.50g NO_x, the content of which we are currently discussing with the EPA. Should our engines fail to meet the standard under the testing protocols, unless and until remediated, this result could have adverse consequences.

In the three and nine months ended July 31, 2012, the Engine segment recorded charges totaling \$10 million and \$20 million, respectively, for NCPs for certain 13L engine sales that did not otherwise comply with emission standards. In addition, the OBD implementation may cause delays in shipments of certain mid-range engine families in the month of January 2013 until they are resolved.

13. Segment Reporting

The following is a description of our four reporting segments:

Our Truck segment manufactures and distributes a full line of Class 4 through 8 trucks, buses, and military vehicles under the International and IC Bus ("IC") brands. Our Truck segment also produces chassis for motor homes and commercial step-van vehicles under the WCC brand and recreational vehicles. In an effort to strengthen and maintain our dealer network, this segment occasionally acquires and operates dealer locations for the purpose of transitioning ownership.

Our Engine segment designs and manufactures diesel engines for use globally, in Class 3 through 8 vehicles, as well as off-road applications. In North America, these engines primarily go into our Class 6 and 7 medium trucks and buses and Class 8 heavy trucks, and are sold to original equipment manufacturers ("OEMs"). In addition, our Engine segment produces diesel engines in Brazil primarily under the MWM brand for sale to OEMs in South America, as well as contract manufacturing. In all other areas of the world, including North America, engines are sold under the MaxxForce brand name. To control cost and technology, our Engine segment has expanded its operations to include Pure Power Technologies ("PPT"), a components company focused on air, fuel, and aftertreatment systems to meet more stringent Euro and EPA emission standards. Also included in the Engine segment are the operating results of BDP, which manages the sourcing, merchandising, and distribution of certain service parts we sell to Ford in North

America.

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Our Parts segment provides customers with proprietary products needed to support the International commercial and military truck, IC Bus, WCC chassis, and MaxxForce engine lines. Our Parts segment also provides a wide selection of other standard truck, trailer, and engine aftermarket parts. At July 31, 2012, this segment operated eleven regional parts distribution centers that provide 24-hour availability and shipment.

Our Financial Services segment provides retail, wholesale, and lease financing of products sold by the Truck and Parts segments and their dealers within the U.S. and Mexico, as well as financing for wholesale accounts and selected retail accounts receivable.

Corporate contains those items that are not included in our four segments.

In June 2012, the Company announced changes to its organizational structure. In August 2012, the Company announced that Daniel C. Ustian, its Chairman, President and Chief Executive Officer, who was the Company's Chief Operating Decision Maker ("CODM"), informed the Board of Directors of his retirement which was effective immediately and his concurrent resignation from the Board of Directors. While there were no changes to the Company's segment reporting through July 31, 2012, the Company continues to assess the impact, if any, that the change in the CODM and ongoing changes to its organization structure will have on the Company's segment reporting.

Segment Profit (Loss)

We define segment profit (loss) as net income (loss) attributable to Navistar International Corporation excluding income tax benefit (expense). Operating results for interim reporting periods are not necessarily indicative of annual operating results. Selected financial information is as follows:

(in millions)	Truck ^(A)	Engine	Parts ^(A)	Financial Services ^(B)	Corporate and Eliminations	Total
Three Months Ended July 31, 2012						
External sales and revenues, net	\$2,323	\$441	\$513	\$42	\$—	\$3,319
Intersegment sales and revenues	13	399	29	22	(463)	—
Total sales and revenues, net	\$2,336	\$840	\$542	\$64	\$(463)	\$3,319
Net income (loss) attributable to NIC	\$(30)	\$(47)	\$73	\$22	\$66	\$84
Income tax benefit	—	—	—	—	196	196
Segment profit (loss)	\$(30)	\$(47)	\$73	\$22	\$(130)	\$(112)
Depreciation and amortization	\$41	\$28	\$2	\$9	\$6	\$86
Interest expense	—	—	—	20	39	59
Equity in income (loss) of non-consolidated affiliates	(12)	1	1	—	—	(10)
Capital expenditures ^(C)	21	39	6	1	7	74
Three Months Ended July 31, 2011						
External sales and revenues, net	\$2,457	\$546	\$487	\$47	\$—	\$3,537
Intersegment sales and revenues	—	422	29	26	(477)	—
Total sales and revenues, net	\$2,457	\$968	\$516	\$73	\$(477)	\$3,537
Net income (loss) attributable to NIC	\$(75)	\$32	\$70	\$30	\$1,343	\$1,400
Income tax benefit	—	—	—	—	1,463	1,463
Segment profit (loss)	\$(75)	\$32	\$70	\$30	\$(120)	\$(63)
Depreciation and amortization	\$37	\$32	\$2	\$8	\$5	\$84
Interest expense	—	—	—	28	34	62
Equity in income (loss) of non-consolidated affiliates	(22)	(1)	1	—	—	(22)
Capital expenditures ^(C)	15	47	7	1	36	106

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Nine Months Ended July 31, 2012	Truck ^(A)	Engine	Parts ^(A)	Financial Services ^(B)	Corporate and Eliminations	Total
External sales and revenues, net	\$6,830	\$1,301	\$1,409	\$129	\$—	\$9,669
Intersegment sales and revenues	26	1,292	98	70	(1,486)	—
Total sales and revenues, net	\$6,856	\$2,593	\$1,507	\$199	\$(1,486)	\$9,669
Net income (loss) attributable to NIC	\$(160)	\$(275)	\$164	\$75	\$(45)	\$(241)
Income tax benefit	—	—	—	—	410	410
Segment profit (loss)	\$(160)	\$(275)	\$164	\$75	\$(455)	\$(651)
Depreciation and amortization	\$111	\$87	\$8	\$25	\$15	\$246
Interest expense	—	—	—	67	115	182
Equity in income (loss) of non-consolidated affiliates	(27)	2	4	—	—	(21)
Capital expenditures ^(C)	53	116	18	2	61	250
Nine Months Ended July 31, 2011						
External sales and revenues, net	\$6,510	\$1,526	\$1,445	\$154	\$—	\$9,635
Intersegment sales and revenues	18	1,180	128	75	(1,401)	—
Total sales and revenues, net	\$6,528	\$2,706	\$1,573	\$229	\$(1,401)	\$9,635
Net income attributable to NIC	\$49	\$26	\$200	\$102	\$1,091	\$1,468
Income tax benefit	—	—	—	—	1,458	1,458
Segment profit (loss)	\$49	\$26	\$200	\$102	\$(367)	\$10
Depreciation and amortization	\$112	\$91	\$7	\$21	\$14	\$245
Interest expense	—	—	—	84	103	187
Equity in income (loss) of non-consolidated affiliates	(57)	(3)	5	—	—	(55)
Capital expenditures ^(C)	53	131	11	1	95	291
As of July 31, 2012						
Segment assets	\$2,509	\$1,715	\$708	\$2,898	\$3,313	\$11,143
As of October 31, 2011						
Segment assets	\$2,771	\$1,849	\$700	\$3,580	\$3,391	\$12,291

(A) See Note 2, Restructurings and Impairments, for further discussion.

Total sales and revenues in the Financial Services segment include interest revenues of \$63 million and \$195 million for the three and nine months ended July 31, 2012, respectively, and \$72 million and \$225 million for the three and nine months ended July 31, 2011, respectively.

(C) Exclusive of purchases of equipment leased to others.

Sales of vehicles and service parts to the U.S. government are reported in our Truck and Parts segments and were 11% of consolidated sales and revenues for the nine months ended July 31, 2011. No single customer accounted for more than 10% of consolidated sales and revenues for the three and nine months ended July 31, 2012 or the three months ended July 31, 2011.

14. Stockholders' Equity (Deficit)

Stockholder Rights Plan

In June 2012, our Board of Directors adopted a Stockholder Rights Plan (the "Rights Plan") and initially declared a dividend of one right on each outstanding share of the Company's common stock held of record as of the close of business on June 29, 2012. Pursuant to the Rights Plan, each share of common stock of the Company is now associated with one preferred stock purchase right. Each right entitles stockholders to buy a unit representing one

one-thousandth of a share of a new series of preferred stock of the Company for \$140.00. Under certain circumstances, if a person or group acquires beneficial ownership of 15% or more of the Company's common stock, each right (other than rights held by the acquiror) will, unless the rights are redeemed by the Company, become exercisable upon payment of the exercise price of \$140.00 for common stock of the Company having a market value of twice the exercise price of the right. The rights may be redeemed by the Company for \$0.001 per right at any time until the tenth business day following the first public announcement of the acquisition of beneficial ownership of 15% of the Company's common stock. The rights expire on June 18, 2013.

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Share Repurchase Programs

In September 2011, a special committee of our Board of Directors authorized a share repurchase program for up to \$175 million worth of the Company's common stock in the open market or in any private transaction.

In October 2011, the Company entered into a variable term accelerated share repurchase ("ASR") agreement with a third-party financial institution to purchase shares of common stock for an aggregate purchase price of \$100 million. Under the ASR agreement, the Company paid the financial institution \$100 million and received an initial delivery of 2,380,952 shares. The value of the delivered shares on the date of purchase was \$80 million at \$33.60 per share, and was included in Common stock held in treasury in our Consolidated Balance Sheet as of October 31, 2011. The remaining \$20 million was included in Additional paid in capital in our Consolidated Balance Sheet as of October 31, 2011.

In November 2011, the ASR program concluded and the Company received an additional 161,657 shares for a total of 2,542,609 shares. The final settlement was based upon the volume weighted average price of the Company's common stock (subject to a discount agreed upon with the financial institution) over an averaging period. With the conclusion of the agreement, the remaining \$20 million included in Additional paid in capital was reclassified to Common stock held in treasury.

In October 2011, the Company entered into an open market share repurchase ("OMR") agreement with a third-party financial institution to purchase the remaining \$75 million worth of the Company's common stock authorized by a special committee of our Board of Directors in September 2011. The OMR commenced in November 2011, following the completion of the ASR program. In January 2012, the OMR concluded with the Company repurchasing 1,905,600 shares of our common stock. Repurchases of \$70 million were settled in cash during the three months ended January 31, 2012, and the remaining \$5 million was settled in cash during the three months ended April 30, 2012. The share repurchase program expired upon its completion.

15. Earnings (Loss) Per Share Attributable to Navistar International Corporation

The following table shows the information used in the calculation of our basic and diluted earnings (loss) per share attributable to Navistar International Corporation:

(in millions, except per share data)	Three Months		Nine Months Ended	
	Ended July 31, 2012	2011	July 31, 2012	2011
Numerator:				
Earnings (loss) attributable to Navistar International Corporation available to common stockholders	\$84	\$1,400	\$(241)	\$1,468
Denominator:				
Weighted average shares outstanding:				
Basic	68.7	73.3	69.1	73.0
Effect of dilutive securities	0.2	3.5	—	4.1
Diluted	68.9	76.8	69.1	77.1
Earnings (loss) per share attributable to Navistar International Corporation:				
Basic	\$1.22	\$19.10	\$(3.49)	