NAVISTAR INTERNATIONAL CORP
Form 10-K
December 22, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended October 31, 2010

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.)*
4201 Winfield Road, P.O. Box 1488,	
Warrenville, Illinois	**60555**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code (630) 753-5000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common stock (par value $0.10)	New York Stock Exchange
Cumulative convertible junior preference stock, Series D (par value $1.00)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

As of April 30, 2010, the aggregate market value of common stock held by non-affiliates of the registrant was $3.1 billion. For purposes of the foregoing calculation only, executive officers and directors of the registrant, and pension and 401(k) plans of the registrant have been deemed to be affiliates.

As of November 30, 2010, the number of shares outstanding of the registrant s common stock was 71,853,614, net of treasury shares.

Documents incorporated by reference: Portions of the Company s Proxy Statement for the Annual Meeting of Stockholders to be held on February 15, 2011 are incorporated by reference in Part III.

Table of Contents

NAVISTAR INTERNATIONAL CORPORATION FISCAL YEAR 2010 FORM 10-K

TABLE OF CONTENTS

Table of Contents

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:

- our development of new products and technologies;
- the expected timing of product introduction and production schedules;
- the anticipated volume, demand and markets for our products;
- the anticipated performance and benefits of our products and technologies, including our exhaust gas recirculation technologies;
- the impact and benefits of acquisitions, strategic alliances and joint ventures we complete;
- our compliance with governmental regulations and standards and costs relating thereto;
- the impact and benefits of our labor union contracts;
- the impact and costs and expenses of litigation we may be subject to now or in the future;
- our business strategies; and
- anticipated trends and outlook relating to 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 a 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 financial results include those discussed in Item 1A, *Risk Factors*, set forth in Part I, 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 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 periodic and current reports, proxy statements, and other information with the United States (U.S.) Securities and Exchange Commission (SEC). We make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other 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. 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 file electronically with the SEC. You can read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Room 1850, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Information on our website does not constitute part of this Annual Report on Form 10-K.

Table of Contents

PART I

Item 1. *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 t NIC and its subsidiaries, and certain variable interest entities of which we are the primary beneficiary. We report our annual results for our fiscal year, which ends October 31. As such, all references to 2010, 2009, and 2008 contained within this Annual Report on Form 10-K relate to the fiscal year unless otherwise indicated. In July 2010, NFC filed a Form 15 with the SEC and ceased filing reports under the Exchange Act. NIC continues to file periodic reports with the SEC.

Overview

We are an international manufacturer of International® brand commercial and military trucks, IC Bus (IC) brand buses, MaxxForce brand diesel engines, Workhorse® Custom Chassis (WCC) brand chassis for motor homes and step vans, and Monaco® RV (Monaco) recreational vehicles (RV), as well as a provider of service parts for all makes of trucks and trailers. Additionally, we are a private-label designer and manufacturer of diesel engines for the pickup truck, van, and sport utility vehicle (SUV) markets. We also provide retail, wholesale, and lease financing of our trucks and parts.

Our Strategy

Our long term strategy is focused on three pillars:

I Great Products

- Growing our product line, including an expanded line of our Class 8 ProStar® and LoneStar® trucks and Class 4/5 TerraStar™ trucks manufactured under the International brand, the AC series of small shuttle buses manufactured under the IC brand, and the Vesta RV manufactured under the Monaco brand

- Maintain strong market share in our traditional classes, including School bus Class 6 and 7 medium, and Class 8 severe service

- Focusing on engine research and development in order to have a competitive advantage using Exhaust Gas Recirculation (EGR) and other technologies for compliance with 2010 emissions standards

- Introducing our advanced engine technology in new markets

II Competitive Cost Structure

- Increasing our seamless integration of MaxxForce branded engine lines in our products, including the establishment of our new MaxxForce 11, 13 and 15 engines

- Reducing materials cost by increasing global sourcing, leveraging scale benefits, finding synergies among strategic partnerships, reducing manufacturing conversion costs, and seeking opportunities for vertical integration

III Profitable Growth

Working in cooperation with the U.S. military to provide an extensive line of defense vehicles and product support, including but not limited to, Mine Resistant Ambush Protected (MRAP) vehicles and other vehicles derived from our existing truck platforms

Minimizing the impact of our North American markets cyclicality by growing our Truck and Parts segments and expansion markets sales, such as Mexico, international export, U.S. and non-U.S. military, RV, commercial bus, and commercial step van

Broadening our Engine segment customer base within the commercial truck market, other consumer and specialty vehicle products, and other non-vehicle-based platforms

Table of Contents

The two key enablers to the above strategy are as follows:

I Leverage our assets and those of our partners

Grow in our North American markets and globally through strategic partnerships and joint ventures, with partners including Mahindra & Mahindra Ltd. for markets in India and Caterpillar Inc. (Caterpillar) for various markets outside of North America and the Indian subcontinent, and pending ventures with Anhui Jianghuai Automobile Co. Ltd. (JAC) for markets in China, to increase speed to market, reduce risk, and lower the cost of investment

Maintain product and plant flexibility to fully utilize our existing facilities, people, and technologies, including actions such as our recent labor agreement with the United Automobile, Aerospace and Agricultural Implement Workers of America (UAW)

Attain further operating efficiencies and economies of scale through consolidating and centralizing certain facilities and functions, including the pending consolidation of our executive management, certain business operations, and product development at a new world headquarters site in Lisle, Illinois and the planned development of a testing and validation center to be located within our Melrose Park facility, as well as other actions such as the integration of all bus production in a single location

Combine global purchasing relationships to achieve scale and sourcing anywhere in the world to contain costs

II Control our destiny

Control the development process and associated intellectual property of our products

Utilize key supplier competencies to reduce costs of components and improve quality

Ensure the health and growth of our distribution network to provide our products to key markets

Our Operating Segments

We operate in four 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). Corporate contains those items that do not fit into our four segments. Selected financial data for each segment can be found in Note 18, *Segment reporting*, to the accompanying consolidated financial statements.

Truck Segment

The Truck segment manufactures and distributes a full line of Class 4 through 8 trucks and buses in the common carrier, private carrier, government/service, leasing, construction, energy/petroleum, military vehicles, and student and commercial transportation markets under the International and IC brands. This segment also produces chassis for motor homes and commercial step-van vehicles under the WCC brand and RVs, including non-motorized towables, under the Monaco family of brands. The Truck segment is our largest operating segment based on total external sales and revenues.

The Truck segment s manufacturing operations in the U.S., Canada, and Mexico (collectively called North America) consist principally of the assembly of components manufactured by our suppliers, although this segment also produces certain sheet metal components, including truck cabs.

We compete primarily in the School bus and Class 6 through 8 medium and heavy truck markets within the U.S. and Canada, which we consider our traditional markets. We continue to grow in expansion markets, which include Mexico, international export, U.S. and non-U.S. military, RV, commercial step-van, and other truck and bus markets. In recent years, we have successfully grown our expansion market by increasing our

2

sales to the U.S. military. The products we sell to the U.S. military are derivatives of our commercial vehicles and allow us to leverage our manufacturing and engineering expertise, utilize existing plants, and seamlessly integrate our engines. This segment also engages in various strategic joint ventures to further our product reach to the global markets including Blue Diamond Truck (BDT), Mahindra Navistar Automotives, Ltd., and NC^2 Global, LLC (NC^2).

We market our commercial products through our extensive independent dealer network in North America, which offers a comprehensive range of services and other support functions to our end users. Our commercial trucks are distributed in virtually all key markets in North America, as well as select markets outside of North America, through our distribution and service network comprised of 783 U.S. and Canadian dealer and retail outlets, 91 Mexican dealer locations, and 103 international dealer locations, as of October 31, 2010. We occasionally acquire and operate dealer locations (Dealcor) for the purpose of transitioning ownership. In addition, our network of used truck centers and International certified used truck dealers in the U.S. and Canada provides trade-in support to our dealers and national accounts group, and markets all makes and models of reconditioned used trucks to owner-operators and fleet buyers. Truck segment sales and revenues are dependent on trucks that have been invoiced to customers (chargeouts).

The markets in which the Truck segment competes are subject to considerable volatility and fluctuation in response to cycles in the overall business environment. These markets are particularly sensitive to the industrial sector, which generates a significant portion of the freight tonnage hauled. Government regulation has impacted, and will continue to impact, trucking operations and the efficiency and specifications of equipment.

The Class 4 through 8 truck and bus markets in North America are highly competitive. Major U.S. domestic competitors include: PACCAR Inc. (PACCAR) and Ford Motor Company (Ford). Competing foreign-controlled domestic manufacturers include: Freightliner and Western Star (both subsidiaries of Daimler-Benz AG (Mercedes Benz)), and Volvo and Mack (both subsidiaries of Volvo Global Trucks). Major U.S. military vehicle competitors include: BAE systems, Force Protection, Inc., General Dynamics Land Systems, General Purpose Vehicles, Oshkosh Truck, and Protected Vehicles Incorporated. In addition, smaller, foreign-controlled market participants such as Isuzu Motors America, Inc. (Isuzu), UD Trucks North America (formerly known as Nissan Diesel America, Inc. (UD Trucks)), Hino (a subsidiary of Toyota Motor Corporation (Toyota)), and Mitsubishi Motors North America, Inc. (Mitsubishi) are competing in the U.S. and Canadian markets with primarily imported products. For the RV business, our major competitors include: Winnebago Industries, Inc., Thor Industries, Inc., Fleetwood RV, Inc., and Coachman Industries, Inc. In Mexico, the major domestic competitors are Kenmex (a subsidiary of PACCAR) and Mercedes Benz.

Engine Segment

The Engine segment designs and manufactures diesel engines across the 50 through 475 horsepower range for use primarily in our Class 6 and 7 medium trucks, military vehicles, buses, and Class 8 heavy truck models, and for sale to original equipment manufacturers (OEMs) in North and South America for SUVs, pick-ups, and other consumer and specialty vehicle products. This segment also sells engines for industrial and agricultural applications, supplies engines for WCC, Low-Cab Forward (LCF), Class 5 vehicles, and produces MaxxForce 11 and 13 Big-Bore engines. This segment engages in various strategic joint ventures to further our product reach to the global markets. The engine segment has made an investment, together with Ford, in Blue Diamond Parts (BDP), which is responsible for the sale of service parts to Ford. The Engine segment also has an investment together with Mahindra & Mahindra Ltd. in an engine joint venture in India called Mahindra-Navistar Engines Private Ltd. Our strategy is to continue our efforts to diversify our Engine segment sales and profitably grow our global business through our South American subsidiary and our joint ventures. The Engine segment is our second largest operating segment based on total external sales and revenues.

The Engine segment has manufacturing operations in the U.S., Brazil, and Argentina. The operations at these facilities consist principally of the assembly of components manufactured by our suppliers, as well as machining operations relating to steel and grey iron components, and certain higher technology components necessary for our engine manufacturing operations. Our diesel engines are sold under the MaxxForce brand as well as produced for other OEMs.

In the U.S. and Canada, mid-range commercial truck diesel engine market our primary competitors are Cummins Inc. (Cummins), Mercedes Benz, Isuzu, and Hino.

In South America, we have a substantial share of the diesel engine market in the mid-sized pickup and SUV markets as well as the mid-range diesel engines produced in that market. Our South American subsidiary MWM International Industria De Motores Da America Do Sul Ltda. (MWM) is a leader in the South American mid-range diesel engine market. MWM sells products in more than 35 countries on five continents and provides customers with additional engine offerings in the agriculture, marine, and light truck markets. MWM competes with Mitsubishi and Toyota in the Mercosul pickup and SUV markets; Cummins, Mercedes Benz, and Fiat Powertrain in the Light and Medium truck markets; Mercedes Benz, Cummins, Scania, Volvo, and FPT in the heavy truck market; Mercedes Benz in the bus market; New Holland (a subsidiary of CNH Global N.V.), Sisu Diesel (a subsidiary of AGCO Corporation), and John Deere in the agricultural market; and Scania and Cummins in the stationary market.

In Mexico, we compete in Classes 4 through 8 with MaxxForce 4.8, 7, DT, and 9 engines, facing competition from Cummins, Isuzu, Hino, Mercedes Benz, and Ford. The application of the new MaxxForce 11 and 13 Big-Bore engines in Mexico will depend on the availability of low sulfur diesel fuel throughout the country. In buses, we compete in Classes 6 through 8 with I-6 MaxxForce DT and 9 engines and I-4 MWM engines branded MaxxForce 4.8, having as a main competitor Mercedes Benz with 904 and 906 series engines.

Parts Segment

The Parts segment supports our brands of International commercial and military trucks, IC buses, WCC chassis, MaxxForce engines, as well as our other product lines, by providing customers with proprietary products together with a wide selection of other standard truck, trailer, and engine service parts. We distribute service parts in North America and the rest of the world through the dealer network that supports our Truck and Engine segments.

We believe our extensive dealer channel provides us with an advantage in serving our customers by having our parts available when our customers require service. Goods are delivered to our customers either through one of our eleven regional parts distribution centers in North America or through direct shipment from our suppliers for parts not generally stocked at our distribution centers. We have a dedicated parts sales team within North America, as well as three national account teams focused on large fleet customers, a global sales team, and a government and military team. In conjunction with the Truck sales and technical service group, we provide an integrated support team that works to find solutions to support our customers.

Financial Services Segment

The 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. Substantially all revenues earned by the Financial Services segment are derived from supporting the sales of our vehicles and products. We also finance wholesale and retail accounts receivable, of which substantially all revenues earned are received from the Truck and Parts segments. On a limited basis, we may finance sales of new products (including trailers) of other manufacturers regardless of whether they are designed or customarily sold for use with our truck products. The Financial Services segment continues to meet the primary goal of providing financing to our customers while working to mitigate the impact of the recession in the U.S. and Mexico markets, customer defaults, and impaired vehicle asset values.

Table of Contents

This segment provided wholesale financing for 96% of our new truck inventory sold by us to our dealers and distributors in the U.S. both in 2010 and 2009, and provided retail and lease financing for 8% and 9% of all new truck units sold or leased by us to retail customers in the U.S. for 2010 and 2009, respectively.

In 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). Under the terms of the 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, and under limited circumstances NFC retains the rights to originate retail customer financing.

Government Contracts

As a U.S. government contractor, we are subject to specific regulations and requirements as mandated by our contracts. These regulations include Federal Acquisition Regulations, Defense Federal Acquisition Regulations, and the Code of Federal Regulations. We are also subject to routine audits and investigations by U.S. government agencies such as the Defense Contract Management Agency and Defense Contract Audit Agency. These agencies review and assess compliance with contractual requirements, cost structure, cost accounting, and applicable laws, regulations, and standards.

Engineering and Product Development

Our engineering and product development programs are focused on product improvements, innovations, and cost reductions. As a truck manufacturer, costs have been focused on further development of our existing products such as military vehicles, Big-Bore engines, ProStar and LoneStar trucks as well as modifications of our trucks to accommodate 2010 emissions-compliant engines. As a diesel engine manufacturer, we have incurred research, development, and tooling costs to design our engine product lines to meet emissions regulatory requirements and to provide engine solutions to support a global marketplace. Our engineering and product development expenditures were $464 million in 2010 compared to $433 million in 2009 and $384 million in 2008.

We continue to invest in research, development, and tooling equipment to design and produce our engine product lines to meet U.S. Environmental Protection Agency (EPA) emissions requirements. We have chosen advanced EGR, combined with other strategies, as our solution to meet the 2010 emissions requirements. We believe coupling EGR with other emissions strategies gives our products advantages over our competitors liquid-based urea Selective Catalytic Reduction (SCR) solution and enables us to maintain flexibility in meeting emissions requirements. We continue to evaluate our emissions strategies on a platform-by-platform basis to achieve the best long-term solution for our customers in each of our vehicle applications. Our continued investment in research and development includes the further enhancement of our advanced EGR technology and the ongoing development of reliable, high-quality, high-performance and fuel-efficient products.

Acquisitions, Strategic Agreements, and Joint Ventures

We continuously seek and evaluate opportunities in the marketplace that provide us with the ability to leverage new technology, expand our engineering expertise, provide access to expansion markets, and identify component and material sourcing alternatives. During the recent past, we have entered into a number of collaborative strategic relationships and have acquired businesses that allowed us to generate manufacturing efficiencies, economies of scale, and market growth opportunities. We also routinely re-evaluate our existing relationships to determine whether they continue to provide the benefits we originally envisioned as well as review potential partners for new opportunities. The Company considers the following joint ventures and businesses an integral part of our long-term growth strategy:

In 2006, we finalized our joint venture with Mahindra & Mahindra Ltd., a leading Indian manufacturer of multi-utility vehicles and tractors to produce commercial trucks and buses in India. Furthermore, in 2008, we signed a second joint venture agreement with Mahindra & Mahindra Ltd. to produce diesel engines for medium and heavy commercial trucks and buses in India. We have a 49% ownership in each joint venture, which operate under the names of Mahindra-Navistar Automotives Ltd. and Mahindra-Navistar Engines Private Ltd., respectively. These joint ventures provide us engineering services, as well as advantages of scale and global sourcing for a more competitive cost structure, and afford us the opportunity to enter markets in India that have significant growth potential for commercial vehicles and diesel power. In January 2010, Mahindra-Navistar Automotives Ltd. launched a family of commercial trucks and tractors in the range of 25, 31, 40 and 49 ton (equivalent gross vehicle weight ranges of approximately 56,000 pounds up to 109,000 pounds).

In 2009, we completed a 50/50 joint venture with Caterpillar resulting in the formation of NC^2. This joint venture will develop, manufacture, and distribute conventional and cab-over truck designs to serve the global commercial truck market. NC^2 will initially focus on markets including Australia, Brazil, China, Russia, South Africa, and Turkey, and this product line will be sold under both the CAT and International brands. Also in 2009, we signed a strategic agreement with Caterpillar to design and develop a new proprietary, purpose-built heavy-duty CAT vocational truck for the North American market. The trucks will be sold and serviced though the CAT North American dealer network. Scheduled production for this product is expected in mid-2011. In October 2010, NC^2 launched CAT-branded on-highway trucks in the Australian market and launched operations in Brazil, where it will assemble and distribute commercial trucks under both the CAT and International brands.

In 2009, we acquired all of the membership interests and certain assets associated with the amplified common rail injector business of Continental Diesel Systems US, LLC (CDS). CDS was a leading manufacturer of injectors used in fuel systems that are installed into various diesel engines. We believe the acquired company, renamed Pure Power Technologies, LLC (PPT), will allow us to further vertically integrate research and development, engineering, and manufacturing capabilities to produce world-class diesel power systems and advanced emissions control systems. The seamless integration of the fuel, air, and after-treatment systems that PPT provides is enabled by the focus on optimized solutions through combining the design, development, analysis, and manufacturing into a single company. While PPT currently focuses primarily on intercompany customers, we anticipate that this business will provide additional external opportunities in the future.

In September 2010, we signed a joint venture agreement with JAC to develop, build, and market advanced diesel commercial engines in China. Our NC^2 joint venture also signed a joint venture agreement with JAC to develop, build, and market advanced commercial vehicles in China. The engine joint venture will focus on meeting emerging needs of the Chinese commercial truck market with Euro IV and Euro V compliant technology and will provide application engineering development, product design and technology advancements, to support the truck joint venture and other engine requirements of JAC s product portfolio. A dedicated manufacturing facility in Hefei, Anhui Province of China is expected to be constructed to produce JAC and the Navistar-designed MaxxForce diesel engines. We anticipate the truck joint venture will build vehicles at an existing JAC manufacturing facility dedicated to medium and heavy duty trucks. The formation of the joint ventures is pending necessary approvals from the Chinese government, and is subject to finalization of certain ancillary agreements among the parties.

Backlog

Our worldwide backlog of unfilled truck orders (subject to cancellation or return in certain events) at October 31, 2010 and 2009 was 19,000 and 26,100 units, respectively. Although the backlog of unfilled orders is one of many indicators of market demand, other factors such as changes in production rates, internal and supplier available capacity, new product introductions, and competitive pricing actions may affect point-in-time comparisons. Order backlogs exclude units in inventory awaiting additional modifications or delivery to the end customer.

Table of Contents

Employees

As our business requirements change, fluctuations may occur within our workforce from year to year. The following tables summarize the number of employees worldwide as of the dates indicated and an additional subset of active union employees represented by the UAW, the National Automobile, Aerospace and Agricultural Implement Workers of Canada (CAW), and other unions, for the periods as indicated:

	As of October 31,		
	2010	**2009**	**2008**
Employees worldwide			
Total active employees	15,800	15,100	15,900
Total inactive employees(A)	2,900	2,800	1,900
Total employees worldwide	18,700	17,900	17,800

	As of October 31,		
	2010	**2009**	**2008**
Total active union employees			
Total UAW	1,700	2,600	2,000
Total CAW			1,000
Total other unions	2,400	1,900	2,500

(A) Employees are considered inactive in certain situations including disability leave, leave of absence, layoffs, and work stoppages. Inactive employees as of October 31, 2010 and 2009 include approximately 1,100 CAW employees related to their contract expiration on June 30, 2009.

On October 30, 2010, our UAW represented employees ratified a new four-year labor agreement that replaced the prior contract that expired October 1, 2010. Our labor contract with the CAW expired June 30, 2009 and negotiations for a new collective bargaining agreement are ongoing. See Item 1A, *Risk Factors*, for further discussion related to the risk associated with labor and work stoppages.

Patents and Trademarks

We continuously obtain patents on our inventions and own a significant patent portfolio. Additionally, many of the components we purchase for our products are protected by patents that are owned or controlled by the component manufacturer. We have licenses under third-party patents relating to our products and their manufacture and grant licenses under our patents. The monetary royalties paid or received under these licenses are not material.

Our primary trademarks are an important part of our worldwide sales and marketing efforts and provide instant identification of our products and services in the marketplace. To support these efforts, we maintain, or have pending, registrations of our primary trademarks in those countries in which we do business or expect to do business. We grant licenses under our trademarks for consumer-oriented goods, such as toy trucks and apparel, outside the product lines that we manufacture. The monetary royalties received under these licenses are not material.

Supply

We purchase raw materials, parts, and components from numerous outside suppliers. To avoid duplicate tooling expenses and to maximize volume benefits, single-source suppliers fill a majority of our requirements for parts and components.

The impact of an interruption in supply will vary by commodity and type of part. Some parts are generic to the industry while others are of a proprietary design requiring unique tooling, which require additional effort to relocate. However, we believe our exposure to a disruption in production as a result of an interruption of raw

Table of Contents

materials and supplies is no greater than the industry as a whole. In order to alleviate losses resulting from an interruption in supply, we maintain contingent business interruption insurance for loss of earnings and/or extra expense directly resulting from physical loss or damage at a direct supplier location.

While we believe we have adequate assurances of continued supply, the inability of a supplier to deliver could have an adverse effect on production at certain of our manufacturing locations.

Impact of Government Regulation

Truck and engine manufacturers continue to face significant governmental regulation of their products, especially in the areas of environment and safety. New on-highway emissions standards commenced in the U.S. on January 1, 2007, which reduced allowable particulate matter and allowable nitrogen oxide and have reached the last phase-in period effective with engine model year 2010. This change in emissions standards resulted in a significant increase in the cost of our products to meet these emissions levels.

We have certified products that comply with the applicable 2010 EPA emissions requirements. In 2010, the initial phase-in of on-board diagnostics requirements commenced for the initial family of truck engines and those products have also been certified. The phase-in for the remaining engine families occurs in 2013. Canadian heavy-duty engine emissions regulations essentially mirror those of the EPA. In Mexico, we offer EPA 2004 and Euro IV engines that comply with current standards in that country.

Truck manufacturers are also subject to various noise standards imposed by federal, state, and local regulations. The engine is one of a truck s primary sources of noise, and we therefore work closely with OEMs to develop strategies to reduce engine noise. We are also subject to the National Traffic and Motor Vehicle Safety Act (Safety Act) and Federal Motor Vehicle Safety Standards (Safety Standards) promulgated by the National Highway Traffic Safety Administration (NHTSA).

Government regulation related to climate change is under consideration at the U.S. federal and state levels. Because our products use fossil fuels, they may be impacted indirectly due to regulation affecting the cost of fuels. In May 2010, President Obama directed the EPA and the Department of Transportation to adopt rules by July 30, 2011 setting greenhouse gas emission and fuel economy standards for medium and heavy-duty vehicles and heavy-duty engines beginning with model year 2014. These standards will impact development costs for vehicles and engines as well as the cost of vehicles and engines. The EPA and NHTSA published a proposed rule for greenhouse gas emissions and fuel economy requirements for trucks and heavy-duty engines on November 30, 2010. We are actively engaged in providing the EPA and NHTSA input on the proposed rule. The rule is expected to have an initial phase in starting with model year 2014 and a final phase in occurring in model year 2017.

Our facilities may also be subject to regulation related to climate change. The EPA is proceeding with various efforts to regulate greenhouse gas emissions under existing Clean Air Act authorities. We continue to evaluate the impact these regulatory developments may have on our facility operations.

These truck standards may also create opportunities for the Company, which has pursued the development of hybrid and electric vehicles and has sought incentives for the development of technology to improve fuel economy. Costs related to these regulatory proposals cannot be quantified at present because the regulatory proposals themselves are in the early stages of development.

Table of Contents

EXECUTIVE OFFICERS OF NIC

The following selected information for each of our current executive officers (as defined by regulations of the SEC) was prepared as of November 30, 2010.

Daniel C. Ustian, 60, has served as President and Chief Executive Officer of NIC since 2003 and Chairman of the Board of Directors of NIC since 2004. He also served as Chairman of Navistar, Inc. since 2004 and President and Chief Executive Officer of Navistar, Inc. since 2003 and a director since 2002. Prior to these positions, he was President and Chief Operating Officer from 2002 to 2003, and President of the Engine Group of Navistar, Inc. from 1999 to 2002, and he served as Group Vice President and General Manager of Engine & Foundry from 1993 to 1999. He is a member of the Business Roundtable and Society of Automotive Engineers.

Andrew J. Cederoth, 45, has served as Executive Vice President and Chief Financial Officer of NIC since September 2009. Mr. Cederoth also served as a director of Navistar, Inc. since April 2009, and Executive Vice President and Chief Financial Officer at Navistar, Inc. since September 2009. Prior to these positions he was interim principal financial officer and Senior Vice President Corporate Finance of NIC from June 2009 to September 2009, Senior Vice President Corporate Finance from April 2009 to June 2009 of NIC, Vice President and Chief Financial Officer of the Engine Division of Navistar, Inc. from 2006 to April 2009, Vice President and Treasurer of Navistar Financial Corporation from 2001 to 2005.

Steven K. Covey, 59, has served as Senior Vice President and General Counsel of NIC since 2004 and Chief Ethics Officer since 2008. Mr. Covey also served as Senior Vice President and General Counsel of Navistar, Inc. since 2004 and Chief Ethics Officer since 2008. Prior to these positions, Mr. Covey served as Deputy General Counsel of Navistar, Inc. from April 2004 to September 2004 and as Vice President and General Counsel of Navistar Financial Corporation from 2000 to 2004. Mr. Covey also served as Corporate Secretary for NIC from 1990 to 2000; and Associate General Counsel of Navistar, Inc. from 1992 to 2000.

James M. Moran, 45, has served as Vice President and Treasurer of NIC since 2008. Mr. Moran also served as Vice President and Treasurer of Navistar, Inc. since 2008. Prior to these positions, Mr. Moran served as Vice President and Assistant Treasurer of both NIC and Navistar, Inc. from 2007 to 2008 and Director of Corporate Finance of Navistar, Inc. from 2005 to 2007. Prior to joining NIC, Mr. Moran served as Vice President and Treasurer of R.R. Donnelley & Sons Company, an international provider of print and print related services, from 2003 to 2004 and Assistant Treasurer of R.R. Donnelley & Sons Company from 2002 to 2003. Prior to that, Mr. Moran held various positions in corporate finance, strategic planning, and credit and collections at R.R. Donnelley & Sons Company.

Richard C. Tarapchak, 45, has served as Vice President and Controller (Principal Accounting Officer) of NIC since March 2010. Prior to this position, Mr. Tarapchak served as Vice President Strategic Initiatives of Navistar, Inc. since 2008. Mr. Tarapchak also served as Vice President Chief Financial Officer of the Truck Group of Navistar, Inc. from 2005 to 2008, Director Corporate Financial Analysis of Navistar, Inc. from 2003 to 2005 and Director, Finance Operations of Navistar, Inc. from 2000 to 2003.

Curt A. Kramer, 42, has served as Corporate Secretary of NIC since 2007. Mr. Kramer also served as Associate General Counsel and Corporate Secretary of Navistar, Inc. since 2007. Prior to these positions, Mr. Kramer served as General Attorney of Navistar, Inc. from April 2007 to October 2007, Senior Counsel of Navistar, Inc. from 2004 to 2007, Senior Attorney of Navistar, Inc. from 2003 to 2004 and Attorney of Navistar, Inc. from 2002 to 2003. Prior to joining Navistar, Inc., Mr. Kramer was in private practice.

D.T. (Dee) Kapur, 58, has served as President of the Truck Group of Navistar, Inc. since 2003. Prior to joining Navistar, Inc., Mr. Kapur was employed by Ford Motor Company, a leading worldwide automobile manufacturer, from 1976 to 2003, most recently serving as Executive Director of North American Business

Table of Contents

Revitalization, Value Engineering from 2002 to 2003; Executive Director of Ford Outfitters, North American Truck, from 2001 to 2002; and Vehicle Line Director, Full Size Pick-ups and Utilities from 1997 to 2001. In July 2009, Mr. Kapur joined the board of directors at Bucyrus International, Inc.

Phyllis E. Cochran, 58, has served as President of the Parts Group of Navistar, Inc. since November 2009. Prior to this position, Ms. Cochran served as Senior Vice President and General Manager of the Parts Group of Navistar, Inc. since 2007, and Vice President and General Manager of the Parts Group of Navistar, Inc. from 2004 to 2007. Ms. Cochran was also Chief Executive Officer and General Manager of Navistar Financial Corporation from 2003 to 2004. Ms. Cochran was Executive Vice President and General Manager of Navistar Financial Corporation from 2002 to 2003. Ms. Cochran also served as Vice President of Operations for Navistar Financial Corporation from 2000 to 2002; and Vice President and Controller for Navistar Financial Corporation from 1994 to 2000. She is a director of The Mosaic Company, a world leading producer and marketer of concentrated phosphate and potash crop nutrients. She is a director of Women in Trucking, a not for profit organization to promote employment of women in the truck industry.

Gregory W. Elliott, 49, has served as Senior Vice President, Human Resources and Administration of Navistar, Inc. since 2008. Prior to this position, Mr. Elliott served as Vice President, Corporate Human Resources and Administration of Navistar, Inc. from 2004 to 2008 and as Vice President, Corporate Communications of Navistar, Inc., from 2000 to 2004. Prior to joining Navistar, Inc., Mr. Elliott served as Director of Executive Communications of General Motors Corporation from 1997 to 1999.

Item 1A. *Risk Factors*

The Company s financial condition, results of operations, and cash flows are subject to various risks, many of which are not exclusively within the Company s control that may cause actual performance to differ materially from historical or projected future performance. We have in place an Enterprise Risk Management (ERM) process that involves systematic risk identification and mitigation covering the categories of Strategic, Financial Operational and Compliance risk. The goal of ERM is not to eliminate all risk, but rather identify, assess and rank risks; assign, mitigate and monitor risks; and report the status of our risk to the Management Risk Committee and the Board of Directors and its Committees. The risks described below could materially and adversely affect our business, financial condition, results of operations, or cash flows. These risks are not the only risks that we face and our business operations could also be affected by additional factors that are not presently known to us or that we currently consider to be immaterial to our operations.

Our technology solution to meet U.S. federal and state emissions requirements may not be successful or may be more costly than planned.

Truck and engine manufacturers continue to face significant governmental regulation of their products, especially in the areas of environment and safety. In that regard, we have incurred, and will continue to incur, significant research, development, and tooling costs to design and produce our engine product lines to meet EPA and California Air Resources Board (CARB) emissions requirements. The new on-highway heavy duty emissions standards that came into effect in the U.S. for the 2007 model year reduced allowable particulate matter and allowable nitrogen oxide. This change in emissions standards resulted in a significant increase in the cost of our products to meet these emissions levels. An emissions cap as part of the phase-in process for the heavy duty engines comes into effect for the model year 2010. In addition, regulations requiring on-board diagnostics began the initial phase-in during 2010 for truck engines and are a part of our product plans. Full phase-in of on-board diagnostics regulations will occur in 2013.

Most other truck and engine manufacturers have chosen liquid-based urea SCR systems to address the 2010 emissions standards. We intend to address the 2010 emissions requirements for our core applications through advances in engine emissions controls and continue to explore other cost effective alternative solutions for meeting these emissions standards. Our technology solution to meet U.S. federal 2010 emissions requirements may not be successful or may be more costly than planned.

Table of Contents

We may not achieve all of the expected benefits from our current business strategies and initiatives.

We have recently completed acquisitions and joint ventures and announced our intention to explore a number of potential additional joint ventures and strategic alliances, as well as other business initiatives. We cannot assure you that we will complete the joint ventures, strategic alliances or business initiatives we have expressed an interest in exploring, or that our previous or future acquisitions, joint ventures, strategic alliances or business initiatives will be successful or will generate the expected benefits. In addition, we cannot assure you we will not have disputes arise with our joint venture partners and that such disputes will not lead to litigation or otherwise have a material adverse effect on the joint venture or our relationship with our joint venture partners. Failure to successfully manage and integrate these and potential future acquisitions, joint ventures and strategic alliances could materially harm our financial condition, results of operations and cash flows.

Our products are subject to export limitations and we may be prevented from shipping our products to certain nations or buyers.

We are subject to federal licensing requirements with respect to the sale and support in foreign countries of certain of our products and the importation of components for our products. In addition, we are obligated to comply with a variety of federal, state and local regulations and procurement policies, both domestically and abroad, governing certain aspects of our international sales and support, including regulations promulgated by, among others, the U.S. Departments of Commerce, Defense and State and the U.S. Department of Justice.

Such licenses may be denied for reasons of U.S. national security or foreign policy. In the case of certain large orders for exports of defense equipment, the Department of State must notify Congress at least 15 to 30 days, depending on the size and location of the sale, prior to authorizing certain sales of defense equipment and services to foreign governments. During that time, Congress may take action to block the proposed sale. We can give no assurances that we will continue to be successful in obtaining the necessary licenses or authorizations or that Congress will not prevent or delay certain sales. Any significant impairment of our ability to sell products outside of the U.S. could negatively impact our results of operations and financial condition.

For products and technology exported from the U.S. or otherwise subject to U.S. jurisdiction, we are subject to U.S. laws and regulations governing international trade and exports, including, but not limited to International Traffic in Arms Regulations, Export Administration Regulations, the Foreign Military Sales program and trade sanctions against embargoed countries and destinations, administered by the Office of Foreign Assets Control, U.S. Department of the Treasury. A determination by the U.S. government that we have failed to comply with one or more of these export controls or trade sanctions could result in civil or criminal penalties, including the imposition of significant fines, denial of export privileges, loss of revenues from certain customers, and debarment from participation in U.S. government contracts.

We are subject to the Foreign Corrupt Practices Act (the FCPA) and other laws which prohibit improper payments to foreign governments and their officials by U.S. and other business entities. We operate in countries known to experience corruption. Our operations in such countries create the risk of an unauthorized payment by one of our employees or agents which could be in violation of various laws including the FCPA.

Additionally, the failure to obtain applicable governmental approval and clearances could materially and adversely affect our ability to continue to service the government contracts we maintain. Exports of some of our products to certain international destinations may require shipment authorization from U.S. export control authorities, including the U.S. Departments of Commerce and State, and authorizations may be conditioned on end-use restrictions.

Our international business is also highly sensitive to changes in foreign national priorities and government budgets. Sales of military products are affected by defense budgets (both in the U.S. and abroad) and U.S. foreign policy.

Table of Contents

We must comply with numerous miscellaneous federal national security laws, procurement regulations, and procedures, as well as the rules and regulations of foreign jurisdictions, and our failure to comply could adversely affect our business.

We must observe laws and regulations relating to the formation, administration and performance of federal government contracts that affect how we do business with our clients and impose added costs on our business. For example, the federal acquisition regulations, foreign government procurement regulations and the industrial security regulations of the Department of Defense and related laws include provisions that:

- allow our government clients to terminate or not renew our contracts if we come under foreign ownership, control or influence;
- allow our government clients to terminate existing contracts for the convenience of the government;
- require us to prevent unauthorized access to classified information; and
- require us to comply with laws and regulations intended to promote various social or economic goals.

We are subject to industrial security regulations of the U.S. Department of State, Department of Commerce and the Department of Defense and other federal agencies that are designed to safeguard against foreigners access to classified or restricted information. As we expand our operations internationally, we will also become subject to the rules and regulations of foreign jurisdictions. If we were to come under foreign ownership, control or influence, we could lose our facility security clearances, which could result in our federal government customers terminating or deciding not to renew our contracts and could impair our ability to obtain new contracts.

A failure to comply with applicable laws, regulations or procedures, including federal regulations regarding the procurement of goods and services and protection of classified information, could result in contract termination, loss of security clearances, suspension or prohibition from contracting with the federal government, civil fines and damages and criminal prosecution and penalties, any of which would materially adversely affect our business.

Our business may be adversely affected by government contracting risks.

We derived approximately 15%, 25%, and 27% of our revenues for 2010, 2009, and 2008, respectively, from the U.S. government. Many of our existing U.S. government contracts extend over multiple years and are conditioned upon the continuing availability of congressional appropriations. Congress usually appropriates funds on a fiscal-year basis and if the congressional appropriations for a program under which we are contractors are not made, or are reduced or delayed, our contract could be cancelled or government purchases under the contract could be reduced or delayed, which could adversely affect our financial condition, results of operations, and cash flows. Although we have multiple bids and quotes, there are no guarantees that they will be awarded to us in the future or that volumes will be similar to volumes under previously awarded contracts. In addition, U.S. government contracts generally permit the contracting government agency to terminate the contract, in whole or in part, either for the convenience of the government or for default based on our failure to perform under the contract. If a contract is terminated for convenience, we would generally be entitled to the payment of our allowable costs and an allowance for profit on the work performed. If one of our government contracts were to be terminated for default, we could be exposed to liability and our ability to obtain future contracts could be adversely affected.

Our liquidity position may be adversely affected by a continued downturn in our industry.

Any downturn in our industry can adversely affect our operating results. In the event that industry conditions remain weak for any significant period of time, our liquidity position may be adversely affected, which may limit our ability to complete product development programs, capital expenditure programs, or other strategic initiatives at currently anticipated levels.

Table of Contents

We have significant under-funded postretirement obligations.

The under-funded portion of our projected benefit obligation was $1.5 billion for pension benefits at both October 31, 2010 and 2009, and $653 million and $1.2 billion for postretirement healthcare benefits at October 31, 2010 and 2009, respectively. Moreover, we have assumed expected rates of return on plan assets and growth rates of retiree medical costs and the failure to achieve the expected rates of return and growth rates, as well as reductions in interest rates, could have an adverse impact on our under-funded postretirement obligations, financial condition, results of operations and cash flows. The volatility in the financial markets affects the valuation of our pension assets and liabilities, resulting in potentially higher pension costs and higher levels of under-funding in future periods. The requirements set forth in the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended, as applicable to our U.S. pension plan (including such timing requirements) mandated by the Pension Protection Act of 2006 to fully fund our U.S. pension plan, net of any current or possible future legislative or governmental agency relief, could also have an adverse impact on our business, financial condition, results of operations and cash flows even though the recently enacted pension funding relief legislation Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010 (the PRA 2010) may have reduced our funding requirements over the next five years.

We are exposed to political, economic, and other risks that arise from operating a multinational business.

We have significant operations in foreign countries, primarily in Canada, Mexico, Brazil, Argentina, and India. Accordingly, our business is subject to the political, economic, and other risks that are inherent in operating in those countries and internationally. These risks include, among others:

- trade protection measures and import or export licensing requirements;
- tax rates in certain foreign countries that exceed those in the U.S. and the imposition of withholding requirements for taxes on foreign earnings;
- difficulty in staffing and managing international operations and the application of foreign labor regulations;
- currency exchange rate risk; and
- changes in general economic and political conditions in countries where we operate, particularly in emerging markets.

We may be subject to greenhouse gas regulations.

Additional changes to on-highway emissions or performance standards as well as complying with additional environmental and safety requirements would add to the cost of our products and increase the capital-intensive nature of our business. In that regard, we have been closely monitoring regulatory proposals intended to address greenhouse gas emissions from vehicles and facilities. These regulatory proposals may have an impact on both our facilities and our products. The scope of the impact of any greenhouse gas emissions regulatory program is still uncertain and we are, therefore, unable to predict the impact to our operations.

Our manufacturing operations are dependent upon third-party suppliers, making us vulnerable to supply shortages.

We obtain materials and manufactured components from third-party suppliers. Some of our suppliers are the sole source for a particular supply item. Any delay in receiving supplies could impair our ability to deliver products to our customers and, accordingly, could have a material adverse effect on our business, financial condition, results of operations, and cash flows. The volatility in the financial markets and uncertainty in the automotive sector could result in exposure related to the financial viability of certain of our key third-party suppliers. In response to financial pressures, suppliers may also exit certain business lines, or change the terms on which they are willing to provide products. In addition, many of our suppliers have unionized workforces which could be subject to work stoppages as a result of labor relations issues.

Table of Contents

The markets in which we compete are subject to considerable cyclicality.

Our ability to be profitable depends in part on the varying conditions in the truck, bus, mid-range diesel engine, and service parts markets, which are subject to cycles in the overall business environment and are particularly sensitive to the industrial sector, which generates a significant portion of the freight tonnage hauled. Truck and engine demand is also dependent on general economic conditions, interest rate levels and fuel costs, among other external factors.

Our Truck, Engine and Parts segments are heavily influenced by the overall performance of the medium and heavy truck retail markets within the U.S. and Canada (our traditional market), which consists of vehicles in weight classes 6 through 8, including school buses. The traditional market is typically cyclical in nature and cycles can span several years. The continuing worldwide economic uncertainty has adversely impacted the industry and the market demand for our products remains stagnant with volumes at historically low levels. Every part of our business, excluding sales to the U.S. military, has been adversely affected by the global recession during 2010 and 2009. The traditional truck industry retail deliveries were 191,300 units, 174,400 units, and 236,600 units in 2010, 2009, and 2008, respectively. We expect 2011 industry volumes to be in the range of 230,000 units to 250,000 units.

We operate in the highly competitive North American truck market.

The North American truck market in which we operate is highly competitive. Our major U.S. domestic competitors include: PACCAR and Ford. The competing foreign-controlled domestic manufacturers include: Freightliner and Western Star (both subsidiaries of Mercedes Benz), and Volvo and Mack (both subsidiaries of Volvo Global Trucks). The major U.S. military vehicle competitors include: BAE Systems, Force Protection Inc, General Dynamics Land Systems, General Purpose Vehicles, Oshkosh Truck, and Protected Vehicles Incorporated. In addition, smaller, foreign-controlled and market participants such as Isuzu, UD Trucks (formerly known as Nissan North America, Inc.), Hino (a subsidiary of Toyota), and Mitsubishi are competing in the U.S. and Canadian markets with primarily imported products. In Mexico, the major domestic competitors are Kenmex (a subsidiary of PACCAR) and Mercedes Benz.

The intensity of this competition, which is expected to continue, results in price discounting and margin pressures throughout the industry and adversely affects our ability to increase or maintain vehicle prices. Many of our competitors have greater financial resources, which may place us at a competitive disadvantage in responding to substantial industry changes, such as changes in governmental regulations that require major additional capital expenditures. In addition, certain of our competitors may have lower overall labor costs.

We could incur restructuring and impairment charges as we continue to evaluate opportunities to restructure our business and rationalize our manufacturing operations in an effort to optimize the cost structure.

We continue to evaluate opportunities to restructure our business and rationalize our manufacturing operations in an effort to optimize the cost structure which could include, among other actions, additional rationalization of our manufacturing operations (including, without limitation, our Chatham manufacturing operations). These actions could result in significant charges which could adversely affect our financial condition and results of operations. Future actions could result in restructuring and related charges, including but not limited to impairments, employee termination costs and charges for pension and other post retirement contractual benefits and pension curtailments that could be significant. We have substantial amounts of long-lived assets, including goodwill and intangible assets, which are subject to periodic impairment analysis and review. Identifying and assessing whether impairment indicators exist, or if events or changes in circumstances have occurred, including market conditions, operating results, competition and general economic conditions, requires significant judgment. A result of any of the above future actions could result in charges that could have an adverse effect on our financial condition and results of operations.

Table of Contents

We may discover defects in vehicles potentially resulting in delays in new model launches, recall campaigns, or increased warranty costs.

Meeting or exceeding many government-mandated safety standards is costly and often technologically challenging, especially where one or more government-mandated standards may conflict. Government safety standards require manufacturers to remedy defects related to motor vehicle safety through safety recall campaigns, and a manufacturer is obligated to recall vehicles if it determines that they do not comply with a safety standard. Should we or government safety regulators determine that a safety or other defect or noncompliance exists with respect to certain of our vehicles, there could be a delay in the launch of a new model or a significant increase in warranty claims, the costs of which could be substantial.

We may fail to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002.

Section 404 of the Sarbanes-Oxley Act requires that we evaluate and determine the effectiveness of our internal control over financial reporting. As is further described in Item 9A, *Controls and Procedures*, we concluded that we have no material weaknesses in our internal control over financial reporting as of October 31, 2010. Although we consistently review and evaluate our internal control systems to allow management to report on, and our independent auditors to attest to, the sufficiency of our internal control over financial reporting, we cannot assure you that we will not discover material weaknesses in our internal control over financial reporting in the future. Any such material weaknesses could adversely affect investor confidence in the Company and we could be unable to provide timely and reliable financial information.

Our ability to use net operating loss (NOL) carryovers to reduce future tax payments could be negatively impacted if there is a change in our ownership or a failure to generate sufficient taxable income.

Presently, there is no annual limitation on our ability to use U.S. federal NOLs to reduce future income taxes. However, if an ownership change as defined in Section 382 of the Internal Revenue Code of 1986, as amended, occurs with respect to our capital stock, our ability to use NOLs would be limited to specific annual amounts. Generally, an ownership change occurs if certain persons or groups increase their aggregate ownership by more than 50 percentage points of our total capital stock in a three-year period. If an ownership change occurs, our ability to use domestic NOLs to reduce taxable income is generally limited to an annual amount based on the fair market value of our stock immediately prior to the ownership change multiplied by the long-term tax-exempt interest rate. NOLs that exceed the Section 382 limitation in any year continue to be allowed as carry forwards for the remainder of the 20-year carry forward period and can be used to offset taxable income for years within the carryover period subject to the limitation in each year. Our use of new NOLs arising after the date of an ownership change would not be affected. If more than a 50% ownership change were to occur, use of our NOLs to reduce payments of federal taxable income may be deferred to later years within the 20-year carryover period; however, if the carryover period for any loss year expires, the use of the remaining NOLs for the loss year will be prohibited. If we should fail to generate a sufficient level of taxable income prior to the expiration of the NOL carry forward periods, then we will lose the ability to apply the NOLs as offsets to future taxable income.

Our business may be adversely impacted by work stoppages and other labor relations matters.

We are subject to risk of work stoppages and other labor relations matters because a significant portion of our workforce is unionized. As of October 31, 2010, approximately 57% of our hourly workers and 8% of our salaried workers are represented by labor unions and are covered by collective bargaining agreements. Many of these agreements include provisions that limit our ability to realize cost savings from restructuring initiatives such as plant closings and reductions in workforce. Our current collective bargaining agreement with the UAW will expire in October 2014. Any strikes, threats of strikes, or other resistance in connection with the negotiation of new labor agreements or otherwise could materially adversely affect our business as well as impair our ability to implement further measures to reduce structural costs and improve production efficiencies. A lengthy strike

Table of Contents

that involves a significant portion of our manufacturing facilities could have a material adverse effect on our financial condition, results of operations, and cash flows. For additional information regarding our collective bargaining agreements, see Item 1, *Business*.

We are involved in pending litigation and an adverse resolution of such litigation may adversely affect our business, financial condition, results of operations and cash flows.

Litigation can be expensive, lengthy, and disruptive to normal business operations. The results of complex legal proceedings are often uncertain and difficult to predict. An unfavorable outcome of a particular matter described in our periodic filings or any future legal proceedings could have a material adverse effect on our business, financial condition, results of operations or cash flows. For additional information regarding certain lawsuits in which we are involved, see Item 3, *Legal Proceedings*, and Note 17, *Commitments and contingencies*, to the accompanying consolidated financial statements.

Item 1B. *Unresolved Staff Comments*

We have received no written comments regarding our periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of 2010 that remain unresolved.

Item 2. *Properties*

In North America, we operate eighteen manufacturing and assembly facilities, which contain in the aggregate approximately 14 million square feet of floor space. Of these eighteen facilities, fourteen are owned and four are subject to leases. Twelve plants manufacture and assemble trucks, buses, and chassis, while six plants are used to build engines. Of these six plants, three manufacture diesel engines, one manufactures fuel injectors, one manufactures grey iron castings, and one manufactures ductile iron castings.

The principal product development and engineering facility for our Truck segment is currently located in Fort Wayne, Indiana. For our Engine segment, our principal product development and engineering facilities are located in Melrose Park, Illinois and Columbia, South Carolina. The Parts segment has eight distribution centers in the U.S., two in Canada, and one in Mexico.

In addition, we own or lease other significant properties in the U.S. and Canada including vehicle and parts distribution centers, sales offices, two engineering centers (which serve our Truck and Engine segments), and our headquarters which is currently located in Warrenville, Illinois. In addition, we own and operate manufacturing plants in both Brazil and Argentina, which contain a total of 1 million square feet of floor space for use by our South American engine subsidiaries.

A majority of the activity of the Financial Services segment is conducted from leased headquarters in Schaumburg, Illinois. The Financial Services segment also leases an office in Mexico.

All of the above facilities are being utilized with the exception of the Chatham, Ontario plant, which is currently not operating due to low order volumes. Not included above is the former Indianapolis, Indiana Engine Plant (IEP), which ceased business activities in 2009 and for which no further activity is planned.

On November 30, 2010, we purchased a 1.2 million square foot office campus in Lisle, Illinois, which we intend to develop into our future headquarters as well as a research and technical center.

We believe that all of our facilities have been adequately maintained, are in good operating condition, and are suitable for our current needs. These facilities, together with planned capital expenditures, are expected to meet our needs in the foreseeable future.

Table of Contents

Item 3. ***Legal Proceedings***

Overview

We are subject to various claims arising in the ordinary course of business, and are parties 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 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, and cash flows.

Litigation Relating to Accounting Controls and Financial Restatement

In December 2007, a complaint was filed against us by Norfolk County Retirement System and Brockton Contributory Retirement System (collectively Norfolk), which was subsequently amended in May 2008. In March 2008, an additional complaint was filed by Richard Garza (Garza), which was subsequently amended in October 2009. Both of these matters were filed in the United States District Court, Northern District of Illinois.

The plaintiffs in the Norfolk case allege they are shareholders suing on behalf of themselves and a class of other shareholders who purchased shares of our common stock between February 14, 2003 and July 17, 2006. The amended complaint alleges that the defendants, which include the Company, one of its executive officers, two of its former executive officers, and the Company s former independent accountants, Deloitte & Touche LLP (Deloitte), violated federal securities laws by making false and misleading statements about the Company s financial condition during that period. In March 2008, the court appointed Norfolk County Retirement System and the Plumbers Local Union 519 Pension Trust as joint lead plaintiffs. On July 7, 2008, the Company filed a motion to dismiss the amended complaint based on the plaintiffs failure to plead any facts tending to show the defendants actual knowledge of the alleged false statements or that the plaintiffs suffered damages. Deloitte also filed a motion to dismiss on similar grounds. On July 28, 2009, the Court granted Deloitte s motion to dismiss but denied the motion to dismiss as to all other defendants. The parties then engaged in discovery focused on class certification issues. As reported to the Court on November 4, 2010, the parties have entered into a tentative settlement to resolve the matter. Pursuant to the proposed settlement, the Company has agreed to cause $13 million to be paid to a settlement fund and, in return, plaintiffs would dismiss the lawsuit with prejudice and provide a release of all claims that relate in any manner to the allegations, facts or any other matter whatsoever set forth in or otherwise related, directly or indirectly to the allegations in the complaint. The proposed settlement agreement will also contain, among other provisions, a statement that each of the defendants has denied and continues to deny having committed or intended to commit any violations of law or any wrongdoing whatsoever, that each of the defendants does not make any admission of liability, and that defendants are entering into the settlement solely because it would eliminate the burden, risk and expense of further litigation and would fully and finally resolve all of the claims released by plaintiffs. Before the settlement becomes final, the proposed settlement must be finally approved by the Court. The Company also reached an agreement with the insurer under its directors and officers insurance policy that includes a provision for the insurer to reimburse the Company for settlement costs attributable to the defendant directors and officers.

The plaintiff in the Garza case brought a derivative claim on behalf of the Company against one of the Company s executive officers, two of its former executive officers, and certain of its directors, alleging that all of the defendants violated their fiduciary obligations under Delaware law by willfully ignoring certain accounting and financial reporting problems at the Company, thereby knowingly disseminating false and misleading financial information about the Company and certain of the defendants were unjustly enriched in connection with their sale of Company stock during the December 2002 to January 2006 period. On November 30, 2009, the defendants filed a motion to dismiss the amended complaint based on plaintiff s failure to state a claim and based on plaintiff s failure to make a demand on the Board of Directors. On August 20, 2010, the Court entered an order granting defendants motion to dismiss the amended complaint based on plaintiff s failure to make a demand on the Board of Directors. On August 26, 2010, the Company received from plaintiff a letter demanding that the Board of Directors investigate the matters alleged in the plaintiff s amended complaint. After plaintiff advised the Court that he did not intend to seek leave to file a second amended complaint, the Court entered final judgment of dismissal on September 15, 2010.

Retiree Health Care Litigation

In April 2010, the UAW and others (Plaintiffs) filed a Motion of Plaintiffs Art Shy, UAW, et al for an Injunction to Compel Compliance with the Settlement Agreement (the Shy Motion). The Shy Motion is pending in U.S. District Court for the Southern District of Ohio (the Court). The Shy Motion seeks 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 claim that the Part D Change violates the terms of a June 1993 settlement agreement previously approved by the Court (the Settlement Agreement). That 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.

The Part D Change was effective July 1, 2010, and made the Company s prescription drug coverage for post-65 retirees (Plan 2 or Medicare-eligible retirees) supplemental to the coverage provided by Medicare. Plan 2 retirees now pay the premiums for Medicare Part D drug coverage. For drugs that are covered by Medicare Part D, Plan 2 supplements that coverage through a buy down of co-payments to the amounts in place prior to the Part D Change.

In May 2010, the Company filed its Opposition to the Shy Motion (the Opposition).

In June 2010, Navistar filed a separate Complaint in the Court relating to the Settlement Agreement (the Complaint). In the Complaint, the Company argues that it has not received the consideration that it was promised in the Settlement Agreement specifically, that the Company s APBO for health benefits would be permanently reduced to approximately $1 billion. The Company, therefore, seeks a declaration from the Court that it is not required to fund or provide retiree health benefits that would cause its APBO to exceed the approximate $1 billion amount provided in the Settlement Agreement.

FATMA Notice

International Indústria de Motores da América do Sul Ltda. (IIAA) formerly known as Maxion International Motores S/A (Maxion), a wholly owned subsidiary of the Company, received a notice on July 15, 2010 from the State of Santa Catarina Environmental Protection Agency (FATMA) in Brazil. The notice alleged that Maxion 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 Maxion and assessed an initial penalty in the amount of R$2 million (the equivalent of approximately US$1.2 million at October 31, 2010), 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 on August 3, 2010 and has not yet received a decision following that appearance. IIAA disputes the allegations in the notice and intends to vigorously defend itself.

6.0 Liter Diesel Engine Litigation

In November 2010, Brandon Burns filed a putative class action lawsuit against Navistar, Inc. and Ford in federal court for the Southern District of California (the Burns Action). The Burns Action seeks to certify a class of California owners and lessees of model year 2003-07 Ford vehicles powered by the 6.0L Power Stroke® engine that Navistar, Inc. previously supplied to Ford. Burns alleges that the engines in question have design and manufacturing defects. The theories of liability asserted against Navistar are negligent performance of contractual duty (related to Navistar s former contract with Ford), unfair competition, and unjust enrichment. For

Table of Contents

relief, the Burns Action seeks dollar damages sufficient to remedy the alleged defects, compensate the alleged damages incurred by the proposed class, and compensate plaintiffs counsel. The Burns Action also asks the Court to award punitive damages and restitution/disgorgement.

Since the filing of the Burns Action, four additional putative class action lawsuits have been filed in federal courts by the same plaintiff s attorney representing Mr. Burns in the Burns Action (the Additional Actions). The Additional Actions seek to certify in Utah, Arkansas, Tennessee, and Mississippi, classes similar to the proposed California class in the Burns Action. Navistar has not yet been served in the Mississippi case, but has obtained a copy of the complaint. The theories of liability and relief sought in the Additional Actions are substantially similar to the Burns Action.

We have also been made aware of the Kruse Technology Partnership vs. Ford Motor Company, lawsuit filed against Ford regarding potential patent infringement of three patents in the United States 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.

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

In 1973 Syntex do Brasil Industria e Comercio Ltda. (Syntex), a predecessor of our Brazilian engine manufacturing subsidiary now known as MWM International Industria de Motores da America do Sul Ltda (MWM), filed a lawsuit 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 trial 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 Ltds (Syntex Parent) sold the stock of Syntex to the entity now known as 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 now known as Wyeth Industrica Farmaceutica Ltds (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 alleges that the royalties payable to him were approximately R$42 million. MWM believed the appropriate amount payable is 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 R$68 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 December 2010, the court accepted and ratified the expert s calculation as of May 30, 2010 in the amount of R$74 million (the equivalent of approximately US$43.5 million at October 31, 2010) and entered judgment against MWM. We believe this calculation is incorrect and intend to appeal the decision. 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.

Table of Contents

Abestos and Environmental Matters

Along with other vehicle manufacturers, we have been subject to an increase in the 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. 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. We have also 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.

Item 4. ***[Removed and Reserved]***

Table of Contents

PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Market Information

Our common stock is listed on the New York Stock Exchange (NYSE), under the stock symbol NAV. The following is the high and low market price per share of our common stock from NYSE for each quarter of 2010 and 2009:

Year Ended October 31, 2010	High	Low	Year Ended October 31, 2009	High	Low
1st Qtr	$ 41.52	$ 31.53	1st Qtr	$ 33.34	$ 15.24
2nd Qtr	52.43	36.79	2nd Qtr	38.10	22.25
3rd Qtr	58.00	44.00	3rd Qtr	48.94	35.84
4th Qtr	53.83	40.58	4th Qtr	48.26	31.71

Number of Holders

As of November 30, 2010, there were approximately 12,792 holders of record of our common stock.

Dividend Policy

Holders of our common stock are entitled to receive dividends when and as declared by the Board of Directors out of funds legally available therefore, provided that, so long as any shares of our preferred stock and preference stock are outstanding, no dividends (other than dividends payable in common stock) or other distributions (including purchases) may be made with respect to the common stock unless full cumulative dividends, if any, on our shares of preferred stock and preference stock have been paid. Under the General Corporation Law of the State of Delaware, dividends may only be paid out of surplus or out of net profits for the year in which the dividend is declared or the preceding year, and no dividend may be paid on common stock at any time during which the capital of outstanding preferred stock or preference stock exceeds our net assets.

Payments of cash dividends and the repurchase of common stock are currently limited due to restrictions contained in our debt agreements. We have not paid dividends on our common stock since 1980 and do not expect to pay cash dividends on our common stock in the foreseeable future.

Recent Sales of Unregistered Securities

Our directors who are not employees receive an annual retainer and meeting fees payable at their election either in shares of our common stock or in cash. A director may also elect to defer any portion of such compensation until a later date. Each such election is made prior to December 31st for the next succeeding calendar year. On June 15, 2010, the Board of Directors, upon recommendation from the Nominating and Governance Committee approved changes to the non-employee director s compensation that in effect mandated on a going forward basis that at least 18.75% ($15,000) of the annual retainer be paid in the form of shares of our common stock. Previously, the Board of Directors mandated that at least one-fourth of the annual retainer be paid in the form of shares of our common stock. During the fourth quarter ended October 31, 2010, one director elected to defer annual retainer and/or meeting fees in shares, and was credited with an aggregate of 712.318 deferred stock units (each such stock unit corresponding to one share of common stock) at prices ranging from $43.91 to $49.195. These stock units were issued to our director without registration under the Securities Act, in reliance on Section 4(2) based on the directors financial sophistication and knowledge of the company.

Issuer Purchases of Equity Securities

There were no purchases of our equity securities by us or our affiliates during the fourth quarter ended October 31, 2010.

21

Table of Contents

Item 6. ***Selected Financial Data***

Refer to Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations*, and the notes to the accompanying consolidated financial statements for additional information regarding the financial data presented below, including matters that might cause this data not to be indicative of our future financial condition or results of operations.

We operate in four industry segments: Truck, Engine, Parts, and Financial Services. A detailed description of our segments, products, and services, as well as additional selected financial data is included in Our Operating Segments in Item 1, *Business*, and in Note 18, *Segment reporting*, to the accompanying consolidated financial statements.

Five-Year Summary of Selected Financial and Statistical Data

As of and for the Years Ended October 31, (in millions, except per share data)	**2010**	**2009**	**2008**	**2007**	**2006**
RESULTS OF OPERATIONS DATA					
Sales and revenues, net	**$ 12,145**	$ 11,569	$ 14,724	$ 12,295	$ 14,200
Income (loss) before extraordinary gain	**267**	322	134	(120)	301
Extraordinary gain, net of tax		23			
Net income (loss)	**267**	345	134	(120)	301
Less: Net income attributable to non-controlling interest	**44**	25			
Net income (loss) attributable to Navistar International Corporation	**$ 223**	$ 320	$ 134	$ (120)	$ 301
Basic earnings (loss) per share:					
Income (loss) attributable to Navistar International Corporation before extraordinary gain	**$ 3.11**	$ 4.18	$ 1.89	$ (1.70)	$ 4.29
Extraordinary gain, net of tax		0.33			
Net income (loss) attributable to Navistar International Corporation	**$ 3.11**	$ 4.51	$ 1.89	$ (1.70)	$ 4.29
Diluted earnings (loss) per share:					
Income (loss) attributable to Navistar International Corporation before extraordinary gain	**$ 3.05**	$ 4.14	$ 1.82	$ (1.70)	$ 4.12
Extraordinary gain, net of tax		0.32			
Net income (loss) attributable to Navistar International Corporation	**$ 3.05**	$ 4.46	$ 1.82	$ (1.70)	$ 4.12
Weighted average number of shares outstanding:					
Basic	**71.7**	71.0	70.7	70.3	70.3
Diluted	**73.2**	71.8	73.2	70.3	74.5
BALANCE SHEET DATA					
Total assets	**$ 9,730**	$ 10,028	$ 10,390	$ 11,448	$ 12,830
Long-term debt:[(A)]					
Manufacturing operations	**1,841**	1,670	1,639	1,665	1,946
Financial services operations	**2,397**	2,486	3,770	4,418	4,809
Total long-term debt	**$ 4,238**	$ 4,156	$ 5,409	$ 6,083	$ 6,755
Redeemable equity securities	**8**	13	143	140	

(A) Exclusive of current portion of long-term debt.

Table of Contents

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is designed to provide information that is supplemental to, and should be read together with, our consolidated financial statements and the accompanying notes. Information in MD&A is intended to assist the reader in obtaining an understanding of our consolidated financial statements, the changes in certain key items within those financial statements from year-to-year, the primary factors that accounted for those changes, any known trends or uncertainties that we are aware of that may have a material effect on our future performance, as well as how certain accounting principles affect the Company s consolidated financial statements. In addition, MD&A provides information about our business segments and how the results of those segments impact our financial condition and results of operations as a whole.

Executive Summary

For 2010, we recognized $223 million of net income attributable to Navistar International Corporation in spite of continued industry volume lows. Contributing to our profitability were sales of military vehicles, stable market share of our commercial products, an increase in Engine segment sales in South America, lower manufacturing and material costs, and improved operating efficiencies. Our performance was further driven by increased commercial sales within North America for our Parts segment and improved results of our Financial Services segment.

During 2010, we remained profitable despite continued industry volume lows within our U.S and Canada School bus and Class 6 through 8 medium and heavy truck (traditional) markets. As the U.S. and global markets continue their recovery from the recession, we believe there will be a continued gradual increase in industry units in 2011 compared to the depressed volumes of 191,300 in 2010 and 174,400 in 2009. Building off a slight pre-buy in early 2010 related to the new 2010 EPA emissions requirements, we further benefited from increases in traditional industry units throughout the year, which coupled with increases in our expansionary business and our continued strong market share performance, drove volume growth for 2010. In addition, U.S. military orders for MRAP vehicles, which have higher associated revenue per unit, positively impacted our 2010 performance. We expect the traditional truck industry retail deliveries to be in the range of 230,000 units to 250,000 units for 2011.

We continue to invest in research, development, and tooling equipment to design and produce our engine product lines to meet EPA emissions requirements. We have chosen advanced EGR, combined with other strategies, as our solution to meet the 2010 emissions requirements. We believe coupling EGR with other emissions strategies gives our products advantages over our competitors liquid-based urea SCR solution and enables us to maintain flexibility in meeting emissions requirements. We continue to evaluate our emissions strategies on a platform-by-platform basis to achieve the best long-term solution for our customers in each of our vehicle applications. Our continued investment in research and development includes the further enhancement of our advanced EGR technology and the ongoing development of reliable, high-quality, high-performance, and fuel-efficient products.

Building on our 2009 actions to adjust our capital structure, our Financial Services segment continued to address future liquidity needs throughout 2010. In addition to various refinancing and securitization actions made during the year, we entered into a three-year operating agreement with GE Capital Corporation and GE Capital Commercial, Inc. (collectively GE) whereby GE became our preferred source of retail customer financing for equipment offered by us and our dealers in the U.S. We also amended the terms of our wholesale trust agreement, which resulted in the consolidation of the Master Trust.

Business Outlook and Key Trends

For our Truck segment, we expect benefits from further improvements in our traditional volumes as the industry continues to increase from the lows experienced in 2010 and 2009. In the U.S. market, the average age of the truck fleet of 6.7 years in 2010 was the highest since 1979, according to ACT Research, and we anticipate

Table of Contents

higher sales in 2011 for truck replacement as our customers refresh aging fleets. We also expect demand for trucks to increase as freight rates and volumes continue to improve as the economy recovers. In addition to increased demand, we expect to further benefit from improved revenues and margins associated with our 2010 emissions-compliant products. In October 2010, our UAW represented employees ratified a new four-year labor agreement that provides us additional flexibility in manufacturing decisions and included provisions that allow for the wind-down of UAW positions at our Fort Wayne facility. In the future, we expect to realize benefits from this contract, as well as our other plant optimization actions taken during the trough of the truck cycle. Finally, we anticipate positive contributions from business acquisitions and investments also made during this period.

Within our Engine segment, we expect our South American operations to continue to be a key contributor to overall sales and profitability. As markets continue to improve in North America, we anticipate further increases in our intercompany sales to our Truck segment, driven by sales of our MaxxForce 11 and 13 engines and the upcoming launch of our MaxxForce 15 engine, as well as additional OEM sales for commercial, consumer, and specialty vehicle products. Beginning in 2010, MaxxForce engines were used in the entire North America vehicle offering of our Truck segment as compared to outside sourcing for various model engines in prior years. We have made investments in engineering and product development for our 2010 emissions-compliant engines and we expect to continue to make significant investments in attaining the 0.2 nitrogen oxide (NOx) emissions levels, as well as for other product innovations, cost reductions, and fuel-usage efficiencies.

As freight rates and volumes increase in conjunction with the economic recovery, we expect our Parts segment volumes will continue to improve within our commercial markets in the U.S. and Canada. In addition, we anticipate incremental Parts sales as the overall age of the U.S. truck fleet continues to rise as well as Parts sales driven by the fulfillment of additional military orders. While we also expect improvements within our global markets, we will experience Rest of World (ROW) reported sales declines in 2011 and beyond as sales in certain markets are transitioned to our NC^2 joint venture.

Certain trends have affected our results of operations for 2010 as compared to 2009 and 2008. In addition, we expect that certain key trends will impact our future results of operations. Some of these factors are as follows:

Traditional Truck Market The traditional truck markets in which we compete are typically cyclical in nature and are strongly influenced by macro-economic factors such as industrial production, demand for durable goods, capital spending, oil prices and consumer confidence.

Global Economy The global economy, and in particular the economies in the U.S. and Brazil markets, are showing signs of recovery, and the related financial markets have stabilized. The impact of the economic recession and financial turmoil on the global markets pose a continued risk as customers may postpone spending in response to tighter credit, negative financial news and/or declines in income or asset values. Lower demand for our customers products or services could also have a material negative effect on the demand for our products. In addition, there could be exposure related to the financial viability of certain key third-party suppliers, some of which are our sole source for particular components. Lower expectations of growth and profitability have resulted in impairments of long-lived assets in the past and we could continue to experience pressure on the carrying values of our assets if conditions persist for an extended period of time.

Military Sales In 2010, we continued to leverage existing products and plants to meet the urgent demand of the U.S. military and our North Atlantic Treaty Organization (NATO) allies. Our U.S. military sales were $1.8 billion, $2.8 billion, and $3.9 billion in 2010, 2009, and 2008, respectively, and consisted of MRAP vehicles, lower-cost militarized commercial trucks to the U.S. and NATO allies, and sales of parts and services to the U.S. military. In the first quarter of 2009, we completed delivery of all remaining 2008 MRAP orders to the U.S. military. In 2010, we received additional orders for MRAPs and completed delivery in the third quarter. In November 2010, we received an order for 250 MRAP recovery vehicles and in December 2010, we received an order for 175 MRAP Dash vehicles. We expect these units to be delivered in 2011. We continue to expect that over the long term our military business will generate approximately $1.5 billion to $2 billion in annual sales.

Table of Contents

Worldwide Engine Unit Sales Our worldwide engine unit sales are impacted primarily by North America truck demand and sales in South America, our largest engine market outside of the North American market. These markets are impacted by consumer demand for products that use our engines as well as macro-economic factors such as oil prices and construction activity. Our worldwide engine unit sales were 240,400 units in 2010, 269,300 units in 2009, and 345,500 units in 2008. In 2009, we settled our legal dispute with Ford and continued our North American supply agreement for diesel engines with Ford through December 31, 2009. As a result, our 2010 North American unit sales to Ford were 24,900 units as compared to 101,500 units and 124,500 units for 2009 and 2008, respectively. We expect our 2011 worldwide engine unit sales to be primarily to our Truck segment in North America and to external customers in South America.

2010 Emissions Standards Technology We have chosen advanced EGR, combined with other technologies, as our solution to meet the 2010 emissions standards. We believe coupling EGR with other emissions strategies gives our products advantages over our competitors liquid-based urea SCR solution and enables us to maintain flexibility in meeting emission requirements. Our 2010 emissions strategy places the burden and responsibility of meeting the 2010 emissions standards on the Company versus our competitors liquid-based urea SCR solution that places that burden on the customer. We believe that our customer-friendly solution provides our products with a significant competitive advantage in North America, because most truck and engine manufacturers have chosen liquid-based urea SCR as the solution to meet 2010 emission standards. In 2010, all of our MaxxForce engines were certified to be compliant with 2010 emissions standards through the use of credits and 0.5 NOx emissions. We continue to evaluate our emissions strategies on a platform-by-platform basis to achieve the best long-term solution for our customers in each of our vehicle applications. Our continued investment in research and development includes the further enhancement of our advanced EGR technology to reach 0.2 NOx emissions as well as the ongoing development of reliable, high-quality, high-performance, and fuel-efficient products.

Warranty Costs We launched our 2010 emissions-compliant engines during 2010. Emissions regulations in the U.S. and Canada have resulted in rapid product development cycles, driving significant changes from previous engine models. Historically warranty experience for launch-year engines has been higher compared to the prior model-year engines; however, over time we are able to refine both the design and manufacturing process to reduce both the volume and the severity of warranty claims. We have made substantial investments of engineering, product development, and testing within our 2010 emissions-compliant engines to mitigate some of the warranty exposure. While we believe warranty costs per unit for 2010 emissions-compliant engines will be somewhat higher compared to pre-2010 emissions-compliant engines, we believe that our actions will result in reduced exposure compared to previous launches. Also contributing to the expectation of higher warranty costs in 2011 is the use of all MaxxForce engines in our North America product offering compared to previous outside sourcing for various engine models in which warranty costs were included in the engine purchase price.

13 Liter / 15 Liter Engine Strategy In conjunction with our EGR strategy for compliance with the 2010 emissions standards, we only offer vehicles equipped with MaxxForce engines in the U.S. and Canada. For our Class 8 heavy and severe service lines, we offer our MaxxForce 11 and 13 liter engines, and will launch our MaxxForce 15 engine in 2011. The Company has taken significant strides to demonstrate to our customers that, in many applications, our MaxxForce 13 provides sufficient horsepower and torque. In addition to the same or greater performance as a 15 liter engine, our MaxxForce 13 has lower cost, increased fuel economy, and reduced weight.

Changes in Capital Structure In October 2009, we completed the sale of $1.0 billion aggregate principal amount of 8.25% Senior Notes due 2021 (the Senior Notes) and $570 million aggregate principal amount of 3.0% Senior Subordinated Convertible Notes due 2014 (the Convertible Notes). The proceeds were used to repay all amounts outstanding under the $1.5 billion loan facility due in 2012. The impact of issuing the new debt increased our interest expense in 2010 as compared to 2009. The convertible debt will impact our calculation of diluted earnings per share when our average stock price exceeds $50.27 during the reporting period. In December 2009, we refinanced NFC s revolving credit facility with an $815 million three-year facility, and concurrently completed a private retail asset securitization and a fixed rate secured loan generating proceeds of $304 million. In addition, utilizing the U.S. Federal Reserve s TALF program, we completed the sale of $350 million of three-year investor notes in November 2009 and $250 million of two-year investor notes in February 2010 within our wholesale note funding facility. In July 2010, we amended the terms of our wholesale trust agreement, which resulted in the consolidation of the Master Trust. As of July 31, 2010, effective with the amendment, Master Trust assets of approximately $550 million, net of intercompany eliminations and retained interests previously carried on our Consolidated Balance Sheet, and liabilities of approximately $550 million, net of intercompany eliminations, were consolidated into the assets and liabilities of the Company. Finally, we issued secured notes for $919 million and $290 million in May 2010 and October 2010, respectively.

GE Capital Alliance In March 2010, we entered into a three-year Operating Agreement with GE. Under the terms of the 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, and under limited circumstances NFC retains the rights to originate retail customer financing. Loan originations under the GE Operating Agreement began in the third quarter of 2010, which will continue to reduce NFC originations and portfolio balances in the future. We expect retail finance receivables and retail finance revenues to decline over the next five years as our retail portfolio pays down.

Changes in Credit Markets Throughout 2010, the credit markets substantially stabilized and recovered but remain volatile in response to general economic weakness and uncertainty. Credit spreads, which generally represent the default risk component above the base interest rate that a lender charges its customer, remain at historically high levels but are currently lower than the unprecedented levels seen at the end of 2008 and early 2009. The higher credit spreads have been partially offset by lower base interest rates, which have remained stable throughout 2010. The numerous recent financing transactions in both the private and public markets, as well as our operating agreement with GE, demonstrate our ongoing access to liquidity. In addition, our recent financing transactions have primarily been at fixed interest rates further mitigating our exposure to future volatility in credit spreads.

Steel and Other Commodities Commodity costs, which include steel, precious metals, resins, and petroleum products, decreased by $49 million in 2010, and increased by $23 million and $97 million in 2009 and 2008, respectively, as compared to the corresponding prior years. We are able to mitigate the effects of steel and other commodity cost increases through a combination of design changes, material substitution, alternate supplier resourcing, global sourcing efforts, pricing performance, and hedging activities. Although the terms of supplier contracts and special pricing arrangements can vary, a time lag exists between when our suppliers incur increased costs and when these costs are passed on to us as well as when we might recover them through increased pricing. This time lag can span several quarters depending on the specific situation. More recent trends indicate the cost pressures from the majority of our steel and commodity inputs have not only ceased, but have reversed. However, we continued to experience higher commodity prices as compared to the overall industry decline as our prior actions to avoid the significant price increases have resulted in temporarily having slightly higher costs than the industry. For 2011, we anticipate increases in overall global commodity costs. However, we plan to enhance our actions to mitigate exposure to commodity cost volatility by hedging a larger percentage of our anticipated commodity needs.

Customer and Transportation Industry Consolidations Various transportation companies have been acquired, merged to form combined operating entities, or ceased operations. Although we are unable to determine the impact this industry consolidation will have with regard to future purchases or pricing of our trucks, engines and parts, certain of these newly combined entities have enjoyed increased purchasing power and contributed to lower demand for our products.

Facilities Optimization We continue to seek further opportunities for manufacturing and operating efficiencies within our facilities. In early 2010, we announced and implemented our plan to consolidate all bus production within our Tulsa IC Bus facility. In September 2010, we announced our intention to consolidate our executive management, certain business operations, and product development at a new

Table of Contents

1.2 million square foot world headquarters site in Lisle, Illinois, as well as a testing and validation center to be located within our Melrose Park facility. In October 2010, we completed certain tax-exempt bond financings totaling $225 million to be used for the purposes of financing the relocation of our headquarters and the development of certain industrial facilities, improvements, and equipment, and in November 2010, we finalized the purchase of the property and buildings at the new world headquarters site. We continue to develop plans for efficient transitions related to these activities and evaluate other options to continue the optimization of our operations and management structure.

Joint Ventures and Other Investments We continue to make substantial investments in joint ventures and other businesses that are considered key growth opportunities to our core operations, as well as important expansionary markets. Since inception, we have contributed approximately $141 million to our joint ventures with Mahindra & Mahindra Ltd. and Caterpillar, which both recently launched new products. In addition, we expect to finalize our joint ventures with JAC in 2011. The Company has also made recent acquisitions that present opportunities to further vertically integrate our operations and our product offerings including, Continental Mixer in 2010 and PPT and Monaco in 2009.

Results of Operations and Segment Results of Operations

The following table summarizes our Consolidated Statements of Operations and illustrates the key financial indicators used to assess our consolidated financial results.

Results of Operations for 2010 as Compared to 2009

(in millions, except per share data and % change)	**2010**	**2009**	**Change**	**% Change**
Sales and revenues, net	**$ 12,145**	$ 11,569	$ 576	5
Costs of products sold	**9,741**	9,366	375	4
Restructuring charges	**(15)**	59	(74)	N.M.
Impairment of property and equipment		31	(31)	(100)
Selling, general and administrative expenses	**1,406**	1,344	62	5
Engineering and product development costs	**464**	433	31	7
Interest expense	**253**	251	2	1
Other income, net	**44**	228	(184)	(81)
Total costs and expenses	**11,805**	11,256	549	5
Equity in (loss) income of non-consolidated affiliates	**(50)**	46	(96)	N.M.
Income before income tax and extraordinary gain	**290**	359	(69)	(19)
Income tax expense	**23**	37	(14)	(38)
Income before extraordinary gain	**267**	322	(55)	(17)
Extraordinary gain, net of tax		23	(23)	(100)
Net income	**267**	345	(78)	(23)
Less: Net income attributable to non-controlling interests	**44**	25	19	76
Net income attributable to Navistar International Corporation	**$ 223**	$ 320	$ (97)	(30)
Diluted earnings per share:				
Income attributable to Navistar International Corporation before extraordinary gain	**$ 3.05**	$ 4.14	$ (1.09)	(26)
Extraordinary gain, net of tax		0.32	(0.32)	(100)
Net income attributable to Navistar International Corporation	**$ 3.05**	$ 4.46	$ (1.42)	(32)

Not meaningful (N.M.)

Table of Contents

Sales and revenues, net

Our sales and revenues, net are categorized by geographic region based on the location of the customer sale and the point of revenue recognition. Sales and revenues, net by geographic region are as follows:

	Total				U.S. and Canada				Rest of World (ROW)			
(in millions, except % change)	2010	2009	Change	% Change	2010	2009	Change	% Change	2010	2009	Change	% Change
Truck	**$ 8,207**	$ 7,297	$ 910	12	**$ 7,393**	$ 6,807	$ 586	9	**$ 814**	$ 490	$ 324	66
Engine	**2,986**	2,690	296	11	**1,611**	1,836	(225)	(12)	**1,375**	854	521	61
Parts	**1,885**	2,173	(288)	(13)	**1,718**	2,038	(320)	(16)	**167**	135	32	24
Financial Services	**309**	348	(39)	(11)	**254**	268	(14)	(5)	**55**	80	(25)	(31)
Corporate and Eliminations	**(1,242)**	(939)	(303)	32	**(1,242)**	(939)	(303)	32				
Total	**$ 12,145**	$ 11,569	$ 576	5	**$ 9,734**	$ 10,010	$ (276)	(3)	**$ 2,411**	$ 1,559	$ 852	55

Truck segment sales increased $910 million in 2010 compared to the prior year, reflecting improvements in our commercial business and the benefits of a shift in product mix. Chargeouts of our traditional units were 6,400 units higher, as compared to the prior year, with a greater mix of Class 8 heavy trucks contributing to higher overall revenue. We experienced market share improvements in Class 6 and 7 medium and maintained strong market share in our other traditional classes. Further contributing to the increase were improved ROW sales driven by the strengthening global economy, as well as the impact of consolidating our BDT operations. Partially offsetting the increase in segment sales was a 14% decrease within our defense business, primarily as a result of lower sales of higher revenue per unit military vehicles driven by the timing of prior year deliveries to the U.S. military.

Engine segment sales increased $296 million compared to the prior year, primarily due to increased engine sales in South America, the impact of consolidating our BDP operations, and increased intercompany activity. These increases were partially offset by the expiration of our contract with Ford to supply diesel engines for their F-Series and E-Series vehicles in the U.S. and Canada, resulting in a decrease of 76,600 units sold to Ford in 2010 as compared to the prior year.

Parts segment sales decreased $288 million compared to the prior year, largely because of declines in U.S. military sales which were the result of the fulfillment of higher military vehicle fielding orders in the prior year. Lower military sales were partially offset by improvements in our commercial markets in the U.S as well as increased ROW sales.

Financial Services segment revenues decreased $39 million compared to the prior year, primarily reflecting declines in average finance receivables of $362 million. The declines in average finance receivable balances represent the effect of a reduction in loan originations due to the economic environment in the U.S. and Mexico markets in 2010, 2009, and 2008, as well as customer payments on existing balances and originations under the GE Operating Agreement.

Costs of products sold

Consistent with increased sales and revenues, costs of products sold increased by $375 million compared to the prior year. The impact on costs of products sold from increased overall revenues included higher traditional unit chargeouts, increased Engine segment shipments, the impact of consolidating our BDP and BDT operations, and the prior year acquisition of Monaco. Partially offsetting these increases were manufacturing cost efficiencies in our Class 8 heavy truck and School bus product lines, lower net adjustments of accruals for pre-existing warranty, and improved material costs. Excluding the reversal of the warranty costs of $75 million related to the Ford Settlement in 2009, product warranty costs, including extended warranty program costs and net of vendor recoveries (product warranty costs), decreased by $63 million due to higher pre-existing warranty adjustments and higher costs per-unit in 2009. Emissions regulations in the U.S. and Canada have resulted in rapid product development cycles, driving significant changes from previous engine models and requiring new emissions-compliant products that are more complex and

28

contain higher material costs. Consequently, repair costs in the prior year exceeded those that we had historically experienced. Commodity costs, which include steel, precious metals, resins, and petroleum products, decreased by $49 million in 2010 as compared to the prior year.

Restructuring charges

Restructuring charges of $59 million in 2009 related to restructuring actions at our Indianapolis Engine Plant (IEP) and Indianapolis Casting Corporation (ICC) locations. Restructuring charges representing a benefit of $15 million in 2010 include $16 million due to the favorable settlement of a portion of contractual obligations related to the IEP and ICC restructuring and $10 million attributable to the reversal of our remaining restructuring reserves for ICC as a result of our decision to continue operations at ICC. Also related to the ratification of a new collective bargaining agreement at ICC, we incurred $6 million of charges in Costs of products sold for supplemental unemployment and healthcare benefits. In addition, our Truck segment recognized $9 million of restructuring charges for personnel costs for employee termination and related benefits resulting from the UAW contract ratification and planned wind-down of UAW positions at our Fort Wayne facility. We expect to incur additional restructuring charges in the future as plans are developed to relocate the Company s headquarters and other industrial facilities. For more information, see Note 2*, Ford settlement and related charges,* and Note 3, *Restructuring*, to the accompanying consolidated financial statements.

Impairment of property and equipment

Impairment of property and equipment of $31 million in 2009 related to changes in our business and volumes at the Chatham and Conway locations in our Truck segment. For additional information, see Note 9, *Impairment of property and equipment*, to the accompanying consolidated financial statements.

Selling, general and administrative expenses

(in millions, except % change)	2010	2009	Change	% Change
Selling, general and administrative expenses, excluding items presented separately below	**$ 1,016**	$ 858	$ 158	18
Postretirement benefits expense allocated to selling, general and administrative expenses	**157**	205	(48)	(23)
Dealcor expenses	**145**	162	(17)	(10)
Incentive compensation and profit-sharing	**63**	54	9	17
Provision for doubtful accounts	**27**	52	(25)	(48)
Personnel costs for employee terminations	**(2)**	13	(15)	N.M.
Total selling, general and administrative expenses	**$ 1,406**	$ 1,344	$ 62	5

Selling, general and administrative expenses increased by $62 million compared to the prior year primarily due to increased costs related to our South American engine operations, the consolidation of our BDP operations, and increased incentive compensation and profit sharing. In 2010, our South American engine operations incurred $46 million of increased expenses largely due to increased engine shipments during 2010. In conjunction with a period of lower volumes in the prior year, our South American operations limited selling, general and administrative expenses during 2009. The consolidation of our BDP operations resulted in additional selling, general and administrative expenses of $24 million. Furthermore, the increase in our incentive compensation and profit-sharing expenses reflects our improved 2010 performance and our actual 2009 performance compared to our management incentive targets. These increases were partially offset by reductions in our postretirement benefits expenses, lower Dealcor expenses due to the sale of certain company-owned dealerships and lower costs at our remaining facilities, as well as continued focus on our cost reduction initiatives. Postretirement benefits expenses decreased by $48 million largely due to lower interest expense from decreased discount rates and changes made to our OPEB plans relating to Medicare Part D. For more information, see Note 13*, Postretirement benefits,* to the accompanying consolidated financial statements.

Engineering and product development costs

Engineering and product development costs are incurred by our Truck and Engine segments for product innovations, cost reductions, and to enhance product and fuel-usage efficiencies. Engineering and product development costs are largely due to the development of our 2010 emissions-compliant products.

Engineering and product development costs increased by $31 million compared to the prior year primarily due to increased Engine segment costs related to our launch of 2010 emissions-compliant engines, efforts to develop our MaxxForce 15 engine, and improving our EGR and other technologies to meet ongoing emissions regulations. Partially offsetting the increase were engineering costs incurred in the prior year within our Truck segment related to military vehicles that were not repeated in 2010.

Interest expense

The following table presents the components of interest expense:

(in millions, except % change)	2010	2009	Change	% Change
Manufacturing operations	**$ 140**	$ 88	$ 52	59
Financial Services operations	**108**	120	(12)	(10)
Derivative interest expense	**5**	43	(38)	(88)
Total	**$ 253**	$ 251	$ 2	1

Interest expense was flat as compared to the prior year largely due to lower debt balances in our Financial Services operations and lower derivative interest expense, offset by increased interest rates in our manufacturing operations. In October 2009, we completed the sale of our Senior Notes and our Convertible Notes. As a result of the new accounting guidance for convertible debt adopted November 1, 2009, we reclassified $114 million of the original principal amount on the Convertible Notes to additional paid in capital, resulting in a discount that will be amortized into interest expense. The offering discount and underwriter fees on the Senior Notes and Convertible Notes are amortized to interest expense over their respective lives resulting in effective rates of 8.96% and 8.42%, respectively. For more information, see Note 12*, Debt,* and Note 16, *Financial instruments and commodity contracts*, to the accompanying consolidated financial statements.

Other income, net

Other income, net was $44 million for 2010 and was primarily comprised of reductions to reserves in the second quarter within our Truck and Engine segments for certain value added taxes in Brazil that were reassessed and determined to be recoverable. For 2009, other income, net of $228 million largely related to the Ford Settlement and related charges within our Engine segment.

Equity in (loss) income of non-consolidated affiliates

Equity in (loss) income of non-consolidated affiliates is derived from our ownership interest in partially-owned affiliates, which are not consolidated. We reported a loss of $50 million in 2010, which is primarily reflective of our continued investment and start-up losses associated with certain joint ventures, as compared to income of $46 million for 2009 that principally related to our equity in income from our BDP joint venture. As part of the Ford Settlement, we increased our interests in the BDT and BDP joint ventures with Ford to 75% in the third quarter

Table of Contents

of 2009. As a result, the BDT and BDP operations were consolidated beginning June 1, 2009 and accordingly are not included in equity in (loss) income of non-consolidated affiliates prospectively. For more information, see Note 2, *Ford settlement and related charges*, and Note 11, *Investments in and advances to non-consolidated affiliates*, to the accompanying consolidated financial statements.

Income tax expense

Income tax expense was $23 million in 2010 as compared to $37 million in 2009. Our income tax expense on U.S. and Canadian operations is limited to current state income taxes, alternative minimum tax net of refundable credits, and other discrete items. In 2010, we recognized a U.S. alternative minimum tax benefit of $29 million as a result of legislation that provides for the refund of alternative minimum taxes from the carryback of alternative minimum taxable losses to prior years. We have $461 million of U.S. net operating losses as of October 31, 2010. We expect our cash payments of U.S. taxes will be minimal, for so long as we are able to offset our U.S. taxable income by these U.S. net operating losses, however our foreign taxes will continue to grow as we increase our global presence. If U.S. operations continue to improve, we believe it is reasonably possible within the next twelve months that we may release all or a portion of our U.S. valuation allowance. For additional information, see Note 14, *Income taxes*, to the accompanying consolidated financial statements.

Extraordinary gain, net of tax

In 2009, we completed the purchase of certain assets of the former RV manufacturing business of Monaco Coach Corporation. Due to the fair market value of the acquired assets exceeding the purchase price, we recognized an extraordinary gain of $23 million in 2009.

Net income attributable to non-controlling interests

Net income attributable to non-controlling interests is the result of our consolidation of subsidiaries in which we do not own 100%. Substantially all of the $44 million and $25 million of net income attributable to non-controlling interests for 2010 and 2009, respectively, relates to Ford s non-controlling interest in BDP.

Out of period adjustments

Our reported net income for 2009 included immaterial out-of-period adjustments of $29 million. For more information, see Note 1, *Summary of significant accounting policies*, to the accompanying consolidated financial statements.

Segment Results of Operations for 2010 as Compared to 2009

We define segment profit (loss) as net income (loss) attributable to Navistar International Corporation excluding income tax expense. For additional information about segment profit (loss), see Note 18, *Segment reporting*, to the accompanying consolidated financial statements. The following sections analyze operating results as they relate to our four segments and do not include intersegment eliminations:

Truck Segment

(in millions, except % change)	2010	2009	Change	% Change
Truck segment sales U.S. and Canada	$ 7,393	$ 6,807	$ 586	9
Truck segment sales ROW	814	490	324	66
Total Truck segment sales, net	$ 8,207	$ 7,297	$ 910	12
Truck segment profit	$ 424	$ 147	$ 277	188

Table of Contents

Segment sales

Truck segment sales increased by $910 million as compared to the prior year largely as a result of higher unit volume in our commercial business partially offset by a decrease in defense sales. Our commercial business sales increased primarily as a result of increases in our traditional business, and further benefited from an increase in the average sales price across all of our traditional classes due to favorable pricing and a shift in product mix. Our ROW sales improved largely due to the strengthening of the global economy, as well as the consolidation of our BDT operations that increased sales by $115 million. Also contributing to the increase in sales was an improvement in used truck sales driven by increased demand and increases in used equipment prices, and the acquisition of Monaco that resulted in additional sales of $128 million for 2010.

Chargeouts of traditional units were 6,400 units higher in 2010 compared to the prior year, with a greater mix of Class 8 heavy and Class 8 severe service trucks contributing to higher overall revenue. While chargeouts on our expansionary business including military increased by 4,700 units in aggregate as compared to the prior year, we were negatively impacted by the effects of product mix and lower sales of higher revenue per unit military vehicles driven by the timing of prior year deliveries to the U.S. military.

Segment profit

Truck segment profit increased by $277 million as compared to the prior year, to $424 million for 2010. The increase was primarily due to increased commercial chargeouts, as well as further material cost improvements and manufacturing efficiencies that translated into improved margins on our vehicles. We further benefited from the stabilization of the used truck market and improved demand for used equipment. In addition, engineering and product development costs decreased by $20 million in 2010 primarily related to lower military vehicle development costs and we recognized impairment charges of $31 million in 2009 related to changes in our business and volumes at the Chatham and Conway locations, that were not repeated in 2010. Finally, we recognized a benefit in 2010 from a $30 million reduction in reserves for certain value added taxes in Brazil that were reassessed and determined to be recoverable. Partially offsetting the increase in segment profit were lower defense chargeouts primarily due to fewer orders from the U.S military compared to the prior year, the extraordinary gain of $23 million in 2009 related to our purchase of Monaco, and increased equity in loss of non-consolidated affiliates of $51 million as we continue to incur start-up losses and make ongoing investments in our joint ventures.

Engine Segment

(in millions, except % change)	2010	2009	Change	% Change
Engine segment sales U.S. and Canada	$ 1,611	$ 1,836	$ (225)	(12)
Engine segment sales ROW	1,375	854	521	61
Total Engine segment sales, net	$ 2,986	$ 2,690	$ 296	11
Engine segment profit(A)	$ 51	$ 253	$ (202)	(80)

(A) Included in Engine segment profit for 2009 was income of $160 million from the Ford Settlement, net of related charges.

Segment sales

The increase in Engine segment sales for 2010 compared to prior year was primarily due to increased engine sales in South America, including favorable foreign exchange impacts of $134 million, the impact of consolidating our BDP operations, and increased intercompany sales driven by higher unit volumes as well as a shift in product mix to higher revenue units. These increases were partially offset by decreased volumes in North America due to the loss of the Ford business. While sales of engines to Ford in the U.S. and Canada decreased by

Table of Contents

76,600 units in 2010 as compared to the prior year, the Engine segment benefited from a ramp up in purchases by Ford during the first quarter prior to the expiration of the supply contract. ROW sales increased in 2010 primarily due to strong demand, the effects of favorable exchange rates, and increases in the price per engine in South America. The impact of consolidating our BDP operations further increased Engine segment sales in the U.S. and Canada by $378 million for 2010.

Segment profit

In 2010, the Engine segment recognized decreased segment profits of $69 million, excluding the effects of the Ford Settlement, largely due to lower volumes in North America due to the loss of the Ford business, partially offset by higher sales volumes and improved manufacturing performance in South America. Overall, Engine segment profit decreased $202 million for 2010 compared to the prior year, which included a $160 million benefit from the Ford Settlement net of restructuring and related charges. Further contributing to the decrease were lower volumes in North America due to the loss of the Ford business, increased selling, general and administrative expenses and engineering and product development costs, and a $14 million charge relating to the settlement of various tax contingencies in Brazil in 2010. Increased selling, general and administrative expenses were largely driven by higher sales and marketing expenses, including unfavorable foreign exchange, in South America of $25 million as a result of our increased engine shipments in 2010. In conjunction with a period of lower volumes in the prior year, our South American operations limited selling, general and administrative expenses. Further driving increased selling, general and administrative expenses were field testing costs associated with the launch of our 2010 emissions-compliant products. In addition, engineering and product development costs increased by $49 million largely due to our 2010 emissions-compliant products as well as the development of our MaxxForce 15 engine and other product programs. Partially offsetting the decreases in segment profit were lower net adjustments of accruals for pre-existing warranties of $52 million, the positive impact of the consolidation of BDP results of $25 million, and a benefit of $16 million due to the settlement of a portion of our other contractual costs related to our 2009 restructuring charges at IEP and ICC.

Parts Segment

(in millions, except % change)	2010	2009	Change	% Change
Parts segment sales U.S. and Canada	**$ 1,718**	$ 2,038	$ (320)	(16)
Parts segment sales ROW	**167**	135	32	24
Total Parts segment sales, net	**$ 1,885**	$ 2,173	$ (288)	(13)
Parts segment profit	**$ 266**	$ 436	$ (170)	(39)

Segment sales

The decrease in Parts segment sales was largely due to declines in U.S. military sales of $489 million, which were predominately driven by the fulfillment of higher military vehicle fielding orders in the prior year as compared to 2010. The decreases were partially offset by improvements in our commercial markets in the U.S and our global businesses, as well as the favorable impacts of foreign exchange on our Canadian operations of $27 million.

Segment profit

The decrease in Parts segment profit of $170 million was primarily due to the decrease in military sales, partially offset by improvements in commercial sales.

Table of Contents

Financial Services Segment

(in millions, except % change)		2010	2009	Change	% Change
Financial Services segment revenues	U.S. and Canada[(A)]	**$ 254**	$ 268	$ (14)	(5)
Financial Services segment revenues	ROW	**55**	80	(25)	(31)
Total Financial Services segment revenues, net		**$ 309**	$ 348	$ (39)	(11)
Financial Services segment profit		**$ 95**	$ 40	$ 55	138

(A) Our Financial Services segment does not have Canadian operations or revenues.

Segment revenues

Our Financial Services segment revenues declined as compared to the prior year primarily due to a decrease of $362 million in the average finance receivable balance, to $2.9 billion as of October 31, 2010. The decline in the average finance receivable balance was primarily due to customer payments and a reduction in financing originations as a result of fewer vehicle and service parts sales, and reflects the overall declining trend of financing originations whereby the retail portfolio has liquidated faster than new acquisitions have been financed. Furthermore, loan originations under the GE Operating Agreement began in the third quarter of 2010, which will continue to reduce NFC originations and portfolio balances in the future. Partially offsetting the decline in loan originations was $524 million of wholesale notes, less fair value discounts, resulting from the consolidation of the Master Trust as of July 31, 2010. Wholesale note balances related to the Master Trust, less fair value discounts, were $700 million at October 31, 2010. Securitization income included in our Financial Services segment revenues decreased to $35 million as of October 31, 2010 as a result of an adverse change in the fair value of our retained interests in sold receivables, as well as the consolidation of the Master Trust due to Master Trust income subsequent to July 31, 2010 being included in financing revenue rather than securitization income. Aggregate interest revenue and fees, charged primarily to the Truck and Parts segments, were $90 million and $79 million in 2010 and 2009, respectively.

The following table presents contractual maturities of finance receivables for our Financial Services segment, which primarily drives Financial Services segment revenues. For more information, see Note 6, *Finance receivables*, to the accompanying consolidated financial statements.

(in millions, except % change)	2010	2009	Change	% Change
Due in one year	$ 1,881	$ 1,831	$ 50	3
Due in two years	526	696	(170)	(24)
Due in three years	359	478	(119)	(25)
Thereafter	377	494	(117)	(24)
Gross finance receivables	$ 3,143	$ 3,499	$ (356)	(10)

Segment profit

The increase in Financial Services segment profit was largely attributable to decreased interest expense and lower provision for loan loss of $15 million as portfolio balances, charge-offs and specific reserves have declined, partially offset by lower revenues. Derivative expense, included within interest expense, decreased by $36 million in 2010 compared to the prior year due to a decrease in forward interest rate curves in the prior year causing net fair values to decrease significantly. Additionally, the average notional amounts of amortizing interest rate swap derivatives were lower, and all swaps were eventually eliminated during 2010 in conjunction with the pay-off of variable-rate debt. Interest expense further decreased by $23 million compared to the prior

34

Table of Contents

year primarily due to lower debt balances more than offsetting higher interest rates on existing debt during 2010. Financial Services debt balances were $2.9 billion and $3.4 billion as of October 31, 2010 and 2009, respectively. The lower borrowings were primarily due to lower average balances of our finance receivables.

Results of Operations for 2009 as Compared to 2008

(in millions, except per share data and % change)	2009	2008	Change	% Change
Sales and revenues, net	$ 11,569	$ 14,724	$ (3,155)	(21)
Costs of products sold	9,366	11,942	(2,576)	(22)
Restructuring charges	59		59	N.M.
Impairment of property and equipment	31	358	(327)	(91)
Selling, general and administrative expenses	1,344	1,437	(93)	(6)
Engineering and product development costs	433	384	49	13
Interest expense	251	469	(218)	(46)
Other (income) expenses, net	(228)	14	(242)	N.M.
Total costs and expenses	11,256	14,604	(3,348)	(23)
Equity in income of non-consolidated affiliates	46	71	(25)	(35)
Income before income tax and extraordinary gain	359	191	168	88
Income tax expense	37	57	(20)	(35)
Income before extraordinary gain	322	134	188	140
Extraordinary gain, net of tax	23		23	N.M.
Net income	345	134	211	157
Less: Net income attributable to non-controlling interests	25		25	N.M.
Net income attributable to Navistar International Corporation	$ 320	$ 134	186	139
Diluted earnings per share:				
Income attributable to Navistar International Corporation before extraordinary gain	$ 4.14	$ 1.82	$ 2.32	127
Extraordinary gain, net of tax	0.32		0.32	N.M.
Net income attributable to Navistar International Corporation	$ 4.46	$ 1.82	$ 2.64	145

Sales and revenues, net

Our sales and revenues, net by geographic region, are as follows:

	Total				U.S. and Canada				ROW			
(in millions, except % change)	2009	2008	Change	% Change	2009	2008	Change	% Change	2009	2008	Change	% Change
Truck	$ 7,297	$ 10,317	$ (3,020)	(29)	$ 6,807	$ 8,933	$ (2,126)	(24)	$ 490	$ 1,384	$ (894)	(65)
Engine	2,690	3,257	(567)	(17)	1,836	1,949	(113)	(6)	854	1,308	(454)	(35)
Parts	2,173	1,824	349	19	2,038	1,648	390	24	135	176	(41)	(23)

Financial Services	348	405	(57)	(14)	268	296	(28)	(9)	80	109	(29)	(27)
Corporate and Eliminations	(939)	(1,079)	140	(13)	(939)	(1,079)	140	(13)				
Total	$ 11,569	$ 14,724	$ (3,155)	(21)	$ 10,010	$ 11,747	$ (1,737)	(15)	$ 1,559	$ 2,977	$ (1,418)	(48)

Table of Contents

Truck segment sales decreased by 29% in 2009 as compared to the prior year. The primary drivers of the decrease were lower U.S. military sales and a weak North American truck market. Decreased U.S. military sales were driven by the deliveries of remaining MRAP orders in early 2009 and were partially offset by increased sales of lower revenue per unit military vehicles to the U.S. military and NATO allies. We experienced lower overall commercial chargeouts as a result of the weakness in the overall traditional industry, which more than offset the higher chargeouts from our Class 8 heavy trucks as a result of the success of our ProStar trucks. Key economic indicators affecting the truck industry such as gross domestic product, industrial production, and freight tonnage hauled declined in 2009 as compared to the prior year, and we did not experience a substantial pre-buy of pre-2010 emissions-compliant engines in 2009. Furthermore, our ROW sales were significantly affected in 2009 as we faced the global recession.

Engine segment sales decreased by $567 million, and total units shipped were down by 76,200 units in 2009 as compared to the prior year. Units shipped to Ford in North America decreased by 24,000 units compared to the prior year as Ford reduced its purchasing requirements. Furthermore, our South American sales were down 36,000 units in 2009. The reduction in units shipped to Ford in North America was further exacerbated by the worst traditional North American truck market since 1962 as a result of the worldwide recession.

Our Parts segment sales increase was driven by U.S. MRAP service parts and other military service parts orders, which more than offset the adverse impacts of the economic recession on our commercial markets. We experienced a sales decline within our commercial products, which is consistent with lower service repair demand due to poor economic conditions. The lower tonnage hauled by freight carriers, coupled with eroding profitability, reduced our customers need and ability to buy service parts.

Our Financial Services segment revenues decreased reflecting the decline in average finance receivables of $852 million in 2009 as compared to 2008, partially offset by an increase in securitization income driven by a decrease in discount rates. The decline in average finance receivable balances reflected customer payments and a reduction in new financing opportunities resulting from fewer sales of vehicles and components due to reduced customer demand, which was driven by the difficult economic environment in the U.S. and Mexico markets.

Costs of products sold

Costs of products sold decreased in 2009 as compared to the prior year, as a result of lower chargeouts and associated material purchases of commercial trucks and changes in mix of military products largely driven by a shift from higher cost vehicles manufactured for the U.S. military to lower cost military trucks based on commercial platforms. In addition, costs of products sold further decreased due to lower diesel engine and service parts deliveries to the commercial market that were offset partially by $81 million of other Ford related charges and higher direct material commodity costs. We were not able to fully capitalize on some of the commodity cost savings experienced by the industry due to pre-existing contractual obligations. Overall, those efforts delayed and reduced the higher expense that the industry had experienced in prior years. Costs related to steel, precious metals, resins and petroleum products increased by $23 million in 2009 compared to an increase of $97 million in 2008. Product warranty costs decreased by $27 million as compared to 2008 and were driven primarily by a reversal of $75 million of product warranty costs related to the Ford Settlement. In addition, the decrease in product warranty costs were the result of lower volumes and lower claims out of the contractual obligation period offset partially by adjustments to warranty accruals for changes in our estimates of warranty costs for products sold in prior years (pre-existing warranty) of $39 million and higher per unit costs. Excluding the reversal of the warranty costs related to the Ford Settlement, the increase in product warranty costs were due to higher pre-existing warranty adjustments and higher per unit costs, which were primarily driven by 2007 U.S. EPA regulations that drove rapid product development cycles and resulted in significant changes from previous engine models. The 2007 U.S. EPA regulations required new emission compliant products which were more complex and contain higher material costs. Consequently, repair costs have exceeded those that we had historically experienced. In the past, our engines typically had a longer model lifecycle that afforded us the opportunity to refine both the design and manufacturing of the product to reduce both the volume and the severity of warranty claims.

Restructuring charges

Restructuring charges relate to activities at our IEP and ICC locations in 2009. Due to significant reductions from Ford, we changed our business strategy regarding our manufacturing activities in our IEP and ICC locations while maintaining certain quality control and manufacturing engineering services. We recognized $59 million of restructuring charges for contractual obligations, personnel costs for employee termination and related benefits, charges for postretirement contractual terminations benefits and a plan curtailment. For more information, see Note 2, *Ford settlement and related charges*, to the accompanying consolidated financial statements.

Impairment of property and equipment

Impairment of property and equipment was $31 million in 2009 and related to changes in our business and volumes at the Chatham and Conway locations within our Truck segment. In 2008, we incurred impairment charges of $358 million as a result of permanently lower Ford volumes in our Engine segment. For additional information about these items, see Note 9, *Impairment of property and equipment*, to the accompanying consolidated financial statements.

Selling, general and administrative expenses

(in millions, except % change)	2009	2008	Change	% Change
Selling, general and administrative expenses, excluding items presented separately below	$ 818	$ 976	$ (158)	(16)
Professional consulting, legal, and auditing fees	40	165	(125)	(76)
Postretirement benefits expense (income) allocated to selling, general and administrative expenses	205	(65)	270	N.M.
Dealcor expenses	162	218	(56)	(26)
Incentive compensation and profit-sharing	54	78	(24)	(31)
Provision for doubtful accounts	52	65	(13)	(20)
Personnel costs for employee terminations	13		13	N.M.
Total selling, general and administrative expenses	$ 1,344	$ 1,437	$ (93)	(6)

The decreases in selling, general and administrative expenses for 2009 as compared to the prior year were driven by declines in our professional consulting and auditing fees related to SEC filings and from other cost reduction measures actively pursued in 2009, which were offset partially by an increase in our postretirement benefits expense. We had a significant reduction in professional expenses as we became a current SEC filer in 2009 and made improvements in our accounting and control environment. Furthermore, Dealcor expenses declined in 2009 following the sale of certain company-owned dealerships and lower costs at our remaining locations. The expense for incentive compensation and profit sharing reflected previously projected 2009 and actual 2008 performance compared to our management incentive targets at the respective year ends. The decline in the 2009 provision for doubtful accounts was a result of the lower average finance receivable balances partially offset by an increase in our allowance ratio to outstanding finance receivables and loss reserves for specific customers as compared to 2008. During 2009, repossessions and delinquencies began to decline due to the stabilization of the truck industry and the general economy. These decreases were partially offset by increases in postretirement benefits expenses charged to selling, general and administrative expenses of $270 million as compared to 2008. These increases were largely driven by a lower asset base at the beginning of 2009 as compared to 2008, which is used to determine the total expected return for the fiscal year (and is a component of net postretirement benefits expense), and a decrease in the expected return on assets for defined benefit plans resulting from lower plan assets. In the first quarter of 2009, we recognized $16 million of expense for a curtailment and contractual termination benefits related to our Indianapolis location. During 2008, we recognized a $42 million gain related

Table of Contents

to a net settlement and curtailment of one of the plans resulting from certain plan changes that arose from the ratification of our UAW settlement. See Note 13, *Postretirement benefits,* to the accompanying consolidated financial statements for further discussion.

Engineering and product development costs

Engineering and product development costs increased slightly in 2009 as compared to the prior year. Such costs were incurred by our Truck and Engine segments for product innovation and manufacturing cost reductions, and to provide our customers with product and fuel efficiencies. Engineering and product development costs incurred at the Truck segment were $207 million in 2009, which compares to $181 million incurred in 2008, and related primarily to the further development of various military truck applications and 2010 emissions-compliant products. Engineering and product development costs incurred at our Engine segment were $228 million in 2009, which compares to $201 million in 2008. This increase is a result of the efforts to develop our MaxxForce 15 engine and improving our EGR and other technology in meeting the 2010 U.S. EPA emissions regulations.

Interest expense

The following table presents the components of interest expense:

(in millions, except % change)	2009	2008	Change	% Change
Manufacturing operations	$ 88	$ 154	$ (66)	(43)
Financial Services operations	120	258	(138)	(53)
Derivative interest expense	43	57	(14)	(25)
Total	$ 251	$ 469	$ (218)	(46)

The decrease in interest expense of $218 million in 2009 as compared to the prior year primarily reflects lower debt balances and lower interest rates at our Financial Services segment, decreases in our variable interest rates on our manufacturing operations debt, and a reduction in derivative expense in 2009. Debt balances at our Financial Services segment decreased as a result of lower average balances of our finance receivables. For more information, see Note 12*, Debt,* and Note 16, *Financial instruments and commodity contracts*, to the accompanying consolidated financial statements.

Other (income) expenses, net

Other (income) expenses, net amounted to income of $228 million in 2009 and expense of $14 million in 2008. The increase in 2009 is primarily due to the $225 million benefit related to the Ford Settlement and other related charges. In 2009 and 2008, we recorded interest income of $21 million and $42 million, respectively, primarily offset by various other miscellaneous expenses. In 2009, there was a foreign exchange gain of $36 million primarily due to favorable currency fluctuations primarily in our operations in Canada, as compared to foreign exchange losses of $19 million in 2008. Additionally, other (income) expenses, net for 2009 included $16 million of income representing a reduction to reserves for recovery of certain value added taxes in Brazil that were reassessed and determined to be recoverable within our Engine segment.

Equity in income of non-consolidated affiliates

We reported $46 million and $71 million of equity in income of non-consolidated affiliates for 2009 and 2008, respectively. As part of the Ford Settlement, we increased our equity interest in the BDT and BDP joint ventures with Ford to 75% and, effective June 1, 2009, the results of BDT and BDP operations were consolidated. Accordingly, our share of the results of these entities was no longer included within equity in income of non-consolidated affiliates. For more information, see Note 2, *Ford settlement and related charges*, and Note 11, *Investments in and advances to non-consolidated affiliates*, to the accompanying consolidated financial statements.

Income tax expense

Income tax expense was $37 million in 2009 as compared to $57 million in 2008. Our income tax expense on domestic and Canadian operations was limited to current state income taxes, alternative minimum tax net of refundable credits and other discrete items. The majority of our income taxes in 2009 were from foreign operations, principally Brazil and Mexico. Our income tax expense was affected by various items, including deferred tax asset valuation allowances (principally domestic and Canadian), research and development credits, Medicare reimbursements, and other items. A full deferred tax asset valuation allowance was adopted for the Canadian operations as of October 31, 2008. Accordingly, the operating loss in Canada did not generate a deferred tax benefit in 2009. For additional information, see Note 14, *Income taxes*, to the accompanying consolidated financial statements.

Extraordinary gain, net of tax

In 2009, we completed the purchase of certain assets of the former RV manufacturing business of Monaco Coach Corporation and created a new wholly-owned affiliate company operating under the name of Monaco RV, LLC. We accounted for the acquisition as a business combination. The fair value of the assets acquired from Monaco Coach Corporation exceeded the purchase price resulting in an extraordinary gain of $23 million in 2009.

Net income attributable to non-controlling interests

As part of the Ford settlement in 2009, we increased our equity interest in our BDT and BDP joint ventures with Ford to 75% and, effective June 1, 2009, the results of BDT and BDP operations were consolidated. Ford s 25% minority interests in BDT and BDP results were $25 million.

Out of period adjustments

Our reported net income for 2009 included immaterial out-of-period adjustments of $29 million. For more information, see Note 1, *Summary of significant accounting policies*, to the accompanying consolidated financial statements.

Segment Results of Operations for 2009 as Compared to 2008

We define segment profit (loss) as net income (loss) attributable to Navistar International Corporation excluding income tax expense. For additional information about segment profit (loss), see Note 18, *Segment reporting*, to the accompanying consolidated financial statements. The following sections analyze operating results as they relate to our four segments and do not include intersegment eliminations:

Truck Segment

(in millions, except % change)	**2009**	**2008**	**Change**	**% Change**
Truck segment sales U.S. and Canada	$ 6,807	$ 8,933	$ (2,126)	(24)
Truck segment sales ROW	490	1,384	(894)	(65)
Total Truck segment sales, net	$ 7,297	$ 10,317	$ (3,020)	(29)
Truck segment profit	$ 147	$ 805	$ (658)	(82)

Table of Contents

Segment sales

Truck segment sales decreased by $3.0 billion from the prior year largely as a result of lower sales to the U.S. military and lower sales of our commercial products. Sales to the U.S. military decreased 44% primarily due to the fulfillment our remaining MRAP unit orders in early 2009 and were partially offset by increased sales of lower revenue per unit military vehicles to the U.S. military and NATO allies. We also experienced lower commercial chargeouts as a result of weakness in the overall traditional industry. However, we were able to mitigate some of the effects of the Class 8 heavy truck market decline as market acceptance led to higher chargeouts of our ProStar products. In addition, our school bus chargeouts increased as a result of major customers re-timing their purchases from 2008 to 2009. Chargeouts in our Class 6 and 7 medium trucks were negatively impacted primarily by the declining economic conditions that dampened demand, as well as an influx of competitors with aggressive pricing strategies. During 2009, our School bus, Class 6 and 7 medium truck, and combined Class 8 truck classes all led their markets with the greatest retail market share in each of their classes by brand. Our ROW sales declined by 65% as compared to the prior year due to the downturn in demand in the global markets as we faced the global recession.

Segment profit

Truck segment profit decreased by $658 million as compared to the prior year primarily caused by decreased sales to the U.S. military, lower traditional sales, and higher material costs as we continued to experience higher direct material commodity costs due to existing contractual obligations. Further contributing to the decrease was a $29 million low volume penalty related to our BDT affiliate prior to its consolidation, impairment charges of $31 million related to changes in our Truck segment production facilities at our Chatham and Conway locations, and increased engineering and product development costs of $26 million primarily related to increased military vehicle development costs. Partially offsetting the decrease in segment profit were decreased selling, general and administrative expenses of $148 million and an extraordinary gain of $23 million related to the acquisition of certain assets from Monaco Coach Corporation in 2009. Selling, general and administrative expenses declined due primarily to reductions in personnel to align with current market conditions and overhead and infrastructure in support of sales activities. In addition, Dealcor expenses declined by $56 million following the sale of certain company-owned dealerships and lower costs at our remaining locations.

Engine Segment

(in millions, except % change)	2009	2008	Change	% Change
Engine segment sales U.S. and Canada	$ 1,836	$ 1,949	$ (113)	(6)
Engine segment sales ROW	854	1,308	(454)	(35)
Total Engine segment sales, net	$ 2,690	$ 3,257	$ (567)	(17)
Engine segment profit (loss)(A)	$ 253	$ (366)	$ 619	N.M.

(A) Included in Engine segment profit for 2009 was income of $160 million from the Ford Settlement, net of related charges. Included in Engine segment loss for 2008 was a charge of $358 million for impairment of property and equipment, as well as other costs of $37 million, related to the loss of Ford volumes in North America.

Segment sales

Engine segment sales decreased compared to the prior year primarily due to the economic downturn and industry-wide reductions in demand, including intercompany, ROW, and engines shipped to Ford, as well as the impact of unfavorable exchange rates in South America. Partially offsetting these decreases was the impact of consolidating our BDP operations, which increased sales by $85 million. Sales to non-Ford customers, including intercompany sales, decreased by 38,800 units during 2009 as compared to the prior year. Intercompany units sold to our Truck and Parts segment during 2009 decreased primarily due to lower mid-range engine sales

Table of Contents

partially offset by an increase in our MaxxForce 11 and 13 engine sales. Our intercompany shipments to our Truck segment are dependent on the North American markets for School buses, Class 6 and 7 medium trucks and, to a lesser extent, Class 8 severe service trucks. In 2009, engines shipped to Ford represented 42% of our unit volume as compared to 44% in 2008. In accordance with the Ford Settlement, we continued to provide diesel engines to Ford in North America through December 31, 2009.

Segment profit

Overall, Engine segment profit increased $619 million in 2009 as compared to the prior year. Included within Engine segment profit was a $160 million benefit from the Ford Settlement, net of restructuring and related charges, for 2009 and $395 million of charges for impairments of property and equipment and other charges related to the significant reduction in demand from Ford in 2008. For more information, see Note 2, *Ford settlement and related charges*, and Note 9, *Impairment of property and equipment,* to the accompanying consolidated financial statements.

Exclusive of the Ford Settlement and related charges, Engine segment profit increased $64 million in 2009 as compared to the prior year. The increase in segment profit was largely attributable to decreased selling, general and administrative costs of $37 million, the impact of the consolidation of BDP results, and a benefit related to a reduction to reserves for recovery of certain value added taxes in Brazil of $16 million. Selling, general and administrative costs declined in 2009 as compared to the prior year primarily due to increased legal expenses related to the Ford litigation in the prior year and overall cost reduction measures actively pursued during 2009. Partially offsetting these decreases were increased product warranty costs and increased engineering and product development costs. Excluding the reversal of $75 million in warranty expense from the Ford Settlement, warranty costs increased by $32 million in 2009 and were driven by higher costs per-unit and an increase in our pre-existing warranty reserves for products sold in prior periods. The 2007 U.S. EPA regulations resulted in rapid product development cycles and included significant changes from previous engine models. The new emissions-compliant products are more complex, contain higher material costs and, consequently, repair costs have exceeded those we have historically experienced. In the past, our engines typically had a longer model lifecycle that afforded us the opportunity to refine both the design and manufacturing process to reduce both the volume and the severity of warranty claims. Engineering and product development costs increased by $27 million in 2009 as compared to the prior year largely due to the development of our MaxxForce 15 engine, as well as new products and the integration of other technologies to meet the requirements of the 2010 emissions regulations.

Parts Segment

(in millions, except % change)	**2009**	**2008**	**Change**	**% Change**
Parts segment sales U.S. and Canada	$ 2,038	$ 1,648	$ 390	24
Parts segment sales ROW	135	176	(41)	(23)
Total Parts segment sales, net	$ 2,173	$ 1,824	$ 349	19
Parts segment profit	$ 436	$ 254	$ 182	72

Segment sales

The increase in Parts segment sales in 2009 as compared to the prior year was primarily due to increased sales of $519 million to the U.S. military for military vehicle fielding orders. Partially offsetting the increase were decreases in our U.S. and Canada commercial and our global businesses caused by economic conditions and weakened demand.

Table of Contents

Segment profit

Parts segment profit increased by $182 million in 2009 as compared to the prior year. The improvement was largely the result of our ability to expand into adjacent markets, primarily the military sector, without significant additional investments in product development or distribution infrastructure.

Financial Services Segment

(in millions, except % change)		2009	2008	Change	% Change
Financial Services segment revenues	U.S. and Canada[(A)]	$ 268	$ 296	$ (28)	(9)
Financial Services segment revenues	ROW	80	109	(29)	(27)
Total Financial Services segment revenues, net		$ 348	$ 405	$ (57)	(14)
Financial Services segment profit (loss)		$ 40	$ (24)	$ 64	N.M.

(A) Our Financial Services segment does not have Canadian operations or revenues.

Segment revenues

Our Financial Services segment revenues declined in 2009 compared to the prior year primarily as a result of a decrease in the average finance receivable balance of $852 million. Average finance receivable balances were $3.2 billion and $4.1 billion in 2009 and 2008, respectively. The decline in average finance receivable balances was primarily due to customer payments and a reduction in financing originations as a result of fewer vehicle and service parts sales, and reflects the overall declining trend of financing originations whereby the retail portfolio has liquidated faster than new acquisitions have been financed. Declines in 2009 were further driven by lower interest rates on receivables. Securitization income included in our Financial Services segment revenues was $41 million and $12 million for 2009 and 2008, respectively. Securitization income increased in 2009 versus the prior year as a result of an increase in the fair value of our retained interests in sold receivables driven by the lower discount rate. Aggregate interest revenue and fees, charged primarily to the Truck and Parts segments, were $79 million and $80 million in 2009 and 2008, respectively.

The following table presents contractual maturities of finance receivables for our Financial Services segment, which primarily drives Financial Services segment revenues. For more information, see Note 6, *Finance receivables,* to the accompanying consolidated financial statements.

(in millions, except % change)	2009	2008	Change	% Change
Due in one year	$ 1,831	$ 1,941	$ (110)	(6)
Due in two years	696	891	(195)	(22)
Due in three years	478	622	(144)	(23)
Thereafter	494	649	(155)	(24)
Gross finance receivables	$ 3,499	$ 4,103	$ (604)	(15)

Segment profit

Financial Services segment profit increased in 2009 from a loss in the prior year largely due to decreased interest expense, partially offset by lower revenues. Derivative expense decreased by $14 million in 2009 as a result of fluctuations in forward interest rate curves and the regular amortization of notional amounts, and interest expense further decreased by $138 million primarily due to lower base interest rates and lower debt balances. Financial Services debt balances were $3.4 billion and $4.2 billion as of October 31, 2009 and 2008, respectively, and

decreased primarily due to lower average balances of our finance receivables. The increase in Financial Services segment profit was further driven by higher interest rates and fees charged to customers and manufacturing operations.

Supplemental Information

The following tables provide additional information on Truck segment industry retail units, market share data, order units, backlog units, chargeout units, and Engine segment shipments. These tables present key metrics and trends that provide quantitative measures on the performance of our Truck and Engine segments.

Industry Retail Deliveries

The following table summarizes industry retail deliveries, for our traditional truck market, categorized by relevant class, according to Wards Communications and R.L. Polk & Co.:

				2010 vs. 2009		2009 vs. 2008	
(in units)	2010	2009	2008	Change	% Change	Change	% Change
Traditional Markets (U.S. and Canada)							
School buses	**20,900**	22,600	24,400	(1,700)	(8)	(1,800)	(7)
Class 6 and 7 medium trucks	**46,400**	39,800	59,600	6,600	17	(19,800)	(33)
Class 8 heavy trucks	**92,600**	77,700	102,500	14,900	19	(24,800)	(24)
Class 8 severe service trucks	**31,400**	34,300	50,100	(2,900)	(8)	(15,800)	(32)
Total traditional Markets(A)	**191,300**	174,400	236,600	16,900	10	(62,200)	(26)
Combined class 8 trucks	**124,000**	112,000	152,600	12,000	11	(40,600)	(27)
Navistar traditional retail deliveries	**62,200**	58,900	67,800	3,300	6	(8,900)	(13)

(A) Retail deliveries for 2009 and 2008 have been recast to exclude 7,400 units and 7,500 units, respectively, related to U.S. military contracts to reflect our new methodology for categorization of traditional units.

Retail Delivery Market Share

The following table summarizes our retail delivery market share percentages, for our traditional truck market, based on market-wide information from Wards Communications and R.L. Polk & Co.:

	2010	2009	2008
Traditional Markets (U.S. and Canada)			
School buses	**59%**	61%	55%
Class 6 and 7 medium trucks	**38**	35	36
Class 8 heavy trucks	**24**	25	19
Class 8 severe service trucks	**33**	34	27
Total traditional Markets(A)	**33**	34	29
Combined class 8 trucks	**26**	28	22

(A) Market share data for 2009 and 2008 has been recast to exclude units related to U.S. military contracts to reflect our new methodology for categorization of traditional units.

Table of Contents

Truck segment net orders

We define net orders (orders) as written commitments received from customers and dealers during the year to purchase trucks. Orders represent new orders received during the year less cancellations of orders made during the same year. Orders do not represent guarantees of purchases by customers or dealers and are subject to cancellation. Orders may be either sold orders, which will be built for specific customers, or stock orders, which will generally be built for dealer inventory for eventual sale to customers. These orders may be placed at our assembly plants in the U.S., Mexico, and Canada for destinations anywhere in the world and include trucks, buses, and military tactical vehicles. Historically, we have had an increase in net orders for stock inventory from our dealers at the end of the year due to a combination of demand or incentives to the dealers. Increases in stock orders typically translate to higher chargeouts for our Truck segment and increased dealer inventory. The following table summarizes our net orders for traditional units:

				2010 vs. 2009		2009 vs. 2008	
(in units)	**2010**	**2009**	**2008**	**Change**	**% Change**	**Change**	**% Change**
Traditional Markets (U.S. and Canada)							
School buses	**7,800**	18,300	11,900	(10,500)	(57)	6,400	54
Class 6 and 7 medium trucks	**17,700**	15,100	19,400	2,600	17	(4,300)	(22)
Class 8 heavy trucks	**20,200**	19,900	22,600	300	2	(2,700)	(12)
Class 8 severe service trucks	**10,000**	11,100	13,500	(1,100)	(10)	(2,400)	(18)
Total traditional Markets(A)	**55,700**	64,400	67,400	(8,700)	(14)	(3,000)	(4)
Combined class 8 trucks	**30,200**	31,000	36,100	(800)	(3)	(5,100)	(14)

(A) Net orders for 2009 and 2008 have been recast to exclude 3,000 units and 9,600 units, respectively, related to U.S. military contracts to reflect our new methodology for categorization of traditional units.

Truck segment backlogs

We define order backlogs (backlogs) as orders yet to be built as of the end of the period. Our backlogs do not represent guarantees of purchases by customers or dealers and are subject to cancellation. Although the backlog of unfilled orders is one of many indicators of market demand, other factors such as changes in production rates, internal and supplier available capacity, new product introductions, and competitive pricing actions may affect point-in-time comparisons. Order backlogs exclude units in inventory awaiting additional modifications or delivery to the end customer. The following table summarizes our backlog for traditional units:

				2010 vs. 2009		2009 vs. 2008	
(in units)	**2010**	**2009**	**2008**	**Change**	**% Change**	**Change**	**% Change**
Traditional Markets (U.S. and Canada)							
School buses	**1,700**	6,300	1,400	(4,600)	(73)	4,900	350
Class 6 and 7 medium trucks	**3,800**	5,300	2,400	(1,500)	(28)	2,900	121
Class 8 heavy trucks	**6,600**	8,900	6,700	(2,300)	(26)	2,200	33
Class 8 severe service trucks	**2,300**	2,100	2,500	200	10	(400)	(16)
Total traditional Markets(A)	**14,400**	22,600	13,000	(8,200)	(36)	9,600	74
Combined class 8 trucks	**8,900**	11,000	9,200	(2,100)	(19)	1,800	20

(A)

Backlog for 2009 and 2008 has been recast to exclude 1,200 units and 4,200 units, respectively, related to U.S. military contracts to reflect our new methodology for categorization of traditional units.

Table of Contents

Truck segment chargeouts

Chargeouts are defined by management as trucks that have been invoiced to customers, with units held in dealer inventory primarily representing the principal difference between retail deliveries and chargeouts. The following tables summarize our traditional chargeouts:

				2010 vs. 2009		2009 vs. 2008	
(in units)	**2010**	**2009**	**2008**	**Change**	**% Change**	**Change**	**% Change**
Traditional Markets (U.S. and Canada)							
School buses	**12,400**	13,800	13,500	(1,400)	(10)	300	2
Class 6 and 7 medium trucks	**18,500**	13,000	20,300	5,500	42	(7,300)	(36)
Class 8 heavy trucks	**21,600**	19,100	18,800	2,500	13	300	2
Class 8 severe service trucks	**10,700**	10,900	12,800	(200)	(2)	(1,900)	(15)
Total traditional Markets[A]	**63,200**	56,800	65,400	6,400	11	(8,600)	(13)
Military	**4,600**	7,800	8,700	(3,200)	(41)	(900)	(10)
Expansion Markets[B]	**19,100**	11,200	28,100	7,900	71	(16,900)	(60)
Total Worldwide Units[C]	**86,900**	75,800	102,200	11,100	15	(26,400)	(26)

(A) Chargeouts for 2009 and 2008 each have been recast to exclude 7,500 units related to U.S. military contracts to reflect our new methodology for categorization of U.S. military contracts, which were previously categorized within the traditional markets.
(B) Chargeouts for 2010 and 2009 include 3,800 units and 1,100 units, respectively, related to BDT sales to Ford.
(C) Chargeouts for 2010 and 2009 exclude 4,000 units and 1,000 units, respectively, related to RV towables.

Engine segment shipments

				2010 vs. 2009		2009 vs. 2008	
(in units)	**2010**	**2009**	**2008**	**Change**	**% Change**	**Change**	**% Change**
OEM sales South America[A]	**132,800**	99,200	132,600	33,600	34	(33,400)	(25)
Ford sales U.S. and Canada	**24,900**	101,500	124,500	(76,600)	(75)	(23,000)	(18)
Intercompany sales	**68,500**	57,300	69,600	11,200	20	(12,300)	(18)
Other OEM sales	**14,200**	11,300	18,800	2,900	26	(7,500)	(40)
Total sales	**240,400**	269,300	345,500	(28,900)	(11)	(76,200)	(22)

(A) Includes 22,300 units, 11,700 units, and 26,200 units in 2010, 2009, and 2008, respectively, related to Ford.

Liquidity and Capital Resources

(in millions)	**2010**	**2009**	**2008**
Cash and cash equivalents	**$ 585**	$ 1,212	$ 861
Marketable securities	**586**		2

Cash, cash equivalents and marketable securities at end of the period	**$ 1,171**	$ 1,212	$ 863

Cash Requirements

We generate cash flow from the sale of trucks, diesel engines, and parts and from product financing provided to our dealers and retail customers by the financial services operations. It is our opinion that, in the absence of significant unanticipated cash demands, current and forecasted cash flow from our manufacturing operations, financial services operations, and financing capacity will provide sufficient funds to meet anticipated operating

Table of Contents

requirements, capital expenditures, equity investments, and strategic acquisitions. We also believe that collections on the outstanding receivables portfolios as well as funds available from various funding sources will permit the financial services operations to meet the financing requirements of our dealers. In July 2010, NFC filed a Form 15 with the SEC and ceased filing reports under the Exchange Act. We do not expect this to have an impact on our ability to access sufficient sources of financing. Our manufacturing operations are generally able to access sufficient sources of financing to support our business plan. At October 31, 2010, our manufacturing operations had $180 million available under an asset backed loan (ABL) credit facility which matures in 2012. Consolidated cash, cash equivalents and marketable securities of $1.2 billion at October 31, 2010 includes $16 million of cash and cash equivalents attributable to BDT and BDP, as well as an immaterial amount of cash and cash equivalents of certain VIEs that is generally not available to satisfy our obligations. For additional information on the consolidation of BDT and BDP, see Note 1, *Summary of significant accounting policies*, to the accompanying consolidated financial statements.

Cash Flow Overview

(in millions)	Manufacturing Operations	Financial Services Operations and Adjustments	Condensed Consolidated Statement of Cash Flows
For the Year Ended October 31, 2010			
Net cash provided by operating activities	**$ 409**	**$ 698**	**$ 1,107**
Net cash provided by (used in) investing activities	**(916)**	**482**	**(434)**
Net cash used in financing activities	**(110)**	**(1,190)**	**(1,300)**
Effect of exchange rate changes on cash and cash equivalents	**(1)**	**1**	
Decrease in cash and cash equivalents	**(618)**	**(9)**	**(627)**
Cash and cash equivalents at beginning of the period	**1,152**	**60**	**1,212**
Cash and cash equivalents at end of the period	**$ 534**	**$ 51**	**$ 585**

(in millions)	Manufacturing Operations	Financial Services Operations and Adjustments	Condensed Consolidated Statement of Cash Flows
For the Year Ended October 31, 2009			
Net cash provided by operating activities	$ 534	$ 704	$ 1,238
Net cash provided by (used in) investing activities	(282)	70	(212)
Net cash provided by (used in) financing activities	36	(800)	(764)
Effect of exchange rate changes on cash and cash equivalents	9		9
Increase (decrease) in cash and cash equivalents	297	(26)	271
Increase in cash and cash equivalents upon consolidation of BDP and BDT	80		80
Cash and cash equivalents at beginning of the period	775	86	861
Cash and cash equivalents at end of the period	$ 1,152	$ 60	$ 1,212

Table of Contents

(in millions)	Manufacturing Operations	Financial Services Operations and Adjustments	Condensed Consolidated Statement of Cash Flows
For the Year Ended October 31, 2008			
Net cash provided by operating activities	$ 429	$ 691	$ 1,120
Net cash used in investing activities	(216)	(117)	(333)
Net cash used in financing activities	(133)	(543)	(676)
Effect of exchange rate changes on cash and cash equivalents	(21)	(6)	(27)
Increase in cash and cash equivalents	59	25	84
Cash and cash equivalents at beginning of the period	716	61	777
Cash and cash equivalents at end of the period	$ 775	$ 86	$ 861

Manufacturing Operations cash flows and Financial Services Operations cash flows (collectively non-GAAP financial information) are not in accordance with, or an alternative for, GAAP. The non-GAAP financial information should be considered supplemental to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. However, we believe that non-GAAP reporting, giving effect to the adjustments shown in the reconciliation above, provides meaningful information and therefore we use it to supplement our GAAP reporting by identifying items that may not be related to the core manufacturing business. Management often uses this information to assess and measure the performance and liquidity of our operating segments. Our Manufacturing Operations, for this purpose, include our Truck segment, Engine segment, Parts segment, and Corporate items which includes certain eliminations. The reconciling differences between these non-GAAP financial measures and our GAAP consolidated financial statements in Item 8, *Financial Statements and Supplementary Data*, are our Financial Services Operations and adjustments required to eliminate certain intercompany transactions between Manufacturing Operations and Financial Services Operations. Our Financial Services Operations cash flows are presented consistent with their treatment in our Consolidated Statements of Cash Flows and may not be consistent with how they would be treated on a stand-alone basis. We have chosen to provide this supplemental information to allow additional analyses of operating results, to illustrate the respective cash flows giving effect to the non-GAAP adjustments shown in the above reconciliation and to provide an additional measure of performance and liquidity.

Manufacturing Operations

Manufacturing Cash Flow from Operating Activities

Net cash provided by operating activities was $409 million for 2010 compared with net cash provided by operating activities of $534 million for 2009 and cash provided by operating activities of $429 million for 2008. The decrease in cash provided by operating activities in 2010 compared with 2009 was due to the cash received as part of the Ford settlement in 2009 as well as increased receivables partially offset by an increase in accounts payable. The increase in receivables in 2010 compared to 2009 was due primarily to an increase in sales at the end of the year by our Truck and Engine segments. The increase in payables in 2010 compared to 2009 was primarily attributable to a small increase in payables in 2010 compared to a large decrease in 2009 when volumes declined significantly from the prior year.

The increase in cash provided by operating activities for 2009 compared with 2008 was due primarily to positive impacts resulting from the Ford Settlement and improvements in working capital year over year. The change in net working capital was primarily attributable to decreased receivables and inventories, net of the effects of businesses acquired, partially offset by a reduction in payables. The decrease in receivables and inventories in 2009 compared with 2008 was primarily attributable to lower sales of MRAP units to the U.S. government.

Cash paid during the year for interest, net of amounts capitalized, was $75 million, $95 million, and $150 million in 2010, 2009, and 2008, respectively. The decrease of $20 million from 2010 compared with 2009 resulted primarily from the timing of interest payments on our Senior Notes. The decrease for 2009 compared to 2008 was due primarily to lower average interest rates and lower average debt balances in 2009.

The Company paid $27 million of income taxes in 2010, received net refunds of income taxes of $5 million in 2009 and paid $73 million of income taxes in 2008. The cash paid during 2010 was due primarily to higher levels of taxable income of our foreign subsidiaries. The net cash refund received during fiscal year 2009 was due primarily to refunds received from the carry back of foreign net operating losses.

Table of Contents

Cash paid for costs associated with postretirement benefits including pension and postretirement health care expenses for employees and surviving spouses and dependents was $219 million, $140 million, and $216 million for 2010, 2009, and 2008, respectively. The increase in cash paid for 2010 compared to 2009 was due primarily to higher minimum required pension funding for U.S. plans.

Manufacturing Cash Flow from Investing Activities

Cash used in investing activities was $916 million for 2010 compared with cash used in investing activities of $282 million in 2009 and cash used by investing activities of $216 million in 2008. The use of cash in 2010 was primarily related to investments in highly liquid marketable securities of $566 million, capital expenditures of $232 million, and $97 million of investments in and advances to non-consolidated affiliates.

The increase in cash used in investing activities for 2010 compared to 2009 and 2008 is primarily due to the increased investment in highly liquid marketable securities, increased capital expenditures and additional investments in non-consolidated affiliates, partially offset by a decrease in cash paid for acquisitions. In 2010, we invested $566 million in highly liquid marketable securities compared with net liquidations of $2 million and $4 million in highly liquid marketable securities in 2009 and 2008, respectively. In 2010, we had capital expenditures of $232 million compared to $148 million and $168 million of capital expenditure in 2009 and 2008, respectively. During 2010, the Company invested $97 million into equity investments and joint ventures compared to $44 million and $17 million in 2009 and 2008, respectively. Investments made in 2010 were primarily related to NC^2. In both 2009 and 2008, investments were made primarily to Mahindra Navistar Automotives Ltd. and Mahindra Navistar Engines Private Ltd., both joint ventures with Mahindra & Mahindra Ltd. There were no significant business acquisitions during 2010 compared to 2009 when the Company paid approximately $50 million to acquire certain assets of Monaco Coach Corporation and approximately $18 million to acquire CDS. These acquisitions in 2009 also caused the increase in cash used in investing activities as compared to 2008 since there were no significant business acquisitions in 2008.

Manufacturing Cash Flow from Financing Activities

Cash used in financing activities was $110 million in 2010 compared to cash provided by financing activities of $36 million in 2009 and cash used by financing activities of $133 million in 2008. The net use of cash in 2010 was primarily related to principal payments under capital leases of $62 million, dividend payments from BDP to Ford in the amount of $57 million, net payments for debt outstanding of $42 million, and the repayment of long term debt of $24 million. Offsetting these uses of cash were proceeds of $35 million from the exercise of stock options and $39 million from the proceeds of the issuance of long-term debt.

The increase in cash used in financing activities for 2010 compared with 2009 was primarily the result of a $164 million decrease in net borrowings and dividends payment from BDP to Ford. Prior to our increased interest in BDP on June 1, 2009, we did not consolidate BDP and accordingly dividend payments from BDP to Ford were not reflected in our Consolidated Statement of Cash Flows. Lower borrowing in 2010 was due to the 2009 refinancing which resulted in the issuance of our Senior Notes and Convertible notes. Also contributing to the year over year difference is the fact that in 2010 we received $35 million of cash due to the exercise of stock options whereas in 2009 we used $29 million for the repurchase of stock.

The increase in cash provided by financing activities for 2009 compared with a decrease in cash for 2008 was primarily due to a $199 million increase in borrowings, net of repayments. The higher borrowings in 2009 were partially offset by a use of proceeds of $36 million for debt issuance costs related to the higher borrowings and $29 million in cash paid for a share repurchase program which expired in July 2009.

Table of Contents

Financial Services Operations

Financial Services and Adjustments Cash Flow from Operating Activities

Cash from operating activities for the years ended October 31, 2010 and 2009 was $698 million and $704 million, respectively. The decrease in cash provided by operating activities in 2010 compared with 2009 was due primarily to an increase in cash used to support net working capital partially offset by an increase in net income. The increase in cash used to support net working capital in 2010 was primarily attributable to the close out of interest rate swap derivatives in conjunction with the refinancing of variable-rate debt, and payments on intercompany payables to our manufacturing operations, partially offset by a higher liquidation rate of our finance receivables portfolio and a reduction in inventories. The decline in the finance receivables portfolio in 2010 resulted from fewer loan originations due to declining industry demand and the impact of the GE Operating Agreement, combined with customer payments on existing balances. The decrease in inventory was attributable to vehicle sales exceeding lease terminations and decreased repossessions as portfolio performance continues to stabilize. The increase in net income was attributable to a decrease in interest expense resulting from lower debt balances partially offset by lower revenues.

Cash from operating activities for the years ended October 31, 2009 and 2008 was $704 million and $691 million, respectively. The increase in cash provided by operating activities in 2009 compared with 2008 was due primarily to an increase in net income and an increase in intercompany liabilities incurred with our manufacturing operations, partially offset by the lower liquidation rate of our finance receivables portfolio.

Cash paid for interest, net of amounts capitalized, was $95 million and $116 million for 2010 and 2009, respectively. The decrease of $21 million was due primarily to lower average debt balances for the year ended October 31, 2010 compared with the year ended October 31, 2009.

Financial Services and Adjustments Cash Flow from Investing Activities

Cash from investing activities for the years ended October 31, 2010 and 2009 was $482 million and $70 million respectively. The increase in cash provided by investing activities was due primarily to the elimination of the cash collateral of TRIP, a special purpose, wholly-owned subsidiary of NFC. The TRIP credit facility, which matured and was repaid in June 2010, was required to maintain a combined balance of $500 million of receivables or cash collateral at all times. This cash collateral was classified as restricted cash and cash equivalents. The change from a cash used position to a cash provided position for the year ended October 31, 2009 compared to 2008 was due primarily to a reduction in the cash collateral of TRIP as receivables collateral increased.

Financial Services and Adjustments Cash Flow from Financing Activities

Cash used in financing activities for the years ended October 31, 2010 and 2009 was $1.2 billion and $800 million, respectively. The increase in cash used in financing activities was due primarily to a net payment of balances outstanding under our credit facilities. In December 2009, NFC refinanced its $1.4 billion term loan and revolving credit facility with an $815 million facility. In June 2010, NFC repaid the $500 million TRIP credit facility. Cash used in financing activities for the years ended October 31, 2009 and 2008 was $800 million and $543 million, respectively. The increase in cash used in financing activities was due to an increase in the margin by which periodic payments on existing secured borrowings exceeded new funding requirements as industry demand for new vehicle financing declined during 2009.

Credit Markets

The uncertainty and market volatility in capital and credit markets has stabilized substantially compared with prior years. In November 2009, NFC completed the sale of $350 million of three-year investor notes within the wholesale note trust funding facility. This sale was eligible for funding under the U.S. Federal Reserve s TALF program. In December 2009, NFC renewed its revolving credit and term loan facility with an $815 million, three year facility that matures in December 2012 and also executed a private retail asset sale and signed a secured loan which generated net proceeds of $304 million. In February 2010, NFC sold $250 million of wholesale floor plan notes in a two-year transaction to support its dealer inventory funding. This sale was also eligible for funding under the U.S. Federal Reserve s TALF program. In June 2010, NFC completed a retail securitization for $919 million and paid off the TRIP revolving facility. In March 2010, we entered into a three year operating agreement with GE whereby GE became our preferred source of retail customer financing for equipment offered by us and our dealers in the U.S. In October 2010, NFC completed a second retail securitization for $290 million and refinanced three bank conduit facilities, improving both liquidity and borrowing costs.

In October 2010, the Illinois Finance Authority and Cook County, Illinois issued $135 million and $90 million aggregate principal amount, respectively, of tax-exempt Recovery Zone Facility Bonds. We borrowed the proceeds of the bonds to support the relocation of our headquarters and the expansion, renovation, and consolidation of other facilities. The bonds are limited obligations of Cook County and the Illinois Finance Authority and are payable solely from the payments from the loan agreement and a guarantee from Navistar, Inc. The numerous recent financing transactions in both private and public markets and our operating agreement with GE demonstrate our ability to access liquidity. As a result, we continue to believe that we will have sufficient liquidity to fund our manufacturing and financial services operations, although future borrowings at our financial services operations could be more costly than in the past.

Debt

See Note 12, *Debt*, to the accompanying consolidated financial statements for a description of our credit facilities and long-term debt obligations.

Funding of Financial Services

The Financial Services segment has traditionally obtained the funds to provide financing to our dealers and retail customers from sales of finance receivables, short and long-term bank borrowings, medium and long-term debt, and commercial paper in Mexico. As of October 31, 2010, our funding consisted of asset-backed securitization debt of $1.7 billion, bank borrowings and revolving credit facilities of $974 million, commercial paper of $67 million, and borrowings of $112 million secured by operating and finance leases.

We use a number of SPEs to securitize and sell receivables. Navistar Financial Security Corporation (NFSC) finances wholesale notes, Navistar Financial Retail Receivables Corporation (NFRRC) and Navistar Financial Asset Corp. (NFASC) finances retail notes and finance leases, International Truck Leasing Corporation (ITLC) finances operating leases and some finance leases, and Truck Retail Accounts Corporation s finances retail accounts. We used TRIP, a $500 million revolving retail warehouse facility, to temporarily fund retail notes and retail finance leases until the outstanding debt facility matured and was paid in June 2010. The sales of retail accounts receivable into TRAC constitute sales under GAAP and therefore the sold receivables are removed from our Consolidated Balance Sheet and the investors interests in the interest bearing securities issued to affect the sale are not recognized as liabilities.

Our Mexican financial services operations include Navistar Financial, S.A. de C.V., Sociedad Financiera de Objeto Multiple, Entidad No Regulada (NFM), and Navistar Comercial S.A. de C.V. which provide vehicle financing and insurance to our dealers and retail customers in Mexico.

During 2010, NFRRC issued secured notes totaling $1.2 billion. A portion of the proceeds were used to pay-off certain existing retail secured borrowings and close out the related interest rate swap positions. The remaining portion was used to pay-off the revolving retail warehouse facility within TRIP of $500 million at maturity on June 15, 2010. Our securitization arrangements for retail notes and finance leases do not qualify for sales accounting treatment under the guidance on accounting for transfers and servicing of financial assets and extinguishments of liabilities. As a result, the transferred receivables and associated secured borrowings are included on the Consolidated Balance Sheet and no gain or loss is recognized on these transfers.

Table of Contents

NFSC has in place a master trust agreement with Navistar Financial Dealer Note Master Trust (Master Trust), which was a qualifying special purpose entity (QSPE). Effective July 31, 2010, we amended the master trust agreement with the Master Trust. The amendment disqualified the Master Trust as a QSPE and therefore required the Master Trust to be evaluated for consolidation as a variable interest entity (VIE). As we are the primary beneficiary of the Master Trust, the Master Trust s assets and liabilities were consolidated into the assets and liabilities of the Company. Previously, these securitization transactions were accounted for as sales and accordingly were not carried on our Consolidated Balance Sheets.

The following table sets forth the utilization under our bank credit and revolving funding facilities in place as of October 31, 2010:

Company (in millions)	Instrument Type	Total Amount	Purpose of Funding	Amount Utilized	Matures or Expires
NFSC	Revolving wholesale note trust	$ 1,100	Eligible wholesale notes	$ 600	2011-2012
TRAC	Revolving retail account conduit	100(A)	Eligible retail accounts	22	2011
NFC	Credit agreement	811(B)	Retail notes and leases, and general corporate purposes	699	2012
NFM	Bank lines and commercial paper	344	General corporate purposes	295	2011-2016

(A) Exclusive of a subordinated interest in the amount of $53 million.
(B) NFM can borrow up to $100 million, if not used by NFC.

As of October 31, 2010, the aggregate amount available to fund finance receivables under the various facilities was $739 million.

In November 2009, we completed the sale of $350 million of three-year investor notes within the wholesale note trust funding facility. This sale was eligible for funding under the U.S. Federal Reserve s TALF program. In April 2010, our Variable Funding Certificate (VFC) facility was paid off and replaced with the Variable Funding Note (VFN). In August 2010, the VFN was renewed until August 2011. As of October 31, 2010, no funding was utilized under the VFN.

In February 2010, NFC completed the sale of $250 million of two-year investor notes within the wholesale note trust funding facility. This sale was also eligible for funding under the TALF program. In addition, in February 2010, NFC paid off investor notes of $212 million upon maturity.

In December 2009, the NFC credit agreement set to mature in July 2010 was refinanced with a $815 million, three year facility that matures in December 2012, with an interest rate of LIBOR plus 425 basis points. The new facility contains a term loan of $365 million and a revolving loan of $450 million with a Mexican sub-revolver of $100 million. Under the new agreement, NFC is subject to customary operational and financial covenants including an initial minimum collateral coverage ratio of 120%, increasing to 135% effective November 2010, and 150% effective November 2011. Concurrent with the refinancing, NFASC issued borrowings secured by asset-backed securities of $225 million and NFC issued a term loan secured by retail notes and leases of $79 million with monthly scheduled principal payments through March 13.

We are obligated under certain agreements with public and private lenders of NFC to maintain the subsidiary s income before interest expense and income taxes at not less than 125% of its total interest expense. Under these agreements, if NFC s consolidated income before interest expense and income taxes is less than 125% of its interest expense, NIC or Navistar, Inc. must make income maintenance payments to NFC to achieve the required ratio. No such payments were required for the year ended October 31, 2010.

Table of Contents

Derivative Instruments

The Company uses derivative financial instruments as part of our overall interest rate, foreign currency, and commodity risk management strategies to reduce our interest rate exposure, to potentially increase the return on invested funds, to reduce exchange rate risk for transactional exposures denominated in currencies other than the functional currency, and to minimize commodity price volatility. The fair values of these derivatives are recorded as assets or liabilities on a gross basis in our Consolidated Balance Sheets. For more information on derivatives and related market risks, see Item 7A, *Quantitative and Qualitative Disclosures about Market Risk*, and *Note 16*, *Financial instruments and commodity contracts*, to the accompanying consolidated financial statements.

In October 2009, in connection with the sale of the Convertible Notes, the Company purchased call options for $125 million. The call options cover 11,337,870 shares of common stock, subject to adjustments, at a strike price of $50.27. The call options are intended to minimize share dilution associated with the Convertible Notes. In addition, the Company also entered into separate warrant transactions whereby, the Company sold warrants for $87 million to purchase in the aggregate 11,337,870 shares of common stock, subject to adjustments, at an exercise price of $60.14 per share of common stock. As the call options and warrants are indexed to our common stock, we recognized them in permanent equity in *Additional paid in capital*.

Capital Resources

We expend capital to support our operating and strategic plans. Such expenditures include investments to meet regulatory and emissions requirements, maintain capital assets, develop new products or improve existing products, and to enhance capacity or productivity. Many of the associated projects have long lead-times and require commitments in advance of actual spending.

Business units provide their estimates of costs of capital projects, expected returns, and benefits to senior management. Those projects are evaluated from the perspective of expected return and strategic importance, with a goal to maintain annual capital expenditure spending in the $250 million to $350 million range, exclusive of capital expenditures for equipment leased to others. Additionally, over the next two to three years we anticipate a temporary increase in capital expenditures (above and beyond the aforementioned range). This temporary increase is related to the purchase of a new office campus in Lisle, Illinois, which the Company intends to develop into its future headquarters as well as a research and technical center, along with the refurbishment and enhancement of our facility in Melrose Park, Illinois. The majority of the capital expenditures for these projects will be financed through Recovery Zone Facility Bonds. See Note 12, *Debt*, to the accompanying consolidated financial statements.

Pension and Other Postretirement Benefits

Generally, our pension plans are funded by contributions made by us. 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. At October 31, 2010, we have met all legal funding requirements. We contributed $115 million and $37 million to our pension plans in 2010 and 2009, respectively.

In August 2006, the Pension Protection Act of 2006 (PPA) was signed into law in the U.S. The effective date of the PPA was deferred until January 2008, subject to a transition period. The PPA increases the funding requirements for defined benefit pension plans to 100% of the liability and requires unfunded liabilities, or changes in unfunded liabilities, to be fully funded over a seven-year period. In 2010, the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010 was signed into law, which provides, among other things, the ability to reduce and defer required pension contributions. In 2011, we expect to contribute $178 million to meet the minimum required contributions for all plans. We currently expect that from 2012 through 2014, the Company will be required to contribute at least $193 million per year to the plans, depending on asset performance and discount rates.

Other postretirement benefit obligations, such as retiree medical, are primarily funded in accordance with a 1993 legal agreement (the Settlement Agreement) between us, our employees, retirees, and collective bargaining organizations, which eliminated certain benefits provided prior to that date and provided for cost sharing between us and participants in the form of premiums, co-payments, and deductibles. Our contributions totaled $2 million and $3 million in 2010 and 2009, respectively. We expect to contribute $2 million to our other post-employment benefit plans during 2011.

As part of the Settlement Agreement, a Base Program Trust was established in June 1993 to provide a vehicle for funding the health care liability through our contributions and retiree premiums. A separate independent Retiree Supplemental Benefit Program was also established, which included our contribution of Class B Common Stock, originally valued at $513 million, to potentially reduce retiree premiums, co-payments, and deductibles and provide additional benefits in subsequent periods. In addition to the base plan fund, we are contingently obligated to make profit sharing contributions to the Retiree Supplemental Benefit Trust to potentially improve upon the basic benefits provided through the base plan fund. These profit sharing contributions are determined by means of a calculation as established through the Settlement Agreement. There were no profit sharing contributions to the Retiree Supplemental Benefit Trust during the three years ended October 31, 2010.

The funded status of our plans is derived by subtracting the actuarially-determined present value of the projected benefit obligations at year end from the end of year fair value of plan assets.

There was no significant change in the under-funded status of our pension plans during 2010 due to better than expected asset returns during the fiscal year offset by a decrease in the discount rates used to determine the present value of the projected benefit obligations. Our actual return on assets during 2010 was approximately 17% for the U.S. Pension plans. The weighted average discount rate used to measure the PBO was 4.8% at October 31, 2010 compared to 5.4% at October 31, 2009.

The under-funded status of our health and life insurance benefits decreased by $505 million primarily due to an administrative change to the prescription drug program affecting plan participants who are Medicare eligible as well as the impact of health care reform. However, the favorable impact was offset by the decrease in discount rates mentioned above.

Off-Balance Sheet Arrangements

We enter into various arrangements not recognized in our Consolidated Balance Sheets that have or could have an effect on our financial condition, results of operations, liquidity, capital expenditures, or capital resources. The principal off-balance sheet arrangements that we enter into are guarantees and sales of receivables. The following discussions address each of these items:

Guarantees

We occasionally provide guarantees that could obligate us to make future payments if the primary entity fails to perform under its contractual obligations. These include residual value guarantees, stand-by letters of credit and surety bonds, credit and purchase commitments and indemnifications. We have recognized liabilities for some of these guarantees in our Consolidated Balance Sheets as they meet recognition and measurement provisions. 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. For more information, see Note 17*, Commitments and contingencies,* to the accompanying consolidated financial statements.

Sales of Receivables

Our financial services operations typically sell, for legal purposes, our finance receivables to third parties while continuing to service the receivables thereafter. In these securitization transactions, we transfer receivables to a bankruptcy remote Special Purpose entity (SPE). The SPE then transfers the receivables to a legally isolated

Table of Contents

entity that is typically a trust or a conduit, which then issues asset-backed securities to investors. For accounting purposes, our transfers of retail accounts receivables are treated as sales; our transfers of other receivables are treated as secured borrowings. We record sales by removing receivables from the Consolidated Balance Sheet and recording gains and losses in *Finance revenues*.

Effective July 31, 2010, our Financial Services segment amended the wholesale trust agreement with the Master Trust. The amendment disqualified the Master Trust as a QSPE and therefore required the Master Trust to be evaluated for consolidation as a VIE. As we are the primary beneficiary of the Master Trust, the Master Trust s assets and liabilities are consolidated into the assets and liabilities of the Company. As a result of the amendment, we recognized $337 million of receivables at fair value, net of intercompany eliminations and retained interests previously carried on our Consolidated Balance Sheet. Previously, transfers of wholesale notes to the Master Trust were accounted for as sales and accordingly were not carried on our Consolidated Balance Sheets.

We use the Master Trust, which provides for the funding of eligible wholesale notes through investor notes and VFN. The Master Trust owned $700 million of wholesale notes and $29 million of cash equivalents as of October 31, 2010 and $763 million of wholesale notes as of October 31, 2009. This includes $62 million and $96 million of wholesale notes with our Dealcors as of October 31, 2010 and October 31, 2009, respectively. Funding certificates in the total amount of $1.1 billion and $862 million respectively, as of October 31, 2010 and 2009 were available to fund the receivables, and the trust had $600 million and $562 million of outstanding borrowings as of October 31, 2010 and 2009, respectively. We carried retained interests of $192 million as of October 31, 2009, in *Finance receivables, net*.

We use another SPE, TRAC, that utilizes a $100 million conduit funding arrangement, which provides for funding of eligible accounts receivable. The SPE owned $54 million of retail accounts and $21 million of cash equivalents as of October 31, 2010, and $89 million of retail accounts and $20 million of cash equivalents as of October 31, 2009. The SPE had $22 million and $8 million of outstanding borrowings as of October 31, 2010 and 2009, respectively. We have retained interests of $53 million and $100 million as of October 31, 2010 and 2009, which are recorded in *Finance receivables, net*. In total, proceeds from the sales of retail notes and wholesale notes that were accounted for as sales and accordingly not carried on the Consolidated Balance Sheet amounted to $3.5 billion, $4.2 billion, and $4.5 billion in 2010, 2009, and 2008, respectively.

Contractual Obligations

The following table provides aggregated information on our outstanding contractual obligations as of October 31, 2010:

	Payments Due by Year Ending October 31,				
(in millions)	**Total**	**2011**	**2012-2013**	**2014-2015**	**2016 +**
Type of contractual obligation:					
Long-term debt obligations	$ 4,777	$ 529	$ 1,905	$ 961	$ 1,382
Interest on long-term debt[(A)]	1,693	205	337	236	915
Financing arrangements and capital lease obligations[(B)]	236	110	101	21	4
Operating lease obligations[(C)]	268	51	83	62	72
Purchase obligations[(D)]	106	83	18		5
Total	$ 7,080	$ 978	$ 2,444	$ 1,280	$ 2,378

(A) Amounts represent estimated contractual interest payments on outstanding debt. Rates in effect as of October 31, 2010 are used for variable rate debt. For more information, see Note 12, *Debt,* to the accompanying consolidated financial statements.

(B) We lease many of our facilities as well as other property and equipment under financing arrangements and capital leases in the normal course of business including $15 million of interest obligation. For more information, see Note 8, *Property and equipment*, *net,* to the accompanying consolidated financial statements.

Table of Contents

(C) Lease obligations for facility closures are included in operating leases. Future operating lease obligations are not recognized in our Consolidated Balance Sheet. For more information, see Note 8, *Property and equipment*, *net,* to the accompanying consolidated financial statements.

(D) Purchase obligations include various commitments in the ordinary course of business that would include the purchase of goods or services and they are not recognized in our Consolidated Balance Sheet.

Due to the uncertainty with respect to the timing of cash payments associated with the settlement of audits with taxing authorities because of existing net operating loss carry forwards, the preceding table excludes uncertain tax positions of $91 million. We do not expect to make significant payments of these liabilities within the next year. For further information, see Note 14, *Income taxes*, to the accompanying consolidated financial statements.

In addition to the above contractual obligations, we are also required to fund our pension plans in accordance with the requirements of the PPA. As such, we expect to contribute $178 million in 2011 to meet the minimum required contributions for all plans. We currently expect that from 2012 through 2014, the Company will be required to contribute at least $193 million to the plans per year depending on asset performance and discount rates in the next several years. For additional information, see Note 13, *Postretirement benefits*, to the accompanying consolidated financial statements.

Other Information

Income Taxes

We file a consolidated U.S. federal income tax return for NIC and its eligible domestic subsidiaries. Our non-U.S. subsidiaries file income tax returns in their respective local jurisdictions. We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax benefit carry forwards. Deferred tax liabilities and assets at the end of each period are determined using enacted tax rates.

A valuation allowance is required to be established or maintained when, based on currently available information and other factors, it is more likely than not that all or a portion of a deferred tax asset will not be realized. The guidance on accounting for income taxes provides that important factors in determining whether a deferred tax asset will be realized are whether there has been sufficient taxable income in recent years and whether sufficient income is expected in future years in order to utilize the deferred tax asset. Based on our review of historical operating results and future income projections and considering the uncertainty of the U.S. and Canadian economy, we determined that it was more likely than not that we would not be able to realize the value of our deferred tax assets attributable to U.S. and Canadian operations. We therefore continue to maintain a valuation allowance against such U.S. and Canadian assets. However, it is reasonably possible within the next twelve months that the Company may release all or a portion of its U.S. valuation allowance if U.S. operations continue to improve.

We believe that our evaluation of deferred tax assets and our maintenance of a valuation allowance against such assets involve critical accounting estimates because they are subject to, among other things, estimates of future taxable income in the U.S. and in other non-U.S. tax jurisdictions. These estimates are susceptible to change and dependent upon events that may or may not occur, and accordingly, our assessment of the valuation allowance is material to the assets reported on our Consolidated Balance Sheet and changes in the valuation allowance may be material to our results of operations. We intend to continue to assess our valuation allowance in accordance with the guidance on accounting for income taxes.

The guidance on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under the guidance, we may 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 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.

Table of Contents

The guidance on accounting for uncertainty in income taxes also provides guidance on de-recognition and classification, and requires companies to elect and disclose their method of reporting interest and penalties on income taxes. We recognize interest and penalties related to uncertain tax positions as part of *Income tax expense.* Total interest and penalties related to our uncertain tax positions are immaterial.

As of October 31, 2010 and October 31, 2009, the net amount of liability for uncertain tax provisions was $91 million and $139 million ($104 million and $150 million on a gross basis), respectively. If these unrecognized tax benefits are recognized, all but $10 million would impact our effective tax rate. However, to the extent we continue to maintain a full valuation allowance against certain deferred tax assets, the effect may be in the form of an increase in the deferred tax asset related to our net operating loss carry forward, which would be offset by a full valuation allowance. While it is probable that the liability for unrecognized tax benefits may increase or decrease during the next twelve months, we do not expect any such change would have a material effect on our financial condition, results of operations, or cash flows.

Environmental Matters

We have been named a 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.

Four sites formerly owned by us, (i) Solar Turbines in San Diego, California, (ii) the West Pullman Plant in Chicago, Illinois, (iii) the Canton Plant in Canton, Illinois, and (iv) the Wisconsin Steel in Chicago, Illinois, were identified as having soil and groundwater contamination. Two sites in Sao Paulo, Brazil, where (i) we are currently operating and (ii) we previously had operations, were identified as having soil and groundwater contamination. On October 14, 2010, the Illinois EPA issued a No further Remediation letter for West Pullman Plant, signifying that all appropriate remediation work at the site has been completed. While investigations and cleanup activities continue at all other sites, we believe that we have adequate accruals to cover costs to complete the cleanup of these sites.

Impact of Environmental Regulation

Government regulation related to climate change is under consideration at the U.S. federal and state levels. Because our products use fossil fuels, they may be impacted indirectly due to regulation, such as a cap and trade program, affecting the cost of fuels. On May 21, 2010, President Obama directed the EPA Agency and the Department of Transportation to adopt rules by July 30, 2011 setting greenhouse gas emission and fuel economy standards for medium and heavy-duty vehicles beginning with model year 2014. EPA and NHTSA issued proposed rules on November 30, 2010. These standards will impact development costs for vehicles and engines as well as the cost of vehicles and engines. Our facilities may also be subject to regulation related to climate change.

These truck standards may also create opportunities for the Company, which has pursued the development of hybrid and electric vehicles and has sought incentives for the development of technology to improve fuel economy. Costs related to these regulatory proposals cannot be quantified at present because the regulatory proposals themselves largely remain in the early stages. We are active participants in the discussions surrounding the development of these regulations. Climate change may also have some impact on the Company s operations. However, these impacts are currently uncertain and the Company cannot predict the nature and scope of those impacts.

Securitization Transactions

We finance receivables using a process commonly known as securitization, whereby asset-backed securities are sold via public offering or private placement. In a typical securitization transaction, we transfer a pool of finance receivables to bankruptcy remote SPE. The SPE then transfers the receivables to a legally isolated entity, generally a trust or a conduit, in exchange for securities of the trust which are then retained or sold into the public market or privately placed. These securities are issued by the trust and are secured by future collections on the receivables sold to the trust. These transactions are subject to the provisions of the guidance on accounting for transfers and servicing financial assets and extinguishment of liabilities.

When we securitize receivables, we may have retained interests in the receivables sold (transferred). The retained interests may include senior and subordinated securities, undivided interests in receivables and over-collateralizations, restricted cash held for the benefit of the trust, and interest-only strips. Our retained interests are the first to absorb any credit losses on the transferred receivables because we have the most subordinated interests in the trust, including subordinated securities, the right to receive excess spread (interest-only strip), and any residual or remaining interests of the trust after all asset-backed securities are repaid in full. Our exposure to credit losses on the transferred receivables is limited to our retained interests. The SPE s assets are available to satisfy the creditors claims against the assets prior to such assets becoming available for the SPE s own uses or the uses of our affiliated companies. Since the transfer constitutes a legal sale, we are under no obligation to repurchase any transferred receivable that becomes delinquent in payment or otherwise is in default. We are not responsible for credit losses on transferred receivables other than through our ownership of the lowest tranches in the securitization structures. We do not guarantee any securities issued by trusts.

We, as seller and the servicer of the finance receivables, are obligated to provide certain representations and warranties regarding the receivables. Should any of the receivables fail to meet these representations and warranties, we, as servicer, are required to repurchase the receivables.

Most of our wholesale notes, retail notes and finance leases securitization arrangements do not qualify for sales accounting treatment under the guidance on accounting for transfers and servicing of financial assets and extinguishment of liabilities. As a result, such sold receivables and associated secured borrowings are included on the Consolidated Balance Sheet and no gain or loss is recognized for these transactions. For those that do qualify under the accounting guidance, gains or losses are reported in *Finance revenues.*

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with GAAP. In connection with the preparation of our consolidated financial statements, we use estimates and make judgments and assumptions about future events that affect the reported amounts of assets, liabilities, revenue, expenses, and the related disclosures. Our assumptions, estimates, and judgments are based on historical experience, current trends, and other factors we believe are relevant at the time we prepare our consolidated financial statements.

Our significant accounting policies are discussed in Note 1, *Summary of significant accounting policies*, to the accompanying consolidated financial statements and should be reviewed in connection with the following discussion. We believe that the following policies are the most critical to aid in fully understanding and evaluating our reported results as they require us to make difficult, subjective, and complex judgments. In determining whether an estimate is critical, we consider if:

- The nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change.

- The impact of the estimates and assumptions on financial condition or operating performance is material.

Table of Contents

Pension and Other Postretirement Benefits

We provide pension and other postretirement benefits to a substantial portion of our employees, former employees, and their beneficiaries. The assets, liabilities, and expenses we recognize and disclosures we make about plan actuarial and financial information are dependent on the assumptions used in calculating such amounts. The primary assumptions include factors such as discount rates, health care cost trend rates, inflation, expected return on plan assets, retirement rates, mortality rates, rate of compensation increases, and other factors including management s plans regarding plant rationalization activities. Changes to our business environment could result in changes to the assumptions, the effects of which could be material.

Plant rationalization activities impact the determination of whether a plan curtailment or settlement has occurred. Key considerations include, but are not limited to, expected future service credit, the remaining years of recall rights of the workforce, and the extent to which minimum service requirements (in the case of healthcare benefits) have been met.

The discount rates are obtained by matching the anticipated future benefit payments for the plans to the Citigroup yield curve to establish a weighted average discount rate for each plan.

Health care cost trend rates are developed based upon historical retiree cost trend data, short term health care outlook, and industry benchmarks and surveys. The inflation assumptions used are based upon both our specific trends and nationally expected trends.

The expected return on plan assets is derived from historical plan returns, expected long-term performance of asset classes, asset allocations, input from an external pension investment advisor, and risks and other factors adjusted for our specific investment strategy. The focus is on long-term trends and provides for the consideration for recent plan performance.

Retirement rates are based upon actual and projected plan experience.

Mortality rates are developed from actual and projected plan experience.

The rate of compensation increase reflects our long-term actual experience and our projected future increases including contractually agreed upon wage rate increases for represented employees.

The sensitivities stated below are based upon changing one assumption at a time, but often economic factors impact multiple assumptions simultaneously.

	October 31, 2010 Obligations		2010 Expense	
	Pension	**OPEB**	**Pension**	**OPEB**
(in millions)				
Discount rate				
Increase of 1.0%	**$ (347)**	**$ (103)**	**$ (4)**	**$ 4**
Decrease of 1.0%	**374**	**114**		**1**
Expected return on assets				
Increase of 1.0%	**NA**	**NA**	**(24)**	**(5)**
Decrease of 1.0%	**NA**	**NA**	**24**	**5**

Allowance for Doubtful Accounts

The *Allowance for doubtful accounts* for finance receivables is established through a charge to the *Provision for credit losses*. The allowance is an estimate of the amount required to absorb probable losses on the existing portfolio of finance receivables that may become uncollectible. Finance receivables are charged off to the *Allowance for losses* when amounts due from the customers are determined to be uncollectible. The estimate of the required allowance is based upon three factors: (i) a historical component based upon a weighted average of actual loss experience from the most recent three years, (ii) a qualitative component based upon current economic and portfolio quality trends, and (iii) a specific reserve component. The qualitative component is the

Table of Contents

result of analysis of asset quality trend statistics from the most recent four quarters. In addition, we also analyze specific economic indicators such as tonnage, fuel prices, and gross domestic product for additional insight into the overall state of the economy and its potential impact on our portfolio. The actual losses related to the retail notes, wholesale note and finance leases portfolio are also stratified by customer types to reflect the differing loss statistics for each. To the extent that our judgments about these risk factors and conditions are not accurate, an adjustment to our allowance for losses may materially impact our results of operations or financial condition. If we were to apply a hypothetical increase and decrease of ten basis points to the historical loss rate used in calculating the allowance for losses, the required allowance, as of October 31, 2010, would increase from $77 million to $83 million or decrease to $70 million.

Income Taxes

We account for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective tax bases. Deferred tax assets are also recorded with respect to net operating losses and other tax attribute carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the years in which temporary differences are expected to be recovered or settled. Valuation allowances are established when it is more likely than not that deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the income of the period that includes the enactment date.

The ultimate recovery of deferred tax assets is dependent upon the amount and timing of future taxable income and other factors such as the taxing jurisdiction in which the asset is to be recovered. A high degree of judgment is required to determine if, and the extent that, valuation allowances should be recorded against deferred tax assets. We have provided valuation allowances at October 31, 2010 and 2009 aggregating $1.8 billion and $2.1 billion, respectively, against such assets based on our assessment of past operating results, estimates of future taxable income, and the feasibility of tax planning strategies. Of these amounts, $49 million relate to net operating losses for which subsequently recognized tax benefits will be allocated to additional paid in capital. Although we believe that our approach to estimates and judgments as described herein is reasonable, actual results could differ and we may be exposed to increases or decreases in income taxes that could be material. If U.S. operations continue to improve, we believe it is possible within the next twelve months that the Company may release all or a portion of its U.S. valuation allowance.

We follow the guidance on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under the guidance, we recognize the tax benefit from an uncertain tax position if it is more likely than not that the tax position will be sustained on examination by 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.

The guidance on accounting for uncertainty in income taxes also provides guidance on de-recognition and classification, and requires companies to elect and disclose their method of reporting interest and penalties on income taxes. We recognize interest and penalties related to uncertain tax positions as part of *Income tax expense.*

As of October 31, 2010 and October 31, 2009, the amount of liability for uncertain tax provisions was $91 million and $139 million ($104 million and $150 million on a gross basis), respectively. If these unrecognized tax benefits are recognized, all but $10 million would impact our effective tax rate. However, to the extent we continue to maintain a full valuation allowance against our deferred tax assets, the impact may be in the form of an increase in the deferred tax asset related to our NOL carry forward, which would be offset by a full valuation allowance. While it is probable that the liability for unrecognized tax benefits may increase or decrease during the next twelve months, we do not expect any such change would have a material effect on our financial condition, results of operations, or cash flows.

Impairment of Long-Lived Assets

We test long-lived assets or asset groups (other than goodwill and intangible assets with indefinite lives as discussed below) for recoverability when events and circumstances indicate that the carrying value of an asset or asset group may not be recoverable. Estimates of future cash flows used to test the recoverability of a long-lived asset or asset group include only the future cash flows that are directly associated with and that are expected to arise as a direct result of the use and eventual disposition of the asset or asset group. If the asset or asset group is determined to not be recoverable, an impairment loss is measured as the amount by which the carrying amount of the long-lived asset or asset group exceeds its fair value.

Our impairment loss calculations require us to apply judgments in estimating future cash flows and asset fair values. This judgment includes developing cash flow projections and assessing probability weightings to certain business scenarios. Other assets could become impaired in the future or require additional charges as a result of declines in profitability due to changes in volume, market pricing, cost, manner in which an asset is used, physical condition of an asset, laws and regulations, or the business environment. Significant adverse changes to our business environment and future cash flows could cause us to record additional impairment charges in future periods, which could be material.

Goodwill

Goodwill represents the excess of the cost of an acquired business over the amounts assigned to the net assets. Goodwill is not amortized but is tested for impairment at a reporting unit level on an annual basis or if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

Goodwill is tested for impairment based on a two-step test. The first step, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, thus the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test shall be performed to measure the amount of impairment loss, if any. The second step compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess.

Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions, and selecting an appropriate control premium. The income approach is based on discounted cash flows which are derived from internal forecasts and economic expectations for each respective reporting unit. In 2010, we did not recognize any material goodwill impairments. However, we could recognize goodwill impairment charges in the future if we have declines in profitability due to changes in volume, market pricing, cost, or the business environment. Significant adverse changes to our business environment and future cash flows could cause us to record impairment charges in future periods, which could be material.

Indefinite-Lived Intangible Assets

An intangible asset determined to have an indefinite useful life is not amortized until its useful life is determined to no longer be indefinite. Indefinite lived intangible assets are evaluated each reporting period to determine whether events and circumstances continue to support an indefinite useful life. Indefinite lived intangible assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the indefinite lived intangible asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

Significant judgment is applied when evaluating if an intangible asset has a finite useful life. In addition, for indefinite lived intangible assets, significant judgment is applied in testing for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, and incorporating general economic and market conditions. We could recognize impairment charges in the future as a result of declines in the fair values of our indefinite lived assets, which could be material.

Contingency Accruals

Product liability lawsuits and claims

We are subject to product liability lawsuits and claims in the normal course of business. We record product liability accruals for the self-insured portion of any pending or threatened product liability actions.

We obtain a third-party actuarial analysis to assist with the determination of the expected ultimate losses for claims and consequently the related reserve on our Consolidated Balance Sheet. The actual settlement values of outstanding claims in the aggregate may differ from these estimates due to many circumstances including but not limited to the discovery and evolution of information related to individual claims, changes in the legal and regulatory environment, product development trends, and changes in the frequency and/or severity of claims relative to historical experience.

The reserve for product liability was $46 million as of October 31, 2010 and a hypothetical 10% change in claim amount would increase or decrease this accrual by $5 million.

Environmental remediation matters

We are subject to claims by various governmental authorities regarding environmental remediation matters.

With regard to environmental remediation, many factors are involved including interpretations of local, state, and federal laws and regulations, and whether wastes or other hazardous material are contaminating the surrounding land or water or have the potential to cause such contamination.

As of October 31, 2010, we have accrued $21 million for environmental remediation. Although we believe that the estimates and judgments discussed herein are reasonable, actual results could differ and we may be exposed to increases or decreases in our accrual that could be material.

Asbestos claims

We are subject to claims related to illnesses alleged to have resulted from asbestos exposure from component parts found in older vehicles, although some claims relate to the alleged presence of asbestos in our facilities. Numerous factors including tort reform, jury awards, and the number of other solvent companies identified as co-defendants will impact the number of claims filed against the Company.

The estimate of the asbestos liability is subject to uncertainty. Such uncertainty includes some reliance on industry data to project the future frequency of claims received by us, the long latency period associated with asbestos exposures and the types of diseases that will ultimately manifest, and unexpected future inflationary trends. Historically, actual damages paid out to individual claimants have not been material. Although we believe that our estimates and judgments related to asbestos related claims are reasonable, actual results could differ and we may be exposed to increases or decreases in our accrual that could be material.

Product Warranty

We record a liability for standard and extended warranty for products sold as well as for certain claims outside the contractual obligation period. As a result of the uncertainty surrounding the nature and frequency of product recall programs, the liability for such programs is recorded when we commit to a recall action, which generally occurs when it is announced. When collection is reasonably assured, we also estimate and recognize the amount of warranty claim recoveries to be received from our suppliers.

Product warranty estimates are established using historical information about the nature, frequency, and average cost of warranty claims. Initial warranty estimates for new model year products are based on the previous model year product s warranty experience until the product progresses through its life cycle and related claims data becomes mature. Warranty claims are influenced by factors such as new product introductions, technological developments, the competitive environment, and the costs of component parts. Recent emissions standards have resulted in rapid product development cycles and have included significant changes from previous engine models. We estimate warranty claims and take action to improve vehicle quality and minimize warranty claims. Actual payments for warranty claims could differ from the amounts estimated requiring adjustments to the liabilities in future periods.

Although we believe that the estimates and judgments discussed herein are reasonable, actual results could differ and we may be exposed to increases or decreases in our warranty accrual that could be material.

Recently Issued Accounting Standards

Accounting guidance issued by various standard setting and governmental authorities that have not yet become effective with respect to our consolidated financial statements are described below, together with our assessment of the potential impact they may have on our consolidated financial statements:

In July 2010, the Financial Accounting Standards Board (FASB) issued new guidance regarding disclosures about the credit quality of financing receivables and the allowance for credit losses. The guidance will require disaggregated information about the credit quality of financing receivables and the allowance for credit losses based on portfolio segment and class, as well as disclosure of credit quality indicators, past due information, and modifications of financing receivables. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. Our effective date is the period ending January 31, 2011. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. Our effective date is the period beginning February 1, 2011. When effective, we will comply with the disclosure provisions of this guidance.

In January 2010, the FASB issued new guidance regarding disclosures about fair value measurements. The guidance requires new disclosures related to activity in Level 3 fair value measurements. This guidance requires purchases, sales, issuances, and settlements to be presented separately in the rollforward of activity in Level 3 fair value measurements and is effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Our effective date is November 1, 2011. When effective, we will comply with the disclosure provisions of this guidance.

In June 2009, the FASB issued new guidance on accounting for transfers of financial assets. The guidance eliminates the concept of a QSPE, changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity s continuing involvement in and exposure to the risks related to transferred financial assets. This guidance is effective for fiscal years beginning after November 15, 2009. Our effective date is November 1, 2010. Upon adoption, future transfers of finance receivables from our financial services segment to the TRAC funding conduit will no longer receive sale accounting treatment. The adoption is not expected to have a material impact on our consolidated financial statements.

In June 2009, the FASB issued new guidance regarding the consolidation of VIEs. The guidance also amends the determination of whether an enterprise is the primary beneficiary of a VIE, and is, therefore, required to consolidate an entity, by requiring a qualitative analysis rather than a quantitative analysis. The qualitative analysis will include, among other things, consideration of who has the power to direct the activities of the entity that most significantly impact the entity s economic performance and who has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. This guidance also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE. Prior guidance required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. QSPEs, which were previously exempt from the application of this guidance, will be subject to the provisions of this guidance when it becomes effective. The guidance also requires enhanced disclosures about an enterprise s involvement with a VIE. This guidance is effective for the first annual reporting period beginning after November 15, 2009 and for interim periods within that first annual reporting period. Our effective date is November 1, 2010. We do not expect the adoption of this guidance will have a material impact on our consolidated financial statements.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

Our primary market risks include fluctuations in interest rates and currency exchange rates. We are also exposed to changes in the prices of commodities used in our manufacturing operations. Commodity price risk related to our current commodity financial instruments are not material. We do not hold a material portfolio of market risk sensitive instruments for trading purposes.

We have established policies and procedures to manage sensitivity to interest rate and foreign currency exchange rate market risk. These procedures include the monitoring of our level of exposure to each market risk, the funding of variable rate receivables primarily with variable rate debt, and limiting the amount of fixed rate receivables that may be funded with floating rate debt. These procedures also include the use of derivative financial instruments to mitigate the effects of interest rate fluctuations and to reduce our exposure to exchange rate risk.

Interest rate risk

Interest rate risk is the risk that we will incur economic losses due to adverse changes in interest rates. We measure our interest rate risk by estimating the net amount by which the fair value of all of our interest rate sensitive assets and liabilities would be impacted by selected hypothetical changes in market interest rates. Fair value is estimated using a discounted cash flow analysis. At October 31, 2010 and 2009, the net fair value of our liabilities with exposure to interest rate risk was $6.0 billion and $5.2 billion, respectively. Assuming a hypothetical instantaneous 10% adverse change in interest rates as of October 31, 2010 and 2009, the fair value of these liabilities would increase by $38 million and $79 million, respectively. At October 31, 2010 and 2009, the net fair value of our assets with exposure to interest rate risk was $3.5 billion and $3.4 billion, respectively. Assuming a hypothetical instantaneous 10% adverse change in interest rates as of October 31, 2010 and 2009, the fair value of these assets would decrease by $22 million and $31 million, respectively. Our interest rate sensitivity analysis assumes a parallel shift in interest rate yield curves. The model, therefore, does not reflect the potential impact of changes in the relationship between short-term and long-term interest rates.

Commodity price risk

We are exposed to changes in the prices of commodities, particularly for aluminum, copper, precious metals, resins, diesel fuel, and steel and their impact on the acquisition cost of various parts used in our manufacturing operations. We have been able to mitigate the effects of price increases via a combination of design changes, material substitution, resourcing, global sourcing, and price performance. In certain cases, we use derivative instruments to reduce exposure to price changes. During 2010, we purchased approximately $485 million of commodities subject to market risk. Assuming a hypothetical instantaneous 10% adverse change in commodity pricing during 2010, we would have incurred an additional $48 million of costs. Commodity price risk associated with our derivative position at October 31, 2010 and 2009 is not material to our operating results or financial position.

Table of Contents

Foreign currency risk

Foreign currency risk is the risk that we will incur economic losses due to adverse changes in foreign currency exchange rates. Our primary exposures to foreign currency exchange fluctuations are the Canadian dollar/U.S. dollar, Mexican peso/U.S. dollar, Euro/U.S. dollar, and Brazilian real/U.S. dollar. At October 31, 2010 and 2009, the net fair value of our liabilities with exposure to foreign currency risk was $56 million and $92 million, respectively. Assuming that no offsetting derivative financial instruments exist, the potential reduction in future earnings from a hypothetical instantaneous 10% adverse change in quoted foreign currency spot rates applied to foreign currency sensitive instruments would be $6 million at October 31, 2010. At October 31, 2010 and 2009, the net fair value of our assets with exposure to foreign currency risk was $140 million and $146 million, respectively. Assuming that no offsetting derivative financial instruments exist, the potential reduction in future earnings from a hypothetical instantaneous 10% adverse change in quoted foreign currency spot rates applied to foreign currency sensitive instruments would be $14 million at October 31, 2010.

For further information regarding models, assumptions and parameters related to market risk, please see Note 15, *Fair value measurements,* and Note 16, *Financial instruments and commodity contracts*, to the accompanying consolidated financial statements.

Item 8. ***Financial Statements and Supplementary Data***

Index to Consolidated Financial Statements

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Navistar International Corporation:

We have audited the accompanying Consolidated Balance Sheets of Navistar International Corporation and subsidiaries (the Company) as of October 31, 2010 and 2009, and the related Consolidated Statements of Operations, Stockholders Deficit, and Cash Flows for each of the years in the three-year period ended October 31, 2010. We also have audited Navistar International Corporation s internal control over financial reporting as of October 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting appearing under Item 9A(c) of the Company s October 31, 2010 annual report on Form 10-K. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Navistar International Corporation and subsidiaries as of October 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended October 31, 2010, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company has maintained, in all material respects, effective internal control over financial reporting as of October 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by COSO.

As described in Note 1 and Note 11 to the accompanying consolidated financial statements, the Company adopted new guidance on the accounting for convertible debt instruments as of November 1, 2009. Also, as described in Note 1 to the accompanying consolidated financial statements, the Company adopted new guidance on noncontrolling interests as of November 1, 2009.

/s/ KPMG LLP

Chicago, Illinois

December 21, 2010

Table of Contents

Navistar International Corporation and Subsidiaries

Consolidated Statements of Operations

	For the Years Ended October 31,		
(in millions, except per share data)	2010	2009	2008
Sales and revenues			
Sales of manufactured products, net	**$ 11,926**	$ 11,300	$ 14,399
Finance revenues	**219**	269	325
Sales and revenues, net	**12,145**	11,569	14,724
Costs and expenses			
Costs of products sold	**9,741**	9,366	11,942
Restructuring charges	**(15)**	59	
Impairment of property and equipment		31	358
Selling, general and administrative expenses	**1,406**	1,344	1,437
Engineering and product development costs	**464**	433	384
Interest expense	**253**	251	469
Other (income) expenses, net	**(44)**	(228)	14
Total costs and expenses	**11,805**	11,256	14,604
Equity in (loss) income of non-consolidated affiliates	**(50)**	46	71
Income before income tax and extraordinary gain	**290**	359	191
Income tax expense	**23**	37	57
Income before extraordinary gain	**267**	322	134
Extraordinary gain, net of tax		23	
Net income	**267**	345	134
Less: Net income attributable to non-controlling interests	**44**	25	
Net income attributable to Navistar International Corporation	**$ 223**	$ 320	$ 134
Basic earnings per share:			
Income attributable to Navistar International Corporation before extraordinary gain	**$ 3.11**	$ 4.18	$ 1.89
Extraordinary gain, net of tax		0.33	
Net income attributable to Navistar International Corporation	**$ 3.11**	$ 4.51	$ 1.89
Diluted earnings per share:			
Income attributable to Navistar International Corporation before extraordinary gain	**$ 3.05**	$ 4.14	$ 1.82
Extraordinary gain, net of tax		0.32	
Net income attributable to Navistar International Corporation	**$ 3.05**	$ 4.46	$ 1.82
Weighted average shares outstanding			
Basic	**71.7**	71.0	70.7
Diluted	**73.2**	71.8	73.2

See Notes to Consolidated Financial Statements

Table of Contents

Navistar International Corporation and Subsidiaries

Consolidated Balance Sheets

(in millions, except per share data)	As of October 31, 2010	2009 (Revised)[(A)]
ASSETS		
Current assets		
Cash and cash equivalents	**$ 585**	$ 1,212
Marketable securities	**586**	
Trade and other receivables, net	**987**	855
Finance receivables, net	**1,770**	1,706
Inventories	**1,568**	1,666
Deferred taxes, net	**83**	107
Other current assets	**256**	202
Total current assets	**5,835**	5,748
Restricted cash and cash equivalents	**180**	485
Trade and other receivables, net	**44**	26
Finance receivables, net	**1,145**	1,498
Investments in and advances to non-consolidated affiliates	**103**	62
Property and equipment, net	**1,442**	1,467
Goodwill	**324**	318
Intangible assets, net	**262**	264
Deferred taxes, net	**63**	57
Other noncurrent assets	**332**	103
Total assets	**$ 9,730**	$ 10,028
LIABILITIES, REDEEMABLE EQUITY SECURITIES AND STOCKHOLDERS DEFICIT		
Liabilities		
Current liabilities		
Notes payable and current maturities of long-term debt	**$ 632**	$ 1,136
Accounts payable	**1,827**	1,872
Other current liabilities	**1,130**	1,177
Total current liabilities	**3,589**	4,185
Long-term debt	**4,238**	4,156
Postretirement benefits liabilities	**2,097**	2,595
Deferred taxes, net	**142**	142
Other noncurrent liabilities	**588**	624
Total liabilities	**10,654**	11,702
Redeemable equity securities	**8**	13
Stockholders deficit		
Series D convertible junior preference stock	**4**	4
Common stock ($0.10 par value per share, 110.0 shares authorized, 75.4 shares issued at both dates)	**7**	7
Additional paid in capital	**2,206**	2,181
Accumulated deficit	**(1,878)**	(2,101)
Accumulated other comprehensive loss	**(1,196)**	(1,690)
Common stock held in treasury, at cost (3.6 and 4.7 shares, at the respective dates)	**(124)**	(149)
Total stockholders deficit attributable to Navistar International Corp	**(981)**	(1,748)

Stockholders equity attributable to non-controlling interest	**49**	61
Total stockholders deficit	**(932)**	(1,687)
Total liabilities, redeemable equity securities, and stockholders deficit	**$ 9,730**	$ 10,028

(A) Revised; See Note 1, Summary of significant accounting policies

See Notes to Consolidated Financial Statements

Navistar International Corporation and Subsidiaries

Consolidated Statements of Cash Flows

	For the Years Ended October 31,		
(in millions)	2010	2009	2008
Cash flows from operating activities			
Net income	**$ 267**	$ 345	$ 134
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	**265**	288	329
Depreciation of equipment leased to others	**51**	56	64
Deferred taxes	**17**	(18)	56
Impairment of property and equipment, goodwill, and intangible assets		41	372
Amortization of debt issuance costs	**38**	16	15
Stock-based compensation	**24**	16	15
Provision for doubtful accounts	**29**	50	65
Equity in loss/income of affiliated companies, net of dividends	**55**	13	14
Other non-cash operating activities	**61**	54	49
Changes in operating assets and liabilities, exclusive of the effects of businesses acquired and disposed:			
Trade and other receivables	**(136)**	197	(352)
Finance receivables	**546**	391	614
Inventories	**122**	135	(221)
Accounts payable	**(72)**	(204)	339
Other assets and liabilities	**(160)**	(142)	(373)