NAVISTAR INTERNATIONAL CORP
Form 10-Q
June 10, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2013

OR

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

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

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

Delaware	36-3359573
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2701 Navistar Drive, Lisle, Illinois	60532
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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

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

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

As of May 31, 2013, the number of shares outstanding of the registrant's common stock was 80,398,928, net of treasury shares.

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Disclosure Regarding Forward-Looking Statements

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

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

- estimates we have made in preparing our financial statements;
- our development of new products and technologies;
- the anticipated sales, volume, demand, and markets for our products;
- the anticipated performance and benefits of our products and technologies, including our advanced clean engine solutions;
- our business strategies relating to, and our ability to meet, federal and state regulatory heavy-duty diesel emissions standards applicable to certain of our engines, including the timing and costs of compliance and consequences of noncompliance with such standards, as well as our ability to meet other federal, state and foreign regulatory requirements;
- our business strategies and long-term goals, and activities to accomplish such strategies and goals;
- anticipated benefits from acquisitions, strategic alliances, and joint ventures we complete;
- our expectations relating to the dissolution of our Blue Diamond Truck joint venture with Ford Motor Company expected in December 2014;
- our expectations and estimates relating to restructuring activities, including restructuring and integration charges and timing of cash payments related thereto, and operational flexibility, savings, and efficiencies from such restructurings;
- our expectations relating to the possible effects of anticipated divestitures and closures of businesses;
- our expectations relating to our cost-reduction actions, including our voluntary separation program, involuntary reduction in force, and other actions to reduce discretionary spending;
- our implementation of a new Return-On-Invested Capital methodology;
- our realigning our management structure around functional expertise;
- our changes to our organizational and segment reporting structures expected to be completed in the near future;
- our expectations relating to our ability to service our long-term debt;
- our expectations relating to our retail finance receivables and retail finance revenues;
- our expectations relating to the availability of sufficient funds to meet operating requirements, capital expenditures, equity
investments and strategic acquisitions;
- our anticipated costs relating to the development of our emissions solutions products and other product modifications that may be required to meet other federal, state, and foreign regulatory requirements;
- our anticipated capital expenditures;
- our expectations relating to warranty costs;
- our expectations relating to interest expense;
- costs relating to litigation and similar matters, including costs associated with the shareholder class action complaints and the derivative complaint;
- estimates relating to pension plan contributions and unfunded pension and postretirement benefits;
- trends relating to commodity prices; and
- anticipated trends, expectations, and outlook relating to matters affecting our financial condition or results of operations.

These statements often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate," or similar expressions. These statements are not guarantees of performance or results and they involve risks, uncertainties, and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, there are many factors that could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements. Factors that could cause or contribute to differences in our future financial results include those discussed in Item 1A, Risk Factors, included within our Annual Report on Form 10-K for the year ended October 31, 2012, which was filed on December 19, 2012, as well as those discussed elsewhere in this report. All future written and oral forward-looking statements by us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained herein or referred to above. Except for our ongoing obligations to disclose material information as required by the federal securities laws, we do not have any obligations or intention to release publicly any revisions to any forward-looking statements to reflect events or circumstances in the future or to reflect the occurrence of unanticipated events.

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Available Information

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

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PART I—Financial Information

Item 1. Financial Statements

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

(in millions, except per share data)	Three Months Ended April 30, 2013	Three Months Ended April 30, 2012	Six Months Ended April 30, 2013	Six Months Ended April 30, 2012
Sales and revenues				
Sales of manufactured products, net	$2,487	$3,218	$5,085	$6,183
Finance revenues	39	43	78	87
Sales and revenues, net	2,526	3,261	5,163	6,270
Costs and expenses				
Costs of products sold	2,363	2,900	4,649	5,550
Restructuring charges	6	19	8	19
Impairment of intangible assets	—	10	—	10
Selling, general and administrative expenses	312	372	597	727
Engineering and product development costs	100	132	211	267
Interest expense	90	62	164	123
Other expense (income), net	(19)	13	(57)	21
Total costs and expenses	2,852	3,508	5,572	6,717
Equity in income (loss) of non-consolidated affiliates	4	(4)	3	(11)
Loss from continuing operations before income taxes	(322)	(251)	(406)	(458)
Income tax benefit (expense)	(22)	123	(37)	199
Loss from continuing operations	(344)	(128)	(443)	(259)
Loss from discontinued operations, net of tax	(21)	(34)	(30)	(43)
Net loss	(365)	(162)	(473)	(302)
Less: Net income attributable to non-controlling interests	9	10	24	23
Net loss attributable to Navistar International Corporation	$(374)	$(172)	$(497)	$(325)
Amounts attributable to Navistar International Corporation common shareholders:				
Loss from continuing operations, net of tax	$(353)	$(138)	$(467)	$(282)
Loss from discontinued operations, net of tax	(21)	(34)	(30)	(43)
Net loss	$(374)	$(172)	$(497)	$(325)
Loss per share:				
Basic:				
Continuing operations	$(4.39)	$(2.01)	$(5.82)	$(4.07)
Discontinued operations	(0.26)	(0.49)	(0.37)	(0.62)
	$(4.65)	$(2.50)	$(6.19)	$(4.69)
Diluted:				
Continuing operations	$(4.39)	$(2.01)	$(5.82)	$(4.07)
Discontinued operations	(0.26)	(0.49)	(0.37)	(0.62)
	$(4.65)	$(2.50)	$(6.19)	$(4.69)

Weighted average shares outstanding:				
Basic	80.4	68.7	80.3	69.3
Diluted	80.4	68.7	80.3	69.3

See Notes to Condensed Consolidated Financial Statements

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Navistar International Corporation and Subsidiaries
Consolidated Statements of Comprehensive Loss
(Unaudited)

(in millions)	Three Months Ended April 30, 2013	Three Months Ended April 30, 2012	Six Months Ended April 30, 2013	Six Months Ended April 30, 2012
Net loss attributable to Navistar International Corporation	$(374)	$(172)	$(497)	$(325)
Other comprehensive income (loss):				
Foreign currency translation adjustment	3	(65)	20	(78)
Defined benefit plans (net of tax of $(1), $12, $(1), and $24 respectively)	40	17	78	40
Total other comprehensive income (loss)	43	(48)	98	(38)
Total comprehensive loss attributable to Navistar International Corporation	$(331)	$(220)	$(399)	$(363)

See Notes to Condensed Consolidated Financial Statements

Navistar International Corporation and Subsidiaries
Consolidated Balance Sheets

(in millions, except per share data)	April 30, 2013	October 31, 2012
ASSETS	(Unaudited)	
Current assets		
Cash and cash equivalents	$505	$1,087
Restricted cash and cash equivalents	1	—
Marketable securities	733	466
Trade and other receivables, net	839	749
Finance receivables, net	1,664	1,663
Inventories	1,476	1,537
Deferred taxes, net	75	74
Other current assets	276	261
Total current assets	5,569	5,837
Restricted cash	116	161
Trade and other receivables, net	36	94
Finance receivables, net	428	486
Investments in non-consolidated affiliates	52	62
Property and equipment (net of accumulated depreciation and amortization of $2,386 and $2,228)	1,776	1,660
Goodwill	275	280
Intangible assets (net of accumulated amortization of $89 and $78)	157	171
Deferred taxes, net	181	189
Other noncurrent assets	133	162
Total assets	$8,723	$9,102
LIABILITIES and STOCKHOLDERS' DEFICIT		
Liabilities		
Current liabilities		
Notes payable and current maturities of long-term debt	$779	$1,205
Accounts payable	1,621	1,686
Other current liabilities	1,607	1,462
Total current liabilities	4,007	4,353
Long-term debt	4,002	3,566
Postretirement benefits liabilities	3,331	3,405
Deferred taxes, net	41	42
Other noncurrent liabilities	980	996
Total liabilities	12,361	12,362
Redeemable equity securities	4	5
Stockholders' deficit		
Series D convertible junior preference stock	3	3
Common stock (86.8 and 86.0 shares issued, respectively; and $0.10 par value per share and 220 shares authorized, at both dates)	9	9
Additional paid in capital	2,456	2,440
Accumulated deficit	(3,662)	(3,165)
Accumulated other comprehensive loss	(2,227)	(2,325)
Common stock held in treasury, at cost (6.4 and 6.8 shares, respectively)	(256)	(272)
Total stockholders' deficit attributable to Navistar International Corporation	(3,677)	(3,310)
Stockholders' equity attributable to non-controlling interests	35	45

Total stockholders’ deficit	(3,642)	(3,265)
Total liabilities and stockholders’ deficit	$8,723	$9,102

See Notes to Condensed Consolidated Financial Statements

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Navistar International Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(in millions)	Six Months Ended April 30, 2013	2012
Cash flows from operating activities		
Net loss	$(473)	$(302)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	164	136
Depreciation of equipment leased to others	78	24
Deferred taxes, including change in valuation allowance	20	(203)
Impairment of property and equipment and intangible assets	8	38
Gain on sales of investments and businesses, net	(13)	—
Amortization of debt issuance costs and discount	31	19
Stock-based compensation	14	14
Provision for doubtful accounts, net of recoveries	13	—
Equity in loss of non-consolidated affiliates, net of dividends	8	15
Write-off of debt issuance cost and discount	6	8
Other non-cash operating activities	(54)	2
Changes in other assets and liabilities, exclusive of the effects of businesses acquired and disposed	155	298
Net cash provided by (used in) operating activities	(43)	49
Cash flows from investing activities		
Purchases of marketable securities	(759)	(563)
Sales or maturities of marketable securities	492	944
Net change in restricted cash and cash equivalents	44	182
Capital expenditures	(107)	(176)
Purchases of equipment leased to others	(295)	(28)
Proceeds from sales of property and equipment	19	6
Investments in non-consolidated affiliates	—	(17)
Business acquisitions, net of cash received	—	(10)
Proceeds from sales of affiliates	30	1
Acquisition of intangibles	—	(14)
Net cash provided by (used in) investing activities	(576)	325
Cash flows from financing activities		
Proceeds from issuance of securitized debt	200	281
Principal payments on securitized debt	(402)	(666)
Proceeds from issuance of non-securitized debt	339	555
Principal payments on non-securitized debt	(374)	(537)
Net increase in notes and debt outstanding under revolving credit facilities	80	2
Principal payments under financing arrangements and capital lease obligations	(51)	(20)
Debt issuance costs	(14)	(15)
Proceeds from financed lease obligations	263	—
Issuance of common stock	14	—
Purchase of treasury stock	—	(75)
Proceeds from exercise of stock options	8	2
Dividends paid by subsidiaries to non-controlling interest	(25)	(34)
Other financing activities	4	(3)

Net cash provided by (used in) financing activities	42	(510)
Effect of exchange rate changes on cash and cash equivalents	(5)	(3)
Decrease in cash and cash equivalents	(582)	(139)
Cash and cash equivalents at beginning of the period	1,087	539
Cash and cash equivalents at end of the period	$505	$400

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Navistar International Corporation and Subsidiaries
Consolidated Statements of Stockholders' Equity (Deficit)
(Unaudited)

(in millions)	Series D Convertible Junior Preference Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury, at cost	Stockholders' Equity Attributable to Non-controlling Interests	Total
Balance as of October 31, 2012	$ 3	$ 9	$ 2,440	$ (3,165)	$ (2,325)	$ (272)	$ 45	$ (3,265)
Net income (loss)				(497)			24	(473)
Total other comprehensive income					98			98
Transfer from redeemable equity securities upon exercise or expiration of stock options			1					1
Stock-based compensation			9					9
Stock ownership programs			(9)			16		7
Cash dividends paid to non-controlling interest							(25)	(25)
Issuance of common stock, net of issuance costs and fees			14					14
Deconsolidation of a non-controlling interest							(9)	(9)
Other			1					1
Balance as of April 30, 2013	$ 3	$ 9	$ 2,456	$ (3,662)	$ (2,227)	$ (256)	$ 35	$ (3,642)
Balance as of October 31, 2011	$ 3	$ 7	$ 2,253	$ (155)	$ (1,944)	$ (191)	$ 50	$ 23
Net income (loss)				(325)			23	(302)
Total other comprehensive loss					(38)			(38)
Stock-based compensation			11					11
Stock ownership programs			(10)			11		1
Stock repurchase programs			20			(95)		(75)
Cash dividends paid to non-controlling interest							(34)	(34)
Increase in ownership interest acquired from non-controlling interest holder			(3)				3	—
Other		1	1			(1)	1	2
Balance as of April 30, 2012	$ 3	$ 8	$ 2,272	$ (480)	$ (1,982)	$ (276)	$ 43	$ (412)

See Notes to Condensed Consolidated Financial Statements

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

1. Summary of Significant Accounting Policies

Organization and Description of the Business

Navistar International Corporation ("NIC"), incorporated under the laws of the State of Delaware in 1993, is a holding company whose principal operating subsidiaries are Navistar, Inc. and Navistar Financial Corporation ("NFC"). References herein to the "Company," "we," "our," or "us" refer collectively to NIC and its consolidated subsidiaries, including certain variable interest entities ("VIEs") of which we are the primary beneficiary. Our fiscal year ends October 31. As such, all references to 2013 and 2012 contained within this Quarterly Report on Form 10-Q relate to our fiscal year, unless otherwise indicated. We operate in four principal industry segments: Truck, Engine, and Parts (collectively called "Manufacturing operations"), and Financial Services, which consists of NFC and our foreign finance operations (collectively called "Financial Services operations"). These segments are discussed in Note 13, Segment Reporting.

Basis of Presentation and Consolidation

The accompanying unaudited consolidated financial statements include the assets, liabilities, and results of operations of our manufacturing operations, which include majority-owned dealers ("Dealcors"), and our financial services operations, including VIEs of which we are the primary beneficiary. The effects of transactions among consolidated entities have been eliminated to arrive at the consolidated amounts. Certain reclassifications were made to prior periods' amounts to conform to the 2013 presentation, which includes the presentation of certain former businesses as discontinued operations. For more information, see Note 2, Discontinued Operations and Other Divestitures.

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting policies described in our Annual Report on Form 10-K for the year ended October 31, 2012 and Current Report on Form 8-K filed on March 25, 2013, all of which should be read in conjunction with the disclosures therein. In our opinion, these interim consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial condition, results of operations, and cash flows for the periods presented. Operating results for interim periods are not necessarily indicative of annual operating results.

Out-Of-Period Adjustments

Included in the results of operations for the three and six months ended April 30, 2013 are out-of-period adjustments, which represent corrections of prior-period errors related to the accounting for certain sales transactions. In March 2010, we entered into an operating agreement 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. The determination was made that certain sales that were ultimately financed by GE did not qualify for revenue recognition, as we retained substantial risks of ownership in the leased property. As a result, the transactions should have been accounted for as borrowings, resulting in the proceeds from the transfer being recorded as an obligation and amortized to revenue over the term of the financing. In addition, the financed equipment should have been transferred from inventory to equipment leased to others and depreciated over the term of the financing.

Correcting the errors, which were not material to any of the prior periods, resulted in a $9 million and $8 million increase to Net loss in our Consolidated Statements of Operations for the three and six months ended April 30, 2013, respectively. The impact of the correction on our results for the three months ended April 30, 2013 related to prior periods includes: (i) a $124 million net decrease to Sales of manufactured products, net, (ii) a $126 million net decrease to Costs of products sold, including $46 million of additional depreciation expense, and (iii) an $11 million increase to Interest expense. The impact of the correction on our results for the six months ended April 30, 2013 related to prior periods includes: (i) a $113 million net decrease to Sales of manufactured products, net, (ii) a $113 million net decrease to Costs of products sold, including $37 million of additional depreciation expense, and (iii) an $8 million increase to Interest expense. In addition, in our Condensed Consolidated Statements of Cash Flows we recognized Purchases of equipment leased to others of $184 million and Proceeds from financed lease obligations of $201 million related to periods prior to fiscal 2013. The impact of the corrections was not material to any of our Consolidated Balance Sheets.

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

Variable Interest Entities

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

We are the primary beneficiary of our Blue Diamond Parts ("BDP") and Blue Diamond Truck ("BDT") joint ventures with Ford Motor Company ("Ford"). As a result, our Consolidated Balance Sheets include assets of $266 million and $246 million and liabilities of $165 million and $109 million as of April 30, 2013 and October 31, 2012, respectively, from BDP and BDT, including $34 million and $26 million of cash and cash equivalents, at the respective dates, which are not readily available to satisfy claims against our general assets. The creditors of BDP and BDT do not have recourse to our general credit. In December 2011, Ford notified the Company of its intention to dissolve the BDT joint venture effective December 2014. We do not expect the dissolution of the BDT joint venture to have a material impact on our consolidated financial statements.

Our Financial Services segment consolidates several VIEs. As a result, our Consolidated Balance Sheets include assets of $1.0 billion and $1.1 billion and liabilities of $773 million and $914 million as of April 30, 2013 and October 31, 2012, respectively, all of which are involved in securitizations that are treated as borrowings. In addition, our Consolidated Balance Sheets include assets of $317 million and $359 million and related liabilities of $96 million and $157 million as of April 30, 2013 and October 31, 2012, respectively, all of which are involved in transactions that do not qualify for sale accounting treatment, and therefore, are treated as borrowings. Investors that hold securitization debt have a priority claim on the cash flows generated by their respective securitized assets to the extent that the related trusts are entitled to make principal and interest payments. Investors in securitizations of these entities have no recourse to our general credit.

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

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

Use of Estimates

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

Concentration Risks

Our financial condition, results of operations, and cash flows are subject to concentration risks related to concentrations of our union employees. As of April 30, 2013, approximately 4,600, or 51%, of our hourly workers and approximately 400, or 5%, of our salaried workers are represented by labor unions and are covered by collective bargaining agreements. Our future operations may be affected by changes in governmental procurement policies, budget considerations, changing national defense requirements, and global, political, regulatory and economic developments in the U.S. and certain foreign countries (primarily Canada, Mexico, and Brazil).

Product Warranty Liability

The following table presents accrued product warranty and deferred warranty revenue activity:

	Six Months Ended April 30,	
(in millions)	2013	2012
Balance at beginning of period	$1,118	$598
Costs accrued and revenues deferred	226	236
Adjustments to pre-existing warranties[(A)(B)]	204	227
Payments and revenues recognized	(327)	(217)
Balance at end of period	1,221	844
Less: Current portion	647	365
Noncurrent accrued product warranty and deferred warranty revenue	$574	$479

(A) Adjustments to pre-existing warranties reflect changes in our estimate of warranty costs for products sold in prior periods. Such adjustments typically occur when claims experience deviates from historic and expected trends. Our warranty liability is generally affected by component failure rates, repair costs, and the timing of failures. Future events and circumstances related to these factors could materially change our estimates and require adjustments to our liability. In addition, new product launches require a greater use of judgment in developing estimates until historical experience becomes available.

In the first quarter of 2013, we recorded adjustments for changes in estimates of $40 million, or $0.50 per diluted share. In the second quarter of 2013, we recorded adjustments for changes in estimates of $164 million, or $2.04 per diluted share. The impact of income taxes on the 2013 adjustments are not material due to our deferred tax valuation allowances on our U.S. deferred tax assets.

In the first quarter of 2012, adjustments for changes in estimates amounted to $123 million, $119 million net of tax or $1.70 per diluted share. In the second quarter of 2012, we recorded adjustments for changes in estimates of $104 million, $100 million net of tax or $1.46. The impact of income taxes on the 2012 adjustments reflect the Company's 2012 estimated annual effective tax rate as of April 30, 2012.

(B) In the first quarter of 2013, we recognized $13 million of charges for adjustments to pre-existing warranties for a specific warranty issue related to component parts from a supplier. Also during the quarter, we reached agreement for reimbursement from this supplier for this amount and other costs previously accrued. As a result of this agreement, we recognized a recovery of $27 million within Costs of products sold and recorded a receivable within Other current assets. In the second quarter of 2013, we recognized a warranty recovery of $13 million within Loss from discontinued operations, net of tax and recorded a receivable within Other current assets.

The amount of deferred revenue related to extended warranty programs was $405 million and $364 million at April 30, 2013 and October 31, 2012, respectively. Revenue recognized under our extended warranty programs was $11 million and $40 million for the three and six months ended April 30, 2013, respectively, and $16 million and $31 million for the three and six months ended April 30, 2012, respectively. In the second quarters of 2013 and 2012, the Truck segment recognized charges of $33 million and $24 million, respectively, related to the extended warranty contracts on our 2010 emission standard MaxxForce Big-Bore engines. The majority of these changes are included in the adjustments to pre-existing warranties.

Recently Issued and Adopted Accounting Standards

There are no recently issued accounting standards for which the Company expects a material impact on our consolidated financial statements. In addition, for the six months ended April 30, 2013, the Company has not adopted any new accounting guidance that has had a material impact on our consolidated financial statements.

2. Discontinued Operations and Other Divestitures

The Company is currently evaluating its portfolio of assets to validate their strategic and financial fit. To allow us to increase our focus on our North American core business, we are evaluating product lines, businesses, and engineering programs that fall outside of our core business. We are using Return on Invested Capital ("ROIC") methodology, combined with an assessment of the strategic fit to our core business, to identify areas that are under-performing. For those areas under-performing, we are evaluating whether to fix, divest, or close, and expect to realize incremental benefits from these actions in the near future.

Discontinued Operations

In the first quarter of 2013, the Company completed the idling of the Workhorse Custom Chassis ("WCC") operations, and in the second quarter of 2013, we completed the divestiture of the WCC business for an immaterial amount. For the three and six months ended April 30, 2013 and 2012, the operating results of the WCC operations, which were previously included as part of the Truck segment, are reported as discontinued operations in the Consolidated Statements of Operations for all periods presented.

In the first quarter of 2013, certain operations of the Monaco recreational vehicle ("RV") business ("Monaco") were determined to be held-for-sale. For the three and six months ended April 30, 2013 and 2012, the operating results of these certain operations of Monaco, which were previously included as part of the Truck segment, are reported as discontinued operations in the Consolidated Statements of Operations for all periods presented. In May 2013, we divested substantially all of our interest in these operations of Monaco. The cash consideration from the divestiture was approximately $19 million. As a result of the divestiture, in the second quarter of 2013, we recorded charges of $25 million relating to the impairment of certain assets and the expected loss from the divestiture. The charges were included in the Loss from discontinued operations, net of tax.

WCC and Monaco were not material to the Company's Consolidated Balance Sheets or Condensed Consolidated Statements of Cash Flows and have not been reclassified in the respective financial statements.

The following table summarizes the discontinued operations activity in the Company's Consolidated Statements of Operations:

	Three Months Ended April 30,		Six Months Ended April 30,	
(in millions)	2013	2012	2013	2012
Sales and revenues, net	$36	$37	$70	$80
Loss before income taxes	$(21)	$(44)	$(30)	$(58)
Income tax benefit	—	10	—	15
Loss from discontinued operations, net of tax	$(21)	$(34)	$(30)	$(43)

We generally use a centralized approach to cash management, financing of our manufacturing operations, and general corporate related functions, and, accordingly, do not allocate debt, interest expense, or corporate overhead to our discontinued businesses. Any debt and related interest expense of a specific entity within a business is recorded by the respective entity.

Other Divestitures

In 2006 and 2008, we formed two joint ventures with Mahindra & Mahindra Ltd. ("Mahindra") in India, which operated under the names of Mahindra Navistar Automotive Ltd. ("MNAL") and Mahindra-Navistar Engines Private Ltd. ("MNEPL") (collectively, the "Mahindra Joint Ventures"). In the second quarter of 2013, the Company sold its stake in the Mahindra Joint Ventures to Mahindra for $33 million and recognized a gain of $28 million. As part of the transaction, the Company entered into licensing and service agreements with Mahindra.

3. Restructurings and Impairments

Restructuring charges recorded are based on restructuring plans that have been committed to by management and are, in part, based upon management's best estimates of future events. Changes to the estimates may require future adjustments to the restructuring liabilities. In the three and six months ended April 30, 2013, the Company recognized restructuring charges of $6 million and $8 million, respectively, compared to $19 million in both the three and six months ended April 30, 2012.

Cost-Reductions and Other Strategic Initiatives

In the fourth quarter of 2012, we announced actions to control spending across the Company with targeted reductions of certain costs. In addition to the expected integration synergies resulting from ongoing efforts to consolidate our truck and engine engineering operations, as well as the relocation of our world headquarters to Lisle, Illinois, we are focusing on continued reductions in discretionary spending, including but not limited to reductions from efficiencies, and prioritizing or eliminating certain programs or projects.

We continue to evaluate options to improve the efficiency and performance of our operations. Our focus is on improving our core North American Manufacturing operations performance. We are evaluating opportunities to restructure our business and rationalize our manufacturing operations in an effort to optimize our cost structure, which could include, among other actions, additional rationalization of our manufacturing operations and/or divesting of non-core businesses. These actions could result in additional restructuring and other related charges during fiscal 2013, including but not limited to, impairments, employee termination costs and charges for pension and other postretirement contractual benefits and pension curtailments, and these charges could be significant.

Voluntary separation program and reduction in force

In the fourth quarter of 2012, the Company offered the majority of our U.S.-based non-represented salaried employees the opportunity to apply for a voluntary separation program ("VSP"). Along with the employees who chose to participate in the VSP, we used attrition and an involuntary reduction in force to eliminate additional positions in order to meet our targeted reductions goal. In addition to these actions in the U.S., our Brazilian operations utilized an involuntary reduction in force to eliminate positions. As a result of these actions and charges related to the elimination of certain executive positions, the Company recognized restructuring charges of $73 million in the fourth quarter of 2012. The restructuring charges consisted of $66 million in personnel costs for employee termination and related benefits and $7 million of charges for pension and other postretirement contractual termination benefits. The Company expects the restructuring charges, excluding other postretirement costs, will be paid throughout the year.

Engineering Integration

In 2011, the Company committed to a plan and finalized the purchase of the property and buildings to consolidate its truck and engine engineering operations, as well as the relocation of our world headquarters. The Company is utilizing proceeds from an October 2010 loan agreement related to tax exempt bonds (the "Tax Exempt Bonds") to finance the relocation of the Company's world headquarters and engineering center, the expansion of an existing warehouse facility, and the development of certain industrial facilities to assist with the consolidation of certain operations (the "Loan Agreement").

In the second quarter of 2012, the Company vacated the premises of its former world headquarters in Warrenville, Illinois and recorded a charge of $16 million, consisting of $19 million for the recognition of the fair value of the lease vacancy obligation, partially offset by $3 million for the reversal of deferred rent expense. This charge was recorded in Corporate and recognized in Restructuring charges. The cash payments associated with the lease vacancy obligation are expected to be completed by the end of 2016.

North American Manufacturing Restructuring Activities and Impairments of Intangible Assets

The Company continues to evaluate opportunities to restructure and rationalize its manufacturing operations in an effort to optimize the cost structure. In the third quarter of 2011, the Company committed to plans for the restructuring of certain North American manufacturing operations, including the closure of its Chatham, Ontario heavy truck plant and actions related to WCC and Monaco (collectively "Custom Products"). In the fourth quarter of 2012, the Company committed to plans for the closure of its Garland, Texas truck manufacturing operations (the "Garland Facility"). In the second quarter of 2013, the Company reached an agreement to sublease a portion of its manufacturing facility in Cherokee, Alabama (the “Cherokee Facility”).

Chatham restructuring activities

In the third quarter of 2011, the Company committed to close its Chatham, Ontario heavy truck plant, which had been idled since June 2009. We anticipate additional charges of $20 million to $70 million in future periods, primarily related to pension and postretirement costs and termination benefits, which are subject to employee negotiation and acceptance rates. We expect the previous restructuring charges, excluding pension and other postretirement costs, will be paid over the next year.

Custom Products restructuring activities and impairment of intangible assets

In the third quarter of 2011, the Company committed to a restructuring plan of Custom Products, including the closure of the Union City, Indiana chassis facility and the wind-down and transfer of certain operations at the Monaco RV motor coach plant in Coburg, Oregon. In the second quarter of 2012, the Company decided to discontinue accepting orders and idle the WCC operations. In the first quarter of 2013, the Company completed the idling of the WCC operations and in the second quarter of 2013, it divested WCC for an immaterial amount.

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

Beginning in the first quarter of 2013, the Company began reporting the operating results of WCC and certain operating results of Monaco as discontinued operations in the Company's Consolidated statements of operations. In March 2013, we completed the divestiture of the WCC business. In May 2013, we divested substantially all of our interest in these operations of Monaco. For more information, see Note 2, Discontinued Operations and Other Divestitures.

Garland Facility closure

In the fourth quarter of 2012, the Company committed to plans for the closure of the Garland Facility, which resulted in our Truck segment recognizing restructuring charges of $4 million for personnel costs related to employee terminations and related

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benefits. Beginning in early 2013, the Company began transitioning production from the Garland Facility to other North America operations that produce similar models. In the second quarter of 2013, production at the Garland Facility ceased. During 2013, we recognized $21 million of charges related to the planned closure, primarily from accelerated depreciation of certain assets related to the facility. We anticipate recognizing approximately $10 million of other related charges in the remainder 2013. We expect the restructuring charges relating to employee separation benefits will be paid during 2013.

Alabama Facility Sublease

In January 2012, the Company began leasing the Cherokee Facility and purchased certain machinery and equipment within the facility. In the second quarter of 2013, we signed an agreement to sublease a portion of the Cherokee Facility. The term of the sublease agreement runs through the remaining term of our operating lease, which ends in 2021.

Restructuring Liability

The following tables summarize the activity in the restructuring liability, which includes amounts related to discontinued operations and excludes pension and other postretirement contractual termination benefits:

(in millions)	Balance at October 31, 2012	Additions	Payments	Adjustments	Balance at April 30, 2013
Employee termination charges	$72	$1	$(44)	$(3)	$26
Employee relocation costs	—	2	(2)	—	—
Lease vacancy	17	2	(3)	2	18
Other	—	4	(3)	—	1
Restructuring liability	$89	$9	$(52)	$(1)	$45

(in millions)	Balance at October 31, 2011	Additions	Payments	Adjustments	Balance at April 30, 2012
Employee termination charges	$ 31	$2	$(4)	$(3)	$26
Employee relocation costs	—	4	(4)	—	—
Lease vacancy	—	19	(1)	—	18
Other	8	1	(7)	—	2
Restructuring liability	$ 39	$26	$(16)	$(3)	$46

4. Finance Receivables

Finance receivables are receivables of our financial services operations, which generally can be repaid without penalty prior to contractual maturity. Finance receivables generally consist of retail and wholesale accounts and retail and wholesale notes. Total finance receivables reported on the Consolidated Balance Sheets are net of an allowance for doubtful accounts. Total assets of our financial services operations net of intercompany balances are $2.5 billion and $2.6 billion as of April 30, 2013 and October 31, 2012, respectively. Included in total assets are finance receivables of $2.1 billion as of both April 30, 2013 and October 31, 2012. We have two portfolio segments of finance receivables based on the type of financing inherent to each portfolio. The retail portfolio segment represents loans or leases to end-users for the purchase or lease of vehicles. The wholesale portfolio segment represents loans to dealers to finance their inventory.

Our Finance receivables, net, consist of the following:

(in millions)	April 30, 2013	October 31, 2012
Retail portfolio	$968	$ 1,048
Wholesale portfolio	1,148	1,128
Total finance receivables	2,116	2,176

Less: Allowance for doubtful accounts	24	27
Total finance receivables, net	2,092	2,149
Less: Current portion, net[(A)]	1,664	1,663
Noncurrent portion, net	$428	$ 486

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

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Securitizations

Our Financial Services segment transfers wholesale notes, retail accounts receivable, retail notes, finance leases, and operating leases through special purpose entities ("SPEs"), which generally are only permitted to purchase these assets, issue asset-backed securities, and make payments on the securities. In addition to servicing receivables, our continued involvement in the SPEs may include an economic interest in the transferred receivables and, in some cases, managing exposure to interest rates using interest rate swaps and interest rate caps. There were no transfers of finance receivables that qualified for sale accounting treatment as of April 30, 2013 and October 31, 2012, and as a result, the transferred finance receivables are included in our Consolidated Balance Sheets and the related interest earned is included in Finance revenues.

We transfer eligible finance receivables into the retail owner trust or the wholesale note owner trust in order to issue asset-backed securities. These trusts are VIEs of which we are determined to be the primary beneficiary and, therefore, the assets and liabilities of the trusts are included in our Consolidated Balance Sheets. The outstanding balance of finance receivables transferred into these VIEs was $976 million and $1.1 billion as of April 30, 2013 and October 31, 2012, respectively. Other finance receivables pledged to secure borrowings were $127 million and $164 million as of April 30, 2013 and October 31, 2012, respectively. For more information on assets and liabilities of consolidated VIEs and other securitizations accounted for as secured borrowings by our Financial Services segment, see Note 1, Summary of Significant Accounting Policies.

Finance Revenues

The following table presents the components of our Finance revenues, net:

(in millions)	Three Months Ended April 30, 2013	Three Months Ended April 30, 2012	Six Months Ended April 30, 2013	Six Months Ended April 30, 2012
Retail notes and finance leases revenue	$20	$26	$41	$52
Wholesale notes interest	19	22	39	45
Operating lease revenue	12	11	24	20
Retail and wholesale accounts interest	7	8	13	18
Gross finance revenues	58	67	117	135
Less: Intercompany revenues	(19)	(24)	(39)	(48)
Finance revenues	$39	$43	$78	$87

5. Allowance for Doubtful Accounts

Our two portfolio segments, retail and wholesale, each consist of one class of receivable based on: (i) initial measurement attributes of the receivables, and (ii) the assessment and monitoring of risk and performance of the receivables. For more information, see Note 4, Finance Receivables.

The following tables present the activity related to our allowance for doubtful accounts for our retail portfolio segment, wholesale portfolio segment, and trade and other receivables:

	Three Months Ended April 30, 2013				Three Months Ended April 30, 2012			
(in millions)	Retail Portfolio	Wholesale Portfolio	Trade and Other Receivables	Total	Retail Portfolio	Wholesale Portfolio	Trade and Other Receivables	Total
Allowance for doubtful accounts, at beginning of period	$23	$ 2	$ 24	$49	$28	$ 3	$ 16	$47
Provision for doubtful accounts, net of recoveries	1	—	10	11	—	(1)	1	—
Charge-off of accounts(A)	(3)	—	—	(3)	(2)	—	—	(2)
Other(B)	1	—	—	1	—	—	—	—
	$22	$ 2	$ 34	$58	$26	$ 2	$ 17	$45

Allowance for doubtful accounts, at end of period	

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	Six Months Ended April 30, 2013				Six Months Ended April 30, 2012			
(in millions)	Retail Portfolio	Wholesale Portfolio	Trade and Other Receivables	Total	Retail Portfolio	Wholesale Portfolio	Trade and Other Receivables	Total
Allowance for doubtful accounts, at beginning of period	$27	$—	$ 24	$51	$31	$ 3	$ 16	$50
Provision for doubtful accounts, net of recoveries	(1)	2	10	11	(2)	(1)	3	—
Charge-off of accounts[(A)]	(6)	—	—	(6)	(3)	—	(2)	(5)
Other[(B)]	2	—	—	2	—	—	—	—
Allowance for doubtful accounts, at end of period	$22	$ 2	$ 34	$58	$26	$ 2	$ 17	$45

(A) We repossess sold and leased vehicles on defaulted finance receivables and leases, and place them into Inventories. Losses recognized at the time of repossession and charged against the allowance for doubtful accounts were less than $1 million for both the three and six months ended April 30, 2013 and $2 million and $3 million for the three and six months ended April 30, 2012, respectively.
(B) Amounts include currency translation.

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

The following table presents information regarding impaired finance receivables:

	April 30, 2013			October 31, 2012		
(in millions)	Retail Portfolio	Wholesale Portfolio	Total	Retail Portfolio	Wholesale Portfolio	Total
Impaired finance receivables with specific loss reserves	$12	$—	$12	$14	$—	$14
Impaired finance receivables without specific loss reserves	1	—	1	1	—	1
Specific loss reserves on impaired finance receivables	7	—	7	9	—	9
Finance receivables on non-accrual status	9	—	9	10	—	10

For the impaired finance receivables in the retail portfolio as of April 30, 2013 and 2012, the average balances of those receivables were $13 million and $17 million during the six months ended April 30, 2013 and 2012, respectively.

The Company uses the aging of its receivables as well as other inputs when assessing credit quality. The following table presents the aging analysis for finance receivables:

	April 30, 2013			October 31, 2012		
(in millions)	Retail Portfolio	Wholesale Portfolio	Total	Retail Portfolio	Wholesale Portfolio	Total
Current, and up to 30 days past due	$923	$ 1,142	$2,065	$965	$ 1,126	$2,091
30-90 days past due	36	4	40	72	1	73
Over 90 days past due	9	2	11	11	1	12
Total finance receivables	$968	$ 1,148	$2,116	$1,048	$ 1,128	$2,176

6. Inventories

The following table presents the components of Inventories:
(in millions)

	April 30, 2013	October 31, 2012
Finished products	$852	$833
Work in process	111	136
Raw materials	513	568
Total inventories	$1,476	$1,537

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7. Debt

(in millions)	April 30, 2013	October 31, 2012
Manufacturing operations:		
Senior Secured Term Loan Credit Facility, as Amended, due 2017, net of unamortized discount of $5 and $9, respectively	$693	$991
8.25% Senior Notes, due 2021, net of unamortized discount of $23 and $28, respectively	1,177	872
3.0% Senior Subordinated Convertible Notes, due 2014, net of unamortized discount of $38 and $50, respectively	532	520
Debt of majority-owned dealerships	43	60
Financing arrangements and capital lease obligations	87	140
Loan Agreement related to 6.5% Tax Exempt Bonds, due 2040	225	225
Promissory Note	25	30
Financed lease obligations	209	—
Other	59	67
Total manufacturing operations debt	3,050	2,905
Less: Current portion	122	172
Net long-term manufacturing operations debt	$2,928	$2,733

(in millions)	April 30, 2013	October 31, 2012
Financial Services operations:		
Asset-backed debt issued by consolidated SPEs, at fixed and variable rates, due serially through 2019	$805	$994
Bank revolvers, at fixed and variable rates, due dates from 2013 through 2019	861	763
Commercial paper, at variable rates, matured in 2013	—	31
Borrowings secured by operating and finance leases, at various rates, due serially through 2017	65	78
Total financial services operations debt	1,731	1,866
Less: Current portion	657	1,033
Net long-term financial services operations debt	$1,074	$833

Manufacturing Operations

Senior Secured Term Loan Credit Facility, as Amended

In August 2012, NIC and Navistar, Inc. signed a definitive credit agreement relating to a senior secured, term loan credit facility in an aggregate principal amount of $1 billion (the "Term Loan Credit Facility") and borrowed an aggregate principal amount of $1 billion under the Term Loan Credit Facility. The Term Loan Credit Facility agreement required quarterly principal amortization payments of 0.25% of the aggregate principal amount, with the balance due at maturity.

In April 2013, the Term Loan Credit Facility was amended (the “Amended Term Loan Credit Facility”), to: (i) change the maturity date of all borrowings under the Term Loan Credit Facility to August 17, 2017, (ii) lower the interest on all borrowings under the Term Loan Credit Facility to a rate equal to a base rate plus a spread of 450 basis points, or a Eurodollar rate plus a spread of 450 basis points with a London Interbank Offered Rate (“LIBOR”) floor that was reduced to 125 basis points, (iii) provide additional operating flexibility, and (iv) remove certain pledged assets as collateral from the Term Loan Credit Facility.

In April 2013, Navistar, Inc. used proceeds derived from the March 2013 sale of additional 8.25% Senior Notes due 2021 (the "Senior Notes"), as described below, to make a principal repayment of $300 million against the Term Loan Credit Facility (the "April 2013 Principal Repayment"). As a result of the April 2013 Principal Repayment, no further quarterly principal payments are required. In the second quarter of 2013, the Company recorded charges of $13 million related to the April 2013 Principal Repayment and amendment of the Term Loan Credit Facility. The charges were recognized in Other expense (income), net, and included the write-off of related discount and debt issuance costs and a prepayment premium fee.

Senior Notes

In October 2009, we completed the sale of $1 billion aggregate principal amount of our Senior Notes. In March 2013, we completed the sale of an additional $300 million aggregate principal amount of Senior Notes. Interest related to the Senior Notes is payable on May 1 and November 1 of each year until the maturity date of November 1, 2021. The Senior Notes are senior unsecured obligations of the Company.

From the March 2013 sale of additional Senior Notes, the Company received net proceeds of approximately $310 million, which included an offering premium of $4 million and accrued interest of $10 million, offset by underwriter fees of $4 million. The debt issuance costs were recorded in Other noncurrent assets and will be amortized through Interest expense. Both the offering premium and the debt issuance costs will be accreted over the life of the Senior Notes. As a result of the transaction, the effective interest rate of the Senior Notes is now 8.5%. The proceeds from the March 2013 sale of additional Senior Notes were used to make the April 2013 principal payment against the Term Loan Credit Facility.

On or after November 1, 2014, the Company can redeem all or part of the Senior Notes during the twelve-month period beginning on November 1, 2014, 2015, 2016, 2017, and thereafter at a redemption price equal to 104.125%, 102.75%, 101.375%, and 100%, respectively, of the principal amount of the notes redeemed.

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

The Company may also redeem the Senior Notes at its election in whole or part at any time prior to November 1, 2014 at a redemption price equal to 100% of the principal amount thereof plus the applicable premium, plus accrued and unpaid interest, to the redemption date. The applicable premium is defined as the greater of: 1% of the principal amount and the excess, if any, of (i) the present value as of such date of redemption of (A) the redemption price of such note on November 1, 2014, plus (B) all required interest payments due on such note through November 1, 2014, computed using a discount rate equal to the Treasury Rate (as defined in the debt agreement), plus 50 basis points over (ii) the then-outstanding principal of such note.

Amended and Restated Asset-Based Credit Facility

In August 2012, Navistar, Inc. entered into an amended and restated asset-based credit agreement in an aggregate principal amount of $175 million (the "Amended and Restated Asset-Based Credit Facility"). In April 2013, the Amended and Restated Asset-Based Credit Facility was amended to include used truck inventory in the borrowing base. Additionally, the borrowing base of the facility is secured by a first priority security interest in Navistar, Inc.'s aftermarket parts inventory that is stored at certain parts distribution centers, storage facilities and third-party processor or logistics provider locations.

Also in April 2013, the maturity date of the Amended and Restated Asset-Based Credit Facility automatically extended to May 18, 2017, as a result of the modification to the maturity date of the Term Loan Credit Facility, as described above. The facility contains customary provisions for financings of this type, including, without limitation, representations and warranties, affirmative and negative covenants and events of default. All borrowings under the Amended and Restated Asset-Based Credit Facility accrue interest at a rate equal to a base rate or an adjusted LIBOR rate plus a spread. The spread, which will be based on an availability-based measure, ranges from 175 basis points to 225 basis points for Base Rate borrowings and 275 basis points to 325 basis points for LIBOR borrowings. The initial LIBOR spread is 275 basis points. As of April 30, 2013, we had no borrowings under the Amended and Restated Asset-Based Credit Facility.

Financed Lease Obligations

We have accounted for as borrowings certain third-party equipment financings by GE, our preferred source of retail customer financing for equipment offered by us and our dealers in the U.S. The initial transactions do not qualify for revenue recognition as we retain substantial risks of ownership in the leased property. As a result, the proceeds from the transfer are recorded as an obligation and amortized to revenue over the term of the financing. The remaining obligation will be amortized through 2018 with interest rates ranging from 2.8% to 7.6%. In the second quarter of 2013, the Company recorded certain out-of-period adjustments for the correction of prior-period errors, which resulted in the financed lease obligations balance as of October 31, 2012 being understated by $167 million. For more information, see Note 1, Summary of Significant Accounting Policies.

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In February 2013, NFC completed the sale of $200 million of two-year investor notes secured by assets of the wholesale note owner trust. Proceeds were used to reduce borrowings under the variable funding notes ("VFN") facility. In conjunction with this sale, and in accordance with the terms of the VFN facility, the maximum capacity of the VFN facility was reduced from $750 million to $500 million. In March 2013, the maturity date of the VFN facility was extended from August 2013 to March 2014.
In December 2012, our Mexican financial services operation settled all of its commercial paper. The commercial paper program expired in February 2013.
8. Postretirement Benefits
Defined Benefit Plans
We provide postretirement benefits to a substantial portion of our employees and retirees. Costs associated with postretirement benefits include pension and postretirement health care expenses for employees, retirees, and surviving spouses and dependents. Generally, the pension plans are non-contributory. Our policy is to fund the pension plans in accordance with applicable U.S. and Canadian government regulations and to make additional contributions from time to time. For the three and six months ended April 30, 2013, we contributed $30 million and $57 million, respectively, and for the three and six months ended April 30, 2012, we contributed $53 million and $82 million, respectively, to our pension plans to meet regulatory funding requirements. We currently anticipate additional contributions of $109 million to our pension plans during the remainder of 2013.
We primarily fund other post-employment benefit ("OPEB") obligations, such as retiree medical, in accordance with a 1993 Settlement Agreement (the "1993 Settlement Agreement"), which requires us to fund a portion of the plans' annual service cost to a retiree benefit trust (the "Base Trust"). The 1993 Settlement Agreement resolved a class action lawsuit originally filed in 1992 regarding the restructuring of the Company's then applicable retiree health care and life insurance benefits. Contributions for the six months ended April 30, 2013 and 2012, as well as anticipated contributions for the remainder of 2013, are not material.
The Early Retiree Reinsurance Program ("ERRP") was created under the Patient Protection and Affordable Care Act ("PPACA") of 2010 to provide temporary financial assistance to health plan sponsors who provide retirement health coverage to pre-Medicare retirees. Under the terms of ERRP, no amounts were collected and deposited into the Base Trust in the six months ended April 30, 2013, compared to $3 million collected and deposited into the Base Trust in the six months ended April 30, 2012. In the three months ended April 30, 2013 and 2012, no amounts were collected and deposited into the Base Trust.
Components of Net Periodic Benefit Expense
The following table presents the components of net postretirement benefits expense included in our Consolidated Statements of Operations:

	Three Months Ended April 30,				Six Months Ended April 30,			
	Pension Benefits		Health and Life Insurance Benefits		Pension Benefits		Health and Life Insurance Benefits	
(in millions)	2013	2012	2013	2012	2013	2012	2013	2012
Service cost for benefits earned during the period	$5	$4	$2	$2	$10	$8	$4	$4
Interest on obligation	36	43	16	21	72	86	31	42
Amortization of cumulative loss	32	27	8	11	64	55	15	20
Amortization of prior service benefit	—	—	(1)	(1)	—	—	(2)	(2)
Contractual termination benefits	—	—	—	—	—	—	—	(3)
Premiums on pension insurance	1	1	—	—	1	1	—	—
Expected return on assets	(47)	(48)	(9)	(9)	(94)	(96)	(17)	(18)
Net postretirement benefits expense	$27	$27	$16	$24	$53	$54	$31	$43

Defined Contribution Plans and Other Contractual Arrangements

Our defined contribution plans cover a substantial portion of domestic salaried employees and certain domestic represented employees. The defined contribution plans contain a 401(k) feature and provide most participants with a matching contribution from the Company. Effective February 1, 2013, the Company changed the timing for depositing the matching contributions to the end of the calendar year. Many participants covered by the plans receive annual Company contributions to their retirement accounts based on an age-weighted percentage of the participant's eligible compensation for the calendar year. Defined contribution expense pursuant to these plans was $8 million and $15 million in the three and six months ended April 30, 2013, respectively, and $14 million and $24 million for the three and six months ended April 30, 2012, respectively.

In accordance with the 1993 Settlement Agreement, an independent Retiree Supplemental Benefit Trust (the "Supplemental Trust") was established. The Supplemental Trust, and the benefits it provides to certain retirees, is not part of the Company's consolidated financial statements. The assets of the Supplemental Trust arise from three sources: (i) the Company's 1993 contribution to the Supplemental Trust of 25.5 million shares of our Class B common stock, which were subsequently sold by the Supplemental Trust prior to 2000, (ii) contingent profit-sharing contributions made by the Company, and (iii) net investment gains on the Supplemental Trust's assets, if any.

The Company's contingent profit sharing obligations will continue until certain funding targets defined by the 1993 Settlement Agreement are met ("Profit Sharing Cessation"). Upon Profit Sharing Cessation, the Company would assume responsibility for (i) establishing the investment policy for the Supplemental Trust, (ii) approving or disapproving of certain additional supplemental benefits to the extent such benefits would result in higher expenditures than those contemplated upon the Profit Sharing Cessation, and (iii) making additional contributions to the Supplemental Trust as necessary to make up for investment and/or actuarial losses. We have recorded no profit sharing accruals based on our estimate of 2013 results.

9. Income Taxes

We compute on a quarterly basis an estimated annual effective tax rate considering ordinary income and related income tax expense. U.S. results in 2013, as well as certain foreign results in both 2013 and 2012, are excluded from ordinary income due to ordinary losses for which no benefit can be recognized. Ordinary income refers to income (loss) before income tax expense excluding significant unusual or infrequently occurring items. The tax effect of a significant unusual or infrequently occurring item is recorded in the interim period in which it occurs. Items included in income tax expense in the periods in which they occur include the tax effects of material restructurings and impairments, cumulative effect of changes in tax laws or rates, foreign exchange gains and losses, adjustments to uncertain tax positions, and adjustments to our valuation allowance due to changes in judgment regarding the ability to realize deferred tax assets in future years.

We evaluated the need to maintain or establish a valuation allowance for deferred tax assets based on our assessment of whether it is more likely than not that deferred tax benefits will be realized through the generation of future taxable income. Appropriate consideration is given to all available evidence, both positive and negative, in assessing the need for a valuation allowance. We continue to maintain a valuation allowance on our U.S. deferred tax assets, as well as certain foreign deferred tax assets, that we believe, on a more-likely-than-not basis, will not be realized. For all remaining deferred tax assets, while we believe that it is more likely than not that they will be realized, we believe that it is reasonably possible that additional deferred tax asset valuation allowances could be required in the next twelve months.

In 2012, our evaluation resulted in the determination that a significant portion of our valuation allowance on our Canadian deferred tax assets could be released. The qualitative and quantitative analysis of current and expected earnings, industry volumes, tax planning strategies, and general business risks resulted in a more likely than not conclusion of being able to realize a significant portion of our Canadian deferred tax assets. We have realized the benefits of the shift in our Canadian business model from a truck manufacturer to a truck distributor, combined with our existing Parts business. As a result of our analysis, we recognized an income tax benefit of $181 million from the

release of valuation allowances in the second quarter of 2012.
We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. As of April 30, 2013, the amount of liability for uncertain tax positions was $84 million. If the unrecognized tax benefits are recognized, $78 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.

We recognize interest and penalties related to uncertain tax positions as part of Income tax benefit (expense). For the three and six months ended April 30, 2013, the total interest and penalties related to our uncertain tax positions were $2 million and $6 million respectively, reflecting the ongoing resolution of audits in various jurisdictions.

We have open tax years back to 2001 with various significant taxing jurisdictions including the U.S., Canada, Mexico, and Brazil. In connection with the examination of tax returns, contingencies may arise that generally result from differing interpretations of applicable tax laws and regulations as they relate to the amount, timing, or inclusion of revenues or expenses in taxable income, or the sustainability of tax credits to reduce income taxes payable. We believe we have sufficient accruals for our contingent tax liabilities. Interim tax provisions include amounts considered sufficient to pay assessments that may result from examinations of prior year tax returns, although actual results may differ. 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.

10. Fair Value Measurements

For assets and liabilities measured at fair value on a recurring and nonrecurring basis, a three-level hierarchy of measurements based upon observable and unobservable inputs is used to arrive at fair value. Observable inputs are developed based on market data obtained from independent sources, while unobservable inputs reflect our assumptions about valuation based on the best information available in the circumstances. Depending on the inputs, we classify each fair value measurement as follows:

- Level 1—based upon quoted prices for identical instruments in active markets,
- Level 2—based upon quoted prices for similar instruments, prices for identical or similar instruments in markets that are not active, or model-derived valuations, all of whose significant inputs are observable, and
- Level 3—based upon one or more significant unobservable inputs.

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

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

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

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

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

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

	April 30, 2013				October 31, 2012			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Marketable securities:								
U.S. Treasury bills	$662	$—	$—	$662	$420	$—	$—	$420
Other	71	—	—	71	46	—	—	46
Derivative financial instruments:								
Foreign currency contracts	—	2	—	2	—	—	—	—
Total assets	$733	$2	$—	$735	$466	$—	$—	$466
Liabilities								
Derivative financial instruments:								
Commodity contracts	$—	$4	$—	$4	$—	$4	$—	$4
Foreign currency contracts	—	1	—	1	—	—	—	—
Guarantees	—	—	7	7	—	—	7	7
Total liabilities	$—	$5	$7	$12	$—	$4	$7	$11

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

	Three Months Ended April 30,			
	2013		2012	
(in millions)	Guarantees	Commodity contracts	Guarantees	Commodity contracts
Balance at February 1	$(7)	$—	$(7)	$—
Total gains (losses) (realized/unrealized) included in earnings[(A)]	—	—	—	—
Transfers out of Level 3	—	—	—	—
Issuances	—	—	—	—
Settlements	—	—	—	—
Balance at April 30	$(7)	$—	$(7)	$—
Change in unrealized gains on assets and liabilities still held	$—	$—	$—	$—

	Six Months Ended April 30,			
	2013		2012	
(in millions)	Guarantees	Commodity contracts	Guarantees	Commodity contracts
Balance at November 1	$(7)	$—	$(6)	$(2)
Total gains (losses) (realized/unrealized) included in earnings[(A)]	—	—	—	(1)
Transfers out of Level 3	—	—	—	2
Issuances	—	—	(1)	—
Settlements	—	—	—	1
Balance at April 30	$(7			