

NAVISTAR INTERNATIONAL CORP

Form 10-Q/A

December 31, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A

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

For the quarterly period ended January 31, 2008

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)

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Delaware
(State or other jurisdiction of

36-3359573
(I.R.S. Employer

incorporation or organization)

Identification No.)

4201 Winfield Road, P.O. Box 1488,

Warrenville, Illinois
(Address of principal executive offices)

60555
(Zip Code)

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

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

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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

As of April 30, 2008, the number of shares outstanding of the registrant's common stock was 70,239,785, net of treasury shares.

Documents incorporated by reference: None.

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NAVISTAR INTERNATIONAL CORPORATION FORM 10-Q

EXPLANATORY NOTE

On December 29, 2008, management of Navistar International Corporation ("NIC"), with the concurrence of the audit committee of our Board of Directors, concluded that the condensed consolidated financial statements as of and for the three months ended January 31, 2008 presented in NIC's previously issued Quarterly Report on Form 10-Q for the quarterly period ended January 31, 2008 ("First Quarter Form 10-Q"), filed on June 27, 2008, should be restated. NIC hereby amends Items 1, 2, and 4 of Part I and Item 6 of Part II of the First Quarter Form 10-Q to correct errors that resulted in misstatements of inventories, accounts payable, and costs of products sold in the Truck segment. The corrections of the errors have the effect of increasing net loss by \$12 million for the three months ended January 31, 2008. A detailed description of the restatement is presented in Note 18, *Restatement and revision of previously issued condensed consolidated financial statements*. This First Quarter Form 10-Q/A reflects changes to the condensed consolidated financial statements; Note 5, *Inventories*; Note 13, *Segment reporting*; Note 14, *Comprehensive income (loss)*; Note 15, *Earnings (loss) per share*; Note 16, *Condensed consolidating guarantor and non-guarantor financial information*; and the addition of Note 18. In addition, this First Quarter Form 10-Q/A reflects the revision of management's discussion and analysis of financial condition and results of operations in Item 2 of Part I; the revision of disclosures regarding controls and procedures in Item 4 of Part I; and new certifications filed as exhibits. This First Quarter Form 10-Q/A has not been updated for events or information subsequent to the date of filing of the original First Quarter Form 10-Q except in connection with the foregoing. Accordingly, this First Quarter Form 10-Q/A should be read in conjunction with the Company's other filings made with the Securities and Exchange Commission ("SEC").

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Table of Contents**PART I****Item 1. Condensed Consolidated Financial Statements**
Navistar International Corporation and Subsidiaries**Consolidated Statements of Operations****(Unaudited)**

	Three Months Ended January 31,	
	2008	2007
(in millions, except per share data)	(Restated)	
Sales and revenues		
Sales of manufactured products, net	\$ 2,860	\$ 3,050
Finance revenues	94	98
Sales and revenues, net	2,954	3,148
Costs and expenses		
Costs of products sold	2,463	2,605
Selling, general and administrative expenses	321	297
Engineering and product development costs	82	103
Interest expense	167	111
Other (income) expenses, net	(1)	29
Total costs and expenses	3,032	3,145
Equity in income of non-consolidated affiliates	24	22
Income before income tax	(54)	25
Income tax expense	(11)	(13)
Net income (loss)	\$ (65)	\$ 12
Basic earnings (loss) per share	\$ (0.92)	\$ 0.17
Diluted earnings (loss) per share	\$ (0.92)	\$ 0.17
Weighted average shares outstanding		
Basic	70.3	70.3
Diluted	70.3	70.9

See Notes to Condensed Consolidated Financial Statements

Table of Contents**Navistar International Corporation and Subsidiaries****Consolidated Balance Sheets****(Unaudited)**

(in millions, except per share data)	January 31, 2008 (Restated and Revised)	As of October 31, 2007 (Revised)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 594	\$ 777
Marketable securities	21	6
Finance and other receivables (net of allowance for losses of \$61 and \$60 as of January 31, 2008 and October 31, 2007, respectively)	2,794	2,941
Inventories	1,502	1,412
Deferred taxes, net	115	115
Other current assets	162	194
Total current assets	5,188	5,445
Restricted cash and cash equivalents	864	419
Finance and other receivables (net of allowance for losses of \$46 and \$41 as of January 31, 2008 and October 31, 2007, respectively)	2,388	2,478
Investments in and advances to non-consolidated affiliates	168	154
Property and equipment (net of accumulated depreciation and amortization of \$2,257 and \$2,199 as of January 31, 2008 and October 31, 2007, respectively)	2,006	2,086
Goodwill	350	353
Intangible assets (net of accumulated amortization of \$59 and \$53 as of January 31, 2008 and October 31, 2007, respectively)	277	286
Pension assets	102	103
Deferred taxes, net	24	35
Other noncurrent assets	131	89
Total assets	\$ 11,498	\$ 11,448
LIABILITIES, REDEEMABLE EQUITY SECURITIES AND STOCKHOLDERS DEFICIT		
Liabilities		
Current liabilities		
Notes payable and current maturities of long-term debt	\$ 840	\$ 798
Accounts payable	1,786	1,770
Other current liabilities	1,243	1,423
Total current liabilities	3,869	3,991
Long-term debt	6,326	6,083
Postretirement benefits liabilities	1,258	1,327
Other noncurrent liabilities	859	781
Total liabilities	12,312	12,182
Redeemable equity securities	137	140
Stockholders deficit		
Series D convertible junior preference stock	4	4
	1,969	1,961

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Common stock and additional paid in capital (par value \$0.10 per share, 75.4 million shares issued as of January 31, 2008 and October 31, 2007)

Accumulated deficit	(2,589)	(2,519)
Accumulated other comprehensive loss	(170)	(155)
Common stock held in treasury, at cost (5.1 million shares as of January 31, 2008 and October 31, 2007)	(165)	(165)
Total stockholders' deficit	(951)	(874)
Total liabilities, redeemable equity securities and stockholders' deficit	\$ 11,498	\$ 11,448

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended January 31,	
	2008 (Restated and Revised)	2007 (Revised)
(in millions)		
Cash flows from operating activities		
Net income (loss)	\$ (65)	\$ 12
Adjustments to reconcile net income (loss) to cash used in operating activities		
Depreciation and amortization	74	75
Depreciation of equipment held for or under lease	15	15
Deferred taxes	11	(2)
Amortization of debt issuance costs	4	3
Stock-based compensation	1	2
Provision for doubtful accounts	12	5
Equity in income of non-consolidated affiliates	(24)	(22)
Dividends from non-consolidated affiliates	12	28
Gain on sales of affiliate	(4)	
(Gain) loss on sale of property and equipment	(1)	4
Loss on repurchases of debt		31
Changes in other assets and liabilities	(44)	(437)
Net cash used in operating activities	(9)	(286)
Cash flows from investing activities		
Purchases of marketable securities	(25)	(127)
Sales or maturities of marketable securities	10	260
Net change in restricted cash and cash equivalents	(445)	267
Capital expenditures	(37)	(93)
Purchase of equipment leased to others	(7)	(13)
Proceeds from sales of property and equipment	12	6
Investments and advances to non-consolidated affiliates	(2)	(3)
Proceeds from sales of affiliate	18	
Business acquisitions, net of cash acquired		(7)
Other investing activities	2	(3)
Net cash provided by (used in) investing activities	(474)	287
Cash flows from financing activities		
Proceeds from issuance of securitized debt	510	39
Principal payments on securitized debt	(333)	(341)
Proceeds from issuance of non-securitized debt	3	1,402
Principal payments on non-securitized debt	(7)	(1,511)
Net increase (decrease) in notes and debt outstanding under revolving credit facilities	161	(304)
Principal payments under financing arrangements and capital lease obligations	(37)	(21)
Debt issuance costs	(3)	(19)
Net cash provided by (used in) financing activities	294	(755)

Effect of exchange rate changes on cash and cash equivalents	6	(5)
Decrease in cash and cash equivalents	(183)	(759)
Cash and cash equivalents at beginning of period	777	1,157
Cash and cash equivalents at end of the period	\$ 594	\$ 398

See Notes to Condensed Consolidated Financial Statements

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Summary of significant accounting policies

Organization and Description of the Business

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

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements include the assets, liabilities, revenues, and expenses of our manufacturing operations, majority owned dealers, wholly-owned financial services subsidiaries, and VIEs of which we are the primary beneficiary. The effects of transactions among consolidated entities have been eliminated to arrive at the consolidated amounts. Certain reclassifications were made to prior year amounts to conform to the 2008 presentation.

We prepared the accompanying unaudited condensed consolidated financial statements in accordance with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X issued by the 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 condensed consolidated financial statements have been prepared in accordance with accounting policies described in the Annual Report on Form 10-K for the year ended October 31, 2007 and should be read in conjunction with the disclosures therein. In our opinion, these interim financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position, results of operations, and cash flows for the periods presented. Operating results for interim periods are not necessarily indicative of annual operating results.

Accounting Changes

As of November 1, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an Interpretation of FASB Statement No. 109. See Note 9, *Income taxes*, for more information.

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 financial statements and the reported amounts of revenues and expenses. Significant estimates and assumptions are used for, but are not limited to, pension and other postretirement benefits, allowance for losses, sales of receivables, income tax contingency accruals and valuation allowances, product warranty accruals, asbestos accruals, asset impairment, and litigation related accruals. Actual results could differ from our estimates.

Table of Contents**Navistar International Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)*****Concentration Risks***

Our financial position, results of operations, and cash flows are subject to concentration risks related to concentrations of union employees and two customers. As of April 30, 2008, approximately 6,100, or 64%, of our hourly workers and approximately 700, or 10%, of our salaried workers are represented by labor unions and are covered by collective bargaining agreements. See Note 13, *Segment reporting*, for discussions on customer concentration.

Product Warranty Liability

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

	Three Months Ended January 31,	
	2008	2007
(in millions)		
Balance, at beginning of period	\$ 677	\$ 777
Costs accrued and revenues deferred	39	66
Adjustments to pre-existing warranties ^(A)	6	24
Payments and revenues recognized	(84)	(79)
Balance, at end of period	\$ 638	\$ 788

(A) Adjustments to pre-existing warranties reflect changes in our estimate of warranty costs for products sold in prior periods.

The amount of deferred revenue related to extended warranty programs was \$127 million at January 31, 2008 and October 31, 2007. Revenue recognized under our extended warranty programs for the three months ended January 31, 2008 and 2007 was \$11 million and \$5 million, respectively.

New Accounting Pronouncements

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

Pronouncement	Effective Date	Impact on Our Financial Condition and Results of Operations
Emerging Issues Task Force (EITF) Issue No. 08-3, <i>Accounting by Lessees for Nonrefundable Maintenance Deposits</i>	Effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Early adoption is not permitted. Our effective date is November 1, 2009.	We are evaluating the potential impact, if any.

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FASB Staff Position No. FAS 142-3,
*Determination of the Useful Life of Intangible
Assets*

Effective for fiscal years beginning after
December 15, 2008 and interim periods
within those fiscal years. Our effective date is
November 1, 2009.

We are evaluating the potential impact, if
any.

Table of Contents**Navistar International Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

Pronouncement	Effective Date	Impact on Our Financial Condition and Results of Operations
FASB Statement No. 161, <i>Disclosures about Derivative Instruments and Hedging Activities</i> An Amendment of FASB Statement No. 133	Effective for fiscal years and interim reporting periods beginning after November 15, 2008. Our effective date is February 1, 2009.	When effective, we will comply with the disclosure provisions of this Statement.
FASB Statement No. 160, <i>Noncontrolling Interests in Consolidated Financial Statements</i> An Amendment of ARB No. 51	Effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. Our effective date is February 1, 2009.	We are evaluating the potential impact, if any.
FASB Statement No. 141(R), <i>Business Combinations</i>	Applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. Our effective date is November 1, 2009.	We will adopt this Statement on a prospective basis.
Emerging Issues Task Force Issue No. 07-03, <i>Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities</i>	Effective for financial statements issued for fiscal years beginning after December 15, 2007. Our effective date is November 1, 2008.	We are evaluating the potential impact, if any.
SEC Staff Accounting Bulletin No. 109, <i>Written Loan Commitments Recorded at Fair Value through Earnings</i>	Effective as of the first fiscal quarter beginning after December 15, 2007. Our effective date is February 1, 2008.	This Bulletin will not have a material impact on our financial statements.
FASB Statement No. 159, <i>The Fair Value Option for Financial Assets and Financial Liabilities</i>	Effective as of the beginning of the first fiscal year beginning after November 15, 2007. If we adopt the Fair Value Option, our effective date is November 1, 2008.	We are evaluating the potential impact, if any. We have not determined whether to adopt the fair value option.
FASB Statement No. 157, <i>Fair Value Measurements</i>	Effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. Our effective date is November 1, 2008.	We are evaluating the potential impact, if any.

Table of Contents**Navistar International Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****2. Disposal of business**

In December 2007, we sold all of our interests in a heavy duty truck parts remanufacturing business. In connection with the sale, we received gross proceeds of \$22 million, including liabilities assumed, resulting in a gain of \$4 million.

3. Finance and other receivables, net

Information regarding impaired finance receivables is as follows:

	January 31, 2008	As of October 31, 2007
(in millions)		
Outstanding balances with specific loss reserves	\$ 84	\$ 52
Specific loss reserves	15	11
Outstanding balances on non-accrual status loans	70	39
Average balance of impaired finance receivables	62	42
Outstanding balances with payments over 90 days past due	126	120
Impaired receivables include accounts identified as critical accounts as a result of financial difficulties and accounts that are on non-accrual status. In certain cases, we continue to collect payments on our impaired receivables.		

The activity related to our allowance for losses for finance and other receivables is summarized as follows:

	Three Months Ended January 31, 2008	2007
(in millions)		
Balance, at beginning of period	\$ 101	\$ 75
Provision for doubtful accounts	12	5
Charge-off of accounts, net of recoveries	(6)	(2)
Balance, at end of period	\$ 107	\$ 78

Repossessions

We repossess leased and sold trucks on defaulted finance receivables and leases, and place them into *Inventories*. We liquidate these repossessions to partially recover the credit losses in our portfolio. Losses recognized at the time of repossession and charged against the allowance for losses were \$4 million and \$1 million for the three months ended January 31, 2008 and 2007, respectfully. Losses recognized upon the sale of repossessed vehicles were less than \$1 million for each of the three months ended January 31, 2008 and 2007.

Table of Contents**Navistar International Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

A summary of the activity related to repossessed vehicles is as follows:

(in millions)	Three Months Ended January 31,	
	2008	2007
Repossessed vehicles, at beginning of period	\$ 25	\$ 6
Repossessions	20	8
Liquidations	(14)	(4)
Repossessed vehicles, at end of period	\$ 31	\$ 10

4. Sales of receivables

The primary business of our financial services operations is to provide wholesale, retail, and lease financing for new and used trucks sold by us and our dealers and, as a result, our finance receivables and leases have a significant concentration in the trucking industry. On a geographic basis, there is not a disproportionate concentration of credit risk in any area of the U.S. or other countries where we have financial service operations. We retain as collateral an ownership interest in the equipment associated with leases and, on behalf of the various trusts we maintain, a security interest in equipment associated with wholesale notes and retail notes.

NFC finances receivables through Navistar Financial Retail Receivables Corporation (NFRRC), Navistar Financial Securities Corporation (NFSC), Truck Retail Accounts Corporation (TRAC), Truck Retail Instalment Paper Corporation (TRIP), and International Truck Leasing Corporation (ITLC), which are all special purpose, wholly-owned subsidiaries (SPEs) of NFC. In accordance with FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, these transactions are accounted for either as a sale with gain or loss recorded at the date of sale and a retained interest recorded, or as secured borrowings. We provide limited recourse for all subordinated receivables. The recourse is limited to our retained interest and relates to credit risk only.

Off-Balance Sheet Securitizations

The NFSC trust owned \$900 million of wholesale notes and \$91 million of marketable securities as of January 31, 2008 and \$1.1 billion of wholesale notes and \$85 million of marketable securities as of October 31, 2007.

Components of available wholesale note trust funding certificates related to NFSC were as follows:

(in millions)	Maturity	January 31,	As of October 31,
		2008	2007
Investor certificate	July 2008	\$ 200	\$ 200
Investor certificate	February 2010	212	212
Variable funding certificate	November 2008	800	800
Total funding available		1,212	1,212

Funding utilized	(832)	(982)
Unutilized funding	\$ 380	\$ 230

Table of Contents**Navistar International Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

All of the unutilized funding is related to the variable funding certificate (VFC). Our retained interest was \$164 million and \$200 million as of January 31, 2008 and October 31, 2007, respectively.

The TRAC trust owned \$65 million of retail accounts and \$18 million of marketable securities as of January 31, 2008, and \$155 million of retail accounts and \$26 million of marketable securities as of October 31, 2007.

The amount of available retail accounts funding related to TRAC was as follows:

(in millions)	Maturity	January 31, 2008	As of October 31, 2007
Funding conduit	August 2008	\$ 100	\$ 100
Funding utilized		(40)	(60)
Unutilized funding		\$ 60	\$ 40

Our retained interest was \$42 million and \$119 million as of January 31, 2008 and October 31, 2007, respectively.

For the three months ended January 31, 2008 and 2007, proceeds from the sale of finance receivables with off balance sheet treatment were \$810 million and \$1.6 billion, respectively.

Retained Interests

The SPEs' assets are available to satisfy their creditors' claims prior to such assets becoming available for the SPEs' own uses or to NFC or affiliated companies. NFC is under no obligation to repurchase any sold receivable that becomes delinquent in payment or otherwise is in default. The terms of receivable sales generally require NFC to provide credit enhancements in the form of excess seller's interests and/or cash reserves with the trusts and conduits. The use of such cash reserves by NFC is restricted under the terms of the securitized sales agreements. The maximum exposure under all receivable sale recourse provisions was \$206 million and \$319 million as of January 31, 2008 and October 31, 2007, respectively. Our retained interests in the related trusts or assets held by the trusts are recognized in *Finance and other receivables, net*.

The following is a summary of amounts due from sales of receivables (retained interest):

(in millions)	January 31, 2008	As of October 31, 2007
Excess seller's interest	\$ 188	\$ 296
Interest only strip	8	11
Restricted cash reserves	10	12
Total amounts due from sales of receivables	\$ 206	\$ 319

Table of Contents**Navistar International Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

The key economic assumptions used in valuing our retained interests are as follows:

	As of	
	January 31, 2008	October 31, 2007
Discount rate (annual)	10.3 to 18.0%	10.3 to 18.8%
Estimated credit losses	0 to 0.18%	0 to 0.18%
Payment speed (percent of portfolio per month)	8.8 to 57.0%	9.9 to 69.2%

The lower end of the discount rate assumption range and the upper end of the payment speed assumption range were used to value the retained interests in the TRAC retail account securitization. No percentage for estimated credit losses were assumed for TRAC as no losses have been incurred to date. The upper end of the discount rate assumption range and the lower end of the payment speed assumption range were used to value the retained interests in the wholesale note securitization facility.

The following tables reconcile the total serviced portfolio to NFC's on-balance sheet portfolio, net of unearned income:

	Retail Notes	Finance Leases	Wholesale Notes	Accounts Receivable	Total
(in millions)					
As of January 31, 2008					
Total portfolio	\$ 2,883	\$ 146	\$ 956	\$ 366	\$ 4,351
Less: Sold receivables			(745)	(65)	(810)
Total on balance sheet	\$ 2,883	\$ 146	\$ 211	\$ 301	\$ 3,541
As of October 31, 2007					
Total portfolio	\$ 3,012	\$ 157	\$ 1,025	\$ 424	\$ 4,618
Less: Sold receivables			(919)	(155)	(1,074)
Total on balance sheet	\$ 3,012	\$ 157	\$ 106	\$ 269	\$ 3,544

Securitization Income

The following table sets forth the activity related to off-balance sheet securitizations, which are reported in *Finance revenues*:

	Three Months Ended January 31,	
	2008	2007
(in millions)		
Fair value adjustments	\$ 3	\$ 7
Excess spread income	5	19

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Servicing fees revenue	3	4
Losses on sales of receivables	(3)	(3)
Investment revenue	2	2
Securitization income	\$ 10	\$ 29

Table of Contents**Navistar International Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****5. Inventories**

The components of inventories are as follows:

	As of	
	January 31, 2008 (Restated)	October 31, 2007
(in millions)		
Finished products	\$ 859	\$ 851
Work in process	264	210
Raw materials	323	293
Supplies	56	58
Total inventories	\$ 1,502	\$ 1,412

6. Investments in and advances to non-consolidated affiliates

Investments in and advances to non-consolidated affiliates is comprised of a 49 percent ownership interest in Blue Diamond Parts (BDP), a 51 percent ownership interest in Blue Diamond Truck (BDT), and thirteen other partially-owned affiliates. We do not control these affiliates, but have the ability to exercise significant influence over their operating and financial policies. Our ownership percentages in the thirteen other affiliates range from 9.9 percent to 51 percent. Our investment in these affiliates is an integral part of our operations, and we account for them using the equity method of accounting.

Presented below is summarized financial information for BDP, which is considered a significant unconsolidated affiliate. BDP manages sourcing, merchandising, and distribution of various replacement parts. The following table summarizes results of operations information of BDP:

	Three Months Ended January 31,	
	2008	2007
(in millions)		
Net service revenue	\$ 51	\$ 60
Net expenses	9	11
Income before tax expense	42	49
Net income	41	48

7. Debt

NFC's Revolving Credit Agreement (Credit Agreement), as amended in March 2007, has two primary components, a term loan of \$620 million and a revolving bank loan of \$800 million. The latter has a Mexican sub-revolver (\$100 million), which may be used by NIC's Mexican financial services operations.

The Credit Agreement requires both NIC and NFC to file with the SEC and provide to NFC's lenders copies of their respective Annual Reports on Form 10-K for each year, their Quarterly Reports on Form 10-Q for each of the first three quarters of each year, and the related financial

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statements on or before the dates specified in the Credit Agreement. Failure to do so results in a default under the Credit Agreement, during which NFC may not incur any additional indebtedness under the Credit Agreement until the default is cured or waived, and which would give rise to a cross-default to NIC's \$1.5 billion five-year term loan facility and synthetic revolving facility.

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NFC received a series of waivers extending through December 31, 2007, which waived any default or event of default that would result solely from NFC's and NIC's failure to meet the filing requirements of Sections 13 and 15 of the Securities Exchange Act of 1934, as amended, with respect to their Annual Reports on Form 10-K for 2005 and 2006 and certain of their Quarterly Reports on Form 10-Q.

In December 2007, NFC received a fifth waiver to the Credit Agreement extending the waiver period through November 30, 2008. This waiver expands the scope of certain reporting default conditions to include the Annual Report on Form 10-K for 2007 and the Quarterly Reports on Form 10-Q for 2008. The fifth waiver continues the 0.25% rate increase through the waiver's expiration.

In November and December 2007, NFC obtained waivers for the private retail securitizations and the VFC portion of the wholesale note securitizations. These waivers are similar in scope to the Credit Agreement waivers and expire upon the earlier of November 30, 2008, or the date on which NIC and NFC each shall have timely filed a report on Form 10-K or Form 10-Q with the SEC, which will not occur prior to filing of the Form 10-Q for the third quarter of 2008.

For the three months ended January 31, 2008, NFC received proceeds of \$490 million for additional asset-backed secured borrowings on retail notes and utilized an additional \$209 million of the bank revolving credit facility.

8. Postretirement benefits

Defined Benefit Plans

Generally, our 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 months ended January 31, 2008 and 2007, we contributed \$7 million and \$8 million, respectively, to our pension plans to meet regulatory minimum funding requirements. We currently anticipate additional contributions of approximately \$93 million during the remainder of 2008.

On December 16, 2007, the majority of company employees represented by the United Automobile, Aerospace and Agriculture Implement Workers of America voted to ratify a new contract that will run through September 30, 2010. Among the changes from the prior contract was the cessation of annual lump sum payments that had been made to certain retirees. We accounted for these payments as a defined benefit plan based on the historical substance of the underlying arrangement. The elimination of these payments and other changes resulted in a net settlement and curtailment of the plan resulting in income of \$42 million, which is presented as a reduction of *Selling, general and administrative expenses*, for the three months ended January 31, 2008.

We primarily fund other post-employment benefit (OPEB) obligations, such as retiree medical, in accordance with a 1993 legal agreement, which requires us to fund a portion of the plans' annual service cost. For each of the three months ended January 31, 2008 and 2007, we contributed \$1 million to our OPEB plans to meet legal funding requirements. We currently anticipate additional contributions of approximately \$4 million during the remainder of 2008.

Table of Contents**Navistar International Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)*****Components of Net Postretirement Benefits (Income) Expense***

Net postretirement benefits (income) expense included in our consolidated statements of operations is composed of the following:

	Three Months Ended January 31,			
	Pension Benefits		Health and Life Insurance Benefits	
(in millions)	2008	2007	2008	2007
Service cost for benefits earned during the period	\$ 6	\$ 7	\$ 3	\$ 4
Interest on obligation	56	55	29	28
Amortization of net cumulative losses	4	15		6
Amortization of prior service cost (benefit)		1	(1)	(2)
Settlement and curtailments	(42)		(1)	
Expected return on assets	(81)	(70)	(17)	(14)
Net postretirement benefits (income) expense	\$ (57)	\$ 8	\$ 13	\$ 22

Defined Contribution Plans

Our defined contribution plans cover a substantial portion of domestic salaried employees and certain domestic represented employees. The defined contribution plans contain a 401(k) feature and provide most participants with a matching contribution from the company. Many participants covered by the plan receive annual company contributions to their retirement account based on an age-weighted percentage of the participant's eligible compensation for the calendar year.

Defined contribution expense pursuant to these plans was \$6 million for each of the three months ended January 31, 2008 and 2007.

9. Income taxes

Under Accounting Principles Board Opinion No. 28, *Interim Financial Reporting*, we compute on a quarterly basis an estimated annual effective tax rate considering ordinary income and related income tax expense. Ordinary income refers to income (loss) before income tax expense excluding significant, unusual or infrequently occurring items. The tax effect of an unusual or infrequently occurring item is recorded in the interim period in which it occurs. To the extent a company cannot reliably estimate annual projected taxes for a taxing jurisdiction, taxes on ordinary income for such a jurisdiction are reported in the period in which they are incurred, which is the case for our domestic tax jurisdictions. Other items included in income tax expense in the periods in which they occur include the cumulative effect of changes in tax laws or rates, foreign exchange gains and losses, and adjustments to our valuation allowance due to judgment in the realizability of deferred tax assets in future years.

We have assessed the need to maintain a valuation allowance for deferred tax assets based on an 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. Due to our recent history of U.S. operating and taxable losses, the inconsistency of U.S. profits, and the uncertainty of our U.S. financial outlook, we continue to maintain a full valuation allowance against our domestic deferred tax assets.

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

On November 1, 2007, we adopted FASB Interpretation No. 48, 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 FASB Interpretation No. 48, 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 the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FASB Interpretation No. 48 also provides guidance on de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. Upon adoption, we increased our liability for unrecognized tax benefits by \$4 million, resulting in a comparable increase to *Accumulated deficit*. As of November 1, 2007, after adoption of FASB Interpretation No. 48, the amount of the liability for unrecognized tax benefits was \$91 million, \$90 million of which, if recognized, would favorably affect the income tax rate. This liability was subsequently reduced by \$14 million attributable to settlements of foreign and domestic state income tax audits.

We continued our policy of recognizing interest and penalties related to uncertain tax positions as part of *Income tax expense*. Total interest and penalties recognized in the consolidated balance sheet at November 1, 2007 were \$15 million.

While it is probable that the liability for unrecognized tax benefits may increase or decrease during the 12 months after adoption of FASB Interpretation No. 48, we do not expect any such change would have a material effect on our financial condition and results of operations.

We have open tax years from 1993 to 2007 with significant tax jurisdictions in the U.S., Canada, Mexico, and Brazil.

10. Fair value of financial instruments

In January 2007, we signed a definitive loan agreement for a five-year senior unsecured term loan facility and synthetic revolving facility in the aggregate principal amount of \$1.5 billion (Facilities). The Facilities were arranged by JP Morgan Chase Bank and a group of lenders that included Credit Suisse, Banc of America Securities, and Citigroup Global Markets. The Facilities are guaranteed by Navistar, Inc. The outstanding balance of the Facilities as of January 31, 2008 and October 31, 2007 was \$1.3 billion. The fair value of the Facilities as of January 31, 2008 and October 31, 2007 was \$1.2 billion and \$1.3 billion, respectively, resulting in a decline in the fair value of \$116 million over the three month period. This decline in the fair value is due to the increase in the discount rate as a result of current credit market conditions.

11. Financial instruments

We use derivative financial instruments as part of our overall interest rate and foreign currency risk management strategy to reduce our interest rate exposure, to potentially increase the return on invested funds, and to reduce exchange rate risk for transactional exposures denominated in currencies other than the functional currency. From time to time, we also use commodity forward contracts to manage variability related to exposure to certain commodity price risk.

Our financial services operations manage exposure to fluctuations in interest rates by limiting the amount of fixed rate assets funded with variable rate debt. This is accomplished by funding fixed rate receivables utilizing a combination of fixed rate debt and variable rate debt and derivative financial instruments. These derivative financial instruments may include interest rate swaps, interest rate caps, and forward contracts. The fair value of these instruments is estimated based on quoted market prices and is subject to market risk, as the instruments

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

may become less valuable due to changes in market conditions or interest rates. Notional amounts of derivative financial instruments do not represent exposure to credit risk.

In connection with a sale of retail notes, our financial services operations entered into additional interest rate swap agreements during the three months ended January 31, 2008. The purpose and structure of these swaps is to convert the floating rate portion of the asset-backed securities into fixed rate swap interest to match the interest basis of the receivables pool sold to the owner trust and to protect our financial services operations from interest rate volatility.

As of January 31, 2008, the net fair value of our derivative financial instruments was \$55 million consisting of \$64 million recorded in *Other noncurrent assets* and \$119 million recorded in *Other noncurrent liabilities*. The net fair value of our derivatives as of October 31, 2007 was \$18 million consisting of \$20 million recorded in *Other noncurrent assets*, \$37 million in *Other noncurrent liabilities* and \$1 million in *Other current liabilities*. The maturities of these derivatives range from 2010 through 2016.

Interest expense includes mark to market (gains) losses under our interest rate swap agreements of \$40 million and \$(7) million for the three months ended January 31, 2008 and 2007, respectively.

12. Commitments and contingencies

Guarantees

We occasionally provide guarantees that could obligate us to make future payments if the primary entity fails to perform under its contractual obligations. As described below, we have recognized liabilities for some of these guarantees in our consolidated balance sheets as they meet the recognition and measurement provisions of FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of the Indebtedness of Others*. In addition to the liabilities that have been recognized as described below, 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 position, results of operations, or cash flows.

We have issued residual value guarantees in connection with various leases that extend through 2010. The amounts of the guarantees are estimated and recorded as liabilities, and were \$28 million as of January 31, 2008. Our guarantees are contingent upon the fair value of the leased assets at the end of the lease term.

We obtain certain stand-by letters of credit and surety bonds from third party financial institutions in the ordinary course of business when required under contracts or to satisfy insurance-related requirements. Outstanding stand-by letters of credit and surety bonds were \$55 million at January 31, 2008.

As of January 31, 2008, our Canadian operating subsidiary was contingently liable for the residual value, calculated at inception, of \$24 million of retail customers' contracts and \$47 million of retail leases that are financed by a third party. These amounts approximate the estimated future resale market value of the collateral underlying these contracts and leases at their inception. As of January 31, 2008, we have recorded accruals totaling \$5 million and \$6 million for potential losses on the retail customers' contracts and retail leases, respectively.

We extend credit commitments to certain truck fleet customers, which allow them to purchase parts and services from participating dealers. The participating dealers receive accelerated payments from us with the result that we carry the receivables and absorb the credit risk related to these customers. As of January 31, 2008, we have \$39 million of unused credit commitments outstanding under this program.

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Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

In addition, we have entered into various guarantees for purchase commitments, credit guarantees, and contract cancellation fees with various expiration dates through 2012 totaling \$53 million at January 31, 2008. In the ordinary course of business, we also provide routine indemnifications and other guarantees, the terms of which range in duration and often are not explicitly defined. We do not believe these will result in claims that would have a material impact on our financial position, results of operations, or cash flows.

Environmental Liabilities

We have been named a potentially responsible party (PRP), in conjunction with other parties, in a number of cases arising under an environmental protection law, the Comprehensive Environmental Response, Compensation, and Liability Act, popularly known as the Superfund law. These cases involve sites that allegedly received wastes from current or former company locations. Based on information available to us which, in most cases, consists of data related to quantities and characteristics of material generated at current or former company locations, material allegedly shipped by us to these disposal sites, as well as cost estimates from PRPs and/or federal or state regulatory agencies for the cleanup of these sites, a reasonable estimate is calculated of our share, if any, of the probable costs and accruals are recorded in our condensed 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 position, results of operations, or cash flows.

Four sites formerly owned by us, Wisconsin Steel in Chicago, Illinois, Solar Turbines in San Diego, California, the West Pullman Plant in Chicago, Illinois, and the Canton Plant in Canton, Illinois, were identified as having soil and groundwater contamination. While investigations and cleanup activities continue at all sites, we believe that we have adequate accruals to cover costs to complete the cleanup of these sites.

In 2007, a former facility location in the City of Springfield, Ohio, which we voluntarily demolished in 2004 and conducted environmental sampling on, was sold to the City of Springfield. The city has obtained funds from the U.S. Environmental Protection Agency and the State of Ohio to address relatively minor soil contamination prior to commercial/industrial redevelopment of the site. Also in 2007, we engaged the City of Canton, Illinois in a remediation plan for the environmental clean-up of a former company facility. We anticipate that execution of this plan will not have a material effect on our financial position, results of operations, or cash flows.

We have accrued \$21 million and \$22 million for these environmental matters, which are included within *Other current liabilities* and *Other noncurrent liabilities*, as of January 31, 2008 and October 31, 2007, respectively. As of January 31, 2008, the majority of these accrued liabilities are expected to be paid out during the period from 2008 through 2011.

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. Historically, the actual damages paid out to claimants have not been material in any year to our financial position, results of operations, or cash flows. It is possible that the number of these claims will continue to grow, and that the costs for resolving asbestos related claims could become significant in the future.

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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 position, results of operations, or cash flows.

Ford Litigation

In January 2007, a complaint was filed against us in Oakland County Circuit Court in Michigan by Ford Motor Company (Ford) claiming damages relating to warranty and pricing disputes with respect to certain engines purchased by Ford from us. While Ford 's complaint did not quantify its alleged damages, we estimate that Ford may be seeking in excess of \$500 million, and that this amount may increase (i) as we continue to sell engines to Ford at a price that Ford alleges is too high and (ii) as Ford pays its customers ' warranty claims, which Ford alleges are attributable to us. We disagree with Ford 's position and are defending ourselves vigorously in this litigation. We have filed an answer to the complaint denying Ford 's allegations in all material respects. We have also asserted affirmative defenses to Ford 's claims, as well as counterclaims alleging that, among other things, Ford has materially breached contracts between it and us in several different respects. Based on our investigation to date, we believe we have meritorious defenses to this matter. There can be no assurance, however, that we will be successful in our defense, and an adverse resolution of the lawsuit could have a material adverse effect on our results of operations, cash flows, or financial condition. In June 2007, we filed a separate lawsuit against Ford in the Circuit Court of Cook County, Illinois, for breach of contract relating to the manufacture of new diesel engines for Ford for use in vehicles including the F-150 pickup truck. In that case, we are seeking unspecified damages. In September 2007, the judge dismissed our lawsuit against Ford, directing us to proceed with mediation. In February 2008, we re-filed the lawsuit against Ford because the parties were unable to resolve the dispute through mediation.

Securities and Exchange Commission Investigations

In October 2004, we received a request from the staff of the SEC to voluntarily produce certain documents and information related to our accounting practices with respect to defined benefit pension plans and other postretirement benefits. We are fully cooperating with this request. Based on the status of the inquiry, we are not able to predict the final outcome of this matter.

In January 2005, we announced that we would restate our financial results for 2002 and 2003 and the first three quarters of 2004. Our restated Annual Report on Form 10-K was filed in February 2005. The SEC notified us on February 9, 2005 that it was conducting an informal inquiry into our restatement. On March 17, 2005, we were advised by the SEC that the status of the inquiry had been changed to a formal investigation. On April 7, 2006, we announced that we would restate our financial results for 2002 through 2004 and for the first three quarters of 2005. We were subsequently informed by the SEC that it was expanding the investigation to include that restatement. Our 2005 Annual Report on Form 10-K, which included the restated financial statements, was filed in December 2007. We have been providing information to and fully cooperating with the SEC on this investigation. Based on the status of the investigation, we are not able to predict its final outcome.

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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"). In March 2008, an additional complaint was filed by Richard Garza. Each of these matters is pending 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 the company's common stock between February 14, 2003 and July 17, 2006. The 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, 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. The plaintiffs in this matter seek compensatory damages and attorneys' fees among other relief.

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 (i) 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, (ii) that certain of the defendants were unjustly enriched in connection with their sale of company stock during the December 2002 to January 2006 period, and (iii) that defendants violated Delaware law by failing to hold an annual meeting of shareholders. In connection with this last allegation, the plaintiff seeks an order requiring defendants to schedule an annual meeting of shareholders. Otherwise, the plaintiffs in this matter seek compensatory damages, disgorgement of the proceeds of defendants' profits from the sale of company stock, attorneys' fees, and other equitable relief.

We strongly dispute the allegations in these complaints and will vigorously defend ourselves.

13. Segment reporting

The following is a description of our four reporting segments:

Our *Truck* segment manufactures and distributes a full line of class 4 through 8 trucks and buses under the International and IC Bus, LLC ("IC") brands. We also produce chassis for motor homes and commercial step-van vehicles under the Workhorse Custom Chassis, LLC ("WCC") brand. In an effort to strengthen and maintain our dealer network, this segment occasionally acquires and operates dealer locations ("Dealcors") for the purpose of transitioning ownership or providing temporary operational assistance.

Our *Engine* segment designs and manufactures diesel engines for use primarily in our class 6 and 7 medium trucks and buses and selected class 8 heavy truck models, and for sale to original equipment manufacturers ("OEMs") primarily in North America. In addition, we produce diesel engines in Brazil primarily for distribution in South America. Ford accounted for 55% and 58% of our diesel unit volume (including intercompany transactions) for the three months ended January 31, 2008 and 2007, respectively.

Our *Parts* segment provides customers with products needed to support the International truck, IC bus, WCC, and the MaxxForce™ engine lines, together with a wide selection of other standard truck, trailer, and engine aftermarket parts.

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

Corporate contains those items that do not fit into our four segments.

Table of Contents**Navistar International Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****Segment Profit (Loss)**

We define segment profit (loss) as adjusted earnings (loss) before income tax. Our results for interim periods are not necessarily indicative of results for a full year. Beginning in 2008, the sales from the Parts segment to the Truck segment, specifically our Dealcors, are recorded as intersegment sales, which are eliminated within Corporate and Eliminations. Previously, such sales were eliminated within the Truck segment's external sales and revenues. As such, the Parts and Truck segment sales and revenues, in the amount of \$60 million for the three months ended January 31, 2007, have been restated to conform to the 2008 presentation. Selected financial information is as follows:

(in millions)	Truck (Restated)	Engine	Parts	Financial Services ^(A)	Corporate and Eliminations	Total (Restated)
Three Months Ended January 31, 2008						
External sales and revenues, net	\$ 1,883	\$ 634	\$ 343	\$ 94	\$	\$ 2,954
Intersegment sales and revenues		152	58	22	(232)	
Total sales and revenues, net	\$ 1,883	\$ 786	\$ 401	\$ 116	\$ (232)	\$ 2,954
Depreciation and amortization	\$ 41	\$ 37	\$ 2	\$ 5	\$ 4	\$ 89
Interest expense				119	48	167
Equity in income of non-consolidated affiliates		23	1			24
Segment profit (loss)	9	34	49	(25)	(121)	(54)
Capital expenditures ^(B)	22	11	1	1	2	37
Three Months Ended January 31, 2007						
External sales and revenues, net	\$ 2,145	\$ 604	\$ 301	\$ 98	\$	\$ 3,148
Intersegment sales and revenues	2	225	60	40	(327)	
Total sales and revenues, net	\$ 2,147	\$ 829	\$ 361	\$ 138	\$ (327)	\$ 3,148
Depreciation and amortization	\$ 37	\$ 42	\$ 2	\$ 5	\$ 4	\$ 90
Interest expense				68	43	111
Equity in income of non-consolidated affiliates		21	1			22
Segment profit (loss)	89	(12)	37	56	(145)	25
Capital expenditures ^(B)	80	5	2	1	5	93
As of January 31, 2008						
Segment assets	2,647	2,133	552	5,628	538	11,498
As of October 31, 2007						
Segment assets	2,696	2,151	550	5,292	759	11,448

(A) Total sales and revenues in the Financial Services segment include interest revenues of \$98 million and \$103 million for the three months ended January 31, 2008 and 2007, respectively.

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

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The following are descriptions of our two customers that are greater than 10% of our consolidated *Sales and revenues, net*:

Sales of vehicles and service parts to the U.S. military were 20% and 1% of consolidated sales and revenues for the three months ended January 31, 2008 and 2007, respectively. U.S. military receivable balances totaled \$132 million and \$71 million as of January 31, 2008 and October 31, 2007, respectively.

Sales of diesel engines to Ford were 11% and 12% of consolidated sales and revenues for the three months ended January 31, 2008 and 2007, respectively. Ford receivable balances totaled \$257 million and \$245 million as of January 31, 2008 and October 31, 2007, respectively.

14. Comprehensive income (loss)

Total comprehensive income (loss) is summarized as follows:

	Three Months Ended January 31,	
	2008	2007
(in millions)	(Restated)	
Net income (loss)	\$ (65)	\$ 12
Other comprehensive income (loss)		
Foreign currency translation adjustments	(7)	1
Unrealized losses on marketable securities		(1)
Pension amortization and settlements, net of tax	(8)	2
Total other comprehensive income (loss)	(15)	2
Total comprehensive income (loss)	\$ (80)	\$ 14

15. Earnings (loss) per share

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

	Three Months Ended January 31,	
	2008	2007
(in millions, except per share data)	(Restated)	
Numerator:		
Net income (loss) available to common stockholders	\$ (65)	\$ 12
Denominator:		

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Weighted average shares outstanding

Basic	70.3	70.3
Effect of dilutive securities - Stock options		.6

Diluted	70.3	70.9
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Basic earnings (loss) per share	\$ (0.92)	\$ 0.17
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Diluted earnings (loss) per share	\$ (0.92)	\$ 0.17
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Shares not included in the computation of diluted earnings per share, as they would be anti-dilutive, were 2.4 million for the three months ended January 31, 2008 and immaterial for the three months ended January 31, 2007.

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

16. Condensed consolidating guarantor and non-guarantor financial information

The following tables set forth condensed consolidating balance sheets as of January 31, 2008 and October 31, 2007, and condensed consolidating statements of operations and condensed consolidating statements of cash flows for the three months ended January 31, 2008 and 2007. The information is presented as a result of Navistar, Inc.'s guarantee, exclusive of its subsidiaries, of NIC's indebtedness under its 7.5% Senior Notes due 2011. Navistar, Inc. is a direct wholly-owned subsidiary of NIC. None of NIC's other subsidiaries guarantee any of these notes. The guarantee is full and unconditional. Separate financial statements and other disclosures concerning Navistar, Inc. have not been presented because management believes that such information is not material to investors. Within this disclosure only, NIC includes the consolidated financial results of the parent company only, with all of its wholly-owned subsidiaries accounted for under the equity method. Likewise, Navistar, Inc., for purposes of this disclosure only, includes the consolidated financial results of its wholly-owned subsidiaries accounted for under the equity method. Non-Guarantor Subsidiaries includes the combined financial results of all other non-guarantor subsidiaries. Eliminations and Other includes all eliminations and reclassifications to reconcile to the condensed consolidated financial statements. NIC files a consolidated U.S. federal income tax return that includes Navistar, Inc. and its U.S. subsidiaries, and NIC's U.S. subsidiaries. Navistar, Inc. is party to a tax allocation agreement (Tax Agreement) with NIC which requires Navistar, Inc. to compute its separate federal income tax liability and remit any resulting tax liability to NIC. Tax benefits that may arise from net operating losses of Navistar, Inc. are not refunded to Navistar, Inc. but may be used to offset future required tax payments under the Tax Agreement. The effect of the Tax Agreement is to allow NIC, the parent company, rather than Navistar, Inc., to realize the benefit of current U.S. taxable losses of Navistar, Inc. and all other direct or indirect subsidiaries of NIC.

We have revised our previously reported condensed consolidating guarantor and non-guarantor statements of cash flows for the three months ended January 31, 2008 and 2007 to reflect the correction of errors identified in those statements including the errors described in Note 18, *Restatement and revision of previously issued condensed consolidated financial statements*, and errors in reporting of intercompany equity income and intercompany dividends. In certain cases, intercompany equity income previously reported in *Net cash provided by (used in) investment activities* is now reported in *Net cash provided by (used in) operating activities*. Dividends inflows and outflows previously reported in *Net cash provided by (used in) investment activities* are now reported in *Net cash provided by (used in) operations* for cash inflows and *Net cash provided by (used in) financing activities* for cash outflows.

During the first quarter of 2008, we revised the presentation of the condensed consolidating guarantor and non-guarantor financial information including the presentation of equity method income on an after-tax basis and the allocation income taxes on a separate return basis. The 2007 information has been revised to conform to that presentation.

Table of Contents**Navistar International Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

(in millions)	NIC (Restated)	Navistar, Inc. (Restated)	Non-Guarantor Subsidiaries (Restated)	Eliminations and Other (Restated)	Consolidated (Restated)
Condensed Consolidating Statement of Operations for the Three Months Ended January 31, 2008					
Sales and revenues, net	\$	\$ 1,471	\$ 2,686	\$ (1,203)	\$ 2,954
Costs of products sold		1,378	2,264	(1,179)	2,463
All other operating expenses (income)	(26)	364	258	(27)	569
Total costs and expenses	(26)	1,742	2,522	(1,206)	3,032
Equity in income (loss) of non-consolidated affiliates	(91)	156	24	(65)	24
Income (loss) before income tax	(65)	(115)	188	(62)	(54)
Income tax (expense) benefit		(3)	(8)		(11)
Net income (loss)	\$ (65)	\$ (118)	\$ 180	\$ (62)	\$ (65)

(in millions)	NIC (Restated and revised)	Navistar, Inc. (Restated)	Non-Guarantor Subsidiaries (Restated)	Eliminations and Other (Restated)	Consolidated (Restated and revised)
Condensed Consolidating Balance Sheet as of January 31, 2008					
Assets					
Cash, cash equivalents, and marketable securities	\$ 308	\$ 41	\$ 1,130	\$	\$ 1,479
Finance and other receivables, net		139	5,042	1	5,182
Inventories		606	956	(60)	1,502
Goodwill			350		350
Property and equipment, net		853	1,155	(2)	2,006
Investments in and advances to non-consolidated affiliates	(2,585)	2,945	164	(356)	168
Deferred taxes, net	1	18	120		139
Other	23	186	462	1	672
Total assets	\$ (2,253)	\$ 4,788	\$ 9,379	\$ (416)	\$ 11,498
Liabilities, redeemable equity securities and stockholders' equity (deficit)					
Debt	\$ 1,345	\$ 354	\$ 5,693	\$ (226)	\$ 7,166
Postretirement benefits liabilities		1,103	155		1,258
Amounts due to (from) affiliates	(3,443)	5,293	(1,908)	58	
Other liabilities	659	924	2,388	(83)	3,888

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Total liabilities	(1,439)	7,674	6,328	(251)	12,312
Redeemable equity securities	137				137
Stockholders' equity (deficit)	(951)	(2,886)	3,051	(165)	(951)

Total liabilities, redeemable equity securities and stockholders' equity (deficit)	\$ (2,253)	\$ 4,788	\$ 9,379	\$ (416)	\$ 11,498
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Table of Contents**Navistar International Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

	NIC	Navistar, Inc.	Non-Guarantor Subsidiaries (Restated and Revised)	Eliminations and Other (Restated and Revised)	Consolidated (Restated and Revised)
(in millions)	(Restated and Revised)	(Restated and Revised)			
Condensed Consolidating Statement of Cash Flows for the Three Months Ended January 31, 2008					
Net cash provided by (used in) operations	\$ (89)	\$ (95)	\$ 75	\$ 100	\$ (9)
Cash flow from investment activities					
Net change in restricted cash and cash equivalents		2	(447)		(445)
Net decrease (increase) in marketable securities	(17)		2		(15)
Capital expenditures			(44)		(44)
Other investing activities			46	(16)	30
Net cash provided by (used in) investment activities	(17)	2	(443)	(16)	(474)
Cash flow from financing activities					
Net borrowings (repayments) of debt		76	337	(119)	294
Other financing activities			(35)	35	
Net cash provided by (used in) financing activities		76	302	(84)	294
Effect of exchange rate changes on cash and cash equivalents			6		6
Cash and cash equivalents					
Decrease during the period	(106)	(17)	(60)		(183)
At beginning of the period	391	47	339		777
Cash and cash equivalents at end of the period	\$ 285	\$ 30	\$ 279	\$	\$ 594

	NIC	Navistar, Inc.	Non-Guarantor Subsidiaries	Eliminations and Other	Consolidated
(in millions)					
Condensed Consolidating Statement of Operations for the Three Months Ended January 31, 2007					
Sales and revenues, net	\$	\$ 1,945	\$ 2,519	\$ (1,316)	\$ 3,148

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Costs of products sold		1,788	2,106	(1,289)	2,605
All other operating expenses (income)	3	375	209	(47)	540
Total costs and expenses	3	2,163	2,315	(1,336)	3,145
Equity in income (loss) of non-consolidated affiliates	13	184	21	(196)	22
Income (loss) before income tax	10	(34)	225	(176)	25
Income tax (expense) benefit	2	(3)	(12)		(13)
Net income (loss)	\$ 12	\$ (37)	\$ 213	\$ (176)	\$ 12

Table of Contents**Navistar International Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

(in millions)	NIC (Revised)	Navistar, Inc.	Non-Guarantor Subsidiaries	Eliminations and Other	Consolidated (Revised)
Condensed Consolidating Balance Sheet as of October 31, 2007					
Assets					
Cash, cash equivalents and marketable securities	\$ 396	\$ 60	\$ 746	\$	\$ 1,202
Finance and other receivables, net		179	5,253	(13)	5,419
Inventories		560	910	(58)	1,412
Goodwill			353		353
Property and equipment, net		889	1,199	(2)	2,086
Investments in and advances to non-consolidated affiliates	(2,503)	2,624	149	(116)	154
Deferred taxes, net	1	18	131		150
Other	26	204	442		672
Total assets	\$ (2,080)	\$ 4,534	\$ 9,183	\$ (189)	\$ 11,448
Liabilities, redeemable equity securities and stockholders' equity (deficit)					
Debt	\$ 1,345	\$ 390	\$ 5,375	\$ (229)	\$ 6,881
Postretirement benefits liabilities		1,170	157		1,327
Amounts due to (from) affiliates	(3,272)	4,900	(1,657)	29	
Other liabilities	581	1,157	2,307	(71)	3,974
Total liabilities	(1,346)	7,617	6,182	(271)	12,182
Redeemable equity securities	140				140
Stockholders' equity (deficit)	(874)	(3,083)	3,001	82	(874)
Total liabilities, redeemable equity securities and stockholders' equity (deficit)	\$ (2,080)	\$ 4,534	\$ 9,183	\$ (189)	\$ 11,448

Table of Contents**Navistar International Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

(in millions)	NIC (Revised)	Navistar, Inc. (Revised)	Non-Guarantor Subsidiaries (Revised)	Eliminations and Other (Revised)	Consolidated (Revised)
Condensed Consolidating Statement of Cash Flows for the Three Months Ended January 31, 2007					
Net cash provided by (used in) operations	\$ (661)	\$ (724)	\$ 314	\$ 785	\$ (286)
Cash flow from investment activities					
Net change in restricted cash and cash equivalents		3	264		267
Net increase in marketable securities	86		47		133
Capital expenditures		(34)	(72)		(106)
Other investing activities	1		(2)	(6)	(7)
Net cash provided by (used in) investment activities	87	(31)	237	(6)	287
Cash flow from financing activities					
Net borrowings (repayments) of debt	(189)	763	(550)	(779)	(755)
Net cash provided by (used in) financing activities	(189)	763	(550)	(779)	(755)
Effect of exchange rate changes on cash and cash equivalents			(5)		(5)
Cash and cash equivalents					
Increase (decrease) during the period	(763)	8	(4)		(759)
At beginning of the period	814	20	323		1,157
Cash and cash equivalents at end of the period	\$ 51	\$ 28	\$ 319	\$	\$ 398

17. Subsequent events

In February 2008 and April 2008, NFC completed separate securitization transactions for the sale of retail notes receiving proceeds of \$46 million and \$247 million, respectively. These transactions do not qualify for sale treatment under FASB Statement No. 140 and, therefore, were recorded as secured borrowings.

In March 2008, NFC received an Acknowledgement and Consent from the lenders under the Credit Agreement, whereby the filing of the audited financial statements for 2006 on a Current Report on Form 8-K filed March 6, 2008 was deemed satisfactory by the lenders.

In April 2008, NFC received a second Acknowledgement and Consent from the lenders under the Credit Agreement acknowledging that the method used in calculating various financial covenants was in accordance with the Credit Agreement.

In May 2008, NFC received a third Acknowledgement and Consent from the lenders under the Credit Agreement that clarified certain definitions used to measure the fixed charge coverage ratio.

Table of Contents**Navistar International Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

In May 2008, Ford announced that it planned to reduce its pickup production levels due to current economic conditions. As a significant supplier to Ford, we in turn have reduced our engine production forecasts and have initiated a temporary layoff in our Indianapolis, Indiana facility. For further discussion related to Ford see Note 12, *Commitments and contingencies*.

In June 2008, we announced that we entered into a memorandum of understanding with Caterpillar Inc. to pursue a strategic alliance in the mutual development of on-highway truck business opportunities and global truck collaboration. The strategic alliance would include the cooperative development of mid-range diesel engines and access to global distribution centers. This transaction is subject to completion of due diligence, execution of definitive agreements, and regulatory approvals.

18. Restatement and revision of previously issued condensed consolidated financial statements***Restatements***

On December 29, 2008, the management of NIC, with the concurrence of the audit committee of our Board of Directors, concluded that NIC's previously issued condensed consolidated financial statements as of and for the three months ended January 31, 2008 should be restated to correct errors related to inventories, accounts payable and cost of products sold in our Truck segment. The errors primarily resulted from not appropriately accounting for material price variances, freight variances, and excess and obsolete inventory reserves. In addition, there were errors related to cut off of inventory receipts.

The following tables reflect the effects of the restatement on (i) the inventories, accounts payable and accumulated deficit as compared to amounts previously reported in the consolidated balance sheets and (ii) the cost of products sold and earnings as compared to amounts previously reported in the consolidated statements of operations:

	Increase (Decrease)
(in millions, except per share data)	
Consolidated Balance Sheet as of January 31, 2008	
Inventories	\$ 11
Accounts payable	23
Accumulated deficit	12
Consolidated Statement of Earnings	
Costs of products sold	\$ 12
Net income (loss)	(12)
Basic earnings (loss) per share	\$ (0.17)
Diluted earnings (loss) per share	\$ (0.17)

Revisions

We revised our previously reported consolidated balance sheets as of January 31, 2008 and October 31, 2007 to give effects to recording stock options as redeemable equity securities, which have been classified as mezzanine equity. The redeemable equity securities were previously included in *common stock and additional paid in capital* in *Stockholders' deficit*. In June 2007 we amended the terms of then-outstanding stock option awards to allow for cash settlement in the event of a change in control and when certain other conditions exist. In accordance with EITF Topic No. D-98, *Classification and Measurement of Redeemable Securities*, the amended stock options' intrinsic values should have been re-measured at the modification date and should have been recorded as *Redeemable equity securities*, which are classified as mezzanine equity on the consolidated balance sheet. To record the amount reported as mezzanine equity, we initially recorded a corresponding reduction of *Common stock and additional paid in capital* in the amount of \$139 million with subsequent adjustments as options vest, expire or are

subsequently modified. The corrections had no effect on our previously reported consolidated statements of operations and condensed consolidated statements of cash flows and are not considered material to any previously reported consolidated financial statements.

Table of Contents**Navistar International Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

We also revised our previously reported condensed consolidated statements of cash flows for the three months ended January 31, 2008 and 2007 to reflect the correction of errors identified in those statements. The errors are not considered material to any previously reported consolidated financial statements. The errors primarily resulted from the incorrect allocation of the effects of exchange rate changes on cash and cash equivalents. The errors had no effect on our previously reported consolidated balance sheets as of January 31, 2008 and 2007 or on our consolidated statements of operations for the three months ended January 31, 2008 and 2007.

Consolidated Statements of Operations Impacts

The following table sets forth the effects of the restatement on the consolidated statements of operations for the three months ended January 31, 2008:

	As Previously Reported	Three Months Ended January 31, 2008 Restatements	As Restated
(in millions, except per share data)			
Sales and revenues			
Sales of manufactured products, net	\$ 2,860	\$	\$ 2,860
Finance revenues	94		94
Sales and revenues, net	2,954		2,954
Costs and expenses			
Costs of products sold	2,451	12	2,463
Selling, general and administrative expenses	321		321
Engineering and product development costs	82		82
Interest expense	167		167
Other income, net	(1)		(1)
Total costs and expenses	3,020	12	3,032
Equity in income of non-consolidated affiliates	24		24
Income before income tax	(42)	(12)	(54)
Income tax expense	(11)		(11)
Net income (loss)	\$ (53)	\$ (12)	\$ (65)
Basic earnings (loss) per share	\$ (0.75)	\$ (0.17)	\$ (0.92)
Diluted earnings (loss) per share	\$ (0.75)	\$ (0.17)	\$ (0.92)
Weighted average shares outstanding			
Basic	70.3		70.3
Diluted	70.3		70.3

Table of Contents**Navistar International Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)*****Consolidated Balance Sheet Impacts***

The following table sets forth the effects of the restatements and revisions on the January 31, 2008 consolidated balance sheet:

	As Previously Reported	Restatements and Revisions	As Restated and Revised
(in millions)			
ASSETS			
Current assets			
Cash and cash equivalents	\$ 594	\$	\$ 594
Marketable securities	21		21
Finance and other receivables (net of allowance for losses of \$61)	2,794		2,794
Inventories	1,491	11	1,502
Deferred taxes, net	115		115
Other current assets	162		162
Total current assets	5,177	11	5,188
Restricted cash and cash equivalents	864		864
Finance and other receivables (net of allowance for losses of \$46)	2,388		2,388
Investments in and advances to non-consolidated affiliates	168		168
Property and equipment (net of accumulated depreciation and amortization of \$2,257)	2,006		2,006
Goodwill	350		350
Intangible assets (net of accumulated amortization of \$59)	277		277
Pension assets	102		102
Deferred taxes, net	24		24
Other noncurrent assets	131		131
Total assets	\$ 11,487	\$ 11	\$ 11,498
LIABILITIES, REDEEMABLE EQUITY SECURITIES AND STOCKHOLDERS' DEFICIT			
Liabilities			
Current liabilities			
Notes payable and current maturities of long-term debt	\$ 840	\$	\$ 840
Accounts payable	1,763	23	1,786
Other current liabilities	1,243		1,243
Total current liabilities	3,846	23	3,869
Long-term debt	6,326		6,326
Postretirement benefits liabilities	1,258		1,258
Other noncurrent liabilities	859		859
Total liabilities	12,289	23	12,312
Redeemable equity securities		137	137

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Stockholders' deficit	(802)	(149)	(951)
Total liabilities, redeemable equity securities and stockholders' deficit	\$ 11,487	\$ 11	\$ 11,498

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Condensed Consolidated Statements of Cash Flows Impact

The following table sets forth the effects of the restatements and revisions on the condensed consolidated statements of cash flows for the three months ended January 31, 2008 and 2007:

	Three Months Ended January 31, 2008			Three Months Ended January 31, 2007		
	As Previously Reported	Restatements and Revisions	Restated and Revised	As Previously Reported	Revisions	Revised
(in millions)						
Net cash provided by (used in) operating activities	\$ 9	\$ (18)	\$ (9)	\$ (282)	\$ (4)	\$ (286)