NAVISTAR INTERNATIONAL CORP
Form 10-K
December 21, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended October 31, 2009

OR

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

For the transition period from To

Commission file number 1-9618

NAVISTAR INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

Common stock, par value $0.10 per share

Cumulative convertible junior preference stock, Series D (with $1.00 par value per share)

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

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

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

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

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

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.

Large accelerated filer þ 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 þ

As of April 30, 2009, the aggregate market value of common stock held by non-affiliates of the registrant was $2.3 billion. For purposes of the foregoing calculation only, executive officers and directors of the registrant, and pension and 401(k) plans of the registrant have been deemed to be affiliates.

As of November 30, 2009, the number of shares outstanding of the registrant s common stock was 70,718,762, net of treasury shares.

Documents incorporated by reference: Portions of the Company s Proxy Statement for the Annual Meeting of Shareowners to be held on February 16, 2010 are incorporated by reference in Part III.

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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 the Company assumes no obligation to update the information included in this report. Such forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy. These statements often include words such as believe, expect, anticipate, intend, plan, estimate, or similar expressions. These statements are not guarantees 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. All future written and oral forward-looking statements by us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to above. Except for our ongoing obligations to disclose material information as required by the federal securities laws, we do not have any obligations or intention to release publicly any revisions to any forward-looking statements to reflect events or circumstances in the future or to reflect the occurrence of unanticipated events.

Available Information

We are subject to the reporting and information requirements of the Exchange Act and as a result, are obligated to file periodic reports, proxy statements, and other information with the United States 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. The SEC maintains a website (http://www.sec.gov) that contains our annual, quarterly, and current reports, proxy and information statements, and other information we file electronically with the SEC. You can read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Room 1850, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Information on our website does not constitute part of this Annual Report on Form 10-K.

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PART I

Item 1. ***Business***

Navistar International Corporation (NIC), incorporated under the laws of the state of Delaware in 1993, is a holding company whose principal operating subsidiaries are Navistar, Inc. and Navistar Financial Corporation (NFC). Both NIC and NFC file periodic reports with the SEC. References herein to the Company, we, our, or us refer to NIC and its subsidiaries, and certain variable interest entities of which we are the primary beneficiary. We report our annual results for our fiscal year, which ends October 31. As such, all references to 2009, 2008, and 2007 contained within this Annual Report on Form 10-K relate to the fiscal year unless otherwise indicated.

Overview

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

Our Strategy

Our long term strategy is focused on three pillars:

- Great Products
  - Growing our Class 8 tractor line, including an expanded line of ProStar and LoneStar® trucks
  - Focusing engine research and development in order to have a competitive advantage using exhaust gas recirculation (EGR) and other technologies for compliance with 2010 emissions standards
  - Introducing our advanced engine technology in new markets
- Competitive Cost Structure
  - Increasing our seamless integration of MaxxForce branded engine lines in our products, including the establishment of our new MaxxForce 11, 13 and 15 engines
  - Reducing materials cost by increasing global sourcing, leveraging scale benefits, finding synergies among strategic partnerships, and reducing manufacturing conversion costs
- Profitable Growth

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

Minimizing the impact of our North American markets cyclicality by growing our Truck and Parts segments and expansion markets sales, such as Mexico, international export, military export, recreational vehicle, commercial bus, and commercial step van

Broadening our Engine segment customer base

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

Leverage the resources we have and those of our partners

Grow in our North American markets and globally through partnerships and joint ventures to reduce investment, increase speed to market, and reduce risk

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- Maintain product and plant flexibility to fully utilize our existing facilities, people, and technologies
- Combine global purchasing relationships to achieve scale and sourcing anywhere in the world to contain costs

Control our destiny

- Control the development process and associated intellectual property of our products
- Utilize key supplier competencies to reduce costs of components and improve quality
- Ensure the health and growth of our distribution network to provide our products to key markets

Our Operating Segments

We operate in four industry segments: Truck, Engine, Parts (collectively called manufacturing operations), and Financial Services, which consists of NFC and our foreign finance operations (collectively called financial services operations). Corporate contains those items that do not fit into our four segments. Selected financial data for each segment can be found in Note 17, *Segment reporting*, to the accompanying consolidated financial statements.

Truck Segment

The Truck segment manufactures and distributes a full line of Class 4 through 8 trucks and buses in the common carrier, private carrier, government/service, leasing, construction, energy/petroleum, military vehicles, and student and commercial transportation markets under the International, Navistar Defense, LLC, and IC brands. This segment also produces chassis for motor homes and commercial step-van vehicles under the WCC brand and recreational vehicles (RV) including non-motorized towables under the Monaco family of brands. This segment engages in various strategic joint ventures to further our product reach to the global markets. Some notable joint ventures are Blue Diamond Truck, Mahindra Navistar Automotives, Ltd., and NC^2 Global, LLC (NC^2).

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

We compete primarily in the Class 6 through 8 School bus, medium and heavy truck markets within the U.S. and Canada, which we consider our traditional markets. We have successfully expanded our traditional market by increasing our sales to the U.S. military. The products we sell to the U.S. military are derivatives of our commercial vehicles and allow us to leverage our manufacturing and engineering expertise, utilize existing plants, and seamlessly integrate our engines. We continue to grow in expansion markets, which include Mexico, international export, non-U.S. military, RV, commercial step-van, and other Class 4 through 8 truck and bus markets. We market our commercial products through our extensive independent dealer network in North America, which offers a comprehensive range of services and other support functions to our end users. Our commercial trucks are distributed in virtually all key markets in North America through our distribution and service network, comprised of 805 U.S. and Canadian dealer and retail outlets and 86 Mexican dealer locations as of October 31, 2009. We occasionally acquire and operate dealer locations (Dealcor) for the purpose of transitioning ownership or providing temporary operational assistance. In addition, our network of used truck centers and International certified used truck dealers in the U.S. and Canada provides trade-in support to our dealers and national accounts group, and markets all makes and models of reconditioned used trucks to owner-operators and fleet buyers. The Truck segment is our largest operating segment, accounting for the majority of our total external sales and revenues. The Truck segment sales and revenues are dependent on trucks that have been invoiced to customers (chargeouts).

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

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

Engine Segment

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

The Engine segment has manufacturing operations in the U.S., Brazil, and Argentina. The operations at these facilities consist principally of the assembly of components manufactured by our suppliers, as well as machining operations relating to steel and grey iron components, and certain higher technology components necessary for our engine manufacturing operations.

Our diesel engines are sold under the MaxxForce brand as well as produced for other original equipment manufacturers (OEMs), principally Ford. We supply our V-8 diesel engine to Ford for use in all of Ford s diesel-powered super-duty trucks and vans over 8,500 lbs. gross vehicle weight in North America. Shipments to Ford during the year ended October 31, 2009 account for 88% of our V-8 shipments and 42% of total shipments (including intercompany transactions). In January 2009, we reached a settlement agreement with Ford which resulted in a revised contract to supply diesel engines through December 31, 2009. We believe the current decreased V-8 engine volumes will not return to historic levels as a result of the expiration of our diesel engine supply agreement with Ford.

In the U.S. and Canada mid-range commercial truck diesel engine market our primary competitors are: Cummins Inc. (Cummins), Mercedes Benz, Caterpillar Inc. (Caterpillar), Isuzu, and Hino. In the heavy pickup truck markets, Navistar, Inc. (Power Stroke®) in the Ford Super Duty, competes with Cummins in Dodge, and GM/Isuzu (Duramax) in Chevrolet and GMC.

In South America, we have a substantial share of the diesel engine market in the mid-sized pickup and SUV markets as well as the mid-range diesel engines produced in that market. Our South American subsidiary MWM International Industria De Motores Da America Do Sul Ltda. (MWM) is a leader in the South American

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mid-range diesel engine market. MWM sells products in more than 35 countries on five continents and provides customers with additional engine offerings in the agriculture, marine, and light truck markets. MWM competes with Mitsubishi and Toyota in the Mercosul pickup and SUV markets; Cummins, Mercedes Benz, and Fiat Powertrain (FPT) in the Light and Medium truck markets; Mercedes Benz, Cummins, Scania, Volvo, and FPT in the heavy truck market; Mercedes Benz in the bus market; New Holland (a subsidiary of CNH Global N.V.), Sisu Diesel (a subsidiary of AGCO Corporation), and John Deere in the agricultural market; and Scania and Cummins in the stationary market.

In Mexico, we compete in Classes 4 through 8 with MaxxForce 5, 7, DT, and 9 engines, facing competition from Cummins, Caterpillar, Isuzu, Hino, Mercedes Benz, and Ford. The application of the new MaxxForce 11 and 13 Big-Bore engines in Mexico will depend on the availability of low sulfur diesel fuel throughout the country. In buses, we compete in Classes 6 through 8 with I-6 MaxxForce DT and 9 engines and I-4 MWM engines branded MaxxForce 4.8, having as a main competitor Mercedes Benz with 904 and 906 series engines.

Parts Segment

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

Our extensive dealer channels provide us with an advantage in serving our customers by having our parts ready when our end users require service. Goods are delivered to our customers either through one of our 11 regional parts distribution centers in North America or through direct shipment from our suppliers for parts not generally stocked at our distribution centers. We have a dedicated parts sales team within North America, as well as three national account teams focused on large fleet customers, a global sales team, and a government and military team. In conjunction with the Truck sales and technical service group, we provide an integrated support team that works to find solutions to support our customers.

Financial Services Segment

The Financial Services segment provides retail, wholesale, and lease financing of products sold by the Truck and Parts segments and their dealers within the U.S. and Mexico. We also finance wholesale and retail accounts receivable. Sales of new products (including trailers) of other manufacturers are also financed regardless of whether they are designed or customarily sold for use with our truck products. Our Mexican financial services operations primary business is to provide wholesale, retail, and lease financing to the Mexican operations dealers and retail customers.

In 2009, retail, wholesale, and lease financing of products manufactured by others approximated 10% of the financial services segment s total originations. This segment provided wholesale financing in 2009 and 2008 for 96% of our new truck inventory sold by us to our dealers and distributors in the U.S. and provided retail and lease financing for 9% and 11% of all new truck units sold or leased by us to retail customers for 2009 and 2008, respectively.

Government Contracts

Since 2006, orders from the U.S. military for our vehicles, services, technical expertise, and related service parts have become increasingly significant. As a U.S. government contractor, we are subject to specific regulations and requirements as mandated by our contracts. These regulations include Federal Acquisition Regulations, Defense Federal Acquisition Regulations, and the Code of Federal Regulations. We are also subject to routine audits and investigations by U.S. government agencies such as the Defense Contract Management Agency and Defense Contract Audit Agency. These agencies review and assess compliance with contractual requirements, cost structure, and applicable laws, regulations, and standards.

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Engineering and Product Development

Our engineering and product development programs are focused on product improvements, innovations, and cost reductions. As a truck manufacturer, costs have been focused on further development of our existing products such as the military, Big Bore, Prostar and LoneStar trucks as well as modifications of our trucks to accommodate 2010 emission compliant engines. As a diesel engine manufacturer, we have incurred research, development, and tooling costs to design our engine product lines to meet United States Environmental Protection Agency (U.S. EPA), California Air Resources Board (CARB), and other applicable foreign government emission requirements. Our engineering and product development expenditures were $433 million in 2009 compared to $384 million in 2008.

Acquisitions, Strategic Agreements, and Joint Ventures

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

In June 2009, we acquired certain assets of Monaco Coach Corporation, a former RV manufacturer to expand our diesel engine and WCC business. For our new RV business related to the Monaco family of brands, we created a wholly owned affiliate, Monaco RV, LLC. The new Monaco business line will benefit from our purchasing scale with suppliers, leverage our manufacturing and service parts expertise, and extend the reach of our MaxxForce engines.

In September 2009, we signed a 50/50 joint venture with Caterpillar Inc. resulting in a new company, NC^2. This joint venture will develop, manufacture, and distribute conventional and cab-over truck designs to serve the global commercial truck market. NC^2 will initially focus on markets including Australia, Brazil, China, Russia, South Africa, and Turkey, and this product line will be sold under both the CAT and International brands.

In September 2009, we signed a strategic agreement with Caterpillar Inc. to work on design and development of a new proprietary, purpose-built heavy-duty CAT vocational truck for the North American market. The trucks, to be manufactured in Navistar s Garland, Texas facility, will be sold and serviced though the CAT North American Dealer network. Scheduled production for this product is mid 2011.

In October 2009, we signed an agreement with Tatra, a heavy-duty truck manufacturer in Czech Republic to jointly develop, produce and market new military tactical off-road trucks.

In October 2009, we acquired certain assets and the membership interests of Continental Diesel Systems US, LLC, to manufacture key fuel injection components for MaxxForce diesel engines and we will establish a dedicated research and development facility to support Navistar s diesel power system components. The company, renamed Pure Power Technologies, LLC, will further vertically integrate research and development, engineering and manufacturing capabilities to produce world-class diesel power systems and advanced emissions control systems.

Backlog

Our worldwide backlog of unfilled truck orders (subject to cancellation or return in certain events) at October 31, 2009 and 2008 was 26,100 and 21,400 units, respectively. Although the backlog of unfilled orders is one of many indicators of market demand, other factors such as changes in production rates, internal and supplier available capacity, new product introductions, and competitive pricing actions may affect point-in-time comparisons.

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Employees

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

	As of October 31,		
	2009[(A)]	**2008**	**2007[(A)]**
Employees worldwide			
Total active employees	**15,100**	15,900	13,300
Total inactive employees	**2,800**	1,900	3,900
Total employees worldwide	**17,900**	17,800	17,200

	As of October 31,		
	2009[(A)]	**2008**	**2007[(A)]**
Total active union employees			
Total UAW	**2,600**	2,000	2,000
Total CAW		1,000	600
Total other unions	**1,900**	2,500	2,100

(A) Employees are considered inactive in certain situations including disability leave, leave of absence, layoffs, and work stoppages. Inactive employees as of October 31, 2007 included approximately 2,500 UAW workers who had commenced a work stoppage that began on October 23, 2007 and ended on December 16, 2007. Inactive employees as of October 31, 2009 include approximately 1,100 CAW employees related to their contract expiration on June 30, 2009.

Our existing labor contract with the UAW runs through September 30, 2010. Our labor contract with the CAW expired June 30, 2009; negotiations for a new collective bargaining agreement are ongoing. See Item 1A, *Risk Factors*, for further discussion related to the risk associated with labor and work stoppages. Other unions with which we have ongoing negotiations for new collective bargaining agreements are: Teamsters Local 776 (expired October 31, 2009), International Union, National Automobile, Aerospace and Agricultural Implement Workers of America Local 1762 (expires on January 18, 2010), International Union, National Automobile, Aerospace and Agricultural Implement Workers of America (expires on October 1, 2010).

Patents and Trademarks

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

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

Supply

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

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The impact of an interruption in supply will vary by commodity and type of part. Some parts are generic to the industry while others are of a proprietary design requiring unique tooling, which require additional effort to relocate. However, we believe our exposure to a disruption in production as a result of an interruption of raw materials and supplies is no greater than the industry as a whole. In order to alleviate losses resulting from an interruption in supply, we maintain contingent business interruption insurance for loss of earnings and/or extra expense directly resulting from physical loss or damage at a direct supplier location.

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

Impact of Government Regulation

Truck and engine manufacturers continue to face significant governmental regulation of their products, especially in the areas of environment and safety. New on-highway emissions standards came into effect in the U.S. on January 1, 2007, which reduced allowable particulate matter and allowable nitrogen oxide. This change in emissions standards resulted in a significant increase in the cost of our products to meet these emissions levels.

We have incurred research, development, and tooling costs to design and produce our engine product lines to meet U.S. EPA and CARB emission requirements. The 2007 emission compliance standards required a more stringent reduction of nitrogen oxide and particulate matter with an additional reduction scheduled for January 1, 2010. We are developing products to meet the requirements of the 2010 emissions standards. The 2010 CARB emission regulations will begin the initial phase-in of on-board diagnostics for truck engines and are a part of our product plans.

Canadian heavy-duty engine emission regulations essentially mirror those of the U.S. EPA. In Mexico, we offer EPA 2004 engines which comply with current standards in that country.

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

The Energy Independence and Security Act of 2007 (EISA07) was signed into law in December 2007. EISA07 requires the Department of Transportation (DOT) to determine in a rulemaking preceding how to implement fuel efficiency standards for trucks with gross vehicle weights of 8,500 pounds and above. It is presently estimated that EISA07 will result in fuel efficiency standards being implemented for trucks in the 2016 2017 timeframe. EISA07 requires studies on truck fuel efficiency by the National Academy of Sciences and the DOT, in advance of the DOT rulemaking process. We are actively engaged in providing information on vehicle fuel efficiency for the studies and we expect to participate in the rulemaking process.

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EXECUTIVE OFFICERS OF NIC

The following selected information for each of our current executive officers (as defined by regulations of the SEC) was prepared as of November 30, 2009.

Daniel C. Ustian, 59, has served as President and Chief Executive Officer of NIC since 2003 and Chairman of the Board of Directors of NIC since 2004. He is also Chairman of Navistar, Inc. since 2004 and President and Chief Executive Officer of Navistar, Inc. since 2003 and a director since 2002. Prior to these positions, he was President and Chief Operating Officer from 2002 to 2003, and President of the Engine Group of Navistar, Inc. from 1999 to 2002, and he served as Group Vice President and General Manager of Engine & Foundry from 1993 to 1999. He is a member of the Business Roundtable and Society of Automotive Engineers.

Andrew J. Cederoth, 44, has served as Executive Vice President and Chief Financial Officer of NIC since September 2009. Mr. Cederoth is also a director of Navistar, Inc. since April 2009, and Executive Vice President and Chief Financial Officer at Navistar, Inc. since September 2009. Prior to these positions he was interim principal financial officer and Senior Vice President Corporate Finance of NIC from June 2009 to September 2009, Vice President Corporate Finance from April 2009 to June 2009 of NIC, Vice President and Chief Financial Officer of the Engine Division of Navistar, Inc. from 2007 to April 2009, Vice President Finance of Navistar s Engine Division from 2006 to 2007, Vice President and Treasurer of NFC from 2005 to 2006 and Treasurer of NFC from 2001 to 2005.

Steven K. Covey, 58. has served as Senior Vice President and General Counsel of NIC since 2004 and Chief Ethics Officer since 2008. Mr. Covey also is Senior Vice President and General Counsel of Navistar, Inc. since 2004 and Chief Ethics Officer since 2008. Prior to these positions, Mr. Covey served as Deputy General Counsel of Navistar, Inc. from April 2004 to September 2004 and as Vice President and General Counsel of Navistar Financial Corporation from 2000 to 2004. Mr. Covey also served as Corporate Secretary for NIC from 1990 to 2000; and Associate General Counsel of Navistar, Inc. from 1992 to 2000.

James M. Moran, 44, has served as Vice President and Treasurer of NIC since 2008. Mr. Moran is also Vice President and Treasurer of Navistar, Inc. since 2008. Prior to these positions, Mr. Moran served as Vice President and Assistant Treasurer of both NIC and Navistar, Inc. from 2007 to 2008 and Director of Corporate Finance of Navistar, Inc. from 2005 to 2007. Prior to joining NIC, Mr. Moran served as Vice President and Treasurer of R.R. Donnelley & Sons Company, an international provider of print and print related services, from 2003 to 2004 and Assistant Treasurer of R.R. Donnelley & Sons Company from 2002 to 2003. Prior to that, Mr. Moran held various positions in corporate finance, strategic planning, and credit and collections at R.R. Donnelley & Sons Company.

John P. Waldron, 45, has served as Vice President and Controller (Principal Accounting Officer) of NIC since 2006. Prior to this position, Mr. Waldron was employed from 2005 to 2006 as Vice President, Assistant Corporate Controller of R.R. Donnelley & Sons Company. Prior to that, Mr. Waldron was employed from 1999 to 2005 as Corporate Controller of Follett Corporation, a provider of education-related products and services.

Curt A. Kramer, 41, has served as Corporate Secretary of NIC since 2007. Mr. Kramer also is Associate General Counsel and Corporate Secretary of Navistar, Inc. since 2007. Prior to these positions, Mr. Kramer served as General Attorney of Navistar, Inc. from April 2007 to October 2007, Senior Counsel of Navistar, Inc. from 2004 to 2007, Senior Attorney of Navistar, Inc. from 2003 to 2004 and Attorney of Navistar, Inc. from 2002 to 2003. Prior to joining Navistar, Inc., Mr. Kramer was in private practice.

D.T. (Dee) Kapur, 57, has served as President of the Truck Group of Navistar, Inc. since 2003. Prior to joining Navistar, Inc., Mr. Kapur was employed by Ford Motor Company, a leading worldwide automobile manufacturer, from 1976 to 2003, most recently serving as Executive Director of North American Business Revitalization, Value Engineering from 2002 to 2003; Executive Director of Ford Outfitters, North American Truck, from 2001 to 2002; and Vehicle Line Director, Full Size Pick-ups and Utilities from 1997 to 2001. In July 2009, Mr. Kapur joined the board of directors at Bucyrus International, Inc.

Phyllis E. Cochran, 57, has served as Senior Vice President and General Manager of the Parts Group of Navistar, Inc. since 2007. Prior to this position, Ms. Cochran served as Vice President and General Manager of the Parts Group of Navistar, Inc. from 2004 to 2007. Ms. Cochran was also Chief Executive Officer and General Manager of Navistar Financial Corporation from 2003 to 2004. Ms. Cochran was Executive Vice President and General Manager of Navistar Financial Corporation from 2002 to 2003. Ms. Cochran also served as Vice President of Operations for Navistar Financial Corporation from 2000 to 2002; and Vice President and Controller for Navistar Financial Corporation from 1994 to 2000. She is a director of The Mosaic Company, a world leading producer and marketer of concentrated phosphate and potash crop nutrients.

Gregory W. Elliott, 48, has served as Senior Vice President, Human Resources and Administration of Navistar, Inc. since 2008. Prior to this position, Mr. Elliott served as Vice President, Corporate Human Resources and Administration of Navistar, Inc. from 2004 to 2008 and as Vice President, Corporate Communications of Navistar, Inc., from 2000 to 2004. Prior to joining Navistar, Inc., Mr. Elliott served as Director of Executive Communications of General Motors Corporation from 1997 to 1999.

Item 1A. *Risk Factors*

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

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

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

Our Truck, Engine, and Parts segments are heavily influenced by the overall performance of the medium and heavy truck retail markets within the U.S. and Canada (our traditional market), which consists of vehicles in weight classes 6 through 8, including school buses. The traditional market is typically cyclical in nature and cycles can span several years. The current worldwide economic recession has adversely impacted the industry and the market demand for our products remains stagnant with significantly lower volumes in 2009 than previously expected. Every part of our business, excluding sales to the U.S. military, has been adversely affected by the global recession during 2008 and 2009. These trends have persisted through the date of this filing and are reflected in our results of operations for the fourth quarter and all of 2009. The traditional truck industry retail deliveries were 181,800, 244,100, and 319,000 in 2009, 2008, and 2007, respectively. We expect 2010 industry volumes to be in the range of 175,000 to 215,000 units.

Our technology solution to meet U.S. federal 2010 emissions requirements may not be successful or may be more costly than planned.

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

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

We have significant under-funded postretirement obligations.

The under-funded portion of our projected benefit obligation was $1.5 billion and $763 million for pension benefits at October 31, 2009 and 2008, respectively, and $1.2 billion and $979 million for postretirement healthcare benefits at October 31, 2009 and 2008, respectively. Moreover, we have assumed expected rates of return on plan assets and growth rates of retiree medical costs and the failure to achieve the expected rates of return and growth rates could have an adverse impact on our under-funded postretirement obligations, financial condition, results of operations and cash flows. The volatility in the financial markets affects the valuation of our pension assets and liabilities, resulting in potentially higher pension costs and higher levels of under-funding in future periods. The requirements set forth in the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended, as applicable to our U.S. pension plan (including such timing requirements) mandated by the Pension Protection Act of 2006 to fully fund our U.S. pension plan, net of any current or possible future legislative or governmental agency relief, could also have an adverse impact on our business, financial condition, results of operations and cash flows.

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

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

We are currently in discussions with multiple parties regarding a strategic alliance involving NFC. At this time, we cannot assure you that we will reach a definitive agreement with respect to any such strategic alliance or, if we do reach a definitive agreement, what the ultimate terms of such alliance will be or whether we will achieve our stated goals from such alliance.

Our business may be adversely affected by government contracting risks.

We derived approximately 25% of our revenues for 2009, and approximately 27% and 4% of our revenues for 2008 and 2007, respectively, from the U.S. government. Many of our existing U.S. government contracts extend over multiple years and are conditioned upon the continuing availability of congressional appropriations.

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

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

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

We may be subject to greenhouse gas regulations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We operate in the highly competitive North American truck market.

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

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

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

We are subject to risk of work stoppages and other labor relations matters because a significant portion of our workforce is unionized. As of October 31, 2009, approximately 61% of our hourly workers and 10% of our salaried workers are represented by labor unions and are covered by collective bargaining agreements. Many of these agreements include provisions that limit our ability to realize cost savings from restructuring initiatives such as plant closings and reductions in workforce. Our current collective bargaining agreement with the UAW will expire in October 2010. Any UAW strikes, threats of strikes, or other resistance in connection with the negotiation of a new agreement or otherwise could materially adversely affect our business as well as impair our ability to implement further measures to reduce structural costs and improve production efficiencies. A lengthy strike by the UAW that involves a significant portion of our manufacturing facilities could have a material adverse effect on our financial condition, results of operations, and cash flows. For additional information regarding our collective bargaining agreements, see Item 1, Business Employees.

We continue to evaluate opportunities to restructure our business which could include, among other actions, additional rationalization of our manufacturing operations that could result in significant charges and could include impairment of long-lived assets, including goodwill and intangible assets, which could adversely affect our financial condition and results of operations.

We continue to evaluate opportunities to restructure our business and rationalize our manufacturing operations (including, without limitation, our Chatham manufacturing operations) in an effort to optimize the cost structure.

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Future actions could result in restructuring and related charges, including but not limited to impairments, employee termination costs and charges for pension and other post retirement contractual benefits and pension curtailments that could be significant. We have substantial amounts of long-lived assets, including goodwill and intangible assets, which are subject to periodic impairment analysis and review. Identifying and assessing whether impairment indicators exist, or if events or changes in circumstances have occurred, including market conditions, operating results, competition and general economic conditions, requires significant judgment. A result of any of the above future actions could result in charges that could have an adverse effect on our financial condition and results of operations.

Current credit market conditions may impair our access to sufficient capital to engage in financing activities or our customers ability to obtain financing from other sources.

The U.S. and global economies are currently undergoing a period of economic uncertainty, and the related financial markets continue to experience volatility. The financial turmoil affecting the banking system and financial markets and the possibility that financial institutions may consolidate or go out of business have resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in fixed income, credit, currency, and equity markets. Our financial services operations support our manufacturing operations by providing financing to a significant portion of our dealers and retail customers. Our financial services operations have traditionally obtained the funds to provide such financing from sales of receivables, medium and long-term debt, and equity capital and from short and long-term bank borrowings. Navistar, Inc. made capital contributions to NFC of $20 million and $60 million during 2009 and 2008, respectively, in order to ensure that NFC maintained compliance with a covenant in its bank credit facility. If cash provided by operations, bank borrowings, continued sales and securitizations of receivables, and the placement of term debt does not provide the necessary liquidity, our financial services operations may restrict its financing of our products both at the wholesale and retail level, which may impair our ability to sell our products to customers who require financing and cannot obtain the necessary financing from other sources and may have a significant negative effect on our liquidity and results of operations.

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

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

The loss of business from Ford could have a negative impact on our business, financial condition, and results of operations.

Ford accounted for approximately 9% of our revenues for 2009 and approximately 7% and 14% of our revenues for 2008 and 2007, respectively. In addition, Ford accounted for approximately 42%, 44% and 58% of our diesel engine unit volume (including intercompany transactions) in 2009, 2008, and 2007, respectively, primarily relating to the sale of our V-8 diesel engines.

On January 13, 2009, we announced the Ford Settlement, see Item 3. *Legal Proceedings* for further discussion. As part of the Ford Settlement, we will end our current diesel engine supply agreement with Ford effective December 31, 2009. We will, however, continue our diesel engine supply arrangement with Ford in South America. The loss of business from Ford may have a negative impact on our business, financial condition, and results of operations and may potentially subject us to other costs that may be material.

We may fail to properly identify or comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

Section 404 of the Sarbanes-Oxley Act requires that we evaluate and determine the effectiveness of our internal control over financial reporting. As is further described in Item 9A, *Controls and Procedures*, of this Annual

Report on Form 10-K, we concluded that we have remediated all previous material weaknesses and accordingly there are no material weaknesses in our internal control over financial reporting as of October 31, 2009. Although we consistently review and evaluate our internal control systems to allow management to report on, and our independent auditors to attest to, the sufficiency of our internal control, we cannot assure you that we will not discover material weaknesses in our internal control over financial reporting in the future. Any such material weaknesses could adversely affect investor confidence in the Company and we could be unable to provide timely and reliable financial information.

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

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

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

Litigation can be expensive, lengthy, and disruptive to normal business operations. The results of complex legal proceedings are often uncertain and difficult to predict. An unfavorable outcome of a particular matter described above or any future legal proceedings could have a material adverse effect on our business, financial condition, results of operations, and cash flows. For additional information regarding certain lawsuits in which we are involved, see Item 3, Legal Proceedings, and Note 16, Commitments and contingencies, to the accompanying consolidated financial statements.

Item 1B. *Unresolved Staff Comments*

We have received no written comments regarding our periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of 2009 that remain unresolved.

Item 2. *Properties*

In North America, we operate 22 manufacturing and assembly facilities, which contain in the aggregate approximately 15 million square feet of floor space. Of these 22 facilities, 18 are owned and four are subject to leases. Sixteen plants manufacture and assemble trucks, buses, and chassis, while six plants are used to build engines. Of these six plants, four manufacture diesel engines, one manufactures grey iron castings, and one manufactures ductile iron castings. In addition, we own or lease other significant properties in the U.S. and Canada including vehicle and parts distribution centers, sales offices, two engineering centers (which serve our Truck and Engine segments), and our headquarters which is located in Warrenville, Illinois. In addition, we own and operate manufacturing plants in both Brazil and Argentina, which contain a total of 1 million square feet of floor space for use by our South American engine subsidiaries.

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

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

All of our facilities are being utilized with the exception of the Indianapolis, Indiana Engine Plant (IEP), which stopped producing finished goods effective May 23, 2008 due to low order volumes for our V-8 engine. During 2009, we announced that at IEP we will continue certain quality control and manufacturing engineering activities and there will be no other business activities aside from these after July 31, 2009.

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

Item 3. ***Legal Proceedings***

Overview

We are subject to various claims arising in the ordinary course of business, and are party to various legal proceedings that constitute ordinary routine litigation incidental to our business. The majority of these claims and proceedings relate to commercial, product liability, and warranty matters. In our opinion, apart from the actions set forth below, the disposition of these proceedings and claims, after taking into account recorded accruals and the availability and limits of our insurance coverage, will not have a material adverse effect on our business or our financial condition, results of operations, and cash flows.

Settlement of Ford Litigation

In January 2007, a complaint was filed against us in Oakland County Circuit Court in Michigan by 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 estimated that Ford may have been seeking in excess of $500 million, and that this amount might have increased (i) as we continued to sell engines to Ford at a price that Ford alleged was too high and (ii) as Ford paid its customers warranty claims, which Ford alleged were attributable to us. We disagreed with Ford s position and defended ourselves vigorously in the litigation.

We filed an answer to the complaint denying Ford s allegations in all material respects. We also asserted affirmative defenses to Ford s claims, as well as counterclaims alleging that, among other things, Ford had materially breached contracts between it and us in several different respects.

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 sought 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.

In January 2009, we announced that we had reached an agreement with Ford to restructure our ongoing business relationship and settle all existing litigation between us and Ford (Ford Settlement). As part of the settlement agreement, both companies agreed to terminate their respective lawsuits and release each other from various actual and potential claims, including those brought in the lawsuits. We also received a cash payment from Ford and increased our interests in the Blue Diamond Truck (BDT) and BDP joint ventures with Ford to 75%. Finally, we will end our current diesel engine supply agreement with Ford effective December 31, 2009. We will however continue our diesel engine supply arrangement with Ford in South America.

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Continental Automotive Systems US, Inc.

In March 2009, Continental Automotive Systems US, Inc. (Continental) sent notice to Navistar, Inc. pursuant to a contract between them, making a demand for binding arbitration for alleged breach of contract and alleged negligent misrepresentation relating to our unexpected low volume of purchases of engine components from Continental and seeking monetary damages. In April 2009, we sent Continental an answer to the notice of arbitration demand denying Continental s allegations in all material respects and asserting affirmative defenses to Continental s claims, as well as counterclaims alleging that, among other things, Continental materially breached contracts between it and us in several different respects. In October 2009, before arbitration was scheduled, Continental and the Company resolved the business disputes asserted by both parties in the arbitration pleadings.

Litigation Relating to Accounting Controls and Financial Restatement

In December 2007, a complaint was filed against us by Norfolk County Retirement System and Brockton Contributory Retirement System (collectively Norfolk), which was subsequently amended in May 2008. In March 2008, an additional complaint was filed by Richard Garza which was subsequently amended in October 2009. Both of these matters are 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 amended complaint alleges that the defendants, which include us, one of our executive officers, two of our former executive officers, and our former independent accountants, Deloitte & Touche LLP (Deloitte), violated federal securities laws by making false and misleading statements about our financial condition during that period. In March 2008, the court appointed Norfolk County Retirement System and the Plumbers Local Union 519 Pension Trust as joint lead plaintiffs. On July 7, 2008, we filed a motion to dismiss the amended complaint based on the plaintiffs failure to plead any facts tending to show the defendants actual knowledge of the alleged false statements or that the plaintiffs suffered damages. Deloitte also filed a motion to dismiss on similar grounds. On July 28, 2009, the Court granted Deloitte s motion to dismiss but denied the motion to dismiss as to all other defendants. On September 10, 2009 the Court entered a scheduling order that, among other things, required lead plaintiffs to file their motion for class certification on March 19, 2010. The lead 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 our Company against one of our executive officers, two of our former executive officers, and certain of our directors. The amended complaint alleges that all of the defendants violated their fiduciary obligations under Delaware law by willfully ignoring certain accounting and financial reporting problems at our Company, thereby knowingly disseminating false and misleading financial information about our Company and that certain of the defendants were unjustly enriched in connection with their sale of NIC stock during the December 2002 to January 2006 period. On November 30, 2009 the defendants filed a motion to dismiss the amended complaint based on plaintiffs failure to state a claim and based on plaintiffs failure to make a demand on the Board of Directors. The plaintiffs in this matter seek compensatory damages, disgorgement of the proceeds of defendants profits from the sale of NIC stock, attorneys fees, and other equitable relief.

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

SEC Investigation

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

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2005. We were subsequently informed by the SEC that it was expanding the investigation to include this 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.

To resolve this matter we, along with our chief executive officer, have made offers of settlement to the investigative staff of the SEC and the investigative staff has decided to recommend those offers of settlement to the SEC. As a result of the proposed settlement, in each case without admitting or denying wrongdoing, we would consent to the entry of an administrative settlement and would not pay a civil penalty and our chief executive officer would consent to the entry of an administrative settlement regarding our system of internal accounting controls and return to us a portion of his bonus for 2004. These proposed settlements are subject to mutual agreement on the specific language of the orders and to final approval by the SEC. We cannot assure you the proposed settlement will be approved by the SEC and, in the event the proposed settlement is not approved, what the ultimate resolution of this investigation will be.

Commercial Steam LLC and Andrew Harold vs. Ford Motor Co. and Navistar International Corporation

In October 2009, Commercial Steam LLC and Andrew Harold (collectively, the plaintiffs) filed a complaint against NIC in the United States District Court for the Southern District of West Virginia. The plaintiffs in this case allege they are suing on behalf of themselves and a putative class of other West Virginia residents who purchased a model year 2003 to 2006 Ford F-Series truck with a 6.0 liter Power Stroke engine. The complaint alleges problems with these vehicles and engines, including, but not limited to, the fuel system, fuel injectors, oil leaks, broken turbochargers and other warranty claims. The plaintiffs in this matter seek compensatory damages, interest and attorneys fees among other relief.

Environmental Matters

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

Item 4. ***Submission of Matters to a Vote of Security Holders***

None.

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PART II

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

Prior to February 14, 2007, our common stock was listed on the New York Stock Exchange (NYSE), the Chicago Stock Exchange, and the Pacific Stock Exchange under the stock symbol NAV. Effective February 14, 2007, our common stock was de-listed from the aforementioned exchanges and then traded on the Over-the-Counter (OTC) market under the symbol NAVZ until June 30, 2008, at which time our common stock was re-listed on the NYSE. As of November 30, 2009, there were approximately 13,207 holders of record of our common stock.

The following is the high and low market price per share of our common stock from NYSE and OTC for each quarter of 2008 and 2009. Our stock was traded on the OTC market for first and second quarters of 2008, and for part of the third quarter of 2008. The OTC market quotations in the table below reflect inter-dealer prices, without retail mark-up, mark-down, or commissions and may not represent actual transactions.

2009	High	Low	2008	High	Low
1st Qtr	$ 33.34	$ 15.24	1st Qtr	$ 64.45	$ 43.75
2nd Qtr	$ 38.10	$ 22.25	2nd Qtr	$ 66.05	$ 48.00
3rd Qtr	$ 48.94	$ 35.84	3rd Qtr	$ 79.05	$ 50.29
4th Qtr	$ 48.26	$ 31.71	4th Qtr	$ 63.50	$ 21.95

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

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

Our directors who are not employees receive an annual retainer and meeting fees payable at their election either in shares of our common stock or in cash. A director may also elect to defer any portion of such compensation until a later date. Each such election is made prior to December 31st for the next succeeding calendar year. The Board of Directors also mandates that at least one-fourth of the annual retainer be paid in the form of shares of our common stock. During the fourth quarter ended October 31, 2009, one director elected to defer annual retainer and/or meeting fees in shares, and was credited with an aggregate of 469.773 phantom stock units as deferred payment (each such stock unit corresponding to one share of common stock) at prices ranging from $37.25 to $47.50. These stock units were issued to our director without registration under the Securities Act, in reliance on Section 4(2) based on the directors financial sophistication and knowledge of the company.

There were no purchases of our equity securities by us or our affiliates during the fourth quarter ended October 31, 2009.

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

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

We operate in four industry segments: Truck, Engine, Parts, and Financial Services. A detailed description of our segments, products, and services, as well as additional selected financial data is included in Our Operating Segments in Item 1, *Business*, and in Note 17, *Segment reporting*, to the accompanying consolidated financial statements.

Five-Year Summary of Selected Financial and Statistical Data

As of and for the Years Ended October 31, (in millions, except per share data)	**2009**	**2008**	**2007**	**2006**	**2005**
RESULTS OF OPERATIONS DATA					
Sales and revenues, net	**$ 11,569**	$ 14,724	$ 12,295	$ 14,200	$ 12,124
Income (loss) before extraordinary gain	**297**	134	(120)	301	139
Extraordinary gain, net of tax	**23**				
Net income (loss)	**$ 320**	$ 134	$ (120)	$ 301	$ 139
Basic earnings (loss) per share:					
Income (loss) before extraordinary gain	**$ 4.18**	$ 1.89	$ (1.70)	$ 4.29	$ 1.98
Extraordinary gain, net of tax	**0.33**				
Net income (loss)	**$ 4.51**	$ 1.89	$ (1.70)	$ 4.29	$ 1.98
Diluted earnings (loss) per share:					
Income (loss) before extraordinary gain	**$ 4.14**	$ 1.82	$ (1.70)	$ 4.12	$ 1.90
Extraordinary gain, net of tax	**0.32**				
Net income (loss)	**$ 4.46**	$ 1.82	$ (1.70)	$ 4.12	$ 1.90
Average number of shares outstanding:					
Basic	**71.0**	70.7	70.3	70.3	70.1
Diluted	**71.8**	73.2	70.3	74.5	76.3
BALANCE SHEET DATA					
Total assets	**$ 10,027**	$ 10,390	$ 11,448	$ 12,830	$ 10,786
Long-term debt:(A)					
Manufacturing operations	**1,784**	1,639	1,665	1,946	1,476
Financial services operations	**2,486**	3,770	4,418	4,809	3,933
Total long-term debt	**$ 4,270**	$ 5,409	$ 6,083	$ 6,755	$ 5,409
Redeemable equity securities	**13**	143	140		

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

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

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

Executive Summary

For fiscal years 2009 and 2008, we have remained profitable despite consecutive declines in our chargeouts and shipments in our Truck and Engine segments while executing our plans to maintain our liquidity, normalize our capital structure, and developed effective internal control over financial reporting. We weathered the 2009 economic recession, which resulted in the lowest Traditional truck industry volumes in 47 years in our Truck segment. In addition, in 2009, our Engine segment began to wind down our North American sales agreement with Ford. We believe our actions over the past two years have positioned us for continued profitability over the next several years. One of our more significant actions resulted in the growth of our military business improving our profitability. We expect 2010 to be a challenging year for earnings which will be driven primarily by the strength of an economic recovery in our Traditional truck markets and continued improvements to our cost structure. The following table presents our consolidated *Net income (loss)* driven primarily by Truck and Engine segments, our two largest segments, with segment sales, truck backlog, truck chargeouts and engine shipments.

				2009 vs. 2008		2008 vs. 2007	
(in millions, except units and % change)	**2009**	**2008**	**2007**	**Change**	**% Change**	**Change**	**% Change**
Net income (loss)	**$ 320**	$ 134	$ (120)	$ 186	139	$ 254	N.M.
Truck chargeouts	**76,800**	102,200	113,600	(25,400)	(25)	(11,400)	(10)
Truck order backlogs	**26,100**	21,400	18,900	4,700	22	2,500	13
Truck segment sales	**$ 7,297**	$ 10,317	$ 7,809	$ (3,020)	(29)	$ 2,508	32
Engine shipments	**269,300**	345,500	404,700	(76,200)	(22)	(59,200)	(15)
Engine segment sales	**$ 2,690**	$ 3,257	$ 3,461	$ (567)	(17)	$ (204)	(6)

Our Truck segment sales were impacted by the change in mix associated with military sales and the economic recession in our primary commercial markets in the U.S. and Canada. We began chargeouts of MRAPs to the U.S. military in 2007 and delivered all existing orders in 2009. Our mix of military sales has changed from the higher-content, higher priced MRAPs to lower-content, lower priced, tactical wheeled and militarized commercial vehicles.

Our Engine segment sales have continued to decline due to a reduction in demand for our diesel engines from Ford and our customers in South America as well as lower engine requirements by our Truck segment. Our exclusive agreement to supply Ford diesel engines for their F-Series and E-Series vehicles in North America will conclude on December 31, 2009. However, we will continue to provide Ford with service parts related to our diesel engines. We expect to partially offset the loss of the Ford North American diesel engine supply agreement with new customers for our South American engine subsidiary. In addition, we expect increased sales in 2010 to our Truck segment as chargeouts recover from historic lows and increased use of our MaxxForce 11 and 13 engines in our Class 8 trucks.

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One significant factor impacting our *Net Income* in 2009 and 2008 was our sales to the U.S. military of $2.8 billion and $3.9 billion, respectively, partially offsetting lower sales from our commercial products. In 2009, we fulfilled our existing orders for MRAPs to the U.S. military and increased delivery of lower-content militarized commercial trucks to the U.S. and North Atlantic Treaty Organization (NATO) allies as well as sales of proprietary parts to the U.S. military.

Our reported net income for 2009 included immaterial out-of-period adjustments as described in Note 1, *Summary of significant accounting policies*, to the accompanying consolidated financial statements.

Other notable components of our *Net income (loss)* over the past three years are presented in the table below. Additional information in the tables and summary narratives are further discussed in this section and in the notes to the accompanying consolidated financial statements. The information is presented as a benefit or (expense).

(in millions)	2009	2008	2007	2009 vs. 2008 Change	2008 vs. 2007 Change
Ford settlement net of related charges	**$ 160**	$ (37)	$	$ 197	$ (37)
Impairment of property, plant and equipment	**(31)**	(358)		327	(358)
Extraordinary gain from the Monaco acquisition	**23**			23	
Defined benefits (expense) income	**(233)**	42	(122)	(275)	164
Write-off of debt issuance cost	**(11)**		(31)	(11)	31
Professional fees related to our financial filings	**(40)**	(165)	(234)	125	69

Ford Settlement net of related charges

As part of our 2009 settlement with Ford we agreed to settle our respective lawsuits. As a result, we received cash, released certain potential liabilities and increased equity ownership in our joint ventures with Ford which was partially offset with related charges due to our commitment to cease our manufacturing operations at our Indianapolis Engine locations and associated supplier contract settlements. In 2008, we recorded other charges related to permanently reduced Ford engine volumes in North America.

Impairment of property, plant and equipment

In 2009, changes in our Truck segment business resulted in impairments of certain assets. We continue to evaluate opportunities to streamline our manufacturing footprint in an effort to optimize our cost structure. A result of any decision could trigger additional impairments including, without limitation, charges related to our Chatham facility. In 2008, we recognized impairment charges for certain assets in our Engine segment as a result of permanently reduced Ford engine volumes in North America.

Extraordinary gain from the Monaco acquisition

We acquired certain assets of former recreational vehicle manufacturer Monaco Coach Corporation which was accounted for as a business combination in 2009. The fair value of the assets acquired from Monaco Coach Corporation exceeded the purchase price resulting in an extraordinary gain.

Defined benefits (expense) income

Defined benefits expense is a net periodic cost that is generally made up of the accrual of benefits earned during the year and the related provisions resulting from changes in economic conditions that affect how the benefits will be paid. The net periodic cost in a given year is generally derived from the measurement of plan assets and liabilities as of the beginning of the year. The increase in costs in 2009 versus 2008 resulted from a significant decline in the funded status between the October 31, 2007, and October 31, 2008, measurement dates. This decline in funded status caused a significant increase in our required provision in 2009 versus 2008 due to the gap between the expected returns on the lower plan asset base and the interest cost on the plan obligations. While we expect our net periodic costs from defined benefit plans in 2010 to be lower than 2009, the gap between expected returns on plan assets and interest cost on the plan obligations remains.

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We also recognized additional costs of approximately $18 million during 2009 related to curtailments and contractual termination benefits compared to a net gain of $37 million in 2008 related to the settlement and curtailment of UAW benefit plan and other unrelated curtailments and contractual termination benefits.

Write-off of debt issuance cost

In 2009, we refinanced certain manufacturing operations debt of $1.3 billion with an original maturity in 2012 and recognized a write off of debt issuance cost of $11 million. In 2007, we entered into a $1.5 billion term loan facility and synthetic revolving facility and borrowed an aggregate amount of $1.3 billion to repay all amounts outstanding under the prior three-year $1.5 billion unsecured facility due in 2009. The repayment of the $1.5 billion unsecured facility due in 2009 resulted in a write-off of debt issuance cost of $31 million in 2007.

Professional fees related to our financial filings

The professional fees related to our financial filings have continued to decline as we normalized our financial reporting process and replaced consultants with company personnel. In addition, our professional fees have declined as prior years included preparation and audit of multiple periods, and we have made numerous improvements in our accounting and control environments. We expect continued reductions at a slower rate in the future as we continue to improve our systems.

Our consolidated results of operations, including diluted earnings (loss) per share, for the years ended October 31, are as follows:

(in millions, except per share data)	**2009**	**2008**	**2007**
Sales and revenues, net	**$ 11,569**	$ 14,724	$ 12,295
Costs of products sold	**9,366**	11,942	10,109
Restructuring charges	**59**		
Impairment of property and equipment	**31**	358	
Selling, general and administrative expenses	**1,344**	1,437	1,490
Engineering and product development costs	**433**	384	375
Interest expense	**251**	469	502
Other (income) expenses, net	**(228)**	14	(34)
Total costs and expenses	**11,256**	14,604	12,442
Equity in income of non-consolidated affiliates	**46**	71	74
Income (loss) before income tax, minority interest, and extraordinary gain	**359**	191	(73)
Income tax expense	**37**	57	47
Income (loss) before minority interest and extraordinary gain	**322**	134	(120)
Minority Interest in net income of subsidiaries, net of tax	**(25)**		
Income (loss) before extraordinary gain	**297**	134	(120)
Extraordinary gain, net of tax	**23**		
Net income (loss)	**$ 320**	$ 134	$ (120)
Diluted earnings per share:			
Income (loss) before extraordinary gain	**$ 4.14**	$ 1.82	$ (1.70)
Extraordinary gain, net of tax	**0.32**		
Net Income (loss)	**$ 4.46**	$ 1.82	$ (1.70)

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Key Trends and Business Outlook

Certain factors have affected our results of operations for 2009 as compared to 2008 and 2007. Some of these factors are as follows:

Global Economy The global economy, and in particular the economies in the U.S. and Brazil markets, are showing signs of recovery, and the related financial markets have stabilized. The impact of the economic recession in 2009 and financial turmoil in 2008 on the global markets pose a continued risk as customers may postpone spending in response to tighter credit, negative financial news and/or declines in income or asset values. Lower demand for our customers products or services could also have a material negative effect on the demand for our products. In addition, there could be exposure related to the financial viability of certain key third-party suppliers, some of which are our sole source for particular components. Lower expectations of growth and profitability have resulted in impairments of long-lived assets and we could continue to experience pressure on the carrying values if conditions persist for an extended period of time.

Traditional Truck Market The Traditional truck markets in which we compete are typically cyclical in nature and are strongly influenced by macro-economic factors such as industrial production, demand for durable goods, capital spending, oil prices and consumer confidence. The Traditional truck industry retail deliveries were 181,800 in 2009, 244,100 in 2008, and 319,000 in 2007. We expect the Traditional truck industry retail deliveries in the range of 175,000 to 215,000 during 2010.

Military Sales In 2009, we continued to leverage existing products and plants to meet the urgent demand of the U.S. military. Our U.S. military sales were $2.8 billion in 2009, $3.9 billion in 2008 and $368 million in 2007 and consisted of MRAP vehicle chargeouts, deliveries of lower-content militarized commercial trucks to the U.S. and NATO allies and sales of parts and services to the U.S. military. We completed our delivery of all existing MRAP orders to the U.S. military in 2009 and have not received any substantial additional MRAP orders. We continue to expect that over the long term our military business will generate approximately $2 billion in annual sales.

Worldwide Engine Unit Sales Our worldwide engine unit sales are impacted primarily by sales to Ford, North America truck demand and sales in South America, our largest engine market outside of the North American market. These markets are impacted by consumer demand for products that use our engines as well as macro-economic factors such as oil prices and construction activity. Our worldwide engine unit sales were 269,300 in 2009, 345,500 in 2008, and 404,700 in 2007. We settled our legal dispute with Ford in 2009, and we will continue our North American supply agreement for diesel engines with Ford through December 31, 2009. As a result, we expect our 2010 North American unit sales to Ford to be minimal. We expect our 2010 worldwide engine unit sales to be primarily to our Truck segment in North America and to external customers of our subsidiary in South America.

Changes in Credit Markets During 2009, the Traditional truck industry continued to be under pressure from credit tightening and general economic weakness. Credit spreads, which generally represent the default risk component above the base interest rate that a lender charges its customer, remain at historically high levels but are currently lower than the unprecedented levels seen at the end of 2008 and early 2009. In 2010, credit spreads are expected to decrease slightly from 2009 levels but remain higher than historical norms. As a result, our Financial Services segment future borrowings could be more costly than in the past.

Changes in Capital Structure In October 2009, we completed the sale of $1.0 billion aggregate principle amount of 8.25% senior notes due 2021 and $570 million aggregate principal amount of 3.0% senior subordinated convertible notes due 2014. The proceeds were used to repay all amounts outstanding under the $1.5 billion loan facility due in 2012. The impact of issuing the new debt will increase our interest expense in 2010 versus 2009. The convertible debt will impact our calculation of diluted earnings per share when our stock price exceeds $50.27 during the reporting period.

2010 Emissions Standards Technology We have chosen advanced Exhaust Gas Recirculation (EGR)

combined with other technologies to meet the 2010 emissions standards. Our 2010 emissions strategy places the burden and responsibility of meeting the 2010 emissions standards on us versus the customer. We believe that our customer-friendly solution provides our products with a significant competitive advantage in North America, because, most truck and engine manufacturers have chosen urea-based SCR as the solution to meet 2010 emission standards.

Certain Professional Fees We incurred elevated levels of professional, legal and consulting fees in 2008 and 2007 related to assistance in preparing our consolidated financial statements, documenting and performing an assessment of our internal controls over financial reporting and internal investigations related to our restatement of SEC filings. However, in 2009 we had a significant reduction in professional expenses as we have become a current SEC filer and our control environment has improved. We completed our internal investigations, reached a tentative agreement with the investigative staff of the SEC and are awaiting mutual agreement on specific language of the orders and final approval by the SEC. We expect our professional fees associated with SEC filings to continue to trend slightly lower in 2010. The primary drivers of our expected 2010 improvement are due to sustaining the improvements in our accounting and control environment. The table below summarizes the costs incurred for each year and in total for the three-year period ended October 31, 2009.

(in millions)	2009	2008	2007	Total
Professional fees associated with the 2005 audit and the re-audit of periods prior to 2005	**$**	$ 14	$ 69	$ 83
Professional fees associated with the 2009, 2008, 2007, and 2006 audits	**23**	57	16	96
Professional, consulting, and legal fees related to preparation of our public filing documents	**14**	77	130	221
Professional fees associated with documentation and assessment of internal control over financial reporting	**3**	17	19	39
Total	**$ 40**	$ 165	$ 234	$ 439

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

Steel and Other Commodities Generally, we have been able to mitigate the effects of steel and other commodity cost increases from 2007 to 2009 via a combination of design changes, material substitution, resourcing, global sourcing efforts and pricing performance. In addition, although the terms of supplier contracts and special pricing arrangements can vary, generally a time lag exists between when our suppliers incur increased costs and when these costs are passed on to us as well as when we might recover them through increased pricing. This time lag can span several quarters or years, depending on the specific situation. More recent trends indicate the cost pressures from the majority of our steel and commodity inputs have not only ceased, but reversed somewhat. However, we have experienced some commodity price increases versus the overall industry decline as our prior actions to avoid the significant price increases have resulted in temporarily having slightly higher costs than the industry. Cost increases related to steel, precious metals, resins and petroleum products totaled approximately $23 million, $97 million and $86 million, for 2009, 2008 and 2007, respectively, as compared to the corresponding prior year.

Results of Operations and Segment Review

The following table summarizes our consolidated statements of operations and illustrates the key financial indicators used to assess the consolidated financial results. Financial information is presented for the years ended

October 31, 2009, 2008 and 2007. Throughout our MD&A, percentage changes that are deemed to be not meaningful are designated as N.M.

Results of Operations for 2009 as Compared to 2008

(in millions, except per share data and % change)	2009	2008	Change	% Change
Sales and revenues, net	**$ 11,569**	$ 14,724	(3,155)	(21)
Costs of products sold	**9,366**	11,942	(2,576)	(22)
Restructuring charges	**59**		59	N.M.
Impairment of property and equipment	**31**	358	(327)	(91)
Selling, general and administrative expenses	**1,344**	1,437	(93)	(6)
Engineering and product development costs	**433**	384	49	13
Interest expense	**251**	469	(218)	(46)
Other (income) expenses, net	**(228)**	14	(242)	N.M.
Total costs and expenses	**11,256**	14,604	(3,348)	(23)
Equity in income of non-consolidated affiliates	**46**	71	(25)	(35)
Income before income tax, minority interest, and extraordinary gain	**359**	191	168	88
Income tax expense	**37**	57	(20)	(35)
Income before minority interest and extraordinary gain	**322**	134	188	140
Minority interest in net income of subsidiaries, net of tax	**(25)**		(25)	N.M.
Income before extraordinary gain	**297**	134	163	122
Extraordinary gain, net of tax	**23**		23	N.M.
Net income	**$ 320**	$ 134	186	139
Diluted earnings per share:				
Income before extraordinary gain	**$ 4.14**	$ 1.82	$ 2.32	127
Extraordinary gain, net of tax	**0.32**		0.32	N.M.
Net income	**$ 4.46**	$ 1.82	$ 2.64	145

Sales and revenues, net by Geographic region (U.S. and Canada and Rest of World (ROW))

	Total				U.S. and Canada				ROW			
(in millions, except % change)	2009	2008	Change	% Change	2009	2008	Change	% Change	2009	2008	Change	% Change
Truck	**$ 7,297**	$ 10,317	$ (3,020)	(29)	**$ 6,807**	$ 8,933	$ (2,126)	(24)	**$ 490**	$ 1,384	$ (894)	(65)
Engine	**2,690**	3,257	(567)	(17)	**1,836**	1,949	(113)	(6)	**854**	1,308	(454)	(35)
Parts	**2,173**	1,824	349	19	**2,038**	1,648	390	24	**135**	176	(41)	(23)
Financial Services	**348**	405	(57)	(14)	**268**	296	(28)	(9)	**80**	109	(29)	(27)
Corporate and Other	**(939)**	(1,079)	140	13	**(939)**	(1,079)	140	13				
Total	**$ 11,569**	$ 14,724	$ (3,155)	(21)	**$ 10,010**	$ 11,747	$ (1,737)	(15)	**$ 1,559**	$ 2,977	$ (1,418)	(48)

(A) In 2009, we changed our methodology of reporting the categorization of sales based on the selling location to a sold to location. Prior period amounts have been recast to reflect this change in methodology.

Sales and revenues, net decreased within the Truck segment by 29% in 2009 as compared to 2008. The primary driver of the decrease in net sales and revenues were lower U.S. military sales of $1.6 billion and a weak North American truck market. Truck segment sales to the U.S. military were $2 billion in 2009 and $3.6 billion in 2008. We completed

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the deliveries of existing MRAP orders in 2009 and increased sales of lower-content and lower priced military units to the U.S. military and NATO allies. We experienced lower overall commercial chargeouts as a result of the weakness in the overall Traditional industry which more than offset the higher chargeouts from our Class 8 heavy trucks as a result of the success of our ProStar trucks. We believe that with our 2010 U.S. EPA emissions strategy and our customer-focused approach will continue to improve our chargeouts resulting in higher sales. Our ROW sales were significantly affected in 2009 as we faced the worst global recession since the Great Depression.

Our Engine segment was our second largest segment in net sales and revenues. Total units shipped by this segment were down 76,200 units or 22% in 2009 as compared to 2008. Our units shipped to Ford in North America decreased by 24,000 units or 19% compared to the prior year as Ford reduced its purchasing requirements. Our South American sales were down 36,000 units or 26% in 2009 as compared to 2008. The reduction in units shipped to Ford in North America was further exacerbated by the worst Traditional North American truck market since 1962 as a result of the world wide recession. Our North American exclusive production of diesel engines for the Ford F Series and E Series will end on December 31, 2009, and will significantly reduce our engine shipments in our 2010 fiscal year. We expect to partially offset the loss of the Ford North American exclusive agreement with new customer sales from South America. In addition, we expect a recovery of our Traditional truck markets in 2010 coinciding with an increase in use of our MaxxForce 11 and 13 engines.

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

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

Costs and Expenses

(in millions, except % change)	2009	2008	Change	% Change
Costs of products sold, excluding items presented separately below	**$ 9,113**	$ 11,655	(2,542)	(22)
Postretirement benefits expense allocated to cost of products sold	**23**	30	(7)	(23)
Product warranty costs	**230**	257	(27)	(11)
Total costs of products sold	**$ 9,366**	$ 11,942	(2,576)	(22)

Costs of products sold decreased in 2009 as compared to 2008, as a result of lower chargeouts and associated material purchases of commercial trucks and change in mix of military products from higher content MRAPs to lower content military trucks. In addition, *Costs of products sold* further decreased due to lower diesel engines and service parts deliveries to the commercial market that were offset partially by $81 million of other Ford related charges and higher direct material commodity costs. We were not able to fully capitalize on some of the recent commodity cost savings experienced by the industry due to pre-existing contractual obligations. Our efforts delayed and reduced the higher expense that the industry experienced in prior years. We continued our efforts to contain direct material costs through a combination of design changes, material substitution, alternate supplier resourcing, global sourcing, and price performance to mitigate direct material price increases we have experienced. Costs related to steel, precious metals, resins and petroleum products increased by $23 million in 2009 compared to an increase of $97 million in 2008. The decrease in 2009 product warranty costs, including extended warranty program costs and net of vendor recoveries (product warranty costs) compared to 2008 was driven primarily by a reversal of $75 million of product warranty costs related to the Ford Settlement. In addition, the decrease in product warranty costs were the result of lower volumes and lower claims out of the contractual obligation period offset partially by adjustments to warranty accruals for changes in our estimates of warranty costs for products sold in prior years (pre-existing warranty) of $39 million and higher costs per-unit. Excluding the reversal of the warranty costs related to the Ford Settlement, the increase in product warranty costs were due to higher pre-existing warranty adjustments and higher costs per-unit. The higher pre-existing warranty adjustments and higher cost per unit were primarily driven by 2007 U.S. EPA regulations, which have resulted in rapid product development cycles and have included significant changes from previous engine models. The 2007 U.S. EPA regulations required new emission compliant products which are more complex and contain higher material costs. Consequently, repair costs have exceeded those that we have historically experienced. In the past, our engines typically had a longer model lifecycle that afforded us the opportunity to refine both the design and manufacturing of the product to reduce both the volume and the severity of warranty claims.

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

In 2009, *Impairment of property and equipment* was $31 million related to changes in our business and volumes at the Chatham and Conway locations in our Truck segment. In 2008, we incurred *Impairment of property and equipment* charges of $358 million as a result of permanently lower Ford volumes in our Engine segment. For additional information about these items, see Note 7, *Impairment of property and equipment and related charges*, to the accompanying consolidated financial statements.

Selling, general and administrative expenses

(in millions, except % change)	2009	2008	Change	% Change
Selling, general and administrative expenses, excluding items presented separately below	**$ 807**	$ 965	(158)	(16)
Professional consulting, legal, and auditing fees	**40**	165	(125)	(76)
Postretirement benefits expense (income) allocated to selling, general and administrative expenses	**216**	(54)	270	N.M.
Dealcor expenses	**162**	218	(56)	(26)
Incentive compensation and profit-sharing	**54**	78	(24)	(31)
Provision for doubtful accounts	**52**	65	(13)	(20)
Personnel costs for employee terminations	**13**		13	N.M.
Total selling, general and administrative expenses	**$ 1,344**	$ 1,437	(93)	(6)

The decreases in *Selling, general and administrative expenses* for 2009 as compared to 2008 were driven by declines in our professional consulting and auditing fees related to SEC filings and from cost reduction measures actively pursued this year, which were offset partially by an increase in our postretirement benefits expense. We have had a significant reduction in professional expenses as we have become a current SEC filer and have made improvements in our accounting and control environment. See the discussion later in this section and in Note 12, *Postretirement benefits*, to the accompanying consolidated financial statements for the explanation of the increase in postretirement benefits expense. Dealcor expenses declined in 2009 following the sale of certain company-owned dealerships and lower costs at our remaining locations. The expense for incentive compensation and profit sharing reflects projected 2009 and actual 2008 performance versus our management incentive targets. The decline in the 2009 provision for doubtful accounts was a result of the lower average finance receivable balances partially offset by an increase in our allowance ratio to outstanding finance receivables and loss reserves for specific customers as compared to 2008. In 2009, repossessions and delinquencies began to decline due to the stabilization of the truck industry and the general economy. Finally, the personnel costs for employee terminations in 2009 reflect a reduction in salaried and management personnel to align with current market conditions.

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

Total postretirement benefits expense (income) includes defined benefit plans (pensions and post-employment benefits (primarily health and life insurance)) and defined contribution plans (401(k) contributions for active employees) as described in Note 12, *Postretirement benefits*, to the accompanying consolidated financial statements.

The following tables present the nature of the amounts of postretirement benefits expense (income) for defined benefit and defined contribution plans and how they are allocated among *Costs of products sold*, *Restructuring charges*, *Selling, general and administrative expenses*, and *Engineering and product development costs* and the components of these expenses:

(in millions)	**2009**	**2008**	**Change**
Net postretirement benefits expense (income) included in:			
Costs of products sold	**$ 23**	$ 30	$ (7)
Restructuring charges related to ICC and IEP	**16**		16
Selling, general and administrative expenses	**216**	(54)	270
Engineering and product development costs	**5**	7	(2)
Total postretirement benefits expense (income)	**$ 260**	$ (17)	$ 277

(in millions)	**2009**	**2008**	**Change**
Defined benefits expense (income), excluding curtailments, termination benefits, and settlements	**$ 215**	$ (5)	$ 220
Curtailments, termination benefits, and settlements	**18**	(37)	55
Total defined benefits expense (income)	**233**	(42)	275
Defined contribution expense	**27**	25	2
Total postretirement benefits expense (income)	**$ 260**	$ (17)	$ 277

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Postretirement benefit expense (income) from defined benefit plans was $233 million of expense in 2009, compared to income of $42 million in 2008. Postretirement benefit expense (income) from defined benefit plans, excluding curtailments, termination benefits, and settlements, was $215 million of expense in 2009, compared to income of $5 million in 2008. The $220 million year-over-year increase in the postretirement benefits expense largely resulted from a lower asset base at the beginning of fiscal year 2009 as compared to 2008, which is used to determine the total expected return for the fiscal year (a component of net postretirement benefits expense). The expected return on assets for defined benefit plans was $229 million in 2009, compared to $386 million in 2008 as a result of lower plan assets. Loss amortization (another component of net postretirement benefits expense) for defined benefit plans was $70 million in 2009, compared to $13 million in 2008. See Note 12, *Postretirement benefits,* to the accompanying condensed consolidated financial statements for further discussion.

In the first quarter of 2009, we recognized $16 million of expense for a curtailment and contractual termination benefits related to our Indianapolis location. During 2008, we recognized a $42 million gain related to a net settlement and curtailment of one of the plans resulting from certain plan changes that arose from the ratification of our UAW settlement.

The following table presents total debt balances and components of *Interest expense*:

	Debt				Interest Expense			
(in millions, except % change)	2009	2008	Change	% Change	2009	2008	Change	% Change
Manufacturing Operations	$ 1,975	$ 1,834	$ 141	8	$ 88	$ 154	$ (66)	(43)
Financial Services	3,431	4,240	(809)	(19)	120	258	(138)	(53)
Derivative Expense					43	57	(14)	(25)
Total	$ 5,406	$ 6,074	$ (668)	(11)	$ 251	$ 469	$ (218)	(46)

Interest expense decreased 46% in 2009 as compared to 2008. The decrease in interest expense reflects the decrease in our variable interest rates in our manufacturing operations debt, lower debt balances and lower interest rates at our Financial Services segment, and a reduction in derivative expense of $14 million in 2009 as compared to 2008. Our Financial Services segment borrowings were lower so as to match the lower average balances of our finance receivables. For more information, see Note 11*, Debt,* and Note 15, *Financial instruments and commodity contracts*, to the accompanying consolidated financial statements.

Other income and expense, net amounted to income of $228 million in 2009 and expense of $14 million in 2008. The increase in 2009 is primarily due to the $225 million benefit related to the Ford Settlement and other related charges. In 2009 and 2008, we recorded interest income of $21 million and $42 million, respectively, primarily offset by various other miscellaneous expenses. Foreign exchange gains or losses are reported as part of *Other income and expense, net.* In 2009 there was a foreign exchange gain of $36 million compared to foreign exchange losses of $19 million in 2008. In 2009, the foreign exchange gains are primarily due to favorable currency fluctuations primarily in our operations in Canada. Additionally, the Engine segment recognized a gain of $16 million for 2009, related to an agreement in Brazil providing for recovery of certain value added taxes.

Equity in income of non-consolidated affiliates

We reported $46 million and $71 million in *Equity in income of non-consolidated affiliates* for 2009 and 2008, respectively. As part of the Ford Settlement, we increased our equity interest in the BDT and BDP joint ventures with Ford to 75% and, effective June 1, 2009, the results of BDT and BDP operations are consolidated. Accordingly, our share of the results of these entities are no longer included in *Equity in income of non-consolidated affiliates*. For more information, see Note 10, *Investments in and advances to non-consolidated affiliates*, to the accompanying consolidated financial statements.

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Income tax expense

Income tax expense was $37 million in 2009 as compared to $57 million in 2008. Our income tax expense on domestic and Canadian operations is limited to current state income taxes, alternative minimum tax net of refundable credits and other discrete items. The majority of our income taxes in 2009 were from foreign operations, principally Brazil and Mexico. Our income tax expense is affected by various items, including deferred tax asset valuation allowances (principally domestic and Canadian), research and development credits, Medicare reimbursements and other items. A full deferred tax asset valuation allowance was adopted for the Canadian operations as of October 31, 2008. Accordingly, the operating loss in Canada did not generate a deferred tax benefit in 2009. We have $288 million of U.S. net operating loss carry forward as of October 31, 2009. We expect our cash payments of U.S. and Canadian taxes will be minimal, for so long as we are able to offset current taxable income by net operating loss carry forwards. For additional information, see Note 13, *Income taxes*, to the accompanying consolidated financial statements.

Extraordinary gain, net of tax

On June 4, 2009, we completed the purchase of certain assets of the former RV manufacturing business of Monaco Coach Corporation and created a new wholly-owned affiliate company operating under the name of Monaco RV, LLC. We accounted for the acquisition as a business combination. The fair value of the assets acquired from Monaco Coach Corporation exceeded the purchase price resulting in an extraordinary gain of $23 million in 2009.

Minority Interest in net income of subsidiaries, net of tax

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

Net income and Diluted earnings per share

As a result of the above items, we recorded net income of $320 million, an increase of $186 million as compared to prior year net income of $134 million. Included in our increase of $186 million was a Ford settlement net of other related charges of $160 million, foreign exchange gains of $36 million in 2009 compared to a foreign exchange loss of $19 million in 2008, and professional, consulting and auditing expenses of $40 million in 2009 as compared to expenses of $165 million in 2008.

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

Our *Diluted earnings per share* for 2009 were $4.46, calculated on 71.8 million shares. For 2008, our *Diluted earnings per share* were $1.82, calculated on 73.2 million shares. Diluted shares reflect the impact of our convertible securities including common stock options in accordance with the treasury stock and if-converted methods. For further detail on the calculation of diluted earnings per share, see Note 19, *Earnings (loss) per share*, to the accompanying consolidated financial statements.

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Results of Operations for 2008 as Compared to 2007

(in millions, except per share data and % change)	2008	2007	Change	% Change
Sales and revenues, net	$ 14,724	$ 12,295	$ 2,429	20
Costs of products sold	11,942	10,109	1,833	18
Impairment of property and equipment	358		358	N.M.
Selling, general and administrative expenses	1,437	1,490	(53)	(4)
Engineering and product development costs	384	375	9	2
Interest expense	469	502	(33)	(7)
Other (income) expenses, net	14	(34)	48	N.M.
Total costs and expenses	14,604	12,442	2,162	17
Equity in income of non-consolidated affiliates	71	74	(3)	(4)
Income (loss) before income tax	191	(73)	264	N.M.
Income tax expense	57	47	10	21
Net income (loss)	$ 134	$ (120)	$ 254	N.M.
Diluted earnings (loss) per share	$ 1.82	$ (1.70)	$ 3.52	N.M.

	Total				U.S. and Canada				ROW			
(in millions, except per share data and % change)	2008	2007	Change	% Change	2008	2007	Change	% Change	2008	2007	Change	% Change
Truck	$ 10,317	$ 7,809	$ 2,508	32	$ 8,933	$ 6,216	$ 2,717	44	$ 1,384	$ 1,593	$ (209)	(13)
Engine	3,257	3,461	(204)	(6)	1,949	2,452	(503)	(21)	1,308	1,009	299	30
Parts	1,824	1,562	262	17	1,648	1,407	241	17	176	155	21	14
Financial Services	405	517	(112)	(22)	296	421	(125)	(30)	109	96	13	14
Corporate and Other.	(1,079)	(1,054)	(25)	(2)	(1,079)	(1,054)	(25)	(2)				
Total	$ 14,724	$ 12,295	$ 2,429	20	$ 11,747	$ 9,442	$ 2,305	24	$ 2,977	$ 2,853	124	4

(A) In 2009, we changed our methodology of reporting the categorization of sales based on the selling location to a sold to location. Prior period amounts have been recast to reflect this change in methodology.

In 2008, net sales and revenues increased by 20% as compared to 2007. This increase was attributed primarily to our Truck segment, which increased net sales and revenues by $2.5 billion as compared to 2007 driven by higher U.S. military sales.

Our Truck segment was our largest segment as measured in net sales and revenues, representing 70% and 64% of total consolidated net sales and revenues for 2008 and 2007, respectively. Net sales and revenues increased within this segment by 32% in 2008 as compared to 2007. The primary driver of the increase in net sales and revenues was growth in our U.S. military sales of $3.3 billion. The success of our ProStar products also contributed to this increase but was more than offset by weakness in our total Traditional and ROW markets.

Our Engine segment was our second largest segment in net sales and revenues with $3.3 billion in 2008 and $3.5 billion in 2007. Units shipped to Ford in North America significantly decreased by 85,500 units or 40% compared to the prior year due to a reduction in Ford s purchasing requirements. There was a decrease in the relative ratio of diesel to gas trucks produced in the heavy-duty pickup truck market to 59% in 2008 from 71% in 2007, which contributed to the lowered Ford demand for our engines. The decline in units shipped to Ford in North America was partially offset by increases in non-Ford OEM sales and intersegment sales to the Truck segment for sales to the U.S. military.

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Our Parts segment recorded net sales of $1.8 billion in 2008 and $1.6 billion in 2007 for growth of 17%. This growth was primarily due to our expansion into the military business, as well as our continued focus on expansion outside of our commercial Traditional markets. In the Traditional markets, we were able to realize slight growth despite the challenging economy and we continue to successfully maintain our presence through expansion into additional product lines and enhancement of our relationship with new and current fleets.

Our Financial Services segment net revenues declined 22% in 2008 as compared to 2007. There were reduced financing opportunities resulting from fewer purchases of vehicles and components due to reduced customer demand as a result of deteriorating credit market and weakening economic conditions.

Costs and Expenses

(in millions, except % change)	2008	2007	Change	% Change
Costs of products sold, excluding items presented separately below	$ 11,655	$ 9,880	$ 1,775	18
Postretirement benefits expense allocated to cost of products sold	30	25	5	20
Product warranty costs	257	204	53	26
Total costs of products sold	$ 11,942	$ 10,109	$ 1,833	18

Costs of products sold increased 18% for 2008 as compared to 2007. As a percentage of net sales of manufactured products, *Costs of products sold* decreased to 83% in 2008 from 85% in 2007. Included in *Costs of products sold* are product warranty costs and an allocated portion of our postretirement benefits expense. Product warranty costs were $257 million in 2008 and $204 million in 2007. Postretirement expense included in *Costs of products sold*, inclusive of Company 401(k) contributions, were $30 million in 2008 and $25 million in 2007. Apart from product warranty costs and postretirement benefits expense, *Costs of products sold* as a percentage of net sales of manufactured products decreased to 81% in 2008 from 83% in 2007. The decrease in costs of products sold as a percentage of net sales of manufactured products between 2008 and 2007 is largely attributable to increased U.S. military and ROW sales offsetting higher steel and other commodity prices (for more information regarding steel and other commodity prices, see *Key Trends and Business Outlook*, Steel and Other Commodities) and declining manufacturing efficiencies due to lower volumes as a result of weakness in our Traditional markets.

The increase of $53 million in product warranty costs in 2008 as compared to 2007 was primarily the result of pre-existing warranty cost at the Truck and Engine segments and were partially offset by a combination of reduced volumes and improved per unit warranty expense. In 2008, we incurred $76 million of product warranty costs associated with adjustments to pre-existing warranties compared to $22 million incurred in 2007.

In 2008, product warranty costs at the Truck segment were $152 million compared to $138 million in 2007. We accrue warranty related costs under standard warranty terms and for claims that we may choose to pay as an accommodation to our customers even though we are not contractually obligated to do so (out-of-policy). The Truck segment incurred an expense for pre-existing warranty costs of $29 million in 2008 as compared to $14 million in 2007. Quality improvements and a 10% decline in truck chargeouts as compared to 2007 allowed us to mitigate our warranty costs in 2008 excluding the year-over-year increase of $15 million for pre-existing warranty costs. Product warranty costs at the Engine segment were $100 million (3% of Engine segment net sales of manufactured products) compared to $64 million (2% of Engine segment net sales of manufactured products) in 2007. The increase in product warranty costs at the Engine segment was attributable to adjustments to

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pre-existing warranties and higher engine volumes delivered to other OEMs. We continue to work on progressive improvements in product warranty costs by focusing on controlling the reliability and quality of our emissions-compliant engines. For more information regarding product warranty costs, see Note 1, *Summary of significant accounting policies,* to the accompanying consolidated financial statements.

In 2008, we incurred *Impairment of property and equipment* charges of $358 million as a result of permanently lower Ford volumes at our Engine segment. For additional information about these items, see Note 7, *Impairment of property and equipment and related charges*, to the accompanying consolidated financial statements.

Selling, general and administrative expenses

(in millions, except % change)	2008	2007	Change	% Change
Selling, general and administrative expenses, excluding items presented separately below	$ 965	$ 801	$ 164	20
Professional consulting, legal, and auditing fees	165	234	(69)	(29)
Postretirement benefits expense (income) allocated to selling, general and administrative expenses	(54)	114	(168)	N.M.
Dealcor expenses	218	289	(71)	(25)
Incentive compensation and profit-sharing	78		78	N.M.
Provision for doubtful accounts	65	52	13	25
Total selling, general and administrative expenses	$ 1,437	$ 1,490	$ (53)	(4)

The primary drivers of the $164 million increase in *Selling, general and administrative expenses* as compared to the prior year was caused primarily by increases in salaries and related benefits, new business development expenses and legal expenses. Professional consulting, legal and auditing fees related to SEC filings have declined significantly as a result of becoming current with our SEC filings and eliminating a majority of the consultant expenses by transferring activities back to company employees. The decrease in professional consulting, legal and auditing fees related to SEC filings were partially offset by an increase in the number of accounting and finance personnel. Postretirement benefits expense has improved due to several factors discussed more completely in the postretirement benefits section. Dealcor expenses declined primarily due to a decrease in related sales activity and the sale of certain company-owned dealerships. The increases in compensation and profit-sharing expenses are due to the improvement in our financial results, primarily meeting established net income goals. The increase in provision for doubtful accounts is due to an increase in repossessions and delinquencies coupled with continued weakness in our receivables portfolio. We provide for certain losses related to the potential repossession and liquidation of collateral underlying finance receivables with dealers and retail customers. Finally, increases in stock-based compensation expense versus prior year resulted from the issuance of restricted stock during the fourth quarter of 2008. A significant portion of the awards were granted to retirement-eligible employees resulting in immediate recognition of a substantial portion of those costs consistent with relevant accounting literature.

Engineering and product development costs declined slightly in 2008 as compared to 2007. *Engineering and product development costs* were primarily incurred by our Truck and Engine segments for innovation and cost reduction, and to provide our customers with product and fuel efficiencies. *Engineering and product development costs* incurred at the Truck segment were $181 million in 2008, which compares to the $168 million incurred in 2007, and relates primarily to the further development of our ProStar class 8 long-haul truck. In addition, the Truck segment also incurred costs in 2008 and 2007 related to the development and roll-out of our 2010 emissions-compliant products and, to a lesser extent the development of the LoneStar class 8 truck. *Engineering and product development costs* incurred at our Engine segment increased $8 million or 4% in 2008 as compared

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to the prior year. This increase is a result of the efforts to develop 2010 emissions-compliant engines, new engine products, and MWM-International Euro IV emission-compliant engines.

The following table presents the amounts of postretirement benefits (income) expenses, for defined benefit and defined contribution plans, as allocated among *Costs of products sold, Selling, general and administrative expenses*, and *Engineering and product development costs*:

(in millions)	2008	2007	Change
Net postretirement benefits expense (income) included in:			
Costs of products sold	**$ 30**	$ 25	$ 5
Selling, general and administrative expenses	**(54)**	114	(168)
Engineering and product development costs	**7**	6	1
Total postretirement benefits expense (income)	**$ (17)**	$ 145	$ (162)

(in millions)	2008	2007	Change
Defined benefits expense (income), excluding curtailments, termination benefits, and settlements	**$ (5)**	$ 122	$ (127)
Curtailments, termination benefits, and settlements	**(37)**		(37)
Total defined benefits expense (income)	**(42)**	122	(164)
Defined contribution expense	**25**	23	2
Total postretirement benefits expense (income)	**$ (17)**	$ 145	$ (162)

Total postretirement benefits expense (income) includes defined benefit plans (pensions and post-employment benefits primarily health and life insurance) and defined contribution plans (401(k) contributions for active employees) as described in Note 12, *Postretirement benefits,* to the accompanying consolidated financial statements.

We recognized income related to our postretirement benefits from defined benefit plans of $42 million for the year ended October 31, 2008 compared to an expense of $122 million for the same period in 2007. On December 16, 2007, the majority of Company employees represented by the UAW 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 previously 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 during 2008.

During the third quarter of 2008, the Engine segment s Indianapolis plant laid off over 400 employees. That layoff was driven by a reduction in Ford s production schedules that management believed, at that time, to be temporary. Based on recent developments in economic conditions and the Company s current outlook regarding its Ford contract, it is probable that those employees, as well as other employees from the facility laid off prior to the third quarter, may not return to work. As such, net charges of $5 million representing curtailments and contractual termination benefits were recognized for the Company s pension and postretirement benefit plans in the fourth quarter of 2008.

Excluding the effects of the two events described above, postretirement benefits income from defined benefit plans was $5 million for the year ended October 31, 2008. The $127 million reduction in defined benefit plan expense resulted from better-than-expected returns and a significant reduction in the projected benefit obligation resulting from fully insuring our Medicare eligible population in our largest postretirement medical plan. Each of these actions took place in 2007 and represent variances from prior actuarial estimates. These variances significantly reduced the cumulative loss pool during 2007. Such costs amortize into income in the subsequent years as a component of postretirement benefits (income) expense. Amortization of the loss pool for pension and health and welfare plans was $13 million for the year ended October 31, 2008, compared to $81 million for the same period in 2007. Additionally, the growth in the asset base during 2007 had the effect of increasing the expected return on plan assets in 2008 (another component of postretirement benefits (income) expense). The expected return on plan assets for pension and health and welfare plans for the year ended October 31, 2008, was $386 million compared to $334 million for the same period in 2007. See Note 12, *Postretirement benefits*, to the accompanying consolidated financial statements for further information on postretirement benefits.

Postretirement benefits expense resulting from the defined contribution plans was $25 million and $23 million for the years ended October 31, 2008, and 2007, respectively.

The following table presents total debt balances and components of *Interest expense*:

	Debt				Interest Expense			
(in millions, except % change)	2008	2007	Change	% Change	2008	2007	Change	% Change
Manufacturing Operations	$ 1,834	$ 2,029	$ (195)	(10)	$ 154	$ 197	$ (43)	(22)
Financial Services	4,240	4,852	(612)	(13)	258	297	(39)	(13)
Derivative Expense					57	8	49	613
Total	$ 6,074	$ 6,881	$ (807)	(12)	$ 469	$ 502	$ (33)	(7)

Interest expense decreased 7% in 2008 as compared to 2007. This decrease was primarily due to a decrease in interest rates and lower debt balances partially offset by the derivative interest expense of $57 million in 2008 and $8 million in 2007. For more information, see Note 11, *Debt*, to the accompanying consolidated financial statements.

Other (income) expenses, net was $14 million of other expense and $34 million of other income in 2008 and 2007, respectively. The primary drivers in *Other (income) expenses, net* were foreign exchange losses, other impairment charges, interest income, and early extinguishment of debt. Foreign exchange loss increased by $31 million, other impairment charges increased by $24 million, and interest income decreased by $12 million as compared to the prior year. *Other (income) expenses, net* includes $31 million of expenses related to the early extinguishment of debt in 2007 that did not recur in 2008.

Total costs and expenses in 2008 were significantly higher due to $395 million of *Impairment of property and equipment* and other costs related to our expectations of permanently lower Ford volumes in our Engine segment. *Impairment of property and equipment* charges amounted to $358 million. For additional information about these items, see Note 8, *Impairment of property and equipment and related charges*, to the accompanying consolidated financial statements. Other related charges of $37 million were primarily expensed in *Costs of products sold* and *Selling, general and administrative expenses.*

Equity in income of non-consolidated affiliates

Our *Equity in income of non-consolidated affiliates* is primarily derived from our ownership interests in BDP, BDT, and to a lesser extent other partially-owned affiliates. We reported $71 million of income in 2008 as compared to $74 million in 2007 with a majority of the income in both years being derived from BDP. For more information, see Note 10, *Investments in and advances to non-consolidated affiliates*, to the accompanying consolidated financial statements.

Income tax expense

Income tax expense was $57 million in 2008 as compared to $47 million in 2007. Our *Income tax expense* in each year is affected by various factors, including adjustments to deferred tax asset valuation accounts, research and development credits, Medicare reimbursements and other items. In 2008, due to the rapid deterioration of our Canadian business and the uncertainty of its future profitability, we established a valuation allowance against the full balance of Canadian net deferred tax assets. For additional information about these items, see Note 13, *Income taxes*, to the accompanying consolidated financial statements.

Net income (loss) and Diluted earnings (loss) per share

As a result of the above items, in 2008 we recorded net income of $134 million, an increase of $254 million as compared to a prior year net loss of $120 million. Included in our increase of $254 million was growth in our U.S. military sales and the following significant items: impairment of property and equipment and other costs of $395 million related to our expectations of permanently lower Ford diesel volumes exclusive to 2008, derivative expense due to a non-cash mark to market charge on our interest rate swap agreements of $25 million in 2008 compared to $14 million in 2007, foreign exchange loss of $19 million in 2008 compared to a foreign exchange gain of $12 million in 2007, a $42 million reduction in postretirement expense primarily due to modifications to our UAW master contract exclusive to 2008, professional, consulting, and auditing expenses of $165 million in 2008 as compared to expenses of $234 million in 2007, and debt refinancing and restructuring costs of $31 million in 2007 that did not recur in 2008.

Our diluted earnings per share for 2008 were $1.82, calculated on 73.2 million shares. For 2007, our diluted loss per share was $1.70, calculated on 70.3 million shares. Diluted shares reflect the impact of our convertible securities including common stock options in accordance with the treasury stock and if-converted methods. For further detail on the calculation of diluted earnings per share, see Note 19, *Earnings (loss) per share*, to the accompanying consolidated financial statements.

Segment Results of Operation

We define segment profit (loss) as adjusted earnings (loss) excluding income tax. Additional information about segment profit (loss) is as follows:

- Postretirement benefits and medical expenses of active employees are allocated to the segments based upon relative workforce data while the costs of retired employees are corporate expenses. Postretirement benefits and medical expenses for 2009 include changes to the allocation methodology to reflect the allocation of only service cost to segments as we believe that these are more controllable by segment management. We have revised 2008 and 2007 segment profit (loss) to reflect these changes in our allocation methodology.

- The UAW master contract and non-represented employee profit sharing, annual incentive compensation, and the costs of the Supplemental Trust are included in corporate expenses, if applicable.

- Interest expense and interest income for the manufacturing operations are reported in corporate expenses.

- Certain sales to our dealers include interest-free periods that vary in length. The Financial Services segment finances these sales and our Truck segment subsidizes and reimburses the Financial Services segment for those finance charges.

- Intersegment purchases and sales between the Truck and Engine segments are recorded at our best estimates of arms-length pricings. The MaxxForce Big-Bore engine program is being treated as a joint program with the Truck and Engine segments sharing in certain costs of the program.

- Intersegment purchases from the Truck and Engine segments by the Parts segment are recorded at standard production cost.

We allocate access fees to the Parts segment from the Truck and Engine segments for certain engineering and product development costs, depreciation expense, and selling, general and administrative expenses incurred by the Truck and Engine segments based on the relative percentage of certain sales, as adjusted for cyclicality.

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Certain sales financed by the Financial Services segment, primarily NFC, require the manufacturing operations, primarily the Truck segment, and the Financial Services segment to share a portion of customer losses or the manufacturing operations may be required to repurchase the repossessed collateral from the Financial Services segment at the principal value of the receivable.

Other than the items discussed above, the selected financial information presented below is recognized in accordance with our policies described in Note 1, *Summary of significant accounting policies,* to the accompanying consolidated financial statements.
The following sections analyze operating results as they relate to our four industry segments:

Truck Segment

The following tables summarize our Truck segment s sales and segment profit for the years ended October 31 (segment sales are defined as net sales and revenues including intersegment sales and revenues):

				2009 vs. 2008		2008 vs. 2007	
(in millions, except % change)	**2009**	**2008**	**2007**	**Change**	**% Change**	**Change**	**% Change**
Segment sales	**$ 7,297**	$ 10,317	$ 7,809	$ (3,020)	(29)	$ 2,508	32
Segment profit	**147**	805	160	(658)	(82)	645	403

We believe the following tables on retail deliveries in the Traditional truck market in the U.S. and Canada, Traditional market share, net orders and order backlogs present key metrics that provide quantitative measures on the performance of our Truck segment. Our Truck segment sales are primarily driven by chargeouts. Our chargeouts are primarily driven by customer purchase of our products. Net orders are a precursor to potential chargeouts and market share trends. Order backlogs are orders outstanding at the end of the period waiting to be built and can be cancelled by the customer.

The following tables summarize industry retail deliveries, in the Traditional truck markets in the U.S. and Canada, in units, according to Wards Communications and R.L. Polk & Co.:

				2009 vs. 2008		2008 vs. 2007	
	2009	**2008**	**2007**	**Change**	**% Change**	**Change**	**% Change**
Traditional Markets (U.S. and Canada)							
School buses	**22,600**	24,400	24,500	(1,800)	(7)	(100)	
Class 6 and 7 medium trucks	**39,800**	59,600	88,500	(19,800)	(33)	(28,900)	(33)
Class 8 heavy trucks	**77,700**	102,500	142,900	(24,800)	(24)	(40,400)	(28)
Class 8 severe service trucks	**41,700**	57,600	63,100	(15,900)	(28)	(5,500)	(9)
Total Traditional Truck Markets	**181,800**	244,100	319,000	(62,300)	(26)	(74,900)	(23)
Combined class 8 trucks	**119,400**	160,100	206,000	(40,700)	(25)	(45,900)	(22)
Truck segment total Traditional retail deliveries	**66,300**	75,300	84,700	(9,000)	(12)	(9,400)	(11)

Key economic indicators affecting the truck industry such as gross domestic product, industrial production, and freight tonnage hauled declined in 2009 compared to 2008 and 2007. We observed that the industry has continued to decline from the 2006 peak of 454,700 retail units. We have not experienced a substantial pre-buy of pre-2010 emissions-compliant engines in 2009. We expect retail deliveries in the range of 175,000 to 215,000 in 2010.

The following tables summarize our retail delivery market share percentages based on a combination of market-wide information from Wards Communications and R.L. Polk & Co.:

	2009	2008	2007
Traditional Markets (U.S. and Canada)			
School buses	**61%**	55%	60%
Class 6 and 7 medium trucks	**35**	36	36
Class 8 heavy trucks	**25**	19	15
Class 8 severe service trucks	**45**	37	27
Total Traditional Truck Markets	**36**	31	27
Combined class 8 trucks	**32**	25	19
Impact of excluding U.S. military deliveries			
Class 8 severe service trucks	**34**	27	25
Combined class 8 trucks	**28**	22	18
Total Traditional Truck Markets, exclusive of U.S. military deliveries	**34**	29	26

This retail market share metric is one of many which we rely upon to determine performance. Our focus on market share is concentrated, in general, on the performance of the individual classes that comprise our Traditional truck markets, rather than the total. The consolidated Traditional truck market share figure, which is subject to the effects of product mix, is a less meaningful metric for us to determine overall relative competitive performance than it may be for others in our industry.

Our School buses, Class 6 and 7 medium trucks, and Combined class 8 trucks classes all led their markets with the greatest retail market share in each of their classes by brand. Our strategy is to maintain and grow these market share positions. We believe that our customer friendly 2010 emissions strategy will provide us with a competitive advantage and will allow us to improve our market share in 2010.

Our leading market share in School buses is attributable to our brand strength, distribution strategy and on-going efforts to further engage and support our dealer and customer networks. The fluctuation in our market share for School buses was driven by the timing of purchases by our major customers. The slight decline in our market share for the Class 6 and 7 medium trucks was attributable to aggressive pricing incentives and discount programs instituted by our competitors and new entrants into this class. We demonstrated our continued long-term commitment to the Class 8 heavy truck market through our launch of the ProStar and LoneStar class 8 long-haul trucks. Our Class 8 heavy truck market share increased as the acceptance of our ProStar grew in the Class 8 heavy truck market. Our new ProStar products are distinctive and demonstrate better fuel efficiency and ease of maintenance compared to our competitors. We increased our leading market share in the Class 8 severe service trucks primarily with U.S. military deliveries.

Truck segment net orders

We define orders as written commitments from customers and dealers to purchase trucks. Orders do not represent guarantees of purchases by customers or dealers and are subject to cancellation. Orders shown are net orders and thus represent new orders received during the indicated time period less cancellations of orders made during the same time period. Orders may be either sold orders which will be built for specific customers directly or through our dealer networks or stock orders which will generally be built for dealers for eventual sale to customers. All orders are placed with our assembly plants for destinations anywhere in the world and include trucks, buses, and military tactical vehicles. We have historically had an increase in net orders for stock inventory from our dealers at the end of the year due to a combination of demand or incentives to the dealers. Increases in stock orders typically translate to higher chargeouts for our Truck segment and increased dealer inventory.

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The following table summarizes net orders received by our Truck segment during our fiscal years ended October 31:

	2009	2008	2007	2009 vs. 2008 Change	2009 vs. 2008 % Change	2008 vs. 2007 Change	2008 vs. 2007 % Change
Traditional Markets (U.S. and Canada)							
School buses	**18,300**	11,900	9,600	6,400	54	2,300	24
Class 6 and 7 medium trucks	**15,100**	19,400	21,400	(4,300)	(22)	(2,000)	(9)
Class 8 heavy trucks	**19,900**	22,600	11,300	(2,700)	(12)	11,300	100
Class 8 severe service trucks	**14,100**	23,100	14,900	(9,000)	(39)	8,200	55
Total Traditional Markets[(A)]	**67,400**	77,000	57,200	(9,600)	(12)	19,800	35
Combined class 8 trucks	**34,000**	45,700	26,200	(11,700)	(26)	19,500	74

(A) Includes 3,000, 9,600 and 2,100 units for the years ended October 31, 2009, 2008 and 2007, respectively, related to U.S. military contracts.

Truck segment backlogs

Although the backlog of unfilled orders is one of many indicators of market demand and potential future chargeouts, other factors such as changes in production rates, order cancellations, internal and supplier available capacity, new product introductions, and competitive pricing actions may affect point-in-time comparisons. Order backlogs exclude units in inventory awaiting additional modifications or delivery to the end customer.

The following tables summarize order backlogs in units in our Traditional markets for the years ended October 31:

	2009	2008	2007	2009 vs. 2008 Change	2009 vs. 2008 % Change	2008 vs. 2007 Change	2008 vs. 2007 % Change
Traditional Markets (U.S. and Canada)							
School buses	**6,300**	1,400	3,000	4,900	350	(1,600)	(53)
Class 6 and 7 medium trucks	**5,300**	2,400	3,300	2,900	121	(900)	(27)
Class 8 heavy trucks	**8,900**	6,700	2,900	2,200	33	3,800	131
Class 8 severe service trucks[(A)]	**3,300**	6,700	3,900	(3,400)	(51)	2,800	72
Total Traditional Markets	**23,800**	17,200	13,100	6,600	38	4,100	31
Combined class 8 trucks	**12,200**	13,400	6,800	(1,200)	(9)	6,600	97

(A) Includes 1,200, 4,200 and 1,400 units for the years ended October 31, 2009, 2008 and 2007, respectively, related to U.S. military contracts.

Truck segment sales

(in millions, except % change)	2009	2008[(A)]	2007[(A)]	2009 vs. 2008 Change	2009 vs. 2008 % Change	2008 vs. 2007 Change	2008 vs. 2007 % Change
Truck segment sales of manufactured products, net U.S. and Canada	**$ 6,807**	$ 8,933	$ 6,216	(2,126)	(24)	$ 2,717	44

Truck segment sales of manufactured products, net							
ROW	**490**	1,384	1,593	(894)	(65)	(209)	(13)
Total Truck segment sales of manufactured products, net	**$ 7,297**	$ 10,317	$ 7,809	(3,020)	(29)	$ 2,508	32

(A) In 2009, we changed our methodology of reporting the categorization of sales based on the selling location to a sold to location. Prior period amounts have been recast to reflect this change in methodology.

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Truck segment chargeouts

Truck segment chargeouts are defined by management as trucks that have been invoiced to customers, with units held in dealer inventory primarily representing the principal difference between retail deliveries and chargeouts. The following tables summarize our chargeouts in units for the years ended October 31:

				2009 vs. 2008		2008 vs. 2007	
	2009	**2008**	**2007**	**Change**	**% Change**	**Change**	**% Change**
Traditional Markets U.S. and Canada							
School buses	**13,800**	13,500	14,600	300	2	(1,100)	(8)
Class 6 and 7 medium trucks	**13,000**	20,300	28,700	(7,300)	(36)	(8,400)	(29)
Class 8 heavy trucks	**19,100**	18,800	17,400	300	2	1,400	8
Class 8 severe service trucks	**18,400**	20,300	16,100	(1,900)	(9)	4,200	26
Total Traditional Markets	**64,300**	72,900	76,800	(8,600)	(12)	(3,900)	(5)
Expansion Markets U.S. and Canada(A)	**5,100**	6,100	12,400	(1,000)	(16)	(6,300)	(51)
Total U.S. and Canada(B)	**69,400**	79,000	89,200	(9,600)	(12)	(10,200)	(11)
Expansion Markets ROW	**7,400**	23,200	24,400	(15,800)	(68)	(1,200)	(5)
Total Worldwide Units	**76,800**	102,200	113,600	(25,400)	(25)	(11,400)	(10)
Combined class 8 trucks (U.S. and Canada)	**37,500**	39,100	33,500	(1,600)	(4)	5,600	17

(A) Includes 1,100 units in 2009 resulting from the consolidation of BDT and 1,200 units in 2009 from our Monaco brands.

(B) Includes 7,500, 7,500 and 1,700 units for the years ended October 31,2009, 2008 and 2007, respectively, related to U.S. military contracts.

In 2009, the Truck segment s net sales decreased by 29% or $3.0 billion from the prior year as a result of lower sales to the U.S. military and lower sales of our commercial products. Sales to the U.S. military were $2 billion in 2009 and $3.6 billion in 2008. We fulfilled our existing MRAP unit orders in 2009 and increased sales of lower-content and lower priced military units to the U.S. military and NATO allies. We experienced lower commercial chargeouts as a result of the weakness in the overall Traditional industry. We were able to mitigate some of the effects of the Class 8 heavy trucks market decline as market acceptance led to higher chargeouts of our ProStar products. Our school bus chargeouts increased as a result of major customers re-timing their purchases from 2008 to 2009. Our chargeouts in Class 6 and 7 medium trucks were impacted primarily by the declining economic conditions, which dampened the demand for our products in the Class 6 and 7 medium trucks industry and an influx of competitors with aggressive pricing strategies. We expect a slight recovery in our Traditional industry which will result in higher chargeouts across our products in 2010. In addition, we believe that our customer focused 2010 emission strategy, which uses advanced EGR and other technologies, provides us with a competitive advantage. Our expansion markets allow us to leverage our current products and provide an additional outlet for sales. In 2009, the expansion markets chargeouts declined by 57% compared to the prior year consistent with the downturn in demand in the global markets. Our expansion markets were hit particularly hard in 2009 as we faced the worst global recession since the Great Depression.

In 2008 as compared to 2007, the Truck segment s net sales increased by 32% or $2.5 billion from the prior year primarily due to significant sales growth in U.S. military sales of $3.3 billion. Excluding sales to the U.S. military, 2008 net sales declined by $741 million or 10% versus the prior year, primarily due to declining economic conditions and a challenging new truck pricing environment during the last half of the year. The Traditional industry experienced a decline in retail deliveries primarily due to higher diesel prices, however, our Class 8 heavy truck business increased our chargeouts by 1,400 units versus prior year. We were able to mitigate some of the effects of the Traditional heavy truck market decline primarily due to improved market

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share of our new ProStar. The Class 8 severe service trucks industry experienced a similar decline as the Traditional industry, however, our chargeouts in the Class 8 severe service trucks increased due to U.S. military sales. The industry for School buses and our chargeouts for School buses declined as a result of major customers re-evaluating and re-timing their purchases in 2008. The markets in the Class 6 and 7 medium trucks were primarily impacted by the declining economic conditions, which decreased our chargeouts in 2008. In addition, an influx of competitors in this market and their respective pricing strategies dampened the demand for our products in the Class 6 and 7 medium truck industry.

Truck segment costs and expenses

				2009 vs. 2008		2008 vs. 2007	
(in millions, except % change)	2009	2008	2007	Change	% Change	Change	% Change
Costs of products sold, excluding items presented separately below	**$ 6,261**	$ 8,452	$ 6,667	(2,191)	(26)	$ 1,785	27
Postretirement benefits expense allocated to costs of products sold	**17**	22	25	(5)	(23)	(3)	(12)
Product warranty costs	**161**	152	138	9	6	14	10
Total costs of products sold	**$ 6,439**	$ 8,626	$ 6,830	(2,187)	(25)	$ 1,796	26

The Truck segment s *Costs of products sold* declined in 2009 versus 2008 as a result of lower absolute chargeouts and associated material purchases for commercial products and change in mix of military products from higher content MRAP s to lower content military trucks. We continued to experience higher direct material commodity costs due to existing contractual obligations. We accrue product warranty related costs under standard warranty terms and for claims outside of the contractual obligation period. Our 2009 product warranty cost increased versus 2008 due to an increase in pre-existing warranty partially offset by a decline in chargeouts and our successful efforts to reduce warranty claims outside of the contractual obligation period. Also included in *Costs of products sold* was a $29 million low volume penalty related to our BDT affiliate prior to its consolidation.

The Truck segment s *Costs of products sold* increased in 2008 versus 2007 due to increased U.S. military sales and increased material costs. Our warranty cost increased versus 2007 due to adjustments of pre-existing warranty accruals and extended warranty expense of $15 million, partially offset by the decline in chargeouts and improved per unit expense due to quality improvements.

In 2009, *Impairment of property and equipment charges* were $31 million related to changes in our Truck segment production facilities at our Chatham and Conway locations. For additional information about these items, see Note 8, *Impairment of property and equipment and related charges*, to the accompanying consolidated financial statements.

				2009 vs. 2008		2008 vs. 2007	
(in millions, except % change)	2009	2008	2007	Change	% Change	Change	% Change
Selling, general and administrative expenses, excluding items presented separately below	**$ 305**	$ 394	$ 332	(89)	(23)	$ 62	19
Postretirement benefits expense allocated to selling, general and administrative expenses	**4**	6	6	(2)	(33)		N.M.
Dealcor expenses	**162**	218	289	(56)	(26)	(71)	(25)
Provision for doubtful accounts	**19**	20	13	(1)	(5)	7	54
Total selling, general and administrative expenses	**$ 490**	$ 638	$ 640	(148)	(23)	$ (2)	

The Truck segment s *Selling, general and administrative expenses* declined $148 million in 2009 versus 2008, due primarily to reductions in personnel to align with current market conditions and overhead and infrastructure in support of sales activities. Dealcor expenses declined following the sale of certain company-owned dealerships and lower costs at our remaining locations. The Truck segment may be liable for certain estimated losses on finance receivables and investments in equipment on operating leases of the Financial Services segment. The decline in the 2009 provision for doubtful accounts was a result of a lower general reserve partially offset by an increase in loss reserves for specific customers as compared to 2008. In 2009, repossessions and delinquencies began to decline due to the stabilization of the truck industry and the general economy.

The Truck segment s *Selling, general and administrative expenses* as a percentage of net sales of manufactured products decreased by 2% in 2008 versus 2007. Dealcor *Selling, general and administrative expenses* decreased primarily due to dispositions of Dealcors and expenses related to the decrease in sales volumes. In 2008 and 2007, repossessions and delinquencies continued to increase due to the slowdown in the truck industry and the general economy, which impacts our allowance and provision for doubtful accounts. Decreases in tonnage hauled, suppressed freight rates driven by excess capacity, increased fuel costs and the credit crisis have all contributed to the distress of our customers. As a result, the provision for doubtful accounts increased by $7 million or 54% in 2008 over the prior year. Excluding the items above our *Selling, general and administrative expenses* increased due to new business development, salaries and related benefits, and overhead and infrastructure enhancements in support of sales activities.

In 2009, 2008 and 2007, the Truck segment s *Engineering and product development costs* were $207 million, $181 million, and $168 million, respectively. During this time, our top developmental priorities were military vehicles, ProStar and LoneStar class 8 long-haul trucks and developing our 2007 and 2010 emissions-compliant vehicles, all of which required significant labor, material, outside engineering and prototype tooling. We also incurred development costs of $27 million in 2009 for the mine resistant ambush protected all-terrain vehicle that did not result in a substantial award from the U.S. military. In addition, we also focus resources on continuously improving our existing products as a means of streamlining our manufacturing process, minimizing product warranty costs and providing our customers with product and fuel-usage efficiencies.

Truck segment equity in income of non-consolidated affiliates

Our Truck segment reported an increase of $9 million in *Equity in income of non-consolidated affiliates* for 2009, as compared to 2008. Prior to the consolidation of our BDT affiliate, our affiliate recognized low-volume income of $19 million in 2009. For more information, see Note 10, *Investments in and advances to non-consolidated affiliates*, to the accompanying consolidated financial statements.

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Truck segment profit

The Truck segment decreased profitability in 2009 by $658 million to $147 million from $805 million in 2008. This decrease in profitability was caused by decreased sales to the U.S. military, lower Traditional sales and higher material costs. The Truck segment increased in profitability in 2008 by $645 million to $805 million from $160 million in 2007. This increase in profitability was driven by increased sales to the U.S. military offsetting lower volumes and higher material costs. Included in our Truck segment profit is an extraordinary gain of $23 million related to the acquisition of certain assets from Monaco Coach Corporation in 2009.

Engine Segment

The following tables summarize our Engine segment s financial results and sales data:

				2009 vs. 2008		2008 vs. 2007	
(in millions, except % change)	2009	2008	2007	Change	% Change	Change	% Change
Segment sales	**$ 2,690**	$ 3,257	$ 3,461	(567)	(17)	$ (204)	(6)
Segment profit (loss)[(A)]	**253**	(366)	142	619	N.M.	(508)	N.M.
Sales data (in units):							
Ford sales U.S. and Canada	**101,900**	125,900	211,400	(24,000)	(19)	(85,500)	(40)
Ford sales ROW	**11,700**	26,100	23,700	(14,400)	(55)	2,400	10
Other OEM sales U.S. and Canada	**7,700**	15,500	8,800	(7,800)	(50)	6,700	76
Other OEM sales ROW	**90,700**	113,100	95,400	(22,400)	(20)	17,700	19
Intercompany sales	**57,300**	64,900	65,400	(7,600)	(12)	(500)	(1)
Total sales	**269,300**	345,500	404,700	(76,200)	(22)	(59,200)	(15)

(A) Included in our 2009 segment profit was income of $160 million from the Ford Settlement, net of related charges. Included in our 2008 segment loss was an *Impairment of property and equipment* charge of $358 million and other costs of $37 million related to our expectation of permanently lower Ford volumes.

Engine segment sales

				2009 vs. 2008		2008 vs. 2007	
(in millions, except % change)	2009	2008[(A)]	2007[(A)]	Change	% Change	Change	% Change
Engine segment sales of manufactured products, net U.S. and Canada	**$ 1,836**	$ 1,949	$ 2,452	(113)	(6)	$ (503)	(21)
Engine segment sales of manufactured products, net ROW	**854**	1,308	1,009	(454)	(35)	299	30
Total Engine segment sales of manufactured products, net	**$ 2,690**	$ 3,257	$ 3,461	(567)	(17)	$ (204)	(6)

(A) In 2009, we changed our methodology of reporting the categorization of sales based on the selling location to a sold to location. Prior period amounts have been recast to reflect this change in methodology.

The Engine segment experienced a decrease in sales primarily due to the decline in unit volumes as a result of the economic downturn and industry-wide reduction in demand for our engines offset partially by an $85 million increase in sales due to the consolidation of BDP. In addition, engines sold to Ford, our largest customer, are

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used primarily in Ford s F Series and E Series vehicles, which also experienced a decline as result of lower demand. Engines shipped to Ford represented 42% of our unit volume in 2009 compared to 44% of our unit volume in 2008. In accordance with the Ford Settlement, we will continue to provide diesel engines to Ford in North American through December 31, 2009, and we expect a material reduction of overall sales to Ford in 2010. A decrease in U.S. and Canada sales from 2008 to 2007 was primarily due to decreased product volumes to Ford in North America, partially offset by increased V8 sales to the Truck segment. Sales to non-Ford customers, including intercompany sales, decreased by 37,800 units during 2009 compared to 2008. Our intercompany shipments to our Truck segment are dependent on the North American markets for School buses, Class 6 and 7 medium trucks and, to a lesser extent, Class 8 severe service trucks. The intercompany units sold to our Truck and Parts segment during 2009 decreased by 7,600 units compared to 2008, driven primarily by lower mid-range engine sales offset partially by an increase in our MaxxForce 11 and 13 engine sales. The intercompany units decreased in 2008 as compared to 2007 as a result of a decrease in demand for our Truck products. We expect an increase in intercompany sales in 2010 as a result of an anticipated recovery of our Traditional truck markets coinciding with an increased use of our MaxxForce 11 and 13 engines.

The decrease in ROW sales in 2009 was driven by a decrease in sales in South America as a result of the weak economy, combined with an unfavorable exchange rate impact. We believe a recovery is under way in South America, driven primarily by the Brazilian economy, and will provide higher potential sales in 2010. In addition, we won new contracts to provide diesel engines which will partially replace some of the lost volumes from Ford in North America. The increase in ROW sales from 2008 to 2007 was primarily driven by our South American subsidiary. Our strategy is to continue our efforts to diversify our Engine segment sales and profitably grow our ROW business through our South American subsidiary and our joint ventures with Mahindra Navistar Engines Private Ltd. and NC ^{2}.

Engine segment costs and expenses

(in millions, except % change)	2009	2008	2007	2009 vs. 2008 Change	2009 vs. 2008 % Change	2008 vs. 2007 Change	2008 vs. 2007 % Change
Costs of products sold, excluding items presented separately below	**$ 2,325**	$ 2,955	$ 3,062	$ (630)	(21)	$ (107)	(3)
Postretirement benefits expense allocated to costs of products sold	**6**	11	12	(5)	(45)	(1)	(8)
Product warranty costs	**57**	100	64	(43)	(43)	36	56
Total costs of products sold	**$ 2,388**	$ 3,066	$ 3,138	$ (678)	(22)	$ (72)	(2)

The decrease in total *Costs of products sold* for 2009 compared to 2008 reflects the reduction in the shipments of engines to our Truck segment, Ford and customers in South America, and a reversal of $75 million in warranty expense from the Ford Settlement partially offset by $81 million of other Ford related charges. Lower demand from our Truck segment was due to lower customer demand as a result of the economic recession in our Traditional market. The decrease in Ford shipments was due to a reduction in the production of heavy-duty pickup trucks built by Ford that contain our diesel engines. Sales originating from our South American operations were growing stronger in the second half of 2009 and we expect that trend to continue into 2010 as the South American economy improves.

A significant driver of the decrease in *Costs of products sold* for 2008 compared to 2007 was a reduction in the shipments of engines to Ford offset by increases in commodity costs, primarily steel and precious metals. The decrease in Ford shipments was due to a reduction in the production of heavy-duty pickup trucks built by Ford that contain diesel engines. Due to the reduction in shipments to Ford, the Engine segment s Indianapolis plant

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laid off over 400 employees in 2008 to match Ford s production schedules. As a result, we recognized an expense of $15 million for employee benefit layoff expense within 2008 *Costs of products sold*.

Our product warranty costs decreased by $43 million in 2009 compared to 2008 which included a reversal of $75 million in warranty expense from the Ford Settlement. Excluding the $75 million reversal, warranty costs increased, driven by higher costs per-unit and an increase in our pre-existing warranty reserves for products sold in prior periods. The 2007 U.S. EPA regulations have resulted in rapid product development cycles and have included significant changes from previous engine models. The new emission compliant products are more complex, contain higher material costs and, consequently, repair costs have exceeded those we have historically experienced. In the past our engines typically had a longer model lifecycle that afforded us the opportunity to refine both the design and manufacturing process to reduce both the volume and the severity of warranty claims.

The increase in product warranty costs from 2008 as compared to 2007 was attributable to increases in accruals for pre-existing warranties in 2008 compared to 2007. The Engine segment s changes in pre-existing warranty were due to changes in our estimates of warranty costs for products sold in prior years and were partially offset by a decrease in per unit warranty expense and the decrease in shipments of our products. Marginal improvements in per unit product warranty costs were also achieved by focusing on controlling the reliability and quality of our emissions-compliant engines as evidenced by the level of spending incurred during previous years within *Engineering and product development costs*. Costs are accrued per unit based on expected warranty claims that incorporate historical information and forward assumptions about the nature, frequency, and cost of warranty claims.

Restructuring charges relate to restructuring activities at our IEP and ICC locations. In the beginning of 2009 due to the changes in Ford s strategy, we announced our intention to close IEP and ICC. Prior to the end of 2009, we announced that we will continue certain quality control and manufacturing engineering activities at the IEP location. We have delayed the closure of ICC due to supply and other customer needs. As a result of these actions we recognized $59 million of restructuring charges for contractual obligations, personnel costs for employee termination and related benefits, and charges for postretirement contractual terminations benefits, and a plan curtailment. For more information, see Note 2, *Ford settlement and related charges*, to the accompanying consolidated financial statements.

In 2008, we incurred *Impairment of property and equipment* charges of $358 million due to the expectation of permanently lower Ford volumes at our Engine segment. Other costs of $37 million related to our expectation of permanently lower Ford volumes were primarily expensed in *Costs of products sold* and *Selling, general and administrative expenses* in 2008. For additional information about these items, see Note 8, *Impairment of property and equipment and related charges*, to the accompanying consolidated financial statements.

Selling, general and administrative expenses were $121 million in 2009, $158 million in 2008, and $121 million in 2007. The $37 million decline in 2009 compared to 2008 primarily was a result of a reduction in legal expenses and overall cost reduction measures actively pursued this year. The increase of $37 million for 2008 compared to 2007 primarily was a result of an increase in expenses related to the Ford litigation and expenses related to our expectation of permanently lower Ford volumes.

Engineering and product development costs for 2009, 2008 and 2007 were $228 million, $201 million, and $193 million, respectively. In total, during the three-year period ended October 31, 2009, the Engine segment invested $622 million for engineering and product development costs directed towards providing our customers with 2007 and 2010 emissions-compliant engines, enhanced product improvements, innovations, and value while improving the reliability and quality of our engines. *Engineering and product development costs* have been and will continue to be a significant component of our Engine segment costs. We continue to focus substantial effort on the development of fuel efficient engines with enhanced performance and reliability while meeting or exceeding stricter emissions compliance requirements. Currently our top developmental priorities focus on further design changes to our diesel engines, the development of our MaxxForce 15 engine and on new products

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and integration of other technologies to meet the requirements of the 2010 emissions regulations. Each of these developments required significant resources, outside engineering assistance, and prototype parts.

Engine segment other income, net

Other income, net for 2009, 2008 and 2007 was $339 million, $80 million and $69 million, respectively. The increase in 2009 is primarily due to the $225 million benefit related to the Ford Settlement and other related items. Additionally, we recognized a gain of $16 million in 2009 related to a favorable agreement in Brazil providing for recovery of certain value added taxes.

Engine segment equity in income of non-consolidated affiliates

Our Engine segment reported $45 million, $80 million and $64 million in *Equity in income of non-consolidated affiliates* for 2009, 2008 and 2007, respectively. As part of the Ford Settlement, we increased our interest in the BDP joint venture with Ford to 75% and, effective June 1, 2009, the results of BDP operations are presented on a consolidated basis. Accordingly, our share of the results of this entity is no longer included in *Equity in income of non-consolidated affiliates*. For more information, see Note 10, *Investments in and advances to non-consolidated affiliates*, to the accompanying consolidated financial statements.

Minority Interest in net income of subsidiaries, net of tax

As part of the Ford Settlement, we increased our equity interest in our BDP joint venture with Ford to 75% and, effective June 1, 2009, the results of BDP operations are consolidated and included in the Engine segment. Ford s 25% minority interest in BDP s net income was $25 million for 2009.

Engine segment profit

The Ford Settlement, *Impairment of property and equipment*, and related charges that impacted the Engine segment profit or loss are presented in the table below. The information is presented as a benefit or (expense).

(in millions, except % change)	2009	2008	2009 vs. 2008 Change	2009 vs. 2008 % Change
Engine segment profit excluding items presented separately below	**$ 93**	$ 29	$ 64	221
Ford settlement	**298**		298	N.M.
Indianapolis engine locations closure costs	**(69)**	(20)	(49)	(245)
Ford related charges	**(69)**	(17)	(52)	(306)
Impairment of property, plant and equipment		(358)	358	N.M.
Engine segment profit	**$ 253**	$ (366)	$ 619	N.M.

As a result of the above items, our Engine segment recognized a profit of $253 million in 2009 that compares to a loss of $366 million in 2008 and a profit of $142 million in 2007.

Parts Segment

The following tables summarize our Parts segment s financial results:

(in millions, except % change)	2009	2008	2007	2009 vs. 2008 Change	2009 vs. 2008 % Change	2008 vs. 2007 Change	2008 vs. 2007 % Change

Segment sales	**$ 2,173**	$ 1,824	$ 1,562	$ 349	19	$ 262	17
Segment profit	**436**	254	160	182	72	94	59

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Parts segment sales

In 2009 and 2008, the Parts segment delivered sales growth of 19% and 17%, respectively. A significant contributor to growth in 2009 was an increase in sales to the U.S. military, our largest customer, of $519 million for the support of fielding the MRAPs, which more than offset decreased global business demand caused by the current economic conditions.

Parts segment selling, general and administrative expenses

The Parts segment relative ratio of *Selling, general and administrative expenses* to net sales and revenues was approximately 8% in 2009 compared to the 2008 ratio of 9% and 10% in 2007. These decreases are attributed to our ability to leverage our infrastructure while increasing revenue in military and in expansion markets.

Parts segment profit

The Parts segment profit in 2009 grew by 72% as compared to growth of 59% in 2008. In 2009 and 2008, the improvement in profit is primarily the result of our ability to expand into adjacent markets, primarily the military, without a significant investment in product development or distribution infrastructure.

Financial Services Segment

The following tables summarize our Financial Services segment s financial results:

				2009 vs. 2008		2008 vs. 2007	
(in millions, except % change)	**2009**	**2008**	**2007**	**Change**	**% Change**	**Change**	**% Change**
Segment revenues	**$ 348**	$ 405	$ 517	$ (57)	(14)	$ (112)	(22)
Segment profit (loss)	**40**	(24)	127	64	N.M.	(151)	N.M.

Financial Services segment revenues include revenues from retail notes and finance leases, operating lease revenues, wholesale notes and retail and wholesale accounts and securitization income. Substantially all revenues earned by the Financial Services segment are derived from supporting the sales of our vehicles and products. The decline in our finance and lease revenues in 2009 versus prior year is primarily due to decreases in financing of new retail and finance lease receivables, lower interest rates on receivables, and customer payments which reduced existing receivables. Securitization income included in our Financial Services segment revenues was $41 million, $12 million and $73 million for 2009, 2008 and 2007, respectively. Securitization income increased in 2009 versus the prior year as a result of an increase in the fair value of our retained interests in sold receivables driven by the lower discount rate. Securitization income decreased in 2008 versus 2007 as a result of a decline in the fair value of our retained interests in sold receivables driven by the higher discount rate.

The following table presents contractual maturities of finance receivables for our Financial Services segment which primarily drives Financial Services segment revenues. For more information, see Note 5, *Finance and other receivables, net*, to the accompanying consolidated financial statements.

(in millions)	**2009**	**2008**	**2007**
Due in 1 year	**$ 1,831**	$ 1,941	$ 2,305
Due in 2 years	**696**	891	1,064
Due in 3 years	**478**	622	813
Thereafter	**494**	649	864
Gross finance receivables	**$ 3,499**	$ 4,103	$ 5,046

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The Financial Services segment s revenues include interest income from the Truck and Parts segments and corporate relating to financing of wholesale notes, wholesale and retail accounts. This income is eliminated upon consolidation of financial results. Substantially all revenues earned on wholesale and retail accounts are received from other segments. Aggregate interest revenue provided by the Truck and Parts segments and corporate was $79 million in 2009, $80 million in 2008, and $132 million in 2007.

The following tables present Financial Services segment debt balance and components of *Interest expense*:

				2009 vs. 2008		2008 vs. 2007	
(in millions, except % change)	**2009**	**2008**	**2007**	**Change**	**% Change**	**Change**	**% Change**
Debt	**$ 3,431**	$ 4,240	$ 4,852	$ (809)	(19)	$ (612)	(13)
Interest expense related to debt	**$ 120**	$ 258	$ 297	$ (138)	(53)	$ (39)	(13)
Derivative interest expense	**41**	55	9	(14)	(25)	46	511

Total interest expense