NAVISTAR INTERNATIONAL CORP
Form 10-K
December 20, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K
(Mark One)

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

For the fiscal year ended October 31, 2011

OR

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

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

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

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

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

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

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

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o
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 o No þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

Indicate by check mark 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. o

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

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

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

As of April 30, 2011, the aggregate market value of common stock held by non-affiliates of the registrant was approximately $5.0 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, 2011, the number of shares outstanding of the registrant's common stock was 70,186,498, net of treasury shares.

Documents incorporated by reference: Portions of the Company's proxy statement for the 2012 annual meeting of stockholders to be held on February 21, 2012 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 Navistar International Corporation assumes no obligation to update the information included in this report.

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

- estimates we have made in preparing our financial statements;
- our development of new products and technologies;
- the anticipated sales, volume, demand and markets for our products;
- the anticipated performance and benefits of our products and technologies, including our exhaust gas recirculation technologies;
- our business strategies and long-term goals and activities to accomplish such strategies and goals;
- anticipated benefits from acquisitions, strategic alliances, and joint ventures we complete;
- our expectations and estimates relating to restructuring activities, including restructuring charges and operational flexibility, savings, and efficiencies;
- our expectations relating to our retail finance receivables and retail finance revenues;
- our anticipated capital expenditures;
- our expectations relating to payments of taxes;
- our expectations relating to warranty costs;
- estimates relating to pension plan contributions;
- trends relating to commodity prices; and
- anticipated trends, expectations, and outlook relating to matters affecting our financial condition or results of operations.

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

Available Information

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

Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

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PART I

Item 1. Business

Navistar International Corporation ("NIC"), incorporated under the laws of the State of Delaware in 1993, is a holding company whose principal operating subsidiaries are Navistar, Inc. and Navistar Financial Corporation ("NFC"). References herein to the "Company," "we," "our," or "us" refer 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 2011, 2010, and 2009 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 and military trucks, IC Bus ("IC") brand buses, MaxxForce brand diesel engines, Workhorse® Custom Chassis ("WCC") brand chassis for motor homes and step vans, and Monaco® RV ("Monaco") recreational vehicles ("RV"), as well as a provider of service parts for all makes of trucks and trailers. Additionally, we are a private-label designer and manufacturer of diesel engines for the pickup truck, van, and sport utility vehicle ("SUV") markets. We also provide retail, wholesale, and lease financing of our trucks and parts.

Our Strategy

Our long-term strategy is primarily focused on our three pillars; focused on continuing to produce Great Products, at a Competitive Cost Structure, while attaining Profitable Growth.

I Great Products

- Growing our product lines, including an enhanced line of our Class 8 ProStar® and LoneStar® trucks and Class 4/5 TerraStar™ trucks manufactured under the International brand, an expanded line of our engines, including our new 11, 13 and 15L Big-Bore engines, manufactured under the MaxxForce® brand, and additional products manufactured and marketed under the Company's other proprietary brands, including IC and Monaco
- Maintaining strong market share in our "traditional" classes, which include School buses and Class 6 through 8 medium and heavy trucks in the U.S. and Canada
- Focusing on engine research and development in order to have a competitive advantage using Advanced Exhaust Gas Recirculation ("EGR"), coupled with other strategies, for compliance with ongoing emissions standards
- Introducing our advanced engine technology in new markets

II Competitive Cost Structure

- Continuing our seamless integration of MaxxForce branded engines in our complimentary product lines, including the establishment of our new MaxxForce 11, 13 and 15L Big-Bore engines
- Reducing material cost by increasing global sourcing, leveraging scale benefits, finding synergies among strategic partnerships, reducing manufacturing conversion costs, and seeking opportunities for vertical integration
- Leveraging commonality in our product platforms through our integrated product strategy, including chassis, cabs and engine families

III Profitable Growth

- Working in cooperation with the U.S. military to provide an extensive line of defense vehicles and product support, including but not limited to, Mine Resistant Ambush Protected ("MRAP") vehicles and other vehicles derived from our existing truck platforms
- Minimizing the impact of cyclicality in our North American markets by growing our Truck and Parts segments and "expansion" markets sales, which include Mexico, international export, U.S. and non-U.S. military, RV, commercial bus, commercial step van, and other truck and bus markets
- Broadening our Engine segment customer base within the commercial truck market, other consumer and specialty vehicle products, and other non-vehicle-based platforms

The key enablers to our long-term strategy are the ability to Leverage Our Assets and Those of Our Partners and engaging in activities designed to allow us to Control Our Destiny, as described below.

I Leverage Our Assets and Those of Our Partners

- Growing in our North American markets and globally through strategic partnerships, including through our joint ventures with Mahindra & Mahindra Ltd. (“Mahindra”) for truck and engine markets in India, our alliance with

Caterpillar Inc. ("Caterpillar") for markets in North America and various markets outside of the Indian subcontinent, and our pending ventures with Anhui Jianghuai Automobile Co. Ltd. ("JAC") for truck and engine markets in China, each of which is intended to increase our speed to market, while reducing risk and lowering the cost of our investment.

- Maintaining product and plant flexibility to fully utilize our existing facilities, people, and technologies, as well as leveraging our integrated product strategy to more quickly and cost effectively expand our product portfolio
- Attaining further operating efficiencies and economies of scale through consolidating and centralizing certain facilities and functions, including the consolidation of our executive management, certain business operations, and product development at a new world headquarters site in Lisle, Illinois and the development of a testing and validation center at our Melrose Park facility, as well as other actions including the closure of our Chatham, Ontario heavy truck plant and the restructuring of our WCC and Monaco operations
- Containing costs by combining global purchasing relationships to achieve scale and sourcing throughout the world

II Control Our Destiny

- Controlling the development process and associated intellectual property of our products
- Utilizing key supplier competencies to reduce costs of components and improve quality
- Ensuring 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 16, 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, leasing, construction, energy/petroleum, military vehicle, and student and commercial transportation markets under the International and IC brands. This segment also produces chassis for motor homes and commercial step-van vehicles under the WCC brand, RVs, including non-motorized towables, under the Monaco family of brands, and concrete mixers under the Continental Mixers brand. The Truck segment is our largest operating segment based on total external sales and revenues.

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

We compete primarily in the School bus and Class 6 through 8 medium and heavy truck markets within the U.S. and Canada, which we consider our "traditional" markets. We continue to grow in "expansion" markets, which include Mexico, international export, U.S. and non-U.S. military, RV, commercial step-van, and other truck and bus markets. In recent years, we have successfully grown our "expansion" market by increasing our sales to the U.S. military. The products we sell to the U.S. military are derivatives of our commercial vehicles and allow us to leverage our manufacturing and engineering expertise, utilize existing plants, and seamlessly integrate our engines. This segment engages in various strategic joint ventures to further our product reach to the global markets including our Mahindra Navistar Automotives Ltd. ("MNAL") joint venture with Mahindra and our Blue Diamond Truck ("BDT") joint venture with Ford Motor Company ("Ford"). In December 2011, Ford notified the Company of its intention to dissolve the BDT joint venture effective December 2014. We also sell International and CAT branded trucks in North America, as well as in various global markets through our alliance with Caterpillar and our NC^2 Global, LLC ("NC^2") operations, which became a wholly owned subsidiary of Navistar in September 2011.

We market our commercial products through our extensive independent dealer network in North America, which offers a comprehensive range of services and other support functions to our end users. Our commercial trucks are distributed in virtually all key markets in North America, as well as select markets outside of North America, through our distribution and service network comprised of 783 U.S. and Canadian dealer and retail outlets, 84 Mexican dealer locations, and 107 international dealer locations, as of October 31, 2011. We occasionally acquire and operate dealer locations ("Dealcors") for the purpose of transitioning ownership. In addition, our network of used truck centers and International certified used truck dealers in the U.S. and Canada provides trade-in support to our dealers and national accounts group, and markets all makes and models of reconditioned used trucks to owner-operators and fleet buyers.

The sales and revenues of our Truck segment largely reflect chargeouts, which we define as trucks that have been

invoiced to customers.

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

The Class 4 through 8 truck and bus markets in North America are highly competitive. Major U.S.-controlled domestic competitors include: PACCAR Inc. (“PACCAR”) and 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, and Oshkosh Truck. In addition, smaller, foreign-controlled market participants such as Isuzu Motors America, Inc. (“Isuzu”), UD Trucks North America (formerly known as Nissan Diesel America, Inc. (“UD Trucks”)), Hino (a subsidiary of Toyota Motor Corporation (“Toyota”)), and Mitsubishi Motors North America, Inc. (“Mitsubishi”) are competing in the U.S. and Canadian markets with primarily imported products. For the RV business, our major competitors include: Thor Industries, Inc., Forest River, Inc., Tiffin Motorhomes, Inc., Winnebago Industries, Inc., and Fleetwood RV, Inc. In Mexico, the major domestic competitors are Kenmex (a subsidiary of PACCAR) and Mercedes Benz.

Engine Segment

The Engine segment designs and manufactures diesel engines across the 50 through 550 horsepower range under the MaxxForce brand name for use primarily in our International branded Class 6 and 7 medium trucks, Class 8 heavy trucks, and military vehicles. The Engine segment also produces diesel engines for all IC Bus and Monaco applications. In addition to providing high-tech diesel engines for Navistar captive applications, our engines are also sold to global original equipment manufacturers (“OEMs”) for various on-and-off-road applications. Our engines are sold in all areas of the world for use in an assortment of applications utilizing the MaxxForce brand name. Also, we offer contract manufacturing services to OEMs for the assembly of their engines. Our strategy is to continue our efforts to expand our Engine segment sales and profitability and to grow our global presence through our South America subsidiary and joint ventures. The Engine segment is our second largest operating segment based on total external sales and revenues.

To control cost and technology, the Engine segment has expanded its operations to include Pure Power Technologies, LLC (“PPT”), a components company focused on air, fuel, and aftertreatment systems to meet more stringent Euro and U.S. Environmental Protection Agency (“EPA”) emission standards. Also included in the Engine segment is our Blue Diamond Parts (“BDP”) joint venture with Ford, which manages the sourcing, merchandising, and distribution of certain service parts for North American Ford vehicles.

The Engine segment has engaged in various strategic joint ventures to further product reach to global markets, including our joint venture in India with Mahindra called Mahindra-Navistar Engines Private Ltd (“MNEPL”).

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 PPT and 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.

In South America, our subsidiary, MWM International Industria De Motores Da America Do Sul Ltda. (“MWM”) merged into another wholly-owned subsidiary, International Indústria de Motores da América do Sul Ltda (“IIAA”) in 2011 and is now known as IIAA. IIAA is a leader in the South American mid-range diesel engine market, 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.

In the U.S. and Canada mid-range commercial truck diesel engine market, our primary competitors are Cummins Inc. (“Cummins”), Mercedes Benz, Isuzu, and Hino. In South America, IIAA 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, MAN, 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 our MaxxForce 4.8, 7, DT, and 9 engines, facing competition from Cummins, Isuzu, Hino, Mercedes Benz, and Ford. The introduction of the our MaxxForce 11, 13, and 15L Big-Bore engines in Mexico will depend on the availability of low sulfur diesel fuel throughout the country.

Parts Segment

The Parts segment supports our brands of International commercial and military trucks, IC buses, WCC chassis, MaxxForce engines, as well as our other product lines, by providing customers with proprietary products together with a wide selection of

other standard truck, trailer, and engine service parts. We distribute service parts in North America and the rest of the world through the dealer network that supports our Truck and Engine segments.
We believe our extensive dealer channel provides us with an advantage in serving our customers by having our parts available when and where our customers require service. Goods are delivered to our customers either through one of our eleven regional parts distribution centers in North America or through direct shipment from our suppliers for parts not generally stocked at our distribution centers. We have a dedicated parts sales team within North America, as well as national account teams focused on large fleet customers and a government and military team. In addition, we serve global customers with dedicated sales teams and distribution centers in South Africa and Brazil. 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 and manages retail, wholesale, and lease financing of products sold by the Truck and Parts segments and their dealers within the U.S. and Mexico. Substantially all revenues earned by the Financial Services segment are derived from supporting the sales of our vehicles and products. We also finance wholesale and retail accounts receivable, of which substantially all revenues earned are received from the Truck and Parts segments. The Financial Services segment continues to meet the primary goal of providing and managing financing to our customers in U.S. and Mexico markets by arranging cost effective funding sources, while working to mitigate credit losses and impaired vehicle asset values. This segment provided wholesale financing for 90% and 96% of our new truck inventory sold by us to our dealers and distributors in the U.S. in 2011 and 2010, respectively.
The Financial Services segment manages the relationship with Navistar Capital (an alliance with GE Capital) which provides retail financing in the U.S. GE Capital has provided financing to support the sale of our products in Canada for over 20 years. This segment is also facilitating financing relationships in other countries to support the Company's global expansion initiatives.
Government Contracts
As a U.S. government contractor, we are subject to specific regulations and requirements as mandated by our contracts. These regulations include Federal Acquisition Regulations, Defense Federal Acquisition Regulations, and the Code of Federal Regulations. We are also subject to routine audits and investigations by U.S. government agencies such as the Defense Contract Management Agency and Defense Contract Audit Agency. These agencies review and assess compliance with contractual requirements, cost structure, cost accounting, and applicable laws, regulations, and standards.
Many of our existing U.S. government contracts extend over multiple years and are conditioned upon the continuing availability of congressional appropriations. In addition, our 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.
Engineering and Product Development
Our engineering and product development programs are focused on product improvements, innovations, and cost reductions, and the related costs are incurred by our Truck and Engine segments. As a truck manufacturer, we have focused on further development of our existing products such as military vehicles, Big-Bore engines, ProStar and LoneStar trucks as well as modifications of our trucks to accommodate our MaxxForce engines. As a diesel engine manufacturer, we have incurred research, development, and tooling costs to design our engine product lines to meet emissions regulatory requirements and to provide engine solutions to support a global marketplace. The Company participates in very competitive markets with constant changes in regulatory requirements and technology and, accordingly, the Company continues to believe that a strong commitment to engineering and product development is required to drive long-term growth. Our engineering and product development expenditures were $532 million in 2011 compared to $464 million in 2010 and $433 million in 2009.
We continue to invest in research, development, and tooling equipment to design and produce our engine product lines to meet EPA and California Air Resources Board ("CARB") emissions requirements. EGR, combined with other strategies, is our solution to meet ongoing emissions requirements. Advancements in EGR technology have resulted in reductions in emissions of nitrogen oxides ("NOx") from 1.2 or more grams per brake horsepower-hour through 2009 to 0.5 grams in 2010, to as low as 0.39 grams in 2011, with additional reductions in process. Our engines meet current EPA and CARB certification requirements because of emissions credits we earned from 2007 through 2009 via the

early adoption of technologies that reduced NOx levels beyond what was then mandated. We continue to invest in our EGR technology, combined with other strategies, to meet current EPA emission requirements in North America and Euro V emissions requirements in South America, as well as evaluate our emissions strategies on a platform-by-platform basis to achieve the best long-term solution for our customers in each of our

vehicle applications. We believe that coupling EGR with our other emission strategies will provide a significant competitive advantage over our competition's products. Our continued investment in research and development includes the further enhancement of our advanced EGR technology and the ongoing development of reliable, high-quality, high-performance and fuel-efficient products.

Acquisitions, Strategic Agreements, and Joint Ventures

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

- In 2006, we completed a joint venture with Mahindra, a leading Indian manufacturer of multi-utility vehicles and tractors to produce commercial trucks and buses in India. In 2008, we signed a second joint venture agreement with Mahindra to produce diesel engines for medium and heavy commercial trucks and buses in India. We have a 49% ownership in each joint venture, which operate under the names of MNAL and MNEPL, respectively. These joint ventures provide us engineering services, as well as advantages of scale and global sourcing for a more competitive cost structure, and afford us the opportunity to enter markets in India that have significant growth potential for commercial vehicles and diesel power. In 2010, MNAL launched a family of commercial trucks and tractors in the range of 25, 31, 40 and 49 ton with MNEPL engines (equivalent gross vehicle weight ranges of approximately 56,000 pounds up to 109,000 pounds).
- In 2009, we signed a strategic agreement with Caterpillar to design and develop a new proprietary, purpose-built heavy-duty CAT vocational truck, the CT660, for the North American market, which was launched in March 2011. These trucks are sold and serviced though the Caterpillar North American dealer network. In September 2011, we also signed a non-binding memorandum of understanding with Caterpillar to develop a new, cab-over-engine CAT vocational truck, in addition to the CT660, that will be sold globally.
- In 2009, we acquired all of the membership interests and certain assets associated with the amplified common rail injector business of Continental Diesel Systems US, LLC ("CDS"). CDS was a leading manufacturer of injectors used in fuel systems that are installed into various diesel engines. We believe the acquired company, renamed PPT, will allow us to further vertically integrate research and development, engineering, and manufacturing capabilities to produce world-class diesel power systems and advanced emissions control systems. The seamless integration of the fuel, air, and aftertreatment systems that PPT provides is enabled by the focus on optimized solutions through combining the design, development, analysis, and manufacturing into a single company. While PPT currently focuses primarily on intercompany customers, we anticipate that this business will provide additional external opportunities in the future.
- In 2010, we signed a joint venture agreement with JAC to develop, build, and market advanced diesel commercial engines in China. NC^2 also signed a joint venture agreement with JAC to develop, build, and market advanced commercial vehicles in China. The engine joint venture will focus on meeting emerging needs of the Chinese commercial truck market with Euro V compliant technology and will provide application engineering development, product design and technology advancements, to support the truck joint venture and other engine requirements of JAC's product portfolio. A dedicated manufacturing facility in Hefei, China is expected to be constructed to produce JAC and the Navistar-designed MaxxForce diesel engines. The formation of the joint ventures is pending necessary approvals from the Chinese government, and is subject to finalization of certain ancillary agreements among the parties.
- In September 2011, certain aspects of our NC^2 joint venture with Caterpillar were restructured and the joint venture agreement was terminated. In addition, we acquired all of Caterpillar's ownership interest in NC^2, thereby increasing the Company's equity interest in NC^2 from 50% to 100%. Under the terms of the new relationship, NC^2 became a wholly owned subsidiary of Navistar and through a new brand licensing agreement, both International and CAT-branded trucks will be distributed through both International and Caterpillar dealers outside of the United States. NC^2 has launched CAT-branded on-highway trucks in the Australian market, where it assembles and distributes commercial trucks under both the International and CAT

brands, and has initiated operations in Brazil.

Backlog

Our worldwide backlog of unfilled truck orders (subject to cancellation or return in certain events) at October 31, 2011 and 2010 was approximately $2.4 billion and $1.8 billion, or 32,000 units and 24,000 units, respectively. Production of our October 31, 2011 backlog is expected to be substantially completed during 2012. 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.

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”), and other unions, for the periods as indicated. See Item 1A, Risk Factors, for further discussion related to the risk associated with labor and work stoppages.

	As of October 31,		
	2011	2010	2009
Employees worldwide			
Total active employees	19,000	15,800	15,100
Total inactive employees[(A)]	1,800	2,900	2,800
Total employees worldwide	20,800	18,700	17,900

	As of October 31,		
	2011	2010	2009
Total active union employees			
Total UAW	2,000	1,700	2,600
Total other unions	3,900	2,400	1,900

(A) Employees are considered inactive in certain situations including disability leave, leave of absence, layoffs, and work stoppages. Included within inactive employees are approximately 1,000 employees as of October 31, 2011, and approximately 1,100 employees as of October 31, 2010 and 2009, represented by the National Automobile, Aerospace and Agricultural Implement Workers of Canada ("CAW") at our Chatham, Ontario heavy truck plant related to the expiration of the CAW contract on June 30, 2009. In 2011, the Company committed to close this facility due to an inability to reach a collective bargaining agreement with the CAW.

Patents and Trademarks

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

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

Supply

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

The impact of an interruption in supply will vary by commodity and type of part. Some parts are generic to the industry while others are of a proprietary design requiring unique tooling, which require additional effort to relocate. However, we believe our exposure to a disruption in production as a result of an interruption of raw 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 environmental and safety matters. New on-highway emissions standards commenced in the U.S. on January 1, 2007, which reduced allowable particulate matter and allowable NOx and have reached the last phase-in

period effective with engine model year 2010. This change in emissions standards resulted in a significant increase in the cost of our products to meet these emissions levels.

In 2010, the initial phase-in of on-board diagnostics requirements commenced for the initial family of truck engines and those

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products have also been certified. The phase-in for the remaining engine families occurs in 2013. Canadian heavy-duty engine emissions regulations essentially mirror those of the EPA. In Mexico, we offer EPA 2004 and Euro IV engines that comply with current standards in that country.
Truck manufacturers are also subject to various noise standards imposed by federal, state, and local regulations. The engine is one of a truck's primary sources of noise, and we therefore work closely with OEMs to develop strategies to reduce engine noise. We are also subject to the National Traffic and Motor Vehicle Safety Act ("Safety Act") and Federal Motor Vehicle Safety Standards ("Safety Standards") promulgated by the National Highway Traffic Safety Administration ("NHTSA").
Government regulation related to climate change is under consideration at the U.S. federal and state levels. Because our products use fossil fuels, they may be impacted indirectly due to regulation, such as a cap and trade program, affecting the cost of fuels. On May 21, 2010, President Obama directed the EPA and the Department of Transportation to adopt rules by July 30, 2011 setting greenhouse gas emission and fuel economy standards for medium and heavy-duty engines and vehicles beginning with model year 2014. EPA and NHTSA issued proposed rules on November 30, 2010. We have been active participants in the discussions surrounding the development of regulations and filed comments with the EPA on the proposed rules on January 31, 2011. The final rules, which were issued on September 15, 2011, begin to apply in 2014 and are fully implemented in model year 2017. The agencies' stated goals for these rules were to increase the use of currently existing technologies. The Company plans to comply with these rules through use of existing technologies and implementation of emerging technologies as they become available. In addition to the U.S., Canada and Mexico are also considering the adoption of fuel economy and or greenhouse gas regulations. We expect that heavy duty fuel economy rules will be under consideration in other global jurisdictions in the future. These standards will impact development costs for vehicles and engines as well as the cost of vehicles and engines. There will also be administrative costs arising from the implementation of the rules. These standards may also create opportunities for the Company, which has pursued the development of hybrid and electric vehicles and has sought incentives for the development of technology to improve fuel economy.
Our facilities may be subject to regulation related to climate change and climate change may also have some impact on the Company's operations. However, these impacts are currently uncertain and the Company cannot predict the nature and scope of those impacts.

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, 2011.

Daniel C. Ustian, 61, has served as President and Chief Executive Officer of NIC since 2003 and Chairman of the Board of Directors of NIC since 2004. He has also held numerous positions with Navistar, Inc., including serving as Chairman of Navistar, Inc. since 2004, President and Chief Executive Officer since 2003, and as a director since 2002. Prior to these positions, he served as President and Chief Operating Officer of Navistar Inc. from 2002 to 2003, President of the Engine Group of Navistar, Inc. from 1999 to 2002, and Group Vice President and General Manager of Engine & Foundry Group of Navistar, Inc. from 1993 to 1999. He is a member of the Business Roundtable and Society of Automotive Engineers. In March 2011, Mr. Ustian joined the board of directors at AGCO Corporation.

Andrew J. Cederoth, 46, has served as Executive Vice President and Chief Financial Officer of NIC since September 2009. Mr. Cederoth has also served as a director of Navistar, Inc. since April 2009, and Executive Vice President and Chief Financial Officer at Navistar, Inc. since September 2009. Prior to these positions he was interim principal financial officer and Senior Vice President-Corporate Finance of NIC from June 2009 to September 2009, Senior Vice President-Corporate Finance from April 2009 to June 2009 of NIC, Vice President and Chief Financial Officer of the Engine Division of Navistar, Inc. from 2006 to April 2009, Vice President and Treasurer of Navistar Financial Corporation from 2001 to 2005.

Steven K. Covey, 60, has served as Senior Vice President and General Counsel of NIC since 2004 and Chief Ethics Officer since 2008. Mr. Covey has also served as Senior Vice President and General Counsel of Navistar, Inc. since 2004 and Chief Ethics Officer since 2008. Prior to these positions, Mr. Covey served as Deputy General Counsel of Navistar, Inc. from April 2004 to September 2004 and as Vice President and General Counsel of Navistar Financial Corporation from 2000 to 2004. Mr. Covey also served as Corporate Secretary for NIC from 1990 to 2000; and Associate General Counsel of Navistar, Inc. from 1992 to 2000.

James M. Moran, 46, has served as Vice President and Treasurer of NIC since 2008. Mr. Moran also served as Vice President and Treasurer of Navistar, Inc. since 2008. Prior to these positions, Mr. Moran served as Vice President and Assistant Treasurer of both NIC and Navistar, Inc. from 2007 to 2008 and Director of Corporate Finance of Navistar, Inc. from 2005 to 2007. Prior to joining NIC, Mr. Moran served as Vice President and Treasurer of R.R. Donnelley & Sons Company, an international provider of print and print related services, from 2003 to 2004 and Assistant Treasurer of R.R. Donnelley & Sons Company from 2002 to 2003. Prior to that, Mr. Moran held various positions in corporate finance, strategic planning, and credit and collections at R.R. Donnelley & Sons Company.

Richard C. Tarapchak, 46, has served as Vice President and Controller (Principal Accounting Officer) of NIC since March 2010. Prior to this position, Mr. Tarapchak served as Vice President-Strategic Initiatives of Navistar, Inc. from 2008 to March 2010. Mr. Tarapchak also served as Vice President-Chief Financial Officer of the Truck Group of Navistar, Inc. from 2005 to 2008, Director-Corporate Financial Analysis of Navistar, Inc. from 2003 to 2005 and Director, Finance-Operations of Navistar, Inc. from 2000 to 2003.

Curt A. Kramer, 43, has served as Corporate Secretary of NIC since 2007. Mr. Kramer has also served as Associate General Counsel and Corporate Secretary of Navistar, Inc. since 2007. Prior to these positions, Mr. Kramer served as General Attorney of Navistar, Inc. from April 2007 to October 2007, Senior Counsel of Navistar, Inc. from 2004 to 2007, Senior Attorney of Navistar, Inc. from 2003 to 2004 and Attorney of Navistar, Inc. from 2002 to 2003. Prior to joining Navistar, Inc., Mr. Kramer was in private practice.

D.T. (Dee) Kapur, 59, has served as President of the Truck Group of Navistar, Inc. since 2003. Prior to joining Navistar, Inc., Mr. Kapur was employed by Ford 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.

Phyllis E. Cochran, 59, has served as President of the Parts Group of Navistar, Inc. since November 2009. Prior to this position, Ms. Cochran served as Senior Vice President and General Manager of the Parts Group of Navistar, Inc. since 2007, and Vice President and General Manager of the Parts Group of Navistar, Inc. from 2004 to 2007. Ms. Cochran was also Chief Executive Officer and General Manager of Navistar Financial Corporation from 2003 to 2004.

Ms. Cochran was Executive Vice President and General Manager of Navistar Financial Corporation from 2002 to 2003. Ms. Cochran also served as Vice President of Operations for Navistar Financial Corporation from 2000 to 2002;

and Vice President and Controller for Navistar Financial Corporation from 1994 to 2000. She is a director of The Mosaic Company, a world leading producer and marketer of concentrated phosphate and potash crop nutrients. She is a director of Women in Trucking, a not for profit organization to promote employment of women in the truck industry.

Gregory W. Elliott, 50, 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

Our financial condition, results of operations, and cash flows are subject to various risks, many of which are not exclusively within our 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 to identify, assess and rank risks; assign, mitigate and monitor risks; and report the status of our risk to the Management Risk Committee and the Board of Directors and its committees. The risks described below could materially and adversely affect our business, financial condition, results of operations, or cash flows. These risks are not the only risks that we face and our business operations could also be affected by additional factors that are not presently known to us or that we currently consider to be immaterial to our operations.

Our solutions for meeting U.S. federal and state emissions requirements may not be successful or may be more costly than planned.

Truck and engine manufacturers continue to face significant governmental regulation of their products, especially in the areas of environment and safety. In that regard, we have incurred, and will continue to incur, significant research, development, and tooling costs to design and produce our engine product lines to meet EPA and CARB emissions requirements. The new on-highway heavy duty emissions standards that came into effect in the U.S. for the 2007 model year reduced allowable particulate matter and allowable NOx. 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 came into effect for the model year 2010. In addition, regulations requiring on-board diagnostics began the initial phase-in during 2010 for truck engines and are a part of our product plans. Full phase-in of on-board diagnostics regulations will occur in 2013.

Most other truck and engine manufacturers have chosen liquid-based urea SCR systems to address the 2010 emissions standards. We are addressing the 2010 emissions requirements for our core applications through advances in engine emissions controls and continue to explore other cost effective alternative solutions for meeting these emissions standards. In 2011 and 2010, our engines met EPA and CARB certification requirements because of emissions credits we earned from 2007 through 2009 via the early adoption of technologies that reduced NOx levels beyond what was then mandated. The rate of usage of these emissions credits is dependent upon a variety of factors, including sales, product mix, and improvements in technologies. For some categories of engines we make, we expect to use our remaining emissions credits some time in 2012. We are engaged in ongoing discussions with officials from both EPA and CARB regarding potential regulatory solutions that would permit us to continue uninterrupted production of all of our engines. Our solutions for meeting U.S. federal and state emissions requirements may not be successful or may be more costly than planned.

Our ability to execute our strategy is dependent upon our ability to attract, train and retain qualified personnel.

Our continued success depends, in part, on our ability to identify, attract, motivate, train and retain qualified personnel. Because our future success is dependent on our ability to continue to enhance and introduce new products, we are particularly dependent on our ability to identify, attract, motivate, train and retain qualified engineers with the requisite education, background and industry experience. With the consolidation of our engineering activities in the new corporate headquarters in Lisle, Illinois, we are adding a significant number of new employees. Training and development of newly hired engineering resources is key to our engineering integration. We intend to continue to devote significant resources to recruit, train and retain qualified employees and any failure to do so could impair our ability to execute our strategy and could have an adverse effect on our financial condition and results of operations.

As we expand our global footprint through joint ventures, strategic alliances and other business initiatives, to effectively manage these global operations, we will need to recruit, train, assimilate, motivate and retain qualified experienced employees around the world. If there are an insufficient number of qualified local residents available, we may have difficulty obtaining and retaining expatriates to service new global markets. This could limit our access to

high potential talent and may negatively impact our ability to build a successful global business.

In addition, as some of our key personnel approach retirement age, we need to have appropriate succession plans in place and to successfully implement such plans. If we cannot attract and retain qualified personnel or effectively implement appropriate succession plans, it could have a material adverse impact on our business. While we follow a disciplined, ongoing succession planning process and have succession plans in place for senior management and other key executives, these do not guarantee

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that the services of qualified senior executives will continue to be available to us at particular moments in time.

Our business may be adversely affected by government contracting risks.

We derived approximately 13%, 15%, and 25% of our revenues for 2011, 2010, and 2009, 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.

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

As part of our growth strategy, we have completed acquisitions and joint ventures and expect we will continue to explore a number of potential additional joint ventures and strategic alliances, as well as other business initiatives. We cannot provide assurance that we will complete the joint ventures, strategic alliances or business initiatives we are exploring, or that our previous or future acquisitions, joint ventures, strategic alliances or business initiatives will be successful or will generate the expected benefits. If we are unable to successfully integrate newly acquired businesses with existing businesses, we may not realize the synergies we expect from acquisitions. In addition, we cannot provide assurance that 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 ventures or our relationships with our joint venture partners. Failure to successfully manage and integrate these and potential future acquisitions, joint ventures and strategic alliances could materially impact our financial condition, results of operations and cash flows.

Federal regulations and fuel economy rules may increase costs.

Additional changes to on-highway emissions or performance standards as well as compliance with additional environmental requirements are expected to add to the cost of our products and increase the capital-intensive nature of our business. In that regard, EPA and the Department of Transportation have issued final rules on greenhouse gas emissions and fuel economy for medium and heavy duty vehicles and engines. The standards establish required minimum fuel economy and greenhouse gas emissions levels for both engines and vehicles primarily through the increased use of existing technology. The rules, which apply to our engines and vehicles, initially come into effect in 2014 and are fully implemented in model year 2017. These standards will increase costs of development for engines and vehicles and administrative costs arising from implementation of the standard. In addition, other regulatory proposals under consideration may 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 financial condition, results of operations and cash flows.

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

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destinations administered by the Office of Foreign Assets Control, U.S. Department of the Treasury. A determination by the U.S. government that we have failed to comply with one or more of these export controls or trade sanctions could result in civil or criminal penalties, including the imposition of significant fines, denial of export privileges, loss of revenues from certain customers, and debarment from participation in U.S. government contracts.
We are subject to the Foreign Corrupt Practices Act (the "FCPA") and other laws which prohibit improper payments to foreign governments and their officials by U.S. and other business entities. We operate in countries known to experience corruption. Our operations in such countries create the risk of an unauthorized payment by one of our employees or agents which could be in violation of various laws including the FCPA.
Additionally, the failure to obtain applicable governmental approval and clearances could materially and adversely affect our ability to continue to service the government contracts we maintain. Exports of some of our products to certain international destinations may require shipment authorization from U.S. export control authorities, including the U.S. Departments of Commerce and State, and authorizations may be conditioned on end-use restrictions.
Our international business is also highly sensitive to changes in foreign national priorities and government budgets. Sales of military products are affected by defense budgets (both in the U.S. and abroad) and U.S. foreign policy.

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.

We have significant under-funded postretirement obligations.
The under-funded portion of our projected benefit obligation was $1.8 billion and $1.5 billion for pension benefits at October 31, 2011 and 2010, respectively, and $1.5 billion and $653 million for postretirement healthcare benefits at October 31, 2011 and 2010, respectively. Moreover, we have assumed expected rates of return on plan assets and growth rates of retiree medical costs and the failure to achieve the expected rates of return and growth rates, as well as reductions in interest rates, could have an adverse impact on our under-funded postretirement obligations, financial condition, results of operations and cash flows. The volatility in the financial markets affects the valuation of our pension assets and liabilities, resulting in potentially higher pension costs and higher levels of under-funding in future periods. The requirements set forth in the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended, as applicable to our U.S. pension plans (including such timing requirements) mandated by the Pension Protection Act of 2006 to fully fund our U.S. pension plans, net of any current

or possible future legislative or governmental agency relief, could also have an adverse impact on our business, financial condition, results of operations and cash flows even though the recently enacted pension funding relief legislation Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010 (the "PRA 2010") has reduced our funding requirements over the next five years.

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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 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. We are also developing operations in the Peoples' Republic of China. Accordingly, our business is subject to the political, economic, and other risks that are inherent in operating in those countries and internationally. These risks include, among others:

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

We may discover defects in vehicles potentially resulting in delays in new model launches, recall campaigns, or increased warranty costs.
Meeting or exceeding many government-mandated safety standards is costly and often technologically challenging, especially where one or more government-mandated standards may conflict. Government safety standards require manufacturers to remedy defects related to motor vehicle safety through safety recall campaigns, and a manufacturer is obligated to recall vehicles if it determines that they do not comply with a safety standard. Should we or government safety regulators determine that a safety or other defect or noncompliance exists with respect to certain of our vehicles, there could be a delay in the launch of a new model or a significant increase in warranty claims, the costs of which could be substantial.
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.
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.-controlled domestic competitors include: PACCAR and Ford. The competing foreign-controlled domestic manufacturers include: Freightliner and Western Star (both subsidiaries of Mercedes Benz), and Volvo and Mack (both subsidiaries of Volvo Global Trucks). The major U.S. military vehicle competitors include: BAE Systems, Force Protection, Inc., General Dynamics Land Systems, and Oshkosh Truck. In addition, smaller, foreign-controlled and market participants such as Isuzu, UD Trucks (formerly known as Nissan North America, Inc.), Hino (a subsidiary of Toyota), and Mitsubishi are competing in the U.S. and Canadian markets with primarily imported products. In Mexico, the major domestic competitors are Kenmex (a subsidiary of PACCAR) and Mercedes Benz.
The intensity of this competition, which is expected to continue, results in price discounting and margin pressures throughout the industry and adversely affects our ability to increase or maintain vehicle prices. Many of our competitors have greater financial resources, which may place us at a competitive disadvantage in responding to substantial industry changes, such as changes in governmental regulations that require major additional capital expenditures. In addition, certain of our competitors may have lower overall labor costs.

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

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

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, 2011, approximately 55% of our hourly workers and 5% of our salaried workers are represented by labor unions and are covered by collective bargaining agreements. Many of these agreements include provisions that limit our ability to realize cost savings from restructuring initiatives such as plant closings and reductions in workforce. Our current collective bargaining agreement with the UAW will expire in October 2014. Any strikes, threats of strikes, or other resistance in connection with the negotiation of new labor agreements or otherwise could materially adversely affect our business as well as impair our ability to implement further measures to reduce structural costs and improve production efficiencies. A lengthy strike 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.

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

Litigation can be expensive, lengthy, and disruptive to normal business operations. The results of complex legal proceedings are often uncertain and difficult to predict. An unfavorable outcome of a particular matter described in our periodic filings or any future legal proceedings could have a material adverse effect on our business, financial condition, results of operations or cash flows. For additional information regarding certain lawsuits in which we are involved, see Item 3, Legal Proceedings, and Note 15, 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 2011 that remain unresolved.

Item 2. Properties

In North America, we operate seventeen manufacturing and assembly facilities, which contain in the aggregate approximately 13 million square feet of floor space. Of these seventeen facilities, thirteen are owned and four are subject to leases. Eleven plants manufacture and assemble trucks, buses, and chassis, while six plants are used to build engines. Of these six plants that build engines, three manufacture diesel engines, one manufactures fuel injectors, one manufactures grey iron castings, and one manufactures ductile iron castings.

Our principal product development and engineering facilities are currently located in Lisle, Illinois, Melrose Park, Illinois, Fort Wayne, Indiana, Madison Heights, Michigan, and Columbia, South Carolina. The Parts segment has eight distribution centers in the U.S., two in Canada, and one in Mexico.

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

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

Not included above are the former Indianapolis, Indiana Engine Plant ("IEP") and the Chatham, Ontario Plant, both of which have ceased production activities. In addition, effective January 1, 2012, we will begin leasing a 2.3 million

square foot manufacturing facility in Cherokee, Alabama.

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

Retiree Health Care Litigation

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

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

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

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

FATMA Notice

IIAA, formerly known as Maxion International Motores S/A (“Maxion”), now a wholly owned subsidiary of the Company, received a notice in July 2010 from the State of Santa Catarina Environmental Protection Agency (“FATMA”) in Brazil. The notice alleged that Maxion had sent wastes to a facility owned and operated by a company known as Natureza and that soil and groundwater contamination had occurred at the Natureza facility. The notice asserted liability against Maxion and assessed an initial penalty in the amount of R$2 million (the equivalent of approximately US$1.2 million at October 31, 2011), which is not due and final until all administrative appeals are exhausted. Maxion was one of numerous companies that received similar notices. IIAA filed an administrative defense in August 2010 and has not yet received a decision following that appearance. IIAA disputes the allegations in the notice and intends to vigorously defend itself.

6.0 Liter Diesel Engine Litigation

In November 2010, Brandon Burns filed a putative class action lawsuit against Navistar, Inc. and Ford in federal court for the Southern District of California (the “Burns Action”). The Burns Action sought to certify a class of California owners and lessees of model year 2003-07 Ford vehicles powered by the 6.0L Power Stroke® engine that Navistar, Inc. previously supplied to Ford. Burns alleged that the engines in question have design and manufacturing defects. Burns asserted claims against

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Navistar, Inc. for negligent performance of contractual duty (related to Navistar's former contract with Ford), unfair competition, and unjust enrichment. For relief, the Burns Action sought dollar damages sufficient to remedy the alleged defects, compensate the alleged damages incurred by the proposed class, and compensate plaintiffs' counsel. The Burns Action also asked the Court to award punitive damages and restitution/disgorgement.

After the Burns Action was filed, nineteen additional putative class action lawsuits making materially identical allegations against Navistar, Inc. were filed in federal courts in various parts of the country (the "Additional Actions"). The Additional Actions sought to certify in several different states classes similar to the proposed California class in the Burns Action. The theories of liability and relief sought in the Additional Actions were substantially similar to the Burns Action.

In April and May 2011, the Judicial Panel on Multidistrict Litigation transferred Burns and all but one (the "Saxby Case") of the Additional Actions to the Northern District of Illinois, where the Custom Underground case (another similar case pending in Chicago, where Navistar, Inc. is not a defendant) is pending, for consolidated pre-trial proceedings ("MDL").

In May 2011, all plaintiffs in the consolidated matter filed a voluntary Notice of Dismissal dismissing Navistar, Inc. without prejudice. In June 2011, the Saxby Case was transferred to the MDL court. On September 8, 2011, the parties entered into and filed with the Court a Stipulation of Dismissal, which confirms the dismissal of Navistar, Inc. without prejudice from those cases in which Navistar had filed a responsive pleading, as well as the Saxby Case.

On May 20, 2011, 9046-9478 Quebec Inc. ("Quebec") filed a motion to authorize the bringing of a class action against Navistar, Inc. and Navistar Canada, Inc. (collectively, "Navistar Defendants"), as well as Ford and Ford Motor Company of Canada, Limited (collectively, "Ford Defendants") in Superior Court in Quebec, Canada (the "Quebec Action"). The Quebec Action seeks authorization to bring a claim on behalf of a class of Canadian owners and lessees of model year 2003-07 Ford vehicles powered by the 6.0L Power Stroke® engine that Navistar, Inc. previously supplied to Ford. Quebec alleged that the engines in question have design and manufacturing defects, and that Navistar Defendants and Ford Defendants are solidarily liable for those defects. For relief, the Quebec Action seeks dollar damages sufficient to remedy the alleged defects, compensate the alleged damages incurred by the proposed class, and compensate plaintiffs' counsel. The Quebec Action also asks the Court to order the Navistar Defendants and the Ford Defendants to recall, repair, or replace the Ford vehicles at issue free of charge. The motion to authorize the bringing of the class action was presented in August 2011, and the hearing was continued to an as yet undetermined date. A new case management conference is expected at the beginning of 2012.

We also have been made aware of the Kruse Technology Partnership vs. Ford lawsuit filed against Ford regarding potential patent infringement of three patents in the U.S. District Court for the Central District of California. An amended complaint against Ford was filed by Kruse in August 2010. The amended complaint alleges that Ford has infringed the patents by sale or use of engines, such as the Power Stroke diesel engines. The general subject matter of the patents is pilot injection of fuel in the combustion cycle. Navistar, Inc. formerly supplied Power Stroke diesel engines to Ford, although today Ford manufactures its own Power Stroke engines. In the Ford/Navistar Settlement Agreement of January 9, 2009, Navistar agreed to indemnify Ford for claims of infringement based upon Ford's manufacture, sale or use of the 6.0 and 6.4 liter Power Stroke engines sold by Navistar to Ford. Ford has not requested Navistar to defend Ford at this time. The judge assigned to the Kruse Technology Partnership vs. Ford case has stayed the case pending resolution of a similar suit against Daimler Chrysler, Detroit Diesel, Freightliner, Western Star, Volkswagen, Cummins, and Chrysler Group. On November 14, 2011, Kruse disclaimed all the claims in one of the patents (US 6,405,704), which effectively terminates the patent rights for this patent. The remaining two Kruse patents continue to be re-examined by the U.S. Patent Office.

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

In 1973 Syntex do Brasil Industria e Comercio Ltda. ("Syntex"), a predecessor of our Brazilian engine manufacturing subsidiary formerly known as MWM, filed a lawsuit in Brazilian court against Dr. Lis Franco de Toledo and others (collectively, "Lis Franco"). Syntex claimed Lis Franco had improperly terminated a contract which provided for the transfer from Lis Franco to Syntex of a patent for the production of a certain vaccine. Lis Franco filed a counterclaim, alleging that he was entitled to royalties under the contract. In 1975, the Brazilian trial court ruled in favor of Lis

Franco, a decision which was affirmed on appeal in 1976. In 1984, while the case was still pending, Syntex' owner, Syntex Comercio e Participacoes Ltds ("Syntex Parent") sold the stock of Syntex to MWM, and in connection with that sale Syntex Parent agreed to indemnify and hold harmless MWM for any and all liabilities of Syntex, including its prior pharmaceutical operations (which had been previously spun-off to another subsidiary wholly-owned by the Syntex parent) and any payments that might be payable under the Lis Franco lawsuit. In the mid to late 1990s, Syntex Parent was merged with an entity known as Wyeth Industrica Farmaceutica Ltds ("Wyeth"). In 1999, Lis Franco amended its pleadings to add MWM to the lawsuit as a defendant. In 2000, Wyeth acknowledged to the Brazilian court its sole responsibility for amounts due in the Lis Franco lawsuit and MWM asked the court to be dismissed

from that action. The judge denied that request. MWM appealed and lost.

In his pleadings, Lis Franco alleged that the royalties payable to him were approximately R$42 million. MWM believed the appropriate amount payable is approximately R$16 million. In December 2009, the court appointed expert responsible for the preparation of the royalty calculation filed a report with the court indicating royalty damages of R$68 million. MWM challenged the expert's calculation. In August 2010, the court asked the parties to consider the appointment of a new expert. MWM agreed with this request but Lis Franco objected and, in December 2010, the court accepted and ratified the expert's calculation as of May 2010 in the amount of R$74 million (the equivalent of approximately US$43.8 million at October 31, 2011) and entered judgment against MWM. In May 2010, MWM filed a lawsuit against Wyeth, seeking recognition that Wyeth is liable for any and all liabilities, costs, expenses and payments related to the Lis Franco lawsuit.

In September 2010, MWM filed a motion for clarification of the decision which would suspend the enforcement of the decision. The Brazilian court denied this motion and MWM appealed the matter to the Rio de Janeiro State Court of Appeals (the “Court of Appeals”). In January 2011, the Court of Appeals granted the appeal and issued an injunction suspending the lower court's decision and judgment in favor of Lis Franco. In January 2011, MWM merged into IIAA and is now known as IIAA. An expert appointed by the Court of Appeals submitted his calculation report on October 24, 2011, and determined the amount to be R$10.85 million (the equivalent of US$6.4 million at October 31, 2011). The Court of Appeals is now reviewing the expert’s calculation criteria report and the parties' comments to that report.

Deloitte & Touche LLP

In April 2011, the Company filed a complaint against Deloitte & Touche LLP (“Deloitte”) in the Circuit Court of Cook County, Illinois County Department, Law Division for fraud, fraudulent concealment, negligent misrepresentation, violation of the Illinois Consumer Fraud and Deceptive Business Practices Act, professional malpractice, negligence, breach of contract and breach of fiduciary duty. The matters giving rise to the allegations contained in the complaint arise from Deloitte's service as the Company's independent auditor prior to April 2006 and the Company is seeking monetary damages against Deloitte. In May 2011, Deloitte filed a Notice of Removal to remove the case to the United States District Court for the Northern District of Illinois. In June 2011, the Company filed in the federal court a motion to remand the case to Illinois Circuit Court. On July 8, 2011, Deloitte filed a motion to dismiss the Company's complaint and in August 2011, the Company responded to Deloitte's motion to dismiss. On October 28, 2011, the court remanded the case back to the Circuit Court of Cook County, Illinois and denied the motion to dismiss as moot. The parties are awaiting transfer to Illinois State Court and assignment of a judge.

Westbrook vs. Navistar. et. al.

In April 2011, a False Claims Act qui tam complaint against Navistar, Inc., Navistar Defense, LLC, a wholly owned subsidiary of the Company, and unrelated third parties was unsealed by the United States District Court for the Northern District of Texas. The complaint was initially filed in August 2010 by a qui tam relator on behalf of the federal government. The complaint alleged violations of the False Claims Act based on allegations that parts of vehicles delivered by Navistar Defense were not painted according to the contract specification, and improper activities in dealing with one of the vendors who painted certain of the vehicle parts. The complaint seeks monetary damages and civil penalties on behalf of the federal government, as well as costs and expenses. The U.S. government notified the court that it has declined to intervene at this time. The Company was served with the False Claims Act qui tam complaint in July 2011 and a scheduling order has been issued in the case. Following the service and unsealing of the complaint, the Company and the other named defendants filed motions to dismiss. The parties are currently briefing the issues in the motions to dismiss as well as other matters in the case.

Asbestos and Environmental Matters

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

grow, and that the costs for resolving asbestos related claims could become more significant in the future. We have also been named a potentially responsible party ("PRP"), in conjunction with other parties, in a number of cases arising under an environmental protection law, the Comprehensive Environmental Response, Compensation, and Liability Act, popularly known as the "Superfund" law. These cases involve sites that allegedly received wastes from current or former Company locations.

Item 4. [Removed and Reserved]

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PART II

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

Market Information

Our common stock is listed on the New York Stock Exchange ("NYSE"), under the stock symbol "NAV." The following is the high and low market price per share of our common stock from NYSE for each quarter of 2011 and 2010:

Year Ended October 31, 2011	High	Low	Year Ended October 31, 2010	High	Low
1st Qtr	$66.39	$48.32	1st Qtr	$41.52	$31.53
2nd Qtr	71.49	58.49	2nd Qtr	52.43	36.79
3rd Qtr	70.40	50.05	3rd Qtr	58.00	44.00
4th Qtr	52.36	30.01	4th Qtr	53.83	40.58

Number of Holders

As of November 30, 2011, there were approximately 12,345 holders of record of our common stock.

Dividend Policy

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

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

Recent Sales of Unregistered Securities

Our directors who are not employees receive an annual retainer and meeting fees payable at their election either in shares of our common stock or in cash. A director may also elect to defer any portion of such compensation until a later date. Each such election is made prior to December 31st for the next calendar year. For calendar and fiscal year 2011, the Board of Directors mandated that at least $15,000 of the annual retainer be paid in the form of shares of our common stock. During the fourth quarter ended October 31, 2011, one director elected to defer annual retainer and/or meeting fees in shares, and was credited with an aggregate of 1,093 deferred stock units (each such stock unit corresponding to one share of common stock) at prices ranging from $32.20 to $42.07. These stock units were issued to our director without registration under the Securities Act, in reliance on Section 4(2) based on the directors' financial sophistication and knowledge of the Company.

Issuer Purchases of Equity Securities

Period	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs (A)(B)
08/01/2011 - 08/31/2011	272,666	$42.37	272,666	$2,167,340
09/01/2011 - 09/30/2011	56,450	38.30	56,450	5,516
10/01/2011 - 10/31/2011	2,542,609	39.33	2,542,609	81,363,388
Total	2,871,725		2,871,725	

(A) On December 14, 2010, we announced that our Board of Directors authorized a stock repurchase program which commenced on January 31, 2011 to acquire up to $25 million worth of Company common stock. The repurchase program expires on December 31, 2011.

(B) On September 7, 2011, we announced that a special committee of the Board of Directors authorized a stock repurchase program which commenced on October 6, 2011 to acquire up to $175 million worth of Company common stock. The repurchase program expires on March 15, 2012.

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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 16, 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,	2011[(A)]	2010	2009	2008	2007
(in millions, except per share data)					
RESULTS OF OPERATIONS DATA					
Sales and revenues, net	$13,958	$12,145	$11,569	$14,724	$12,295
Income (loss) before extraordinary gain	1,778	267	322	134	(120)
Extraordinary gain, net of tax	—	—	23	—	—
Net income (loss)	1,778	267	345	134	(120)
Less: Net income attributable to non-controlling interest	55	44	25	—	—
Net income (loss) attributable to Navistar International Corporation	$1,723	$223	$320	$134	$(120)
Basic earnings (loss) per share:					
Income (loss) attributable to Navistar International Corporation before extraordinary gain	$23.66	$3.11	$4.18	$1.89	$(1.70)
Extraordinary gain, net of tax	—	—	0.33	—	—
Net income (loss) attributable to Navistar International Corporation	$23.66	$3.11	$4.51	$1.89	$(1.70)
Diluted earnings (loss) per share:					
Income (loss) attributable to Navistar International Corporation before extraordinary gain	$22.64	$3.05	$4.14	$1.82	$(1.70)
Extraordinary gain, net of tax	—	—	0.32	—	—
Net income (loss) attributable to Navistar International Corporation	$22.64	$3.05	$4.46	$1.82	$(1.70)
Weighted average number of shares outstanding:					
Basic	72.8	71.7	71.0	70.7	70.3
Diluted	76.1	73.2	71.8	73.2	70.3
BALANCE SHEET DATA					
Total assets	$12,291	$9,730	$10,028	$10,390	$11,448
Long-term debt:[(B)]					
Manufacturing operations	1,881	1,841	1,670	1,639	1,665
Financial services operations	1,596	2,397	2,486	3,770	4,418
Total long-term debt	$3,477	$4,238	$4,156	$5,409	$6,083
Redeemable equity securities	$5	$8	$13	$143	$140

(A) In 2011, the Company recognized an income tax benefit of $1.5 billion from the release of a portion of our deferred tax valuation allowance.

(B) 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 Operation (“MD&A”) is designed to provide information that is supplemental to, and should be read together with, our consolidated financial statements and the accompanying notes. Information in MD&A is intended to assist the reader in obtaining an understanding of (i) our consolidated financial statements, (ii) the changes in certain key items within those financial statements from year-to-year, (iii) the primary factors that contributed to those changes, (iv) any changes in known trends or uncertainties that we are aware of and that may have a material effect on our future performance, and (v) how certain accounting principles affect our consolidated financial statements. In addition, MD&A provides information about our business segments and how the results of those segments impact our results of operations and financial condition as a whole.

Executive Summary

For 2011, we recognized net income attributable to Navistar International Corporation of $1.7 billion, or $22.64 of diluted earnings per share compared to $223 million, or $3.05 of diluted earnings per share for 2010. Included in the 2011 results is the $1.5 billion benefit from the release of a portion of the Company's income tax valuation allowance. The valuation allowance release was based on our assessment that it is more likely than not that we will realize a substantial portion of our domestic deferred tax assets and is reflective of our continued positive outlook of the Company's operations. Adjusting to exclude the net impact of the release of the income tax valuation allowance and certain other items that are not considered to be part of the ongoing business, we recognized net income attributable to Navistar International Corporation of $402 million, or $5.28 of diluted earnings per share for 2011, as reconciled in the table below.

During 2011, we delivered strong performance as total industry volumes within the U.S and Canada School bus and Class 6 through 8 medium and heavy truck (our “traditional”) markets continued to improve. Our Truck segment benefited from increases in worldwide unit chargeouts, including both our “traditional” and “expansionary” businesses. We delivered on our expected military sales, included within our Truck and Parts segment sales, of approximately $2.0 billion in 2011. The results of our Truck segment also reflect the impact of impairment and restructuring charges, as well as other actions, that we expect will optimize our operations and provide future benefits. Our Engine segment displayed improved performance over the prior year, as well as continued sequential quarterly improvements. The improvements were largely driven by increased intercompany sales and improved margins, primarily relating to our MaxxForce 11 and 13L Big-Bore engines, and continued strong performance within South America. Our performance also reflects increased commercial sales within the U.S. and Canada for our Parts segment and solid results from our Financial Services segment.

As the U.S. and global markets recover from the recession, and with the average age of the U.S. truck fleet at recent highs, we believe there will be a continuing increase in industry units from the historic lows experienced in 2009. We expect further improvements in our Parts business, as customers continue to maintain older equipment and increase their overall fleet utilization, and we see benefits from the exclusive use of our MaxxForce engines within our trucks. We anticipate the “traditional” truck industry retail deliveries to be in the range of 275,000 units to 310,000 units for 2012. We continue to expand our global footprint with improved sales in our existing export markets, as well as product launches through our NC^2 operations in Australia and Brazil, as well as our MNAL and MNEPL joint ventures with Mahindra in India.

EGR, combined with other strategies, is our solution to meet ongoing emissions requirements. Advancements in EGR technology have resulted in reductions in emissions of NOx from 1.2 or more grams per brake horsepower-hour through 2009 to 0.5 grams in 2010, to as low as 0.39 grams in 2011, with additional reductions in process. Our engines meet current EPA and CARB certification requirements because of emissions credits we earned from 2007 through 2009 via the early adoption of technologies that reduced NOx levels beyond what was then mandated. For some categories of engines we make, we expect to use our remaining emissions credits some time in 2012. We are engaged in ongoing discussions with officials from both EPA and CARB regarding potential regulatory solutions that would permit us to continue uninterrupted production of all of our engines. We continue to invest in our EGR technology to meet current EPA emission requirements in North America and Euro V emissions requirements in South America, and we believe that coupling EGR with our other emission strategies will provide a significant

competitive advantage over our competition's products.

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Adjusted net income and adjusted diluted earnings per share attributable to Navistar International Corporation reconciliation:

(in millions, except per share data)	For the Year Ended October 31, 2011
Net income attributable to Navistar International Corporation	$1,723
Plus:	
Engineering integration costs(A)	64
Restructuring of North American manufacturing operations(B)	127
Impact of Medicare Part D legal ruling(C)	15
Less:	
Net impact of income tax valuation allowance release(D)	1,527
Adjusted net income attributable to Navistar International Corporation	$402
Diluted earnings per share attributable to Navistar International Corporation	$22.64
Effect of adjustments on diluted earnings per share attributable to Navistar International Corporation	(17.36)
Adjusted diluted earnings per share attributable to Navistar International Corporation	$5.28
Diluted weighted shares outstanding	76.1

Adjusted Truck segment profit reconciliation:

(in millions)	For the Year Ended October 31, 2011
Truck segment profit	$336
Plus:	
Engineering integration costs(A)	49
Restructuring of North American manufacturing operations(B)	124
Adjusted Truck segment profit	$509

(A) Engineering integration costs relate to the consolidation of our truck and engine engineering operations as well as the move of our world headquarters. These costs include restructuring charges for activities at our Fort Wayne facility of $29 million. We also incurred $35 million of other related costs. Our Truck segment recognized $49 million of the engineering integration costs for the year ended October, 31, 2011. For more information, see Note 2, Restructurings and impairments, to the accompanying consolidated financial statements.

(B) Restructuring of North American manufacturing operations are charges primarily related to our plans to close our Chatham, Ontario heavy truck plant and Workhorse chassis plant in Union City, Indiana, and to significantly scale back operations at our Monaco recreational vehicle headquarters and motor coach manufacturing plant in Coburg, Oregon. These costs include restructuring charges of $58 million and other related costs of $5 million. In addition, the Company recognized $64 million of impairment charges related to certain intangible assets and property plant and equipment primarily related to these facilities. Our Truck segment recognized $5 million and $124 million of restructuring of North American manufacturing operation charges for the three months and year ended October 31, 2011. For more information, see Note 2, Restructurings and impairments, to the accompanying consolidated financial statements.

(C) In the fourth quarter of 2011, the Company had an unfavorable ruling related to a 2010 administrative change the Company made to the prescription drug program under the OPEB plan affecting plan participants who are Medicare eligible. As a result the Company recognized approximately $15 million of expense for postretirement benefits.

(D)

In the third quarter of 2011, we recognized an income tax benefit of $1.476 billion from the release of a portion of our income tax valuation allowance. In the fourth quarter of 2011, we recognized an additional income tax benefit of $61 million related to the release of a portion of our income tax valuation allowance. As domestic earnings are now taxable with the release of the income tax valuation allowance we recognized $10 million of domestic income tax expense for 2011 that would not have been recognized had we not released a portion of the income tax valuation allowance. The $10 million of domestic income taxes were netted against the total benefit of $1.537 billion from the release of a portion of the income tax valuation allowance. In addition, the other adjustments included in the table above have not been adjusted to reflect their income tax effect as the adjustments are intended to represent the impact on the Company's Consolidated Statement of Operations without the incremental income tax effect that would result from the release of the income tax valuation allowance. The charges related to our Canadian operations would not be impacted as a full income tax valuation allowance remains for Canada.

The financial measures of adjusted net income and adjusted diluted earnings per share attributable to Navistar International Corporation are unaudited and are not in accordance with, or an alternative for, U.S. GAAP. The non-GAAP financial information presented should be considered supplemental to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. We believe that adjusted net income and diluted earnings per share attributable to Navistar International Corporation, excluding the impacts of the release of the income tax valuation allowance and certain other items that are not considered to be part of our ongoing business, improves the comparability of year to year results, and is representative of our underlying performance. We have chosen to provide this supplemental information to investors, analysts and other interested parties to enable them to perform additional analysis of operating results, to illustrate the results of operations giving effect to the non-GAAP adjustments shown in these reconciliations, and to provide an additional measure of performance.

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Business Outlook and Key Trends

For our Truck segment, we expect benefits from further improvements in our "traditional" volumes as the industry continues to increase from the historic lows experienced in 2009 and 2010. According to ACT Research, the average age of the truck fleet was 6.7 years at the beginning of 2011, which is the highest average age since 1979. We anticipate higher sales in 2012 for truck replacement as our customers refresh aging fleets. We also expect demand for trucks to increase as freight volumes and rates continue to improve as the economy recovers. In addition to increased demand, we expect to further benefit from improved revenues and margins associated with the exclusive use of our proprietary engines. We expect to realize benefits from plant optimization actions taken during the trough of the truck cycle. Finally, we anticipate positive contributions from business acquisitions and investments made during this period.

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

As freight volumes and rates increase in conjunction with the economic recovery, we expect our Parts segment volumes will continue to improve within our commercial markets in the U.S. and Canada. In addition, we anticipate incremental Parts sales due to the relatively high overall age of the current U.S. truck fleet and through the exclusive use of our MaxxForce engines in our trucks, as well as the fulfillment of additional military orders.

Certain trends have affected our results of operations for 2011 as compared to 2010 and 2009. In addition, we expect that certain key trends will impact our future results of operations. Some of these factors are as follows:

- "Traditional" Truck Market—The "traditional" truck markets in which we compete are typically cyclical in nature and are strongly influenced by macro-economic factors such as industrial production, demand for durable goods, capital spending, oil prices and consumer confidence.
- Worldwide Engine Unit Sales—Our worldwide engine unit sales are impacted primarily by North America truck demand and sales in South America, our largest engine market outside of the North American market. These markets are impacted by consumer demand for products that use our engines as well as macro-economic factors such as oil prices and construction activity. Our worldwide engine unit sales were 243,600 units in 2011, 240,400 units in 2010, and 269,300 units in 2009. In 2009, we settled our legal dispute with Ford and continued our North American supply agreement for diesel engines with Ford through December 31, 2009. As a result, our 2010 North American unit sales to Ford were 24,900 units as compared to 101,500 units for 2009. Our 2011 worldwide engine unit sales were primarily to our Truck segment in North America and to external customers in South America. We also made certain OEM sales for commercial, consumer, and specialty vehicle products in North America, which have not historically been significant to our Engine segment, but are expected to grow in 2012. Additionally within our South America operations, we expect to transition of a portion of our volumes to lower margin contract manufacturing for certain customers. We expect to offset this future impact with increased global engine and parts sales by our South American operations.
- Military Sales—In 2011, we continued to leverage existing products and plants to meet the urgent demand of the U.S. military and our North Atlantic Treaty Organization ("NATO") allies. Our U.S. military sales were $2.0 billion, $1.8 billion and $2.8 billion in 2011, 2010, and 2009, respectively, and consisted of MRAP vehicles, lower-cost militarized commercial trucks, and sales of parts and services. In 2011, we received additional orders for MRAP variants, including recovery vehicles, Dash vehicles, and ambulances, which were substantially delivered in 2011. The remaining MRAP units were delivered during the first quarter of 2012, and we have not received further orders. We continue to expect that over the long-term our military business will generate approximately $1.5 billion to $2 billion in annual sales.
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Global Economy—The global economy, and in particular the economies in the U.S. and Brazil markets, are continuing to recover, and the related financial markets have stabilized. The impact of the economic recession and financial turmoil on the global markets poses continued risk as customers may postpone spending in response to tighter credit, negative financial news and/or declines in income or asset values. Lower demand for our customers' products or services could also have a material negative effect on the demand for our products. In addition, there could be exposure related to the financial viability of certain key third-party suppliers, some of which are our sole source for particular components. Lower expectations of growth and profitability have resulted in impairments of long-lived assets in the past and we could continue to experience pressure on the carrying values of our assets if conditions persist for an extended period of time.

- 2010 Emissions Standards—We have chosen EGR, combined with other technologies, as our solution to meet the 2010

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

In 2011 and 2010, our engines met EPA and CARB certification requirements because of emissions credits we earned from 2007 through 2009 via the early adoption of technologies that reduced NOx levels beyond what was then mandated. The rate of usage of these emissions credits is dependent upon a variety of factors, including sales, product mix and improvements in technologies. For some categories of engines we make, we expect to use our remaining emissions credits some time in 2012. We plan to submit certification applications to both EPA and CARB in the near future. We believe that our engines meet both agencies' certification requirements. We are engaged in ongoing discussions with officials from both EPA and CARB regarding potential regulatory solutions that would permit us to continue uninterrupted production of all of our engines. We cannot predict the outcome of these discussions nor the effect they may have on our business or our financial condition, results of operation or cash flows.

- 13 Liter / 15 Liter Engine Strategy—In conjunction with our EGR strategy, we only offer vehicles equipped with MaxxForce engines in the U.S. and Canada. For our Class 8 heavy and severe service lines, we offer our MaxxForce 11 and 13L engines, and launched our MaxxForce 15L engine during 2011. The Company has taken significant strides to demonstrate to our customers that, in many applications that historically used a 15L engine, our MaxxForce 13L provides sufficient horsepower and torque.

- Impact of Government Regulation—Truck and engine manufacturers continue to face significant governmental regulation of their products, especially in the areas of environmental and safety matters. Truck manufacturers are also subject to various noise standards imposed by federal, state, and local regulations. Government regulation related to climate change is under consideration at the U.S. federal and state levels. Because our products use fossil fuels, they may be impacted indirectly due to regulation, such as a cap and trade program, affecting the cost of fuels. In 2011, the EPA and NHTSA issued final rules setting greenhouse gas emission and fuel economy standards for medium and heavy-duty engines and vehicles, which begin to apply in 2014 and are fully implemented in model year 2017. The Company plans to comply with these rules through the use of existing technologies and implementation of emerging technologies as they become available.

- Warranty Costs—In 2010, we introduced changes to our engine line-up in response to 2010 emissions requirements ("2010 Engines"). Emissions regulations in the U.S. and Canada have resulted in rapid product development cycles, driving significant changes from previous engine models. Historically, warranty experience for launch-year engines has been higher compared to the prior model-year engines; however, over time we are able to refine both the design and manufacturing process to reduce both the volume and the severity of warranty claims. We have made substantial investments in engineering, product development, and testing within our 2010 Engines to mitigate some of the warranty exposure. Our proactive actions related to the launch of the 2010 Engines resulted in lower initial warranty costs and more rapid improvements than previous launches. Also contributing to higher warranty costs in 2011 is the use of all MaxxForce engines in our North America product offering compared to previous outside sourcing for various engine models for which warranty costs were included in the engine purchase price.

- Raw Material Commodity Costs—Commodity costs, which include steel, precious metals, resins, and petroleum products, increased by $112 million in 2011, decreased by $49 million in 2010, and increased by $23 million in 2009, as compared to the corresponding prior years. We continue to look for opportunities to mitigate the effects market-based commodity cost increases through a combination of design changes, material substitution, alternate

supplier resourcing, global sourcing efforts, pricing performance, and hedging activities. The objective of this strategy is to ensure cost stability and competitiveness in an often volatile global marketplace. Generally, the impact of commodity costs fluctuation in the global market will be reflected in our financial results on a time lag, and to a greater or lesser degree than incurred by our supply base depending on many factors including the terms of supplier contracts, special pricing arrangements, and any commodity hedging strategies employed.

- Facilities Optimization—We continue to seek further opportunities for manufacturing and operating efficiencies within our facilities. In early 2010, we announced and implemented our plan to consolidate bus production within our Tulsa IC

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Bus facility. We are consolidating our executive management, certain business operations, and product development into a 1.2 million square foot, world headquarters site in Lisle, Illinois, which we will complete in the first quarter of fiscal 2012, and we are consolidating our testing and validation center in our Melrose Park facility, which we expect to complete in 2013. In July 2011, we announced our intention to close our Chatham, Ontario truck manufacturing plant and Union City, Indiana chassis plant, and to significantly scale back operations at our Monaco headquarters and motor coach manufacturing plant in Coburg, Oregon. We continue to develop plans for efficient transitions related to these activities and evaluate other options to continue the optimization of our operations.

- Joint Ventures and Other Investments—We continue to make substantial investments in joint ventures and other businesses that are considered key growth opportunities to our core operations, as well as important expansionary markets. In India, our joint ventures with Mahindra sell commercial trucks and buses, as well as diesel engines for medium and heavy commercial trucks and buses. We sell International and CAT branded trucks in North America, as well as in various global markets through our alliance with Caterpillar and our NC^2 operations, which became a wholly owned subsidiary of Navistar, Inc. in September 2011. In addition, we expect to finalize our China engine joint venture with JAC in 2012. The Company has also made recent acquisitions that present opportunities to further vertically integrate our operations and our product offerings, including Continental Mixer in 2010 and both PPT and Monaco in 2009.
- GE Capital Alliance—In March 2010, we entered into a three-year Operating Agreement with GE (the "GE Operating Agreement"). Under the terms of the agreement, GE became our preferred source of retail customer financing for equipment offered by us and our dealers in the U.S. We provide GE a loss sharing arrangement for certain credit losses, and under limited circumstances NFC retains the rights to originate retail customer financing. Loan originations under the GE Operating Agreement began in the third quarter of 2010, which will continue to reduce NFC originations and portfolio balances in the future. We expect retail finance receivables and retail finance revenues to continue to decline as our retail portfolio pays down.

Results of Operations and Segment Results of Operations

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

Results of Operations for 2011 as Compared to 2010

(in millions, except per share data and % change)	2011	2010	Change	% Change
Sales and revenues, net	$13,958	$12,145	$1,813	15
Costs of products sold	11,262	9,741	1,521	16
Restructuring charges (benefit)	92	(15)	107	N.M.
Impairment of property and equipment and intangible assets	64	—	64	N.M.
Selling, general and administrative expenses	1,434	1,406	28	2
Engineering and product development costs	532	464	68	15
Interest expense	247	253	(6)	(2)
Other income, net	(64)	(44)	(20)	45
Total costs and expenses	13,567	11,805	1,762	15
Equity in loss of non-consolidated affiliates	(71)	(50)	(21)	42
Income before income tax benefit (expense)	320	290	30	10
Income tax benefit (expense)	1,458	(23)	1,481	N.M.
Net income	1,778	267	1,511	N.M.
Less: Net income attributable to non-controlling interests	55	44	11	25
Net income attributable to Navistar International Corporation	$1,723	$223	$1,500	N.M.
Diluted earnings per share	$22.64	$3.05	$19.59	N.M.

N.M. Not meaningful.

Sales and revenues, net

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

	Total				U.S. and Canada				Rest of World (“ROW”)			
	2011	2010	Change	% Change	2011	2010	Change	% Change	2011	2010	Change	% Change
(in millions, except % change)												
Truck	$9,738	$8,207	$1,531	19	$8,330	$7,393	$937	13	$1,408	$814	$594	73
Engine	3,791	2,986	805	27	1,692	1,611	81	5	2,099	1,375	724	53
Parts	2,155	1,885	270	14	1,937	1,718	219	13	218	167	51	31
Financial Services	291	309	(18)	(6)	227	254	(27)	(11)	64	55	9	16
Corporate and Eliminations	(2,017)	(1,242)	(775)	62	(1,512)	(1,056)	(456)	43	(505)	(186)	(319)	172
Total	$13,958	$12,145	$1,813	15	$10,674	$9,920	$754	8	$3,284	$2,225	$1,059	48

Truck segment sales increased $1.5 billion, primarily due to higher "traditional” and worldwide volumes, improved pricing across all “traditional” classes, and increased ROW sales, predominantly due to strong sales volumes in South America. Partially offsetting these increases were lower military revenues, decreased volumes of our School buses, and decreased used truck sales.

Engine segment sales increased $805 million, primarily due to increased intercompany sales driven by the strengthening of the North America truck market and a shift in product mix to higher revenue units, particularly our MaxxForce 11 and 13L Big-Bore engines. These increases were partially offset by the loss of the Ford business in North America in 2010.

Parts segment sales increased $270 million, primarily due to increases in our U.S. and Canada commercial markets, reflecting higher volumes and improved pricing to recover higher material and freight-related expenses, as well as improvements within our global parts business.

Financial Services segment revenues decreased compared to the prior year primarily driven by a decrease in the average retail finance receivable balance, partially offset by improved wholesale note revenues on increased wholesale balances. The decline in the average retail finance receivable balance was driven by decreased retail loan originations, which are now funded under the GE Operating Agreement.

Costs of products sold

Cost of products sold increased by $1.5 billion compared to the prior year, which was consistent with our growth in sales and revenues. This increase was across our Truck, Engine, and Parts segments. The increase in costs of products sold was primarily due to higher costs of “traditional” units equipped with our proprietary 2010 Engines, a shift in product mix to higher cost Big-Bore engines, and increased commodity costs, particularly steel and rubber. Partially offsetting these contributors to the increase in cost of products sold were manufacturing cost efficiencies largely due to our flexible manufacturing strategy and other actions.

Our warranty costs were higher, primarily due to increased volumes, as well as the exclusive use of our MaxxForce engines in our “traditional” product offerings, as compared to previous outside sourcing for various engine models in which warranty costs were included in the engine purchase price. In addition, we recognized increased adjustments to pre-existing warranties of $28 million primarily related to changes in our estimated warranty costs per unit on 2007 emission standard engines and various authorized field campaigns.

Restructuring charges

Restructuring charges in 2011 were $92 million, compared to a net reversal of $15 million in the prior year. The restructuring charges in 2011 were primarily related to the actions taken in 2011 at our Fort Wayne facility, Springfield Assembly Plant, Chatham heavy truck plant, WCC plant in Union City, Indiana, and Monaco recreational vehicle headquarters and motor coach manufacturing plant in Coburg, Oregon within our Truck segment.

The restructuring benefit in 2010 was primarily comprised of a $16 million favorable settlement of a portion of contractual obligations related to the IEP and Indianapolis Casting Corporation ("ICC") restructuring and $10 million of reversals of our remaining restructuring reserves for ICC as a result of our decision to continue operations at ICC. These amounts were recognized at our Engine segment. For more information, see Note 2, Restructurings and impairments, to the accompanying consolidated financial statements.

Impairment of property and equipment and intangible assets

In 2011, we recognized impairments of property and equipment and intangible assets of $64 million, primarily in our Truck segment, relating to charges at our Chatham, Ontario plant and WCC subsidiary. The impairment charges reflect the impact of the closure of the Chatham facility, and market deterioration and reduction in demand below previously anticipated levels for our WCC subsidiary. For additional information, see Note 2, Restructurings and Impairments, to the accompanying consolidated financial statements.

Selling, general and administrative expenses

(in millions, except % change)	2011	2010	Change	% Change
Selling, general and administrative expenses, excluding items presented separately below	$1,175	$1,014	$161	16
Postretirement benefits expense allocated to selling, general and administrative expenses	98	157	(59)	(38)
Dealcor expenses	112	145	(33)	(23)
Incentive compensation and profit sharing	63	63	—	—
Provision for doubtful accounts	(14)	27	(41)	N.M.
Total selling, general and administrative expenses	$1,434	$1,406	$28	2

N.M. Not meaningful.

Selling, general and administrative expenses were largely flat as compared to the prior year, reflecting increases in our Truck, Engine, and Parts segments, partially offset by a decrease in the Financial Services segment. Compared to the prior year, selling, general and administrative expenses increased primarily due to incremental selling and sales support expenses due to the higher commissions-related expenses, providing service support for our proprietary engines, engineering integration costs, and other expenses related to the move of our world headquarters.

Partially offsetting these increases in selling, general and administrative expenses were decreased postretirement benefits expense allocated to selling, general and administrative expenses, a net reversal of the provision for doubtful accounts, and decreased Company-owned Dealcor expenses due to the sale of certain Company-owned dealerships. Postretirement benefits expense decreased largely due to a lower interest cost component, reflecting lower discount rates, and higher expected return on assets, primarily driven by higher values of plan assets based upon the October 2010 measurement. For more information, see Note 11, Postretirement benefits, to the accompanying consolidated financial statements. The net reversal of the provision for doubtful accounts was attributable to declines in retail portfolio balances and actual charge-offs. In addition, the stabilization of the used truck market has resulted in increased demand and improved pricing for used equipment.

Engineering and product development costs

Engineering and product development costs, which are incurred by our Truck and Engine segments, increased by $68 million as compared to the prior year. The increase was primarily due to our ongoing improvements to our EGR and other technologies to meet emissions regulations at 0.2 NOx emissions levels in North America and Euro V emissions regulations in South America, and new product programs within our Truck and Engine segments for the North American and global markets. Also contributing to the increase in engineering and product development costs were engineering integration costs related to the consolidation of our Truck and Engine segment engineering operations. Engineering and product development costs are incurred by our Truck and Engine segments for product innovations, cost reductions, and to enhance product and fuel-usage efficiencies. The Company participates in very competitive markets with constant changes in regulatory requirements and technology and, accordingly, the Company continues to believe that a strong commitment to engineering and product development is required to drive long-term growth.

Interest expense

Interest expense for 2011 was largely flat as compared to the prior year. Changes in interest expense attributable to the lower average debt balances were largely offset by slightly higher interest rates. For more information, see Note 10, Debt, and Note 14, Financial instruments and commodity contracts, to the accompanying consolidated financial statements.

Other income, net

Other income, net was $64 million for 2011, compared to $44 million in 2010. In 2011, other income, net included a $10 million benefit relating to the extinguishment of a financing liability for equipment within our Engine segment. In 2010, other income, net was primarily comprised of reductions to reserves within our Truck and Engine segments for certain value added taxes in Brazil that were reassessed and determined to be recoverable.

Equity in loss of non-consolidated affiliates

Equity in loss of non-consolidated affiliates is derived from our ownership interest in partially-owned affiliates, which are not consolidated. Losses of $71 million and $50 million reported in 2011 and 2010, respectively, are primarily reflective of continued investment and start-up losses associated with certain joint ventures, primarily our joint ventures with Mahindra and NC^2 prior to our acquisition of Caterpillar's ownership interest of NC^2 in September 2011. For more information, see Note 9, Investments in and advances to non-consolidated affiliates, to the accompanying consolidated financial statements.

Income tax benefit (expense)

In 2011, we realized an income tax benefit of $1.5 billion, primarily attributable to the release of a portion of our deferred tax valuation allowances during the year. Excluding the release of deferred tax valuation allowances, our tax expense in 2011 was $79 million, which includes a $42 million tax benefit related to the resolution of audits in various jurisdictions. In 2010, our tax expense was $23 million, which includes a U.S. alternative minimum tax benefit of $29 million from the carryback of alternative minimum taxable losses to prior years. Our 2010 income tax expense on U.S. and Canadian operations was limited to current state income taxes, alternative minimum taxes net of refundable credits and other discrete items.

We have $360 million of U.S. net operating losses and $208 million of general business credits as of October 31, 2011. We expect our cash payments of U.S. taxes will be minimal, for so long as we are able to offset our U.S. taxable income by these U.S. net operating losses and tax credits, however our foreign taxes will continue to grow as we increase our global presence. We continue to maintain valuation allowances for certain foreign operations, principally Canada, and for certain state deferred tax assets which we believe on a more likely than not basis will not be realized. For additional information, see Note 12, Income taxes, to the accompanying consolidated financial statements.

Net income attributable to non-controlling interests

Net income attributable to non-controlling interests is the result of our consolidation of subsidiaries in which we do not own 100%. Our net income attributable to non-controlling interests was $55 million and $44 million in 2011 and 2010, respectively, and substantially relates to Ford's non-controlling interest in our BDP subsidiary.

Segment Results of Operations for 2011 as Compared to 2010

We define segment profit as net income attributable to Navistar International Corporation excluding income tax expense. For additional information about segment profit, see Note 16, Segment reporting, to the accompanying consolidated financial statements. The following sections analyze operating results as they relate to our four segments and do not include intersegment eliminations:

Truck Segment

(in millions, except % change)	2011	2010	Change	% Change
Truck segment sales - U.S. and Canada	$8,330	$7,393	$937	13
Truck segment sales - ROW	1,408	814	594	73
Total Truck segment sales, net	$9,738	$8,207	$1,531	19
Truck segment profit	$336	$424	$(88)	(21)

Segment sales

The Truck segment sales increase of $1.5 billion, or 19%, was largely due to a significant increase in our “traditional” and worldwide volumes. These increases included a 46% increase in chargeouts within our Class 6 and 7 medium truck class and 19% within our Class 8 heavy truck class. Average sales prices of trucks across all our “traditional” classes also increased in 2011, primarily due to the use of our proprietary 2010 Engines. Partially offsetting these increases were lower military

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revenues, decreased volumes of our School buses, and decreased used truck sales as we have reduced our inventory of used trucks. The decrease in our military revenues was primarily driven by lower chargeouts, partially offset by increases in the average sales price due to a shift in product mix. Our ROW sales increased predominantly due to strong sales volumes in South America, reflecting a general economic recovery, as well as the strengthening of the global economy.

Segment profit

The Truck segment profit in 2011 decreased $88 million, and included $173 million of charges related to the restructuring of our North American manufacturing operations and engineering integration costs. Restructuring of our North American manufacturing operations primarily related to actions taken at our Chatham, Ontario heavy truck plant and our WCC subsidiary, and included restructuring and related charges of $63 million. Additionally, the segment recognized $61 million of impairment charges related to certain intangible assets and property and equipment, primarily related to these facilities. The Truck segment incurred $49 million of engineering integration costs, related to the consolidation of our engineering operations within our Truck and Engine segments. These actions are expected to contribute to our flexible manufacturing strategy and increase operational efficiencies. For further information, see Note 2, Restructurings and impairments, to the accompanying consolidated financial statements. Also contributing to the segment profit decrease was the 2010 recognition of a benefit relating to a reduction in reserves for certain value added taxes in Brazil of $30 million.

Excluding the current year charges for restructuring, impairments and engineering integration costs, our Truck segment profit was $509 million, which represented an increase of $85 million, and reflected higher “traditional” and worldwide volumes. Also contributing to the remaining increase was higher margins from sales of used equipment, due to the stabilization of the used truck market and increased demand for used trucks, as well as savings associated with manufacturing cost efficiencies, reflecting our flexible manufacturing strategy, prior restructuring actions, and other manufacturing performance improvements. Partially offsetting this increase were shifts in our “traditional” product mix, including lower School bus volumes, and increased commodity costs. Our Truck segment also experienced higher engineering and product development expenses of $53 million, primarily relating to new product programs, and increased selling, general and administrative costs largely due to higher employee-related expenses related to increased sales volumes, as well as recent product launches and costs relating to providing service support for our proprietary engines.

Engine Segment

	2011	2010	Change	% Change
(in millions, except % change)				
Engine segment sales - U.S. and Canada	$1,692	$		