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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**Form 10-Q**

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(Mark One)

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

For the quarterly period ended April 30, 2019

OR

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

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



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

Delaware  
(State or other jurisdiction of incorporation or organization)

36-3359573  
(I.R.S. Employer Identification No.)

2701 Navistar Drive,  
Lisle, Illinois  
(Address of principal executive offices)

60532  
(Zip Code)

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

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<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.10	NAV	New York Stock Exchange
Cumulative convertible junior preference stock, Series D (par value \$1.00)	NAV-D	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of May 31, 2019, the number of shares outstanding of the registrant's common stock was 99,147,546, net of treasury shares.

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**NAVISTAR INTERNATIONAL CORPORATION FORM 10-Q  
TABLE OF CONTENTS**

	<u>Page</u>
<b>PART I—Financial Information</b>	
Item 1. <a href="#">Financial Statements (Unaudited)</a> .....	5
<a href="#">Consolidated Statements of Operations for the three and six months ended April 30, 2019 and 2018</a> .....	5
<a href="#">Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended April 30, 2019 and 2018</a> .....	6
<a href="#">Consolidated Balance Sheets as of April 30, 2019 and October 31, 2018</a> .....	7
<a href="#">Condensed Consolidated Statements of Cash Flows for the six months ended April 30, 2019 and 2018</a> .....	8
<a href="#">Consolidated Statements of Stockholders' Deficit for the three and six months ended April 30, 2019 and 2018</a> .....	9
<a href="#">Notes to Consolidated Financial Statements</a> .....	10
Item 2. <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a> .....	44
Item 3. <a href="#">Quantitative and Qualitative Disclosures about Market Risk</a> .....	58
Item 4. <a href="#">Controls and Procedures</a> .....	58
<b>PART II</b>	
Item 1. <a href="#">Legal Proceedings</a> .....	59
Item 1A. <a href="#">Risk Factors</a> .....	59
Item 2. <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a> .....	59
Item 3. <a href="#">Defaults upon Senior Securities</a> .....	59
Item 4. <a href="#">Mine Safety Disclosures</a> .....	59
Item 5. <a href="#">Other Information</a> .....	59
Item 6. <a href="#">Exhibits</a> .....	59
<a href="#">Signature</a> .....	60

## 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 expectations and estimates relating to the impact of the federal Tax Cuts and Jobs Act (the "Tax Act") on our business and financial condition;
- the implementation of, and expected benefits from, our strategic alliance with TRATON SE and certain of its subsidiaries and affiliates ("TRATON Group");
- our development and launch of new products and technologies;
- anticipated sales, volume, demand, markets for our products, and financial performance;
- anticipated performance and benefits of our products and technologies;
- our business strategies relating to, and our ability to meet, federal and state regulatory heavy-duty diesel emissions standards applicable to certain of our engines, including the timing and costs of compliance and consequences of noncompliance with such standards, as well as our ability to meet other federal, state and foreign regulatory requirements;
- our business strategies and short-term and long-term goals and activities to accomplish such strategies and goals;
- our ability to implement our strategy focused on growing the core business (i.e., the truck and parts markets for the United States and Canada, where we participate primarily in the Class 6 through 8 vehicle market segments (the "Core" business and "Core" markets)), driving operational excellence, pursuing innovative technology solutions, leveraging the TRATON Group strategic alliance, continuing our commitment to a customer-centric approach, enhancing cross functional teamwork and our winning culture, and improving our financial performance, as well as the results we expect to achieve from the implementation of our strategy;
- our expectations related to new product launches;
- anticipated results from the realignment of our leadership and management structure;
- anticipated results from acquisitions, dispositions, strategic alliances, and joint ventures we complete;
- our expectations and estimates relating to restructuring activities, including restructuring charges and timing of cash payments related thereto, and operational flexibility, savings, and efficiencies from such restructurings;
- our expectations relating to debt refinancing activities;
- our expectations relating to the potential effects of anticipated divestitures and closures of businesses;
- our expectations relating to our cost-reduction actions and actions to reduce discretionary spending;
- our expectations relating to our ability to service our long-term debt;
- our expectations relating to our wholesale and retail finance receivables and revenues;
- our expectations relating to liabilities resulting from environmental, health and safety laws and regulations;
- our anticipated capital expenditures;
- our expectations relating to payments of taxes;
- our expectations relating to warranty costs;
- our expectations relating to interest expense;
- our expectations relating to impairment of goodwill and other assets;
- our expectations relating to litigation costs (including, without limitation, the MaxxFORCE Advanced EGR engine lawsuits) and similar matters;
- estimates relating to pension plan contributions and unfunded pension and postretirement benefits;
- our expectations relating to commodity price risk, including the impact of tariff increases or potential new tariffs; and
- anticipated trends, expectations, and outlook relating to matters affecting our financial condition or results of operations.

These statements often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate," or similar expressions. These statements are not guarantees of performance or results and they involve risks, uncertainties, and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, there are many factors that could affect our results of operations and could cause actual results to differ materially from those in the forward-looking statements. Factors that could cause or contribute to differences in our future financial results include those discussed in Item 1A, Risk Factors, included within our Annual Report on Form 10-K for the fiscal year ended October 31, 2018 which was filed on December 18, 2018, as well as those factors 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 Securities Exchange Act of 1934, as amended (the "Exchange Act"), and as a result, are obligated to file annual, quarterly, and current reports, proxy statements, and other information with the United States ("U.S.") Securities and Exchange Commission ("SEC"). We make these filings available free of charge on our website (<http://www.navistar.com>) as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. Information on our website does not constitute part of this Quarterly Report on Form 10-Q. In addition, the SEC maintains a website (<http://www.sec.gov>) that contains our annual, quarterly, and current reports, proxy and information statements, and other information we electronically file with, or furnish to, the SEC.

**PART I—Financial Information**

**Item 1. Financial Statements**

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

(in millions, except per share data)	Three Months Ended April 30,		Six Months Ended April 30,	
	2019	2018	2019	2018
<b>Sales and revenues</b>				
Sales of manufactured products, net.....	\$ 2,948	\$ 2,382	\$ 5,334	\$ 4,249
Finance revenues .....	48	40	95	78
Sales and revenues, net.....	2,996	2,422	5,429	4,327
<b>Costs and expenses</b>				
Costs of products sold .....	2,493	1,987	4,472	3,519
Restructuring charges .....	1	1	1	(2)
Asset impairment charges.....	1	1	3	3
Selling, general and administrative expenses.....	373	200	559	391
Engineering and product development costs.....	75	75	161	150
Interest expense .....	82	79	167	158
Other expense, net .....	18	11	115	91
Total costs and expenses .....	3,043	2,354	5,478	4,310
Equity in income of non-consolidated affiliates .....	3	—	3	—
Income (loss) before income tax.....	(44)	68	(46)	17
Income tax benefit (expense).....	1	(7)	20	(22)
Net income (loss).....	(43)	61	(26)	(5)
Less: Net income attributable to non-controlling interests.....	5	6	11	13
<b>Net income (loss) attributable to Navistar International Corporation .....</b>	<b>\$ (48)</b>	<b>\$ 55</b>	<b>\$ (37)</b>	<b>\$ (18)</b>
<b>Income (loss) per share attributable to Navistar International Corporation:</b>				
Basic .....	\$ (0.48)	\$ 0.56	\$ (0.37)	\$ (0.18)
Diluted .....	(0.48)	0.55	(0.37)	(0.18)
<b>Weighted average shares outstanding:</b>				
Basic .....	99.2	98.8	99.2	98.7
Diluted .....	99.2	99.5	99.2	98.7

See Notes to Consolidated Financial Statements

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

(in millions)	Three Months Ended April 30,		Six Months Ended April 30,	
	2019	2018	2019	2018
Net income (loss).....	\$ (43)	\$ 61	\$ (26)	\$ (5)
Other comprehensive income (loss):				
Foreign currency translation adjustment .....	(18)	(28)	(4)	(6)
Defined benefit plans, net of tax.....	23	28	138	63
Total other comprehensive income.....	5	—	134	57
Comprehensive income (loss).....	(38)	61	108	52
Less: Net income attributable to non-controlling interests.....	5	6	11	13
<b>Total comprehensive income (loss) attributable to Navistar International Corporation .....</b>	<b>\$ (43)</b>	<b>\$ 55</b>	<b>\$ 97</b>	<b>\$ 39</b>

See Notes to Consolidated Financial Statements

**Navistar International Corporation and Subsidiaries**  
**Consolidated Balance Sheets**

(in millions, except per share data)	As of April 30, 2019	As of October 31, 2018
<b>ASSETS</b>	<b>(Unaudited)</b>	
Current assets		
Cash and cash equivalents .....	\$ 977	\$ 1,320
Restricted cash and cash equivalents .....	165	62
Marketable securities .....	23	101
Trade and other receivables, net .....	453	456
Finance receivables, net .....	2,037	1,898
Inventories, net .....	1,164	1,110
Other current assets .....	282	189
Total current assets .....	<u>5,101</u>	<u>5,136</u>
Restricted cash .....	66	63
Trade and other receivables, net .....	30	49
Finance receivables, net .....	279	260
Investments in non-consolidated affiliates .....	32	50
Property and equipment (net of accumulated depreciation and amortization of \$2,457 and \$2,498, respectively) .....	1,270	1,370
Goodwill .....	38	38
Intangible assets (net of accumulated amortization of \$141 and \$140, respectively) .....	27	30
Deferred taxes, net .....	121	121
Other noncurrent assets .....	102	113
<b>Total assets</b> .....	<u><u>\$ 7,066</u></u>	<u><u>\$ 7,230</u></u>
<b>LIABILITIES and STOCKHOLDERS' DEFICIT</b>		
<b>Liabilities</b>		
Current liabilities		
Notes payable and current maturities of long-term debt .....	\$ 769	\$ 946
Accounts payable .....	1,630	1,606
Other current liabilities .....	1,309	1,255
Total current liabilities .....	<u>3,708</u>	<u>3,807</u>
Long-term debt .....	4,588	4,521
Postretirement benefits liabilities .....	1,950	2,097
Other noncurrent liabilities .....	672	731
<b>Total liabilities</b> .....	<u>10,918</u>	<u>11,156</u>
<b>Stockholders' deficit</b>		
Series D convertible junior preference stock .....	2	2
Common stock, \$0.10 par value per share (103.1 shares issued and 220 shares authorized at both dates) .....	10	10
Additional paid-in capital .....	2,728	2,731
Accumulated deficit .....	(4,657)	(4,593)
Accumulated other comprehensive loss .....	(1,786)	(1,920)
Common stock held in treasury, at cost (3.9 and 4.2 shares, respectively) .....	(152)	(161)
Total stockholders' deficit attributable to Navistar International Corporation .....	<u>(3,855)</u>	<u>(3,931)</u>
Stockholders' equity attributable to non-controlling interests .....	3	5
<b>Total stockholders' deficit</b> .....	<u>(3,852)</u>	<u>(3,926)</u>
<b>Total liabilities and stockholders' deficit</b> .....	<u><u>\$ 7,066</u></u>	<u><u>\$ 7,230</u></u>

See Notes to Consolidated Financial Statements

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

(in millions)	Six Months Ended April 30,	
	2019	2018
<b>Cash flows from operating activities</b>		
Net loss.....	\$ (26)	\$ (5)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization.....	66	73
Depreciation of equipment leased to others.....	31	36
Deferred taxes, including change in valuation allowance .....	(41)	1
Asset impairment charges.....	3	3
Gain on sales of investments and businesses, net.....	(59)	—
Amortization of debt issuance costs and discount.....	12	15
Stock-based compensation.....	14	21
Provision for doubtful accounts.....	6	3
Equity in income of non-consolidated affiliates, net of dividends .....	(2)	3
Write-off of debt issuance costs and discount .....	—	43
Other non-cash operating activities .....	(4)	(13)
Changes in other assets and liabilities, exclusive of the effects of businesses disposed .....	(190)	(278)
<b>Net cash used in operating activities</b> .....	<b>(190)</b>	<b>(98)</b>
<b>Cash flows from investing activities</b>		
Purchases of marketable securities .....	—	(148)
Sales of marketable securities.....	—	460
Maturities of marketable securities.....	79	18
Capital expenditures.....	(66)	(53)
Purchases of equipment leased to others .....	(76)	(92)
Proceeds from sales of property and equipment .....	5	5
Proceeds from sales of investments and businesses .....	95	(3)
Other investing activities .....	—	1
<b>Net cash provided by investing activities</b> .....	<b>37</b>	<b>188</b>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of securitized debt .....	—	27
Principal payments on securitized debt.....	(34)	(34)
Net change in secured revolving credit facilities.....	275	5
Proceeds from issuance of non-securitized debt.....	73	2,805
Principal payments on non-securitized debt .....	(508)	(2,589)
Net change in notes and debt outstanding under revolving credit facilities .....	126	74
Debt issuance costs .....	(2)	(33)
Proceeds from financed lease obligations.....	9	38
Proceeds from exercise of stock options.....	2	5
Dividends paid by subsidiaries to non-controlling interest.....	(13)	(14)
Other financing activities.....	(2)	(15)
<b>Net cash provided by (used in) financing activities</b> .....	<b>(74)</b>	<b>269</b>
<b>Effect of exchange rate changes on cash, cash equivalents and restricted cash</b> .....	<b>(10)</b>	<b>(7)</b>
<b>Increase (decrease) in cash, cash equivalents and restricted cash</b> .....	<b>(237)</b>	<b>352</b>
<b>Cash, cash equivalents and restricted cash at beginning of the period</b> .....	<b>1,445</b>	<b>840</b>
<b>Cash, cash equivalents and restricted cash at end of the period</b> .....	<b>\$ 1,208</b>	<b>\$ 1,192</b>

See Notes to Consolidated Financial Statements



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

(in millions)	Series D Convertible Junior Preference Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury, at cost	Stockholders' Equity Attributable to Non- controlling Interests	Total
<b>Balance as of October 31, 2018..</b>	\$ 2	\$ 10	\$ 2,731	\$ (4,593)	\$ (1,920)	\$ (161)	\$ 5	\$ (3,926)
Net income (loss)	—	—	—	(37)	—	—	11	(26)
Total other comprehensive income .....	—	—	—	—	134	—	—	134
ASC-606 modified retrospective adoption .....	—	—	—	(27)	—	—	—	(27)
Stock-based compensation .....	—	—	7	—	—	—	—	7
Stock ownership programs .....	—	—	(10)	—	—	9	—	(1)
Cash dividends paid to non-controlling interest.....	—	—	—	—	—	—	(13)	(13)
<b>Balance as of April 30, 2019.....</b>	<b>\$ 2</b>	<b>\$ 10</b>	<b>\$ 2,728</b>	<b>\$ (4,657)</b>	<b>\$ (1,786)</b>	<b>\$ (152)</b>	<b>\$ 3</b>	<b>\$ (3,852)</b>
<b>Balance as of October 31, 2017..</b>	<b>\$ 2</b>	<b>\$ 10</b>	<b>\$ 2,733</b>	<b>\$ (4,933)</b>	<b>\$ (2,211)</b>	<b>\$ (179)</b>	<b>\$ 4</b>	<b>\$ (4,574)</b>
Net income (loss).....	—	—	—	(18)	—	—	13	(5)
Total other comprehensive income .....	—	—	—	—	57	—	—	57
Stock-based compensation .....	—	—	7	—	—	—	—	7
Stock ownership programs .....	—	—	(10)	—	—	13	—	3
Cash dividends paid to non-controlling interest.....	—	—	—	—	—	—	(14)	(14)
Stock deferral and issuance - directors .....	—	—	(1)	—	—	—	—	(1)
<b>Balance as of April 30, 2018.....</b>	<b>\$ 2</b>	<b>\$ 10</b>	<b>\$ 2,729</b>	<b>\$ (4,951)</b>	<b>\$ (2,154)</b>	<b>\$ (166)</b>	<b>\$ 3</b>	<b>\$ (4,527)</b>

# Navistar International Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

(Unaudited)

### 1. Summary of Significant Accounting Policies

#### *Organization and Description of the Business*

Navistar International Corporation ("NIC"), incorporated under the laws of the State of Delaware in 1993, is a holding company whose principal operating entities are Navistar, Inc. ("NI") and Navistar Financial Corporation ("NFC"). References herein to the "Company," "we," "our," or "us" refer collectively to NIC and its consolidated subsidiaries, including certain variable interest entities ("VIEs") of which we are the primary beneficiary. We operate in four principal industry segments: Truck, Parts, Global Operations (collectively called "Manufacturing operations"), and Financial Services, which consists of NFC and our foreign finance operations (collectively called "Financial Services operations"). These segments are discussed in Note 12, *Segment Reporting*.

Our fiscal year ends on October 31. As such, all references to 2019, 2018, and other years contained within this Quarterly Report on Form 10-Q relate to the fiscal year, unless otherwise indicated.

#### *Basis of Presentation and Consolidation*

The accompanying unaudited consolidated financial statements include the assets, liabilities, and results of operations of our Manufacturing operations and our Financial Services operations, including VIEs of which we are the primary beneficiary. The effects of transactions among consolidated entities have been eliminated to arrive at the consolidated amounts.

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting policies described in our Annual Report on Form 10-K for the year ended October 31, 2018, which should be read in conjunction with the disclosures therein. In our opinion, these interim consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial condition, results of operations, and cash flows for the periods presented. Operating results for interim periods are not necessarily indicative of annual operating results.

#### *Variable Interest Entities*

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

We are the primary beneficiary of our Blue Diamond Parts, LLC ("BDP") joint venture with Ford Motor Company ("Ford"). As a result, our *Consolidated Balance Sheets* include assets of \$27 million and \$39 million as of April 30, 2019 and October 31, 2018, respectively, and liabilities of \$4 million at both dates. As of April 30, 2019 and October 31, 2018, assets include \$11 million and \$4 million of cash and cash equivalents, respectively, which are not readily available to satisfy claims against our general assets. The creditors of BDP do not have recourse to our general credit.

Our Financial Services segment consolidates several VIEs. As a result, our *Consolidated Balance Sheets* include secured assets of \$1.3 billion and \$994 million as of April 30, 2019 and October 31, 2018, respectively, and liabilities of \$1.1 billion and \$852 million as of April 30, 2019 and October 31, 2018, respectively, all of which are involved in securitizations that are treated as asset-backed debt. In addition, our *Consolidated Balance Sheets* include secured assets of \$433 million and \$370 million as of April 30, 2019 and October 31, 2018, respectively, and corresponding liabilities of \$234 million and \$205 million, at the respective dates, which are related to other secured transactions that do not qualify for sale accounting treatment, and, therefore, are treated as borrowings secured by operating and finance leases. Investors that hold securitization debt have a priority claim on the cash flows generated by their respective securitized assets to the extent that the related VIEs are required to make principal and interest payments. Investors in securitizations of these entities have no recourse to our general credit.

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

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

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

***Related Party Transactions***

We have a series of commercial relationships and agreements with TRATON SE and certain of its subsidiaries and affiliates ("TRATON Group") for royalties related to use of certain engine technology, contract manufacturing operations performed by us, the sale of engines, the sale and purchase of parts, and a procurement joint venture. We also have development agreements with TRATON Group involving certain engine and transmission projects. This development work is being expensed as incurred. For the three and six months ended April 30, 2019, revenue recognized was approximately \$42 million and \$71 million, respectively, compared to \$41 million and \$81 million in the comparable prior year periods. For the three and six months ended April 30, 2019, expenses incurred were \$5 million and \$18 million, respectively, compared to \$8 million and \$19 million in the comparable prior year periods, included primarily in *Engineering and product development costs* on our *Consolidated Statements of Operations*. Our receivable from TRATON Group was \$16 million and \$10 million as of April 30, 2019 and October 31, 2018, respectively. Our payable to TRATON Group was \$42 million and \$25 million as of April 30, 2019 and October 31, 2018, respectively.

We have an exclusive long-term agreement to supply military and commercial parts and chassis to our former defense business, ND Holdings, LLC ("Navistar Defense"). We also entered into an intellectual property agreement and a transition services agreement. For the three and six months ended April 30, 2019, revenue recognized was approximately \$28 million and \$34 million, respectively. As of April 30, 2019, our receivables from Navistar Defense were \$40 million.

***Inventories***

Inventories are valued at the lower of cost and net realizable value. Cost is principally determined using the first-in, first-out method. Our gross used truck inventory was \$216 million at April 30, 2019 compared to \$154 million at October 31, 2018, offset by reserves of \$45 million and \$31 million, respectively.

***Property and Equipment***

We report land, buildings, leasehold improvements, machinery and equipment (including tooling and pattern equipment), furniture, fixtures, and equipment, and equipment leased to others at cost, net of depreciation. We initially record assets under capital lease obligations at the lower of their fair value or the present value of the aggregate future minimum lease payments. We depreciate our assets using the straight-line method over the shorter of the lease term or the estimated useful lives of the assets.

We test for impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset or asset group (hereinafter referred to as "asset group") may not be recoverable by comparing the sum of the estimated undiscounted future cash flows expected to result from the operation of the asset group and its eventual disposition to the carrying value. During 2017, we identified a triggering event related to continued economic weakness in Brazil which resulted in the decline in forecasted results for the Brazilian asset group. The Brazilian asset group is included in the Global Operations segment. As a result, we estimated the recoverable amount of the asset group and determined that the sum of the undiscounted future cash flows exceeds the carrying value and the asset group was not impaired. Significant adverse changes to our business environment and future cash flows could cause us to record impairment charges in future periods, which could be material.

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

***Product Warranty Liability***

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

(in millions)	Six Months Ended April 30,	
	2019	2018
Balance at beginning of period .....	\$ 529	\$ 629
Costs accrued and revenues deferred .....	118	84
Adjustments to pre-existing warranties <sup>(A)</sup> .....	2	—
Payments and revenues recognized .....	(138)	(162)
Other adjustments <sup>(B)</sup> .....	12	—
Balance at end of period .....	523	551
Less: Current portion .....	261	265
Noncurrent accrued product warranty and deferred warranty revenue .....	\$ 262	\$ 286

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

(B) Other adjustments include a \$14 million increase in revenues deferred in connection with the adoption of the new revenue standard (as defined below regarding Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606), partially offset by a \$2 million reduction in liability related to the sale of a majority interest in Navistar Defense.

***Use of Estimates***

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

***Concentration Risks***

Our financial condition, results of operations, and cash flows are subject to concentration risks related to our significant unionized workforce. As of April 30, 2019, approximately 8,600, or 99%, of our hourly workers and approximately 700, or 13%, of our salaried workers, are represented by labor unions and are covered by collective bargaining agreements. In January 2019, certain of our United Automobile, Aerospace and Agricultural Implement Workers of America ("UAW") represented employees ratified a new six-year master collective bargaining agreement that replaced the prior agreement that expired in October 2018. Our future operations may be affected by changes in governmental procurement policies, budget considerations, changing national defense requirements, and political, regulatory and economic developments in the U.S. and certain foreign countries (primarily Canada, Mexico, and Brazil).

***Recently Adopted Accounting Standards***

On November 1, 2018, we adopted the new accounting standard ASC 606, "Revenue from Contracts with Customers" and all the related amendments ("new revenue standard") using the modified retrospective method to all contracts. Based on our assessment, the cumulative effect adjustment upon adoption of the new revenue standard had a \$27 million impact on our *Accumulated deficit*. The primary impacts include an increase in *Accumulated deficit* due to an increase in the refund liability owed to our customers for future returns of core components. Previously our refund liability was recorded net of our future trade-in value to our suppliers. Under the new revenue standard, we record a liability for the amounts owed to our customers and a deposit asset for the amount we are currently eligible to receive from our suppliers. An additional increase relates to a change in the recognition pattern of revenue for extended warranty contracts. Revenue from these contracts was recognized on a straight-line basis over the life of the contract. Under the new revenue standard, revenue for extended warranty contracts is recorded in proportion to the costs expected to be incurred in satisfying the obligations based on historical cost patterns over the life of similar contracts. The increase in *Accumulated deficit* is partially offset by certain contracts where revenue recognition occurred as units were delivered and accepted.

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

Under the new revenue standard, when the contract transfers control of a good to a customer as services or production occurs, revenue is recognized over time. An additional decrease in *Accumulated deficit* relates to certain sales that were recorded as leases or borrowings as we retained substantial risks of ownership. Under the new revenue standard, revenue is recognized upon transfer of control for these transactions, less the value of any guarantees provided to the customer. The adoption of the new revenue standard resulted in changes in the classification of *Sales and revenues, net* and *Costs of products sold* in our *Consolidated Statements of Operations*. The new revenue standard also resulted in changes in the classification of certain assets and liabilities in our *Consolidated Balance Sheets*.

We have revised our relevant policy and procedures and provided expanded revenue recognition disclosures based on the new qualitative and quantitative disclosure requirements of the standard in Note 2, *Revenue*.

The cumulative effects of the adjustments made to our November 1, 2018 *Consolidated Balance Sheet* for the adoption of the new revenue standard were as follows:

(in millions)	Balance at October 31, 2018	Change Due to New Standard	Balance at November 1, 2018
<b>ASSETS</b>			
Current assets			
Trade and other receivables, net	\$ 456	\$ (8)	\$ 448
Inventories, net	1,110	(91)	1,019
Other current assets	189	101	290
Total current assets	5,136	2	5,138
Property and equipment, net	1,370	(109)	1,261
Deferred taxes, net	121	1	122
Other noncurrent assets	113	(3)	110
<b>Total assets</b>	<b>\$ 7,230</b>	<b>\$ (109)</b>	<b>\$ 7,121</b>
<b>LIABILITIES and STOCKHOLDERS' DEFICIT</b>			
<b>Liabilities</b>			
Current liabilities			
Notes payable and current maturities of long-term debt	\$ 946	\$ (15)	\$ 931
Other current liabilities	1,255	13	1,268
Total current liabilities	3,807	(2)	3,805
Long-term debt	4,521	(58)	4,463
Other noncurrent liabilities	731	(22)	709
<b>Total liabilities</b>	<b>11,156</b>	<b>(82)</b>	<b>11,074</b>
<b>Stockholders' deficit</b>			
Total stockholders' deficit attributable to Navistar International Corporation..	(3,931)	(27)	(3,958)
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 7,230</b>	<b>\$ (109)</b>	<b>\$ 7,121</b>

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

The following reconciles amounts as they would have been reported under the prior standard to current reporting:

(in millions)	Three months ended April 30, 2019 <sup>(A)</sup>		
	Under Prior Standard	Effects of New Standard	As Reported
Sales of manufactured products, net .....	\$ 2,919	\$ 29	\$ 2,948
Costs of products sold .....	2,475	18	2,493
Interest expense .....	83	(1)	82
Income (loss) before income tax .....	(56)	12	(44)
Income tax benefit (expense) .....	3	(2)	1
Net income (loss) .....	\$ (53)	\$ 10	\$ (43)

(in millions)	Six months ended April 30, 2019 <sup>(A)</sup>		
	Under Prior Standard	Effects of New Standard	As Reported
Sales of manufactured products, net .....	\$ 5,309	\$ 25	\$ 5,334
Costs of products sold .....	4,461	11	4,472
Interest expense .....	169	(2)	167
Income (loss) before income tax .....	(62)	16	(46)
Income tax benefit (expense) .....	23	(3)	20
Net income (loss) .....	\$ (39)	\$ 13	\$ (26)

(A) Our *Consolidated Statements of Operations* for the three and six months ended April 30, 2019 includes two months of the operating activity of Navistar Defense prior to the sale of a majority interest in our former defense business. See Note 3 *Restructuring, Impairments and Divestitures* for additional information.

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

(in millions)	As of April 30, 2019 <sup>(A)</sup>		
	Under Prior Standard	Effects of New Standard	As Reported
<b>ASSETS</b> .....			
Current assets.....			
Trade and other receivables, net.....	\$ 463	\$ (10)	\$ 453
Inventories, net.....	1,215	(51)	1,164
Other current assets.....	215	67	282
Total current assets.....	5,095	6	5,101
Property and equipment, net.....	1,443	(173)	1,270
Deferred taxes, net.....	123	(2)	121
Other noncurrent assets.....	110	(8)	102
<b>Total assets</b> .....	<b>\$ 7,243</b>	<b>\$ (177)</b>	<b>\$ 7,066</b>
<b>LIABILITIES and STOCKHOLDERS' DEFICIT</b>			
<b>Liabilities</b>			
Current liabilities			
Notes payable and current maturities of long-term debt.....	\$ 783	\$ (14)	\$ 769
Other current liabilities.....	1,287	22	1,309
Total current liabilities.....	3,700	8	3,708
Long-term debt.....	4,640	(52)	4,588
Other noncurrent liabilities.....	781	(109)	672
<b>Total liabilities</b> .....	<b>11,071</b>	<b>(153)</b>	<b>10,918</b>
<b>Stockholders' deficit</b>			
Total stockholders' deficit attributable to Navistar International Corporation.....	(3,831)	(24)	(3,855)
<b>Total liabilities and stockholders' deficit</b> .....	<b>\$ 7,243</b>	<b>\$ (177)</b>	<b>\$ 7,066</b>

(A) Our *Consolidated Balance Sheet* as of April 30, 2019 does not include the impact of Navistar Defense due to the sale of a majority interest in our former defense business. See Note 3, *Restructuring, Impairments and Divestitures* for additional information.

**Recently Issued Accounting Standards**

In August 2018, the FASB issued Accounting Standard Update ("ASU") No. 2018-15, "Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40) Customer's Accounting for Fees Paid in a Cloud Computing Arrangement". This ASU provides guidance on evaluating the accounting for fees paid by a customer in a cloud computing arrangement (hosting arrangement) and determining when the arrangement includes a software license. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. This ASU is effective for us in the first quarter of fiscal 2021. We are currently evaluating the impact of this ASU on our consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220)". This ASU provides guidance on a reclassification from accumulated other comprehensive income to retained earnings for the effect of the tax rate change resulting from the Tax Act. The amendments eliminate the stranded tax effects resulting from the Tax Act and will improve the usefulness of information reported to financial statement users. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. This ASU is effective for us in the first quarter of fiscal 2020. We are currently evaluating the impact of this ASU on our consolidated financial statements.

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

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments” (Topic 326). This ASU sets forth an expected credit loss model which requires the measurement of expected credit losses for financial instruments based on historical experience, current conditions and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost, and certain off-balance sheet credit exposures. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. Adoption will require a modified retrospective transition. This ASU is effective for us in the first quarter of fiscal 2021. We are currently evaluating the impact of this ASU on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" (Topic 842), including subsequently issued ASUs to clarify the implementation guidance in ASU 2016-02. This ASU requires lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases of greater than twelve months. The accounting by lessors will remain largely unchanged. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. This ASU is effective for us in the first quarter of fiscal 2020. We expect to adopt this ASU in the first quarter of fiscal 2020 on a modified retrospective basis by which the cumulative effect adjustment recognized in *Accumulated deficit* as of November 1, 2019. The new standard provides a number of optional practical expedients in transition. We expect to elect the ‘package of practical expedients’, which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. We also expect to elect the practical expedient related to land easements, but do not expect to elect the use-of-hindsight. We are currently evaluating our lease population to assess the effect of the guidance on our consolidated financial statements, but expect to record lease liabilities and right-of-use assets for operating leases related to certain property and equipment. We have selected our software and service providers and are focused on designing new processes and controls to assist with the implementation of the standard. We continue to evaluate the impact of this ASU on our consolidated financial statements.

**2. Revenue**

We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

***Disaggregation of Revenue***

The following tables disaggregate our external revenue by product type for the three and six months ended April 30, 2019 (in millions):

(in millions)	Truck	Parts	Global Operations	Financial Services	Corporate and Eliminations	Total
<b>Three Months Ended April 30, 2019</b>						
Truck products and services <sup>(A)</sup>	\$ 2,099	\$ —	\$ —	\$ —	\$ 3	\$ 2,102
Truck contract manufacturing	112	—	—	—	—	112
Used trucks	46	—	—	—	—	46
Engines	—	78	60	—	—	138
Parts	1	500	20	—	—	521
Extended warranty contracts	29	—	—	—	—	29
<b>Sales of manufactured products, net</b>	<b>2,287</b>	<b>578</b>	<b>80</b>	<b>—</b>	<b>3</b>	<b>2,948</b>
Retail financing <sup>(C)</sup>	—	—	—	36	—	36
Wholesale financing <sup>(C)</sup>	—	—	—	12	—	12
<b>Sales and revenues, net</b>	<b>\$ 2,287</b>	<b>\$ 578</b>	<b>\$ 80</b>	<b>\$ 48</b>	<b>\$ 3</b>	<b>\$ 2,996</b>



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

(in millions)	Truck	Parts	Global Operations	Financial Services	Corporate and Eliminations	Total
<b>Six Months Ended April 30, 2019</b>						
Truck products and services <sup>(A)(B)</sup>	\$ 3,776	\$ —	\$ —	\$ —	\$ 6	\$ 3,782
Truck contract manufacturing	130	—	—	—	—	130
Used trucks	97	—	—	—	—	97
Engines	—	144	105	—	—	249
Parts	2	980	36	—	—	1,018
Extended warranty contracts	58	—	—	—	—	58
<b>Sales of manufactured products, net</b>	<b>4,063</b>	<b>1,124</b>	<b>141</b>	<b>—</b>	<b>6</b>	<b>5,334</b>
Retail financing <sup>(C)</sup>	—	—	—	71	—	71
Wholesale financing <sup>(C)</sup>	—	—	—	24	—	24
<b>Sales and revenues, net</b>	<b>\$ 4,063</b>	<b>\$ 1,124</b>	<b>\$ 141</b>	<b>\$ 95</b>	<b>\$ 6</b>	<b>\$ 5,429</b>

(A) Includes other markets primarily consisting of Bus, Export Truck and Mexico. Also, includes revenue of \$2 million and \$5 million for the three and six months ended April 30, 2019, respectively, related to certain third-party financings initially recorded as borrowings, and operating lease revenue of \$1 million for both periods.

(B) Includes military sales of \$62 million. In December 2018, we completed the sale of a 70% equity interest in Navistar Defense. See Note 3, *Restructuring, Impairments and Divestitures* for additional information.

(C) Retail financing and Wholesale financing revenues in the Financial Services segment include interest revenue of \$14 million and \$12 million for the three months ended April 30, 2019, respectively, and \$27 million and \$24 million for the six months ended April 30, 2019, respectively.

Trucks, Truck Contract Manufacturing, Used trucks, Engines and Parts

Revenue for our Truck products and services, certain truck contract manufacturing, Used trucks, certain Engines and Parts is recognized at a point in time when control is transferred to the customer. Our Trucks, Used trucks, Engines, and Parts have a standard warranty, the estimated cost of which is included in *Costs of products sold*. Operating lease and borrowing revenues are recognized on a straight-line basis over the life of the lease.

Prior to our sale of a 70% equity interest in Navistar Defense, certain truck sales to the U.S. government of non-commercial products manufactured to government specification were recognized over time as the goods were manufactured. Certain truck and other contract manufacturing arrangements, unrelated to Navistar Defense, continue to be recognized over time. We recognize revenue over time when the finished assets have no alternative use and we have a right to payment for work performed in the event of a contract cancellation or when we create or enhance an asset that the customer controls as it is being created or enhanced. We recognize revenue using a cost-based input method because it best depicts our progress in satisfying the performance obligation. The selection of the method requires judgement and is based on the nature of the products or services to be provided.

Certain terms or modifications to U.S. and foreign government contracts may have been unpriced; that is, the work to be performed was defined, but the related contract price was to be negotiated at a later date. In situations where we could reliably estimate a profit margin in excess of costs incurred, revenue and gross margin were recorded for delivered contract items. Otherwise, revenue was recognized when the price had been agreed with the applicable government and costs were deferred when it was probable that the costs would be recovered.

An allowance for parts sales returns is recorded as a reduction to revenue based upon estimates using historical information about returns. This includes when the Company is a reseller of certain service parts that include a core component. A core component is the basic forging or casting, such as an engine block, that can be remanufactured by a certified remanufacturing supplier. When a dealer returns a core component within the specified eligibility period, we refund the core return deposit, which is applied to the customer's account balance.

Extended Warranty Contracts

We sell separately-priced extended warranty contracts that can be purchased for periods ranging from one to ten years. Warranty revenue related to extended warranty contracts is recognized over the life of the contract in proportion to the costs expected to be incurred in satisfying the obligation under the contract. Costs under extended warranty contracts are expensed as incurred. We recognize losses on defined pools of extended warranty contracts when the remaining expected costs for a given pool of contracts exceed the related deferred revenue.

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

*Retail and Wholesale Financing*

Financial Services operations recognize revenue from retail notes, finance leases, wholesale notes, retail accounts, and wholesale accounts as Finance revenues over the term of the receivables utilizing the effective interest method. Certain direct origination costs and fees are deferred and recognized as adjustments to yield and are reported as part of interest income over the life of the receivable. Loans are impaired when we conclude it is probable the customer will not be able to make full payment according to contractual terms after reviewing the customer's financial performance, payment ability, capital-raising potential, management style, economic situation, and other factors. The accrual of interest on such loans is suspended when the loan becomes 90 days or more past due. Finance revenues on these loans are recognized only to the extent cash payments are received. We resume accruing interest on these accounts when payments are current according to the terms of the loans and future payments are reasonably assured.

Operating lease revenues are recognized on a straight-line basis over the life of the lease. Recognition of revenue is suspended when management determines the collection of future revenue is not probable. Recognition of revenue is resumed if collection again becomes probable.

***Performance Obligations***

Generally, revenue from our sales is recognized at a point in time when control is transferred to the customer which generally occurs upon shipment from our plants and distribution centers or at the time of delivery to our customers. The standard payment term is less than 30 days, but we may extend payment terms on selected receivables. We have elected the practical expedient that allows the Company to not assess whether a contract has a significant financing component when the time between cash collection and transfer of control is less than one year.

We recognize price allowances, returns and the cost of incentive programs in the normal course of business based on programs offered to dealers or fleet customers. Estimates are made for sales incentives on certain vehicles in dealer stock inventory based on historical experience and announced special programs. The estimated sales incentives and returns are adjusted at the earlier of when the estimate of consideration we expect to receive changes or the consideration becomes fixed. For contracts where there is more than one performance obligation, discounts are allocated to all of the performance obligations in the contract based on their relative standalone selling prices.

Revenue on bill and hold arrangements is not recognized until after the customer is notified that the product (i) has been completed according to customer specifications, (ii) has passed our quality control inspections, (iii) is ready for physical transfer to the customer and (iv) the reason for the bill and hold arrangement is substantive.

We have elected to account for shipping and handling activities that occur subsequent to transfer of control as a fulfillment cost and not as a separate performance obligation. The costs are recognized as an expense in *Costs of products sold* when incurred. As a practical expedient, we do not disclose the transaction price related to order backlogs as they have an original expected duration of less than one year.

We exclude from revenue any sales taxes, value added taxes and other related taxes collected from customers.

The impact of changes to revenue related to performance obligations satisfied in prior periods was not material to our consolidated financial statements in the second quarter of 2019.

***Contract Balances***

Most of our contracts are for a period of less than one year. We have certain long-term contract manufacturing and extended warranty contracts that extend beyond one year. We record deferred revenue, primarily related to extended warranty contracts, when we receive consideration from a customer prior to transferring goods or services under the terms of a sales contract. This deferred revenue represents contract liabilities which are included in our *Consolidated Balance Sheets* as components of current and long-term liabilities. The amount of manufacturing contract liabilities is not material to our consolidated financial statements.

The amount of deferred revenue related to extended warranty contracts was \$271 million and \$255 million at April 30, 2019 and October 31, 2018, respectively. Revenue recognized under our extended warranty programs was \$29 million and \$58 million for the three and six months ended April 30, 2019, respectively, and \$27 million and \$56 million for the three and six months ended April 30, 2018, respectively. We expect to recognize revenue under our extended warranty programs of approximately \$47 million in the remainder of 2019, \$80 million in 2020, \$64 million in 2021, \$42 million in 2022, \$22 million in 2023 and \$16 million thereafter.

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

***Contract Costs***

We recognize incremental costs to obtain contracts as an asset if they are recoverable. As a practical expedient, we recognize the costs of obtaining a contract as an expense when the related contract period is less than one year. We have no contract costs capitalized as of April 30, 2019.

**3. Restructuring, Impairments and Divestitures**

Restructuring charges are recorded based on restructuring plans that have been committed to by management and are, in part, based upon management's best estimates of future events. Changes to the estimates may require future adjustments to the restructuring liabilities.

***Manufacturing Restructuring Activities***

We continue to focus on our core Truck and Parts businesses and evaluate our portfolio of assets to validate their strategic and financial fit. This allows us to close or divest non-strategic businesses and identify opportunities to restructure our business and rationalize our Manufacturing operations in an effort to optimize our cost structure.

For those areas that fall outside our strategic businesses, we evaluate alternatives which could result in additional restructuring and other related charges in the future, including but not limited to: (i) impairments, (ii) costs for employee and contractor termination and other related benefits, and (iii) charges for pension and other postretirement contractual benefits and curtailments. These charges could be significant.

*Global operations employee separation actions*

In the fourth quarter of 2017, we initiated cost-reduction actions impacting our workforce in Brazil. As a result of these actions, we recognized restructuring charges of \$6 million in personnel costs for employee separation and related benefits. In the first six months of 2018, we recognized a benefit of \$1 million upon the completion of these separation actions. This benefit was recorded in our Global operations segment within *Restructuring charges* in our *Consolidated Statements of Operations*.

*Melrose Park Facility restructuring activities*

In the third quarter of 2017, we committed to a plan to cease engine production at our plant in Melrose Park, Illinois ("Melrose Park Facility") in the third quarter of fiscal year 2018. As a result, in the third quarter of 2017, we recognized charges of \$41 million in our Truck segment. The charges include \$23 million related to pension and other post-employment benefits ("OPEB") liabilities and \$8 million for severance pay recorded in *Restructuring charges* in our *Consolidated Statements of Operations*. We also recorded \$10 million of inventory reserves and other related charges in *Costs of products sold* in our *Consolidated Statements of Operations*. In the first six months of 2018, we recognized a benefit of \$2 million related to the finalized cessation of the production agreement. This benefit was recorded in our Truck segment within *Restructuring charges* in our *Consolidated Statements of Operations*. Production at the Melrose Park Facility ceased on May 17, 2018.

***Asset Impairments***

In the six months ended April 30, 2019, we concluded that we had triggering events related to certain assets under operating leases. As a result, a charge of \$3 million was recorded in our Truck segment.

In the six months ended April 30, 2018, we concluded that we had triggering events related to the sale of our railcar business in Cherokee, Alabama requiring the impairment of certain long-lived assets. As a result, we recorded a charge of \$2 million in our Truck segment. In February 2018, we completed the sale of the business.

These charges were recorded in *Asset impairment charges* in our *Consolidated Statements of Operations*.

See Note 10, *Fair Value Measurements*, for information on the valuation of impaired operating leases and other assets.

***Navistar Defense Divestiture***

In December 2018, we completed the sale of a 70% equity interest in Navistar Defense, to an affiliate of Cerberus Capital Management, L.P. In connection with the closing of the transaction, we entered into an exclusive long-term agreement to supply military and commercial parts and chassis to Navistar Defense. We also entered into an intellectual property agreement and a transition services agreement concurrent with the sale.

The Navistar Defense purchase price, adjusted for certain calendar year 2018 chargeouts, was approximately \$140 million, which is subject to additional adjustments for working capital, transfers of certain liabilities and commitments, and other items. The transaction also includes potential additional consideration of up to \$17 million, not included in the gain on the sale, based on cash proceeds from certain contracts which exceed defined thresholds.

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

During the first quarter of 2019, we recognized a gain on the sale in our Truck segment of \$54 million in *Other expense, net* in our *Consolidated Statements of Operations*.

**4. Finance Receivables**

Finance receivables are receivables of our Financial Services operations. Finance receivables generally consist of wholesale notes and accounts, as well as retail notes, finance leases and accounts. Total finance receivables reported on the *Consolidated Balance Sheets* are net of an allowance for doubtful accounts. Total assets of our Financial Services operations net of intercompany balances were \$2.9 billion and \$2.6 billion as of April 30, 2019 and October 31, 2018, respectively.

Included in total assets of our Financial Services operations were finance receivables of \$2.3 billion and \$2.2 billion as of April 30, 2019 and October 31, 2018, respectively. We have two portfolio segments of finance receivables that we distinguish based on the type of customer and nature of the financing inherent to each portfolio. The retail portfolio segment represents loans or leases to end-users for the purchase or lease of vehicles. The wholesale portfolio segment represents loans to dealers to finance their inventory.

Our *Finance receivables, net* in our *Consolidated Balance Sheets* consist of the following:

(in millions)	As of April 30, 2019	As of October 31, 2018
Retail portfolio .....	\$ 797	\$ 720
Wholesale portfolio .....	1,544	1,460
Total finance receivables.....	2,341	2,180
Less: Allowance for doubtful accounts .....	25	22
Total finance receivables, net.....	2,316	2,158
Less: Current portion, net <sup>(A)</sup> .....	2,037	1,898
Noncurrent portion, net.....	\$ 279	\$ 260

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

**Securitizations**

Our Financial Services operations transfer wholesale notes, retail accounts receivable, finance leases, and operating leases to special purpose entities ("SPEs"), which generally are only permitted to purchase these assets, issue asset-backed securities, and make payments on the securities issued. In addition to servicing receivables, our continued involvement in the SPEs may include an economic interest in the transferred receivables and, in some cases, managing exposure to interest rate changes on the securities using interest rate swaps or interest rate caps. There were no transfers of finance receivables that qualified for sale accounting treatment as of April 30, 2019 and October 31, 2018, and as a result, the transferred finance receivables are included in our *Consolidated Balance Sheets* and the related interest earned is included in *Finance revenues*.

We transfer eligible finance receivables into owner trusts in order to issue asset-backed securities. These trusts are VIEs of which we are determined to be the primary beneficiary, and, therefore, the assets and liabilities of the trusts are included in our *Consolidated Balance Sheets*. The outstanding balance of finance receivables transferred into these VIEs was \$1.1 billion and \$956 million as of April 30, 2019 and October 31, 2018, respectively.

Other finance receivables related to secured transactions that do not qualify for sale accounting treatment were \$296 million and \$235 million as of April 30, 2019 and October 31, 2018, respectively. For more information on assets and liabilities of consolidated VIEs and other securitizations accounted for as secured borrowings by our Financial Services segment, see Note 1, *Summary of Significant Accounting Policies*.

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

**Finance Revenues**

The following table presents the components of our *Finance revenues* in our *Consolidated Statements of Operations*:

(in millions)	Three Months Ended April 30,		Six Months Ended April 30,	
	2019	2018	2019	2018
Retail notes and finance leases revenue.....	\$ 15	\$ 13	\$ 29	\$ 24
Wholesale notes interest .....	31	24	62	49
Operating lease revenue.....	22	17	43	35
Retail and wholesale accounts interest .....	10	9	18	14
Gross finance revenues.....	78	63	152	122
Less: Intercompany revenues .....	30	23	57	44
Finance revenues .....	<u>\$ 48</u>	<u>\$ 40</u>	<u>\$ 95</u>	<u>\$ 78</u>

**5. Allowance for Doubtful Accounts**

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

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

(in millions)	Three Months Ended April 30, 2019				Three Months Ended April 30, 2018			
	Retail Portfolio	Wholesale Portfolio	Trade and Other Receivables	Total	Retail Portfolio	Wholesale Portfolio	Trade and Other Receivables	Total
Allowance for doubtful accounts, at beginning of period .....	\$ 20	\$ 3	\$ 28	\$ 51	\$ 18	\$ 3	\$ 29	\$ 50
Provision for doubtful accounts ...	3	—	2	5	3	—	(1)	2
Charge-off of accounts.....	(1)	—	(1)	(2)	(2)	—	—	(2)
Recoveries.....	—	—	—	—	1	—	—	1
Other <sup>(A)</sup> .....	—	—	—	—	(1)	—	(1)	(2)
Allowance for doubtful accounts, at end of period .....	<u>\$ 22</u>	<u>\$ 3</u>	<u>\$ 29</u>	<u>\$ 54</u>	<u>\$ 19</u>	<u>\$ 3</u>	<u>\$ 27</u>	<u>\$ 49</u>

  

(in millions)	Six Months Ended April 30, 2019				Six Months Ended April 30, 2018			
	Retail Portfolio	Wholesale Portfolio	Trade and Other Receivables	Total	Retail Portfolio	Wholesale Portfolio	Trade and Other Receivables	Total
Allowance for doubtful accounts, at beginning of period .....	\$ 19	\$ 3	\$ 28	\$ 50	\$ 17	\$ 3	\$ 28	\$ 48
Provision for doubtful accounts ...	4	—	2	6	3	—	—	3
Charge-off of accounts.....	(2)	—	(1)	(3)	(3)	—	—	(3)
Recoveries.....	—	—	—	—	2	—	—	2
Other <sup>(A)</sup> .....	1	—	—	1	—	—	(1)	(1)
Allowance for doubtful accounts, at end of period .....	<u>\$ 22</u>	<u>\$ 3</u>	<u>\$ 29</u>	<u>\$ 54</u>	<u>\$ 19</u>	<u>\$ 3</u>	<u>\$ 27</u>	<u>\$ 49</u>

(A) Amounts include impact from currency translation.

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

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

The following table presents information regarding impaired finance receivables:

(in millions)	April 30, 2019			October 31, 2018		
	Retail Portfolio	Wholesale Portfolio	Total	Retail Portfolio	Wholesale Portfolio	Total
Impaired finance receivables with specific loss reserves .....	\$ 21	\$ —	\$ 21	\$ 20	\$ —	\$ 20
Impaired finance receivables without specific loss reserves ...	—	—	—	—	—	—
Specific loss reserves on impaired finance receivables .....	10	—	10	9	—	9
Finance receivables on non-accrual status .....	21	—	21	20	—	20

The average balances of the impaired finance receivables in the retail portfolio were \$21 million and \$18 million during the six months ended April 30, 2019 and 2018, respectively. See Note 10, *Fair Value Measurements*, for information on the valuation of impaired finance receivables.

We use the aging of our receivables as well as other inputs when assessing credit quality. The following table presents the aging analysis for finance receivables:

(in millions)	April 30, 2019			October 31, 2018		
	Retail Portfolio	Wholesale Portfolio	Total	Retail Portfolio	Wholesale Portfolio	Total
Current, and up to 30 days past due .....	\$ 720	\$ 1,543	\$ 2,263	\$ 655	\$ 1,459	\$ 2,114
30-90 days past due .....	57	1	58	51	1	52
Over 90 days past due .....	20	—	20	14	—	14
Total finance receivables .....	<u>\$ 797</u>	<u>\$ 1,544</u>	<u>\$ 2,341</u>	<u>\$ 720</u>	<u>\$ 1,460</u>	<u>\$ 2,180</u>

## 6. Inventories

The following table presents the components of *Inventories* in our *Consolidated Balance Sheets*:

(in millions)	April 30, 2019	October 31, 2018
Finished products .....	\$ 749	\$ 671
Work in process .....	104	118
Raw materials .....	311	321
Total inventories, net .....	<u>\$ 1,164</u>	<u>\$ 1,110</u>

## 7. Debt

The following tables present the components of *Notes payable and current maturities of long-term debt* and *Long-term debt* in our *Consolidated Balance Sheets*:

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

(in millions)	April 30, 2019	October 31, 2018
<b>Manufacturing operations</b>		
Senior Secured Term Loan Credit Agreement, due 2025, net of unamortized discount of \$6 and \$7, respectively, and unamortized debt issuance costs of \$11 at both dates .....	\$ 1,563	\$ 1,570
6.625% Senior Notes, due 2026, net of unamortized debt issuance costs of \$16 and \$17, respectively .....	1,084	1,083
4.75% Senior Subordinated Convertible Notes, due 2019, net of unamortized discount of \$5 and unamortized debt issuance costs of \$1 .....	—	405
Loan Agreement related to 6.75% Tax Exempt Bonds, due 2040, net of unamortized debt issuance costs of \$5 at both dates .....	220	220
Financed lease obligations .....	53	122
Other .....	42	26
Total Manufacturing operations debt .....	2,962	3,426
Less: Current portion .....	60	461
Net long-term Manufacturing operations debt .....	<u>\$ 2,902</u>	<u>\$ 2,965</u>

(in millions)	April 30, 2019	October 31, 2018
<b>Financial Services operations</b>		
Asset-backed debt issued by consolidated SPEs, at fixed and variable rates, due serially through 2023, net of unamortized debt issuance costs of \$2 and \$4, respectively .....	\$ 1,213	\$ 948
Senior secured NFC Term Loan, due 2025, net of unamortized discount of \$2 at both dates, and unamortized debt issuance costs of \$4 at both dates .....	392	394
Bank credit facilities, at fixed and variable rates, due dates from 2019 through 2025, net of unamortized debt issuance costs of \$1 and \$2, respectively .....	660	519
Commercial paper, at variable rates, program matures in 2022 .....	47	75
Borrowings secured by operating and finance leases, at various rates, due serially through 2024 .....	83	105
Total Financial Services operations debt .....	2,395	2,041
Less: Current portion .....	709	485
Net long-term Financial Services operations debt .....	<u>\$ 1,686</u>	<u>\$ 1,556</u>

**Manufacturing Operations**

*4.75% Senior Subordinated Convertible Notes*

The 4.75% Senior Subordinated Convertible Notes were fully repaid upon maturity in April 2019, and none were converted into our common stock.

**Financial Services Operations**

*Asset-backed Debt*

In November 2018, the maturity of our wholesale variable funding notes ("VFN") facility was extended from December 2018 to May 2020. In April 2019, the VFN facility capacity was temporarily increased from \$350 million to \$550 million until the earlier of June 28, 2019, or the completion of a qualifying wholesale asset-backed term facility.

In December 2018, the maturity of our Truck Retail Accounts Corporation ("TRAC") funding facility was extended from January 2019 to January 2020. In April 2019, the maximum capacity of the TRAC funding facility was increased from \$100 million to \$150 million.

In May 2019, NFC increased the capacity of its revolving bank credit facility from \$269 million to \$748 million and extended the maturity from September 2021 to May 2024. The additional capacity was used to fully repay the senior secured NFC Term Loan balance of \$398 million.

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

**8. Postretirement Benefits**

***Defined Benefit Plans***

We provide postretirement benefits to a substantial portion of our employees and retirees. Costs associated with postretirement benefits include pension and postretirement health care expenses for employees, retirees, surviving spouses and dependents.

Generally, the pension plans are non-contributory. Our policy is to fund the pension plans in accordance with applicable U.S. and Canadian government regulations and to make additional contributions from time to time. For the three and six months ended April 30, 2019, we contributed zero and \$131 million, respectively, and for the three and six months ended April 30, 2018, we contributed \$32 million and \$53 million, respectively, to our pension plans to meet regulatory funding requirements. During the first quarter of 2019, we accelerated the payment of a substantial portion of our 2019 minimum required funding. We expect to contribute approximately \$9 million to our pension plans during the remainder of 2019.

We primarily fund OPEB obligations, such as retiree medical, in accordance with the 1993 Settlement Agreement (the "1993 Settlement Agreement"), which requires us to fund a portion of the plans' annual service cost to a retiree benefit trust (the "Base Trust"). The 1993 Settlement Agreement resolved a class action lawsuit originally filed in 1992 regarding the restructuring of our then applicable retiree health care and life insurance benefits. Contributions for the three and six months ended April 30, 2019, as well as anticipated contributions for the remainder of 2019, are not material.

***Components of Net Periodic Benefit Expense***

Net periodic benefit expense included in our *Consolidated Statements of Operations*, and other amounts recognized in our *Consolidated Statements of Stockholders' Deficit*, for the three and six months ended April 30, 2019 and 2018 are comprised of the following:

(in millions)	Three Months Ended April 30,				Six Months Ended April 30,			
	Pension Benefits		Health and Life Insurance Benefits		Pension Benefits		Health and Life Insurance Benefits	
	2019	2018	2019	2018	2019	2018	2019	2018
Service cost for benefits earned during the period...	\$ 2	\$ 2	\$ 1	\$ 1	\$ 4	\$ 4	\$ 2	\$ 2
Interest on obligation .....	30	27	12	11	62	54	24	22
Amortization of cumulative loss .....	23	27	—	2	47	53	—	4
Settlements .....	—	—	—	—	142	9	—	—
Premiums on pension insurance .....	3	—	—	—	4	2	—	—
Expected return on assets .....	(35)	(41)	(6)	(6)	(73)	(81)	(11)	(12)
Net periodic benefit expense .....	\$ 23	\$ 15	\$ 7	\$ 8	\$ 186	\$ 41	\$ 15	\$ 16

In the six months ended April 30, 2019, we adopted ASU No. 2017-07 "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." This ASU requires that an employer disaggregate the service cost component from the other components of net periodic benefit cost. As a result, we have reclassified certain net periodic benefit costs from *SG&A expenses* to *Other expense, net* in our *Consolidated Statements of Operations*. The guidance, which required retrospective application, resulted in a reclassification of \$20 million and \$51 million for the three and six months ended April 30, 2018, respectively.

In the six months ended April 30, 2019 and 2018, we purchased group annuity contracts for certain retired pension plan participants resulting in plan remeasurements. The purchase of the group annuity contracts was funded directly by the assets of our pension plans. As a result, net actuarial losses of \$11 million and \$2 million, respectively, were recognized as components of *Accumulated other comprehensive loss* and non-cash pension settlement accounting expenses of \$142 million and \$9 million, respectively, were recognized in *Other expense, net* in our *Consolidated Statements of Operations*.



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

***Defined Contribution Plans and Other Contractual Arrangements***

Our defined contribution plans cover a substantial portion of domestic salaried employees and certain domestic represented employees. The defined contribution plans contain a 401(k) feature and provide most participants with a matching contribution from the Company. Effective January 1, 2019, we deposit the matching contribution monthly. Many participants covered by the plans receive annual Company contributions to their retirement accounts based on an age-weighted percentage of the participant's eligible compensation for the calendar year. Defined contribution expense pursuant to these plans was \$12 million and \$20 million in the three and six months ended April 30, 2019, respectively, and \$11 million and \$18 million in the three and six months ended April 30, 2018, respectively.

In accordance with the 1993 Settlement Agreement, an independent Retiree Supplemental Benefit Trust (the "Supplemental Trust") was established. The Supplemental Trust, and the benefits it provides to certain retirees pursuant to a certain Retiree Supplemental Benefit Program under the 1993 Settlement Agreement ("Supplemental Benefit Program"), is not part of our consolidated financial statements.

Our contingent profit sharing obligations under a certain Supplemental Benefit Trust Profit Sharing Plan ("Supplemental Benefit Trust Profit Sharing Plan") will continue until certain funding targets defined by the 1993 Settlement Agreement are met. We record profit sharing accruals based on the operating performance of the entities that are included in the determination of qualifying profits. For more information on pending arbitration regarding the Supplemental Benefit Trust Profit Sharing Plan, see Note 11, *Commitments and Contingencies*.

**9. Income Taxes**

We compute, on a quarterly basis, an estimated annual effective tax rate considering ordinary income and related income tax expense. Tax jurisdictions with a projected or year to date loss for which a tax benefit cannot be realized are excluded. Ordinary income refers to income (loss) before income tax expense excluding significant unusual or infrequently occurring items. The tax effect of a significant unusual or infrequently occurring item is recorded in the interim period in which the item occurs. We included an income tax benefit of \$38 million in the first quarter for the tax effect of a group annuity contract purchase for certain retired pension plan participants as a significant unusual or infrequently occurring item. Other items included in income tax expense in the periods in which they occur include the tax effects of cumulative changes in tax laws or rates, foreign exchange gains and losses, adjustments to uncertain tax positions, and adjustments to our valuation allowance due to changes in judgment regarding the ability to realize deferred tax assets in future years.

On December 22, 2017, the Tax Act was signed into U.S. law. On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. The Company's financial statement effects were reported on a provisional basis for the year ended October 31, 2018. The remeasurement period for SAB 118 ended on December 22, 2018. The Tax Act reduced the statutory corporate income tax rate from 35% to 21%, effective January 1, 2018. This rate reduction required us to remeasure our deferred taxes as of the date the Tax Act was enacted. Our U.S. deferred tax assets, net of deferred tax liabilities, were remeasured and reduced by \$983 million, entirely offset by a valuation allowance reduction. As a result, the remeasurement of our deferred tax assets, net of deferred tax liabilities, including the valuation allowance, did not impact our income tax expense or net income. The Tax Act also included a mandatory deemed repatriation of earnings of the Company's foreign subsidiaries and resulted in a one-time transition tax for the year ended October 31, 2018. We included \$147 million of foreign earnings in taxable income due to this deemed repatriation. The deferred tax impact had a valuation allowance offset, resulting in no impact on our income tax expense or net income.

The income tax accounting for the effect of the rate change on deferred taxes and the mandatory deemed repatriation is complete.

The Tax Act also included many other provisions, including changes to limits on the deductions for executive compensation and interest expense, a tax on global intangible low - taxed income ("GILTI"), the base erosion anti - abuse tax and a deduction for foreign derived intangible income. We have included the impact of these provisions in our interim period tax calculations, which first apply to our taxable year beginning November 1, 2018. Companies can either account for taxes on GILTI as incurred or recognize deferred taxes when basis differences exist that are expected to affect the amount of the GILTI inclusion upon reversal. The Company is electing to account for taxes on GILTI as incurred.

We will continue to evaluate the Tax Act's impact, which may change as a result of additional Treasury guidance, federal or state legislative actions, or changes in accounting standards or related interpretations. The Company's analyses performed to date are sufficient to calculate a reasonable estimate of the impacts of the Tax Act.

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

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

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. As of April 30, 2019, the amount of liability for uncertain tax positions was \$21 million. The liability as of April 30, 2019 has a recorded offsetting tax benefit associated with various issues that total \$9 million. If the unrecognized tax benefits are recognized, all would impact our effective tax rate, except for positions for which we maintain a full valuation allowance against certain deferred tax assets. In this case, the effect may be in the form of an increase in the deferred tax asset related to our net operating loss carryforward, which would be offset by a full valuation allowance.

We recognize interest and penalties related to uncertain tax positions as part of *Income tax expense*. Total interest and penalties for the three and six months ended April 30, 2019 related to our uncertain tax positions resulted in an income tax expense of less than \$1 million, for both periods.

We have open tax years back to 2001 with various significant taxing jurisdictions, including the U.S., Canada, Mexico, and Brazil. In connection with the examination of tax returns, contingencies may arise that generally result from differing interpretations of applicable tax laws and regulations as they relate to the amount, timing, or inclusion of revenues or expenses in taxable income, or the sustainability of tax credits to reduce income taxes payable. We believe we have sufficient accruals for our contingent tax liabilities. Annual tax provisions include amounts considered sufficient to pay assessments that may result from examinations of prior year tax returns, although actual results may differ. While it is probable that the liability for unrecognized tax benefits may increase or decrease during the next twelve months, we do not expect any such change would have a material effect on our financial condition, results of operations, or cash flows.

#### **10. Fair Value Measurements**

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

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

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

*Cash Equivalents and Restricted Cash Equivalents*—Cash equivalents are highly liquid investments, with an original maturity of 90 days or less, which may include U.S. government and federal agency securities, commercial paper, and other highly liquid investments. The carrying amounts of cash and cash equivalents and restricted cash and cash equivalents approximate fair value because of the short-term maturity and highly liquid nature of these instruments.

*Marketable Securities*—Our marketable securities portfolios are classified as available-for-sale and may include investments in U.S. government and federal agency securities, commercial paper and other investments with an original maturity greater than 90 days. We use quoted prices from active markets to determine fair value.

*Derivative Assets and Liabilities*—We measure the fair value of derivatives assuming that the unit of account is an individual derivative transaction and that each derivative could be sold or transferred on a stand-alone basis. We classify within Level 2 our derivatives that are traded over-the-counter and valued using internal models based on observable market inputs.

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

*Guarantees*—We provide certain guarantees of payments and residual values, to which losses are generally capped, to specific counterparties. The fair value of these guarantees includes a contingent component and a non-contingent component that are based upon internally developed models using unobservable inputs. We classify these liabilities within Level 3. For more information regarding guarantees, see Note 11, *Commitments and Contingencies*.

*Impaired Finance Receivables and Impaired Assets Under Operating Leases*—Fair values of the underlying collateral are determined by current and forecasted sales prices, aging of and demand for used trucks, and the mix of sales through various market channels. For more information regarding impaired finance receivables, see Note 5, *Allowance for Doubtful Accounts*.

*Impaired Property, Plant and Equipment*—We measure the fair value by discounting future cash flows expected to be received from the operation of, or disposition of, the asset or asset group that has been determined to be impaired. For more information regarding the impairment of property, plant and equipment, see Note 3, *Restructurings and Impairments*.

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

(in millions)	As of April 30, 2019				As of October 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Marketable securities:								
U.S. government and federal agency securities.....	\$ 23	\$ —	\$ —	\$ 23	\$ 101	\$ —	\$ —	\$ 101
Derivative financial instruments:								
Commodity forward contracts <sup>(A)</sup> .....	—	1	—	1	—	2	—	2
Foreign currency contracts <sup>(A)</sup> .....	—	1	—	1	—	—	—	—
Interest rate caps <sup>(B)</sup> .....	—	—	—	—	—	2	—	2
Total assets.....	\$ 23	\$ 2	\$ —	\$ 25	\$ 101	\$ 4	\$ —	\$ 105
<b>Liabilities</b>								
Derivative financial instruments:								
Commodity forward contracts <sup>(C)</sup> .....	\$ —	\$ 2	\$ —	\$ 2	\$ —	\$ —	\$ —	\$ —
Foreign currency contracts <sup>(C)</sup> .....	—	2	—	2	—	—	—	—
Guarantees .....	—	—	22	22	—	—	24	24
Total liabilities .....	\$ —	\$ 4	\$ 22	\$ 26	\$ —	\$ —	\$ 24	\$ 24

(A) The asset value of commodity forward contracts and foreign currency contracts is included in Other current assets in the accompanying Consolidated Balance Sheets.

(B) The asset value of interest rate caps is included in Other noncurrent assets in the accompanying Consolidated Balance Sheets.

(C) The liability value of commodity forward contracts and foreign currency contracts is included in Other current liabilities in the accompanying Consolidated Balance Sheets.

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

(in millions)	Three Months Ended April 30,		Six Months Ended April 30,	
	2019	2018	2019	2018
Guarantees, at beginning of period.....	\$ (21)	\$ (25)	\$ (24)	\$ (21)
Transfers out of Level 3.....	—	—	—	—
Net terminations (issuances).....	(1)	(3)	1	(8)
Settlements .....	—	1	1	2
Guarantees, at end of period .....	\$ (22)	\$ (27)	\$ (22)	\$ (27)

In addition to the methods and assumptions we use for the financial instruments recorded at fair value as discussed above, we use the following methods and assumptions to estimate the fair value for our other financial instruments that are not marked to market on a recurring basis. The carrying amounts of *Cash and cash equivalents*, *Restricted cash and cash equivalents*, and *Accounts payable* approximate fair values because of the short-term maturity and highly liquid nature of these instruments. *Finance receivables* generally consist of retail and wholesale accounts and notes.

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

The carrying amounts of *Trade and other receivables* and retail and wholesale accounts approximate fair values as a result of the short-term nature of the receivables. The carrying amounts of wholesale notes approximate fair values as a result of the short-term nature of the wholesale notes and their variable interest rate terms. Due to the nature of the aforementioned financial instruments, they have been excluded from the fair value amounts presented in the table below.

The fair values of our retail notes are estimated by discounting expected cash flows at estimated current market rates. The fair values of our retail notes are classified as Level 3 financial instruments.

The fair values of our debt instruments classified as Level 1 were determined using quoted market prices. The 6.75% Tax Exempt Bonds, due 2040, are traded, but the trading market is illiquid, and as a result, the Loan Agreement underlying the Tax Exempt Bonds is classified as Level 2. Trading in our 6.625% Senior Notes is limited to qualified institutional buyers; therefore the notes are classified as Level 2. The fair values of our Level 3 debt instruments are generally determined using internally developed valuation techniques such as discounted cash flow modeling. Inputs such as discount rates and credit spreads reflect our estimates of assumptions that market participants would use in pricing the instrument and may be unobservable.

The following tables present the carrying values and estimated fair values of financial instruments:

(in millions)	As of April 30, 2019				
	Estimated Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
<b>Assets</b>					
Retail notes .....	\$ —	\$ —	\$ 199	\$ 199	\$ 203
<b>Liabilities</b>					
Debt:					
<i>Manufacturing operations</i>					
Senior Secured Term Loan Credit Agreement, due 2025 .....	—	—	1,582	1,582	1,563
6.625% Senior Notes, due 2026 .....	—	1,127	—	1,127	1,084
Loan Agreement related to 6.75% Tax Exempt Bonds, due 2040 .....	—	235	—	235	220
Financed lease obligations .....	—	—	53	53	53
Other <sup>(A)</sup> .....	—	—	41	41	41
<i>Financial Services operations</i>					
Asset-backed debt issued by consolidated SPEs, due serially through 2023 .....	—	—	1,214	1,214	1,213
Senior secured NFC Term Loan, due 2025 .....	—	—	399	399	392
Bank credit facilities, due dates from 2019 through 2025 .....	—	—	635	635	660
Commercial paper, program matures in 2022 .....	47	—	—	47	47
Borrowings secured by operating and finance leases, due serially through 2024 .....	—	—	83	83	83

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

(in millions)	As of October 31, 2018				
	Estimated Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
<b>Assets</b>					
Retail notes .....	\$ —	\$ —	\$ 180	\$ 180	\$ 183
<b>Liabilities</b>					
<b>Debt:</b>					
<i>Manufacturing operations</i>					
Senior Secured Term Loan Credit Agreement, due 2025 .....	—	—	1,597	1,597	1,570
6.625% Senior Notes, due 2026 .....	—	1,122	—	1,122	1,083
4.75% Senior Subordinated Convertible Notes, due 2019 <sup>(B)</sup> .....	412	—	—	412	405
Loan Agreement related to 6.75% Tax Exempt Bonds, due 2040 .....	—	235	—	235	220
Financed lease obligations .....	—	—	122	122	122
Other .....	—	—	25	25	26
<i>Financial Services operations</i>					
Asset-backed debt issued by consolidated SPEs, at various rates, due serially through 2023 .....	—	—	949	949	948
Senior secured NFC Term Loan, due 2025 .....	—	—	400	400	394
Bank credit facilities, due dates from 2019 through 2025 .....	—	—	511	511	519
Commercial paper, at variable rates, program matures in 2022 .....	75	—	—	75	75
Borrowings secured by operating and finance leases, due serially through 2024 .....	—	—	104	104	105

(A) Excludes capital lease obligation debt of \$1 million as of April 30, 2019.

(B) The carrying value represents the consolidated financial statement amount of the debt which excludes the allocation of the conversion feature to equity, while the estimated fair value is derived from quoted prices in active markets which include the equity feature.

## 11. Commitments and Contingencies

### Guarantees

We occasionally provide guarantees that could obligate us to make future payments if the primary entity fails to perform under its contractual obligations. We have recognized liabilities for some of these guarantees in our *Consolidated Balance Sheets* as they meet the recognition and measurement provisions of U.S. GAAP. In addition to the liabilities that have been recognized, we are contingently liable for other potential losses under various guarantees. We do not believe that claims that may be made under such guarantees would have a material effect on our financial condition, results of operations, or cash flows.

Under the terms of the Navistar Capital Operating Agreement, Navistar Capital (a program of BMO Harris Bank N.A. and Bank of Montreal (together "BMO")) is our third-party preferred source of retail and lease customer financing for equipment offered by us and our dealers in the U.S. We refer to this alliance as "Navistar Capital." The Navistar Capital Operating Agreement contains a loss sharing arrangement for certain credit losses. Under the loss sharing arrangement, as amended, we generally reimburse BMO for credit losses in excess of the first 10% of the financed value of a contract; for certain leases we reimburse BMO for credit losses up to a maximum of the first 9.5% of the financed value of those lease contracts. Our exposure to loss is mitigated because contracts under the Navistar Capital Operating Agreement are secured by the financed equipment. There were \$1.6 billion and \$1.5 billion of outstanding loan principal and operating lease payments receivable at both April 30, 2019 and October 31, 2018, financed through the Navistar Capital Operating Agreement and subject to the loss sharing arrangements in the U.S. The related financed values of these outstanding contracts were \$2.6 billion and \$2.5 billion at April 30, 2019 and October 31, 2018, respectively. Generally, we do not carry the contracts under the Navistar Capital Operating Agreement on our *Consolidated Balance Sheets*. However, for certain Navistar Capital financed contracts which we have accounted for as borrowings, we have recognized equipment leased to others of \$45 million and \$104 million and financed lease obligations of \$53 million and \$122 million, in our *Consolidated Balance Sheets* as of April 30, 2019 and October 31, 2018, respectively.

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

We also have issued a limited number of residual value guarantees, for which losses are generally capped. If control has not transferred, we account for these arrangements as operating leases and revenue is recognized on a straight-line basis over the term of the lease. If control has transferred, revenue is recognized upon sale and the amounts of the guarantees are estimated and recorded. Our guarantees are contingent upon the fair value of the leased assets at the end of the lease term. We have recognized liabilities for some of these guarantees in our *Consolidated Balance Sheets* as they meet recognition and measurement provisions. In addition to the liabilities that have been recognized, we are contingently liable for other potential losses under various guarantees that are not recognized in our *Consolidated Balance Sheets*. We do not believe claims that may be made under such guarantees would have a material effect on our financial condition, results of operations, or cash flows.

We obtain certain stand-by letters of credit and surety bonds from third-party financial institutions in the ordinary course of business when required under contracts or to satisfy insurance-related requirements. As of April 30, 2019, the amount of stand-by letters of credit and surety bonds issued was \$98 million.

In addition, as of April 30, 2019, we have \$135 million of outstanding purchase commitments and contracts with \$20 million of cancellation fees with expiration dates through 2025.

In the ordinary course of business, we also provide routine indemnifications and other guarantees, the terms of which range in duration and often are not explicitly defined. We do not believe these will result in claims that would have a material impact on our financial condition, results of operations, or cash flows.

#### ***Environmental Liabilities***

We have been named a potentially responsible party ("PRP"), in conjunction with other parties, in a number of cases arising under an environmental protection law, the Comprehensive Environmental Response, Compensation, and Liability Act, popularly known as the "Superfund" law. These cases involve sites that allegedly received wastes from current or former Company locations. Based on information available to us which, in most cases, consists of data related to quantities and characteristics of material generated at current or former Company locations, material allegedly shipped by us to these disposal sites, as well as cost estimates from PRPs and/or federal or state regulatory agencies for the cleanup of these sites, a reasonable estimate is calculated of our share of the probable costs, if any, and accruals are recorded in our consolidated financial statements. These accruals are generally recognized no later than upon completion of the remedial feasibility study and are not discounted to their present value. We review all accruals on a regular basis and believe that, based on these calculations, our share of the potential additional costs for the cleanup of each site will not have a material effect on our financial condition, results of operations, or cash flows.

In addition, other sites formerly owned by us or where we are currently operating have been identified as having soil and groundwater contamination. While investigations and cleanup activities continue at these sites, we believe that we have appropriate accruals to cover costs to complete the cleanup of all sites.

We have accrued \$20 million for these and other environmental matters, which are included within *Other current liabilities* and *Other noncurrent liabilities*, as of April 30, 2019. The majority of these accrued liabilities are expected to be paid subsequent to 2020.

Along with other vehicle manufacturers, we have been subject to an increased 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 generally not the sole defendant, and the claims name as defendants numerous manufacturers and suppliers of a wide variety of products allegedly containing asbestos. We have strongly disputed these claims, and it has been our policy to defend against them vigorously. Historically, the actual damages paid out to claimants have not been material in any year to our financial condition, results of operations, or cash flows. It is possible that the number of these claims will continue to grow, and that the costs for resolving asbestos related claims could become significant in the future.

#### ***Legal Proceedings***

##### *Overview*

We are subject to various claims arising in the ordinary course of business and are party to various legal proceedings that constitute ordinary, routine litigation incidental to our business. The majority of these claims and proceedings relate to commercial, product liability, and warranty matters. In addition, from time to time we are subject to various claims and legal proceedings related to employee compensation, benefits, and benefits administration including, but not limited to, compliance with the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and Department of Labor requirements.

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

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, or cash flows.

*Profit Sharing Disputes*

Pursuant to the 1993 Settlement Agreement, the program administrator and named fiduciary of the Supplemental Benefit Program is the Supplemental Benefit Program Committee (the "Committee"), composed of individuals not appointed by NI or NIC. In August 2013, the Committee filed a motion for leave to amend its February 2013 complaint (which sought injunctive relief for the Company to provide certain information to which it was allegedly entitled under the Supplemental Benefit Trust Profit Sharing Plan) and a proposed amended complaint (the "Profit Sharing Complaint") in the U.S. District Court for the Southern District of Ohio (the "Court"). Leave to file the Profit Sharing Complaint was granted by the Court in October 2013. In its Profit Sharing Complaint, the Committee alleged the Company breached the 1993 Settlement Agreement and violated ERISA by failing to properly calculate profit sharing contributions due under the Supplemental Benefit Trust Profit Sharing Plan. The Committee seeks damages in excess of \$50 million, injunctive relief and reimbursement of attorneys' fees and costs. Following the resolution of a procedural dispute by the U.S. Court of Appeals for the 6th Circuit, in May 2015, the Court ordered that the claims in the Profit Sharing Complaint be arbitrated pursuant to the dispute resolution procedures in the Supplemental Benefit Trust Profit Sharing Plan. In November 2015, the Company and the Committee selected an arbitrator and the discovery process commenced. On August 1, 2016, the parties submitted briefs on issues related to the scope of the arbitration. On June 29, 2017, the arbitrator ruled, among other things, that the arbitration will include Supplemental Benefit Trust Profit Sharing Plan calculations for the years ending October 31, 2001 through October 31, 2014. On May 2, 2018, the Committee submitted to the arbitrator a proposed schedule for the presentation of the issues to be addressed in the arbitration. On September 21, 2018, the arbitrator set a schedule to rule on all issues and determine final calculations in April 2020. In April 2019, the Company and the Committee submitted separate proposals for a new arbitration schedule and the arbitrator ordered a new arbitration schedule under which the arbitrator's final determination is expected by April 30, 2020. As noted under "Retiree Health Care Litigation" below, on August 14, 2018, the Company filed a motion to schedule a status hearing, in which the Company requested an in-person hearing to discuss global resolution of various disputes under the 1993 Settlement Agreement, including the pending Profit Sharing Complaint. As a result, in-person hearings were held on November 2, 2018 and February 22, 2019. Additional hearings may be scheduled in the future. Although not currently in arbitration, on February 14, 2019, the Committee sent the Company a notice of disagreement for the Supplemental Benefit Trust Profit Sharing Plan calculation for the year ended October 31, 2018, and subsequently filed a motion to enforce the 1993 Settlement Agreement requesting that the Court order the Company to respond within five days of the Court's order, to the Committee's requests for information related to the Supplemental Benefit Trust Profit Sharing Plan calculation for the year ending October 31, 2018. The Company provided the requested information, and the Court has not ruled on the motion to enforce.

In addition, various local bargaining units of the UAW have filed separate grievances pursuant to the profit sharing plans under various collective bargaining agreements in effect between the Company and the UAW that may have similar legal and factual issues as the Profit Sharing Complaint.

Based on our assessment of the facts underlying the claims in the above actions, we are unable to provide meaningful quantification of how the final resolution of these claims may impact our future consolidated financial condition, results of operations, or cash flows.

*Retiree Health Care Litigation*

On October 21, 2016, two lawsuits were filed in the U.S. District Court for the Southern District of Ohio relating to postretirement healthcare and life insurance obligations under the 1993 Settlement Agreement. The first lawsuit (the "Committee's Complaint") was filed by the Supplemental Benefit Program Committee.

The Committee's Complaint was filed against NIC, NI, NFC and a former affiliate, all of which are parties to the 1993 Settlement Agreement. Since January 1, 2012, the Navistar, Inc. Retiree Health Benefit Trust, created pursuant to the 1993 Settlement Agreement (the "Base Trust"), has received certain Medicare Part D subsidies from the federal Centers for Medicare and Medicaid Services that were made available for prescription drug benefits provided to Medicare-eligible seniors pursuant to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 and has also received certain Medicare Part D coverage-gap discounts from prescription drug manufacturers that were made available to eligible seniors pursuant to the Patient Protection and Affordable Care Act (collectively, the "Subsidies").

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

The Committee alleges, among other things, that the defendants breached the 1993 Settlement Agreement since January 1, 2012 by causing the Base Trust to allocate the Subsidies in a manner that improperly decreased the defendants' contributions to the Base Trust and increased retiree contributions. The Committee seeks damages, attorneys' fees and costs for all alleged violations of the 1993 Settlement Agreement, including approximately \$26 million which the Committee alleges is the eligible retirees' "fair share" of the Subsidies that were allegedly misappropriated by the defendants from January, 2012 through April, 2015.

The second lawsuit was filed by two individual members of the Committee (the "Committee Members") who are retirees and participants in the Navistar, Inc. Health Benefit and Life Insurance Plan (the "Plan") created pursuant to the 1993 Settlement Agreement. The Committee Members' complaint (the "Committee Members' Complaint") was filed against NIC, NI, NFC and certain other former or current affiliates, all of which are parties or employers as defined in the 1993 Settlement Agreement. The Committee Members allege, among other things, that the Company violated the terms of the Plan, breached a fiduciary duty under ERISA, and engaged in ERISA-prohibited transactions by improperly using the Plan's assets (a portion of the Subsidies) for the Company's benefit.

The Committee Members request that the court order the defendants to restore all losses to the Base Trust, including approximately \$26 million, which the Committee Members allege is the Plan participants' "fair share" of the Subsidies that were allegedly misappropriated by the defendants from January 2012 through April 2015. The Committee Members also request that the court enjoin the defendants from alleged future violations of the Plan and ERISA with respect to treatment of the Subsidies, order the defendants to remedy all alleged ERISA-prohibited transactions and pay the Committee Members' attorneys' fees and costs.

The defendants filed motions to dismiss each respective complaint on January 10, 2017. On May 10, 2017, the court dismissed the Committee's Complaint with prejudice, stating that the Committee lacked standing to bring its claims. With respect to the Committee Members' Complaint, the court declined to dismiss the complaint, but ordered the parties to conduct discovery regarding whether the Committee Members' Complaint is barred by the applicable statute of limitations and to file a motion for summary judgment thereafter on that issue of timeliness. The defendants filed their motion for summary judgment on September 21, 2017, the Committee Members' filed their opposition on November 2, 2017, and the defendants filed their reply on November 22, 2017. On June 26, 2018, the court conditionally overruled the defendants' motion for summary judgment. The court bifurcated the case and conducted a trial on the issue of whether the Committee Members' Complaint is barred by the applicable statute of limitations in September 2018. On November 20, 2018, the Committee Members filed a motion for sanctions, alleging various discovery and trial misconduct by the defendants and requesting that the court enter judgment in favor of the Committee Members with respect to the statute of limitations issue and award attorneys' fees to the Committee Members. On December 11, 2018, the defendants filed their opposition to the Committee Members' motion for sanctions. On March 26, 2019, the court granted the Committee Members' motion for sanctions and ordered that discovery related to the statute of limitations be re-opened through May 28, 2019, and on May 31, 2019, the court extended the statute of limitations discovery period to June 20, 2019. As a result, the Company must pay the Committee Members' legal and other costs for the motion for sanctions and to conduct the additional discovery through June 20, 2019.

On August 14, 2018, under the original *Shy et. al. v. Navistar International Corporation*, Civil Action No. 3:92-CV-333 (S.D. Ohio 1992), we filed a motion to schedule a status hearing to request an in-person hearing to discuss global resolution of various disputes under the 1993 Settlement Agreement, including but not limited to resolving the pending Profit Sharing Complaint and Committee Members' Complaint described above. As a result, in-person hearings were held on November 2, 2018 and February 22, 2019. Additional hearings may be scheduled in the future.

Based on our assessment of the facts underlying the claims in the above actions, we are unable to provide meaningful quantification of how the final resolution of these claims may impact our future consolidated financial condition, results of operations, or cash flows.

*FATMA Notice*

International Indústria Automotiva da América do Sul Ltda. ("IIAA"), formerly known as Maxion International Motores S/A ("Maxion"), now a wholly owned subsidiary of the Company, received a notice (the "FATMA Notice") in July 2010 from the State of Santa Catarina Environmental Protection Agency ("FATMA") in Brazil. The FATMA Notice alleged that Maxion sent waste to a facility owned and operated by a company known as Natureza (the "Natureza Facility") and that soil and groundwater contamination had occurred at the Natureza Facility.



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

The FATMA Notice asserted liability against Maxion and assessed an initial penalty in the amount of R\$2 million (approximately US\$1 million as of April 30, 2019), 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 filing.

In addition to the matter described above, there is a suit pending in the federal court of Brazil in which the federal district attorney has sued (a) FATMA, for claims related to FATMA's actions in connection with licensing and inspection procedures related to the Natureza Facility, and (b) Selamix, as the current owner of the Natureza Facility. In this federal suit, Selamix was found liable for the contamination at the Natureza Facility due to it being the successor owner of the facility. However, the federal court's decision does not prohibit Selamix from seeking to recover its damages from third parties that contributed to the contamination at the Natureza Facility.

In connection with the FATMA Notice, IIAA presented a motion to the district attorney of the State of Santa Catarina (the "SC District Attorney") to set forth its defenses and correct inaccuracies in the FATMA Notice in August 2017. In September 2017, the SC District Attorney informed IIAA that it intended to present a Consent Agreement to all of the companies that sent waste to Natureza to determine the allocation of the liability for generating the waste which led to the contamination of the Natureza Facility. IIAA then filed a motion requesting that the SC District Attorney consider certain facts and circumstances prior to presenting the Consent Agreement.

In January 2018, the SC District Attorney, local and state authorities, Selamix, IIAA and the 14 other companies that are alleged to have significantly contributed to the contamination met to discuss the matter. Selamix then presented three proposals for conducting a preliminary environmental assessment in the area to determine the allocation of liability among the companies. In March 2018, Selamix informed the SC District Attorney that it would voluntarily conduct a preliminary environmental study at the Natureza Facility in an attempt to determine and allocate the liability for the contamination pursuant to an agreement with all of the companies after the study is completed. The SC District Attorney agreed to suspend further inquiry into the matter until Selamix's study had been completed. The other companies involved in the matter have expressed an interest in having an independent environmental study conducted. The SC District Attorney has indicated that it may consider requiring an independent environmental study after Selamix's environmental study is completed.

In June 2018, Selamix presented its Environmental Preliminary Assessment Report to the SC District Attorney and the other companies alleged to have contributed to the contamination and the report indicated that the entire property should be subject to further studies to confirm the type and extent of the contamination due to signs of buried residues in several areas. Selamix also presented commercial proposals from two additional companies specializing in environmental studies to perform the next steps of the technical work. The SC District Attorney then requested a third commercial proposal which will be presented and paid for by Selamix. A new district attorney recently assumed responsibility for this matter and we are awaiting its analysis of the actions to date.

IIAA continues to dispute the allegations in the FATMA Notice and intends to continue to vigorously defend itself. Currently, no demands or offers are outstanding.

*Sao Paulo Groundwater Notice*

In March 2014, IIAA, along with other nearby companies, received from the Sao Paulo District Attorney (the "District Attorney") a notice and proposed Consent Agreement relating to alleged neighborhood-wide groundwater contamination at or around its Sao Paulo manufacturing facility. The proposed Consent Agreement sought certain groundwater investigations and other technical relief and proposed sanctions in the amount of R\$3 million (approximately US\$1 million as of April 30, 2019). In November 2014, IIAA extended a settlement offer. The parties remained in discussions and IIAA's settlement offer was never accepted, rejected or countered by the District Attorney.

On August 31, 2016, the District Attorney filed civil actions against IIAA and other companies in the Central Forum of the capital of the State of São Paulo seeking soil and groundwater investigation and remediation, together with monetary payment in an unspecified amount. IIAA filed its defense to the civil action on January 26, 2017, alleging that IIAA has made all necessary investigations and has taken remedial measures to address the contamination and that Companhia Ambiental do Estado de São Paulo ("CETESB"), the environmental agency of São Paulo State, has agreed to the remedial measures taken by IIAA. On June 20, 2017, IIAA presented a petition requesting a 90-day suspension of the lawsuit. IIAA has since held and is currently engaged in discussions with the District Attorney regarding settlement of this matter. The District Attorney agreed to an initial suspension on June 30, 2017 and a subsequent suspension for an additional 90 days which ended on July 9, 2018.

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

A new district attorney (the “New District Attorney”) assumed responsibility for the case in February 2018. The New District Attorney would like the companies involved to try to reach a settlement agreement as to the remediation efforts to be taken after having discussions and negotiations with the New District Attorney’s technical experts. IIAA attempted to schedule a meeting with the New District Attorney’s technical experts. IIAA met with the New District Attorney on July 25, 2018. The New District Attorney has indicated that he will request information related to the status of the current remediation from CETESB. After receiving that information, the New District Attorney has indicated that he will schedule a meeting with IIAA to discuss the proposed terms of a potential settlement agreement and granted a third suspension on August 14, 2018 which ended on November 14, 2018. Although the suspension was technically terminated, the New District Attorney continued to evaluate the possibility of settlement. In February 2019, the New District Attorney requested a 120 day suspension, which was granted by the court and began on February 19, 2019.

There are no current demands or offers outstanding.

*MaxxForce Engine EGR Warranty Litigation*

On June 24, 2014, N&C Transportation Ltd. (“N&C”) filed a putative class action lawsuit against NIC, NI, Navistar Canada Inc., and Harbour International Trucks in Canada in the Supreme Court of British Columbia (the “N&C Action”). Subsequently, seven additional, similar putative class action lawsuits have been filed in Canada (together with the N&C Action, the “Canadian Actions”).

From June 13-17, 2016, the court conducted a certification hearing in the N&C Action. On November 16, 2016, the court certified a Canada-wide class comprised of persons who purchased heavy-duty trucks equipped with Advanced EGR MaxxForce 11, MaxxForce 13, and MaxxForce 15 engines designed to meet 2010 EPA regulations. The court in the N&C Action denied certification to persons who operated but did not buy the trucks in question. On November 2, 2017, NIC, NI, Navistar Canada Inc. and Harbour International Trucks filed a notice of appeal. On December 8, 2017, the plaintiff filed a notice of cross-appeal. Both the appeal and cross-appeal were heard by the British Columbia Court of Appeal on February 9, 2018. On August 1, 2018, the appellate court denied our appeal and granted, in part, N&C’s cross-appeal and as such certified three narrow issues on whether misrepresentations were made in Navistar’s advertising materials. On September 28, 2018, Navistar sought leave to appeal the certification decision to the Supreme Court of Canada, but leave was denied on March 28, 2019. The next step will be an attendance before the case management judge regarding the details of the notice of certification to be given to the class. No date for this attendance has been set.

On June 5, 2017, a hearing was held in the Quebec putative class action lawsuit captioned 4037308 Canada Inc. v. Navistar Canada Inc., NI, and NIC. At that hearing, the court ruled on certain motions regarding evidence related to certification but deferred a ruling on plaintiff’s proposed amendment to narrow the proposed class to Quebec-only purchasers and lessees of model year 2010-13 vehicles containing MaxxForce 11, 13, and 15 liter engines. On November 23, 2017, we filed a motion to stay the Quebec case until the British Columbia Court of Appeal rules on the certification order in the N&C Action. The stay motion was granted on December 7, 2017. The decision of the British Columbia Court of Appeal was provided to the Quebec court. On September 6, 2018, the stay was extended until the Supreme Court of Canada decides the application for leave to appeal in the N&C Action. The stay has since been removed, but no hearing date or certification schedule has been set.

In the Manitoba putative class action lawsuit captioned Vern Brown v. Navistar International Corporation and Navistar Canada, Inc., the court held a case management conference on June 29, 2018, after the plaintiff failed to file a complete certification record by the previously court-ordered due date. The plaintiff advised that it expected to file its remaining certification affidavits by August 31, 2018, and the court suspended certification scheduling in the interim. The plaintiff filed an additional affidavit on July 5, 2018. On September 5, 2018, the court adjourned the certification application indefinitely to allow the plaintiff to obtain an expert report. There are no certification or other hearings scheduled in any of the other Canadian Actions at this time.

On July 7, 2014, Par 4 Transport, LLC filed a putative class action lawsuit against NI in the United States District Court for the Northern District of Illinois (the “Par 4 Action”). Subsequently, seventeen additional putative class action lawsuits were filed in various United States district courts, including the Northern District of Illinois, the Eastern District of Wisconsin, the Southern District of Florida, the Middle District of Pennsylvania, the Southern District of Texas, the Western District of Kentucky, the District of Minnesota, the Northern District of Alabama, and the District of New Jersey (together with the Par 4 Action, the “U.S. Actions”). Some of the U.S. Actions name both NIC and NI, and allege matters substantially similar to the Canadian Actions. More specifically, one or more of the Canadian Actions and the U.S. Actions (collectively, the “EGR Class Actions”) seek to certify a class of persons or entities in Canada or the United States who purchased and/or leased a ProStar or other Navistar vehicle equipped with a model year 2008-2013 MaxxForce Advanced EGR engine.

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

In substance, the EGR Class Actions allege that the MaxxFORCE Advanced EGR engines are defective and that the Company and NI failed to disclose and correct the alleged defect. The EGR Class Actions assert claims based on theories of contract, breach of warranty, consumer fraud, unfair competition, misrepresentation and negligence. The EGR Class Actions seek relief in the form of monetary damages, punitive damages, declaratory relief, interest, fees, and costs.

On October 3, 2014, NIC and NI filed a motion before the United States Judicial Panel on Multidistrict Litigation (the "MDL Panel") seeking to transfer and consolidate before Judge Joan B. Gottschall of the United States District Court for the Northern District of Illinois all of the then-pending U.S. Actions, as well as certain non-class action MaxxFORCE Advanced EGR engine lawsuits pending in various federal district courts.

On December 17, 2014, Navistar's motion to consolidate the U.S. Actions and certain other non-class action lawsuits was granted. The MDL Panel issued an order consolidating all of the U.S. Actions that were pending on the date of Navistar's motion before Judge Gottschall in the United States District Court for the Northern District of Illinois (the "MDL Action").

The MDL Panel also consolidated into the MDL Action certain non-class action MaxxFORCE Advanced EGR engine lawsuits pending in the various federal district courts. Non-class federal lawsuits presenting pre-trial issues similar to the MDL Action continue to be transferred to the MDL Action. Approximately 28 such actions are currently pending.

At the request of the various law firms representing the plaintiffs in the MDL Action, on March 5, 2015, Judge Gottschall entered an order in the MDL Action appointing interim lead counsel and interim liaison counsel for the plaintiffs. On May 11, 2015, lead counsel for the plaintiffs filed a First Master Consolidated Class Action Complaint ("Consolidated Complaint"). The parties to the MDL Action exchanged initial disclosures on May 29, 2015. The Company answered the Consolidated Complaint on July 13, 2015. On September 22, 2016, lead counsel for the plaintiffs filed a First Amended Consolidated Class Action Complaint (the "Amended Consolidated Complaint"). The Amended Consolidated Complaint added twenty-five additional named plaintiffs. NI and NIC answered the Amended Consolidated Complaint on October 20, 2016.

On May 27, 2016, Judge Gottschall entered a Case Management Order setting a July 13, 2017 date for plaintiffs' class certification motion. On November 30, 2016, the court entered an order referring discovery matters to a magistrate judge for supervision. Pursuant to the magistrate's order, the parties jointly filed a new proposed case management order on January 25, 2017, which extended the fact discovery deadline to November 22, 2017. On January 31, 2017, the parties filed a joint motion with Judge Gottschall requesting adjustment of the class action briefing schedule to April 24, 2018. On February 2, 2017, Judge Gottschall granted the parties' motion extending the deadline to complete the class certification briefing to April 24, 2018. On February 6, 2017, the magistrate approved the parties' schedule set forth in the case management order jointly filed on January 25, 2017. In September 2017, the plaintiffs filed a motion to further extend the case deadlines. On October 5, 2017, Judge Gottschall entered an Agreed Order Extending the Discovery Cutoff ordering that fact discovery relevant to class certification be completed by March 13, 2018 and that the class certification briefing be completed by July 31, 2018. On March 5, 2018, Judge Gottschall extended the fact discovery deadline to May 25, 2018. Subsequent extensions followed. Fact discovery relevant to class certification is now complete.

On October 13, 2017, lead counsel for the plaintiffs filed a Motion for Leave to File a Second Amended Consolidated Class Action Complaint, as well as a Motion for Voluntary Dismissal of Claims without Prejudice relating to 15 previously named plaintiffs. On January 4, 2018, Judge Gottschall granted both motions. On January 9, 2018, the plaintiffs filed a Second Amended Consolidated Class Action Complaint. The Second Amended Consolidated Class Action Complaint removed 15 named plaintiffs and substituted in eight new named plaintiffs. As a result, the total number of named plaintiffs is now 37 and three class action cases were dismissed entirely without prejudice because there were no longer any remaining plaintiffs in those cases. On August 16, 2018, Judge Gottschall entered a minute order setting a status hearing for September 26, 2018 in light of the ongoing settlement efforts of the parties. During the September 26, 2018 status hearing, the parties advised the court that additional settlement discussions were scheduled. Accordingly, on September 27, 2018 Judge Gottschall entered a minute order extending class plaintiffs' deadline to file a motion for class certification and supporting expert reports until November 16, 2018. Since September 2018, Judge Gottschall has extended the deadlines for class certification briefing several times to allow for settlement discussions. On May 28, 2019, NIC and NI entered into a Stipulation and Agreement of Settlement (the "Settlement Agreement") with certain named plaintiffs to settle the class actions consolidated in the U.S. Actions. On May 28, 2019, plaintiffs submitted the Settlement Agreement to the court for preliminary approval. The Settlement Agreement class consists of entities and natural persons who owned or leased a 2011-2014 model year vehicle equipped with a MaxxFORCE 11 or 13 liter engine certified to meet EPA 2010 emissions standards without selective catalytic reduction technology, provided that vehicle was purchased or leased in the U.S.

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

Pursuant to the Settlement Agreement, among other things, (1) the parties will establish a non-reversionary common fund consisting of cash (the “Cash Fund”) and rebates (the “Rebate Fund”) with a total value of \$135 million (the “Settlement Fund”); (2) NIC and NI will contribute \$85 million to the Cash Fund, which will be used to pay all settlement fees and expenses, service awards, attorneys’ fees and costs, and cash payments to members of the settlement class; (3) NI will commit to make available rebates with a face value in the aggregate of \$50 million to the Rebate Fund; and (4) the settlement class will release NIC and NI and their affiliates from all claims and potential claims arising from or related to the allegations in the U. S. Actions, except for claims for personal injury or damage to third-party property. The Settlement Agreement further provides that dollars or value remaining in either the Cash Fund or the Rebate Fund after claims are processed will be used to pay approved claims from the other fund if the other fund is oversubscribed (the “Waterfall”). Any Waterfall from the Rebate Fund to the Cash Fund is capped at \$35 million. Finally, the Settlement Agreement states that NIC and NI deny all claims in the U.S. Actions, deny wrongdoing, liability or damage of any kind, and deny that NIC and NI acted improperly or wrongfully in any way.

The Settlement Agreement is subject to approval by the court, including possible appeals. If the court preliminarily approves the settlement, members of the class will be provided notice of the Settlement Agreement and an opportunity to object or opt out. Any members of the class who opt out will not receive any benefit from the Settlement Agreement or be bound by it. Following the notice and opportunity for objections and opt outs, the court will schedule a fairness hearing at which the court will determine whether the Settlement Agreement should be finally approved and whether the proposed Final Order and Judgment should be entered. Depending on opt out numbers and certain oversubscription numbers, NIC and NI or lead counsel for the class will have the option to withdraw from the Settlement Agreement.

On May 31, 2019, Judge Gottschall held a hearing on plaintiffs’ unopposed motion for preliminary approval of the Settlement Agreement. The court asked plaintiffs to supplement their motion with additional information by June 5, 2019.

On November 11, 2017, seven plaintiffs (the “Direct Action Plaintiffs”) in the MDL moved for a separate trial and discovery schedule independent of the class action schedule. On January 2, 2018, Judge Gottschall granted in part and denied in part the Direct Action Plaintiffs’ motion, allowing two of the Direct Action Plaintiffs to begin limited discovery on plaintiff-specific issues. The parties submitted competing proposed discovery schedules. In a minute order dated January 26, 2018, Judge Gottschall declined to enter either schedule but ordered the parties to confer on a schedule for prioritizing the plaintiff-specific discovery after the close of fact discovery relevant to class certification issues. The parties are currently engaged in discovery. One of the Direct Action Plaintiffs filed a motion for leave to file a First Amended Complaint on September 25, 2018 and that motion was granted by the court in a minute order dated December 13, 2018. The First Amended Complaint was filed on December 18, 2018 and our response was filed on January 8, 2019.

There are also non-class action MaxxForce Advanced EGR engine lawsuits filed against the Company in various state courts. A number of non-class action lawsuits have been resolved in favor of the Company prior to trial or settled for immaterial amounts. Several cases have been resolved at trial with varying results. Approximately 40 state court non-class actions are pending at this time. One of the non-class action lawsuits (“Milan”), alleging violations of the Tennessee Consumer Protection Act and fraud and involving approximately 235 trucks, was tried in Tennessee state court in August 2017. On August 10, 2017, the Milan jury returned a verdict of approximately \$31 million against the Company, including \$20 million in punitive damages. On October 2, 2017, the Company filed various motions in the trial court challenging the verdict, including a Motion for Judgment Notwithstanding the Verdict or, in the Alternative, a New Trial and Motion to Disapprove of the Award of Punitive Damages.

The hearing on these motions was held on December 1, 2017 and the court denied the Company’s motions, denied Milan’s motion for pre-judgment interest and granted Milan \$1.4 million in fees and costs. On January 11, 2018, the Company filed a Notice of Appeal in the Tennessee Court of Appeals challenging the verdict. Briefing on the appeal was completed on March 18, 2019, and the Tennessee Court of Appeals set a hearing for oral arguments on June 19, 2019. In the third quarter of 2017, we recorded \$31 million of charges in SG&A expenses in our *Consolidated Statements of Operations*.

Based on our assessment of the facts underlying the claims in the above actions, the Company has recorded a charge in the Company’s fiscal second quarter ended April 30, 2019 in the amount of \$159 million as a reserve for its expected obligations under the Settlement Agreement as well as for current period liabilities and potential future settlements with respect to certain other MaxxForce Advanced EGR engine lawsuits that are not included in the Settlement Agreement. Other than the aforementioned, we are unable to provide further meaningful quantification of how the final resolution of these matters may impact our future consolidated financial condition, results of operations or cash flows.

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

*EPA Clean Air Act Litigation*

In February 2012, NI received a Notice of Violation ("NOV") from the United States Environmental Protection Agency (the "EPA") pertaining to certain heavy-duty diesel engines which, according to the EPA, were not completely assembled by NI until calendar year 2010 and, therefore, were not covered by NI's model year 2009 certificates of conformity. The NOV concluded that NI's introduction into commerce of each of these engines violated the Federal Clean Air Act.

On July 14, 2015, the Department of Justice ("DOJ"), on behalf of the EPA, filed a lawsuit against NIC and NI in the U.S. District Court for the Northern District of Illinois. Similar to the NOV, the lawsuit alleges that NIC and NI introduced into commerce approximately 7,749 heavy-duty diesel engines that were not covered by model year 2009 certificates of conformity because those engines were not completely assembled until calendar year 2010, resulting in violations of the Federal Clean Air Act. On July 16, 2015, the DOJ filed an Amended Complaint clarifying the amount of civil penalties being sought. The lawsuit requests injunctive relief and the assessment of civil penalties of up to \$37,500 for each violation. On September 14, 2015, NIC and NI each filed an Answer and Affirmative Defenses to the Amended Complaint. We dispute the allegations in the lawsuit.

Discovery in the matter is proceeding in two phases. Fact discovery for the liability phase commenced on December 9, 2015. Pursuant to the court's minute order entered on July 12, 2017, the Phase I liability fact discovery was completed as of November 9, 2017.

On May 13, 2016, the DOJ, on behalf of the EPA, filed a motion for summary judgment on liability. On June 30, 2016, NIC and NI opposed the EPA's motion for summary judgment, and NIC cross-moved for summary judgment against the EPA. On March 1, 2017, the court entered a Memorandum Opinion and Order (i) granting the DOJ's motion for summary judgment on the issue of liability with respect to NI, (ii) denying the DOJ's motion for summary judgment on the issue of liability with respect to NIC, and (iii) denying NIC's motion for summary judgment.

On April 3, 2018, the parties jointly filed a stipulation of dismissal with prejudice for NIC only. The stipulation with prejudice has no effect on the claims made against NI. With the dismissal of NIC, the matter moved to the remedy phase with respect to NI. The court entered a scheduling order on May 3, 2018, setting a fact discovery deadline of May 22, 2019, expert report and deposition deadlines through November 7, 2019, and a deadline for submission of dispositive motions of December 9, 2019. As a result of the partial federal government shutdown, on January 8, 2019, the Chief District Judge for the United States District Court for the Northern District of Illinois entered Amended General Order 18-0028, holding in abeyance civil matters involving the United States as a party. Following the conclusion of the partial shutdown, the court issued General Order 19-0004, which provided that all discovery deadlines are extended by 42 days. As a result, the deadline for fact discovery is now July 3, 2019, expert report and deposition deadlines are through December 19, 2019 and a deadline for dispositive motions is scheduled for January 21, 2020.

Based on our assessment of the facts underlying the amended complaint above, potential charges to the *Consolidated Statements of Operations* and cash outlays in future periods could range from \$2 million to \$291 million related to the resolution of this matter. Other than the aforementioned, we are unable to provide further meaningful quantification of how the final resolution of this matter may impact our future consolidated financial condition, results of operations or cash flows.

*Brazil Truck Dealer Disputes*

In January 2014, IIAA initiated an arbitration proceeding under the International Chamber of Commerce rules seeking payment for goods sold and unpaid, in the amount of R\$64 million (approximately US\$16 million as of April 30, 2019), including penalties and interest, from a group of affiliated truck dealers in Brazil. The truck dealers are affiliated with each other, but not with us, and are collectively referred to as Navitrucks. In the proceeding, IIAA also seeks a declaration of fault against Navitrucks related to the termination of the truck dealer agreements between IIAA and Navitrucks. Navitrucks responded in part by submitting counterclaims against IIAA seeking the amount of R\$128 million (approximately US\$32 million as of April 30, 2019) for damages related to alleged unfulfilled promises and injury to Navitrucks' reputation. In October 2014, Navitrucks amended their counterclaims by increasing the amount of damages. During a preliminary hearing before the arbitral tribunal on March 24, 2015, the parties agreed to submit all of the pending claims between the parties to the exclusive jurisdiction of the arbitral tribunal. Pursuant to the timetable issued in the arbitration proceeding, IIAA presented its complaint in July 2015, Navitrucks filed its answer and counterclaims on August 24, 2015, and IIAA filed its rebuttal and answer to Navitrucks' counterclaims on October 22, 2015. On December 7, 2015, Navitrucks filed its rebuttal to IIAA's answer to counterclaims. On June 13-15, 2016, the arbitral tribunal held hearings on the parties presenting witnesses and evidence.

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

On July 18, 2016, IAA and Navitrucks presented additional documents and information related to the hearing held on June 13-15, 2016. On September 30, 2016, the parties presented their final allegations. On April 20, 2017, the arbitral tribunal issued a partial award (the "Initial Award") granting a portion of the relief sought by each of the parties. Specifically, the arbitral tribunal's Initial Award held that: (a) Navitrucks failed to pay certain amounts to IAA for the purchase of vehicles under its agreements with IAA, thereby breaching its contractual obligations; and (b) IAA breached its contractual obligations under its agreements with Navitrucks due to its failure to fulfill its promises to invest in products, infrastructure, and a dealership network. Furthermore, the arbitral tribunal held that, due to the mutual breach of the agreements between IAA and Navitrucks, the agreements should be deemed terminated.

On June 3, 2017, IAA and Navitrucks filed an application to clarify certain interpretations of the Initial Award and to correct clerical errors in the Initial Award. IAA also requested an award to (a) set the indisputable amount of the Initial Award, and (2) order Navitrucks to promptly pay such amount. On June 8, 2017, the arbitral tribunal invited IAA and Navitrucks to present their respective comments on each other's applications on or before June 27, 2017. On June 3, 2017 and June 27, 2017, IAA and Navitrucks, respectively, filed their comments. On September 29, 2017, the arbitral tribunal issued a decision on the applications filed by both parties in which it rejected all of the requests made in the applications of both parties. On October 31, 2017, the arbitral tribunal issued a decision relating to the timeline for the production of technical evidence to be used in the calculation phase in which the actual monetary amount of the damages owed by each party to the other will be definitively determined.

As determined by the arbitral tribunal, IAA (a) designated its expert assistant and disclosed the questions to be answered by the arbitral expert (official expert designated by the arbitral tribunal); (b) presented a summary of the amount that Navitrucks owes to IAA in accordance with the previous calculation and related award issued on April 20, 2017; and (c) presented its replies to the Navitrucks' petitions.

On May 11, 2018, the arbitral tribunal issued a decision allowing the calculation to be made by the parties' experts and scheduled the calculation phase hearing for August 16, 2018. On July 6, 2018, each party's experts presented their reports indicating the calculation of the total amount due from each party to the other party. On August 6, 2018, the parties jointly filed a petition informing the arbitral tribunal that they reached an agreement as to the total amount due from each party to the other party. Pursuant to the agreement, Navitrucks agreed that it owes IAA the total amount of R\$107 million (approximately US \$27 million as of April 30, 2019) after deducting the agreed amount of Navitrucks' claim against IAA.

In addition, the parties requested: (a) the cancellation of the hearing scheduled for August 16, 2018; (b) a 15 day period for the parties to present their respective costs incurred in connection with the arbitral proceeding; and (c) the closure of the calculation phase with the final ruling of merits.

On August 13, 2018, the arbitral tribunal issued a decision canceling the hearing scheduled for August 16, 2018 and directed the parties to prove their respective incurred costs with the arbitral proceeding and to specify whether there were any additional productions of evidence or considerations by August 23, 2018.

On August 23, 2018, IAA filed a petition indicating that its costs incurred in connection with the arbitral proceeding were R\$6 million (approximately US \$2 million as of April 30, 2019). On the same date, Navitrucks filed a petition indicating that its costs incurred in connection with the arbitral proceeding were R\$3 million (approximately US\$1 million as of April 30, 2019). On September 18, 2018, the arbitral tribunal issued a decision (i) declaring the end of the evidence phase, (ii) ordering the parties to present their closing arguments on or before October 31, 2018, and (iii) stating that the final decision on the merits will be issued on or before December 20, 2018. On October 31, 2018, the parties submitted their closing arguments.

On or about March 1, 2019, IAA and Navitrucks received the award of the arbitral tribunal. The award orders the Navitrucks entities to pay IAA a total of R\$107 million (approximately US \$27 million as of April 30, 2019), subject to inflation adjustment and default interest. In addition, the arbitral tribunal ordered the Navitrucks entities to reimburse IAA in the amount of R\$3 million (approximately US\$1 million as of April 30, 2019) for a portion of IAA's costs incurred in the arbitration. The parties will have 30 days from the date of receipt of the award to apply for the correction of errors and/or clarifications related to the award. On March 29, 2019, IAA filed an application for clarifications related to certain clerical errors in the award. On April 22, 2019, the arbitral tribunal issued a decision ordering Navitrucks to submit any comments regarding the application for clarifications filed by IAA on or before April 25, 2019 and indicated that the arbitral tribunal will issue a final award with respect to IAA's application for clarifications by May 25, 2019; however, it has not yet been issued. After the rendering of the final award with respect to IAA's application for clarifications, Navitrucks will be required to pay the amount of the judgment within 20 days.

We have not recorded a receivable related to this matter in our *Consolidated Financial Statements*.

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

In addition, two truck fleet owners in Brazil have separate adversarial proceedings pending against IAA that may have similar legal and factual issues as the Navitrucks claim. These other claims are not material either individually or in the aggregate.

*California Air Resources Board Notice of Violation*

On March 28, 2019, Navistar received a notice of violation ("NOV") from the California Air Resources Board ("CARB"). In the NOV, CARB alleges that Navistar failed to disclose a running change to 1,385 engines including certain model year 2013 to 2015 N13 engines and 2014 to 2015 N9/10 engines. CARB alleges that the running change in question made modifications to the emissions control system such that the engines no longer conformed to the configuration as certified. The Company is evaluating the NOV and is engaged in discussions with CARB.

**Other**

*U.S. Department of Defense Matter*

In the third quarter of 2016, Navistar Defense, LLC ("ND") received a subpoena from the United States Department of Defense Inspector General (the "DOD IG"). The subpoena requested documents relating to ND's sale of its independent suspension systems ("ISS") for military vehicles to the government for the period from January 1, 2009 through December 31, 2010. On June 3, 2016, ND met with government representatives, including representatives from the DOD IG and the DOJ to discuss the matter.

Since then, ND has been in ongoing discussions with the DOD IG and the DOJ. ND made submissions of documents responsive to the subpoena in June and August 2016 and completed its subpoena response. On May 1, 2017, ND met with government representatives, including representatives from the DOD IG and the DOJ, to further discuss the matter, including assertions that ND may have overcharged the United States for the ISS components. ND agreed to provide additional information relating to the pricing of the ISS components. The parties met again on June 13, 2017. In August 2017, ND received a letter from the DOJ claiming that ND made false and misleading statements during the course of price negotiations and during the Defense Contract Audit Agency audit which resulted in ND overcharging the United States for the ISS components by approximately \$88 million and asking for treble damages and penalties for a total demand of approximately \$264 million. ND has responded to the DOJ's demand letter explaining its position that it has no liability in this matter and outlining the bases for such position, and that ND intends to vigorously defend its position. ND and the DOJ communicated between October 5, 2017 and December 8, 2017 to discuss their respective positions on both liability and damages.

On December 8, 2017, ND received another subpoena from the DOD IG which requested documents relating to ND's pricing of the Mine Resistant Ambush Protected ("MRAP") vehicle and its sale of parts to the government for the period from January 1, 2006 through December 31, 2013. ND responded to the subpoena and made four productions of responsive documents.

On July 10, 2018, ND received another subpoena from the DOD IG requesting additional custodian emails and documents related to the MRAP and ISS components. ND is responding to the subpoena and has made four productions of responsive documents. Additionally, in September and October 2018 the DOJ conducted interviews of certain current and former employees and will likely conduct additional interviews in the future.

The parties currently are engaged in mediation, which began in February 2019.

At this time, we are unable to predict the outcome of these matters, including whether a settlement will be reached, or provide meaningful quantification of how the final resolution of this matter may impact our future consolidated financial condition, results of operations or cash flows.

**12. Segment Reporting**

The following is a description of our four reporting segments:

- Our **Truck** segment manufactures and distributes Class 4 through 8 trucks, buses, and military vehicles under the International and IC Bus ("IC") brands, and produces engines under our proprietary brand name and parts required to support the military truck lines.

This segment sells its products in the U.S., Canada, and Mexico markets, as well as through our export truck business. In an effort to strengthen and maintain our dealer network, this segment occasionally acquires and operates dealer locations for the purpose of transitioning ownership.

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

- Our **Parts** segment provides customers with proprietary products needed to support the International commercial truck, IC Bus, proprietary engine lines, and export parts business, as well as our other product lines. Our Parts segment also provides a wide selection of other standard truck, trailer, and engine aftermarket parts. Also included in the Parts segment are the operating results of BDP, which manages the sourcing, merchandising, and distribution of certain service parts we sell to Ford in North America.
- Our **Global Operations** segment primarily consists of Brazil engine operations which produce diesel engines under contract manufacturing arrangements, as well as under the MWM brand, for sale to original equipment manufacturers (OEMs) in South America. In addition, our Global Operations segment includes the operating results of our former joint venture in China with Anhui Jianghuai Automobile Co., Ltd ("JAC").
- Our **Financial Services** segment provides retail, wholesale, and lease financing of products sold by the Truck and Parts segments and their dealers within the U.S. and Mexico, as well as financing for wholesale accounts and selected retail accounts receivable. This segment also facilitates financing relationships in other countries to support our Manufacturing Operations.

Corporate contains those items that are not included in our four segments.

**Segment Profit (Loss)**

We define segment profit (loss) as net income (loss) attributable to NIC, excluding income tax benefit (expense). Selected financial information from our *Consolidated Statements of Operations* and our *Consolidated Balance Sheets* is as follows:

(in millions)	Truck	Parts	Global Operations	Financial Services <sup>(A)</sup>	Corporate and Eliminations	Total
<b>Three Months Ended April 30, 2019</b>						
External sales and revenues, net .....	\$ 2,287	\$ 578	\$ 80	\$ 48	\$ 3	\$ 2,996
Intersegment sales and revenues .....	9	1	7	30	(47)	—
Total sales and revenues, net .....	<u>\$ 2,296</u>	<u>\$ 579</u>	<u>\$ 87</u>	<u>\$ 78</u>	<u>\$ (44)</u>	<u>\$ 2,996</u>
Net income (loss) attributable to NIC .....	<u>\$ (74)</u>	<u>\$ 144</u>	<u>\$ 3</u>	<u>\$ 32</u>	<u>\$ (153)</u>	<u>\$ (48)</u>
Income tax benefit.....	—	—	—	—	1	1
Segment profit (loss).....	<u>\$ (74)</u>	<u>\$ 144</u>	<u>\$ 3</u>	<u>\$ 32</u>	<u>\$ (154)</u>	<u>\$ (49)</u>
Depreciation and amortization.....	<u>\$ 26</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 16</u>	<u>\$ 3</u>	<u>\$ 49</u>
Interest expense.....	—	—	—	27	55	82
Equity in income (loss) of non-consolidated affiliates.....	2	—	—	—	1	3
Capital expenditures <sup>(B)</sup> .....	21	(1)	—	1	1	22
(in millions)	Truck	Parts	Global Operations	Financial Services <sup>(A)</sup>	Corporate and Eliminations	Total
<b>Three Months Ended April 30, 2018</b>						
External sales and revenues, net .....	\$ 1,688	\$ 601	\$ 89	\$ 40	\$ 4	\$ 2,422
Intersegment sales and revenues .....	16	—	8	23	(47)	—
Total sales and revenues, net .....	<u>\$ 1,704</u>	<u>\$ 601</u>	<u>\$ 97</u>	<u>\$ 63</u>	<u>\$ (43)</u>	<u>\$ 2,422</u>
Net income (loss) attributable to NIC .....	<u>\$ 42</u>	<u>\$ 132</u>	<u>\$ 1</u>	<u>\$ 19</u>	<u>\$ (139)</u>	<u>\$ 55</u>
Income tax expense.....	—	—	—	—	(7)	(7)
Segment profit (loss).....	<u>\$ 42</u>	<u>\$ 132</u>	<u>\$ 1</u>	<u>\$ 19</u>	<u>\$ (132)</u>	<u>\$ 62</u>
Depreciation and amortization.....	<u>\$ 34</u>	<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ 14</u>	<u>\$ 3</u>	<u>\$ 54</u>
Interest expense.....	—	—	—	21	58	79
Equity in income (loss) of non-consolidated affiliates.....	1	—	(1)	—	—	—
Capital expenditures <sup>(B)</sup> .....	30	1	—	—	(8)	23



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

(in millions)	Truck	Parts	Global Operations	Financial Services <sup>(A)</sup>	Corporate and Eliminations	Total
<b>Six Months Ended April 30, 2019</b>						
External sales and revenues, net .....	\$ 4,063	\$ 1,124	\$ 141	\$ 95	\$ 6	\$ 5,429
Intersegment sales and revenues.....	30	3	19	57	(109)	—
Total sales and revenues, net .....	<u>\$ 4,093</u>	<u>\$ 1,127</u>	<u>\$ 160</u>	<u>\$ 152</u>	<u>\$ (103)</u>	<u>\$ 5,429</u>
Net income (loss) attributable to NIC.....	\$ 16	\$ 288	\$ 9	\$ 63	\$ (413)	\$ (37)
Income tax benefit .....	—	—	—	—	20	20
Segment profit (loss) .....	<u>\$ 16</u>	<u>\$ 288</u>	<u>\$ 9</u>	<u>\$ 63</u>	<u>\$ (433)</u>	<u>\$ (57)</u>
Depreciation and amortization.....	<u>\$ 52</u>	<u>\$ 3</u>	<u>\$ 4</u>	<u>\$ 32</u>	<u>\$ 6</u>	<u>\$ 97</u>
Interest expense .....	—	—	—	56	111	167
Equity in income (loss) of non-consolidated affiliates .....	3	1	(1)	—	—	3
Capital expenditures <sup>(B)</sup> .....	52	1	1	2	10	66

(in millions)	Truck	Parts	Global Operations	Financial Services <sup>(A)</sup>	Corporate and Eliminations	Total
<b>Six Months Ended April 30, 2018</b>						
External sales and revenues, net .....	\$ 2,916	\$ 1,165	\$ 161	\$ 78	\$ 7	\$ 4,327
Intersegment sales and revenues.....	39	4	17	44	(104)	—
Total sales and revenues, net .....	<u>\$ 2,955</u>	<u>\$ 1,169</u>	<u>\$ 178</u>	<u>\$ 122</u>	<u>\$ (97)</u>	<u>\$ 4,327</u>
Net income (loss) attributable to NIC.....	\$ 35	\$ 269	\$ (6)	\$ 39	\$ (355)	\$ (18)
Income tax expense.....	—	—	—	—	(22)	(22)
Segment profit (loss) .....	<u>\$ 35</u>	<u>\$ 269</u>	<u>\$ (6)</u>	<u>\$ 39</u>	<u>\$ (333)</u>	<u>\$ 4</u>
Depreciation and amortization.....	<u>\$ 69</u>	<u>\$ 3</u>	<u>\$ 5</u>	<u>\$ 27</u>	<u>\$ 5</u>	<u>\$ 109</u>
Interest expense .....	—	—	—	42	116	158
Equity in income of non-consolidated affiliates .....	1	1	(2)	—	—	—
Capital expenditures <sup>(B)</sup> .....	55	1	1	—	(4)	53

(A) Total sales and revenues in the Financial Services segment include interest revenues of \$55 million and \$108 million for the three and six months ended April 30, 2019, respectively, and \$44 million and \$85 million for the three and six months ended April 30, 2018, respectively.

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

(in millions)	Truck	Parts	Global Operations	Financial Services	Corporate and Eliminations	Total
<b>Segment assets, as of:</b>						
<b>April 30, 2019</b> .....	<b>\$ 2,120</b>	<b>\$ 650</b>	<b>\$ 306</b>	<b>\$ 2,930</b>	<b>\$ 1,060</b>	<b>\$ 7,066</b>
October 31, 2018.....	2,085	636	331	2,648	1,530	7,230

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

**13. Stockholders' Deficit**

***Accumulated Other Comprehensive Loss***

The following table presents changes in *Accumulated other comprehensive loss*, net of tax, included in our *Consolidated Statements of Stockholders' Deficit*:

(in millions)	Foreign Currency Translation Adjustments	Defined Benefit Plans	Total
<b>Balance as of January 31, 2019</b> .....	\$ (301)	\$ (1,490)	\$ (1,791)
Other comprehensive loss before reclassifications .....	(18)	—	(18)
Amounts reclassified out of accumulated other comprehensive loss .....	—	23	23
Net current-period other comprehensive income (loss) .....	(18)	23	5
<b>Balance as of April 30, 2019</b> .....	<b>\$ (319)</b>	<b>\$ (1,467)</b>	<b>\$ (1,786)</b>

(in millions)	Foreign Currency Translation Adjustments	Defined Benefit Plans	Total
<b>Balance as of October 31, 2018</b> .....	\$ (315)	\$ (1,605)	\$ (1,920)
Other comprehensive loss before reclassifications .....	(4)	(8)	(12)
Amounts reclassified out of accumulated other comprehensive loss .....	—	146	146
Net current-period other comprehensive income (loss) .....	(4)	138	134
<b>Balance as of April 30, 2019</b> .....	<b>\$ (319)</b>	<b>\$ (1,467)</b>	<b>\$ (1,786)</b>

(in millions)	Foreign Currency Translation Adjustments	Defined Benefit Plans	Total
<b>Balance as of January 31, 2018</b> .....	\$ (261)	\$ (1,893)	\$ (2,154)
Other comprehensive loss before reclassifications .....	(28)	—	(28)
Amounts reclassified out of accumulated other comprehensive loss .....	—	28	28
Net current-period other comprehensive income (loss) .....	(28)	28	—
<b>Balance as of April 30, 2018</b> .....	<b>\$ (289)</b>	<b>\$ (1,865)</b>	<b>\$ (2,154)</b>

(in millions)	Foreign Currency Translation Adjustments	Defined Benefit Plans	Total
<b>Balance as of October 31, 2017</b> .....	\$ (283)	\$ (1,928)	\$ (2,211)
Other comprehensive loss before reclassifications .....	(6)	(2)	(8)
Amounts reclassified out of accumulated other comprehensive loss .....	—	65	65
Net current-period other comprehensive income (loss) .....	(6)	63	57
<b>Balance as of April 30, 2018</b> .....	<b>\$ (289)</b>	<b>\$ (1,865)</b>	<b>\$ (2,154)</b>

The following table presents the amounts reclassified from *Accumulated other comprehensive loss* and the affected line item in our *Consolidated Statements of Operations*:

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

(in millions)	Location in Consolidated Statements of Operations	Three Months Ended April 30,		Six Months Ended April 30,	
		2019	2018	2019	2018
<b>Defined benefit plans</b>					
Amortization of actuarial loss .....	Other expense, net.....	\$ 23	\$ 29	\$ 47	\$ 57
Settlements .....	Other expense, net.....	—	—	142	9
	Total before tax .....	23	29	189	66
	Income tax benefit.....	—	(1)	(43)	(1)
<b>Total reclassifications for the period, net of tax .....</b>		<b>\$ 23</b>	<b>\$ 28</b>	<b>\$ 146</b>	<b>\$ 65</b>

**14. Earnings (Loss) Per Share Attributable to Navistar International Corporation**

The following table presents the information used in the calculation of our basic and diluted earnings (loss) per share all attributable to NIC in our *Consolidated Statements of Operations*:

(in millions, except per share data)	Three Months Ended April 30,		Six Months Ended April 30,	
	2019	2018	2019	2018
<b>Numerator:</b>				
Net income (loss) attributable to Navistar International Corporation common stockholders .....	\$ (48)	\$ 55	\$ (37)	\$ (18)
<b>Denominator:</b>				
Weighted average shares outstanding:				
Basic .....	99.2	98.8	99.2	98.7
Effect of dilutive securities .....	—	0.7	—	—
Diluted .....	99.2	99.5	99.2	98.7
<b>Earnings (loss) per share attributable to Navistar International Corporation:</b>				
Basic .....	\$ (0.48)	\$ 0.56	\$ (0.37)	\$ (0.18)
Diluted .....	(0.48)	0.55	(0.37)	(0.18)

The conversion rate on our 4.5% Senior Subordinated Convertible Notes due 2018 (the "2018 Convertible Notes") was 17.1233 shares of common stock per \$1,000 principal amount of 2018 Convertible Notes, equivalent to an initial conversion price of approximately \$58.40 per share of common stock. The 2018 Convertible Notes had an anti-dilutive effect when calculating diluted earnings per share when our average stock price was less than \$58.40. The 2018 Convertible Notes were fully repaid upon maturity in October 2018, and none were converted into shares of our common stock.

The conversion rate on our 4.75% Senior Subordinated Convertible Notes due 2019 (the "2019 Convertible Notes") was 18.4946 shares of common stock per \$1,000 principal amount of 2019 Convertible Notes, equivalent to an initial conversion price of approximately \$54.07 per share of common stock. The 2019 Convertible Notes had an anti-dilutive effect when calculating diluted earnings per share when our average stock price was less than \$54.07. The 2019 Convertible Notes were fully repaid upon maturity in April 2019 and none were converted into shares of our common stock.

The computation of diluted earnings per share excludes outstanding options and other common stock equivalents in periods where inclusion of such potential common stock instruments would be anti-dilutive. For both the three months and six months ended April 30, 2019, as well as the six months ended April 30, 2018, no dilutive securities were included in the computation of diluted earnings per share because they would have been anti-dilutive due to the net loss attributable to NIC.

For the three and six months ended April 30, 2018, certain securities have been excluded from the computation of earnings per share, as our average stock price during the period was less than their respective exercise prices. The aggregate shares not included were 13.3 million and 14.2 million, respectively, which was primarily comprised of 3.4 million shares related to the 2018 Convertible Notes and 7.6 million shares related to the 2019 Convertible Notes.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide information that is supplemental to, and should be read together with, our consolidated financial statements and the accompanying notes contained in our Annual Report on Form 10-K for the year ended October 31, 2018. 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 from items disclosed within the MD&A of our Annual Report on Form 10-K for the year ended October 31, 2018 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. Operating results for interim reporting periods are not necessarily indicative of annual operating results.

### **Executive Overview**

Navistar is an international manufacturer of International® brand commercial and military trucks, proprietary brand diesel engines, and IC Bus® ("IC") brand school and commercial buses, as well as a provider of service parts for trucks and diesel engines. Our core business is conducted in the North American truck and parts markets, where we principally participate in the U.S. and Canada school bus and Class 6 through 8 medium and heavy truck markets (our "Core" markets). We also provide retail, wholesale, and lease financing services for our trucks and parts.

### **Second Quarter Summary**

During the second quarter of 2019, we continued to take actions to build upon our 2018 accomplishments. The areas of focus centered around: continuing to be customer-centric, driving operational excellence, improving on our Core business, business transformation, leveraging the TRATON Group strategic alliance, developing our team-based organization and our winning culture. We believe our strategy will enable us to be the number one and the most customer focused, innovative and value-creating truck and bus solution provider in the Americas.

In March 2019, we entered a service partnership agreement with Love's Travel Stops, which adds more than 315 Love's Truck Tire Care and Speedco locations to the International® service network, creating the commercial transportation industry's largest service network and bringing the total International® service network to more than 1,000 locations in North America. Building on our commitment to Uptime leadership, this partnership will expand our customers' access to same-day service for a wide array of light mechanical repairs, and will also provide customers with increased repair velocity.

In April 2019, we repaid in full our 4.75% Senior Subordinated Convertible Notes issued in March 2014. The repayment of the outstanding principal of \$411 million at maturity was funded with cash on hand.

In May 2019, we and certain plaintiffs in the outstanding putative United States class action lawsuits related to Model Year 2011-2014 Class 8 trucks sold in the U.S. with the Company's 11 and 13-liter EGR only engines entered into a Stipulation and Agreement of Settlement (the "Settlement Agreement") to settle the putative class action lawsuits pending in the United States. During the second quarter, we incurred charges of \$159 million to address the expected obligations under the Settlement Agreement, as well as the costs associated with current period liabilities and future potential settlements with respect to certain other MaxxForce Advanced EGR engine lawsuits that are not included in the Settlement Agreement. The Settlement Agreement remains subject to approval by the court. We expect that this preliminary step toward the settlement of these United States class action lawsuits will accelerate our efforts to address legacy engine issues.

### **Financial Summary**

*Continuing Operations Results* — In the second quarter of 2019, our consolidated net sales and revenues were \$3.0 billion, a 24% increase compared to the prior year quarter. In the first half of 2019, our consolidated net sales and revenues were \$5.4 billion, a 25% increase compared to the first half of 2018. The increase for both periods reflects higher volumes from our Truck segment.

In the second quarter and first half of 2019, we incurred a loss before income taxes of \$44 million and \$46 million, respectively, compared to income of \$68 million and \$17 million in the respective prior year periods. Our gross margin increased by \$68 million and \$149 million in the second quarter and first half of 2019, respectively, primarily due to the impact of higher volumes.

In the second quarter and first half of 2019, we recognized an income tax benefit of \$1 million and \$20 million, respectively, compared to income tax expense of \$7 million and \$22 million in the respective prior year periods. The year over year income tax benefit is largely the result of a \$38 million benefit associated with a group annuity contract purchase for certain retired pension plan participants, recorded in the first quarter. Other year over year differences include the impact of earnings, geographical mix and certain discrete items. The impact of income taxes on U.S. operations was limited to current state income taxes, and other discrete items, due in part to the deferred tax valuation allowances on the U.S. deferred tax assets.

In the second quarter and first half of 2019, after income taxes, we had net loss attributable to Navistar International Corporation ("NIC") of \$48 million and \$37 million, or \$0.48 and \$0.37 per diluted loss share, respectively, compared to net income of \$55 million and a net loss of \$18 million, or \$0.55 per diluted income share and \$0.18 per diluted loss share in the respective prior year periods.

In the second quarter and first half of 2019, consolidated net income attributable to NIC, before manufacturing interest, taxes, depreciation and amortization expenses ("EBITDA") was \$55 million and \$151 million, respectively, compared to \$174 million and \$229 million in the comparable prior year periods. Excluding certain net impacts, adjusted EBITDA ("Adjusted EBITDA") in the second quarter and first half of 2019 was \$224 million and \$397 million, respectively, compared to \$182 million and \$286 million in the comparable prior year period. In the second quarter and first half of 2019, adjusted consolidated net income (loss) attributable to NIC, excluding certain net impacts ("Adjusted Net Income"), was \$105 million and \$162 million, respectively, compared to \$67 million and \$43 million in the comparable prior year period. EBITDA, Adjusted EBITDA, and Adjusted Net Income are not determined in accordance with U.S. GAAP, nor are they presented as alternatives to U.S. GAAP measures. For more information regarding this non-GAAP financial information, see Non-GAAP Financial Performance Measures.

We ended the second quarter of 2019 with \$1.0 billion of consolidated cash, cash equivalents and marketable securities, compared to \$1.4 billion as of October 31, 2018. The decrease in consolidated cash, cash equivalents and marketable securities was primarily attributable to an acceleration in the payment of a substantial portion of our 2019 minimum required funding of our pension plans, an increase in finance receivables and inventories, higher capital expenditures, an increase in the purchase of equipment leased to others and a net decrease in notes and debt outstanding mostly due to the repayment of our convertible notes partially offset by increases in accounts payable and other current liabilities and proceeds from the sale of a majority interest in our former defense business, ND Holdings, LLC ("Navistar Defense") and the sale of our joint venture in China with JAC.

## 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 the quarter ended April 30, 2019 as compared to the quarter ended April 30, 2018

(in millions, except per share data and % change)	Three Months Ended April 30,				Six Months Ended April 30,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
Sales and revenues, net .....	<b>\$ 2,996</b>	\$ 2,422	\$ 574	24 %	<b>\$ 5,429</b>	\$ 4,327	\$ 1,102	25 %
Costs of products sold.....	<b>2,493</b>	1,987	506	25 %	<b>4,472</b>	3,519	953	27 %
Restructuring charges .....	<b>1</b>	1	—	— %	<b>1</b>	(2)	3	150 %
Asset impairment charges.....	<b>1</b>	1	—	— %	<b>3</b>	3	—	— %
Selling, general and administrative expenses.....	<b>373</b>	200	173	87 %	<b>559</b>	391	168	43 %
Engineering and product development costs.....	<b>75</b>	75	—	— %	<b>161</b>	150	11	7 %
Interest expense .....	<b>82</b>	79	3	4 %	<b>167</b>	158	9	6 %
Other expense, net .....	<b>18</b>	11	7	64 %	<b>115</b>	91	24	26 %
Total costs and expenses.....	<b>3,043</b>	2,354	689	29 %	<b>5,478</b>	4,310	1,168	27 %
Equity in income of non-consolidated affiliates .....	<b>3</b>	—	3	100 %	<b>3</b>	—	3	100 %
Income (loss) before income tax.....	<b>(44)</b>	68	(112)	(165)%	<b>(46)</b>	17	(63)	(371)%
Income tax benefit (expense).....	<b>1</b>	(7)	8	114 %	<b>20</b>	(22)	42	(191)%
Net income (loss) .....	<b>(43)</b>	61	(104)	(170)%	<b>(26)</b>	(5)	(21)	(420)%
Less: Net income attributable to non-controlling interests.....	<b>5</b>	6	(1)	(17)%	<b>11</b>	13	(2)	(15)%
<b>Net income (loss) attributable to Navistar International Corporation .....</b>	<b>\$ (48)</b>	\$ 55	\$ (103)	(187)%	<b>\$ (37)</b>	\$ (18)	\$ (19)	(106)%
Diluted income (loss) per share <sup>(A)</sup>	<b>\$ (0.48)</b>	\$ 0.55	\$ (1.03)	(187)%	<b>\$ (0.37)</b>	\$ (0.18)	\$ (0.19)	(106)%
Diluted weighted average shares outstanding.....	<b>99.2</b>	99.5	(0.3)	— %	<b>99.2</b>	98.7	0.5	1 %

(A) Amounts attributable to NIC.

### Sales and revenues, net

Our sales and revenues, net, are principally generated via sales of products and services. *Sales and revenues, net* in our *Consolidated Statements of Operations*, by reporting segment were as follows:

(in millions, except % change)	Three Months Ended April 30,				Six Months Ended April 30,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
Truck .....	<b>\$ 2,296</b>	\$ 1,704	\$ 592	35 %	<b>\$ 4,093</b>	\$ 2,955	\$ 1,138	39 %
Parts.....	<b>579</b>	601	(22)	(4)%	<b>1,127</b>	1,169	(42)	(4)%
Global Operations .....	<b>87</b>	97	(10)	(10)%	<b>160</b>	178	(18)	(10)%
Financial Services .....	<b>78</b>	63	15	24 %	<b>152</b>	122	30	25 %
Corporate and Eliminations .....	<b>(44)</b>	(43)	(1)	(2)%	<b>(103)</b>	(97)	(6)	(6)%
Total .....	<b>\$ 2,996</b>	\$ 2,422	\$ 574	24 %	<b>\$ 5,429</b>	\$ 4,327	\$ 1,102	25 %

In the second quarter and first half of 2019, our Truck segment net sales increased by \$592 million and \$1,138 million, or 35% and 39%, respectively. The increase is primarily due to higher volumes in our Core markets, an increase in sales of GM-branded units manufactured for GM, an increase in Mexico sales and pricing, partially offset by the impact of the sale of a majority interest in Navistar Defense and a decrease in export sales. In the second quarter of 2019, chargeouts from our Core markets increased by 35% compared to the second quarter of 2018. In the first half of 2019, chargeouts from our Core markets increased by 42% compared to the first half of 2018.

In the second quarter and first half of 2019, our Parts segment net sales decreased by \$22 million and \$42 million, respectively, or 4% for both periods. The decrease is primarily due to the impact of the new revenue standard as we are now an agent in certain direct shipment transactions that are recorded on a net basis and due to certain elements of core component transactions that are no longer recognized within revenue and lower BDP sales, partially offset by higher sales in our North American markets.

In the second quarter and first half of 2019, our Global Operations segment net sales decreased by \$10 million and \$18 million, respectively, or 10% for both periods. The decrease is primarily driven by economic conditions in our South America engine operations and the depreciation of the Brazilian real against the U.S. dollar as the average conversion rate weakened by 13% compared with the prior year period.

In the second quarter and first half of 2019, our Financial Services segment net revenues increased by \$15 million and \$30 million, or 24% and 25%, respectively. The increase is primarily driven by higher interest rates, higher average finance receivables in the U.S., and higher operating lease balances in the U.S. and Mexico.

#### *Costs of products sold*

In the second quarter and first half of 2019, Costs of products sold increased by \$506 million and \$953 million, or 25% and 27%, respectively. The increase was primarily driven by the impact of higher volumes in our Core markets. The increase is partially offset by the impact of the new revenue standard as we are now an agent in certain direct shipment transactions that are recorded on a net basis and due to certain elements of core component transactions that are no longer recognized within revenue.

In the second quarter and first half of 2019, we recorded charges of \$9 million and \$2 million in our Truck segment for adjustments to pre-existing warranties compared to a benefit of \$6 million and zero in the respective prior year periods. We had a charge primarily due to an increase in claim frequency across both the Medium Duty and Big Bore engine families. The impact increased the reserve for our standard warranty obligations as well as the loss positions related to our Big Bore extended service contracts.

#### *Engineering and product development costs*

In the second quarter of 2019, Engineering and product development costs were comparable to the prior year period. In the first half of 2019, Engineering and product development costs increased by \$11 million or 7% compared with the prior year period. This increase is primarily due to our development agreements with TRATON Group involving the expense of certain powertrain development costs.

#### *SG&A expenses*

In the second quarter and first half of 2019, SG&A expenses increased by \$173 million and \$168 million, or 87% and 43%, respectively. This increase is primarily attributable to the MaxxForce Engine EGR class action settlement and related litigation charges of \$159 million in our Truck segment. For more information on our legal proceedings, see Note 11, Commitments and Contingencies, to the accompanying consolidated financial statements.

#### *Other expense, net*

In the second quarter and first half of 2019, Other expenses increased by \$7 million and \$24 million, or 64% and 26%, respectively, compared to the prior year periods. The increase in the first half of the year was primarily driven by a group annuity contract purchase for certain retired pension plan participants which resulted in a plan remeasurement. As a result, we recorded pension settlement accounting charges of \$142 million compared to \$9 million in the prior year period. The increase was partially offset by a gain of \$54 million related to the sale of a majority interest in Navistar Defense and a gain of \$5 million related to the sale of our joint venture in China with JAC in our Global Operations segment. The increase was also partially offset by \$46 million of non-recurring charges related to the extinguishment of unamortized debt issuance costs, discounts and tender premium payments associated with the repurchase of our previous 8.25% senior notes, due 2022 ("8.25% Senior Notes") and refinancing of our previous Senior Secured Term Loan Credit Facility ("Term Loan") in the first quarter of 2018.

### *Income tax benefit (expense)*

In the second quarter and first half of 2019, our income tax benefit (expense) increased by \$8 million and \$42 million, respectively. The year over year income tax benefit is largely the result of a \$38 million benefit associated with a group annuity contract purchase for certain retired pension plan participants, recorded in the first quarter. Other year over year differences include the impact of earnings, geographical mix and certain discrete items. The impact of income taxes on U.S. operations was limited to current state income taxes, and other discrete items, due in part to the deferred tax valuation allowances on the U.S. deferred tax assets.

### *Net income (loss) attributable to non-controlling interests*

Net income (loss) attributable to non-controlling interests is the result of our consolidation of subsidiaries that we do not wholly own. Substantially all of the net income attributable to non-controlling interests in 2019 and 2018 relates to Ford Motor Company's non-controlling interest in BDP.

### **Segment Results of Operations**

We define segment profit (loss) as net income (loss) attributable to NIC excluding income tax benefit (expense). The following sections analyze operating results as they relate to our four segments and do not include intersegment eliminations. For additional information concerning our segments, see Note 12, *Segment Reporting*, to the accompanying consolidated financial statements.

#### **Truck Segment**

(in millions, except % change)	Three Months Ended April 30,			% Change	Six Months Ended April 30,			% Change
	2019	2018	Change		2019	2018	Change	
Truck segment sales, net.....	\$ 2,296	\$ 1,704	\$ 592	35 %	\$ 4,093	\$ 2,955	\$ 1,138	39 %
Truck segment profit (loss).....	(74)	42	(116)	(276)%	16	35	(19)	(54)%

#### *Segment sales*

In the second quarter and first half of 2019, our Truck segment net sales increased by \$592 million and \$1,138 million, respectively, or 35% and 39%, respectively. The increase is primarily due to higher volumes in our Core markets, an increase in sales of GM-branded units manufactured for GM, an increase in Mexico sales, and pricing, partially offset by the impact of the sale of a majority interest in Navistar Defense and a decrease in export sales.

In the second quarter of 2019, chargeouts from our Core markets increased by 35% compared to the second quarter of 2018, which is reflective of an improvement in Class 8 industry volumes and market share. The improvement represents a 48% increase in Class 8 heavy trucks, a 45% increase in Class 8 severe service trucks, a 31% increase in medium trucks, and a 14% increase in school buses.

In the first half of 2019, chargeouts from our Core markets increased by 42% compared to the first half of 2018, which is reflective of an improvement in Class 8 industry volumes and market share. The improvement represents a 64% increase in Class 8 heavy trucks, a 34% increase in medium trucks, a 32% increase in Class 8 severe service trucks, and a 21% increase in school buses.

#### *Segment results*

In the second quarter and first half of 2019, our Truck segment results declined by \$116 million and \$19 million, or 276% and 54%, respectively. The decline is primarily attributable to charges related to a MaxxForce engine EGR class action settlement, higher material costs and the impact of the sale of a majority interest in Navistar Defense, partially offset by the impact of higher volumes in our Core markets. The first half of 2019 was also impacted by higher other income.

In the second quarter and first half of 2019, we recorded charges of \$9 million and \$2 million, respectively, for adjustments to pre-existing warranties compared to a benefit of \$6 million and zero in the respective prior year periods. We had a charge primarily due to an increase in claim frequency across both the Medium Duty and Big Bore engine families. The impact increased the reserve for our standard warranty obligations as well as the loss positions related to our Big Bore extended service contracts.

In the first half of 2019, we recorded a gain of \$54 million related to the sale of a 70% equity interest in Navistar Defense in *Other expense, net* in our *Consolidated Statements of Operations*.



## Parts Segment

(in millions, except % change)	Three Months Ended April 30,				Six Months Ended April 30,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
Parts segment sales, net .....	\$ 579	\$ 601	\$ (22)	(4)%	\$ 1,127	\$ 1,169	\$ (42)	(4)%
Parts segment profit .....	144	132	12	9 %	288	269	19	7 %

### Segment sales

In the second quarter and first half of 2019, our Parts segment net sales decreased by \$22 million and \$42 million, respectively, or 4% for both periods. The decrease is primarily due to the impact of the new revenue standard as we are now an agent in certain direct shipment transactions that are recorded on a net basis and due to certain elements of core component transactions that are no longer recognized within revenue and lower BDP sales, partially offset by higher sales in our North American markets.

### Segment profit

In the second quarter and first half of 2019, our Parts segment profit increased by \$12 million and \$19 million, or 9% and 7%, respectively, primarily due to higher U.S. margins and lower intercompany access fees, partially offset by lower BDP volumes. The first half of 2019 was also impacted by higher freight-related expenses. Access fees are allocated to our Parts segment from our Truck segment, primarily for the development of new products, and consist of certain engineering and product development costs, depreciation expense, and SG&A expenses.

## Global Operations Segment

(in millions, except % change)	Three Months Ended April 30,				Six Months Ended April 30,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
Global Operations segment sales, net.....	\$ 87	\$ 97	\$ (10)	(10)%	\$ 160	\$ 178	\$ (18)	(10)%
Global Operations segment profit (loss).	3	1	2	200 %	9	(6)	15	250 %

### Segment sales

In the second quarter and first half of 2019, our Global Operations segment net sales decreased by \$10 million and \$18 million, or 10% for both periods. The decrease is primarily driven by economic conditions in our South America engine operations and the depreciation of the Brazilian real against the U.S. dollar as the average conversion rate weakened by 13% compared with the prior year period.

### Segment results

In the second quarter and first half of 2019, our Global Operations segment results improved by \$2 million and \$15 million, or 200% and 250%, respectively. The results are primarily driven by the impact of a shift in product mix, and the impact of prior year cost-reduction actions. The first half of 2019 was also impacted by higher other income of \$5 million related to the sale of our former joint venture in China with JAC.

## Financial Services Segment

(in millions, except % change)	Three Months Ended April 30,				Six Months Ended April 30,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
Financial Services segment revenues, net	\$ 78	\$ 63	\$ 15	24%	\$ 152	\$ 122	\$ 30	25%
Financial Services segment profit.....	32	19	13	68%	63	39	24	62%

### Segment revenues

In the second quarter and first half of 2019, our Financial Services segment net revenues increased by \$15 million and \$30 million, or 24% and 25%, respectively. The increase is primarily driven by higher interest rates, higher average finance receivables in the U.S., and higher operating lease balances in the U.S. and Mexico.

### Segment profit

In the second quarter and first half of 2019, our Financial Services segment profit increased by \$13 million and \$24 million, or 68% and 62%, respectively. The increase is primarily driven by higher revenues, and higher other income from an intercompany loan from our Financial Services operations to our Manufacturing operations, and improvements to our funding strategy. The increase was partially offset by higher interest expense relating to rates and finance receivable funding requirements, as well as higher depreciation expense on operating leases.

### Supplemental Information

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

#### Truck Industry Retail Deliveries

The following table summarizes approximate industry retail deliveries for our Core markets, categorized by relevant class, according to Wards Auto and IHS Markit ("Polk") and our Core retail deliveries:

(in units)	Three Months Ended April 30,				Six Months Ended April 30,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
<b>Core markets (U.S. and Canada)</b>								
School buses <sup>(A)</sup> .....	4,800	5,100	(300)	(6)%	10,700	11,100	(400)	(4)%
Class 6 and 7 medium trucks .....	28,100	26,000	2,100	8 %	54,800	48,900	5,900	12 %
Class 8 heavy trucks .....	57,000	45,500	11,500	25 %	114,300	89,500	24,800	28 %
Class 8 severe service trucks .....	18,300	17,300	1,000	6 %	36,100	34,400	1,700	5 %
<b>Total Core markets</b> .....	<b>108,200</b>	<b>93,900</b>	<b>14,300</b>	<b>15 %</b>	<b>215,900</b>	<b>183,900</b>	<b>32,000</b>	<b>17 %</b>
Combined class 8 trucks .....	75,300	62,800	12,500	20 %	150,400	123,900	26,500	21 %
Navistar Core retail deliveries .....	20,900	16,400	4,500	27 %	38,600	29,600	9,000	30 %

(A) The School bus retail market deliveries include buses classified as B, C, and D and are being reported on a one-month lag.

#### Truck Retail Delivery Market Share

The following table summarizes our approximate retail delivery market share percentages for the Class 6 through 8 U.S. and Canada truck markets, based on market-wide information from Wards Auto and Polk:

Core markets (U.S. and Canada)	Three Months Ended				
	April 30, 2019	January 31, 2019	October 31, 2018	July 31, 2018	April 30, 2018
Class 6 and 7 medium trucks .....	29.8%	25.5%	24.9%	21.9%	26.3%
Class 8 heavy trucks .....	15.1%	12.1%	16.9%	12.7%	13.4%
Class 8 severe service trucks .....	12.6%	11.7%	16.5%	11.2%	11.7%
Combined class 8 trucks .....	14.5%	12.0%	16.8%	12.3%	12.9%

#### Truck Orders, net

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

(in units)	Three Months Ended April 30,				Six Months Ended April 30,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
<b>Core markets (U.S. and Canada)</b>								
School buses.....	6,200	4,100	2,100	51 %	9,500	7,100	2,400	34%
Class 6 and 7 medium trucks.....	7,400	7,100	300	4 %	19,000	16,100	2,900	18%
Class 8 heavy trucks.....	7,400	9,700	(2,300)	(24)%	19,500	19,000	500	3%
Class 8 severe service trucks.....	4,000	3,700	300	8 %	6,800	6,000	800	13%
<b>Total Core markets.....</b>	<b>25,000</b>	<b>24,600</b>	<b>400</b>	<b>2 %</b>	<b>54,800</b>	<b>48,200</b>	<b>6,600</b>	<b>14%</b>
Combined class 8 trucks.....	11,400	13,400	(2,000)	(15)%	26,300	25,000	1,300	5%

### Truck Backlogs

We define order backlogs ("backlogs") as orders yet to be built as of the end of the period. Our backlogs do not represent guarantees of purchases by customers or dealers and are subject to cancellation. Although backlogs are 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. Backlogs exclude units in inventory awaiting additional modifications or delivery to the end customer. The following table summarizes our approximate backlog for Core units:

(in units)	As of April 30,			
	2019	2018	Change	% Change
<b>Core markets (U.S. and Canada)</b>				
School buses.....	6,100	4,000	2,100	53%
Class 6 and 7 medium trucks.....	17,400	9,500	7,900	83%
Class 8 heavy trucks.....	23,200	14,300	8,900	62%
Class 8 severe service trucks.....	8,900	4,200	4,700	112%
<b>Total Core markets.....</b>	<b>55,600</b>	<b>32,000</b>	<b>23,600</b>	<b>74%</b>
Combined class 8 trucks.....	32,100	18,500	13,600	74%

### Truck Chargeouts

We define chargeouts as trucks that have been invoiced to customers. The units held in dealer inventory represent the principal difference between retail deliveries and chargeouts. The following table summarizes our approximate worldwide chargeouts:

(in units)	Three Months Ended April 30,				Six Months Ended April 30,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
<b>Core markets (U.S. and Canada)</b>								
School buses.....	3,300	2,900	400	14 %	5,800	4,800	1,000	21 %
Class 6 and 7 medium trucks.....	8,900	6,800	2,100	31 %	15,000	11,200	3,800	34 %
Class 8 heavy trucks.....	8,600	5,800	2,800	48 %	16,400	10,000	6,400	64 %
Class 8 severe service trucks.....	2,900	2,000	900	45 %	5,400	4,100	1,300	32 %
<b>Total Core markets.....</b>	<b>23,700</b>	<b>17,500</b>	<b>6,200</b>	<b>35 %</b>	<b>42,600</b>	<b>30,100</b>	<b>12,500</b>	<b>42 %</b>
Non "Core" defense.....	—	200	(200)	(100)%	100	400	(300)	(75)%
Other markets <sup>(A)</sup> .....	5,500	2,300	3,200	139 %	7,200	3,400	3,800	112 %
<b>Total worldwide units.....</b>	<b>29,200</b>	<b>20,000</b>	<b>9,200</b>	<b>46 %</b>	<b>49,900</b>	<b>33,900</b>	<b>16,000</b>	<b>47 %</b>
Combined class 8 trucks.....	11,500	7,800	3,700	47 %	21,800	14,100	7,700	55 %

(A) Other markets primarily consist of Class 4/5 vehicles, Export Truck, Mexico, and post-sale Navistar Defense. Other markets include certain Class 4/5 vehicle chargeouts of 2,500 and 2,700 General Motors ("GM")-branded units sold to GM for the three and six months ended April 30, 2019, respectively.

## Liquidity and Capital Resources

### *Consolidated cash, cash equivalents, and marketable securities*

(in millions)	As of	
	April 30, 2019	October 31, 2018
Consolidated cash and cash equivalents.....	\$ 977	\$ 1,320
Consolidated marketable securities .....	23	101
Consolidated cash, cash equivalents, and marketable securities.....	\$ 1,000	\$ 1,421

  

(in millions)	As of	
	April 30, 2019	October 31, 2018
Manufacturing operations.....	\$ 950	\$ 1,362
Financial Services operations .....	50	59
Consolidated cash, cash equivalents, and marketable securities.....	\$ 1,000	\$ 1,421

### *Manufacturing and Financial Services cash, cash equivalents, and marketable securities*

Manufacturing cash, cash equivalents, and marketable securities, and Financial Services cash, cash equivalents and marketable securities are not presented in accordance with, and should not be viewed as an alternative to, U.S. GAAP. This non-GAAP financial information should be considered supplemental to, and not as a substitute for, or superior to, financial measures calculated in accordance with U.S. GAAP. However, we believe that non-GAAP reporting provides meaningful information and therefore we use it to supplement our U.S. GAAP reporting by identifying items that may not be related to the core manufacturing business. We provide this information for an additional analysis of our ability to meet our operating requirements, capital expenditures, equity investments, and financial obligations. Manufacturing cash, cash equivalents, and marketable securities represent our consolidated cash, cash equivalents, and marketable securities, which excludes cash, cash equivalents, and marketable securities of our Financial Services operations. We include marketable securities with our cash and cash equivalents when assessing our liquidity position as our investments are highly liquid in nature. Consolidated cash, cash equivalents, and marketable securities totaled \$1.0 billion as of April 30, 2019.

### *Cash Requirements*

We generate cash flows from operations from the sale of trucks, buses, diesel engines, and parts, as well as from product financing provided to our dealers and retail customers by our Financial Services operations. We fund our operations and strategic plans primarily with cash, cash generated from operations, debt and equity. It is our opinion that, in the absence of significant extraordinary cash demands, our: (i) level of cash, cash equivalents, and marketable securities, (ii) current and forecasted cash flow from our Manufacturing operations and Financial Services operations, (iii) availability under various funding facilities, (iv) current and forecasted availability from various funding alliances, and (v) access to capital in the capital markets, will provide sufficient funds to meet operating requirements, capital expenditures, investments, and financial obligations on both a short-term and long-term basis. Future Manufacturing operations debt obligations are expected to be met through a combination of cash generation from operations and refinancing activities. We also believe the quality of our underlying portfolio of receivables will ensure the ongoing funding from various sources and alliance partners and will permit our Financial Services operations to meet our financing requirements and those of our dealers, and retail customers.

We have capacity under our various debt arrangements to raise additional cash by incurring incremental debt. The covenants in all of our debt agreements permit us to refinance existing debt instruments as they mature. Our 4.75% Senior Subordinated Convertible Notes were fully repaid upon maturity in April 2019, with cash on hand.

In May 2019, NFC increased the capacity of its revolving bank credit facility from \$269 million to \$748 million and extended the maturity from September 2021 to May 2024. The additional capacity was used, in part, to fully repay the senior secured NFC Term Loan balance of \$398 million.

In April 2019, we increased the capacity of our retail accounts funding facility from \$100 million to \$150 million. Also in April 2019, we temporarily increased the capacity of our wholesale variable funding facility from \$350 million to \$550 million until the earlier of June 28, 2019, or the completion of a qualifying wholesale asset-backed term facility.

Our Manufacturing operations sold \$4.9 billion of wholesale notes and accounts receivable to our Financial Services operations during the six months ended April 30, 2019. The total outstanding balance of wholesale notes and accounts receivable purchased was \$1.9 billion as of April 30, 2019. Total loans outstanding from our Financial Services operations to our Manufacturing operations were \$277 million as of April 30, 2019.

Included in loans made from Financial Services operations to Manufacturing operations is an unsecured loan balance with NFC of \$200 million and \$150 million as of April 30, 2019 and October 31, 2018, respectively. Also included in loans made from Financial Services operations to Manufacturing operations is an intercompany financing from NFC that is secured by a first priority lien on used truck inventory, and certain related assets (the "Intercompany Used Truck Loan"). As of April 30, 2019 and October 31, 2018, our borrowings under the Intercompany Used Truck Loan were \$40 million and zero, respectively. Our Manufacturing operations also have an intercompany revolving loan agreement (the "Intercompany Revolving Loan") with our captive insurance company under our Financial Services segment. During the three months ended April 30, 2019, our borrowings under the Intercompany Revolving Loan agreement remained at \$7 million compared to the same period in 2018.

Our Financial Services operations in Mexico extend working capital loans to our Manufacturing operations in Mexico for orders received. As of April 30, 2019 and October 31, 2018, the borrowings of our Manufacturing operations in Mexico under these loan agreements were \$30 million and \$55 million, respectively.

As of April 30, 2019, the aggregate amount available to fund finance receivables under our Financial Services funding facilities was \$260 million, and there were no borrowings under NI's asset-based credit facility which is currently used to secure outstanding letters of credit.

### Cash Flow Overview

	Six Months Ended April 30, 2019		
(in millions)	Manufacturing Operations <sup>(A)</sup>	Financial Services Operations and Adjustments <sup>(A)</sup>	Condensed Consolidated Statement of Cash Flows
Net cash used in operating activities.....	\$ (83)	\$ (107)	\$ (190)
Net cash provided by (used in) investing activities .....	97	(60)	37
Net cash provided by (used in) financing activities.....	(342)	268	(74)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(6)	(4)	(10)
Increase (decrease) in cash, cash equivalents and restricted cash .....	(334)	97	(237)
Cash, cash equivalents and restricted cash at beginning of the period .....	1,295	150	1,445
Cash, cash equivalents and restricted cash at end of the period .....	<u>\$ 961</u>	<u>\$ 247</u>	<u>\$ 1,208</u>
	Six Months Ended April 30, 2018		
(in millions)	Manufacturing Operations <sup>(A)</sup>	Financial Services Operations and Adjustments <sup>(A)</sup>	Condensed Consolidated Statement of Cash Flows
Net cash used in operating activities.....	\$ (39)	\$ (59)	\$ (98)
Net cash provided by (used in) investing activities .....	236	(48)	188
Net cash provided by financing activities.....	209	60	269
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(6)	(1)	(7)
Increase (decrease) in cash, cash equivalents and restricted cash .....	400	(48)	352
Cash, cash equivalents and restricted cash at beginning of the period .....	690	150	840
Cash, cash equivalents and restricted cash at end of the period .....	<u>\$ 1,090</u>	<u>\$ 102</u>	<u>\$ 1,192</u>

(A) Manufacturing operations cash flows and Financial Services operations cash flows are not presented in accordance with, and should not be viewed as an alternative to, U.S. GAAP. This non-GAAP financial information should be considered supplemental to, and not as a substitute for, or superior to, financial measures calculated in accordance with U.S. GAAP. However, we believe that non-GAAP reporting provides meaningful information and therefore we use it to supplement our U.S. GAAP reporting by identifying items that may not be related to the core manufacturing business. Management often uses this information to assess and measure the performance and liquidity of our operating segments. Our Manufacturing operations, for this purpose, include our Truck segment, Global Operations segment, Parts segment, and Corporate items which include certain eliminations. The reconciling differences between these non-GAAP financial measures and our U.S. GAAP consolidated financial statements in Item 1, Financial Statements and Supplementary Data, are our Financial Services operations and adjustments required to eliminate certain intercompany transactions between Manufacturing operations and Financial Services operations. Our Financial Services operations cash flows are presented consistent with their treatment in our Condensed Consolidated Statements of Cash Flows and may not be consistent with how they would be treated on a stand-alone basis. We have chosen to provide this supplemental information to allow additional analysis, to illustrate the respective cash flows giving effect to the equity basis cash flow shown above, and to provide an additional measure of performance and liquidity.

## **Manufacturing Operations**

### *Manufacturing Operations Cash Flow from Operating Activities*

Cash used in operating activities was \$83 million and \$39 million in the six months ended April 30, 2019 and 2018, respectively. The higher use of cash from operating activities in 2019 compared to 2018 was primarily attributable to an acceleration in the payment of a substantial portion of our 2019 minimum required funding of our pension plans, a lower increase in accounts payable, a lower decrease in accounts receivable, and increases in other current assets, partially offset by a lower increase in inventories and higher net income.

Cash paid for interest, net of amounts capitalized, was \$103 million and \$122 million in the six months ended April 30, 2019 and 2018, respectively.

### *Manufacturing Operations Cash Flow from Investing Activities*

Cash provided by investing activities was \$97 million and \$236 million in the six months ended April 30, 2019 and 2018, respectively. The decrease in cash flow from investing activities in 2019 compared to 2018 was primarily attributable to lower net liquidations of marketable securities and an increase in capital expenditures, partially offset by decreases in the purchase of marketable securities and equipment leased to others, higher maturities of marketable securities, proceeds from the sale of a majority interest in Navistar Defense, and the sale of our joint venture in China with JAC.

### *Manufacturing Operations Cash Flow from Financing Activities*

Cash used in financing activities was \$342 million in the six months ended April 30, 2019, compared to cash provided by financing activities of \$209 million in the six months ended April 30, 2018. The net decrease in cash flow from financing activities in 2019 compared to 2018 was primarily attributable to the maturity and repayment of our 4.75% Senior Subordinated Convertible Notes in April 2019, lower proceeds from the issuance of long-term debt, and lower proceeds from finance lease obligations, partially offset by lower payments on long-term debt, a decrease in the amount of debt issuance costs, and proceeds from loans made from Financial Services operations to Manufacturing operations.

## **Financial Services Operations**

### *Financial Services Operations and Adjustments to Cash Flow from Operating Activities*

Cash used in operating activities was \$107 million in the six months ended April 30, 2019, compared to \$59 million in the six months ended April 30, 2018. The increase in cash used in operating activities compared to 2018 was primarily due to an increase in net originations of finance receivables.

Cash paid for interest, net of amounts capitalized, was \$49 million and \$36 million for the six months ended April 30, 2019 and 2018, respectively.

### *Financial Services Operations and Adjustments to Cash Flow from Investing Activities*

Cash used in investing activities was \$60 million and \$48 million in the six months ended April 30, 2019 and 2018, respectively. The increase in cash used in investing activities was primarily due to an increase in purchases of equipment leased to others.

### *Financial Services Operations and Adjustments to Cash Flow from Financing Activities*

Cash provided by financing activities was \$268 million in the six months ended April 30, 2019, compared to \$60 million in the six months ended April 30, 2018. The increase was primarily due to the increase in borrowings to fund the increase in net originations of finance receivables and the increase in purchases of equipment leased to others. Additionally, borrowings increased due to the accumulation of principal for the repayment of wholesale investor notes maturing in June 2019.

## Non-GAAP Financial Performance Measures

EBITDA, Adjusted EBITDA and Adjusted Net Income, which exclude certain identified items that we do not consider to be part of our ongoing business, are not in accordance with, and should not be viewed as an alternative to, U.S. GAAP. This non-GAAP financial information should be considered supplemental to, and not as a substitute for, or superior to, financial measures calculated in accordance with U.S. GAAP.

We believe these non-GAAP measures provide meaningful information about the performance of our business and therefore we use them to supplement our U.S. GAAP reporting. We believe that they improve the comparability of year-to-year results and are representative of our underlying performance. Management uses this information to assess and measure the performance of our operating segments. We have chosen to provide this supplemental information for an additional analysis of our operating results, to illustrate the results of operations giving effect to the non-GAAP adjustments shown in the below reconciliations, and to provide additional measures of performance.

### EBITDA reconciliation:

(in millions)	Three Months Ended April 30,		Six Months Ended April 30,	
	2019	2018	2019	2018
Net Income (loss) attributable to NIC .....	\$ (48)	\$ 55	\$ (37)	\$ (18)
<i>Plus:</i>				
Depreciation and amortization expense .....	49	54	97	109
Manufacturing interest expense <sup>(A)</sup> .....	55	58	111	116
<i>Adjusted for:</i>				
Income tax benefit (expense) .....	1	(7)	20	(22)
<b>EBITDA .....</b>	<b>\$ 55</b>	<b>\$ 174</b>	<b>\$ 151</b>	<b>\$ 229</b>

(A) Manufacturing interest expense is the net interest expense primarily generated for borrowings that support the Manufacturing and Corporate operations, adjusted to eliminate intercompany interest expense with our Financial Services segment. The following table reconciles Manufacturing interest expense to the consolidated interest expense:

(in millions)	Three Months Ended April 30,		Six Months Ended April 30,	
	2019	2018	2019	2018
Interest expense .....	\$ 82	\$ 79	\$ 167	\$ 158
Less: Financial services interest expense .....	27	21	56	42
<b>Manufacturing interest expense .....</b>	<b>\$ 55</b>	<b>\$ 58</b>	<b>\$ 111</b>	<b>\$ 116</b>

### Adjusted EBITDA Reconciliation:

(in millions)	Three Months Ended April 30,		Six Months Ended April 30,	
	2019	2018	2019	2018
<b>EBITDA (reconciled above) .....</b>	<b>\$ 55</b>	<b>\$ 174</b>	<b>\$ 151</b>	<b>\$ 229</b>
<i>Adjusted for significant items of:</i>				
Adjustments to pre-existing warranties <sup>(A)</sup> .....	9	6	2	—
Asset impairment charges <sup>(B)</sup> .....	1	1	3	3
Restructuring of manufacturing operations <sup>(C)</sup> .....	1	1	1	(2)
MaxxFORCE Advanced EGR engine lawsuits <sup>(D)</sup> .....	159	—	159	1
Gain on sales <sup>(E)</sup> .....	—	—	(59)	—
Debt refinancing charges <sup>(F)</sup> .....	—	—	—	46
Pension settlement <sup>(G)</sup> .....	—	—	142	9
Settlement gain <sup>(H)</sup> .....	(1)	—	(2)	—
<b>Total adjustments .....</b>	<b>169</b>	<b>8</b>	<b>246</b>	<b>57</b>
<b>Adjusted EBITDA .....</b>	<b>\$ 224</b>	<b>\$ 182</b>	<b>\$ 397</b>	<b>\$ 286</b>

**Adjusted Net Income (loss) attributable to NIC:**

(in millions)	Three Months Ended April 30,		Six Months Ended April 30,	
	2019	2018	2019	2018
<b>Net income (loss) attributable to NIC</b>	<b>\$ (48)</b>	<b>\$ 55</b>	<b>\$ (37)</b>	<b>\$ (18)</b>
<b>Adjusted for significant items of:</b>				
Adjustments to pre-existing warranties <sup>(A)</sup>	9	6	2	—
Asset impairment charges <sup>(B)</sup>	1	1	3	3
Restructuring of manufacturing operations <sup>(C)</sup>	1	1	1	(2)
MaxxFoer Advanced EGR engine lawsuits <sup>(D)</sup>	159	—	159	1
Gain on sales <sup>(E)</sup>	—	—	(59)	—
Debt refinancing charges <sup>(F)</sup>	—	—	—	46
Pension settlement <sup>(G)</sup>	—	—	142	9
Settlement gain <sup>(H)</sup>	(1)	—	(2)	—
<b>Total adjustments</b>	<b>169</b>	<b>8</b>	<b>246</b>	<b>57</b>
Tax effect <sup>(I)</sup>	(16)	4	(47)	4
<b>Adjusted Net income (loss) attributable to NIC</b>	<b>\$ 105</b>	<b>\$ 67</b>	<b>\$ 162</b>	<b>\$ 43</b>

- (A) Adjustments to pre-existing warranties reflect changes in our estimate of warranty costs for products sold in prior periods. Such adjustments typically occur when claims experience deviates from historic and expected trends. Our warranty liability is generally affected by component failure rates, repair costs, and the timing of failures. Future events and circumstances related to these factors could materially change our estimates and require adjustments to our liability. In addition, new product launches require a greater use of judgment in developing estimates until historical experience becomes available.
- (B) In the second quarter and first half of 2019, we recorded \$1 million and \$3 million, respectively, of asset impairment charges relating to certain assets under operating leases in our Truck segment. In the second quarter and first half of 2018, we recorded \$1 million and \$3 million, respectively, of asset impairment charges related to the sale of our railcar business in Cherokee, Alabama and certain assets under operating leases in our Truck segment.
- (C) In the second quarter and first half of 2019, we recorded a restructuring charge of \$1 million in our Truck segment. In the second quarter and first half of 2018, we recorded a charge of \$1 million and a benefit of \$2 million, respectively, related to adjustments for restructuring in our Truck, Global Operations and Corporate segments.
- (D) In the second quarter and first half of 2019, we recognized a charge of \$159 million related to MaxxFoer Advanced EGR engine class action settlement and related litigation in our Truck segment. In the first half of 2018, we recognized a charge of \$1 million for a jury verdict related to the MaxxFoer Advanced EGR engine lawsuits in our Truck segment.
- (E) In the first half of 2019, we recognized a gain of \$54 million related to the sale of a majority interest in the Navistar Defense business in our Truck segment, and a gain of \$5 million related to the sale of our joint venture in China with JAC in our Global Operations segment.
- (F) In the first half of 2018, we recorded a charge of \$46 million for the write off of debt issuance costs and discounts associated with the repurchase of our previously existing 8.25% Senior Notes and the refinancing of our previously existing Term Loan in Corporate.
- (G) In the first half of 2019 and 2018, we purchased group annuity contracts for certain retired pension plan participants resulting in plan remeasurements. As a result, we recorded pension settlement accounting charges of \$142 million and \$9 million, respectively, in Other expense, net in Corporate.
- (H) In the second quarter and first half of 2019, we recorded interest income of \$1 million and \$2 million, respectively, in Other expense, net derived from the prior year settlement of a business economic loss claim relating to our former Alabama engine manufacturing facility in Corporate.
- (I) Tax effect is calculated by excluding the impact of the non-GAAP adjustments from the interim period tax provision calculations.

**Pension and Other Postretirement Benefits**

See the applicable section of Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*, of our Annual Report on Form 10-K for the year ended October 31, 2018. During the six months ended April 30, 2019, there have been no material changes in our pension plan funding policies.

For the three and six months ended April 30, 2019, we contributed zero and \$131 million, respectively, to our pension plans (the "Plans") to meet regulatory funding requirements. During the first quarter of 2019, we accelerated the payment of a substantial portion of our 2019 minimum required funding. We currently anticipate additional contributions of approximately \$9 million to the Plans during the remainder of 2019. Future contributions are dependent upon a number of factors, principally the changes in values of plan assets, changes in interest rates, and the impact of any future funding relief. We currently expect that from 2020 through 2022, we will be required to contribute \$175 million to \$200 million per year to the Plans, depending on asset performance and discount rates.

For more information, see Note 8, *Postretirement Benefits*, to the accompanying consolidated financial statements.



## **Other Information**

### ***Environmental Matters***

We have been named a potentially responsible party ("PRP"), in conjunction with other parties, in a number of cases arising under an environmental protection law, the Comprehensive Environmental Response, Compensation, and Liability Act, popularly known as the "Superfund" law. These cases involve sites that allegedly received wastes from current or former Company locations. Based on information available to us which, in most cases, consists of data related to quantities and characteristics of material generated at current or former Company locations, material allegedly shipped by us to these disposal sites, as well as cost estimates from PRPs and/or federal or state regulatory agencies for the cleanup of these sites, a reasonable estimate is calculated of our share, if any, of the probable costs and accruals are recorded in our consolidated financial statements. These accruals are generally recognized no later than completion of the remedial feasibility study and are not discounted to their present value. We review all accruals on a regular basis and believe that, based on these calculations, our share of the potential additional costs for the cleanup of each site will not have a material effect on our financial condition, results of operations, or cash flows.

In addition, other sites formerly owned by us or where we are currently operating have been identified as having soil and groundwater contamination. While investigations and cleanup activities continue at these sites, we believe that we have appropriate accruals to cover costs to complete the cleanup of all sites.

### ***Impact of Environmental Regulation***

Government regulation related to climate change is under consideration at the U.S. federal and state levels. Because our products use fossil fuels, they may be impacted indirectly due to regulation, such as a cap and trade program, affecting the cost of fuels. The United States Environmental Protection Agency ("EPA") and National Highway Traffic Safety Administration ("NHTSA") issued final rules for greenhouse gas ("GHG") phase 1 emissions and fuel economy in 2011 and were fully implemented in model year 2017. We are complying with these rules through use of existing technologies and implementation of emerging technologies as they become available. The EPA and NHTSA adopted a final rule in October 2016 with the next phase of federal GHG emission and fuel economy regulations. This rule contains more stringent emissions levels for engines and vehicles and will take effect in model year 2021 and be implemented in three stages culminating in model year 2027. Canada has finalized a heavy duty phase 2 GHG rulemaking, which is substantially similar to EPA regulations with more stringent requirements for heavy haul tractors.

In December 2014, California adopted GHG emission rules for heavy duty vehicles equivalent to EPA phase 1 rules and is in the process of adopting its phase 2 equivalent rules. In 2014, California also adopted an optional lower emission standard for oxides of nitrogen ("NOx") in California. California has stated its intention to lower NOx standards for California-certified engines and has requested that the EPA lower its standards. In June 2016, several regional air quality management districts in California and other states, as well as the environmental agencies for several states, petitioned the EPA to adopt lower NOx emission standards for on-road heavy duty trucks and engines. The EPA responded to the petition in December 2016 stating that it would consider additional NOx regulations targeting model year 2024, but has not to date formally commenced any further NOx regulations. The EPA and the California Air Resources Board (CARB) may also consider other actions, including extended emission warranties. On April 18, 2019, CARB released a white paper providing an outline of measures it feels may be feasible, including lowered NOx and particular matter emission standards, changes in testing protocols, extended emission warranty periods, changes to durability demonstration periods, in-use testing and various other changes that are being considered for implementation between 2022 and 2027. However, CARB has not issued these as formal regulatory proposals. California is currently considering regulatory requirements to expand the zero emissions truck market, including the mandated sale of certain vehicles.

We expect that heavy duty vehicle and engine fuel economy and GHG emissions rules will be under consideration in other global jurisdictions in the future. The EPA also issued a final rule in October 2015 that lowered the National Ambient Air Quality Standard for ozone to 70 parts per billion. This rule could lead to future lower emission standards for substances that contribute to ozone, including NOx from vehicles, at the federal and state levels. Our facilities may be subject to regulation related to climate change and climate change itself may also have some impact on our operations. However, these impacts are currently uncertain and we cannot predict the nature and scope of those impacts.

These standards will require significant investments of capital and will significantly increase costs of development for engines and vehicles and will require us to incur administrative costs arising from implementation of the standard.

### ***Critical Accounting Policies and Estimates***

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

Our significant accounting policies and critical accounting estimates are consistent with those discussed in Note 1, *Summary of Significant Accounting Policies*, to the consolidated financial statements and the MD&A section of our Annual Report on Form 10-K for the year ended October 31, 2018 and in our Quarterly Report on Form 10-Q for the quarter ended January 31, 2019. During the six months ended April 30, 2019, there were no significant changes in our application of our critical accounting policies.

To aid in fully understanding and evaluating our reporting results, we have identified the following accounting policies as our most critical because they require us to make difficult, subjective, and complex judgments:

- *Pension and Other Postretirement Benefits*
- *Income Taxes*
- *Impairment of Long-Lived Assets*
- *Product Warranty*
- *Revenue*

### ***Recently Adopted and Issued Accounting Standards***

The information required to be set forth under this heading is incorporated by reference from Note 1, *Summary of Significant Accounting Policies*, to the consolidated financial statements included in Part I, Item 1.

#### **Item 3. *Quantitative and Qualitative Disclosures about Market Risk***

See Item 7A, Quantitative and Qualitative Disclosures about Market Risk, of our Annual Report on Form 10-K for the year ended October 31, 2018. During the six months ended April 30, 2019, there have been no material changes in our exposure to market risk.

#### **Item 4. *Controls and Procedures***

##### ***(a) Evaluation of Disclosure Controls and Procedures***

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of this report, management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of April 30, 2019. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the quarter ended April 30, 2019, our disclosure controls and procedures were effective.

##### ***(b) Changes in Internal Control over Financial Reporting***

There were no material changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15 and 15d-15 under the Exchange Act that occurred during the quarter ended April 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II

### Item 1. *Legal Proceedings*

The information required to be set forth under this heading is incorporated by reference from Note 11, *Commitments and Contingencies*, to the Consolidated Financial Statements included in Part I, Item 1.

### Item 1A. *Risk Factors*

During the six months ended April 30, 2019, there have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K for our year ended October 31, 2018.

### Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

#### *Recent Sales of Unregistered Securities*

None.

#### *Purchases of Equity Securities*

None.

### Item 3. *Defaults upon Senior Securities*

None.

### Item 4. *Mine Safety Disclosures*

Not applicable.

### Item 5. *Other Information*

None.

### Item 6. *Exhibits*

Exhibit:	Description	Page
(10)	<a href="#">Material Contracts</a> .....	E-1
(31.1)	<a href="#">CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a> .....	E-2
(31.2)	<a href="#">CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a> .....	E-3
(32.1)	<a href="#">CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a> .....	E-4
(32.2)	<a href="#">CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a> .....	E-5
(99.1)	<a href="#">Additional Financial Information (Unaudited)</a> .....	E-6
(101.INS)	XBRL Instance Document .....	N/A
(101.SCH)	XBRL Taxonomy Extension Schema Document .....	N/A
(101.CAL)	XBRL Taxonomy Extension Calculation Linkbase Document .....	N/A
(101.LAB)	XBRL Taxonomy Extension Label Linkbase Document .....	N/A
(101.PRE)	XBRL Taxonomy Extension Presentation Linkbase Document .....	N/A
(101.DEF)	XBRL Taxonomy Extension Definition Linkbase Document .....	N/A

All exhibits other than those indicated above are omitted because of the absence of the conditions under which they are required or because the information called for is shown in the consolidated financial statements and notes thereto in the Quarterly Report on Form 10-Q for the period ended April 30, 2019.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NAVISTAR INTERNATIONAL CORPORATION  
(Registrant)

/s/ SAMARA A. STRYCKER

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**Samara A. Strycker**  
**Senior Vice President and Corporate Controller**  
**(Principal Accounting Officer)**

June 4, 2019

**NAVISTAR INTERNATIONAL CORPORATION  
AND CONSOLIDATED SUBSIDIARIES**

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**MATERIAL CONTRACTS**

The following document of Navistar Financial Dealer Note Master Owner Trust II, an affiliated trust of Navistar International Corporation, is filed herewith:

- 10.95 [Amendment No. 3 to Series 2012-VFN Indenture Supplement, dated as of May 31, 2017, between Navistar Financial Dealer Note Master Owner Trust II, as the issuing entity, and Citibank, N.A. \(as successor to The Bank of New York Mellon\), as indenture trustee.](#)

The following documents of Navistar International Corporation, its principal subsidiary, Navistar, Inc., and its indirect subsidiary, Navistar Financial Corporation, are incorporated herein by reference:

- 10.96 [Amendment No. 3 to Pooling and Servicing Agreement, dated as of April 12, 2019, by and among Navistar Financial Dealer Note Master Owner Trust II, as the issuing entity, Navistar Financial Securities Corporation, as the depositor, and Navistar Financial Corporation, as the servicer. Filed as Exhibit 10.1 to the Current Report on Form 8-K dated April 15, 2019 and filed on April 15, 2019. Commission File No. 001-09618.](#)
- 10.97 [Amendment No. 12 to the Note Purchase Agreement, dated as of April 12, 2019, among Navistar Financial Securities Corporation, as the seller, Navistar Financial Corporation, as the servicer, New York Life Insurance Company, as a managing agent and a committed purchaser, New York Life Insurance and Annuity Corporation, as a managing agent and a committed purchaser, and Bank of America, National Association, as administrative agent, as a managing agent and as a committed purchaser. Filed as Exhibit 10.2 to the Current Report on Form 8-K dated April 15, 2019 and filed on April 15, 2019. Commission File No. 001-09618.](#)
- 10.98 [Second Amendment to Amended and Restated Employment and Services Agreement, dated April 24, 2019 and effective as of April 22, 2019, among Navistar International Corporation, Navistar, Inc. and Troy A. Clarke. Filed as Exhibit 10.1 to the Current Report on Form 8-K dated April 26, 2019 and filed on April 26, 2019. Commission File No. 001-09618.\\*](#)

\* Indicates a management contract or compensatory plan or arrangement required to be filed or incorporated by reference as an exhibit to this report.

## CERTIFICATION

I, Troy A. Clarke, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Navistar International Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 4, 2019

/s/ TROY A. CLARKE

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**Troy A. Clarke**  
**Chairman, President and Chief Executive Officer**  
**(Principal Executive Officer)**

## CERTIFICATION

I, Walter G. Borst, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Navistar International Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 4, 2019

/s/ WALTER G. BORST

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**Walter G. Borst**  
**Executive Vice President and Chief Financial Officer**  
**(Principal Financial Officer)**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Navistar International Corporation (the “Company”) on Form 10-Q for the period ended April 30, 2019 as filed with the Securities and Exchange Commission (the “SEC”) on the date hereof (the “Report”), I, Troy A. Clarke, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: June 4, 2019

/s/ TROY A. CLARKE

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**Troy A. Clarke**  
**Chairman, President and Chief Executive Officer**  
**(Principal Executive Officer)**

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. This certification shall also not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates it by reference.



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Navistar International Corporation (the “Company”) on Form 10-Q for the period ended April 30, 2019 as filed with the Securities and Exchange Commission (the “SEC”) on the date hereof (the “Report”), I, Walter G. Borst, Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: June 4, 2019

/s/ WALTER G. BORST

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**Walter G. Borst**  
**Executive Vice President and Chief Financial Officer**  
**(Principal Financial Officer)**

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. This certification shall also not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates it by reference.

**Additional Financial Information (Unaudited)**

The following additional financial information is provided based upon the continuing interest of certain stockholders and creditors to assist them in understanding our core Manufacturing operations and our Financial Services operations on an after-tax equity basis. Our Manufacturing operations, for this purpose, include our Truck segment, Parts segment, Global Operations segment, and Corporate items. The Manufacturing operations financial information represents non-GAAP financial measures. These non-GAAP financial measures should be considered supplemental to, and not as a substitute for, or superior to, financial measures calculated in accordance with U.S. GAAP. The reconciling differences between these non-GAAP financial measures and our U.S. GAAP condensed consolidated financial statements in Item 1, *Financial Statements*, are our Financial Services operations, which are included on an after-tax equity basis. Certain of our subsidiaries in our Manufacturing operations have debt outstanding with our Financial Services operations (“intercompany debt”). In the condensed statements of assets, liabilities, and stockholders' equity (deficit), the intercompany debt is reflected as accounts payable. The change in the intercompany debt is reflected in *Net cash provided by (used in) operating activities* in the condensed statements of cash activity.

**Condensed Statements of Revenues and Expenses****Navistar International Corporation****(Manufacturing operations with financial services operations on an after-tax equity basis)**

(in millions)	For the Three Months Ended April 30, 2019			
	Manufacturing Operations	Financial Services Operations	Adjustments	Consolidated Statement of Operations
Sales of manufactured products.....	\$ 2,948	\$ —	\$ —	\$ 2,948
Finance revenues .....	—	78	(30)	48
<b>Sales and revenues, net .....</b>	<b>2,948</b>	<b>78</b>	<b>(30)</b>	<b>2,996</b>
Costs of products sold.....	2,493	—	—	2,493
Restructuring charges .....	1	—	—	1
Asset impairment charges.....	1	—	—	1
Selling, general and administrative expenses .....	346	27	—	373
Engineering and product development costs .....	75	—	—	75
Interest expense .....	55	27	—	82
Other expense (income), net.....	56	(8)	(30)	18
<b>Total costs and expenses .....</b>	<b>3,027</b>	<b>46</b>	<b>(30)</b>	<b>3,043</b>
Equity in income of non-consolidated affiliates.....	3	—	—	3
Income (loss) before equity income from financial services operations and income taxes.....	(76)	32	—	(44)
Equity income from financial services operations.....	24	—	(24)	—
Income (loss) before income tax.....	(52)	32	(24)	(44)
Income tax benefit (expense).....	9	(8)	—	1
Net income (loss).....	(43)	24	(24)	(43)
Less: Net income attributable to non-controlling interests....	5	—	—	5
<b>Net income (loss) attributable to Navistar International Corporation .....</b>	<b>\$ (48)</b>	<b>\$ 24</b>	<b>\$ (24)</b>	<b>\$ (48)</b>

**Condensed Statements of Revenues and Expenses**

**Navistar International Corporation**

**(Manufacturing operations with financial services operations on an after-tax equity basis)**

(in millions)	For the Six Months Ended April 30, 2019			
	Manufacturing Operations	Financial Services Operations	Adjustments	Consolidated Statement of Operations
Sales of manufactured products .....	\$ 5,334	\$ —	\$ —	\$ 5,334
Finance revenues .....	—	152	(57)	95
<b>Sales and revenues, net .....</b>	<b>5,334</b>	<b>152</b>	<b>(57)</b>	<b>5,429</b>
Costs of products sold.....	4,472	—	—	4,472
Restructuring charges .....	1	—	—	1
Asset impairment charges.....	3	—	—	3
Selling, general and administrative expenses .....	509	51	(1)	559
Engineering and product development costs .....	161	—	—	161
Interest expense .....	111	56	—	167
Other expense (income), net .....	189	(18)	(56)	115
<b>Total costs and expenses .....</b>	<b>5,446</b>	<b>89</b>	<b>(57)</b>	<b>5,478</b>
Equity in income of non-consolidated affiliates .....	3	—	—	3
Income before equity income from financial services operations and income taxes .....	(109)	63	—	(46)
Equity income from financial services operations.....	48	—	(48)	—
Income (loss) before income tax.....	(61)	63	(48)	(46)
Income tax expense.....	35	(15)	—	20
Net income (loss)	(26)	48	(48)	(26)
Less: Net income attributable to non-controlling interests ....	11	—	—	11
<b>Net income (loss) attributable to Navistar International Corporation</b>	<b>\$ (37)</b>	<b>\$ 48</b>	<b>\$ (48)</b>	<b>\$ (37)</b>

**Condensed Statements of Revenues and Expenses**

**Navistar International Corporation**

**(Manufacturing operations with financial services operations on an after-tax equity basis)**

For the Three Months Ended April 30, 2018

(in millions)	Manufacturing Operations	Financial Services Operations	Adjustments	Consolidated Statement of Operations
Sales of manufactured products .....	\$ 2,382	\$ —	\$ —	\$ 2,382
Finance revenues .....	—	63	(23)	40
<b>Sales and revenues, net .....</b>	<b>2,382</b>	<b>63</b>	<b>(23)</b>	<b>2,422</b>
Costs of products sold.....	1,987	—	—	1,987
Restructuring charges .....	1	—	—	1
Asset impairment charges.....	1	—	—	1
Selling, general and administrative expenses .....	176	25	(1)	200
Engineering and product development costs .....	75	—	—	75
Interest expense .....	58	21	—	79
Other expense (income), net .....	35	(2)	(22)	11
<b>Total costs and expenses .....</b>	<b>2,333</b>	<b>44</b>	<b>(23)</b>	<b>2,354</b>
Income (loss) before equity income from financial services operations and income taxes	49	19	—	68
Equity income from financial services operations.....	16	—	(16)	—
Income (loss) before income tax.....	65	19	(16)	68
Income tax expense.....	(4)	(3)	—	(7)
Net income (loss) .....	61	16	(16)	61
Less: Net income attributable to non-controlling interests ....	6	—	—	6
<b>Net income (loss) attributable to Navistar International Corporation .....</b>	<b>\$ 55</b>	<b>\$ 16</b>	<b>\$ (16)</b>	<b>\$ 55</b>

**Condensed Statements of Revenues and Expenses**

**Navistar International Corporation**

**(Manufacturing operations with financial services operations on an after-tax equity basis)**

(in millions)	For the Six Months Ended April 30, 2018			
	Manufacturing Operations	Financial Services Operations	Adjustments	Consolidated Statement of Operations
Sales of manufactured products .....	\$ 4,249	\$ —	\$ —	\$ 4,249
Finance revenues .....	—	122	(44)	78
<b>Sales and revenues, net .....</b>	<b>4,249</b>	<b>122</b>	<b>(44)</b>	<b>4,327</b>
Costs of products sold.....	3,519	—	—	3,519
Restructuring charges .....	(2)	—	—	(2)
Asset impairment charges.....	3	—	—	3
Selling, general and administrative expenses .....	347	45	(1)	391
Engineering and product development costs .....	150	—	—	150
Interest expense .....	116	42	—	158
Other expense (income), net .....	138	(4)	(43)	91
<b>Total costs and expenses .....</b>	<b>4,271</b>	<b>83</b>	<b>(44)</b>	<b>4,310</b>
Equity in income of non-consolidated affiliates .....	—	—	—	—
Income (loss) before equity income from financial services operations and income taxes .....	(22)	39	—	17
Equity income from financial services operations.....	32	—	(32)	—
Income (loss) before income tax.....	10	39	(32)	17
Income tax expense.....	(15)	(7)	—	(22)
Net income (loss) .....	(5)	32	(32)	(5)
Less: Net income attributable to non-controlling interests ....	13	—	—	13
<b>Net income (loss) attributable to Navistar International Corporation .....</b>	<b>\$ (18)</b>	<b>\$ 32</b>	<b>\$ (32)</b>	<b>\$ (18)</b>

**Condensed Statements of Assets, Liabilities, and Stockholders' Equity (Deficit)**  
**Navistar International Corporation**  
**(Manufacturing operations with financial services operations on an after-tax equity basis)**

(in millions)	As of April 30, 2019			
	Manufacturing Operations	Financial Services Operations	Adjustments	Consolidated Balance Sheet
<b>Assets</b>				
Cash and cash equivalents .....	\$ 927	\$ 50	\$ —	\$ 977
Marketable securities .....	23	—	—	23
Restricted cash and cash equivalents .....	34	197	—	231
Finance and other receivables, net .....	483	2,531	(215)	2,799
Inventories .....	1,157	7	—	1,164
Goodwill .....	38	—	—	38
Property and equipment, net .....	938	332	—	1,270
Investments in and advances to financial services operations ...	639	—	(639)	—
Investments in non-consolidated affiliates .....	32	—	—	32
Deferred taxes, net .....	116	5	—	121
Other assets .....	388	23	—	411
<b>Total assets</b> .....	<b>\$ 4,775</b>	<b>\$ 3,145</b>	<b>\$ (854)</b>	<b>\$ 7,066</b>
<b>Liabilities and stockholders' equity (deficit)</b>				
Accounts payable .....	\$ 1,821	\$ 24	\$ (215)	\$ 1,630
Debt .....	2,962	2,395	—	5,357
Postretirement benefits liabilities .....	1,950	—	—	1,950
Other liabilities .....	1,894	87	—	1,981
<b>Total liabilities</b> .....	<b>8,627</b>	<b>2,506</b>	<b>(215)</b>	<b>10,918</b>
<b>Stockholders' equity attributable to non-controlling interest</b> .....	<b>3</b>	<b>—</b>	<b>—</b>	<b>3</b>
<b>Stockholders' equity (deficit) attributable to controlling interest</b> .....	<b>(3,855)</b>	<b>639</b>	<b>(639)</b>	<b>(3,855)</b>
<b>Total liabilities and stockholders' equity (deficit)</b> .....	<b>\$ 4,775</b>	<b>\$ 3,145</b>	<b>\$ (854)</b>	<b>\$ 7,066</b>

**Condensed Statements of Assets, Liabilities, and Stockholders' Equity (Deficit)**  
**Navistar International Corporation**  
**(Manufacturing operations with financial services operations on an after-tax equity basis)**

(in millions)	As of October 31, 2018			
	Manufacturing Operations	Financial Services Operations	Adjustments	Consolidated Balance Sheet
<b>Assets</b>				
Cash and cash equivalents .....	\$ 1,261	\$ 59	\$ —	\$ 1,320
Marketable securities .....	101	—	—	101
Restricted cash and cash equivalents .....	34	91	—	125
Finance and other receivables, net .....	505	2,259	(101)	2,663
Inventories .....	1,102	8	—	1,110
Goodwill .....	38	—	—	38
Property and equipment, net .....	1,060	310	—	1,370
Investments in and advances to financial services operations ...	581	—	(581)	—
Investments in non-consolidated affiliates .....	50	—	—	50
Deferred taxes, net .....	117	4	—	121
Other assets .....	314	18	—	332
<b>Total assets</b> .....	<u>\$ 5,163</u>	<u>\$ 2,749</u>	<u>\$ (682)</u>	<u>\$ 7,230</u>
<b>Liabilities and stockholders' equity (deficit)</b>				
Accounts payable .....	\$ 1,664	\$ 43	\$ (101)	\$ 1,606
Debt .....	3,426	2,041	—	5,467
Postretirement benefits liabilities .....	2,097	—	—	2,097
Other liabilities .....	1,902	84	—	1,986
<b>Total liabilities</b> .....	<u>9,089</u>	<u>2,168</u>	<u>(101)</u>	<u>11,156</u>
<b>Stockholders' equity attributable to non-controlling interest</b> .....	5	—	—	5
<b>Stockholders' equity (deficit) attributable to controlling interest</b> .....	<u>(3,931)</u>	<u>581</u>	<u>(581)</u>	<u>(3,931)</u>
<b>Total liabilities and stockholders' equity (deficit)</b> .....	<u>\$ 5,163</u>	<u>\$ 2,749</u>	<u>\$ (682)</u>	<u>\$ 7,230</u>

**Condensed Statements of Cash Flows**  
**Navistar International Corporation**  
**(Manufacturing operations with financial services operations on an after-tax equity basis)**

For the Six Months Ended April 30, 2019

(in millions)	Manufacturing Operations	Financial Services Operations	Adjustments	Condensed Consolidated Statement of Cash Flows
<b>Cash flows from operating activities</b>				
Net income (loss).....	\$ (26)	\$ 48	\$ (48)	\$ (26)
Adjustments to reconcile net income (loss) to cash used in operating activities:				
Depreciation and amortization.....	66	—	—	66
Depreciation of equipment leased to others.....	(1)	32	—	31
Amortization of debt issuance costs and discount.....	8	4	—	12
Deferred income taxes.....	(41)	—	—	(41)
Asset impairment charges.....	3	—	—	3
Gain on sales of investments and businesses, net.....	(59)	—	—	(59)
Equity in income of non-consolidated affiliates.....	(3)	—	—	(3)
Equity in income of financial services affiliates.....	(48)	—	48	—
Dividends from non-consolidated affiliates.....	1	—	—	1
Change in intercompany receivables and payables.....	48	(48)	—	—
Other, net.....	(31)	(143)	—	(174)
<b>Net cash used in operating activities</b> .....	<b>(83)</b>	<b>(107)</b>	<b>—</b>	<b>(190)</b>
<b>Cash flows from investing activities</b>				
Purchases of marketable securities.....	—	—	—	—
Sales of marketable securities.....	—	—	—	—
Maturities of marketable securities.....	79	—	—	79
Capital expenditures.....	(64)	(2)	—	(66)
Purchase of equipment leased to others.....	(13)	(63)	—	(76)
Other investing activities.....	95	5	—	100
<b>Net cash provided by (used in) investing activities</b> .....	<b>97</b>	<b>(60)</b>	<b>—</b>	<b>37</b>
<b>Net cash provided by (used in) financing activities</b> .....	<b>(342)</b>	<b>268</b>	<b>—</b>	<b>(74)</b>
<b>Effect of exchange rate changes on cash, cash equivalents and restricted cash</b> .....	<b>(6)</b>	<b>(4)</b>	<b>—</b>	<b>(10)</b>
<b>Increase (decrease) in cash, cash equivalents and restricted cash</b> .....	<b>(334)</b>	<b>97</b>	<b>—</b>	<b>(237)</b>
<b>Cash, cash equivalents and restricted cash at beginning of the period</b> .....	<b>1,295</b>	<b>150</b>	<b>—</b>	<b>1,445</b>
<b>Cash, cash equivalents and restricted cash at end of the period</b> .....	<b>\$ 961</b>	<b>\$ 247</b>	<b>\$ —</b>	<b>\$ 1,208</b>



**Condensed Statements of Cash Flows**  
**Navistar International Corporation**  
**(Manufacturing operations with financial services operations on an after-tax equity basis)**

For the Six Months Ended April 30, 2018

(in millions)	Manufacturing Operations	Financial Services Operations	Adjustments	Condensed Consolidated Statement of Cash Flows
<b>Cash flows from operating activities</b>				
Net income (loss).....	\$ (5)	\$ 32	\$ (32)	\$ (5)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:				
Depreciation and amortization.....	73	—	—	73
Depreciation of equipment leased to others.....	9	27	—	36
Amortization of debt issuance costs and discount.....	10	5	—	15
Deferred income taxes.....	1	—	—	1
Asset impairment charges.....	3	—	—	3
Equity in income of financial services affiliates.....	(32)	—	32	—
Dividends from non-consolidated affiliates.....	3	—	—	3
Change in other intercompany receivables and payables.....	29	(29)	—	—
Other, net.....	(130)	(94)	—	(224)
<b>Net cash used in operating activities</b> .....	<b>(39)</b>	<b>(59)</b>	<b>—</b>	<b>(98)</b>
<b>Cash flows from investing activities</b>				
Purchases of marketable securities.....	(148)	—	—	(148)
Sales of marketable securities.....	460	—	—	460
Maturities of marketable securities.....	18	—	—	18
Capital expenditures.....	(53)	—	—	(53)
Purchase of equipment leased to others.....	(39)	(53)	—	(92)
Other investing activities.....	(2)	5	—	3
<b>Net cash provided by (used in) investing activities</b> .....	<b>236</b>	<b>(48)</b>	<b>—</b>	<b>188</b>
<b>Net cash provided by financing activities</b> .....	<b>209</b>	<b>60</b>	<b>—</b>	<b>269</b>
<b>Effect of exchange rate changes on cash, cash equivalents and restricted cash</b> .....	<b>(6)</b>	<b>(1)</b>	<b>—</b>	<b>(7)</b>
<b>Increase (decrease) in cash, cash equivalents and restricted cash</b> .....	<b>400</b>	<b>(48)</b>	<b>—</b>	<b>352</b>
<b>Cash, cash equivalents and restricted cash at beginning of the period</b> .....	<b>690</b>	<b>150</b>	<b>—</b>	<b>840</b>
<b>Cash, cash equivalents and restricted cash at end of the period</b> .....	<b>\$ 1,090</b>	<b>\$ 102</b>	<b>\$ —</b>	<b>\$ 1,192</b>