

NAVISTAR INTERNATIONAL CORP

Form 10-Q

March 08, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended January 31, 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 (311) 332-5000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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 or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

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 February 28, 2019, the number of shares outstanding of the registrant's common stock was 99,065,477, net of treasury shares.

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Disclosure Regarding Forward-Looking Statements

Information provided and statements contained in this report that are not purely historical are forward-looking statements within the meaning of the federal securities laws. 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 AG 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;
- 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 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)

	Three Months Ended January 31,	
(in millions, except per share data)	2019	2018
Sales and revenues		
Sales of manufactured products, net	\$2,386	\$1,867
Finance revenues	47	38
Sales and revenues, net	2,433	1,905
Costs and expenses		
Costs of products sold	1,979	1,532
Restructuring charges	—	(3)
Asset impairment charges	2	2
Selling, general and administrative expenses	186	191
Engineering and product development costs	86	75
Interest expense	85	79
Other expense, net	97	80
Total costs and expenses	2,435	1,956
Equity in income of non-consolidated affiliates	—	—
Loss before income tax	(2)	(51)
Income tax benefit (expense)	19	(15)
Net income (loss)	17	(66)
Less: Net income attributable to non-controlling interests	6	7
Net Income (loss) attributable to Navistar International Corporation	\$11	\$(73)
Income (loss) per share attributable to Navistar International Corporation:		
Basic	\$0.11	\$(0.74)
Diluted	0.11	(0.74)
Weighted average shares outstanding:		
Basic	99.1	98.6
Diluted	99.4	98.6

See Notes to Consolidated Financial Statements

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

(in millions)	Three Months Ended January 31, 2019 2018	
Net income (loss)	\$17	\$(66)
Other comprehensive income:		
Foreign currency translation adjustment	14	22
Defined benefit plans, net of tax	115	35
Total other comprehensive income	129	57
Comprehensive income (loss)	146	(9)
Less: Net income attributable to non-controlling interests	6	7
Total comprehensive income (loss) attributable to Navistar International Corporation	\$140	\$(16)

See Notes to Consolidated Financial Statements

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Navistar International Corporation and Subsidiaries
Consolidated Balance Sheets

	January 31, 2019	October 31, 2018
(in millions, except per share data)		
ASSETS		(Unaudited)
Current assets		
Cash and cash equivalents	\$ 1,201	\$ 1,320
Restricted cash and cash equivalents	83	62
Marketable securities	41	101
Trade and other receivables, net	429	456
Finance receivables, net	1,818	1,898
Inventories, net	1,211	1,110
Other current assets	291	189
Total current assets	5,074	5,136
Restricted cash	65	63
Trade and other receivables, net	31	49
Finance receivables, net	272	260
Investments in non-consolidated affiliates	32	50
Property and equipment (net of accumulated depreciation and amortization of \$2,452 and \$2,498, respectively)	1,275	1,370
Goodwill	38	38
Intangible assets (net of accumulated amortization of \$141 and \$140, respectively)	29	30
Deferred taxes, net	123	121
Other noncurrent assets	98	113
Total assets	\$ 7,037	\$ 7,230
LIABILITIES and STOCKHOLDERS' DEFICIT		
Liabilities		
Current liabilities		
Notes payable and current maturities of long-term debt	\$ 942	\$ 946
Accounts payable	1,484	1,606
Other current liabilities	1,225	1,255
Total current liabilities	3,651	3,807
Long-term debt	4,552	4,521
Postretirement benefits liabilities	1,961	2,097
Other noncurrent liabilities	686	731
Total liabilities	10,850	11,156
Stockholders' deficit		
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	2,732	2,731
Accumulated deficit	(4,609)	(4,593)
Accumulated other comprehensive loss	(1,791)	(1,920)
Common stock held in treasury, at cost (4.1 and 4.2 shares, respectively)	(160)	(161)
Total stockholders' deficit attributable to Navistar International Corporation	(3,816)	(3,931)
Stockholders' equity attributable to non-controlling interests	3	5
Total stockholders' deficit	(3,813)	(3,926)
Total liabilities and stockholders' deficit	\$ 7,037	\$ 7,230

See Notes to Consolidated Financial Statements

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

	Three Months Ended January 31,	
(in millions)	2019	2018
Cash flows from operating activities		
Net income (loss)	\$17	\$(66)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	33	37
Depreciation of equipment leased to others	15	18
Deferred taxes, including change in valuation allowance	(41)	6
Asset impairment charges	2	2
Gain on sales of investments and businesses, net	(59)	—
Amortization of debt issuance costs and discount	6	8
Stock-based compensation	—	9
Provision for doubtful accounts	1	1
Equity in income of non-consolidated affiliates, net of dividends	—	3
Write-off of debt issuance costs and discount	—	42
Other non-cash operating activities	(1)	(6)
Changes in other assets and liabilities, exclusive of the effects of businesses disposed	(213)	(130)
Net cash used in operating activities	(240)	(76)
Cash flows from investing activities		
Purchases of marketable securities	—	(61)
Sales of marketable securities	—	150
Maturities of marketable securities	61	5
Capital expenditures	(44)	(30)
Purchases of equipment leased to others	(42)	(52)
Proceeds from sales of property and equipment	3	3
Proceeds from sales of affiliates	95	—
Other investing activities	1	—
Net cash provided by investing activities	74	15
Cash flows from financing activities		
Proceeds from issuance of securitized debt	—	16
Principal payments on securitized debt	(22)	(16)
Net change in secured revolving credit facilities	48	(150)
Proceeds from issuance of non-securitized debt	27	2,747
Principal payments on non-securitized debt	(61)	(2,521)
Net change in notes and debt outstanding under revolving credit facilities	83	(38)
Debt issuance costs	(1)	(33)
Proceeds from financed lease obligations	6	16
Proceeds from exercise of stock options	1	4
Dividends paid by subsidiaries to non-controlling interest	(8)	(7)
Other financing activities	—	(12)
Net cash provided by financing activities	73	6
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(3)	2
Decrease in cash, cash equivalents and restricted cash	(96)	(53)
Cash, cash equivalents and restricted cash at beginning of the period	1,445	840
Cash, cash equivalents and restricted cash at end of the period	\$1,349	\$787

See Notes to Consolidated Financial Statements

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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
Balance as of October 31, 2018	\$ 2	\$ 10	\$ 2,731	\$ (4,593)	\$ (1,920)	\$ (161)	\$ 5	\$(3,926)
Net income	—	—	—	11	—	—	6	17
Total other comprehensive income	—	—	—	—	129	—	—	129
ASC-606 modified retrospective adoption	—	—	—	(27)	—	—	—	(27)
Stock-based compensation	—	—	2	—	—	—	—	2
Stock ownership programs	—	—	(1)	—	—	1	—	—
Cash dividends paid to non-controlling interest	—	—	—	—	—	—	(8)	(8)
Balance as of January 31, 2019	\$ 2	\$ 10	\$ 2,732	\$ (4,609)	\$ (1,791)	\$ (160)	\$ 3	\$(3,813)
Balance as of October 31, 2017	\$ 2	\$ 10	\$ 2,733	\$ (4,933)	\$ (2,211)	\$ (179)	\$ 4	\$(4,574)
Net income (loss)	—	—	—	(73)	—	—	7	(66)
Total other comprehensive income	—	—	—	—	57	—	—	57
Stock-based compensation	—	—	3	—	—	—	—	3
Stock ownership programs	—	—	(1)	—	—	5	—	4
Cash dividends paid to non-controlling interest	—	—	—	—	—	—	(7)	(7)
Balance as of January 31, 2018	\$ 2	\$ 10	\$ 2,735	\$ (5,006)	\$ (2,154)	\$ (174)	\$ 4	\$(4,583)

See Notes to Consolidated Financial Statements

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 \$26 million and \$39 million and liabilities of \$3 million and \$4 million as of January 31, 2019 and October 31, 2018, respectively, including \$4 million of cash and cash equivalents, at both dates, 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 \$1.0 billion and \$994 million as of January 31, 2019 and October 31, 2018, respectively, and liabilities of \$902 million and \$852 million as of January 31, 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 \$359 million and \$370 million as of January 31, 2019 and October 31, 2018, respectively,

and corresponding liabilities of \$181 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 AG 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 have also entered into development agreements with TRATON Group involving certain engine and transmission projects. This development work is being expensed as incurred. For the three months ended January 31, 2019 and 2018, revenue recognized was approximately \$29 million and \$40 million, respectively. For the three months ended January 31, 2019 and 2018, expenses incurred were \$13 million and \$11 million, respectively, 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 January 31, 2019 and October 31, 2018, respectively. Our payable to TRATON Group was \$37 million and \$25 million as of January 31, 2019 and October 31, 2018, respectively.

Inventories

Inventories are valued at the lower of cost and net realizable value ("NRV"). Cost is principally determined using the first-in, first-out method. Our gross used truck inventory was \$169 million at January 31, 2019 compared to \$154 million at October 31, 2018, offset by reserves of \$33 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:

	Three Months Ended January 31,	
(in millions)	2019	2018
Balance at beginning of period	\$529	\$629
Costs accrued and revenues deferred	52	29
Adjustments to pre-existing warranties ^(A)	(7)	(6)
Payments and revenues recognized	(68)	(79)
Other adjustments ^(B)	12	—
Balance at end of period	518	573
Less: Current portion	257	287
Noncurrent accrued product warranty and deferred warranty revenue	\$261	\$286

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.

Other adjustments include a \$14 million increase in revenues deferred in connection with the adoption of the new revenue standard (as defined below regarding ASC 606), partially offset by a \$2 million reduction in liability related to the sale of a majority interest in our defense business, ND Holdings, LLC (“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, income 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 January 31, 2019, approximately 8,700, 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

In March 2018, the Financial Accounting Standards Board ("FASB") issued ASU No. 2018-05, "Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118". This ASU updates the income tax accounting in U.S. GAAP to reflect the SEC's interpretive guidance released on December 22, 2017, when the Tax Cuts and Jobs Act (H.R.1) (the "Tax Act") was signed into law. We adopted this ASU on November 1, 2018. See Note 9, Income taxes for additional information.

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

In March 2017, the FASB issued 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. In addition, only the service cost component will be eligible for capitalization. The amendments in this update are required to be applied retrospectively for the presentation of the service cost component and the other components of net periodic benefit cost in the Consolidated Statement of Operations and prospectively, on and after the adoption date, for the capitalization of the service cost component of net periodic benefit cost in assets. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. We adopted this ASU on November 1, 2018, using a retrospective approach, which resulted in a reclassification of certain net periodic benefit costs from Selling, general and administrative ("SG&A") expenses to Other Income, net in our Consolidated Statements of Operations. See Note 8, Postretirement benefits for additional information.

The following table provides changes to our Consolidated Statements of Operations for the three months ended January 31, 2018:

(in millions)	Under Prior Standard	Effects of New Standard	As Reported
Selling, general and administrative expenses	\$ 222	\$ (31)	\$ 191
Other expense, net	49	31	80

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations: Clarifying the Definition of a Business" (Topic 805). This ASU provides a new framework for determining whether transactions should be accounted for as acquisitions or disposals of assets or businesses. This ASU creates an initial screening test (Step 1) that reduces the population of transactions that an entity needs to analyze to determine whether there is an input and substantive processes in the acquisition or disposal (Step 2). Fewer transactions are expected to involve acquiring or selling a business. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. We adopted this ASU on November 1, 2018 with no material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows: Restricted Cash" (Topic 230). This ASU requires that a statement of cash flows explain the change during the period in the total of cash, and cash equivalents, including amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. We adopted this ASU on November 1, 2018 using a retrospective transition approach.

The following table provides changes to our Condensed Consolidated Statements of Cash Flows for the three months ended January 31, 2018:

(in millions)	Under Prior Standard	Effects of New Standard	As Reported
Cash flows from investing activities			
Net change in restricted cash and cash equivalents	\$ 46	\$ (46)	\$ —
Net cash provided by investing activities	61	(46)	15
Decrease in cash, cash equivalents and restricted cash	(7)	(46)	(53)
Cash, cash equivalents and restricted cash at beginning of the period	706	134	840
Cash, cash equivalents and restricted cash at end of the period	699	88	787

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In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory" (Topic 740). This ASU update requires entities to recognize the income tax consequences of many intercompany asset transfers at the transaction date. The seller and buyer will immediately recognize the current and deferred income tax consequences of an intercompany transfer of an asset other than inventory. The tax consequences were previously deferred. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. We adopted this ASU on November 1, 2018 with no material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments" (Topic 230). This ASU provides guidance on how entities should classify eight specific cash flow transactions for which diversity in practice exists. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. We adopted this ASU on November 1, 2018 with no material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASC 606"), which supersedes the revenue recognition requirements in ASC 605, "Revenue Recognition." This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU No. 2015-14, which postponed the effective date of ASU No. 2014-09 to fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted on the original effective date for fiscal years beginning after December 15, 2016. We analyzed the impact of the ASU on our portfolio of customer contracts which resulted in changes in the timing and the amount of revenue recognized and gross versus net accounting for certain revenue streams in comparison with current guidance.

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. 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.

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Navistar International Corporation and Subsidiaries
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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
ASSETS			
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
Total assets	\$ 7,230	\$ (109)	\$ 7,121
LIABILITIES and STOCKHOLDERS' DEFICIT			
Liabilities			
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
Total liabilities	11,156	(82)	11,074
Stockholders' deficit			
Total stockholders' deficit attributable to Navistar International Corporation	(3,931)	(27)	(3,958)
Total liabilities and stockholders' deficit	\$ 7,230	\$ (109)	\$ 7,121

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

(in millions)	Three months ended January 31, 2019 ^(A)		
	Under Prior Standard	Effects of New Standard	As Reported
Sales of manufactured products, net	\$ 2,390	\$ (4)	\$ 2,386
Costs of products sold	1,986	(7)	1,979
Interest expense	86	(1)	85
Income (loss) before income tax	(6)	4	(2)
Income tax benefit	20	(1)	19
Net income	\$ 14	\$ 3	\$ 17

Our Consolidated Statements of Operations for the three months ended January 31, 2019 includes two months of (A) the operating activity of Navistar Defense prior to the sale of a majority interest in our defense business. See Note 3 Restructuring, Impairments and Divestitures for additional information.

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Navistar International Corporation and Subsidiaries
Notes to Consolidated Financial Statements—(Continued)
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(in millions)	As of January 31, 2019 ^(A)		
	Under Prior Standard	Effects of New Standard	As Reported
ASSETS			
Current assets			
Trade and other receivables, net	\$441	\$ (12)	\$ 429
Inventories, net	1,260	(49)	1,211
Other current assets	222	69	291
Total current assets	5,066	8	5,074
Property and equipment, net	1,402	(127)	1,275
Other noncurrent assets	101	(3)	98
Total assets	\$7,159	\$ (122)	\$ 7,037
LIABILITIES and STOCKHOLDERS' DEFICIT			
Liabilities			
Current liabilities			
Notes payable and current maturities of long-term debt	\$957	\$ (15)	\$ 942
Other current liabilities	1,195	30	1,225
Total current liabilities	3,636	15	3,651
Long-term debt	4,607	(55)	4,552
Other noncurrent liabilities	734	(48)	686
Total liabilities	10,938	(88)	10,850
Stockholders' deficit			
Total stockholders' deficit attributable to Navistar International Corporation	(3,782)	(34)	(3,816)
Total liabilities and stockholders' deficit	\$7,159	\$ (122)	\$ 7,037

Our Consolidated Balance Sheet as of January 31, 2019 does not include the impact of Navistar Defense due to the (A) sale of a majority interest in our defense business. See Note 3, Restructuring, Impairments and Divestitures for additional information.

Recently Issued Accounting Standards

In August 2018, FASB issued 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.

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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). 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. We will 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 and geographic area for the three months ended January 31, 2019 (in millions):

Products and Services

(in millions)	Truck	Parts	Global Operations	Financial Services	Corporate and Eliminations	Total
Three Months Ended January 31, 2019						
Truck products and services ^{(A)(B)}	\$1,677	\$—	\$ —	\$ —	\$ 3	\$1,680
Truck contract manufacturing	18	—	—	—	—	18
Used trucks	51	—	—	—	—	51
Engines	—	66	45	—	—	111
Parts	1	480	16	—	—	497
Extended warranty contracts	29	—	—	—	—	29
Sales of manufactured products, net	1,776	546	61	—	3	2,386
Retail financing ^(C)	—	—	—	35	—	35
Wholesale financing ^(C)	—	—	—	12	—	12
Sales and revenues, net	\$1,776	\$546	\$ 61	\$ 47	\$ 3	\$2,433

(A) Includes other markets primarily consisting of Bus, Export Truck and Mexico. Also includes revenue of \$3 million related to certain third-party financings initially recorded as borrowings, and operating lease revenue of \$1 million.

(B) Includes military sales of \$62 million. In December 2018, we completed the previously announced 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 \$13 million and \$12 million, respectively, for the three months ended January 31, 2019.

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

(in millions)	Truck	Parts	Global Operations	Financial Services	Corporate and Eliminations	Total
Three Months Ended January 31, 2019						
United States	\$1,468	\$455	\$ —	\$ 23	\$ 3	\$1,949
Canada	135	49	—	—	—	184
Mexico	66	25	—	24	—	115
Brazil	—	—	53	—	—	53
Other	107	17	8	—	—	132
Sales and revenues, net	\$1,776	\$546	\$ 61	\$ 47	\$ 3	\$2,433

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.

Certain truck sales to the U.S. government of non-commercial products manufactured to government specification, and certain truck and other contract manufacturing arrangements are recognized over time as the goods are manufactured. 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 be unpriced; that is, the work to be performed is defined, but the related contract price is to be negotiated at a later date. In situations where we can reliably estimate a profit margin in excess of costs incurred, revenue and gross margin are recorded for delivered contract items. Otherwise, revenue is recognized when the price has been agreed with the applicable government and costs are deferred when it is probable that the costs will be recovered.

An allowance for 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.

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.

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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. For the three months ended January 31, 2019, the impact of changes to revenue related to performance obligations satisfied in a prior period was not material to our consolidated financial statements.

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 \$269 million and \$255 million at January 31, 2019 and October 31, 2018, respectively. Revenue recognized under our extended warranty programs for the three months ended January 31, 2019 and 2018 was \$29 million, for both periods. We expect to recognize revenue under our extended warranty programs of approximately \$71 million in the remainder of 2019, \$77 million in 2020, \$58 million in 2021, \$35 million in 2022, \$18 million in 2023 and \$10 million thereafter.

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 January 31, 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.

Navistar International Corporation and Subsidiaries
Notes to Consolidated Financial Statements—(Continued)
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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 quarter 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 quarter 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 three months ended January 31, 2019, we concluded that we had triggering events related to certain operating leases. As a result, a charge of \$2 million was recorded in our Truck segment.

In the first quarter of 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 previously announced 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 was further 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. 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 \$2.6 billion as of January 31, 2019 and October 31, 2018.

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Included in total assets of our Financial Services operations were finance receivables of \$2.1 billion and \$2.2 billion as of January 31, 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)	January 31, October 31,	
	2019	2018
Retail portfolio	\$ 713	\$ 720
Wholesale portfolio	1,400	1,460
Total finance receivables	2,113	2,180
Less: Allowance for doubtful accounts	23	22
Total finance receivables, net	2,090	2,158
Less: Current portion, net ^(A)	1,818	1,898
Noncurrent portion, net	\$ 272	\$ 260

The current portion of finance receivables is computed based on contractual maturities. Actual cash collections (A) 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 January 31, 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 \$984 million and \$956 million as of January 31, 2019 and October 31, 2018, respectively.

Other finance receivables related to secured transactions that do not qualify for sale accounting treatment were \$222 million and \$235 million as of January 31, 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.

Finance Revenues

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

(in millions)	Three Months Ended January 31,	
	2019	2018
Retail notes and finance leases revenue	\$ 14	\$ 11

Wholesale notes interest	31	25
Operating lease revenue	21	18
Retail and wholesale accounts interest	8	5
Gross finance revenues	74	59
Less: Intercompany revenues	27	21
Finance revenues	\$47	\$ 38

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Navistar International Corporation and Subsidiaries
Notes to Consolidated Financial Statements—(Continued)
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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 January 31, 2019				Three Months Ended January 31, 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	1	—	—	1	—	—	1	1
Charge-off of accounts	(1)	—	—	(1)	(1)	—	—	(1)
Recoveries	—	—	—	—	1	—	—	1
Other ^(A)	1	—	—	1	1	—	—	1
Allowance for doubtful accounts, at end of period	\$20	\$ 3	\$ 28	\$51	\$18	\$ 3	\$ 29	\$50

(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.

The following table presents information regarding impaired finance receivables:

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

The average balances of the impaired finance receivables in the retail portfolio were \$21 million and \$18 million during the three months ended January 31, 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)	January 31, 2019			October 31, 2018		
	Retail Portfolio	Wholesale Portfolio	Total	Retail Portfolio	Wholesale Portfolio	Total
Current, and up to 30 days past due	\$636	\$ 1,399	\$2,035	\$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	\$713	\$ 1,400	\$2,113	\$720	\$ 1,460	\$2,180

Navistar International Corporation and Subsidiaries
Notes to Consolidated Financial Statements—(Continued)
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6. Inventories

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

(in millions)	January 31, 2019	October 31, 2018
Finished products	\$ 739	\$ 671
Work in process	163	118
Raw materials	309	321
Total inventories, net	\$ 1,211	\$ 1,110

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:

(in millions)	January 31, 2019	October 31, 2018
Manufacturing operations		
Senior Secured Term Loan Credit Agreement, due 2025, net of unamortized discount of \$7 at both dates, and unamortized debt issuance costs of \$11 at both dates	\$ 1,566	\$ 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 \$2 and \$5, respectively, and unamortized debt issuance costs of \$1 at both dates	408	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	52	122
Other	13	26
Total Manufacturing operations debt	3,343	3,426
Less: Current portion	437	461
Net long-term Manufacturing operations debt	\$ 2,906	\$ 2,965
(in millions)	January 31, 2019	October 31, 2018
Financial Services operations		
Asset-backed debt issued by consolidated SPEs, at fixed and variable rates, due serially through 2023, net of unamortized debt issuance costs of \$4 at both dates	\$ 992	\$ 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	393	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	616	519
Commercial paper, at variable rates, program matures in 2022	62	75
Borrowings secured by operating and finance leases, at various rates, due serially through 2024	88	105
Total Financial Services operations debt	2,151	2,041
Less: Current portion	505	485
Net long-term Financial Services operations debt	\$ 1,646	\$ 1,556

Financial Services Operations

Asset-backed Debt

In November 2018, the maturity of our \$350 million variable funding notes ("VFN") facility was extended from December 2018 to May 2020.

Navistar International Corporation and Subsidiaries
Notes to Consolidated Financial Statements—(Continued)
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In December 2018, the maturity of our \$100 million Truck Retail Accounts Corporation ("TRAC") funding facility was extended from January 2019 to January 2020.

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 months ended January 31, 2019 and 2018, we contributed \$131 million and \$21 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 months ended January 31, 2019 and 2018, 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 months ended January 31, 2019 and 2018 are comprised of the following:

	Three Months Ended January 31,			
	Pension Benefits		Health and Life Insurance Benefits	
(in millions)	2019	2018	2019	2018
Service cost for benefits earned during the period	\$2	\$2	\$1	\$1
Interest on obligation	32	27	12	11
Amortization of cumulative loss	24	26	—	2
Settlements	142	9	—	—
Premiums on pension insurance	1	2	—	—
Expected return on assets	(38)	(40)	(5)	(6)
Net periodic benefit expense	\$163	\$26	\$8	\$8

In the first quarter of 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 recording a reclassification of \$31 million as of January 31, 2018.

In the three months ended January 31, 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 Canadian 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.

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Notes to Consolidated Financial Statements—(Continued)
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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 \$8 million and \$7 million in the three months ended January 31, 2019 and 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 current quarter for the tax effect of the Canadian pension settlement 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 (“BEAT”) and a deduction for foreign derived intangible income (“FDII”). 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.

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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 January 31, 2019, the amount of liability for uncertain tax positions was \$30 million. The liability at January 31, 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 months ended January 31, 2019 and 2018 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.

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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 January 31, 2019				As of October 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Marketable securities:								
U.S. government and federal agency securities	\$41	\$ —	\$ —	\$ 41	\$101	\$ —	\$ —	\$ 101
Derivative financial instruments:								
Commodity forward contracts ^(A)	—	—	—	—	—	2	—	2
Interest rate caps ^(B)	—	1	—	1	—	2	—	2
Total assets	\$41	\$ 1	\$ —	\$ 42	\$101	\$ 4	\$ —	\$ 105
Liabilities								
Derivative financial instruments:								
Commodity forward contracts ^(C)	\$—	\$ 1	\$ —	\$ 1	\$—	\$ —	\$ —	\$—
Guarantees	—	—	21	21	—	—	24	24
Total liabilities	\$—	\$ 1	\$ 21	\$ 22	\$—	\$ —	\$ 24	\$ 24

(A) The asset value of commodity forward 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 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 January 31,	
	2019	2018
Guarantees, at beginning of period	\$(24)	\$(21)
Transfers out of Level 3	—	—
Net terminations (issuances)	2	(5)

Settlements	1	1
Guarantees, at end of period	\$(21)	\$(25)

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.

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.

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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 January 31, 2019			
	Estimated Fair Value			Carrying
	Level 1	Level 2	Level 3	Total Value
Assets				
Retail notes	\$—	\$—	\$196	\$ 201
Liabilities				
Debt:				
Manufacturing operations				
Senior Secured Term Loan Credit Agreement, due 2025	—	1,563	1,563	1,566
6.625% Senior Notes, due 2026	—1,109	—	1,109	1,084
4.75% Senior Subordinated Convertible Notes, due 2019 ^(A)	412—	—	412	408
Loan Agreement related to 6.75% Tax Exempt Bonds, due 2040	—235	—	235	220
Financed lease obligations	—	52	52	52
Other ^(B)	—	11	11	12
Financial Services operations				
Asset-backed debt issued by consolidated SPEs, due serially through 2023	—	993	993	992
Senior secured NFC Term Loan, due 2025	—	395	395	393
Bank credit facilities, due dates from 2019 through 2025	—	586	586	616
Commercial paper, program matures in 2022	62—	—	62	62
Borrowings secured by operating and finance leases, due serially through 2024	—	87	87	88

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(in millions)	As of October 31, 2018			
	Estimated Fair Value			Carrying
	Level 1	Level 2	Level 3	Total Value
Assets				
Retail notes	\$—	\$—	\$180	\$ 183
Liabilities				
Debt:				
Manufacturing operations				
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 ^(A)	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
Financial Services operations				
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

The carrying value represents the consolidated financial statement amount of the debt which excludes the (A) 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.

(B) Excludes capital lease obligation debt of \$1 million as of January 31, 2019.

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 \$1.5 billion of outstanding loan principal and operating lease payments receivable at both January 31, 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 January 31, 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 \$44 million and \$104 million and financed lease obligations of \$52 million and \$122 million, in our Consolidated Balance Sheets as of January 31, 2019 and October 31, 2018, respectively.

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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 January 31, 2019, the amount of stand-by letters of credit and surety bonds issued was \$95 million.

In addition, as of January 31, 2019, we have \$134 million of outstanding purchase commitments and contracts with \$21 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 \$18 million for these and other environmental matters, which are included within Other current liabilities and Other noncurrent liabilities, as of January 31, 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.

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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. 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.

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").

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.

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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 Subsidiaries) 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 Subsidiaries 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 Subsidiaries, 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, and the motion is pending with the court.

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.

The FATMA Notice asserted liability against Maxion and assessed an initial penalty in the amount of R\$2 million (the equivalent of approximately less than US\$1 million at January 31, 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.

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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 different 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 (the equivalent of approximately less than US\$1 million at January 31, 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.

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 has technically terminated, the New District Attorney continues to evaluate the possibility of settlement. There are no current demands or offers outstanding.

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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 and such leave is still pending. Aside from that application, 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.

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, 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.

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").

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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 27 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 substantially 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. The Court entered an order on January 23, 2019, extending the filing date for the initial class certification brief to March 6, 2019, and on March 5, 2019, the Company filed an unopposed motion for a short extension through March 19, 2019, to facilitate continued negotiations as the parties endeavor to reach a good-faith settlement and the motion was granted on March 6, 2019. No other class briefing dates have been scheduled.

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.

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.

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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 is currently scheduled to be completed by March 18, 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, 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.

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.

American Intermodal Container Manufacturing

In 2014, NI began negotiating a contract manufacturing agreement (the “Manufacturing Agreement”) with American Intermodal Container Manufacturing, Inc. and American Intermodal Container Manufacturing Co., LLC (together, “AICM”), pursuant to which NI agreed to manufacture freight containers on AICM’s behalf for J.B. Hunt. Before the negotiations were completed, the members of AICM’s board became involved in a dispute regarding the ownership and control of AICM which resulted in a majority of the AICM board members acting to remove two of the other board members (the “Removed Directors”).

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NI and its subsidiary, International Truck and Engine Investments Corporation (“ITEIC”), subsequently entered into the Manufacturing Agreement with AICM. On October 1, 2014, the Removed Directors filed a suit against AICM and its remaining board members (together, the “AICM Defendants”) in the Supreme Court of New York in New York County, alleging that the AICM Defendants had improperly (a) removed the Removed Directors and (b) taken control of AICM. The suit alleged: (i) breach of contract (relating to the ownership and control of AICM); (ii) promissory estoppel; (iii) tortious interference with contract; (iv) breach of fiduciary duty; (v) aiding and abetting breach of fiduciary duty; (vi) tortious interference with prospective business relations; and (vii) declaratory judgment. The Removed Directors claimed damages of not less than \$50 million.

On September 29, 2016, the Removed Directors filed a Motion for Leave to Amend Complaint to add NI, ITEIC and J.B. Hunt as defendants, alleging that NI and ITEIC personnel allied and conspired with the AICM Defendants to (a) support the AICM Defendants in breaching the ownership contract of the Removed Defendants, (b) remove the Removed Directors, and (c) wrongfully interfere with certain AICM fundraising efforts. NI filed its opposition to this motion on November 9, 2016 and the Removed Directors replied on November 18, 2016. On February 7, 2018, the court issued an order granting the Removed Directors’ Motion for Leave to Amend Complaint to add claims against NI, ITEIC and J.B. Hunt for (i) tortious interference with contract and (ii) aiding and abetting breach of fiduciary duty. The court denied the Removed Directors’ request to add a claim for tortious interference with prospective business relations against NI, ITEIC and J.B. Hunt. The Removed Directors claim damages against NI, ITEIC and J.B. Hunt of not less than \$50 million.

On February 27, 2018, the Removed Directors filed an amended complaint (the “Amended Complaint”) in conformance with the court’s February 7, 2018 order. On April 30, 2018, NI and ITEIC filed an answer to the Amended Complaint denying liability and asserting affirmative defenses and counterclaims, including counterclaims against AICM for indemnification and breach of contract (seeking to recover amounts due to NI) under the Manufacturing Agreement. NI and ITEIC have vigorously defended their position that they are not liable for the claims asserted by the Removed Directors.

On November 20, 2018, NI, ITEIC and the Removed Directors agreed to settle this suit without any payment by NI, ITEIC or the Removed Directors. NI, ITEIC and the Removed Directors entered a settlement agreement on or about December 12, 2018. The Removed Directors filed a stipulation of discontinuance with prejudice with respect to their claims against NI and ITEIC as well as the other defendants, and the court entered a dismissal order based on the stipulation on December 19, 2018. The matter is now formally concluded.

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\$18 million as of January 31, 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\$35 million as of January 31, 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.

On July 18, 2016, IIAA 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 IIAA for the purchase of vehicles under its agreements with IIAA, thereby breaching its contractual obligations; and (b) IIAA 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 IIAA and Navitrucks, the agreements should be deemed terminated.

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On June 3, 2017, IIAA and Navitrucks filed an application to clarify certain interpretations of the Initial Award and to correct clerical errors in the Initial Award. IIAA 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 IIAA 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, IIAA 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, IIAA (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 IIAA 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 IIAA the total amount of R\$107 million (approximately US\$29 million as of January 31, 2019) after deducting the agreed amount of Navitrucks' claim against IIAA.

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, IIAA filed a petition indicating that its costs incurred in connection with the arbitral proceeding were R\$6 million (approximately US\$2 million as of January 31, 2019). On the same date, Navitrucks filed a petition indicating that its costs incurred in connection with the arbitral proceeding were R\$3 million (less than approximately US\$1 million as of January 31, 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, IIAA and Navitrucks received the award of the arbitral tribunal. The award orders the Navitrucks entities to pay IIAA a total of R\$107 million (approximately US\$29 million as of January 31, 2019), subject to inflation adjustment and default interest. In addition, the arbitral tribunal ordered the Navitrucks entities to reimburse IIAA in the amount of R\$3 million (less than approximately US\$1 million as of January 31, 2019) for a portion of IIAA'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. In the event that one party applies for corrections of errors and/or clarifications related to the award, the other party will be notified and will be permitted to submit comments in response to the first parties' application for a period of not more than 30 days. The arbitral tribunal will then make a final determination on the award within 30 days.

We have recorded no receivable related to this matter in our Consolidated Financial Statements.

In addition, another truck dealer and two truck fleet owners in Brazil have separate adversarial proceedings pending against IIAA that may have similar legal and factual issues as the Navitrucks claim. These other claims are not

material either individually or in the aggregate.

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.

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

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.

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 ("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:

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

(in millions)	Truck	Parts	Global Operations	Financial Services ^(A)	Corporate and Eliminations	Total
Three Months Ended January 31, 2019						
External sales and revenues, net	\$ 1,776	\$ 546	\$ 61	\$ 47	\$ 3	\$ 2,433
Intersegment sales and revenues	21	2	12	27	(62)	—
Total sales and revenues, net	\$ 1,797	\$ 548	\$ 73	\$ 74	\$ (59)	\$ 2,433
Net income (loss) attributable to NIC	\$ 90	\$ 144	\$ 6	\$ 31	\$ (260)	\$ 11
Income tax benefit	—	—	—	—	19	19
Segment profit (loss)	\$ 90	\$ 144	\$ 6	\$ 31	\$ (279)	\$ (8)
Depreciation and amortization	\$ 26	\$ 1	\$ 2	\$ 16	\$ 3	\$ 48
Interest expense	—	—	—	29	56	85
Equity in income (loss) of non-consolidated affiliates	1	1	(1)	—	(1)	—
Capital expenditures ^(B)	31	2	1	1	9	44
(in millions)	Truck	Parts	Global Operations	Financial Services ^(A)	Corporate and Eliminations	Total
Three Months Ended January 31, 2018						
External sales and revenues, net	\$ 1,228	\$ 564	\$ 72	\$ 38	\$ 3	\$ 1,905
Intersegment sales and revenues	23	4	9	21	(57)	—
Total sales and revenues, net	\$ 1,251	\$ 568	\$ 81	\$ 59	\$ (54)	\$ 1,905
Net income (loss) attributable to NIC	\$ (7)	\$ 137	\$ (7)	\$ 20	\$ (216)	\$ (73)
Income tax expense	—	—	—	—	(15)	(15)
Segment profit (loss)	\$ (7)	\$ 137	\$ (7)	\$ 20	\$ (201)	\$ (58)
Depreciation and amortization	\$ 35	\$ 2	\$ 3	\$ 13	\$ 2	\$ 55
Interest expense	—	—	—	21	58	79
Equity in income (loss) of non-consolidated affiliates	—	1	(1)	—	—	—
Capital expenditures ^(B)	25	—	1	—	4	30
(in millions)	Truck	Parts	Global Operations	Financial Services ^(A)	Corporate and Eliminations	Total
Segment assets, as of:						
January 31, 2019	\$ 2,031	\$ 676	\$ 316	\$ 2,618	\$ 1,396	\$ 7,037
October 31, 2018	2,085	636	331	2,648	1,530	7,230

(A) Total sales and revenues in the Financial Services segment include interest revenues of \$53 million and \$41 million for the three months ended January 31, 2019 and 2018, respectively.

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

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
Balance as of October 31, 2018	\$ (315)	\$(1,605)	\$(1,920)
Other comprehensive loss before reclassifications	14	(8)	6
Amounts reclassified out of accumulated other comprehensive loss	—	123	123
Net current-period other comprehensive income	14	115	129
Balance as of January 31, 2019	\$ (301)	\$(1,490)	\$(1,791)

(in millions)	Foreign Currency Translation Adjustments	Defined Benefit Plans	Total
Balance as of October 31, 2017	\$ (283)	\$(1,928)	\$(2,211)
Other comprehensive loss before reclassifications	22	(2)	20
Amounts reclassified out of accumulated other comprehensive loss	—	37	37
Net current-period other comprehensive income	22	35	57
Balance as of January 31, 2018	\$ (261)	\$(1,893)	\$(2,154)

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

	Location in Consolidated Statements of Operations	Three Months Ended January 31, 2019	2018
Defined benefit plans			
Amortization of actuarial loss	Other expense, net	\$24	\$ 28
Settlements	Other expense, net	142	9
	Total before tax	166	37
	Income tax benefit	(43)	—
Total reclassifications for the period, net of tax		\$123	\$ 37

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

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:

	Three Months Ended January 31,	
(in millions, except per share data)	2019	2018
Numerator:		
Net income (loss) attributable to Navistar International Corporation common stockholders	\$11	\$(73)
Denominator:		
Weighted average shares outstanding:		
Basic	99.1	98.6
Effect of dilutive securities	0.3	—
Diluted	99.4	98.6

Earnings (loss) per share attributable to Navistar International Corporation:

Basic	\$0.11	\$(0.74)
Diluted	0.11	(0.74)

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 our common stock.

The conversion rate on our 4.75% Senior Subordinated Convertible Notes due 2019 (the "2019 Convertible Notes") is 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 have an anti-dilutive effect when calculating diluted earnings per share when our average stock price is less than \$54.07. The computation of diluted earnings per share also excludes outstanding options and other common stock equivalents in periods where inclusion of such potential common stock instruments would be anti-dilutive.

For the three months ended January 31, 2019, 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. For the three months ended January 31, 2019, the aggregate shares not included were 9.9 million.

For the three months ended January 31, 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. Additionally, 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. For the three months ended January 31, 2018, the aggregate shares not included were 14.3 million.

For the three months ended January 31, 2019, the aggregate shares not included in the computation of earnings per share were primarily comprised of 7.6 million shares related to the 2019 Convertible Notes. For the three months ended January 31, 2018, the aggregate shares not included in the computation of earnings per share were 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.

First Quarter Summary

During the first quarter of 2019, we continued to build upon our 2018 accomplishments. The areas of focus centered around: 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 December 2018, we completed the previously announced sale of a 70% equity interest in the defense business, Navistar Defense, LLC ("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 in connection with the sale. The total value of the Navistar Defense transaction was approximately \$140 million, adjusted for certain current year chargeouts and 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 based on cash proceeds from certain contracts which exceed defined thresholds. We recognized a gain on the sale in our Truck segment of \$54 million in Other expense, net in our Consolidated Statements of Operations.

In January 2019, a new six-year master collective bargaining agreement was ratified with the United Automobile, Aerospace and Agricultural Implement Workers of America. This replaces the prior contract that expired in October 2018.

In January 2019, we purchased group annuity contracts which transferred approximately \$268 million in obligations, and related assets, of defined benefit pension plans in Canada to certain third-party insurers. The transactions were funded by existing plan assets and required no cash contributions to our Navistar Canada pension plans. We recognized a non-cash pension settlement charge of \$142 million and an income tax benefit of \$38 million during the first quarter of 2019. The transactions are aligned with our strategic priority to strengthen our balance sheet by lowering risk volatility in our pension plan obligations.

Financial Summary

Continuing Operations Results — In the first quarter of 2019, our consolidated net sales and revenues were \$2.4 billion, a 28% increase compared to the prior year quarter. The increase for the period reflects higher volumes from our Truck segment.

In the first quarter of 2019, we incurred a loss before income taxes of \$2 million compared to \$51 million in the respective prior year period. Our gross margin increased by \$81 million in the first quarter of 2019, primarily due to the impact of higher volumes.

In the first quarter of 2019, we recognized an income tax benefit of \$19 million compared to \$15 million of income tax expense in the respective prior year period. The income tax benefit is largely the result of a \$38 million benefit associated with the Canadian group annuity purchase. 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 first quarter of 2019, after income taxes, we had net income attributable to NIC of \$11 million or \$0.11 per diluted share for continuing operations, compared to a net loss of \$73 million or \$0.74 per diluted share in the prior year period.

In the first quarter of 2019, consolidated net income attributable to Navistar International Corporation ("NIC"), before manufacturing interest, taxes, depreciation and amortization expenses ("EBITDA") was \$96 million compared to \$55 million in the comparable prior year period. Excluding certain net impacts, adjusted EBITDA ("Adjusted EBITDA") in the first quarter of 2019 was \$173 million compared to \$104 million in the comparable prior year period. EBITDA and Adjusted EBITDA 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 Consolidated EBITDA and Adjusted EBITDA.

We ended the first quarter of 2019 with \$1,242 million of consolidated cash, cash equivalents and marketable securities, compared to \$1,421 million 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, higher inventories, an increase in other current assets, decreases in accounts payable and other current liabilities, and higher capital expenditures partially offset by decreases in finance receivables, proceeds from the sale of a majority interest in Navistar Defense and the sale of our joint venture in China with Anhui Jianghuai Automobile Co ("JAC"), and a net increase in notes and debt outstanding.

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 January 31, 2019 as compared to the quarter ended January 31, 2018

Three Months
Ended January
31,

(in millions, except per share data and % change)	2019	2018	Change	% Change
Sales and revenues, net	\$2,433	\$1,905	\$ 528	28 %
Costs of products sold				