
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 April 30, 2018

OR

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

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



NAVISTAR INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

36-3359573

(I.R.S. Employer Identification No.)

2701 Navistar Drive,
Lisle, Illinois

(Address of principal executive offices)

60532

(Zip Code)

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

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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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. (Check one)

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

(Do not check if a 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 May 31, 2018, the number of shares outstanding of the registrant's common stock was 98,774,412, net of treasury shares.

**NAVISTAR INTERNATIONAL CORPORATION FORM 10-Q
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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 our strategic alliance with Volkswagen Truck & Bus GmbH (“VW T&B”);
- our development 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 long-term goals, and activities to accomplish such strategies and goals;
- our ability to implement our strategy focused on growing the Core business, driving operational excellence, pursuing innovative technology solutions, leveraging the VW T&B strategic alliance, enhancing 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 benefits from acquisitions, strategic alliances, and joint ventures we complete;
- our expectations and estimates relating to restructuring activities, including restructuring charges and timing of cash payments related thereto, and operational flexibility, savings, and efficiencies from such restructurings;
- our expectations relating to debt refinancing activities;
- our expectations relating to the potential effects of anticipated divestitures and closures of businesses;
- our expectations relating to our cost-reduction actions and actions to reduce discretionary spending;
- our expectations relating to our ability to service our long-term debt;
- our expectations relating to our wholesale and retail finance receivables and revenues;
- our expectations and estimates relating to our used truck inventory;
- 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;
- costs relating to litigation 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, 2017 which was filed on December 19, 2017, and our Quarterly Report on Form 10-Q for the quarter ended January 31, 2018, which was filed on March 8, 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. Any materials we file with, or furnish to, the SEC may also be read and/or copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

PART I—Financial Information

Item 1. Financial Statements

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

(in millions, except per share data)	Three Months Ended April 30,		Six Months Ended April 30,	
	2018	2017	2018	2017
Sales and revenues				
Sales of manufactured products, net.....	\$ 2,382	\$ 2,063	\$ 4,249	\$ 3,692
Finance revenues	40	33	78	67
Sales and revenues, net.....	2,422	2,096	4,327	3,759
Costs and expenses				
Costs of products sold	1,987	1,776	3,519	3,146
Restructuring charges	1	2	(2)	9
Asset impairment charges.....	1	5	3	7
Selling, general and administrative expenses.....	220	221	442	421
Engineering and product development costs.....	75	65	150	128
Interest expense	79	89	158	171
Other expense (income), net.....	(9)	9	40	1
Total costs and expenses.....	2,354	2,167	4,310	3,883
Equity in income of non-consolidated affiliates.....	—	2	—	5
Income (loss) before income tax.....	68	(69)	17	(119)
Income tax expense.....	(7)	(6)	(22)	(10)
Net income (loss).....	61	(75)	(5)	(129)
Less: Net income attributable to non-controlling interests.....	6	5	13	13
Net income (loss) attributable to Navistar International Corporation	\$ 55	\$ (80)	\$ (18)	\$ (142)
Income (loss) per share attributable to Navistar International Corporation:				
Basic	\$ 0.56	\$ (0.86)	\$ (0.18)	\$ (1.62)
Diluted	0.55	(0.86)	(0.18)	(1.62)
Weighted average shares outstanding:				
Basic	98.8	93.3	98.7	87.5
Diluted	99.5	93.3	98.7	87.5

See Notes to Consolidated Financial Statements

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

(in millions)	Three Months Ended April 30,		Six Months Ended April 30,	
	2018	2017	2018	2017
Net income (loss).....	\$ 61	\$ (75)	\$ (5)	\$ (129)
Other comprehensive income (loss):				
Foreign currency translation adjustment	(28)	4	(6)	(8)
Defined benefit plans, net of tax.....	28	34	63	69
Total other comprehensive income.....	—	38	57	61
Comprehensive income (loss).....	61	(37)	52	(68)
Less: Net income attributable to non-controlling interests.....	6	5	13	13
Total comprehensive income (loss) attributable to Navistar International Corporation	\$ 55	\$ (42)	\$ 39	\$ (81)

See Notes to Consolidated Financial Statements

Navistar International Corporation and Subsidiaries
Consolidated Balance Sheets

	<u>April 30,</u> <u>2018</u>	<u>October 31,</u> <u>2017</u>
(in millions, except per share data)		
ASSETS	(Unaudited)	
Current assets		
Cash and cash equivalents	\$ 1,100	\$ 706
Restricted cash and cash equivalents	40	83
Marketable securities	40	370
Trade and other receivables, net	313	391
Finance receivables, net	1,656	1,565
Inventories, net	1,167	857
Other current assets	201	188
Total current assets	<u>4,517</u>	<u>4,160</u>
Restricted cash	52	51
Trade and other receivables, net	13	13
Finance receivables, net	242	220
Investments in non-consolidated affiliates	54	56
Property and equipment (net of accumulated depreciation and amortization of \$2,462 and \$2,474, respectively)	1,299	1,326
Goodwill	38	38
Intangible assets (net of accumulated amortization of \$139 and \$135, respectively)	34	40
Deferred taxes, net	129	129
Other noncurrent assets	109	102
Total assets	<u>\$ 6,487</u>	<u>\$ 6,135</u>
LIABILITIES and STOCKHOLDERS' DEFICIT		
Liabilities		
Current liabilities		
Notes payable and current maturities of long-term debt	\$ 1,504	\$ 1,169
Accounts payable	1,500	1,292
Other current liabilities	1,057	1,184
Total current liabilities	<u>4,061</u>	<u>3,645</u>
Long-term debt	3,846	3,889
Postretirement benefits liabilities	2,422	2,497
Other noncurrent liabilities	685	678
Total liabilities	<u>11,014</u>	<u>10,709</u>
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	2,729	2,733
Accumulated deficit	(4,951)	(4,933)
Accumulated other comprehensive loss	(2,154)	(2,211)
Common stock held in treasury, at cost (4.3 and 4.6 shares, respectively)	(166)	(179)
Total stockholders' deficit attributable to Navistar International Corporation	<u>(4,530)</u>	<u>(4,578)</u>
Stockholders' equity attributable to non-controlling interests	3	4
Total stockholders' deficit	<u>(4,527)</u>	<u>(4,574)</u>
Total liabilities and stockholders' deficit	<u>\$ 6,487</u>	<u>\$ 6,135</u>

See Notes to Consolidated Financial Statements

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

(in millions)	Six Months Ended April 30,	
	2018	2017
Cash flows from operating activities		
Net loss.....	\$ (5)	\$ (129)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization.....	73	75
Depreciation of equipment leased to others.....	36	37
Deferred taxes, including change in valuation allowance.....	1	(2)
Asset impairment charges.....	3	7
Amortization of debt issuance costs and discount.....	15	23
Stock-based compensation.....	21	12
Provision for doubtful accounts.....	3	7
Equity in income of non-consolidated affiliates, net of dividends.....	4	1
Write-off of debt issuance costs and discount.....	43	4
Other non-cash operating activities.....	(13)	(9)
Changes in other assets and liabilities, exclusive of the effects of businesses disposed.....	(278)	(133)
Net cash used in operating activities	(97)	(107)
Cash flows from investing activities		
Purchases of marketable securities.....	(148)	(589)
Sales of marketable securities.....	460	440
Maturities of marketable securities.....	18	17
Net change in restricted cash and cash equivalents.....	42	(48)
Capital expenditures.....	(53)	(66)
Purchases of equipment leased to others.....	(92)	(37)
Proceeds from sales of property and equipment.....	5	14
Investments in non-consolidated affiliates.....	—	(2)
Net payments for sales of affiliates.....	(3)	—
Net cash provided by (used in) investing activities	229	(271)
Cash flows from financing activities		
Proceeds from issuance of securitized debt.....	27	5
Principal payments on securitized debt.....	(34)	(56)
Net change in secured revolving credit facilities.....	5	21
Proceeds from issuance of non-securitized debt.....	2,805	383
Principal payments on non-securitized debt.....	(2,589)	(278)
Net change in notes and debt outstanding under revolving credit facilities.....	74	42
Principal payments under financing arrangements and capital lease obligations.....	—	(1)
Debt issuance costs.....	(33)	(18)
Proceeds from financed lease obligations.....	38	16
Issuance of common stock.....	—	256
Stock issuance costs.....	—	(11)
Proceeds from exercise of stock options.....	5	3
Dividends paid by subsidiaries to non-controlling interest.....	(14)	(15)
Other financing activities.....	(15)	(3)
Net cash provided by financing activities	269	344
Effect of exchange rate changes on cash and cash equivalents	(7)	1
Increase (decrease) in cash and cash equivalents	394	(33)
Cash and cash equivalents at beginning of the period	706	804
Cash and cash equivalents at end of the period	\$ 1,100	\$ 771

See Notes to Consolidated Financial Statements

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

(in millions)	Series D Convertible Junior Preference Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury, at cost	Stockholders' Equity Attributable to Non- controlling Interests	Total
Balance as of October 31, 2017..	\$ 2	\$ 10	\$ 2,733	\$ (4,933)	\$ (2,211)	\$ (179)	\$ 4	\$ (4,574)
Net income (loss)	—	—	—	(18)	—	—	13	(5)
Total other comprehensive income.....	—	—	—	—	57	—	—	57
Stock-based compensation.....	—	—	7	—	—	—	—	7
Stock ownership programs.....	—	—	(10)	—	—	13	—	3
Cash dividends paid to non- controlling interest	—	—	—	—	—	—	(14)	(14)
Issuance of common stock	—	—	—	—	—	—	—	—
Stock issuance costs.....	—	—	—	—	—	—	—	—
Stock deferral and issuance - directors.....	—	—	(1)	—	—	—	—	(1)
Other	—	—	—	—	—	—	—	—
Balance as of April 30, 2018	\$ 2	\$ 10	\$ 2,729	\$ (4,951)	\$ (2,154)	\$ (166)	\$ 3	\$ (4,527)
Balance as of October 31, 2016..	\$ 2	\$ 9	\$ 2,499	\$ (4,963)	\$ (2,640)	\$ (205)	\$ 5	\$ (5,293)
Net income (loss)	—	—	—	(142)	—	—	13	(129)
Total other comprehensive income.....	—	—	—	—	61	—	—	61
Stock-based compensation.....	—	—	3	—	—	—	—	3
Stock ownership programs.....	—	—	(13)	—	—	14	—	1
Cash dividends paid to non- controlling interest	—	—	—	—	—	—	(15)	(15)
Issuance of common stock	—	2	254	—	—	—	—	256
Stock issuance costs.....	—	—	(11)	—	—	—	—	(11)
Stock deferral and issuance - directors.....	—	—	—	—	—	—	—	—
Other	—	(1)	—	—	—	—	1	—
Balance as of April 30, 2017	\$ 2	\$ 10	\$ 2,732	\$ (5,105)	\$ (2,579)	\$ (191)	\$ 4	\$ (5,127)

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 11, *Segment Reporting*.

Our fiscal year ends on October 31. As such, all references to 2018, 2017, 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, 2017, 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 \$30 million and \$49 million and liabilities of \$9 million and \$13 million as of April 30, 2018 and October 31, 2017, respectively, including \$16 million and \$10 million of cash and cash equivalents, at the respective 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 \$833 million and \$869 million as of April 30, 2018 and October 31, 2017, respectively, and liabilities of \$740 million and \$754 million as of April 30, 2018 and October 31, 2017, 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 \$361 million and \$278 million as of April 30, 2018 and October 31, 2017, respectively, and corresponding liabilities of \$207 million and \$194 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 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 Volkswagen Truck & Bus GmbH and its subsidiaries and affiliates ("VW T&B") 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 VW T&B involving certain engine and transmission projects. This development work is being expensed as incurred. For the three and six months ended April 30, 2018, revenue recognized was approximately \$41 million and \$81 million, respectively, compared to \$27 million and \$42 million in the comparable prior year periods. For the three and six months ended April 30, 2018, expenses incurred were \$8 million and \$19 million, respectively, compared to \$2 million for both the three and six months ended April 30, 2017, included primarily in *Engineering and product development costs* on our *Consolidated Statements of Operations*. Our receivable from VW T&B was \$14 million and \$13 million as of April 30, 2018 and October 31, 2017, respectively. Our payable to VW T&B was \$22 million and \$5 million as of April 30, 2018 and October 31, 2017, respectively.

Inventories

Inventories are valued at the lower of cost or net realizable value ("NRV"). Cost is principally determined using the first-in, first-out method. Our gross used truck inventory was \$206 million at both April 30, 2018 and October 31, 2017, offset by reserves of \$63 million and \$110 million, respectively.

In valuing our used truck inventory, we are required to make assumptions regarding the level of reserves required to value inventories at their NRV. Our judgments and estimates for used truck inventory are based on an analysis of current and forecasted sales prices, aging of and demand for used trucks, and the mix of sales through various market channels. The NRV is subject to change based on numerous conditions, including age, specifications, mileage, timing of sales, market mix and current and forecasted pricing. While calculations are made after taking these factors into account, significant management judgment regarding expectations for future events is involved. Future events that could significantly influence our judgment and related estimates include general economic conditions in markets where our products are sold, actions of our competitors, and the ability to sell used trucks in a timely manner.

The following table presents the activity in our used truck reserve:

(in millions)	Six Months Ended April 30,	
	2018	2017
Balance at beginning of period	\$ 110	\$ 208
Additions charged to expense ^(A)	22	88
Deductions/Other adjustments ^(B)	(69)	(80)
Balance at end of period	\$ 63	\$ 216

(A) Additions charged to expense reflect the increase of the reserve for inventory on hand. During the second quarter of 2017, we implemented a shift in market mix to include an increase in volume to certain export markets, which had a lower price point as compared to sales through our domestic channels, and to lower domestic pricing to enable higher sales velocity. In the second quarter of 2017, we recorded a charge of \$60 million in *Costs of Products Sold* in our *Consolidated Statements of Operations*.

(B) Deductions/Other adjustments reflect reductions of the reserve related to the sale of units and our currency translation adjustments.

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.

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

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.

Product Warranty Liability

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

(in millions)	Six Months Ended April 30,	
	2018	2017
Balance at beginning of period	\$ 629	\$ 818
Costs accrued and revenues deferred	84	87
Currency translation adjustment	—	(1)
Adjustments to pre-existing warranties ^(A)	—	(10)
Payments and revenues recognized	(162)	(206)
Balance at end of period	551	688
Less: Current portion	265	352
Noncurrent accrued product warranty and deferred warranty revenue	\$ 286	\$ 336

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

Extended Warranty Programs

The amount of deferred revenue related to extended warranty programs was \$250 million and \$271 million at April 30, 2018 and October 31, 2017, respectively. Revenue recognized under our extended warranty programs was \$27 million and \$56 million for the three and six months ended April 30, 2018, respectively, and \$47 million and \$81 million for the three and six months ended April 30, 2017, respectively.

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, used truck inventory valuations, asbestos and other product liability accruals, asset impairment charges, restructuring charges and litigation-related accruals. Actual results could differ from our estimates.

Concentration Risks

Our financial condition, results of operations, and cash flows are subject to concentration risks related to our significant unionized workforce. As of April 30, 2018, approximately 7,400, 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. Our current master collective bargaining agreement with the United Automobile, Aerospace and Agricultural Implement Workers of America ("UAW") will expire in October 2018 and we will be in negotiations with the UAW to enter into a new collective bargaining agreement. Our future operations may be affected by changes in governmental procurement policies, tax 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).

Navistar International Corporation and Subsidiaries
Notes to Consolidated Financial Statements—(Continued)
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Recently Issued 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. For more information regarding the impact of the Tax Act, see Note 8, *Income Taxes*.

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 ("AOCI") 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.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business". 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, with early adoption permitted. This ASU is effective for us in the first quarter of fiscal 2019. Adoption will require a prospective transition. We do not expect the impact of this ASU to have a material effect 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, with early adoption permitted. This ASU is effective for us in the first quarter of fiscal 2019. Adoption will require a retrospective transition. We do not expect the impact of this ASU to have a material effect on our consolidated financial statements.

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, with early adoption permitted. This ASU is effective for us in the first quarter of fiscal 2019. Adoption will require a modified retrospective transition. We do not expect the impact of this ASU to have a material effect 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, with early adoption permitted. This ASU is effective for us in the first quarter of fiscal 2019. Adoption will require a retrospective transition. We do not expect the impact of this ASU to have a material effect on our consolidated financial statements.

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.

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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. Adoption will require a modified retrospective transition with an option to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented. We are currently evaluating the impact of this ASU on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 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 continue to evaluate the requirements of the standard and its application to our business. We are analyzing the ASU's impact on our portfolio of customer contracts which may result in a change in the timing or the amount of revenue recognized in comparison with current guidance. We are also evaluating enhanced disclosure requirements and identifying and implementing appropriate changes to our business processes, systems and internal control framework to support recognition and disclosure under the new guidance. We will adopt this ASU in the first quarter of fiscal 2019 on a modified retrospective basis, with the cumulative effect adjustment recognized into *Accumulated deficit* as of November 1, 2018.

2. Restructurings and Impairments

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.

Restructuring Liability

The following tables summarize the activity in the restructuring liability, which excludes pension and other postretirement contractual termination benefits:

(in millions)	Balance at October 31, 2017	Additions	Payments	Adjustments	Balance at April 30, 2018
Employee termination charges	\$ 14	\$ 1	\$ (5)	\$ (3)	\$ 7
Lease vacancy	—	—	—	—	—
Other	1	—	—	—	1
Restructuring liability	<u>\$ 15</u>	<u>\$ 1</u>	<u>\$ (5)</u>	<u>\$ (3)</u>	<u>\$ 8</u>

(in millions)	Balance at October 31, 2016	Additions	Payments	Adjustments	Balance at April 30, 2017
Employee termination charges	\$ 5	\$ 8	\$ (3)	\$ (1)	\$ 9
Lease vacancy	1	—	(1)	—	—
Other	1	—	—	—	1
Restructuring liability	<u>\$ 7</u>	<u>\$ 8</u>	<u>\$ (4)</u>	<u>\$ (1)</u>	<u>\$ 10</u>

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 are evaluating 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.

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Chatham restructuring activities

In the third quarter of 2011, we committed to close our Chatham, Ontario heavy truck plant, which had been idled since June 2009. At that time, we recognized curtailment and contractual termination charges related to postretirement plans. Based on a ruling regarding pension benefits received from the Financial Services Tribunal in Ontario, Canada, in the third quarter of 2014, we recognized an additional charge of \$14 million related to the 2011 closure of the Chatham, Ontario plant. Unsuccessful efforts to appeal the ruling in the Ontario court system ended in December 2015. On April 25, 2016, we filed a qualified partial wind-up report for approval by the Financial Services Commission of Ontario ("FSCO"). On January 12, 2017, FSCO issued its approval of the partial wind-up report. On February 27, 2017, we finalized the resolution of statutory severance pay for former employees related to the closure of our Chatham, Ontario plant, resulting in a charge of \$6 million in the first quarter of 2017. During the third quarter of 2017, we finalized the Chatham closure agreement. This resulted in the release of \$66 million in other post-employment benefit ("OPEB") liabilities. In addition, a pension settlement accounting charge of \$23 million was recorded as a result of lump-sum payments made to certain pension plan participants. These charges and benefits were recorded in our Truck segment within *Restructuring charges* in our *Consolidated Statements of Operations*.

Global operations employee separation actions

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

Melrose Park Facility restructuring activities

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

Asset Impairments

In the six months ended April 30, 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, a charge of \$2 million was recorded in our Truck segment. In February 2018, we completed the sale of the business.

In the six months ended April 30, 2018 and 2017, we concluded that we had triggering events related to certain assets under operating leases. As a result, we recorded charges of \$1 million and \$7 million, respectively, in our Truck segment.

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

See Note 9, *Fair Value Measurements*, for information on the valuation of impaired operating leases and other assets.

3. 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 \$2.3 billion and \$2.2 billion as of April 30, 2018 and October 31, 2017, respectively. Included in total assets of our Financial Services operations were finance receivables of \$1.9 billion and \$1.8 billion as of April 30, 2018 and October 31, 2017, 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:

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(in millions)	April 30, 2018	October 31, 2017
Retail portfolio	\$ 674	\$ 559
Wholesale portfolio	1,246	1,246
Total finance receivables.....	1,920	1,805
Less: Allowance for doubtful accounts	22	20
Total finance receivables, net.....	1,898	1,785
Less: Current portion, net ^(A)	1,656	1,565
Noncurrent portion, net.....	\$ 242	\$ 220

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

Securitizations

Our Financial Services operations transfer wholesale notes, retail accounts receivable, finance leases, and operating leases to special purpose entities ("SPEs"), which generally are only permitted to purchase these assets, issue asset-backed securities, and make payments on the securities issued. In addition to servicing receivables, our continued involvement in the SPEs may include an economic interest in the transferred receivables and, in some cases, managing exposure to interest rate changes on the securities using interest rate swaps or interest rate caps. There were no transfers of finance receivables that qualified for sale accounting treatment as of April 30, 2018 and October 31, 2017, 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 \$805 million and \$797 million as of April 30, 2018 and October 31, 2017, respectively.

Other finance receivables related to secured transactions that do not qualify for sale accounting treatment were \$238 million and \$163 million as of April 30, 2018 and October 31, 2017, 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 April 30,		Six Months Ended April 30,	
	2018	2017	2018	2017
Retail notes and finance leases revenue	\$ 13	\$ 10	\$ 24	\$ 19
Wholesale notes interest	24	24	49	47
Operating lease revenue	17	16	35	33
Retail and wholesale accounts interest	9	6	14	11
Gross finance revenues.....	63	56	122	110
Less: Intercompany revenues	23	23	44	43
Finance revenues	\$ 40	\$ 33	\$ 78	\$ 67

4. 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 3, *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:

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Notes to Consolidated Financial Statements—(Continued)
(Unaudited)

(in millions)	Three Months Ended April 30, 2018				Three Months Ended April 30, 2017			
	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	\$ 18	\$ 3	\$ 29	\$ 50	\$ 19	\$ 2	\$ 28	\$ 49
Provision for doubtful accounts ...	3	—	(1)	2	1	—	—	1
Charge-off of accounts	(2)	—	—	(2)	(1)	—	—	(1)
Recoveries	1	—	—	1	—	—	—	—
Other ^(A)	(1)	—	(1)	(2)	2	—	—	2
Allowance for doubtful accounts, at end of period	<u>\$ 19</u>	<u>\$ 3</u>	<u>\$ 27</u>	<u>\$ 49</u>	<u>\$ 21</u>	<u>\$ 2</u>	<u>\$ 28</u>	<u>\$ 51</u>

(in millions)	Six Months Ended April 30, 2018				Six Months Ended April 30, 2017			
	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	\$ 17	\$ 3	\$ 28	\$ 48	\$ 19	\$ 2	\$ 28	\$ 49
Provision for doubtful accounts ...	3	—	—	3	6	—	1	7
Charge-off of accounts	(3)	—	—	(3)	(4)	—	(1)	(5)
Recoveries	2	—	—	2	—	—	—	—
Other ^(A)	—	—	(1)	(1)	—	—	—	—
Allowance for doubtful accounts, at end of period	<u>\$ 19</u>	<u>\$ 3</u>	<u>\$ 27</u>	<u>\$ 49</u>	<u>\$ 21</u>	<u>\$ 2</u>	<u>\$ 28</u>	<u>\$ 51</u>

(A) Amounts include impact from currency translation.

The accrual of interest income is discontinued 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)	April 30, 2018			October 31, 2017		
	Retail Portfolio	Wholesale Portfolio	Total	Retail Portfolio	Wholesale Portfolio	Total
Impaired finance receivables with specific loss reserves	\$ 17	\$ —	\$ 17	\$ 16	\$ —	\$ 16
Impaired finance receivables without specific loss reserves ...	—	—	—	—	—	—
Specific loss reserves on impaired finance receivables	9	—	9	7	—	7
Finance receivables on non-accrual status	17	—	17	16	—	16

The average balances of the impaired finance receivables in the retail portfolio were \$18 million and \$17 million during the six months ended April 30, 2018 and 2017, respectively. See Note 9, *Fair Value Measurements*, for information on the valuation of impaired finance receivables.

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Notes to Consolidated Financial Statements—(Continued)
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We use the aging of our receivables as well as other inputs when assessing credit quality. The following table presents the aging analysis for finance receivables:

(in millions)	April 30, 2018			October 31, 2017		
	Retail Portfolio	Wholesale Portfolio	Total	Retail Portfolio	Wholesale Portfolio	Total
Current, and up to 30 days past due.....	\$ 607	\$ 1,244	\$ 1,851	\$ 524	\$ 1,244	\$ 1,768
30-90 days past due	52	2	54	21	1	22
Over 90 days past due.....	15	—	15	14	1	15
Total finance receivables	\$ 674	\$ 1,246	\$ 1,920	\$ 559	\$ 1,246	\$ 1,805

5. Inventories

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

(in millions)	April 30, 2018	October 31, 2017
Finished products	\$ 692	\$ 584
Work in process.....	152	33
Raw materials.....	323	240
Total inventories, net.....	\$ 1,167	\$ 857

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6. 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)	April 30, 2018	October 31, 2017
Manufacturing operations		
Senior Secured Term Loan Credit Agreement, due 2025, net of unamortized discount of \$8 and unamortized debt issuance costs of \$12.....	\$ 1,576	\$ —
Senior Secured Term Loan Credit Facility, as amended, due 2020, net of unamortized discount of \$7 and unamortized debt issuance costs of \$9.....	—	1,003
6.625% Senior Notes, due 2026, net of unamortized debt issuance costs of \$18.....	1,082	—
8.25% Senior Notes, due 2022, net of unamortized discount of \$13 and unamortized debt issuance costs of \$14.....	—	1,423
4.50% Senior Subordinated Convertible Notes, due 2018, net of unamortized discount of \$3 and \$5, respectively, and unamortized debt issuance costs of less than \$1 and \$1, respectively.....	197	194
4.75% Senior Subordinated Convertible Notes, due 2019, net of unamortized discount of \$10 and \$14, respectively, and unamortized debt issuance costs of \$2 and \$3, respectively.....	399	394
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.....	126	130
Other.....	29	43
Total Manufacturing operations debt.....	3,629	3,407
Less: Current portion.....	667	286
Net long-term Manufacturing operations debt.....	\$ 2,962	\$ 3,121
(in millions)	April 30, 2018	October 31, 2017
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 \$3 and \$5, respectively.....	\$ 837	\$ 849
Bank credit facilities, at fixed and variable rates, due dates from 2018 through 2023, net of unamortized debt issuance costs of \$1 and \$2, respectively.....	691	616
Commercial paper, at variable rates, program matures in 2022.....	86	92
Borrowings secured by operating and finance leases, at various rates, due serially through 2024.....	107	94
Total Financial Services operations debt.....	1,721	1,651
Less: Current portion.....	837	883
Net long-term Financial Services operations debt.....	\$ 884	\$ 768

Manufacturing Operations

6.625% Senior Notes

On November 6, 2017, we issued \$1.1 billion in aggregate principal amount of 6.625% senior notes, due 2026 ("6.625% Senior Notes"). Interest is payable on the 6.625% Senior Notes on May 1 and November 1 of each year beginning on May 1, 2018 until the maturity date of November 1, 2025. In connection with the retiring of our 8.25% Senior Notes, we also commenced a cash tender offer ("Tender Offer"), which resulted in the purchase of \$1,051 million aggregate principal amount, or 72.50% of the total outstanding 8.25% Senior Notes at a purchase price of \$1,003.80 per \$1,000 principal amount, plus accrued and unpaid interest. The proceeds from the 6.625% Senior Notes offering were used to repurchase a portion of our previously existing 8.25% Senior Notes under the Tender Offer, to pay accrued and unpaid interest thereon, and pay the associated prepayment premiums, certain transaction fees and expenses incurred in connection with the new 6.625% Senior Notes. In the first quarter of 2018, we recorded approximately \$30 million of charges related to the extinguishment of unamortized debt issuance costs and tender premiums associated with the Senior Notes, included in *Other expense (income), net* on our *Consolidated Statement of Operations*.

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Senior Secured Term Loan Credit Agreement

On November 6, 2017, we signed a definitive credit agreement relating to a seven-year senior secured term loan credit facility in an aggregate principal amount of \$1.6 billion ("Term Loan Credit Agreement"), guaranteed by Navistar International Corporation and twelve of its subsidiaries. Under the terms of the Term Loan Credit Agreement, the interest rate on the outstanding loan is based, at our option, on an adjusted Eurodollar Rate, plus a margin of 3.50%, or a Base Rate, plus a margin of 2.50%. The Term Loan Credit Agreement requires quarterly amortization payments of \$4 million with the balance due at maturity on November 6, 2024. A portion of the proceeds from the Term Loan Credit Agreement was used to repay all outstanding loans under our previously existing term loan ("Term Loan"), to redeem the remaining portion of the previously outstanding 8.25% Senior Notes and to pay accrued and unpaid interest thereon, and pay certain transaction fees and expenses incurred in connection with the new Term Loan Credit Agreement. The remainder of the proceeds of the Term Loan Credit Agreement will be used for ongoing working capital purposes and general corporate purposes. In the first quarter of 2018, we recorded approximately \$16 million of charges related to the extinguishment of unamortized debt issuance costs associated with the Term Loan, included in *Other expense (income), net* on our *Consolidated Statement of Operations*.

Tax Exempt Bond Amendments

On November 6, 2017, the Company entered into the First Amendment to Loan Agreement with The County of Cook, Illinois and the First Amendment to Loan Agreement with the Illinois Finance Authority ("Tax Exempt Bond Amendments") to adjust various covenants included in the loan agreements relating to the Recovery Zone Facility Revenue Bonds (the "Tax Exempt Bonds"), including to permit the Company to incur secured debt of up to \$1.7 billion, in exchange for a coupon increase from 6.50% to 6.75% and the grant of a junior priority lien on certain collateral securing the Company's previously existing senior secured Term Loan and the Term Loan Credit Agreement.

Financial Services Operations

In May 2016, NFC amended and extended its 2011 bank credit facility which was originally due in December 2016. The 2016 amendment extended the maturity date to June 2018 and initially reduced the revolving portion of the facility from \$500 million to \$400 million. In December 2016, and in accordance with the amendment, the revolving portion of the facility was reduced to a maximum of \$275 million, the term loan portion of the facility was paid down to \$82 million, and the quarterly principal payments were reduced from \$9 million to \$2 million. In September 2017, the revolving portion of the bank credit facility was amended and extended to a maturity date of September 2021, with the facility maximum reduced from \$275 million to \$269 million effective in June 2018. The amendment allowed NFC to increase revolving or term loan commitments, subject to obtaining commitments from existing or new lenders to provide additional or increased revolving commitments and/or additional term loans, to permit a maximum total facility size of \$700 million after giving effect to any such increase and without taking into account the non-extended loans and commitments. On June 1, 2018, in accordance with the terms of the amended bank credit facility, the term loan portion was paid in full.

In December 2017, the maturity date of our variable funding notes ("VFN") facility was extended from May 2018 to December 2018, and the maximum capacity was reduced from \$425 million to \$350 million. The VFN facility is secured by assets of the wholesale note owner trust.

In January 2018, the maturity date of our \$100 million Truck Retail Accounts Corporation ("TRAC") funding facility was extended from April 2018 to January 2019. Borrowings under this facility are secured by eligible retail accounts receivable.

7. Postretirement Benefits

Defined Benefit Plans

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

Generally, the pension plans are non-contributory. Our policy is to fund the pension plans in accordance with applicable U.S. and Canadian government regulations and to make additional contributions from time to time. For the three and six months ended April 30, 2018, we contributed \$32 million and \$53 million, respectively, and for the three and six months ended April 30, 2017, we contributed \$24 million and \$46 million, respectively, to our pension plans to meet regulatory funding requirements. We expect to contribute approximately \$81 million to our pension plans during the remainder of 2018.

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

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our then applicable retiree health care and life insurance benefits. Contributions for the three and six months ended April 30, 2018, and 2017, as well as anticipated contributions for the remainder of 2018, are not material.

Components of Net Periodic Benefit Expense

Net periodic benefit expense included in our *Consolidated Statements of Operations*, and other amounts recognized in our *Consolidated Statements of Stockholders' Deficit*, for the three and six months ended April 30, 2018 and 2017 is comprised of the following:

(in millions)	Three Months Ended April 30,				Six Months Ended April 30,			
	Pension Benefits		Health and Life Insurance Benefits		Pension Benefits		Health and Life Insurance Benefits	
	2018	2017	2018	2017	2018	2017	2018	2017
Service cost for benefits earned during the period	\$ 2	\$ 2	\$ 1	\$ 2	\$ 4	\$ 4	\$ 2	\$ 3
Interest on obligation	27	26	11	12	54	53	22	24
Amortization of cumulative loss	27	30	2	5	53	59	4	11
Settlements	—	—	—	—	9	—	—	—
Contractual termination benefits	—	—	—	—	—	1	—	—
Premiums on pension insurance	—	4	—	—	2	8	—	—
Expected return on assets	(41)	(39)	(6)	(6)	(81)	(79)	(12)	(12)
Net periodic benefit expense	\$ 15	\$ 23	\$ 8	\$ 13	\$ 41	\$ 46	\$ 16	\$ 26

In the six months ended April 30, 2018, we purchased a group annuity contract for certain retired pension plan participants resulting in a plan remeasurement. As a result, a net actuarial loss of \$2 million was recognized as a component of *Accumulated other comprehensive loss* and a pension settlement accounting expense of \$9 million was recognized in *SG&A expenses* in our *Consolidated Statements of Operations*.

In April 2016, we filed a qualified partial wind-up report for approval by FSCO related to the 2011 closure of our Chatham, Ontario plant. FSCO provided formal approval in January 2017. As a result of an ongoing administration review ordered in conjunction with the partial wind-up, we recognized \$1 million of contractual termination charges in the first quarter of 2017.

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. We deposit the matching contribution annually. 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 \$11 million and \$18 million in the three and six months ended April 30, 2018, respectively, and \$9 million and \$16 million in the three and six months ended April 30, 2017, 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 have recorded no 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 10, *Commitments and Contingencies*.

8. Income Taxes

We compute, on a quarterly basis, an estimated annual effective tax rate considering ordinary income and related income tax expense. For all periods presented, U.S. and certain foreign results are excluded from ordinary income due to ordinary losses for which no benefit can be recognized. 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. Items included in income tax expense in the periods in which they

Navistar International Corporation and Subsidiaries
Notes to Consolidated Financial Statements—(Continued)
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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. The Tax Act reduces the statutory corporate income tax rate from 35% to 21%, effective January 1, 2018. This rate reduction requires 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 \$1.0 billion, 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 loss.

The Tax Act imposes a tax on the mandatory deemed repatriation of earnings of the Company's foreign subsidiaries and results in a one-time transition tax. We have provisionally determined that any additional foreign earnings included in taxable income due to deemed repatriation and related income taxes will be offset with existing deferred tax assets. The deferred tax impact has a valuation allowance offset, resulting in no impact on our income tax expense or net income. Our estimates related to the deemed repatriation may change as the Company determines the effect of foreign earnings, foreign cash balances and any regulatory guidance.

The Tax Act also adds many new 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 ("FDIP"). We are still evaluating the impact of these provisions of the Tax Act, which do not apply until 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 have not completed our accounting for the income tax effects of the Tax Act. However, we have computed estimates or "provisional" amounts as permitted by the SEC's Staff Accounting Bulletin No. 118 ("SAB") issued on December 22, 2017. Under the SAB companies are allowed a measurement period of up to one year from the date of enactment to complete the accounting for the effects of the Tax Act. 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.

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 our analysis of the relevant facts and circumstances. For all remaining deferred tax assets, while we believe that it is more likely than not that they will be realized, we believe that it is reasonably possible that additional deferred tax asset valuation allowances could be required in the next twelve months.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. As of April 30, 2018, the amount of liability for uncertain tax positions was \$30 million. The liability at April 30, 2018 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. However, to the extent we continue to maintain a full valuation allowance against certain deferred tax assets, 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. For the three and six months ended April 30, 2018 and 2017, total interest and penalties 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

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

9. 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—We classify as cash equivalents and restricted cash equivalents 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 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. In certain cases, market data is not available and we estimate inputs such as in situations where trading in a particular commodity is not active. Measurements based upon these unobservable inputs are classified within Level 3.

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 10, *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 4, *Allowance for Doubtful Accounts*, and for more information regarding impaired assets under operating leases, see Note 2, *Restructurings and Impairments*.

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 2, *Restructurings and Impairments*.

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

(in millions)	As of April 30, 2018				As of October 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Marketable securities:								
U.S. government and federal agency securities.....	\$ 40	\$ —	\$ —	\$ 40	\$ 370	\$ —	\$ —	\$ 370
Derivative financial instruments:								
Commodity forward contracts ^(A)	—	9	—	9	—	3	—	3
Foreign currency contracts ^(A)	—	3	—	3	—	3	—	3
Interest rate caps ^(B)	—	1	—	1	—	1	—	1
Total assets.....	\$ 40	\$ 13	\$ —	\$ 53	\$ 370	\$ 7	\$ —	\$ 377
Liabilities								
Derivative financial instruments:								
Commodity forward contracts ^(C)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1	\$ —	\$ 1
Foreign currency contracts ^(C)	—	3	—	3	—	1	—	1
Guarantees.....	—	—	27	27	—	—	21	21
Total liabilities.....	\$ —	\$ 3	\$ 27	\$ 30	\$ —	\$ 2	\$ 21	\$ 23

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

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

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

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

(in millions)	Three Months Ended April 30,		Six Months Ended April 30,	
	2018	2017	2018	2017
Guarantees, at beginning of period.....	\$ (25)	\$ (23)	\$ (21)	\$ (23)
Transfers out of Level 3.....	—	—	—	—
Issuances.....	(3)	2	(8)	1
Settlements.....	1	2	2	3
Guarantees, at end of period.....	\$ (27)	\$ (19)	\$ (27)	\$ (19)

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 *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 retail and wholesale 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.

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. 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.

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

(in millions)	As of April 30, 2018				
	Estimated Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets					
Retail notes	\$ —	\$ —	\$ 182	\$ 182	\$ 187
Liabilities					
Debt:					
<i>Manufacturing operations</i>					
Senior Secured Term Loan Credit Agreement, due 2025	—	—	1,604	1,604	1,576
6.625% Senior Notes, due 2026	—	1,144	—	1,144	1,082
4.50% Senior Subordinated Convertible Notes, due 2018 ^(A)	202	—	—	202	197
4.75% Senior Subordinated Convertible Notes, due 2019 ^(A)	423	—	—	423	399
Loan Agreement related to 6.75% Tax Exempt Bonds, due 2040	—	239	—	239	220
Financed lease obligations	—	—	126	126	126
Other	—	—	26	26	26
<i>Financial Services operations</i>					
Asset-backed debt issued by consolidated SPEs, at various rates, due serially through 2023	—	—	838	838	837
Bank credit facilities, at fixed and variable rates, due dates from 2018 through 2023	—	—	671	671	691
Commercial paper, at variable rates, program matures in 2022	87	—	—	87	86
Borrowings secured by operating and finance leases, at various rates, due serially through 2024	—	—	105	105	107

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(in millions)	As of October 31, 2017				
	Estimated Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets					
Retail notes	\$ —	\$ —	\$ 153	\$ 153	\$ 161
Liabilities					
Debt:					
<i>Manufacturing operations</i>					
Senior Secured Term Loan Credit Facility, as Amended, due 2020	—	—	1,019	1,019	1,003
8.25% Senior Notes, due 2022	1,450	—	—	1,450	1,423
4.50% Senior Subordinated Convertible Notes, due 2018 ^(A)	208	—	—	208	194
4.75% Senior Subordinated Convertible Notes, due 2019 ^(A)	446	—	—	446	394
Loan Agreement related to 6.50% Tax Exempt Bonds, due 2040	—	243	—	243	220
Financed lease obligations	—	—	130	130	130
Other	—	—	23	23	39
<i>Financial Services operations</i>					
Asset-backed debt issued by consolidated SPEs, at various rates, due serially through 2023	—	—	851	851	849
Bank credit facilities, at fixed and variable rates, due dates from 2018 through 2023	—	—	592	592	616
Commercial paper, at variable rates, program matures in 2022	92	—	—	92	92
Borrowings secured by operating and finance leases, at various rates, due serially through 2024	—	—	94	94	94

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

10. 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, BMO Financial Group and its wholly-owned subsidiary BMO Harris Bank N.A. (together "BMO") is our third-party preferred source of retail 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 our financing partner for credit losses in excess of the first 10% of the financed value of a contract; for certain leases we reimburse our financing partner 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 was \$1.4 billion of outstanding loan principal and operating lease payments receivable at both April 30, 2018 and October 31, 2017, 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 \$2.5 billion and \$2.4 billion at April 30, 2018 and October 31, 2017, 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 \$110 million and \$116 million and financed lease obligations of \$126 million and \$129 million, in our *Consolidated Balance Sheets* as of April 30, 2018 and October 31, 2017, respectively.

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

We obtain certain stand-by letters of credit and surety bonds from third-party financial institutions in the ordinary course of business when required under contracts or to satisfy insurance-related requirements. As of April 30, 2018, the amount of stand-by letters of credit and surety bonds was \$119 million.

In addition, as of April 30, 2018, we have \$82 million of outstanding purchase commitments and contracts with \$22 million of cancellation fees with expiration dates through 2025. We have entered into industrial participation agreements, commonly known as offset agreements, with customers outside of the U.S. to facilitate economic value back to entities within the foreign nations as the result of their procurement of goods and services from us. These commitments may be satisfied by our placement of supply contracts to established companies within the foreign nations, providing capabilities to the foreign nations, or the creation of joint ventures that generate profits and hire nationals from within the foreign nations. In certain cases, penalties could be imposed if we do not meet our industrial participation commitments. As of April 30, 2018, we have outstanding industrial participation agreements totaling \$228 million that extend through 2025. Purchase order commitments associated with fulfilling the industrial participation agreements are included in the purchase commitments amount above.

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 \$19 million for these and other environmental matters, which are included within *Other current liabilities* and *Other noncurrent liabilities*, as of April 30, 2018. The majority of these accrued liabilities are expected to be paid subsequent to 2019.

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.

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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.

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 May 30, 2018, the Company submitted to the arbitrator a response in opposition to the Committee's proposal and proposed a different schedule for the presentation of the issues in the arbitration.

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 the 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 was 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. The motion for summary judgment is pending before the court.

On April 6, 2017, a motion was 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 motion was filed by the current "Other Member" of the Health Benefit Program Committee ("HBPC"). The HBPC is provided for in the 1993 Settlement Agreement and the HBPC currently consists of the Other Member, three members appointed by the Company ("Company Members"), and two members appointed by the UAW. NI and the Company Members are named as defendants in the motion. The motion alleges that NI and the Company Members impermissibly interfered with the Other Member’s ability to discharge his rights and duties relating to eligibility for Plan benefits for an unknown number of non-represented employees and retirees. He requested that the court (a) find that all prior Plan eligibility determinations made by NI and the HBPC are invalid to the extent they were not based on eligibility criteria in a plan which pre-dated the Plan; and (b) find all employees or retirees who were improperly denied Plan benefits based on the application of incorrect eligibility criteria, to retroactively enroll them in the Plan, and to reimburse those retirees for costs they incurred as a result of the prior improper determinations of Plan eligibility. He estimates 1,000 non-represented employees or retirees were wrongfully denied Plan benefits. He also requested that the court direct him to oversee NI’s compliance with the requested relief order. The defendants filed their response to the motion on May 11, 2017 and the Other Member filed his reply on May 17, 2017. The court overruled the Other Member’s motion on October 20, 2017, and the time period for filing an appeal has lapsed.

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 April 30, 2018), 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

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federal court's decision does not prohibit Selamix from seeking to recover its damages from third parties that contributed to the contamination at the Natureza Facility.

In connection with the FATMA Notice, IIAA presented a motion to the district attorney of the State of Santa Catarina (the "SC District Attorney") to set forth its defenses and correct inaccuracies in the FATMA Notice in August 2017. In September 2017, the SC District Attorney informed IIAA that it intended to present a Consent Agreement to all of the companies that sent waste to Natureza to determine the allocation of the liability for generating the waste which led to the contamination of the Natureza Facility. IIAA then filed a motion requesting that the SC District Attorney consider certain facts and circumstances prior to presenting the Consent Agreement. In January 2018, the SC District Attorney, local and state authorities, Selamix, IIAA and the 14 other companies that are alleged to have significantly contributed to the contamination met to discuss the matter. Selamix then presented three proposals for conducting a preliminary environmental assessment in the area to determine the allocation of liability among the companies. In March 2018, Selamix informed the SC District Attorney that it would voluntarily conduct a preliminary environmental study at the Natureza Facility in an attempt to determine and allocate the liability for the contamination pursuant to an agreement with all of the companies after the study is completed. The SC District Attorney agreed to suspend further inquiry into the matter until Selamix's study has 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.

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 April 30, 2018). 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. The District Attorney also agreed with a further suspension for an additional 90 days. The court granted the request to stay the proceeding for 90 days, which began on March 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. Currently, IIAA is in the process of scheduling a meeting with the New District Attorney's technical experts. Settlement discussions between IIAA and the New District Attorney are on hold pending the further suspensions. There are no current demands or offers outstanding.

MaxxForce Engine EGR Warranty Litigation

On June 24, 2014, N&C Transportation Ltd. 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.

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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 MaxxFer 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 filed on November 23, 2017 and was granted on December 7, 2017.

In the Manitoba putative class action lawsuit captioned Vern Brown v. Navistar International Corporation and Navistar Canada, Inc., a case management conference was held on November 17, 2017. Following the conference, the Manitoba court entered an order setting a due date of May 31, 2018, for our application to stay the Manitoba proceedings pending resolution of the N&C Action appeal. The court also set a schedule for briefing on certification, with a certification hearing to take place the last week of January 2019. 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 MaxxFer Advanced EGR engine.

In substance, the EGR Class Actions allege that the MaxxFer 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 MaxxFer Advanced EGR engine lawsuits pending in various federal district courts.

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

The MDL Panel also consolidated into the MDL Action certain non-class action MaxxFer 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 23 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,

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Judge Gottschall extended the fact discovery deadline to be completed by May 25, 2018 and ordered that the class certification briefing be completed by October 22, 2018.

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 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.

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 or at trial or settled for immaterial amounts. Approximately 40 state court non-class actions are pending at this time. One of the non-class action lawsuits ("Milan"), alleging violations of the Tennessee Consumer Protection Act and fraud and involving approximately 235 trucks, was tried in Tennessee state court in August 2017. On August 10, 2017, the Milan jury returned a verdict of approximately \$31 million against the Company, including \$20 million in punitive damages. On October 2, 2017, the Company filed various motions in the trial court challenging the verdict, including a Motion for Judgment Notwithstanding the Verdict or, in the Alternative, a New Trial and Motion to Disapprove of the Award of Punitive Damages. The hearing on these motions was held on December 1, 2017 and the court denied our 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. A briefing schedule for that appeal has not been set. 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.

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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 will begin to move to the liability phase with respect to NI. After completion of the liability phase, the court will set further dates for the remedy phase.

Based on our assessment of the facts underlying the complaint above, potential charges to the *Consolidated Statement 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”).

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 and including counterclaims against AICM for indemnification and breach of contract (seeking to recover amounts due to NI) under the contract manufacturing agreement. NI and ITEIC intend to vigorously defend its position that they are not liable for the claims asserted by the Removed Directors.

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.

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 April 30, 2018), 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\$37 million as of April 30, 2018) 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’

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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.

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. The arbitral tribunal is expected to issue a decision determining the next steps of the calculation phase in July 2018.

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.

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.

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 has substantially 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. The parties have informally agreed to mediate the matter, but there is currently no written agreement or schedule for mediation.

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,

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2006 through December 31, 2013. ND is responding to the subpoena and made three productions of responsive documents. 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.

Deepwater Horizon Settlement Program

On June 3, 2018, we concluded the settlement of a business economic loss claim relating to our Alabama engine manufacturing facility. We will receive a gross amount of \$85 million with a net present value of \$70 million, net of our fees and costs, from the Deepwater Horizon Settlement Program. The cash proceeds will be received in installments in 2019 and 2020. The net present value of the settlement will be recorded in our third quarter 2018 financial results in *Other Income* in our *Consolidated Statements of Operations*, and *Other current* and *Other non-current assets* in our *Consolidated Balance Sheets*.

11. 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 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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(in millions)	Truck	Parts	Global Operations	Financial Services ^(A)	Corporate and Eliminations	Total
Three Months Ended April 30, 2018						
External sales and revenues, net	\$ 1,688	\$ 601	\$ 89	\$ 40	\$ 4	\$ 2,422
Intersegment sales and revenues	16	—	8	23	(47)	—
Total sales and revenues, net	<u>\$ 1,704</u>	<u>\$ 601</u>	<u>\$ 97</u>	<u>\$ 63</u>	<u>\$ (43)</u>	<u>\$ 2,422</u>
Income (loss) attributable to NIC, net of tax	\$ 42	\$ 132	\$ 1	\$ 19	\$ (139)	\$ 55
Income tax expense	—	—	—	—	(7)	(7)
Segment profit (loss)	<u>\$ 42</u>	<u>\$ 132</u>	<u>\$ 1</u>	<u>\$ 19</u>	<u>\$ (132)</u>	<u>\$ 62</u>
Depreciation and amortization	\$ 34	\$ 1	\$ 2	\$ 14	\$ 3	\$ 54
Interest expense	—	—	—	21	58	79
Equity in income (loss) of non-consolidated affiliates	1	—	(1)	—	—	—
Capital expenditures ^(B)	30	1	—	—	(8)	23

(in millions)	Truck	Parts	Global Operations	Financial Services ^(A)	Corporate and Eliminations	Total
Three Months Ended April 30, 2017						
External sales and revenues, net	\$ 1,391	\$ 604	\$ 66	\$ 33	\$ 2	\$ 2,096
Intersegment sales and revenues	7	6	4	23	(40)	—
Total sales and revenues, net	<u>\$ 1,398</u>	<u>\$ 610</u>	<u>\$ 70</u>	<u>\$ 56</u>	<u>\$ (38)</u>	<u>\$ 2,096</u>
Income (loss) attributable to NIC, net of tax	\$ (56)	\$ 153	\$ (7)	\$ 15	\$ (185)	\$ (80)
Income tax expense	—	—	—	—	(6)	(6)
Segment profit (loss)	<u>\$ (56)</u>	<u>\$ 153</u>	<u>\$ (7)</u>	<u>\$ 15</u>	<u>\$ (179)</u>	<u>\$ (74)</u>
Depreciation and amortization	\$ 31	\$ 3	\$ 4	\$ 12	\$ 3	\$ 53
Interest expense	—	—	—	21	68	89
Equity in income of non-consolidated affiliates	1	1	—	—	—	2
Capital expenditures ^(B)	14	1	2	1	2	20

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

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
Six Months Ended April 30, 2017						
External sales and revenues, net	\$ 2,408	\$ 1,167	\$ 112	\$ 67	\$ 5	\$ 3,759
Intersegment sales and revenues	17	13	8	43	(81)	—
Total sales and revenues, net.....	<u>\$ 2,425</u>	<u>\$ 1,180</u>	<u>\$ 120</u>	<u>\$ 110</u>	<u>\$ (76)</u>	<u>\$ 3,759</u>
Income (loss) attributable to NIC, net of tax	\$ (125)	\$ 302	\$ (11)	\$ 28	\$ (336)	\$ (142)
Income tax expense	—	—	—	—	(10)	(10)
Segment profit (loss).....	<u>\$ (125)</u>	<u>\$ 302</u>	<u>\$ (11)</u>	<u>\$ 28</u>	<u>\$ (326)</u>	<u>\$ (132)</u>
Depreciation and amortization	\$ 68	\$ 6	\$ 7	\$ 25	\$ 6	\$ 112
Interest expense.....	—	—	—	41	130	171
Equity in income of non-consolidated affiliates	2	2	1	—	—	5
Capital expenditures ^(B)	57	1	3	1	4	66

(in millions)	Truck	Parts	Global Operations	Financial Services	Corporate and Eliminations	Total
Segment assets, as of:						
April 30, 2018	\$ 1,902	\$ 632	\$ 345	\$ 2,298	\$ 1,310	\$ 6,487
October 31, 2017.....	1,621	632	378	2,207	1,297	6,135

(A) Total sales and revenues in the Financial Services segment include interest revenues of \$44 million and \$85 million for the three and six months ended April 30, 2018, respectively, and \$40 million and \$76 million for the three and six months ended April 30, 2017, respectively.

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

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

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

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

(in millions)	Unrealized Gain on Marketable Securities	Foreign Currency Translation Adjustments	Defined Benefit Plans	Total
Balance as of January 31, 2017	\$ 1	\$ (292)	\$ (2,326)	\$ (2,617)
Other comprehensive income before reclassifications	—	4	—	4
Amounts reclassified out of accumulated other comprehensive loss	—	—	34	34
Net current-period other comprehensive income	—	4	34	38
Balance as of April 30, 2017	<u>\$ 1</u>	<u>\$ (288)</u>	<u>\$ (2,292)</u>	<u>\$ (2,579)</u>

(in millions)	Unrealized Gain on Marketable Securities	Foreign Currency Translation Adjustments	Defined Benefit Plans	Total
Balance as of October 31, 2016	\$ 1	\$ (280)	\$ (2,361)	\$ (2,640)
Other comprehensive loss before reclassifications	—	(8)	—	(8)
Amounts reclassified out of accumulated other comprehensive loss	—	—	69	69
Net current-period other comprehensive income (loss)	—	(8)	69	61
Balance as of April 30, 2017	<u>\$ 1</u>	<u>\$ (288)</u>	<u>\$ (2,292)</u>	<u>\$ (2,579)</u>

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 April 30,		Six Months Ended April 30,	
		2018	2017	2018	2017
Defined benefit plans					
Amortization of actuarial loss	Selling, general and administrative expenses .	\$ 29	\$ 35	\$ 57	\$ 70
Settlements	Selling, general and administrative expenses .	—	—	9	—
	Total before tax	29	35	66	70
	Tax expense	(1)	(1)	(1)	(1)
Total reclassifications for the period, net of tax		<u>\$ 28</u>	<u>\$ 34</u>	<u>\$ 65</u>	<u>\$ 69</u>

13. 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*:

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

(in millions, except per share data)	Three Months Ended April 30,		Six Months Ended April 30,	
	2018	2017	2018	2017
Numerator:				
Net income (loss) attributable to Navistar International Corporation common stockholders	\$ 55	\$ (80)	\$ (18)	\$ (142)
Denominator:				
Weighted average shares outstanding:				
Basic	98.8	93.3	98.7	87.5
Effect of dilutive securities	0.7	—	—	—
Diluted	99.5	93.3	98.7	87.5
Net income (loss) per share attributable to Navistar International Corporation				
Basic	\$ 0.56	\$ (0.86)	\$ (0.18)	\$ (1.62)
Diluted	0.55	(0.86)	(0.18)	(1.62)

The conversion rate on our 4.5% Senior Subordinated Convertible Notes due 2018 (the "2018 Convertible Notes") is 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 have an anti-dilutive effect when calculating diluted earnings per share when our average stock price is less than \$58.40.

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.

In February 2017, we consummated our previously announced strategic alliance with Volkswagen Truck & Bus GmbH ("VW T&B"), which included an equity investment in the Company by VW T&B pursuant to a Stock Purchase Agreement (the "Stock Purchase Agreement"), a License and Supply Framework Agreement and a Procurement JV Framework Agreement.

Pursuant to the Stock Purchase Agreement, on February 28, 2017 we issued and VW T&B purchased 16.2 million shares of our common stock for an aggregate purchase price of \$256 million at \$15.76 per share (a 19.9% stake (16.6% on a fully-diluted basis) in the Company), excluding stock issuance costs.

For both the six months ended April 30, 2018 and 2017, 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 six months ended April 30, 2018 and 2017, the aggregate shares not included were 14.2 million and 14.8 million, respectively.

For the three months ended April 30, 2018, certain securities have been excluded from the computation of earnings per share, as our average stock price during the period was less than their respective exercise prices. For the three months ended April 30, 2018, the aggregate shares not included were 13.3 million.

For the three months ended April 30, 2017, 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 April 30, 2017, the aggregate shares not included were 14.9 million.

For both the three and six months ended April 30, 2018 and 2017, 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, 2017. 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, 2017 that we are aware of and that may have a material effect on our future performance, and (v) how certain accounting principles affect our consolidated financial statements. In addition, MD&A provides information about our business segments and how the results of those segments impact our results of operations and financial condition as a whole. Operating results for interim reporting periods are not necessarily indicative of annual operating results.

Executive Overview

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

Second Quarter Summary

During the second quarter of 2018, we continued to take actions that we believe will improve our performance. The focus of our strategy includes: growing business in our Core markets, driving operational excellence with enhanced focus on quality and reliability, pursuing innovative technology solutions, leveraging the Volkswagen Truck & Bus GmbH and its subsidiaries and affiliates ("VW T&B") strategic alliance, enhancing our winning culture and improving our financial performance. We believe our strategy will enable us to improve sales and market share by offering more value to our customers.

We remain committed to product investment to increase customer value and to focus on our Core markets. In February 2018, we announced the newly updated IC Bus™ RE Series Type D school bus featuring remote diagnostics connectivity solutions. In March 2018, we announced the International® MV™ Series Mid-Range Diesel model, our new medium-duty truck. We expect to continue to announce a new or redesigned product, on average, every four to six months through 2018. By the end of 2018, we expect our entire portfolio will consist of newly designed trucks.

We continue to drive operational excellence by focusing on business in our Core markets. In February 2018, we completed the sale of our railcar business in Cherokee, Alabama.

Financial Summary

Continuing Operations Results — In the second quarter of 2018, our consolidated net sales and revenues were \$2.4 billion, a 16% increase compared to the prior year quarter. In the first half of 2018, our consolidated net sales and revenues were \$4.3 billion, a 15% increase compared to the first half of 2017. The increase for both periods reflects higher volumes from our Truck segment.

In the second quarter and first half of 2018, we earned income before income taxes of \$68 million and \$17 million, respectively, compared to a loss of \$69 million and \$119 million in the respective prior year periods. Our gross margin increased by \$115 million and \$195 million in the second quarter and first half of 2018, respectively, primarily due to the impact of higher volumes and a decrease in used truck losses.

In the second quarter and first half of 2018, consolidated net income attributable to Navistar International Corporation ("NIC"), before manufacturing interest, taxes, depreciation and amortization expenses ("EBITDA") was \$174 million and \$229 million, respectively, compared to \$47 million and \$110 million in the comparable prior year periods. Excluding certain net impacts, adjusted EBITDA ("Adjusted EBITDA") in the second quarter of 2018 was \$182 million compared to \$65 million in the comparable prior year period. In the first half of 2018, Adjusted EBITDA was \$286 million compared to \$120 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*.

In the second quarter and first half of 2018, we recognized income tax expense of \$7 million and \$22 million, compared to \$6 million and \$10 million in the respective prior year periods. The increase in income tax expense for both periods is primarily driven by earnings, geographical mix and certain discrete items. The impact of income taxes on U.S. operations was limited to current state income taxes, and other discrete items, due in part to the deferred tax valuation allowances on the U.S. deferred tax assets.

In the second quarter and first half of 2018, after income taxes, we had net income attributable to NIC of \$55 million and a net loss of \$18 million, or \$0.55 per diluted income share and \$0.18 per diluted loss share, compared to a net loss of \$80 million and \$142 million, or \$0.86 and \$1.62 per diluted share, in the prior year periods.

We ended the second quarter of 2018 with \$1,140 million of consolidated cash, cash equivalents and marketable securities, compared to \$1,076 million as of October 31, 2017. The increase in consolidated cash, cash equivalents and marketable securities was primarily attributable to a reduction in accounts receivable, increases in accounts payable and other noncurrent liabilities, a decrease in restricted cash, increases in proceeds from financed lease obligations and the issuance of long-term debt partially offset by increases in finance receivables, inventory and other current and noncurrent assets, capital expenditures and purchases of equipment leased to others.

Results of Operations

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

Results of Operations for the quarter ended April 30, 2018 as compared to the quarter ended April 30, 2017

(in millions, except per share data and % change)	Three Months Ended April 30,				Six Months Ended April 30,			
	2018	2017	Change	% Change	2018	2017	Change	% Change
Sales and revenues, net	\$2,422	\$2,096	\$ 326	16 %	\$4,327	\$3,759	\$ 568	15 %
Costs of products sold	1,987	1,776	211	12 %	3,519	3,146	373	12 %
Restructuring charges	1	2	(1)	(50)%	(2)	9	(11)	(122)%
Asset impairment charges	1	5	(4)	(80)%	3	7	(4)	(57)%
Selling, general and administrative expenses	220	221	(1)	— %	442	421	21	5 %
Engineering and product development costs	75	65	10	15 %	150	128	22	17 %
Interest expense	79	89	(10)	(11)%	158	171	(13)	(8)%
Other expense (income), net	(9)	9	(18)	(200)%	40	1	39	N.M.
Total costs and expenses	2,354	2,167	187	9 %	4,310	3,883	427	11 %
Equity in income of non-consolidated affiliates	—	2	(2)	(100)%	—	5	(5)	(100)%
Income (loss) before income tax	68	(69)	137	(199)%	17	(119)	136	(114)%
Income tax expense	(7)	(6)	(1)	17 %	(22)	(10)	(12)	120 %
Net income (loss)	61	(75)	136	(181)%	(5)	(129)	124	(96)%
Less: Net income attributable to non-controlling interests	6	5	1	20 %	13	13	—	— %
Net income (loss) attributable to Navistar International Corporation	\$ 55	\$ (80)	\$ 135	(169)%	\$ (18)	\$ (142)	\$ 124	(87)%
Diluted income (loss) per share ^(A)	\$ 0.55	\$ (0.86)	\$ 1.41	(164)%	\$ (0.18)	\$ (1.62)	\$ 1.44	(89)%
Diluted weighted average shares outstanding	99.5	93.3	6.2	7 %	98.7	87.5	11.2	13 %

(A) Amounts attributable to NIC.

Sales and revenues, net

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

(in millions, except % change)	Three Months Ended April 30,				Six Months Ended April 30,			
	2018	2017	Change	% Change	2018	2017	Change	% Change
Truck	\$ 1,704	\$ 1,398	\$ 306	22 %	\$ 2,955	\$ 2,425	\$ 530	22 %
Parts	601	610	(9)	(1)%	1,169	1,180	(11)	(1)%
Global Operations	97	70	27	39 %	178	120	58	48 %
Financial Services	63	56	7	13 %	122	110	12	11 %
Corporate and Eliminations	(43)	(38)	(5)	13 %	(97)	(76)	(21)	28 %
Total	\$ 2,422	\$ 2,096	\$ 326	16 %	\$ 4,327	\$ 3,759	\$ 568	15 %

In the second quarter of 2018, our Truck segment net sales increased by \$306 million or 22%. The increase is primarily due to higher volumes in our Core markets, higher export truck volumes, an increase in military sales, and a shift in model mix, partially offset by a decline in Mexico truck volumes. Chargeouts from our Core markets increased by 17% during the second quarter of 2018. In the first half of 2018, our Truck segment net sales increased by \$530 million, or 22%. The increase is primarily due to higher volumes in our Core markets, an increase in military sales, a shift in model mix and the sale of GM-

branded units manufactured for General Motors Company ("GM"), partially offset by a decline in our Mexico truck volumes. Chargeouts from our Core markets increased by 19% during the first half of 2018.

In the second quarter and first half of 2018, our Parts segment sales decreased by \$9 million and \$11 million, or 1% in both periods, respectively. The decrease is primarily due to lower U.S. volumes and Blue Diamond Parts, LLC ("BDP") sales, partially offset by higher Mexico volumes and parts sales related to the Fleetrite™ brand.

In the second quarter and first half of 2018, our Global Operations segment net sales increased by \$27 million and \$58 million, or 39% and 48%, respectively. The increase was primarily driven by higher engine volumes in our South America engine operations due to the improvement in the Brazilian economy.

In the second quarter and first half of 2018, our Financial Services segment net revenues increased by \$7 million and \$12 million, or 13% and 11%, respectively. The increase is primarily driven by higher overall finance receivable balances in the U.S. and Mexico.

Costs of products sold

In the second quarter and first half of 2018, Costs of products sold increased by \$211 million and \$373 million, respectively. The increase was primarily driven by the impact of higher volumes in our Core markets and a decrease in used truck losses.

In the second quarter and first half of 2018, we recorded a charge in our Truck segment for our used truck reserve of \$12 million and \$22 million, respectively, compared to a charge of \$60 million and \$88 million in the respective prior year periods. In the second quarter and first half of 2018, we recorded a charge for adjustments to pre-existing warranties of \$6 million and net adjustments of zero, respectively, compared to a charge of \$7 million and a benefit of \$10 million in the respective prior year periods.

Restructuring Charges

In the second quarter and first half of 2018, Restructuring charges decreased by \$1 million and \$11 million compared to the second quarter and first half of 2017. The decrease in the first half was primarily driven by a charge of \$6 million related to the closure of our Chatham, Ontario plant in the first quarter of 2017. For more information, see Note 2, *Restructuring and Impairments*, to the accompanying consolidated financial statements.

Selling, general and administrative ("SG&A") expenses

In the second quarter and first half of 2018, SG&A expenses decreased by \$1 million and increased by \$21 million, respectively. The increase in the first half of 2018 is primarily due to an increase in employee compensation expenses and a pension settlement accounting charge of \$9 million.

Engineering and product development costs

In the second quarter and first half of 2018, Engineering and product development costs increased by \$10 million and \$22 million, respectively. This is primarily due to our development agreements with VW T&B involving the expense of certain engine and transmission development costs.

Other expense (income), net

In the second quarter and first half of 2018, Other expenses decreased by \$18 million and increased by \$39 million, respectively. The increase in the first half of 2018 was primarily driven by \$46 million of charges related to the extinguishment of unamortized debt issuance costs, discounts and tender premium payments associated with the repurchase of our 8.25% Senior Notes and refinancing of our previous Term Loan, partially offset by favorable movements in foreign currency exchange rates.

Income tax expense

In the second quarter and first half of 2018, our Income tax expense increased by \$1 million and \$12 million, respectively, compared to the second quarter and first half of 2017. The increase was primarily driven by 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 item, due in part to the deferred tax valuation allowances on the U.S. deferred tax assets.

Net income attributable to non-controlling interests

Net income attributable to non-controlling interests is the result of our consolidation of subsidiaries that we do not wholly own. Substantially all of the net income attributable to non-controlling interests in 2018 and 2017 relates to Ford Motor Company's non-controlling interest in BDP.

Segment Results of Operations

We define segment profit (loss) as net income (loss) attributable to NIC excluding income tax benefit (expense). The following sections analyze operating results as they relate to our four segments and do not include intersegment eliminations. For additional information concerning our segments, see Note 11, *Segment Reporting*, to the accompanying consolidated financial statements.

Truck Segment

(in millions, except % change)	Three Months Ended April 30,				Six Months Ended April 30,			
	2018	2017	Change	% Change	2018	2017	Change	% Change
Truck segment sales, net	\$ 1,704	\$ 1,398	\$ 306	22%	\$ 2,955	\$ 2,425	\$ 530	22%
Truck segment profit (loss)	42	(56)	98	175%	35	(125)	160	128%

Segment sales

In the second quarter of 2018, our Truck segment net sales increased by \$306 million or 22%. The increase is primarily due to higher volumes in our Core markets, higher export truck volumes, an increase in military sales, and a shift in model mix, partially offset by a decline in Mexico truck volumes. Chargeouts from our Core markets increased by 17% during the second quarter of 2018, which is reflective of an improvement in Class 8 industry volumes and market share. The improvement represents a 71% increase in Class 8 heavy trucks, a 5% increase in Class 8 severe service trucks and a 7% increase in school buses, partially offset by a 3% decrease in medium trucks.

In the first half of 2018, our Truck segment net sales increased by \$530 million, or 22%. The increase is primarily due to higher volumes in our Core markets, an increase in military sales, a shift in model mix and the sale of GM-branded units manufactured for GM, partially offset by a decline in our Mexico truck volumes. Chargeouts from our Core markets increased by 19% during the first half of 2018 which is reflective of an improvement in Class 8 industry volumes and market share. The improvement represents a 64% increase in Class 8 heavy trucks, a 11% increase in Class 8 severe service trucks, a 7% increase in school buses and a 3% increase in medium trucks.

Segment profit

In the second quarter and first half of 2018, our Truck segment results improved by \$98 million and \$160 million, respectively. The improvement is primarily driven by the impact of higher volumes in our Core markets and a decline in used truck losses.

In the second quarter and first half of 2018, we recorded a charge in our Truck segment for our used truck reserve of \$12 million and \$22 million compared to a charge of \$60 million and \$88 million in the respective prior year periods. During the second quarter of 2017, we implemented a shift in market mix to include an increase in volume to certain export markets, which had a lower price point as compared to sales through our domestic channels, and to lower domestic pricing to enable higher sales velocity. In the second quarter and first half of 2018, we recorded a charge of \$6 million and a net adjustment of zero in our Truck segment for adjustments to pre-existing warranties compared to a charge of \$7 million and a benefit of \$10 million in the respective prior year periods.

Parts Segment

(in millions, except % change)	Three Months Ended April 30,				Six Months Ended April 30,			
	2018	2017	Change	% Change	2018	2017	Change	% Change
Parts segment sales, net.....	\$ 601	\$ 610	\$ (9)	(1)%	\$ 1,169	\$ 1,180	\$ (11)	(1)%
Parts segment profit	132	153	(21)	(14)%	269	302	(33)	(11)%

Segment sales

In the second quarter and first half of 2018, our Parts segment sales decreased by \$9 million and \$11 million, respectively. The decrease is primarily due to lower U.S. volumes and BDP sales, partially offset by higher Mexico volumes and parts sales related to the Fleetrite™ brand.

Segment profit

In the second quarter and first half of 2018, our Parts segment profit decreased by \$21 million and \$33 million, or 14% and 11%, respectively, primarily due to lower U.S. margins, higher freight-related expenses, and intercompany access fees. Access fees are allocated to our Parts segment from our Truck segment, primarily for the development of new products, and consist of

certain engineering and product development costs, depreciation expense, and SG&A expenses. The first half of 2018 was also impacted by lower BDP margins.

Global Operations Segment

(in millions, except % change)	Three Months Ended April 30,				Six Months Ended April 30,			
	2018	2017	Change	% Change	2018	2017	Change	% Change
Global Operations segment sales, net.....	\$ 97	\$ 70	\$ 27	39%	\$ 178	\$ 120	\$ 58	48%
Global Operations segment profit (loss).	1	(7)	8	114%	(6)	(11)	5	45%

Segment sales

In the second quarter and first half of 2018, our Global Operations segment net sales increased by \$27 million and \$58 million, or 39% and 48%, respectively. The increase was primarily driven by higher engine volumes in our South America engine operations due to the improving Brazilian economy.

Segment profit

In the second quarter and first half of 2018, our Global Operations segment profit increased by \$8 million and \$5 million, or 114% and 45%, respectively. The increase in segment profit was driven by the impact of higher engine volumes and cost-reduction actions initiated in 2017. In the first half of 2017, our Global Operations segment loss was mitigated by a one-time benefit of \$9 million recognized as an adjustment to pre-existing warranties.

Financial Services Segment

(in millions, except % change)	Three Months Ended April 30,				Six Months Ended April 30,			
	2018	2017	Change	% Change	2018	2017	Change	% Change
Financial Services segment revenues, net	\$ 63	\$ 56	\$ 7	13%	\$ 122	\$ 110	\$ 12	11%
Financial Services segment profit	19	15	4	27%	39	28	11	39%

Segment revenues

In the second quarter and first half of 2018, our Financial Services segment net revenues increased by \$7 million and \$12 million, or 13% and 11%, respectively. The increase is primarily driven by higher overall finance receivable balances in the U.S. and Mexico.

Segment profit

In the second quarter and first half of 2018, our Financial Services segment profit increased by \$4 million and \$11 million, or 27% and 39%, respectively. The increase is primarily driven by improved interest margins. The first half of 2018 was also impacted by a decrease in the provision for loan losses in Mexico.

Supplemental Information

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

Truck Industry Retail Deliveries

The following table summarizes approximate industry retail deliveries for our Core markets, categorized by relevant class, according to Wards Communications and R.L. Polk & Co. ("Polk") and our Core retail deliveries:

(in units)	Three Months Ended April 30,				Six Months Ended April 30,			
	2018	2017	Change	% Change	2018	2017	Change	% Change
Core markets (U.S. and Canada)								
School buses ^(A)	5,000	5,200	(200)	(4)%	10,900	12,600	(1,700)	(13)%
Class 6 and 7 medium trucks	26,000	24,000	2,000	8 %	48,900	43,800	5,100	12 %
Class 8 heavy trucks	45,500	30,300	15,200	50 %	89,500	62,300	27,200	44 %
Class 8 severe service trucks	17,300	14,900	2,400	16 %	34,400	28,600	5,800	20 %
Total Core markets	93,800	74,400	19,400	26 %	183,700	147,300	36,400	25 %
Combined class 8 trucks	62,800	45,200	17,600	39 %	123,900	90,900	33,000	36 %
Navistar Core retail deliveries	16,400	13,700	2,700	20 %	29,600	24,500	5,100	21 %

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

Truck Retail Delivery Market Share

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

	Three Months Ended				
	April 30, 2018	January 31, 2018	October 31, 2017	July 31, 2017	April 30, 2017
Core markets (U.S. and Canada)					
Class 6 and 7 medium trucks	26%	20%	23%	25%	29%
Class 8 heavy trucks	13%	11%	14%	10%	11%
Class 8 severe service trucks	12%	12%	16%	12%	11%
Combined class 8 trucks	13%	11%	15%	11%	11%

Truck Orders, net

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

(in units)	Three Months Ended April 30,				Six Months Ended April 30,			
	2018	2017	Change	% Change	2018	2017	Change	% Change
Core markets (U.S. and Canada)								
School buses ^(A)	4,100	3,700	400	11%	7,100	5,800	1,300	22%
Class 6 and 7 medium trucks	7,100	4,700	2,400	51%	16,100	11,200	4,900	44%
Class 8 heavy trucks.....	9,700	4,400	5,300	120%	19,000	8,100	10,900	135%
Class 8 severe service trucks.....	3,700	2,100	1,600	76%	6,000	4,200	1,800	43%
Total Core markets	24,600	14,900	9,700	65%	48,200	29,300	18,900	65%
Combined class 8 trucks	13,400	6,500	6,900	106%	25,000	12,300	12,700	103%

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

Truck Backlogs

We define order backlogs ("backlogs") as orders yet to be built as of the end of the period. Our backlogs do not represent guarantees of purchases by customers or dealers and are subject to cancellation. Although backlogs are one of many indicators of market demand, other factors such as changes in production rates, internal and supplier available capacity, new product introductions, and competitive pricing actions may affect point-in-time comparisons. Backlogs exclude units in inventory awaiting additional modifications or delivery to the end customer. The following table summarizes our approximate backlog for Core units:

(in units)	As of April 30,			
	2018	2017	Change	% Change
Core markets (U.S. and Canada)				
School buses ^(A)	4,000	3,200	800	25%
Class 6 and 7 medium trucks	9,500	4,300	5,200	121%
Class 8 heavy trucks	14,300	6,600	7,700	117%
Class 8 severe service trucks	4,200	2,500	1,700	68%
Total Core markets	32,000	16,600	15,400	93%
Combined class 8 trucks	18,500	9,100	9,400	103%

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

Truck Chargeouts

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

(in units)	Three Months Ended April 30,				Six Months Ended April 30,			
	2018	2017	Change	% Change	2018	2017	Change	% Change
Core markets (U.S. and Canada)								
School buses ^(A)	2,900	2,700	200	7 %	4,800	4,500	300	7 %
Class 6 and 7 medium trucks	6,800	7,000	(200)	(3)%	11,200	10,900	300	3 %
Class 8 heavy trucks	5,800	3,400	2,400	71 %	10,000	6,100	3,900	64 %
Class 8 severe service trucks	2,000	1,900	100	5 %	4,100	3,700	400	11 %
Total Core markets	17,500	15,000	2,500	17 %	30,100	25,200	4,900	19 %
Non "Core" military	200	100	100	100 %	400	300	100	33 %
Other markets ^(B)	2,300	2,300	—	— %	3,400	4,000	(600)	(15)%
Total worldwide units	20,000	17,400	2,600	15 %	33,900	29,500	4,400	15 %
Combined class 8 trucks	7,800	5,300	2,500	47 %	14,100	9,800	4,300	44 %

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

(B) Other markets primarily consist of Export Truck and Mexico.

Liquidity and Capital Resources

Consolidated cash, cash equivalents, and marketable securities

(in millions)	As of	
	April 30, 2018	October 31, 2017
Consolidated cash and cash equivalents.....	\$ 1,100	\$ 706
Consolidated marketable securities	40	370
Consolidated cash, cash equivalents, and marketable securities.....	<u>\$ 1,140</u>	<u>\$ 1,076</u>

(in millions)	As of	
	April 30, 2018	October 31, 2017
Manufacturing operations.....	\$ 1,100	\$ 1,036
Financial Services operations	40	40
Consolidated cash, cash equivalents, and marketable securities.....	<u>\$ 1,140</u>	<u>\$ 1,076</u>

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

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

Consolidated cash, cash equivalents, and marketable securities totaled \$1.1 billion at April 30, 2018, which includes an immaterial amount of cash and cash equivalents primarily attributable to BDP that is generally not available to satisfy our obligations. For additional information on the consolidation of BDP, see Note 1, *Summary of Significant Accounting Policies*, to the accompanying consolidated financial statements.

Cash Requirements

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

We have generally financed our Manufacturing operations with cash, funding from our Financial Services operations, equity, and access to the capital markets. We also have a \$125 million Amended and Restated Asset-Based Credit Facility. Our borrowing capacity under this facility is subject to a \$13 million liquidity block. As of April 30, 2018, we have issued certain letters of credit but have no borrowings. We maintain availability to borrow under the Amended and Restated Asset-Based Credit Facility. Also, we have capacity under our various debt arrangements to incur incremental debt. Additionally, the covenants in all of our debt agreements permit us to refinance existing debt instruments as they mature.

Our Manufacturing operations sold \$3.7 billion of wholesale notes and accounts receivable to our Financial Services operations during the six months ended April 30, 2018. The total outstanding balance of wholesale notes and accounts receivable purchased was \$1.5 billion as of April 30, 2018. Our Financial Services operations also make loans and provide dividends,

return of capital and tax upstreams to our Manufacturing operations. Total loans outstanding from our Financial Services operations to our Manufacturing operations were \$91 million at April 30, 2018.

Included in loans made from Financial Services to Manufacturing operations is an intercompany financing from NFC that is secured by a first priority lien on used truck inventory, and certain related assets, (the "Intercompany Used Truck Loan"). As of April 30, 2018 and October 31, 2017, our borrowings under the Intercompany Used Truck Loan were \$29 million. Our Manufacturing operations also have an intercompany revolving loan agreement (the "Intercompany Revolving Loan") with our captive insurance company under our Financial Services segment. During the six months ended April 30, 2018, our borrowings under the Intercompany Revolving Loan agreement remained at \$7 million. Our Financial Services operations in Mexico extend working capital loans to our Manufacturing operations in Mexico for orders received. As of April 30, 2018 and October 31, 2017, the borrowings of our Manufacturing operations in Mexico under these loan agreements were \$55 million.

Our Financial Services operations have traditionally relied upon secured borrowings on finance receivables, short and long-term bank borrowings, medium and long-term debt, and commercial paper in Mexico to fund products sold or leased by Navistar, our dealers, and retail customers. We use a number of special purpose entities ("SPEs") to securitize receivables. Navistar Financial Securities Corporation ("NFSC") finances wholesale notes, International Truck Leasing Corporation finances operating leases and some finance leases, and Truck Retail Accounts Corporation ("TRAC") finances retail accounts. Our Financial Services operations in Mexico provide vehicle financing, leasing and insurance brokerage services to our dealers and retail customers in Mexico.

As of April 30, 2018, the aggregate amount available to fund finance receivables under our Financial Services facilities was \$354 million. Included under our Financial Services facilities is the NFC bank credit facility. The revolving portion of the facility matures in September 2021 and the term loan portion of the facility matured in June 2018. The borrowings on the revolving portion of the NFC amended and extended bank credit facility totaled \$212 million as of April 30, 2018. The balance of the term loan portion of the facility was \$72 million as of April 30, 2018.

In November 2017, we issued \$1.1 billion aggregate principal amount of 6.625% Senior Notes and signed a \$1.6 billion Term Loan Credit Agreement. The proceeds from the offering of our 6.625% Senior Notes were used to purchase a portion of our previously existing 8.25% Senior Notes and to pay accrued and unpaid interest thereon, and pay the associated prepayment premiums, certain transaction fees and expenses incurred in connection with the 6.625% Senior Notes. A portion of the proceeds from our Term Loan Credit Agreement were used to repay all outstanding loans under our previously existing Term Loan, to pay accrued and unpaid interest thereon, and pay certain transaction fees and expenses incurred in connection with the new Term Loan Credit Agreement, and to repurchase the remaining outstanding 8.25% Senior Notes and associated accrued but unpaid interest thereon. The remainder of the proceeds of the Term Loan Credit Agreement will be used for ongoing working capital purposes and general corporate purposes.

On November 6, 2017, the Company entered into Tax Exempt Bond Amendments to adjust various restrictive covenants included in the loan agreements relating to the Tax Exempt Bonds, including to permit the Company to incur secured debt of up to \$1.7 billion, in exchange for a coupon increase from 6.50% to 6.75% and the grant of a junior priority lien on certain collateral securing our previously existing Term Loan and the new Term Loan Credit Agreement.

In December 2017, the maturity date of the variable funding notes ("VFN") facility was extended from May 2018 to December 2018, and the maximum capacity was reduced from \$425 million to \$350 million.

In January 2018, the maturity date of the \$100 million Truck Retail Accounts Corporation ("TRAC") funding facility was extended from April 2018 to January 2019.

During fiscal 2018, our Manufacturing operations expect to repay our 4.50% Senior Subordinated Convertible Notes, due October 2018. Our Financial Services operations retired the term loan portion of the NFC bank credit facility on June 1, 2018 and expects to enter into a replacement facility. Additionally, NFSC intends to enter into a new facility to replace the \$300 million of investor notes maturing in September 2018.

Cash Flow Overview

	Six Months Ended April 30, 2018		
(in millions)	Manufacturing Operations ^(A)	Financial Services Operations and Adjustments ^(A)	Condensed Consolidated Statement of Cash Flows
Net cash used in operating activities.....	\$ (38)	\$ (59)	\$ (97)
Net cash provided by investing activities.....	229	—	229
Net cash provided by financing activities.....	209	60	269
Effect of exchange rate changes on cash and cash equivalents.....	(6)	(1)	(7)
Increase in cash and cash equivalents.....	394	—	394
Cash and cash equivalents at beginning of the period.....	666	40	706
Cash and cash equivalents at end of the period.....	<u>\$ 1,060</u>	<u>\$ 40</u>	<u>\$ 1,100</u>

	Six Months Ended April 30, 2017		
(in millions)	Manufacturing Operations ^(A)	Financial Services Operations and Adjustments ^(A)	Condensed Consolidated Statement of Cash Flows
Net cash provided by (used in) operating activities.....	\$ (222)	\$ 115	\$ (107)
Net cash used in investing activities.....	(207)	(64)	(271)
Net cash provided by (used in) financing activities.....	415	(71)	344
Effect of exchange rate changes on cash and cash equivalents.....	—	1	1
Decrease in cash and cash equivalents.....	(14)	(19)	(33)
Cash and cash equivalents at beginning of the period.....	761	43	804
Cash and cash equivalents at end of the period.....	<u>\$ 747</u>	<u>\$ 24</u>	<u>\$ 771</u>

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

Manufacturing Operations

Manufacturing Operations Cash Flow from Operating Activities

Cash used in operating activities was \$38 million and \$222 million in the six months ended April 30, 2018 and 2017, respectively. The lower use of cash from operating activities in 2018 compared to 2017 was primarily attributable to higher net income, an increase in net payables with our Financial Services operations, an increase in the collections of accounts receivable, a decrease in noncurrent assets and increases in accounts payable and noncurrent liabilities, partially offset by higher inventories and an increase in other current liabilities.

Cash paid for interest, net of amounts capitalized, was \$122 million and \$114 million in the six months ended April 30, 2018 and 2017, respectively.

Manufacturing Operations Cash Flow from Investing Activities

Cash provided by investing activities was \$229 million in the six months ended April 30, 2018, compared to cash used in investing activities of \$207 million in the six months ended April 30, 2017. The net increase in cash flow from investing activities in 2018 compared to 2017 was primarily attributable to lower purchases and higher sales of marketable securities and a decrease in capital expenditures partially offset by an increase in the amount of restricted cash, higher purchases of equipment leased to others and lower proceeds from sales of property and equipment.

Manufacturing Operations Cash Flow from Financing Activities

Cash provided by financing activities was \$209 million and \$415 million in the six months ended April 30, 2018 and 2017, respectively. The net decrease in cash flow from financing activities in 2018 compared to 2017 was primarily attributable to higher principal repayments of long-term debt, a decrease in the amount of proceeds received from the issuance of common stock and higher debt issuance costs, partially offset by higher proceeds from the issuance of long-term debt, an increase in the amount of proceeds from finance lease obligations and loan repayments in the prior year period to our Financial Services operations including funding under the Intercompany Used Truck Loan.

Financial Services Operations

Financial Services Operations and Adjustments to Cash Flow from Operating Activities

Cash used in operating activities was \$59 million in the six months ended April 30, 2018 compared to cash provided by operating activities of \$115 million in the six months ended April 30, 2017. The decrease in cash provided by operating activities compared to 2017 was primarily due to a greater increase in the level of finance receivables funded and an increase in net receivables with our Manufacturing operations.

Cash paid for interest, net of amounts capitalized, was \$36 million and \$34 million for the six months ended April 30, 2018 and 2017, respectively.

Financial Services Operations and Adjustments to Cash Flow from Investing Activities

Cash in investing activities was net zero and cash used was \$64 million in the six months ended April 30, 2018 and 2017, respectively. Changes in restricted cash levels required under our secured borrowings, along with purchases of equipment leased to others, were the primary sources and uses of cash from investing activities in 2018 and 2017. The decrease in cash used in investing activities in the current period was primarily due to a decline in restricted cash levels required under secured borrowings compared to an increase in the prior year period. This decrease in cash used was partially offset by an increase in purchases of equipment leased to others.

Financial Services Operations and Adjustments to Cash Flow from Financing Activities

Cash provided by financing activities was \$60 million compared to cash used of \$71 million in the six months ended April 30, 2018 and 2017, respectively. The decrease in cash used in financing activities compared to 2017 was primarily due to the increase in borrowing levels associated with the increase in the level of finance receivables funded and an increase in net receivables with our Manufacturing operations.

Consolidated EBITDA and Adjusted EBITDA

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

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

EBITDA reconciliation:

(in millions)	Three Months Ended April 30,		Six Months Ended April 30,	
	2018	2017	2018	2017
Income (loss) attributable to NIC, net of tax.....	\$ 55	\$ (80)	\$ (18)	\$ (142)
<i>Plus:</i>				
Depreciation and amortization expense	54	53	109	112
Manufacturing interest expense ^(A)	58	68	116	130
<i>Adjusted for:</i>				
Income tax expense	(7)	(6)	(22)	(10)
EBITDA	<u>\$ 174</u>	<u>\$ 47</u>	<u>\$ 229</u>	<u>\$ 110</u>

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

(in millions)	Three Months Ended April 30,		Six Months Ended April 30,	
	2018	2017	2018	2017
Interest expense	\$ 79	\$ 89	\$ 158	\$ 171
Less: Financial services interest expense	21	21	42	41
Manufacturing interest expense	<u>\$ 58</u>	<u>\$ 68</u>	<u>\$ 116</u>	<u>\$ 130</u>

Adjusted EBITDA Reconciliation:

(in millions)	Three Months Ended April 30,		Six Months Ended April 30,	
	2018	2017	2018	2017
EBITDA (reconciled above)	<u>\$ 174</u>	<u>\$ 47</u>	<u>\$ 229</u>	<u>\$ 110</u>
Adjusted for significant items of:				
Adjustments to pre-existing warranties ^(A)	6	7	—	(10)
Asset impairment charges ^(B)	1	5	3	7
Restructuring of manufacturing operations ^(C)	1	2	(2)	9
EGR product litigation ^(D)	—	—	1	—
Debt refinancing charges ^(E)	—	4	46	4
Pension settlement ^(F)	—	—	9	—
Total adjustments	<u>8</u>	<u>18</u>	<u>57</u>	<u>10</u>
Adjusted EBITDA	<u><u>\$ 182</u></u>	<u><u>\$ 65</u></u>	<u><u>\$ 286</u></u>	<u><u>\$ 120</u></u>

- (A) Adjustments to pre-existing warranties reflect changes in our estimate of warranty costs for products sold in prior periods. Such adjustments typically occur when claims experience deviates from historic and expected trends. Our warranty liability is generally affected by component failure rates, repair costs, and the timing of failures. Future events and circumstances related to these factors could materially change our estimates and require adjustments to our liability. In addition, new product launches require a greater use of judgment in developing estimates until historical experience becomes available.
- (B) In the first and second quarters of 2018, we recorded \$2 million and \$1 million, respectively, of impairment charges related to the sale of our railcar business in Cherokee, Alabama and certain assets under operating leases. In the first and second quarters of 2017, we recorded \$2 million and \$5 million respectively, of asset impairment charges related to certain assets under operating leases.
- (C) In the first and second quarters of 2018, we recorded a benefit of \$3 million and a restructuring charge of \$1 million, respectively, related to adjustments for restructuring in our Truck, Global Operations and Corporate segments. In the first and second quarters of 2017, we recorded \$7 million of restructuring charges related to the 2011 closure of our Chatham, Ontario plant and \$2 million of Corporate restructuring charges, respectively.
- (D) In the first quarter of 2018, we recognized an additional charge of \$1 million for a jury verdict related to the Milan Maxxforce engine EGR product litigation in our Truck segment.
- (E) In the first quarter of 2018, we recorded a charge of \$46 million for the write off of debt issuance costs and discounts associated with the repurchase of our 8.25% Senior Notes and the refinancing of our previously existing Term Loan.
- (F) In the first quarter of 2018, we purchased a group annuity contract for certain retired pension plan participants resulting in a plan remeasurement. As a result, we recorded a pension settlement accounting charge of \$9 million in *SG&A expenses*.

Pension and Other Postretirement Benefits

Our pension plans are funded by contributions made from Company assets in accordance with applicable U.S. and Canadian government regulations. The regulatory funding requirements are computed using an actuarially determined funded status, which is determined using assumptions that often differ from assumptions used to measure the funded status for U.S. GAAP. U.S. funding targets are determined by rules promulgated under the Pension Protection Act of 2006 (the "PPA"). The PPA additionally requires underfunded plans to achieve 100% funding over a period of time. From time to time, we have discussions with and receive requests for certain information from the Pension Benefit Guaranty Corporation ("PBGC"). The PBGC was created by the Employee Retirement Income Security Act of 1974 to encourage the continuation and maintenance of private-sector defined benefit pension plans, provide timely and uninterrupted payment of pension benefits, and keep pension insurance premiums at a minimum. In July 2012, the Moving Ahead for Progress in the 21st Century Act was signed into law, impacting the minimum funding requirements for pension plans, but not otherwise impacting our accounting for pension benefits. In August 2014, the Highway and Transportation Funding Act of 2014, which included an extension of pension funding interest rate relief, was signed into law. The Bi-Partisan Budget Act of 2015 was signed into law in November of 2015 and provided for further extension of interest rate relief. These legislative measures will reduce our funding requirements over the next five years.

For the three and six months ended April 30, 2018, we contributed \$32 million and \$53 million, respectively, and for the three and six months ended April 30, 2017, we contributed \$24 million and \$46 million, respectively, to our U.S. and Canadian pension plans (the "Plans") to meet regulatory minimum funding requirements. We currently anticipate additional contributions of approximately \$81 million during the remainder of 2018. Future contributions are dependent upon a number of factors, principally the changes in values of plan assets, changes in interest rates, and the impact of any future funding relief. We currently expect that from 2019 through 2021, we will be required to contribute \$140 million to \$190 million per year to the Plans, depending on asset performance and discount rates.

For more information, see Note 7, *Postretirement Benefits*, to the accompanying consolidated financial statements.

Other Information

Environmental Matters

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

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

Impact of Environmental Regulation

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

In December 2014, California adopted GHG emission rules for heavy duty vehicles equivalent to EPA phase 1 rules and is in the process of adopting its phase 2 equivalent rules. California also in 2014 adopted an optional lower emission standard for oxides of nitrogen ("NOx") in California. California has stated its intention to lower NOx standards for California-certified engines and has requested that the EPA lower its standards. In June 2016, several regional air quality management districts in California and other states, as well as the environmental agencies for several states, petitioned the EPA to adopt lower NOx emission standards for on-road heavy duty trucks and engines. EPA responded to the petition in December 2016 stating that it would consider additional NOx regulations targeting model year 2024, but has not to date formally commenced any further NOx regulations. EPA and the California Air Resources Board (CARB) may also consider other actions, including extended emission warranties. California is currently considering regulatory requirements to expand the zero emissions truck market, including the mandated sale of certain vehicles.

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

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

Critical Accounting Policies and Estimates

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

Our significant accounting policies and critical accounting estimates are consistent with those discussed in Note 1, *Summary of Significant Accounting Policies*, to the consolidated financial statements and the MD&A section of our Annual Report on Form 10-K for the year ended October 31, 2017. During the six months ended April 30, 2018, there were no significant changes in our application of our critical accounting policies.

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

- *Pension and Other Postretirement Benefits*
- *Allowance for Doubtful Accounts*
- *Income Taxes*
- *Impairment of Long-Lived Assets*
- *Contingency Accruals*
- *Inventories*

Recently Issued Accounting Standards

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

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

See Item 7A, Quantitative and Qualitative Disclosures about Market Risk, of our Annual Report on Form 10-K for the year ended October 31, 2017. During the six months ended April 30, 2018, there have been no material changes in our exposure to market risk.

Item 4. *Controls and Procedures*

(a) Evaluation of Disclosure Controls and Procedures

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

In connection with the preparation of this report, management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of April 30, 2018. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the quarter ended April 30, 2018, our disclosure controls and procedures were effective.

(b) Changes in Internal Control over Financial Reporting

There were no material changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15 and 15d-15 under the Exchange Act that occurred during the quarter ended April 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. *Legal Proceedings*

The information required to be set forth under this heading is incorporated by reference from Note 10, *Commitments and Contingencies*, to the Consolidated Financial Statements included in Part I, Item 1.

Item 1A. *Risk Factors*

During the six months ended April 30, 2018, there have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K for our year ended October 31, 2017 and in our Quarterly Report on Form 10-Q for the fiscal quarter ended January 31, 2018.

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

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities

None.

Item 3. *Defaults upon Senior Securities*

None.

Item 4. *Mine Safety Disclosures*

Not applicable.

Item 5. *Other Information*

None.

Item 6. *Exhibits*

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

All exhibits other than those indicated above are omitted because of the absence of the conditions under which they are required or because the information called for is shown in the consolidated financial statements and notes thereto in the Quarterly Report on Form 10-Q for the period ended April 30, 2018.

SIGNATURE

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

NAVISTAR INTERNATIONAL CORPORATION
(Registrant)

/s/ SAMARA A. STRYCKER

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

June 5, 2018

Additional Financial Information (Unaudited)

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

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

(in millions)	For the Three Months Ended April 30, 2018			
	Manufacturing Operations	Financial Services Operations	Adjustments	Consolidated Statement of Operations
Sales of manufactured products.....	\$ 2,382	\$ —	\$ —	\$ 2,382
Finance revenues	—	63	(23)	40
Sales and revenues, net	2,382	63	(23)	2,422
Costs of products sold.....	1,987	—	—	1,987
Restructuring charges	1	—	—	1
Asset impairment charges.....	1	—	—	1
Selling, general and administrative expenses	196	25	(1)	220
Engineering and product development costs	75	—	—	75
Interest expense	58	21	—	79
Other expense (income), net.....	15	(2)	(22)	(9)
Total costs and expenses	2,333	44	(23)	2,354
Equity in income of non-consolidated affiliates.....	—	—	—	—
Income before equity income from financial services operations and income taxes.....	49	19	—	68
Equity income from financial services operations.....	16	—	(16)	—
Income before income tax	65	19	(16)	68
Income tax expense.....	(4)	(3)	—	(7)
Net income.....	61	16	(16)	61
Less: Net income attributable to non-controlling interests....	6	—	—	6
Net income attributable to Navistar International Corporation	\$ 55	\$ 16	\$ (16)	\$ 55

Condensed Statements of Revenues and Expenses

Navistar International Corporation

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

For the Six Months Ended April 30, 2018

(in millions)	Manufacturing Operations	Financial Services Operations	Adjustments	Consolidated Statement of Operations
Sales of manufactured products	\$ 4,249	\$ —	\$ —	\$ 4,249
Finance revenues	—	122	(44)	78
Sales and revenues, net	4,249	122	(44)	4,327
Costs of products sold.....	3,519	—	—	3,519
Restructuring charges	(2)	—	—	(2)
Asset impairment charges.....	3	—	—	3
Selling, general and administrative expenses	398	45	(1)	442
Engineering and product development costs	150	—	—	150
Interest expense	116	42	—	158
Other expense (income), net	87	(4)	(43)	40
Total costs and expenses	4,271	83	(44)	4,310
Equity in income of non-consolidated affiliates	—	—	—	—
Income (loss) before equity income from financial services operations and income taxes	(22)	39	—	17
Equity income from financial services operations.....	32	—	(32)	—
Income before income tax	10	39	(32)	17
Income tax expense.....	(15)	(7)	—	(22)
Net income (loss)	(5)	32	(32)	(5)
Less: Net income attributable to non-controlling interests	13	—	—	13
Net income (loss) attributable to Navistar International Corporation	\$ (18)	\$ 32	\$ (32)	\$ (18)

Condensed Statements of Revenues and Expenses

Navistar International Corporation

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

For the Three Months Ended April 30, 2017

(in millions)	Manufacturing Operations	Financial Services Operations	Adjustments	Consolidated Statement of Operations
Sales of manufactured products	\$ 2,063	\$ —	\$ —	\$ 2,063
Finance revenues	—	56	(23)	33
Sales and revenues, net	2,063	56	(23)	2,096
Costs of products sold	1,776	—	—	1,776
Restructuring charges	2	—	—	2
Asset impairment charges	5	—	—	5
Selling, general and administrative expenses	200	21	—	221
Engineering and product development costs	65	—	—	65
Interest expense	70	21	(2)	89
Other expense (income), net	31	(1)	(21)	9
Total costs and expenses	2,149	41	(23)	2,167
Equity in income of non-consolidated affiliates	2	—	—	2
Income (loss) before equity income from financial services operations and income taxes	(84)	15	—	(69)
Equity income from financial services operations	11	—	(11)	—
Income (loss) before income tax	(73)	15	(11)	(69)
Income tax expense	(2)	(4)	—	(6)
Net income (loss)	(75)	11	(11)	(75)
Less: Net income attributable to non-controlling interests	5	—	—	5
Net income (loss) attributable to Navistar International Corporation	\$ (80)	\$ 11	\$ (11)	\$ (80)

Condensed Statements of Revenues and Expenses

Navistar International Corporation

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

For the Six Months Ended April 30, 2017

(in millions)	Manufacturing Operations	Financial Services Operations	Adjustments	Consolidated Statement of Operations
Sales of manufactured products	\$ 3,692	\$ —	\$ —	\$ 3,692
Finance revenues	—	110	(43)	67
Sales and revenues, net	3,692	110	(43)	3,759
Costs of products sold	3,146	—	—	3,146
Restructuring charges	9	—	—	9
Asset impairment charges	7	—	—	7
Selling, general and administrative expenses	376	46	(1)	421
Engineering and product development costs	128	—	—	128
Interest expense	134	41	(4)	171
Other expense (income), net	44	(5)	(38)	1
Total costs and expenses	3,844	82	(43)	3,883
Equity in income of non-consolidated affiliates	5	—	—	5
Income (loss) before equity income from financial services operations and income taxes	(147)	28	—	(119)
Equity income from financial services operations	20	—	(20)	—
Income (loss) before income tax	(127)	28	(20)	(119)
Income tax expense	(2)	(8)	—	(10)
Net income (loss)	(129)	20	(20)	(129)
Less: Net income attributable to non-controlling interests	13	—	—	13
Net income (loss) attributable to Navistar International Corporation	\$ (142)	\$ 20	\$ (20)	\$ (142)

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

As of April 30, 2018

(in millions)	Manufacturing Operations	Financial Services Operations	Adjustments	Consolidated Balance Sheet
Assets				
Cash and cash equivalents	\$ 1,060	\$ 40	\$ —	\$ 1,100
Marketable securities	40	—	—	40
Restricted cash	30	62	—	92
Finance and other receivables, net	326	1,994	(96)	2,224
Inventories	1,160	7	—	1,167
Goodwill	38	—	—	38
Property and equipment, net	1,032	267	—	1,299
Investments in and advances to financial services operations ...	551	—	(551)	—
Investments in non-consolidated affiliates	54	—	—	54
Deferred taxes, net	126	3	—	129
Other assets	323	21	—	344
Total assets	\$ 4,740	\$ 2,394	\$ (647)	\$ 6,487
Liabilities and stockholders' equity (deficit)				
Accounts payable	\$ 1,561	\$ 35	\$ (96)	\$ 1,500
Debt	3,629	1,721	—	5,350
Postretirement benefits liabilities	2,479	—	—	2,479
Other liabilities	1,598	87	—	1,685
Total liabilities	9,267	1,843	(96)	11,014
Stockholders' equity attributable to non-controlling interest	3	—	—	3
Stockholders' equity (deficit) attributable to controlling interest	(4,530)	551	(551)	(4,530)
Total liabilities and stockholders' equity (deficit)	\$ 4,740	\$ 2,394	\$ (647)	\$ 6,487

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

As of October 31, 2017

(in millions)	Manufacturing Operations	Financial Services Operations	Adjustments	Consolidated Balance Sheet
Assets				
Cash and cash equivalents	\$ 666	\$ 40	\$ —	\$ 706
Marketable securities	370	—	—	370
Restricted cash	24	110	—	134
Finance and other receivables, net	404	1,854	(69)	2,189
Inventories	850	7	—	857
Goodwill	38	—	—	38
Property and equipment, net	1,083	243	—	1,326
Investments in and advances to financial services operations ...	517	—	(517)	—
Investments in non-consolidated affiliates	56	—	—	56
Deferred taxes, net	125	4	—	129
Other assets	312	18	—	330
Total assets	<u>\$ 4,445</u>	<u>\$ 2,276</u>	<u>\$ (586)</u>	<u>\$ 6,135</u>
Liabilities and stockholders' equity (deficit)				
Accounts payable	\$ 1,330	\$ 31	\$ (69)	\$ 1,292
Debt	3,407	1,651	—	5,058
Postretirement benefits liabilities	2,556	—	—	2,556
Other liabilities	1,726	77	—	1,803
Total liabilities	<u>9,019</u>	<u>1,759</u>	<u>(69)</u>	<u>10,709</u>
Stockholders' equity attributable to non-controlling interest	4	—	—	4
Stockholders' equity (deficit) attributable to controlling interest	<u>(4,578)</u>	<u>517</u>	<u>(517)</u>	<u>(4,578)</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 4,445</u>	<u>\$ 2,276</u>	<u>\$ (586)</u>	<u>\$ 6,135</u>

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

For the Six Months Ended April 30, 2018

(in millions)	Manufacturing Operations	Financial Services Operations	Adjustments	Condensed Consolidated Statement of Cash Flows
Cash flows from operating activities				
Net income (loss).....	\$ (5)	\$ 32	\$ (32)	\$ (5)
Adjustments to reconcile net income (loss) to cash used in operating activities:				
Depreciation and amortization.....	73	—	—	73
Depreciation of equipment leased to others.....	9	27	—	36
Amortization of debt issuance costs and discount.....	10	5	—	15
Deferred income taxes.....	1	—	—	1
Asset impairment charges.....	3	—	—	3
Equity in income of financial services affiliates.....	(32)	—	32	—
Dividends from non-consolidated affiliates.....	4	—	—	4
Change in other intercompany receivables and payables.....	29	(29)	—	—
Other, net.....	(130)	(94)	—	(224)
Net cash used in operating activities	(38)	(59)	—	(97)
Cash flows from investing activities				
Purchases of marketable securities.....	(148)	—	—	(148)
Sales of marketable securities.....	460	—	—	460
Maturities of marketable securities.....	18	—	—	18
Net change in restricted cash and cash equivalents.....	(6)	48	—	42
Capital expenditures.....	(53)	—	—	(53)
Purchase of equipment leased to others.....	(39)	(53)	—	(92)
Other investing activities.....	(3)	5	—	2
Net cash provided by investing activities	229	—	—	229
Net cash provided by financing activities	209	60	—	269
Effect of exchange rate changes on cash and cash equivalents	(6)	(1)	—	(7)
Increase in cash and cash equivalents	394	—	—	394
Cash and cash equivalents at beginning of the period	666	40	—	706
Cash and cash equivalents at end of the period	\$ 1,060	\$ 40	\$ —	\$ 1,100

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

For the Six Months Ended April 30, 2017

(in millions)	Manufacturing Operations	Financial Services Operations	Adjustments	Condensed Consolidated Statement of Cash Flows
Cash flows from operating activities				
Net income (loss).....	\$ (129)	\$ 20	\$ (20)	\$ (129)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:				
Depreciation and amortization.....	74	1	—	75
Depreciation of equipment leased to others.....	13	24	—	37
Amortization of debt issuance costs and discount.....	16	7	—	23
Deferred income taxes.....	(2)	—	—	(2)
Asset impairment charges.....	7	—	—	7
Equity in income of non-consolidated affiliates.....	(5)	—	—	(5)
Equity in income of financial services affiliates.....	(20)	—	20	—
Dividends from non-consolidated affiliates.....	6	—	—	6
Change in intercompany receivables and payables.....	(54)	54	—	—
Other, net.....	(128)	9	—	(119)
Net cash provided by (used in) operating activities.....	(222)	115	—	(107)
Cash flows from investing activities				
Purchases of marketable securities.....	(589)	—	—	(589)
Sales of marketable securities.....	440	—	—	440
Maturities of marketable securities.....	17	—	—	17
Net change in restricted cash and cash equivalents.....	—	(48)	—	(48)
Capital expenditures.....	(65)	(1)	—	(66)
Purchase of equipment leased to others.....	(19)	(18)	—	(37)
Other investing activities.....	9	3	—	12
Net cash used in investing activities.....	(207)	(64)	—	(271)
Net cash provided by (used in) financing activities.....	415	(71)	—	344
Effect of exchange rate changes on cash and cash equivalents.....	—	1	—	1
Decrease in cash and cash equivalents.....	(14)	(19)	—	(33)
Cash and cash equivalents at beginning of the period.....	761	43	—	804
Cash and cash equivalents at end of the period.....	\$ 747	\$ 24	\$ —	\$ 771