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

Form 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2011

OR

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

For the transition period from to

Commission file number 1-9618

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

Delaware (State or other jurisdiction of incorporation or organization)	36-3359573 (I.R.S. Employer Identification No.)
4201 Winfield Road, P.O. Box 1488, Warrenville, Illinois	60555
(Address of principal executive offices)	(Zip Code)

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

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 x No o

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

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

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

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

As of May 31, 2011, the number of shares outstanding of the registrant’s common stock was 72,756,062, net of treasury shares.

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Disclosure Regarding Forward-Looking Statements

Information provided and statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (“Securities Act”), Section 21E of the Securities Exchange Act of 1934, as amended (“Exchange Act”), and the Private Securities Litigation Reform Act of 1995. Such forward-looking statements only speak as of the date of this report and Navistar International Corporation assumes no obligation to update the information included in this report.

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

- estimates we have made in preparing our financial statements;
- our development of new products and technologies;
- the anticipated volume, demand and markets for our products;
- the anticipated performance and benefits of our products and technologies, including our exhaust gas recirculation technologies;
- our business strategies;
- our expectations and estimates relating to restructuring charges and operational savings;
- our expectations relating to our retail finance receivables and retail finance revenues;
- our expectations relating to warranty costs;
- estimates relating to pension plan contributions;
- trends relating to commodity prices; and
- anticipated trends, expectations, and outlook relating to matters affecting our financial condition or results of operations.

These statements often include words such as “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate,” or similar express These statements are not guarantees of performance or results and they involve risks, uncertainties, and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, there are many factors that could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements. Factors that could cause or contribute to differences in our future financial results include those discussed in Item 1A, Risk Factors, included within our Annual Report on Form 10-K for the year ended October 31, 2010, which was filed on December 21, 2010, as well as those discussed elsewhere in this report. All future written and oral forward-looking statements by us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to above. Except for our ongoing obligations to disclose material information as required by the federal securities laws, we do not have any obligations or intention to release publicly any revisions to any forward-looking statements to reflect events or circumstances in the future or to reflect the occurrence of unanticipated events.

Available Information

We are subject to the reporting and information requirements of the Exchange Act and as a result, are obligated to file periodic and current reports, proxy statements, and other information with the United States Securities and Exchange Commission (“SEC”). We make these filings available free of charge on our website (http://www.navistar.com) as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. 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 file electronically with the SEC. Any materials we file with the SEC may also be read and/or copied at the SEC’s Public Reference Room at 100 F Street, N.E., Room 1850, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

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PART I- Financial Information

Item 1. Financial Statements

Navistar International Corporation and Subsidiaries

Consolidated Statements of Operations
(Unaudited)

	Three Months Ended April 30,		Six Months Ended April 30,	
(in millions, except per share data)	2011	2010 (Revised)(A)	2011	2010 (Revised)(A)
Sales and revenues				
Sales of manufactured products, net	$3,298	$2,690	$5,991	$5,448
Finance revenues	57	53	107	104
Sales and revenues, net	3,355	2,743	6,098	5,552
Costs and expenses				
Costs of products sold	2,701	2,189	4,900	4,451
Restructuring charges (benefit)	2	3	24	(14)
Selling, general and administrative expenses	354	359	672	695
Engineering and product development costs	137	116	266	225
Interest expense	62	64	125	131
Other income, net	10	47	21	41
Total costs and expenses	3,246	2,684	5,966	5,447
Equity in loss of non-consolidated affiliates	16	13	33	19
Income before income tax benefit (expense)	93	46	99	86
Income tax benefit (expense)	(5)	10	(5)	2
Net income	88	56	94	88
Less: Net income attributable to non-controlling interests	14	13	26	26
Net income attributable to Navistar International Corporation	$74	$43	$68	$62
Earnings per share attributable to Navistar International Corporation:				
Basic	$1.01	$0.61	$0.93	$0.87
Diluted	0.93	0.60	0.87	0.86
Weighted average shares outstanding:				
Basic	73.0	71.4	72.8	71.3
Diluted	78.6	72.8	77.3	72.4

(A) Certain amounts have been revised to reflect a retrospective change in accounting principle. See Note 1, Summary of significant accounting policies.

See Notes to Condensed Consolidated Financial Statements

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Navistar International Corporation and Subsidiaries

Consolidated Balance Sheets

(in millions, except per share data)	April 30, 2011 (Unaudited)	October 31, 2010
ASSETS		
Current assets		
Cash and cash equivalents	$390	$585
Marketable securities	738	586
Trade and other receivables, net	997	987
Finance receivables, net	1,983	1,770
Inventories	1,721	1,568
Deferred taxes, net	90	83
Other current assets	281	256
Total current assets	6,200	5,835
Restricted cash and cash equivalents	188	180
Trade and other receivables, net	100	44
Finance receivables, net	948	1,145
Investments in non-consolidated affiliates	103	103
Property and equipment (net of accumulated depreciation and amortization of $2,019 and $1,928, at the respective dates)	1,486	1,442
Goodwill	337	324
Intangible assets (net of accumulated amortization of $140 and $124, at the respective dates)	280	262
Deferred taxes, net	20	63
Other noncurrent assets	304	332
Total assets	$9,966	$9,730
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Liabilities		
Current liabilities		
Notes payable and current maturities of long-term debt	$1,370	$632
Accounts payable	1,907	1,827
Other current liabilities	1,104	1,130
Total current liabilities	4,381	3,589
Long-term debt	3,453	4,238
Postretirement benefits liabilities	2,015	2,097
Deferred taxes, net	94	142
Other noncurrent liabilities	703	588
Total liabilities	10,646	10,654
Redeemable equity securities	5	8
Convertible debt	84	—
Stockholders' deficit		
Series D convertible junior preference stock	3	4
Common stock ($0.10 par value per share, 220.0 and 110.0 shares authorized at the respective dates, 75.4 shares issued at both dates)	7	7
Additional paid in capital	2,154	2,206
Accumulated deficit	(1,810)	(1,878)
Accumulated other comprehensive loss	(1,056)	(1,196)

Common stock held in treasury, at cost (2.6 and 3.6 shares, at the respective dates)	(110)	(124)
Total stockholders' deficit attributable to Navistar International Corporation	(812)	(981)
Stockholders' equity attributable to non-controlling interests	43	49
Total stockholders' deficit	(769)	(932)
Total liabilities and stockholders' deficit	$9,966	$9,730

See Notes to Condensed Consolidated Financial Statements

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Navistar International Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended April 30,	
	2011	2010
(in millions)		(Revised)[(A)]
Cash flows from operating activities		
Net income	$94	$ 88
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	143	132
Depreciation of equipment leased to others	18	26
Deferred taxes	(5)	11
Amortization of debt issuance costs and discount	22	20
Stock-based compensation	31	16
Provision for doubtful accounts, net of recoveries	(2)	34
Equity in loss of non-consolidated affiliates, net of dividends	35	22
Other non-cash operating activities	7	34
Changes in other assets and liabilities, exclusive of the effects of businesses acquired and disposed	(117)	(117)
Net cash provided by operating activities	226	266
Cash flows from investing activities		
Purchases of marketable securities	(721)	(663)
Sales or maturities of marketable securities	569	488
Net change in restricted cash and cash equivalents	(8)	201
Capital expenditures	(185)	(78)
Purchase of equipment leased to others	(23)	(25)
Proceeds from sales of property and equipment	23	6
Investments in non-consolidated affiliates	(27)	(59)
Proceeds from sales of affiliates	6	3
Acquisition of intangibles	(7)	(11)
Business acquisitions, net of cash received	(1)	(2)
Net cash used in investing activities	(374)	(140)
Cash flows from financing activities		
Proceeds from issuance of securitized debt	348	245
Principal payments on securitized debt	(334)	(536)
Proceeds from issuance of non-securitized debt	61	557
Principal payments on non-securitized debt	(64)	(728)
Net decrease in notes and debt outstanding under revolving credit facilities	(12)	(281)
Principal payments under financing arrangements and capital lease obligations	(48)	(43)
Debt issuance costs	(5)	(22)
Proceeds from exercise of stock options	28	14
Dividends paid by subsidiaries to non-controlling interest	(32)	(33)
Net cash used in financing activities	(58)	(827)
Effect of exchange rate changes on cash and cash equivalents	11	(3)
Decrease in cash and cash equivalents	(195)	(704)
Cash and cash equivalents at beginning of period	585	1,212
Cash and cash equivalents at end of the period	$390	$ 508

(A) Certain amounts have been revised to reflect a retrospective change in accounting principle. See Note 1, Summary of significant accounting policies.

See Notes to Condensed 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	Comprehensive Income (Revised) (A)	Accumulated Deficit (Revised) (A)	Accumulated Other Comprehensive Loss	Common Stock Held in Treasury, at cost	Stockholders' Equity Attributable to Noncontrolling Interests	Total (Revised) (A)
Balance as of October 31, 2010	$ 4	$ 7	$ 2,206		$ (1,878)	$ (1,196)	$ (124)	$ 49	$ (932)
Net income				$ 68	68			26	94
Other comprehensive income:									
Foreign currency translation adjustments				61					61
Other post employment benefits				79					79
Total other comprehensive income				140		140			
Total comprehensive income				$ 208					
Transfer from redeemable equity securities upon exercise or expiration of stock options			3						3
Stock-based compensation			21						21
Stock ownership programs			8				15		23
Stock repurchase program							(1)		(1)
Cash dividends paid to non-controlling interest								(32)	(32)
Reclassification of convertible debt to mezzanine			(84)						(84)
Other	(1)								(1)

Balance as of April 30, 2011	$ 3	$ 7	$ 2,154		$ (1,810)	$ (1,056)	$ (110)	$ 43	$ (769)
Balance as of October 31, 2009	4	7	2,181		(2,072)	(1,674)	(149)	61	(1,642)
Net income				62	62			26	88
Other comprehensive income:									
Foreign currency translation adjustments				8					8
US OPEB re-measurement				309					309
Other post employment benefits				46					46
Total other comprehensive income				363		363			
Total comprehensive income				$ 425					
Transfer from redeemable equity securities upon exercise or expiration of stock options			3						3
Stock-based compensation			12						12
Stock ownership programs			(1)				14		13
Cash dividends paid to non-controlling interest								(33)	(33)
Investment from non-controlling interest								2	2
Balance as of April 30, 2010	$ 4	$ 7	$ 2,195		$ (2,010)	$ (1,311)	$ (135)	$ 56	$ (1,194)

(A) Certain amounts have been revised to reflect a retrospective change in accounting principle. See Note 1, Summary of significant accounting policies.

See Notes to Condensed Consolidated Financial Statements

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Navistar International Corporation and Subsidiaries
Notes to Condensed 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 subsidiaries are Navistar, Inc. and Navistar Financial Corporation ("NFC"). References herein to the "Company," "we," "our," or "us" refer collectively to NIC, its subsidiaries, and certain variable interest entities ("VIEs") of which we are the primary beneficiary. We operate in four principal industry segments: Truck, Engine, Parts (collectively called "manufacturing operations"), and Financial Services, which consists of NFC and our foreign finance operations (collectively called "financial services operations"). These segments are discussed in Note 13, Segment reporting.

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. Certain reclassifications were made to prior year amounts to conform to the 2011 presentation.

We prepared the accompanying unaudited consolidated financial statements in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X issued by the 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, 2010 and 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.

Revision of Previously Issued Financial Statements

Starting with the first quarter of 2011, the Company changed its method of accruing for certain incentive compensation, specifically relating to cash bonuses, for interim reporting purposes from a ratable method to a performance-based method. The Company believes that the performance-based method is preferable because it links the accrual of incentive compensation with the achievement of performance. We have revised our previously reported Consolidated Statements of Operations for the three months and six months ended April 30, 2010 and our Condensed Consolidated Statement of Cash Flows and Consolidated Statement of Stockholders' Deficit for the six months ended April 30, 2010, on a retrospective basis to reflect this change in principle based on information that would have been available as of our previous filing. The change will have no impact on our annual financial results.

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

The following table sets forth the effects of the revision on our Consolidated Statement of Operations for the three months ended April 30, 2010:

(in millions, except per share data)	As Previously Reported	Revisions for Change in Accounting Principle	As Revised
Selling, general and administrative expenses	$372	$(13)	$359
Net income	43	13	56
Net income attributable to Navistar International Corporation	30	13	43
Basic earnings per share attributable to Navistar International Corporation	0.43	0.18	0.61
Diluted earnings per share attributable to Navistar International Corporation	0.42	0.18	0.60

The following table sets forth the effects of the revision on our Consolidated Statement of Operations for the six months ended April 30, 2010:

(in millions, except per share data)	As Previously Reported	Revisions for Change in Accounting Principle	As Revised
Selling, general and administrative expenses	$710	$(15)	$695
Net income	73	15	88
Net income attributable to Navistar International Corporation	47	15	62
Basic earnings per share attributable to Navistar International Corporation	0.66	0.21	0.87
Diluted earnings per share attributable to Navistar International Corporation	0.65	0.21	0.86

The following table sets forth the effects of the revision on our Condensed Consolidated Statement of Cash Flows for the six months ended April 30, 2010:

(in millions)	As Previously Reported	Revisions for Change in Accounting Principle	As Revised
Net income	$73	$15	$88
Changes in other assets and liabilities, exclusive of the effects of businesses acquired and disposed	(102)	(15)	(117)

The following table sets forth the effects of the revision on our Consolidated Statement of Stockholders' Deficit as of April 30, 2010:

(in millions)	2010
Stockholders' deficit, as previously reported	$(1,209)
Effect of revision adjustments on net income for the six months ended April 30, 2010	15
Stockholders' deficit, as revised	$(1,194)

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The following table sets forth the effects of the change on our Consolidated Statement of Operations for the three months ended April 30, 2011:

(in millions, except per share data)	As Computed Under the Ratable Method	As Reported Under the Performance-Based Method	Effect of Change
Selling, general and administrative expenses	$351	$354	$3
Net income	91	88	(3)
Net income attributable to Navistar International Corporation	77	74	(3)
Basic earnings per share attributable to Navistar International Corporation	1.05	1.01	(0.04)
Diluted earnings per share attributable to Navistar International Corporation	0.98	0.93	(0.05)

The following table sets forth the effects of the change on our Consolidated Statement of Operations for the six months ended April 30, 2011:

(in millions, except per share data)	As Computed Under the Ratable Method	As Reported Under the Performance-Based Method	Effect of Change
Selling, general and administrative expenses	$690	$672	$(18)
Net income	76	94	18
Net income attributable to Navistar International Corporation	50	68	18
Basic earnings per share attributable to Navistar International Corporation	0.69	0.93	0.24
Diluted earnings per share attributable to Navistar International Corporation	0.65	0.87	0.22

The following table sets forth the effects of the change on our Consolidated Balance Sheet as of April 30, 2011:

(in millions)	As Computed Under the Ratable Method	As Reported Under the Performance-Based Method	Effect of Change
Other current liabilities	$1,122	$1,104	$(18)
Accumulated deficit	(1,828)	(1,810)	18

The following table sets forth the effects of the change on our Condensed Consolidated Statement of Cash Flows for the six months ended April 30, 2011:

(in millions)	As Computed Under the Ratable Method	As Reported Under the Performance-Based Method	Effect of Change
Net income	$76	$94	$18
Changes in other assets and liabilities, exclusive of the effects of businesses acquired and disposed	(99)	(117)	(18)

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

Variable Interest Entities

We are the primary beneficiary of several VIEs, primarily joint ventures, established to manufacture or distribute products and enhance our operational capabilities. We have determined for certain of our variable interests that we are the primary beneficiary as we have the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and have the obligation to absorb losses of the VIE that could potentially be significant to the VIE 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 the consolidated entities. Assets of these entities are not available to satisfy claims against our general assets.

We are the primary beneficiary of our Blue Diamond Parts ("BDP") and Blue Diamond Truck ("BDT") joint ventures with Ford Motor Company ("Ford"). As a result, our Consolidated Balance Sheets include assets of $261 million and $312 million and liabilities of $170 million and $150 million as of April 30, 2011 and October 31, 2010, respectively, from BDP and BDT, including $16 million of cash and cash equivalents at both dates, which are not readily available to satisfy our other obligations. The creditors of BDP and BDT do not have recourse to our general credit.

Our Financial Services segment consolidates several VIEs. As a result, our Consolidated Balance Sheets include assets of $1.7 billion and liabilities of $1.6 billion as of both April 30, 2011 and October 31, 2010, all of which are involved in securitizations that are treated as borrowings. In addition, our Consolidated Balance Sheets include assets of $317 million and $353 million and related liabilities of $254 million and $236 million as of April 30, 2011 and October 31, 2010, respectively, all of which are involved in structures in which we transferred assets in transactions that do not qualify for sale accounting treatment and are therefore treated as borrowings. Investors that hold securitization debt have a priority claim on the cash flows generated by the securitized assets of the respective trusts to the extent that those trusts are entitled to make principal and interest payments. Investors in securitizations of these entities have no recourse to the general credit of NIC or any other consolidated entity.

Prior to the adoption of new guidance on accounting for transfers of financial assets on November 1, 2010, our Financial Services segment did not consolidate the assets and liabilities of the conduit funding facility of Truck Retail Accounts Corporation ("TRAC"), our consolidated special purpose entity ("SPE"), as we were not the primary beneficiary of the conduit and transfers of finance receivables to the facility qualified for sales accounting treatment. TRAC retained residual economic interests in the future cash flows of the securitized assets that were owned by the conduit. We carried these retained interests as an asset, included in Finance receivables, net on our Consolidated Balance Sheets. Subsequent to the adoption of the new accounting guidance, previous transfers of finance receivables from our Financial Services segment to the TRAC conduit retained their sales accounting treatment while prospective transfers of finance receivables no longer receive sale accounting treatment.

We are also involved with 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 loss of non-consolidated affiliates represents our share of the net loss of these entities.

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. Significant estimates and assumptions are used for, but are not limited to, pension and other postretirement benefits, allowance for doubtful accounts, sales of receivables, income tax contingency accruals and valuation allowances, product warranty accruals, asbestos and other product liability accruals, asset impairment, 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 concentrations of union employees and two customers. As of April 30, 2011, approximately 6,400, or 57%, of our hourly workers and approximately 600, or 7%, of our salaried workers are represented by labor unions and are covered by collective bargaining agreements. Our collective bargaining agreement with the National Automobile, Aerospace and Agricultural Implement Workers of Canada, covering approximately 900, or 8%, of our hourly workers as of April 30, 2011, expired on June 30, 2009. As a result, we have temporarily ceased production at our Chatham, Canada facility. Negotiations for a new collective bargaining agreement are ongoing. See Note 13, Segment reporting, for discussion of customer concentrations. Additionally, our future operations may be affected by changes in governmental procurement policies, budget considerations, changing national defense requirements, and global, political, and economic developments in the U.S. and certain foreign countries (primarily Canada, Mexico, and Brazil).

Product Warranty Liability

Accrued product warranty and deferred warranty revenue activity is as follows:

	Six Months Ended April 30,	
	2011	2010
(in millions)		
Accrued product warranty and deferred warranty revenue, at beginning of period	$506	$492
Costs accrued and revenues deferred	175	117
Adjustments to pre-existing warranties[A]	36	9
Payments and revenues recognized	(187)	(146)
Accrued product warranty and deferred warranty revenue, at end of period	530	472
Less: Current portion	240	228
Noncurrent accrued product warranty and deferred warranty revenue	$290	$244

(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 and are also impacted by authorized field campaigns. In the second quarter of 2011, we recorded adjustments for changes in estimates of $27 million, or $0.34 per diluted share.

The amount of deferred revenue related to extended warranty programs was $194 million and $167 million at April 30, 2011 and October 31, 2010, respectively. Revenue recognized under our extended warranty programs was $13 million and $25 million for the three and six months ended April 30, 2011 and $11 million and $23 million for the three and six months ended April 30, 2010, respectively.

Recently Adopted Accounting Standards

As of January 31, 2011, we adopted new guidance regarding disclosures about the credit quality of financing receivables and the allowance for credit losses. The guidance requires disaggregated information about the credit quality of financing receivables and the allowance for credit losses based on portfolio segment and class, as well as disclosure of credit quality indicators, and past due information. We have complied with the disclosure requirements of the new guidance within Note 4, Allowance for doubtful accounts.

As of November 1, 2010, we adopted new guidance on accounting for transfers of financial assets. The guidance eliminates the concept of a qualifying special purpose entity ("QSPE"), changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity's continuing involvement in and exposure to the risks related to transferred financial assets. Upon adoption, transfers of finance receivables from our Financial Services segment to the TRAC funding conduit no longer receive sale accounting treatment. The adoption of this guidance did not have a material impact on our consolidated financial statements.

As of November 1, 2010, we adopted new guidance regarding the consolidation of VIEs. The guidance amends the determination of whether an enterprise is the primary beneficiary of a VIE, and is, therefore, required to consolidate the VIE, by requiring a qualitative analysis rather than a quantitative analysis. The qualitative analysis includes, among other things, consideration of who has the power to direct the activities of the entity that most significantly impact the entity's economic performance and who has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. This guidance also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE. Prior guidance required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. QSPEs, which were previously exempt from the application of this guidance, are subject to the provisions of this guidance. The guidance also requires enhanced disclosures about an enterprise's involvement with a VIE. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Standards

Accounting guidance that has not yet become effective with respect to our consolidated financial statements is described below, together with our assessment of the potential impact it may have on our consolidated financial statements:

In May 2011, the Financial Accounting Standards Board ("FASB") issued new guidance to clarify the application of existing fair value measurement requirements and to change particular principles or requirements for measuring fair value or for disclosing information about fair value measurements. This guidance is effective for interim and annual periods beginning on or after December 15, 2011, applied prospectively. Our effective date is February 1, 2012. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements. When effective, we will comply with the disclosure provisions of this guidance.

In April 2011, FASB issued new guidance which provides additional guidance to creditors for evaluating whether a modification or restructuring of a receivable is a troubled debt restructuring. The new guidance will require creditors to evaluate modifications and restructuring of receivables using a more principles-based approach, which may result in more modifications and restructurings being considered troubled debt restructurings. This guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. Our effective date is August 1, 2011. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

In January 2010, the FASB issued new guidance regarding disclosures about fair value measurements. The guidance requires new disclosures related to activity in Level 3 fair value measurements. This guidance requires purchases, sales, issuances, and settlements to be presented separately in the rollforward of activity in Level 3 fair value measurements and is effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Our effective date is November 1, 2011. When effective, we will comply with the disclosure provisions of this guidance.

2. Restructuring

The Company recognized $2 million and $24 million of restructuring charges for the three and six months ended April 30, 2011, respectively, primarily related to restructuring activities at our Fort Wayne facility and Springfield Assembly Plant. The Company recognized $3 million of restructuring charges and $14 million of restructuring benefits for the three and six months ended April 30, 2010, respectively, primarily related to restructuring activities at our Indianapolis Engine Plant ("IEP") and Indianapolis Casting Corporation ("ICC") locations. The restructuring charges recorded are 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.

The Company is utilizing proceeds from our October 2010 tax-exempt bond financing to finance the relocation of the Company's world headquarters site, the expansion of an existing warehouse facility, and the development of certain industrial facilities to facilitate the consolidation of certain operations. In the first quarter of 2011, the Company finalized the purchase of the property and buildings that we intend to develop into our new world headquarters site. We continue to develop plans for efficient transitions related to these activities and the optimization of our operations and management structure. Restructuring charges related to these activities include $1 million and $19 million for the three and six months ended April 30, 2011, respectively. In addition, we incurred other related charges of $5 million and $7 million for the three and six months ended April 30, 2011, respectively. For fiscal 2011, we expect to incur approximately $50 million of additional restructuring and related charges associated with these activities. In future periods as plans are developed, we expect to incur additional charges, as well as achieve optimization savings, beyond 2011.

Fort Wayne and Springfield restructuring activity

On October 30, 2010, our United Automobile, Aerospace and Agricultural Implement Workers of America ("UAW") represented employees ratified a new four-year labor agreement that replaced the prior contract that expired October 1, 2010. The new contract allows the Company additional flexibility in manufacturing decisions and includes provisions for the wind-down of UAW positions at our Fort Wayne facility. As a result of the contract ratification and planned wind-down of UAW positions at our Fort Wayne facility, the Truck segment recognized $9 million of restructuring charges in the fourth quarter of

2010. The restructuring charges consisted of $5 million in personnel costs for employee termination and related benefits and $4 million of charges for pension and other postretirement contractual termination benefits.

In the first quarter of 2011, the Company committed to a plan to wind-down and transfer certain operations at our Fort Wayne facility. In addition, certain employees at our Springfield Assembly Plant accepted retirement and separation incentive agreements. As a result of the restructuring activities, the Truck segment recognized an additional $1 million and $23 million of restructuring charges for the three and six months ended April 30, 2011, respectively. The restructuring charges consisted of $17 million in personnel costs for employee termination and related benefits, $5 million of charges for pension and other postretirement contractual termination benefits and $1 million of employee relocation costs.

We expect the restructuring charges, excluding pension and other postretirement costs, will be paid over the next two to three years. The following table summarizes the activity in the restructuring liability related to Fort Wayne and Springfield, which excludes pension and other postretirement contractual termination benefits:

(in millions)	Balance at October 31, 2010	Additions	Payments	Adjustments	Balance at April 30, 2011
Employee termination charges	$ 5	$17	$(4)	$—	$18
Employee relocation costs	—	1	(1)	—	—
Restructuring liability	$ 5	$18	$(5)	$—	$18

Ford related restructuring activity

In the first quarter of 2010, the Company recognized $17 million of restructuring benefits related to restructuring activity at our IEP and ICC locations. The restructuring benefit primarily related to the settlement of a portion of our other contractual costs for $16 million within the restructuring liability. The following table summarizes the activity in the restructuring liability related to Ford, which excludes pension and other postretirement contractual termination benefits charges, and the pension curtailment:

(in millions)	Balance at October 31, 2009	Additions	Payments	Adjustments	Balance at April 30, 2010
Employee termination charges	$ 20	$—	$(10)	$(1)	$9
Other contractual costs	21	—	(5)	(16)	—
Restructuring liability	$ 41	$—	$(15)	$(17)	$9

3. Finance receivables

Finance receivables are receivables of our financial services operations, which generally can be repaid without penalty prior to contractual maturity. Total finance receivables reported on the Consolidated Balance Sheets are net of an allowance for doubtful accounts. Total on-balance sheet assets of our financial services operations net of intercompany balances are $3.4 billion and $3.3 billion, as of April 30, 2011 and October 31, 2010, respectively. Included in total assets are on-balance sheet finance receivables of $2.9 billion as of April 30, 2011 and October 31, 2010.

In March 2010, we entered into a three-year Operating Agreement (with one-year automatic extensions and subject to early termination provisions) with GE Capital Corporation and GE Capital Commercial, Inc. (collectively "GE"). Under the terms of the agreement, GE became our preferred source of retail customer financing for equipment offered by us and our dealers in the U.S. We provide GE a loss sharing arrangement for certain credit losses. The primary features of the loss sharing arrangement include us reimbursing GE for credit losses in excess of the first 10% of the original value of a financed contract. The Company's exposure to loss is mitigated since receivables financed under the operating agreement are secured by the financed equipment. We do not carry the receivables financed under this operating agreement on our Consolidated Balance Sheets. There were $403 million and $144 million of outstanding finance receivables as of April 30, 2011 and October 31, 2010, respectively, financed through the operating agreement and subject to the loss sharing arrangement. The related originations of these outstanding finance receivables were $445 million and $159 million as of April 30, 2011 and October 31, 2010, respectively.

Based on our historic experience of losses on similar finance receivables and GE's first loss position, we do not believe our

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share of losses related to balances currently outstanding will be material. Historically our losses, representing the entire loss amount, on similar finance receivables, measured as a percentage of the average balance of the related finance receivable, ranged from 0.3% to 2.1%. While under limited circumstances NFC retains the rights to originate retail customer financing, we expect retail finance receivables and retail finance revenues will decline over the next five years as our retail portfolio pays down.

Pursuant to the adoption of new accounting guidance relating to disclosures about the allowance for losses and credit quality of finance receivables, we determined that we have two portfolio segments of finance receivables based on the type of financing inherent to each segment. 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 by major classification are as follows:

(in millions)	April 30, 2011	October 31, 2010
Retail portfolio	$1,734	$1,917
Wholesale portfolio	1,239	1,006
Amounts due from sales of receivables	—	53
Total finance receivables	2,973	2,976
Less: Allowance for doubtful accounts	(42)	(61)
Total finance receivables, net	2,931	2,915
Less: Current portion, net[(A)]	(1,983)	(1,770)
Noncurrent portion, net	$948	$1,145

(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, retail notes, finance leases, and operating leases through SPEs, which generally are only permitted to purchase these assets, issue asset-backed securities, and make payments on the securities. In addition to servicing receivables, our continued involvement in the SPEs includes an economic interest in the transferred receivables and, historically, managing exposure to interest rates using interest rate swaps, interest rate caps, and forward contracts. In 2010, certain sales of retail accounts receivables were considered to be sales in accordance with guidance on accounting for transfers and servicing of financial assets and extinguishment of liabilities, and were accounted for off-balance sheet. For sales that do qualify for off-balance sheet treatment, an initial gain (loss) is recorded at the time of the sale while servicing fees and excess spread income are recorded as revenue when earned over the life of the finance receivables.

We received net proceeds of $303 million and $348 million from securitizations of finance receivables and investments in operating leases accounted for as secured borrowings for the three and six months ended April 30, 2011, respectively, and $6 million and $245 million from securitizations of finance receivables and investments in operating leases accounted for as secured borrowings for the three and six months ended April 30, 2010, respectively.

Effective July 31, 2010, our Financial Services segment amended the wholesale trust agreement with the Navistar Financial Dealer Note Master Trust (“Master Trust”). The amendment disqualified the Master Trust as a QSPE and therefore required the Master Trust to be evaluated for consolidation as a VIE. As we are the primary beneficiary of the Master Trust, the Master Trust’s assets and liabilities are consolidated into the assets and liabilities of the Company. Components of available wholesale note trust funding facilities were as follows:

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(in millions)	Maturity	As of April 30, 2011	October 31, 2010
Variable funding notes (“VFN”)	August 2011	$500	$500
Investor notes	October 2012	350	350
Investor notes	January 2012	250	250
Total wholesale note funding		$1,100	$1,100

Unutilized funding related to the variable funding facilities was $350 million and $500 million at April 30, 2011 and October 31, 2010, respectively.

TRAC, our consolidated SPE, utilized a $100 million funding facility arrangement that provides for the funding of eligible retail accounts receivables. Subsequent to the adoption of new accounting guidance on accounting for transfers of financial assets, transfers of finance receivables from our Financial Services segment to the TRAC funding facility completed prior to November 1, 2010 retained their sale accounting treatment while transfers of finance receivables subsequent to November 1, 2010 no longer receive sale accounting treatment. There were no remaining outstanding retained interests as of April 30, 2011.

In January 2011, the maturity of the funding facility was extended to March 2011, and in March 2011, the funding facility was refinanced with a maturity date of March 2012. The facility is secured by $136 million of retail accounts and $31 million of cash equivalents as of April 30, 2011 and $54 million of retail accounts and $21 million of cash equivalents as of October 31, 2010. There was $22 million and $78 million of unutilized funding at April 30, 2011 and October 31, 2010, respectively. As of April 30, 2011, all pledged receivables of the SPE are consolidated.

Retained Interests in Off-Balance Sheet Securitizations

Retained interests in off-balance sheet securitizations of $53 million at October 31, 2010, represented our over-collateralization of the TRAC conduit funding facility. As of April 30, 2011, all retail accounts sold into the conduit prior to November 1, 2010 were liquidated, therefore there were no retained interests in off-balance sheet securitizations.

When retained interests are recorded, we estimate the payment speeds for the receivables sold, the discount rate used to determine the fair value of our retained interests, and the anticipated net losses on the receivables in order to calculate the initial gain or loss on the sale of the receivables. Estimates are based on historical experience, anticipated future portfolio performance, market-based discount rates and other factors and are made separately for each securitization transaction. The fair value of our retained interests is based on these assumptions. We re-evaluate the fair value of our retained interests on a monthly basis and recognize changes in current income as required. Our retained interests are recognized as an asset in Finance receivables, net.

The key economic assumptions related to the valuation of our retained interests related to our retail account securitization are as follows:

As of

	October 31, 2010	
Discount rate	7.3	%
Estimated credit losses	—	
Payment speed (percent of portfolio per month)	88.5	%

The sensitivity of our retained interests to an immediate adverse change of 10 percent and 20 percent in each assumption is not material. The effect of a variation of a particular assumption on the fair value of the retained interests is calculated based upon changing one assumption at a time. Oftentimes however, changes in one factor may result in changes in another, which in turn could magnify or counteract these sensitivities.

Finance Revenues

Finance revenues derived from receivables that are both on and off-balance sheet consist of the following:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2011	2010	2011	2010
(in millions)				
Finance revenues from on-balance sheet receivables:				
Retail notes and finance leases revenue	$39	$45	$76	$98
Operating lease revenue	8	6	15	12
Wholesale notes interest	26	6	51	12
Retail and wholesale accounts interest	6	4	12	9
Other income	—	1	—	2
Total finance revenues from on-balance sheet receivables	79	62	154	133
Revenues from off-balance sheet securitization:				
Fair value adjustments	—	13	1	20
Excess spread income	—	10	—	21
Servicing fees revenue	—	2	—	4
Gain (loss) on sale of finance receivables	4	(11)	1	(27)
Securitization income	4	14	2	18
Gross finance revenues	83	76	156	151
Less: Intercompany revenues	(26)	(23)	(49)	(47)
Finance revenues	$57	$53	$107	$104

As a result of the adoption of new accounting guidance, substantially all of our securitization activity in 2011 results in the receivables being carried on our Consolidated Balance Sheet. Cash flows from off-balance sheet securitization transactions for the three and six months ended April 30, 2010 are as follows:

	Three Months Ended April 30, 2010	Six Months Ended April 30, 2010
(in millions)		
Proceeds from finance receivables	$954	$2,027
Servicing fees	5	7
Cash from net excess spread	20	31
Net cash from securitization transactions	$979	$2,065

4. Allowance for doubtful accounts

Pursuant to the adoption of new accounting guidance relating to disclosures about the allowance for losses and credit quality of finance receivables, we determined that we have two portfolio segments of finance receivables based on the type of 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.

As the initial measurement attributes and the monitoring and assessment of credit risk or the performance of the receivables are consistent within each of our receivable portfolios, the Company determined that each portfolio consisted of one class of receivable.

The activity related to our allowance for doubtful accounts for our retail portfolio, wholesale portfolio, and trade and other receivables is summarized as follows:

	Three Months Ended April 30, 2011			
(in millions)	Retail Portfolio	Wholesale Portfolio	Trade and Other Receivables	Total
Allowance for doubtful accounts, at beginning of period	$54	$2	$38	$94
Provision for doubtful accounts, net of recoveries	1	—	(3)	(2)
Charge-off of accounts(A)	(15)	—	(1)	(16)
Allowance for doubtful accounts, at end of period	$40	$2	$34	$76

	Six Months Ended April 30, 2011			
(in millions)	Retail Portfolio	Wholesale Portfolio	Trade and Other Receivables	Total
Allowance for doubtful accounts, at beginning of period	$58	$2	$36	$96
Provision for doubtful accounts, net of recoveries	(1)	—	(1)	(2)
Charge-off of accounts(A)	(17)	—	(1)	(18)
Allowance for doubtful accounts, at end of period	$40	$2	$34	$76

(in millions)	Three Months Ended April 30, 2010	Six Months Ended April 30, 2010
Allowance for doubtful accounts, at beginning of period	$110	$104
Provision for doubtful accounts, net of recoveries	20	34
Charge-off of accounts(A)	(11)	(19)
Allowance for doubtful accounts, at end of period	$119	$119

(A) We repossess sold and leased vehicles on defaulted finance receivables and leases, and place them into Inventories. Losses recognized at the time of repossession and charged against the allowance for doubtful accounts were $12 million and $15 million for the three months and six months ended April 30, 2011, respectively, and $10 million and $18 million for the three months and six months ended April 30, 2010, respectively.

Impaired finance receivables include accounts with specific loss reserves and certain accounts that are on non-accrual status. Most balances with specific loss reserves are also on a non-accrual status. In certain cases, we continue to collect payments on our impaired finance receivables.

Information regarding impaired finance receivables is as follows:

	As of April 30, 2011		
(in millions)	Retail Portfolio	Wholesale Portfolio	Total

Impaired finance receivables with specific loss reserves	$33	$—	$33
Impaired finance receivables without specific loss reserves	1	—	1
Specific loss reserves on impaired finance receivables	15	—	15
Finance receivables on non-accrual status	18	—	18
Average balance of impaired finance receivables	39	—	39

The Company uses the aging of our receivables as well as other inputs when assessing credit quality. The aging analysis for gross finance receivables is summarized as follows:

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	As of April 30, 2011		
	Retail Portfolio	Wholesale Portfolio	Total
(in millions)			
Current	$1,790	$1,237	$3,027
30-90 days past due	55	1	56
Over 90 days past due	16	1	17
Total finance receivables	$1,861	$1,239	$3,100

5. Inventories

	As of April 30, 2011	October 31, 2010
(in millions)		
Finished products	$932	$893
Work in process	208	202
Raw materials	581	473
Total inventories	$1,721	$1,568

6. Investments in non-consolidated affiliates

Investments in non-consolidated affiliates is comprised of our interests in partially-owned affiliates of which our ownership percentages range from 10 percent to 50 percent. We do not control these affiliates, but have the ability to exercise significant influence over their operating and financial policies. Our investment in these affiliates is an integral part of our operations, and we account for them using the equity method of accounting.

Presented below is summarized financial information for NC^2 Global, LLC ("NC^2"), which is considered a significant non-consolidated affiliate. NC^2 was established in September 2009 as a joint venture with Caterpillar Inc. to develop, manufacture, and distribute conventional and cab-over truck designs to serve the global commercial truck market. Balance sheet information for NC^2 was insignificant to our Consolidated Balance Sheets as of April 30, 2011 and October 31, 2010.

	Three Months Ended April 30,		Six Months Ended April 30,	
	2011	2010	2011	2010
(in millions)				
Net revenue	$30	$13	$79	$13
Net expenses	46	29	113	39
Loss before tax expense	(16)	(16)	(34)	(26)
Net loss	(16)	(16)	(34)	(26)

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7. Debt

(in millions)	April 30, 2011	October 31, 2010
Manufacturing operations		
8.25% Senior Notes, due 2021, net of unamortized discount of $34 and $35 million at the respective dates	$966	$965
3.0% Senior Subordinated Convertible Notes, due 2014, net of unamortized discount of $84 and $94 million at the respective dates	486	476
Debt of majority-owned dealerships	93	66
Financing arrangements and capital lease obligations	166	221
Loan Agreement related to 6.5% Tax Exempt Bonds, due 2040	225	225
Other	33	33
Total manufacturing operations debt	1,969	1,986
Less: Current portion	(619)	(145)
Net long-term manufacturing operations debt	$1,350	$1,841
Financial services operations		
Asset-backed debt issued by consolidated SPEs, at variable rates, due serially through 2018	$1,769	$1,731
Bank revolvers, at fixed and variable rates, due dates from 2012 through 2018	942	974
Commercial paper, at variable rates, due serially through 2012	55	67
Borrowings secured by operating and finance leases, at various rates, due serially through 2017	88	112
Total financial services operations debt	2,854	2,884
Less: Current portion	(751)	(487)
Net long-term financial services operations debt	$2,103	$2,397

Manufacturing Operations

In October 2009, we completed the sale of $570 million aggregate principal amount of our 3.0% Senior Subordinated Convertible Notes due 2014 (the “Convertible Notes”). Holders may convert the Convertible Notes into common stock of the Company at any time on or after April 15, 2014. Holders may also convert the Convertible Notes at their option prior to April 15, 2014, under the following circumstances: (i) during any fiscal quarter commencing after January 31, 2010, if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter is greater than or equal to 130% of the applicable conversion price on each such trading day; (ii) during the five business day period after any five consecutive trading day period (the “Measurement Period”) in which the trading price per $1,000 principal amount of notes for each trading day of that Measurement Period was less than 98% of the product of the last reported sale price of the common stock and the applicable conversion rate on each such trading day; or (iii) upon the occurrence of specified corporate events, as more fully described in the Convertible Indenture. The conversion rate will initially be 19.8910 shares of common stock per $1,000 principal amount of Convertible Notes (equivalent to an initial conversion price of approximately $50.27 per share of common stock). The conversion rate may be adjusted for anti-dilution provisions and the conversion price may be decreased by the Board of Directors to the extent permitted by law and listing requirements.

The Convertible Notes can be settled in common stock, cash, or a combination of common stock and cash. Upon conversion, the Company will satisfy its conversion obligations by delivering, at its election, shares of the common stock (plus cash in lieu of fractional shares), cash, or any combination of cash and shares of the common stock. If the Company elects to settle in cash or a combination of cash and shares, the amounts due upon conversion will be based on a daily conversion value calculated on a proportionate basis for each trading day in a 40 trading-day observation period. If a holder converts its Convertible Notes on or after April 15, 2014, and the Company elects physical settlement as described above, the holder will not receive the shares of common stock into which the Convertible Notes are convertible until after the expiration of the observation period described above, even though the number of shares the holder will receive upon settlement will not change. It is our policy to settle the principal and accrued interest on the Convertible Notes with cash. In certain cases, holders may require the Company to repurchase, for cash, all or part of the Convertible Notes at a price equal to 100% of the principal amount of the Convertible

Notes being repurchased plus any accrued and unpaid interest.

Based upon the closing price of our common stock for the prescribed measurement period during the three months ended April 30, 2011, the contingent conversion threshold on the Convertible Notes was exceeded. As a result, the Convertible Notes are convertible at the option of the holder through July 31, 2011. Accordingly, since it is our policy to settle the principal and accrued interest on the Convertible Notes with cash, we reclassified (i) the portion of the Convertible Notes attributable to the conversion feature, which had not yet been accreted to its face value, from Additional paid in capital to Convertible debt and (ii) the carrying value of the Convertible Notes from Long-term debt to Notes payable and current maturities of long-term debt on our Consolidated Balance Sheet as of April 30, 2011. In cases where holders decide to convert prior to the maturity date, the Company will immediately write off the proportionate amount of remaining debt issue costs. The determination of whether the Convertible Notes are convertible is performed on a quarterly basis. Consequently, the Convertible Notes may not meet any of the contingent conversion thresholds in future quarters and therefore may be reclassified to Long-term debt and Additional paid in capital.

Financial Services Operations

TRAC, our consolidated SPE, utilized a $100 million funding facility arrangement that provided for the funding of eligible retail accounts receivables. Subsequent to the adoption of new accounting guidance on accounting for transfers of financial assets, transfers of finance receivables from our Financial Services segment to the TRAC funding facility completed prior to November 1, 2010 retained their sale accounting treatment while transfers of finance receivables subsequent to November 1, 2010 no longer receive sale accounting treatment. Accordingly, borrowings secured by the transferred receivables are included in Notes payable and current maturities of long-term debt within our Consolidated Balance Sheet as of April 30, 2011. In January 2011, the maturity of the funding facility maturity was extended to March 2011, and in March 2011, the funding facility was refinanced with a maturity date of March 2012. As of April 30, 2011, all borrowings of the SPE are included in our consolidated financial statements.

8. Postretirement benefits

Defined Benefit Plans

For the three and six months ended April 30, 2011, we contributed $31 million and $52 million, respectively, and for the three and six months ended April 30, 2010, we contributed $36 million and $47 million, respectively, to our pension plans to meet regulatory minimum funding requirements. We currently anticipate additional contributions of approximately $92 million during the remainder of 2011.

Other post-employment benefit ("OPEB") obligations, such as retiree medical, are generally funded in accordance with a 1993 restructured health and life legal settlement (the "1993 Settlement Agreement"), which requires us to fund a portion of the plans' annual service cost. Contributions for the three and six months ended April 30, 2011 and 2010, and anticipated contributions for the remainder of 2011, are not material.

As discussed in Note 2, Restructuring, the Company incurred a charge of $5 million during the first quarter of 2011 due to a plan curtailment and contractual termination benefits related to restructuring activities at the Fort Wayne facility. The plan curtailment also resulted in a plan remeasurement at December 31, 2010. The discount rate used to measure the pension benefit obligation at December 31, 2010 of 5.0% was relatively unchanged from the October 31, 2010 discount rate of 4.9%. All other significant assumptions remained unchanged from the October 31, 2010 measurement date. Actuarial gains for the two months ended December 31, 2010 of $44 million, primarily due to favorable asset returns, were recognized as a credit to equity as a component of Accumulated other comprehensive loss.

During 2010, the Company made an administrative change to the prescription drug program under the OPEB plan affecting plan participants who are Medicare eligible. The Company enrolled Medicare eligible plan participants who did not opt out into a Medicare Part D Plan. The OPEB plan now supplements the coverage provided by the Medicare Part D Plan. As a result of this change, for substantially all of the Medicare eligible participants, the Company is no longer eligible to receive the Medicare Part D subsidy that is available to sponsors of retiree healthcare plans that provide prescription drug benefits that are at least actuarially equivalent to Medicare Part D. The UAW filed a motion contesting our ability to implement this administrative change and the Company filed a complaint arguing that it has not received the consideration it was promised in the 1993 Settlement Agreement. See Note 12, Commitments and contingencies, for further discussion.

Also during 2010, the Patient Protection and Affordable Care Act ("PPACA") and the Health Care and Education

Reconciliation Act of 2010 ("HCERA"), which amends certain aspects of the PPACA, were enacted. The impact of the PPACA and the HCERA was estimated and included in the measurement of the OPEB obligation. As regulations regarding implementation of the health care reform legislation are promulgated and additional guidance becomes available, our estimates may change.

In addition, in the second quarter of 2010 the Company recognized a charge of $2 million which was primarily curtailment charges related to the retiree medical plan due to the planned terminations of certain salaried employees in conjunction with NFC's U.S. financing alliance with GE.

Components of Net Postretirement Benefits Expense

Net postretirement benefits expense included in our Consolidated Statements of Operations is composed of the following:

	Three Months Ended April 30,				Six Months Ended April 30,			
	Pension Benefits		Health and Life Insurance Benefits		Pension Benefits		Health and Life Insurance Benefits	
	2011	2010	2011	2010	2011	2010	2011	2010
(in millions)								
Service cost for benefits earned during the period	$5	$5	$2	$2	$9	$9	$4	$4
Interest on obligation	47	50	14	21	94	101	27	43
Amortization of net cumulative losses	25	25	—	2	50	49	—	4
Amortization of prior service benefit	—	—	(7)	(4)	—	—	(15)	(5)
Settlement and curtailments	—	—	—	2	2	—	—	2
Contractual termination benefits	—	—	—	—	3	—	—	—
Premiums on pension insurance	1	1	—	—	1	1	—	—
Less: Expected return on assets	(53)	(48)	(11)	(10)	(105)	(96)	(21)	(20)
Net postretirement benefits expense (income)	$25	$33	$(2)	$13	$54	$64	$(5)	$28

Defined Contribution Plans

Defined contribution expense pursuant to our defined contribution plans was $8 million and $18 million for the three and six months ended April 30, 2011, respectively, and $7 million and $16 million for the three and six months ended April 30, 2010, respectively.

Other Contractual Arrangements

In accordance with the 1993 restructured health care and life insurance plans, an independent Retiree Supplemental Benefit Trust (the "Trust") was established. The Trust, and the benefits it provides to certain retirees, is not part of the Company's consolidated financial statements. The assets of the Trust arise from three sources: (i) the Company's 1993 contribution to the Trust of 25.5 million shares of our Class B common stock, which was subsequently sold by the

Trust prior to 2000 (ii) contingent profit-sharing contributions made by the Company, and (iii) net investment gains on the Trust's assets, if any.

The Company's contingent profit sharing obligations will continue until certain funding targets defined by the 1993 Settlement Agreement are met ("Profit Sharing Cessation"). Upon Profit Sharing Cessation, the Company would assume responsibility for (i) establishing the investment policy for the Trust, (ii) approving or disapproving of certain additional supplemental benefits to the extent such benefits would result in higher expenditures than those contemplated upon the Profit Sharing Cessation, and (iii) making additional contributions to the Trust as necessary to make up for investment and /or actuarial losses. For the three and six months ended April 30, 2011, we have recorded no profit sharing accruals based on our estimate of 2011 results.

9. Income taxes

We compute on a quarterly basis an estimated annual effective tax rate considering ordinary income and related income tax expense. Canadian results in 2011 and 2010 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 an unusual or infrequently occurring item is recorded in the interim period in which it occurs. Our 2010 annual effective tax rate included a refund for alternative minimum taxes paid in prior years resulting from the "Worker, Homeownership, and Business Assistance Act of 2009." Items included in income tax expense in the periods in which they occur include the cumulative effect of 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 realizability of deferred tax assets in future years.

We have evaluated the need to maintain a valuation allowance for deferred tax assets based on an 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. Due to the cyclical nature of our U.S and Canadian businesses, the historical inconsistency of profits during the full business cycle, and the softness of the economic outlook, we continue to maintain a full valuation allowance against our U.S and Canadian deferred tax assets. However, it is reasonably possible within the next twelve months that the Company may release all or a portion of its U.S. valuation allowance if U.S. operations continue to improve.

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 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, 2011, the amount of liability for unrecognized tax benefits was $107 million, net of offsetting indirect tax benefits. If the unrecognized tax benefits are recognized, the entire amount 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 carry forward which would be offset by a full valuation allowance.

We recognize interest and penalties related to uncertain tax positions as part of Income tax expense. Total interest and penalties related to our uncertain tax positions are immaterial.

We have open tax years back to 2001 with various significant tax jurisdictions in 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. Interim 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 the liability for unrecognized tax benefits may increase or decrease during the next twelve months, we do not expect any such change would have a material effect on our financial condition, results of operations, or cash flows.

10. Fair value measurements

For assets and liabilities measured at fair value on a recurring and nonrecurring basis, a three-level hierarchy of measurements based upon the reliability of observable and unobservable inputs is used to arrive at fair value. Observable inputs are independent market data, while unobservable inputs reflect our assumptions about valuation. 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 highly liquid investments, with a maturity of 90 days or less at the date of purchase, including U.S. Treasury bills, federal agency securities, and commercial paper, as cash equivalents. We use quoted prices where available and use a matrix of observable market-based inputs when quoted prices are unavailable.

Marketable Securities. Our marketable securities portfolios are classified as available-for-sale and primarily include investments in U.S. government and commercial paper with a maturity of greater than 90 days at the date of purchase. We use quoted prices from active markets to determine their fair values.

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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 assumptions are classified within Level 3. For more information regarding derivatives, see Note 11, Financial instruments and commodity contracts.

Retained Interests. We retain certain interests in receivables sold in off-balance sheet securitization transactions. We estimate the fair value of retained interests using internal valuation models that incorporate market inputs and our own assumptions about future cash flows. The fair value of retained interests is estimated based on the present value of monthly collections on the sold finance receivables in excess of amounts accruing to investors and other obligations arising in securitization transactions. In addition to the amount of debt and collateral held by the securitization vehicle, the three key inputs that affect the valuation of the retained interests include credit losses, payment speed, and the discount rate. We classify these assets within Level 3. For more information regarding retained interests, see Note 3, Finance receivables.

The following tables present the financial instruments measured at fair value on a recurring basis:

	As of April 30, 2011			
	Level 1	Level 2	Level 3	Total
(in millions)				
Assets				
Marketable securities:				
U.S. treasury bills	$383	$—	$—	$383
Other U.S. and non-U.S. government bonds	335	—	—	335
Other	20	—	—	20
Derivative financial instruments:				
Commodity contracts	—	8	7	15
Foreign currency contracts	—	7	—	7
Total assets	$738	$15	$7	$760
Liabilities				
Derivative financial instruments:				
Commodity contracts	—	—	1	1
Total liabilities	$—	$—	$1	$1

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	As of October 31, 2010			
(in millions)	Level 1	Level 2	Level 3	Total
Assets				
Marketable securities:				
U.S. treasury bills	$159	$—	$—	$159
Other U.S. and non-U.S. government bonds	407	—	—	407
Other	20	—	—	20
Derivative financial instruments:				
Commodity contracts	—	—	2	2
Foreign currency contracts	—	8	—	8
Retained interests	—	—	53	53
Total assets	$586	$8	$55	$649
Liabilities				
Derivative financial instruments:				
Commodity contracts	$—	$4	$—	$4
Total liabilities	$—	$4	$—	$4

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

	2011		2010		
(in millions)	Retained interests	Commodity contracts	Interest rate swap assets and liabilities	Retained interests	Commodity contracts
Three Months Ended April 30					
Balance at beginning of period	$—	$5	$—	$315	$—
Total gains (realized/unrealized) included in earnings[(A)]	—	2	—	5	—
Purchases, issuances and settlements	—	(1)	—	(97)	—
Balance at end of period	$—	$6	$—	$223	$—
Changes in unrealized gains on assets and liabilities still held	$—	$—	$—	$5	$—
Six Months Ended April 30					
Balance at beginning of period	$53	$2	$1	$291	$—
Total gains (losses) (realized/unrealized) included in earnings[(A)]	1	6	(1)	—	—
Purchases, issuances and settlements	(54)	(2)	—	(68)	—
Balance at end of period	$—	$6	$—	$223	$—
Changes in unrealized gains on assets and liabilities still held	$—	$3	$—	$—	$—

(A) For interest rate swap assets and liabilities, gains (losses) are included in Interest expense. For commodity contracts, gains (losses) are included in Cost of products sold. For retained interests, gains recognized are included in Finance revenues.

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

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	Level 2	
	April 30, 2011	October 31, 2010
(in millions)		
Finance receivables[(A)]	$18	$27

(A) Certain impaired finance receivables are measured at fair value on a nonrecurring basis. An impairment charge is recorded for the amount by which the carrying value of the receivables exceeds the fair value of the underlying collateral, net of remarketing costs. As of April 30, 2011, impaired receivables with a carrying amount of $33 million had specific loss reserves of $15 million and a fair value of $18 million. As of October 31, 2010, impaired receivables with a carrying amount of $50 million had specific loss reserves of $23 million and a fair value of $27 million. Fair values of the underlying collateral are determined by reference to dealer vehicle value publications adjusted for certain market factors.

In addition to the methods and assumptions we use for the financial instruments recorded at fair value as discussed above, we use the following methods and assumptions to estimate the fair value for our other financial instruments that are not marked to market on a recurring basis. The carrying amounts of cash and cash equivalents, restricted cash and cash equivalents, and accounts payable approximate fair values because of the short-term maturity and highly liquid nature of these instruments. The carrying amounts of customer receivables and retail and wholesale accounts approximate fair values as a result of the short-term nature of the receivables. 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 finance receivables are estimated by discounting expected cash flows at estimated current market rates. We also use quoted market prices, when available, or the present value of estimated future cash flows to determine fair values of debt instruments.

The carrying values and estimated fair values of financial instruments are summarized in the table below:

	April 30, 2011		October 31, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
(in millions)				
Assets				
Finance receivables	$2,365	$2,231	$2,465	$2,349
Notes receivable	48	48	40	40
Liabilities				
Debt:				
Manufacturing operations				
8.25% Senior Notes, due 2021	966	1,156	965	1,141
3.0% Senior Subordinated Convertible Notes, due 2014[(A)]	486	869	476	684
Debt of majority-owned dealerships	93	89	66	63
Financing arrangements	160	160	203	197
Loan Agreement related to 6.5% Tax Exempt Bonds, due 2040	225	225	225	234
Other	33	29	33	29
Financial services operations				

Asset-backed debt issued by consolidated SPEs, at various rates, due serially through 2018	1,769	1,803	1,731	1,773
Bank revolvers, at fixed and variable rates, due dates from 2012 through 2018	942	949	974	984
Commercial paper, at variable rates, due serially through 2012	55	55	67	67
Borrowings secured by operating and finance leases, at various rates, due serially through 2017	88	89	112	113

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(A) The carrying value represents the financial statement amount of the debt after allocation of the conversion feature to equity, while the fair value is based on quoted market prices for the convertible note which includes the equity feature.

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11. Financial instruments and commodity contracts

Derivative Financial Instruments

We use derivative financial instruments as part of our overall interest rate, foreign currency, and commodity risk management strategies to reduce our interest rate exposure, reduce exchange rate risk for transactional exposures denominated in currencies other than the functional currency, and minimize the effect of commodity price volatility. From time to time, we use foreign currency forward and option contracts to manage the risk of exchange rate movements that would reduce the value of our foreign currency cash flows. Foreign currency exchange rate movements create a degree of risk by affecting the value of sales made and costs incurred in currencies other than the functional currency. From time to time, we also use commodity forward contracts to manage our exposure to variability in certain commodity prices. We generally do not enter into derivative financial instruments for speculative or trading purposes and did not during the three and six months ended April 30, 2011 and 2010. None of our derivatives qualified for hedge accounting treatment during the three and six months ended April 30, 2011 or 2010.

Certain of our derivative contracts contain provisions that require us to provide collateral if certain thresholds are exceeded. No collateral was provided at April 30, 2011 or October 31, 2010. Collateral is not required to be provided by our counter-parties for derivative contracts. We manage exposure to counter-party credit risk by entering into derivative financial instruments with various major financial institutions that can be expected to fully perform under the terms of such instruments. We do not anticipate nonperformance by any of the counter-parties. Our exposure to credit risk in the event of nonperformance by the counter-parties is limited to those gains that have been recorded, but have not yet been received in cash. At April 30, 2011 and October 31, 2010, our exposure to the credit risk of others was $22 million and $10 million, respectively.

Our financial services operations manage exposure to fluctuations in interest rates by limiting the amount of fixed rate assets funded with variable rate debt. This is accomplished by funding fixed rate receivables utilizing a combination of fixed rate and variable rate debt and derivative financial instruments to convert variable rate debt to fixed. These derivative financial instruments may include interest rate swaps, interest rate caps, and forward contracts. The fair value of these instruments is estimated by discounting expected future monthly settlements and is subject to market risk, as the instruments may become less valuable due to changes in market conditions, interest rates, or credit spreads of counter-parties. Notional amounts of derivative financial instruments do not represent exposure to credit risk.

The fair values of all derivatives are recorded as assets or liabilities on a gross basis in our Consolidated Balance Sheets and are presented in the following table, along with their respective balance sheet locations:

	As of April 30, 2011			
	Asset Derivatives		Liability Derivatives	
(in millions)	Location in Consolidated Balance Sheets	Fair Value	Location in Consolidated Balance Sheets	Fair Value
Foreign currency contracts	Other current assets	$7	Other current liabilities	$—
Commodity contracts	Other current assets	15	Other current liabilities	1
Total fair value		$22		$1

As of October 31, 2010

(in millions)	Asset Derivatives Location in Consolidated Balance Sheets	Fair Value	Liability Derivatives Location in Consolidated Balance Sheets	Fair Value
Foreign currency contracts	Other current assets	$8	Other current liabilities	$—
Commodity contracts	Other current assets	2	Other current liabilities	4
Total fair value		$10		$4

The location and amount of gain (loss) recognized in income on derivatives are as follows for the periods ended April 30: