

NAVISTAR INTERNATIONAL CORP

Form 10-Q

June 04, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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Form 10-Q

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(Mark One)

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

For the quarterly period ended April 30, 2015

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

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NAVISTAR INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware

(State or other jurisdiction of incorporation or organization)

36-3359573

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

2701 Navistar Drive, Lisle, Illinois

(Address of principal executive offices)

60532

(Zip Code)

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

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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 ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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, 2015, the number of shares outstanding of the registrant's common stock was 81,500,808, net of treasury shares.

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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 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;
- anticipated sales, volume, demand, and markets for our products;
- 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 finish the "Drive-to-Deliver" turnaround and implement our new strategy focused on establishing a leading market position based on uptime advantage and developing effective leaders at every level;
- anticipated results from our Return-on-Invested-Capital ("ROIC") methodology and the benchmarking study to create a pathway to achieve profitability;
- anticipated results from the realignment of our leadership and management structure;
- anticipated benefits from acquisitions, strategic alliances, and joint ventures we complete;
- our expectations relating to the termination of our Blue Diamond Truck ("BDT") joint venture with Ford Motor Company ("Ford") in May 2015;
- our expectations and estimates relating to restructuring activities, including restructuring and integration charges and timing of cash payments related thereto, and operational flexibility, savings, and efficiencies from such restructurings;
- our expectations relating to the possible effects of anticipated divestitures and closures of businesses;
- our expectations relating to our cost-reduction actions, including our enterprise-wide reduction-in-force, and other actions to reduce discretionary spending;
- our expectations relating to our ability to service our long-term debt;
- our expectations relating to our retail finance receivables and retail finance revenues;
- our anticipated costs relating to the implementation of our emissions compliance strategy and other product modifications that may be required to meet other federal, state, and foreign regulatory requirements;
- 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;
- 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 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 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

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Form 10-K for the year ended October 31, 2014, which was filed on December 16, 2014, as well as those discussed elsewhere in this report. All future written and oral forward-looking statements by us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained herein or referred to above. Except for our ongoing obligations to disclose material information as required by the federal securities laws, we do not have any obligations or intention to release publicly any revisions to any forward-looking statements to reflect events or circumstances in the future or to reflect the occurrence of unanticipated events.

Available Information

We are subject to the reporting and information requirements of the Exchange Act and as a result, are obligated to file annual, quarterly, and current reports, proxy statements, and other information with the United States ("U.S.") Securities and Exchange Commission ("SEC"). We make these filings available free of charge on our website (<http://www.navistar.com>) as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. Information on our website does not constitute part of this 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

See Notes to Condensed Consolidated Financial Statements

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

|                                                                                 | Three Months<br>Ended April 30, |          | Six Months Ended<br>April 30, |          |
|---------------------------------------------------------------------------------|---------------------------------|----------|-------------------------------|----------|
| (in millions, except per share data)                                            | 2015                            | 2014     | 2015                          | 2014     |
| Sales and revenues                                                              |                                 |          |                               |          |
| Sales of manufactured products, net                                             | \$2,658                         | \$2,708  | \$5,043                       | \$4,877  |
| Finance revenues                                                                | 35                              | 38       | 71                            | 77       |
| Sales and revenues, net                                                         | 2,693                           | 2,746    | 5,114                         | 4,954    |
| Costs and expenses                                                              |                                 |          |                               |          |
| Costs of products sold                                                          | 2,360                           | 2,468    | 4,405                         | 4,482    |
| Restructuring charges                                                           | 6                               | 8        | 9                             | 11       |
| Asset impairment charges                                                        | 1                               | 151      | 8                             | 169      |
| Selling, general and administrative expenses                                    | 243                             | 237      | 484                           | 476      |
| Engineering and product development costs                                       | 76                              | 83       | 155                           | 173      |
| Interest expense                                                                | 75                              | 74       | 152                           | 156      |
| Other (income) expense, net                                                     | (28)                            | (8)      | (31)                          | 6        |
| Total costs and expenses                                                        | 2,733                           | 3,013    | 5,182                         | 5,473    |
| Equity in income of non-consolidated affiliates                                 | 1                               | 3        | 3                             | 3        |
| Loss from continuing operations before income taxes                             | (39)                            | (264)    | (65)                          | (516)    |
| Income tax expense                                                              | (18)                            | (23)     | (25)                          | (11)     |
| Loss from continuing operations                                                 | (57)                            | (287)    | (90)                          | (527)    |
| Income from discontinued operations, net of tax                                 | —                               | 1        | —                             | 2        |
| Net loss                                                                        | (57)                            | (286)    | (90)                          | (525)    |
| Less: Net income attributable to non-controlling interests                      | 7                               | 11       | 16                            | 20       |
| Net loss attributable to Navistar International Corporation                     | \$(64)                          | \$(297)  | \$(106)                       | \$(545)  |
| Amounts attributable to Navistar International Corporation common shareholders: |                                 |          |                               |          |
| Loss from continuing operations, net of tax                                     | \$(64)                          | \$(298)  | \$(106)                       | \$(547)  |
| Income from discontinued operations, net of tax                                 | —                               | 1        | —                             | 2        |
| Net loss                                                                        | \$(64)                          | \$(297)  | \$(106)                       | \$(545)  |
| Earnings (loss) per share:                                                      |                                 |          |                               |          |
| Basic:                                                                          |                                 |          |                               |          |
| Continuing operations                                                           | \$(0.78)                        | \$(3.66) | \$(1.30)                      | \$(6.73) |
| Discontinued operations                                                         | —                               | 0.01     | —                             | 0.03     |
|                                                                                 | \$(0.78)                        | \$(3.65) | \$(1.30)                      | \$(6.70) |
| Diluted:                                                                        |                                 |          |                               |          |
| Continuing operations                                                           | \$(0.78)                        | \$(3.66) | \$(1.30)                      | \$(6.73) |
| Discontinued operations                                                         | —                               | 0.01     | —                             | 0.03     |
|                                                                                 | \$(0.78)                        | \$(3.65) | \$(1.30)                      | \$(6.70) |
| Weighted average shares outstanding:                                            |                                 |          |                               |          |
| Basic                                                                           | 81.6                            | 81.4     | 81.5                          | 81.3     |
| Diluted                                                                         | 81.6                            | 81.4     | 81.5                          | 81.3     |

See Notes to Condensed Consolidated Financial Statements





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

| (in millions)                                                               | Three Months    |          | Six Months Ended |          |
|-----------------------------------------------------------------------------|-----------------|----------|------------------|----------|
|                                                                             | Ended April 30, |          | April 30,        |          |
|                                                                             | 2015            | 2014     | 2015             | 2014     |
| Net loss attributable to Navistar International Corporation                 | \$(64 )         | \$(297 ) | \$(106 )         | \$(545 ) |
| Other comprehensive income (loss):                                          |                 |          |                  |          |
| Foreign currency translation adjustment                                     | (27 )           | 48       | (86 )            | (14 )    |
| Defined benefit plans (net of tax of \$0, \$0, \$(1), \$(1), respectively)  | 33              | 25       | 65               | 50       |
| Total other comprehensive income (loss)                                     | 6               | 73       | (21 )            | 36       |
| Total comprehensive loss attributable to Navistar International Corporation | \$(58 )         | \$(224 ) | \$(127 )         | \$(509 ) |

See Notes to Condensed Consolidated Financial Statements

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Navistar International Corporation and Subsidiaries  
Consolidated Balance Sheets

|                                                                                                                | April 30,<br>2015 | October 31,<br>2014 |
|----------------------------------------------------------------------------------------------------------------|-------------------|---------------------|
| (in millions, except per share data)                                                                           |                   |                     |
| ASSETS                                                                                                         | (Unaudited)       |                     |
| Current assets                                                                                                 |                   |                     |
| Cash and cash equivalents                                                                                      | \$ 583            | \$ 497              |
| Restricted cash and cash equivalents                                                                           | —                 | 40                  |
| Marketable securities                                                                                          | 273               | 605                 |
| Trade and other receivables, net                                                                               | 502               | 553                 |
| Finance receivables, net                                                                                       | 1,929             | 1,758               |
| Inventories                                                                                                    | 1,245             | 1,319               |
| Deferred taxes, net                                                                                            | 38                | 55                  |
| Other current assets                                                                                           | 206               | 186                 |
| Total current assets                                                                                           | 4,776             | 5,013               |
| Restricted cash                                                                                                | 113               | 131                 |
| Trade and other receivables, net                                                                               | 18                | 25                  |
| Finance receivables, net                                                                                       | 225               | 280                 |
| Investments in non-consolidated affiliates                                                                     | 68                | 73                  |
| Property and equipment (net of accumulated depreciation and amortization of \$2,590 and \$2,535, respectively) | 1,407             | 1,562               |
| Goodwill                                                                                                       | 38                | 38                  |
| Intangible assets (net of accumulated amortization of \$113 and \$109, respectively)                           | 74                | 90                  |
| Deferred taxes, net                                                                                            | 134               | 145                 |
| Other noncurrent assets                                                                                        | 72                | 86                  |
| Total assets                                                                                                   | \$ 6,925          | \$ 7,443            |
| LIABILITIES and STOCKHOLDERS' DEFICIT                                                                          |                   |                     |
| Liabilities                                                                                                    |                   |                     |
| Current liabilities                                                                                            |                   |                     |
| Notes payable and current maturities of long-term debt                                                         | \$ 1,211          | \$ 1,295            |
| Accounts payable                                                                                               | 1,450             | 1,564               |
| Other current liabilities                                                                                      | 1,345             | 1,372               |
| Total current liabilities                                                                                      | 4,006             | 4,231               |
| Long-term debt                                                                                                 | 3,992             | 3,929               |
| Postretirement benefits liabilities                                                                            | 2,770             | 2,862               |
| Deferred taxes, net                                                                                            | 14                | 14                  |
| Other noncurrent liabilities                                                                                   | 887               | 1,025               |
| Total liabilities                                                                                              | 11,669            | 12,061              |
| Redeemable equity securities                                                                                   | 1                 | 2                   |
| Stockholders' deficit                                                                                          |                   |                     |
| Series D convertible junior preference stock                                                                   | 3                 | 3                   |
| Common stock (86.8 shares issued, and \$0.10 par value per share and 220 shares authorized, all at both dates) | 9                 | 9                   |
| Additional paid-in capital                                                                                     | 2,498             | 2,500               |
| Accumulated deficit                                                                                            | (4,788)           | (4,682)             |
| Accumulated other comprehensive loss                                                                           | (2,284)           | (2,263)             |
| Common stock held in treasury, at cost (5.3 and 5.4 shares, respectively)                                      | (213)             | (221)               |
| Total stockholders' deficit attributable to Navistar International Corporation                                 | (4,775)           | (4,654)             |
| Stockholders' equity attributable to non-controlling interests                                                 | 30                | 34                  |

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|                                             |         |          |         |
|---------------------------------------------|---------|----------|---------|
| Total stockholders' deficit                 | (4,745  | ) (4,620 | )       |
| Total liabilities and stockholders' deficit | \$6,925 |          | \$7,443 |

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<br>April 30, |          |
|------------------------------------------------------------------------------------------|-------------------------------|----------|
| (in millions)                                                                            | 2015                          | 2014     |
| Cash flows from operating activities                                                     |                               |          |
| Net loss                                                                                 | \$(90 )                       | \$(525 ) |
| Adjustments to reconcile net loss to net cash used in operating activities:              |                               |          |
| Depreciation and amortization                                                            | 118                           | 122      |
| Depreciation of equipment leased to others                                               | 35                            | 63       |
| Deferred taxes, including change in valuation allowance                                  | (7 )                          | (2 )     |
| Asset impairment charges                                                                 | 8                             | 169      |
| Amortization of debt issuance costs and discount                                         | 19                            | 27       |
| Stock-based compensation                                                                 | 8                             | 12       |
| Provision for doubtful accounts, net of recoveries                                       | (3 )                          | 9        |
| Equity in income of non-consolidated affiliates, net of dividends                        | 5                             | 7        |
| Write-off of debt issuance cost and discount                                             | —                             | 1        |
| Other non-cash operating activities                                                      | (20 )                         | (15 )    |
| Changes in other assets and liabilities, exclusive of the effects of businesses disposed | (310 )                        | (194 )   |
| Net cash used in operating activities                                                    | (237 )                        | (326 )   |
| Cash flows from investing activities                                                     |                               |          |
| Purchases of marketable securities                                                       | (162 )                        | (788 )   |
| Sales of marketable securities                                                           | 431                           | 902      |
| Maturities of marketable securities                                                      | 63                            | 182      |
| Net change in restricted cash and cash equivalents                                       | 53                            | (21 )    |
| Capital expenditures                                                                     | (45 )                         | (50 )    |
| Purchases of equipment leased to others                                                  | (20 )                         | (108 )   |
| Proceeds from sales of property and equipment                                            | 5                             | 20       |
| Proceeds from sales of affiliates                                                        | 7                             | 5        |
| Net cash provided by investing activities                                                | 332                           | 142      |
| Cash flows from financing activities                                                     |                               |          |
| Proceeds from issuance of securitized debt                                               | 250                           | 152      |
| Principal payments on securitized debt                                                   | (169 )                        | (81 )    |
| Proceeds from issuance of non-securitized debt                                           | 84                            | 473      |
| Principal payments on non-securitized debt                                               | (146 )                        | (509 )   |
| Net increase in notes and debt outstanding under revolving credit facilities             | 5                             | 3        |
| Principal payments under financing arrangements and capital lease obligations            | (1 )                          | (14 )    |
| Debt issuance costs                                                                      | (7 )                          | (13 )    |
| Proceeds from financed lease obligations                                                 | 20                            | 34       |
| Proceeds from exercise of stock options                                                  | 1                             | 18       |
| Dividends paid by subsidiaries to non-controlling interest                               | (20 )                         | (30 )    |
| Net cash provided by financing activities                                                | 17                            | 33       |
| Effect of exchange rate changes on cash and cash equivalents                             | (26 )                         | (10 )    |
| Increase (decrease) in cash and cash equivalents                                         | 86                            | (161 )   |
| Cash and cash equivalents at beginning of the period                                     | 497                           | 755      |
| Cash and cash equivalents at end of the period                                           | \$583                         | \$594    |

See Notes to Condensed Consolidated Financial Statements



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

| (in millions)                                                                           | Series D<br>Convertible<br>Junior<br>Preference<br>Stock | Common<br>Stock | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Common<br>Stock<br>Held in<br>Treasury,<br>at cost | Stockholders'<br>Equity<br>Attributable<br>to<br>Non-controlling<br>Interests | Total     |
|-----------------------------------------------------------------------------------------|----------------------------------------------------------|-----------------|----------------------------------|------------------------|-----------------------------------------------------------|----------------------------------------------------|-------------------------------------------------------------------------------|-----------|
| Balance as of October 31, 2014                                                          | \$ 3                                                     | \$ 9            | \$ 2,500                         | \$ (4,682 )            | \$ (2,263 )                                               | \$ (221 )                                          | \$ 34                                                                         | \$(4,620) |
| Net income (loss)                                                                       | —                                                        | —               | —                                | (106 )                 | —                                                         | —                                                  | 16                                                                            | (90 )     |
| Total other comprehensive loss                                                          | —                                                        | —               | —                                | —                      | (21 )                                                     | —                                                  | —                                                                             | (21 )     |
| Transfer from redeemable equity securities upon exercise or expiration of stock options | —                                                        | —               | 1                                | —                      | —                                                         | —                                                  | —                                                                             | 1         |
| Stock-based compensation                                                                | —                                                        | —               | 6                                | —                      | —                                                         | —                                                  | —                                                                             | 6         |
| Stock ownership programs                                                                | —                                                        | —               | (9 )                             | —                      | —                                                         | 8                                                  | —                                                                             | (1 )      |
| Cash dividends paid to non-controlling interest                                         | —                                                        | —               | —                                | —                      | —                                                         | —                                                  | (20 )                                                                         | (20 )     |
| Balance as of April 30, 2015                                                            | \$ 3                                                     | \$ 9            | \$ 2,498                         | \$ (4,788 )            | \$ (2,284 )                                               | \$ (213 )                                          | \$ 30                                                                         | \$(4,745) |
| Balance as of October 31, 2013                                                          | 3                                                        | 9               | 2,477                            | (4,063 )               | (1,824 )                                                  | (251 )                                             | 44                                                                            | (3,605 )  |
| Net income (loss)                                                                       | —                                                        | —               | —                                | (545 )                 | —                                                         | —                                                  | 20                                                                            | (525 )    |
| Total other comprehensive income                                                        | —                                                        | —               | —                                | —                      | 36                                                        | —                                                  | —                                                                             | 36        |
| Transfer from redeemable equity securities upon exercise or expiration of stock options | —                                                        | —               | 2                                | —                      | —                                                         | —                                                  | —                                                                             | 2         |
| Stock-based compensation                                                                | —                                                        | —               | 9                                | —                      | —                                                         | —                                                  | —                                                                             | 9         |
| Stock ownership programs                                                                | —                                                        | —               | (8 )                             | —                      | —                                                         | 25                                                 | —                                                                             | 17        |
| Equity component of convertible debt instruments, net of tax expense of \$16            | —                                                        | —               | 27                               | —                      | —                                                         | —                                                  | —                                                                             | 27        |
| Equity component of repurchased convertible debt instruments, net of tax benefit of \$3 | —                                                        | —               | (5 )                             | —                      | —                                                         | —                                                  | —                                                                             | (5 )      |
| Cash dividends paid to non-controlling interest                                         | —                                                        | —               | —                                | —                      | —                                                         | —                                                  | (30 )                                                                         | (30 )     |
| Balance as of April 30, 2014                                                            | \$ 3                                                     | \$ 9            | \$ 2,502                         | \$ (4,608 )            | \$ (1,788 )                                               | \$ (226 )                                          | \$ 34                                                                         | \$(4,074) |

See Notes to Condensed Consolidated Financial Statements





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 entities are Navistar, Inc. and Navistar Financial Corporation ("NFC").

References herein to the "Company," "we," "our," or "us" refer collectively to NIC and its consolidated subsidiaries, including certain variable interest entities ("VIEs") of which we are the primary beneficiary. We operate in four principal industry segments: Truck, Parts, Global Operations (collectively called "Manufacturing operations"), and Financial Services, which consists of NFC and our foreign finance operations (collectively called "Financial Services operations"). These segments are discussed in Note 12, Segment Reporting.

Our fiscal year ends on October 31. As such, all references to 2015 and 2014 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, which include majority-owned dealers ("Dealcors"), 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 period amounts to conform to the 2015 presentation, which relate to the realignment of our reporting segments that became effective during the first quarter of 2015. For more information, see Note 12, Segment Reporting.

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, 2014, 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 ("BDP") and Blue Diamond Truck ("BDT") joint ventures with Ford. As a result, our Consolidated Balance Sheets include assets of \$263 million and \$297 million and liabilities of \$238 million and \$250 million as of April 30, 2015 and October 31, 2014, respectively, from BDP and BDT, including \$87 million and \$77 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 and BDT do not have recourse to our general credit. On May 29, 2015, we acquired Ford's remaining 25% ownership in BDT. The termination of the BDT joint venture did not have a material impact on our consolidated financial statements.

Our Financial Services segment consolidates several VIEs. As a result, our Consolidated Balance Sheets include secured assets of \$1.2 billion and \$1.1 billion as of April 30, 2015 and October 31, 2014, respectively, and liabilities of \$923 million and \$896 million as of April 30, 2015 and October 31, 2014, 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 \$213 million and \$156 million and

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corresponding liabilities of \$92 million and \$54 million as of April 30, 2015 and October 31, 2014, respectively, which are related to other secured transactions that do not qualify for sale accounting treatment, and therefore, are treated as borrowings secured by operating and finance leases. Investors that hold securitization debt have a priority claim on the cash flows generated by their respective securitized assets to the extent that the related VIEs are required to make principal and interest payments. Investors in securitizations of these entities have no recourse to our general credit.

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.

#### Product Warranty Liability

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

|                                                                   | Six Months Ended April 30, |         |
|-------------------------------------------------------------------|----------------------------|---------|
| (in millions)                                                     | 2015                       | 2014    |
| Balance at beginning of period                                    | \$1,197                    | \$1,349 |
| Costs accrued and revenues deferred                               | 116                        | 153     |
| Currency translation adjustment                                   | (5                         | ) (1    |
| Adjustments to pre-existing warranties <sup>(A)</sup>             | (39                        | ) 94    |
| Payments and revenues recognized                                  | (210                       | ) (272  |
| Balance at end of period                                          | 1,059                      | 1,323   |
| Less: Current portion                                             | 496                        | 626     |
| Noncurrent accrued product warranty and deferred warranty revenue | \$563                      | \$697   |

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 (A) 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.

In the first quarter of 2015, we recognized a benefit for adjustments to pre-existing warranties of \$57 million or a benefit of \$0.70 per diluted share. In the first quarter of 2014, we recorded adjustments for changes in estimates of \$52 million or charges of \$0.64 per diluted share. In the second quarter of 2014, we recorded adjustments for changes in estimates of \$42 million, or charges of \$0.52 per diluted share. The impact of income taxes on the 2015 and 2014 adjustments are not material due to our deferred tax valuation allowances on our U.S. deferred tax assets.

#### Extended Warranty Programs

The amount of deferred revenue related to extended warranty programs was \$425 million and \$437 million at April 30, 2015 and October 31, 2014, respectively. Revenue recognized under our extended warranty programs was \$38 million and \$75 million, in the three and six months ended April 30, 2015, respectively, and \$33 million and \$60 million for the three and six months ended April 30, 2014, 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, asbestos and other product liability accruals, asset impairment 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 concentrations of our union employees. As of April 30, 2015, approximately 6,200, or 73%, of our hourly workers and approximately 300, or 5%, of our salaried workers are represented by labor unions and are covered by collective bargaining agreements. On February 9, 2015, 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, 2014. Our future operations

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may be affected by changes in governmental procurement policies, budget considerations, changing national defense requirements, and global, political, regulatory and economic developments in the U.S. and certain foreign countries (primarily Canada, Mexico, and Brazil).

**Goodwill and Indefinite-Lived Intangible Assets**

Goodwill represents the excess of the cost of an acquired business over the amounts assigned to the net assets.

Goodwill is not amortized but is tested for impairment at a reporting unit level on an annual basis or more frequently, if circumstances change or an event occurs that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Qualitative factors may be assessed to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If the qualitative assessment indicates that the carrying amount is more likely than not higher than the fair value, goodwill is tested for impairment based on a two-step test. The first step compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, thus the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test shall be performed to measure the amount of impairment loss, if any. The second step compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess.

Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions, and selecting an appropriate control premium. The income approach is based on discounted cash flows which are derived from internal forecasts and economic expectations for each respective reporting unit.

An intangible asset determined to have an indefinite useful life is not amortized until its useful life is determined to no longer be indefinite. Indefinite-lived intangible assets are evaluated each reporting period to determine whether events and circumstances continue to support an indefinite useful life. Indefinite-lived intangible assets are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the indefinite-lived intangible asset with its carrying amount. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

Significant judgment is applied when evaluating if an intangible asset has a finite useful life. In addition, for indefinite-lived intangible assets, significant judgment is applied in testing for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, and incorporating general economic and market conditions.

During the second quarter of 2014, the economic downturn in Brazil resulted in the continued decline in actual and forecasted results for the Brazilian engine reporting unit with goodwill of \$142 million and an indefinite-lived intangible asset, trademark, of \$43 million. As a result, we performed an impairment analysis in the second quarter of 2014 utilizing the income approach, based on discounted cash flows, which are derived from internal forecasts and economic expectations. It was determined that the carrying value of the Brazilian engine reporting unit, including goodwill, exceeded its fair value. As a result we compared the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. A decrease in the enterprise value of the reporting unit coupled with appreciation in the value of certain tangible assets, which are not recognized for accounting purposes, resulted in the determination that the entire \$142 million of goodwill was impaired. In addition, we determined that the related trademark was impaired and recognized an impairment charge of \$7 million. The non-cash impairment charges were included in Asset impairment charges in the Company's Consolidated Statements of Operations. The Brazilian engine reporting unit is included in the Global Operations segment.

**Recently Adopted Accounting Standards**

In the six months ended April 30, 2015, the Company has not adopted any new accounting guidance that has had a material impact on our consolidated financial statements.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("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. The 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

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fulfill a contract. This new guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. Our effective date is November 1, 2017. On April 29, 2015 the FASB issued an exposure draft of a proposed ASU that would delay by one year the effective date of ASU 2014-09 and allow early adoption as of the original effective date. The changes to the effective date and early adoption are still subject to final approval. We are currently evaluating the impact and method of adoption of this ASU on our consolidated financial statements.

## 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 includes amounts related to discontinued operations and excludes pension and other postretirement contractual termination benefits:

| (in millions)                | Balance at<br>October 31,<br>2014 | Additions | Payments | Adjustments | Balance at<br>April 30, 2015 |
|------------------------------|-----------------------------------|-----------|----------|-------------|------------------------------|
| Employee termination charges | \$8                               | \$7       | \$(4)    | \$(1)       | \$10                         |
| Lease vacancy                | 11                                | —         | (4)      | —           | 7                            |
| Other                        | 1                                 | —         | —        | —           | 1                            |
| Restructuring liability      | \$20                              | \$7       | \$(8)    | \$(1)       | \$18                         |
| (in millions)                | Balance at<br>October 31, 2013    | Additions | Payments | Adjustments | Balance at<br>April 30, 2014 |
| Employee termination charges | \$15                              | \$9       | \$(8)    | \$—         | \$16                         |
| Employee relocation costs    | —                                 | 1         | (1)      | —           | —                            |
| Lease vacancy                | 18                                | 1         | (4)      | —           | 15                           |
| Other                        | 1                                 | —         | (2)      | —           | (1)                          |
| Restructuring liability      | \$34                              | \$11      | \$(15)   | \$—         | \$30                         |

### North American Manufacturing Restructuring Activities

We continue to focus on improving our core North American Truck and Parts businesses. We continue to evaluate our portfolio of assets, with the purpose of closing or divesting non-core/non-strategic businesses, and identifying opportunities to restructure our business and rationalize our Manufacturing operations in an effort to optimize our cost structure. The Company is currently evaluating its portfolio of assets to validate their strategic and financial fit. To allow us to increase our focus on our North America core businesses, we are evaluating product lines, businesses, and engineering programs that fall outside of our core businesses. We are using a Return-On-Invested-Capital ("ROIC") methodology, combined with an assessment of the strategic fit to our core businesses, to identify areas that are not performing to our expectations. For those areas, we are evaluating whether to fix, divest, or close. These actions 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.

### Chatham restructuring activities

In the third quarter of 2011, the Company committed to close its Chatham, Ontario heavy truck plant, which had been idled since June 2009. Potential additional charges in future periods could range from \$0 million to \$60 million, primarily related to pension, postretirement costs and termination benefits, which are subject to employee negotiation, acceptance rates and the resolution of disputes related thereto.

### Foundry Facilities

In December 2014, we announced the closure of our Indianapolis, Indiana foundry facility, and on April 30, 2015, we sold our Waukesha, Wisconsin foundry operations. As a result of these actions, the Truck segment recognized charges of \$13 million and \$12 million in the first and second quarter of 2015, respectively, for the acceleration of depreciation of certain assets related to the foundry facilities. These charges are reported within Costs of products sold in the Company's Consolidated Statements of Operations. We expect to incur the remaining accelerated depreciation charges in the third quarter of 2015.



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### Cost-Reductions and Other Strategic Initiatives

From time to time, we have announced, and we may continue to announce, actions to control spending across the Company with targeted reductions of certain costs. We are focused on continued reductions in discretionary spending, including reductions resulting from efficiencies, and prioritizing or eliminating certain programs or projects.

In the second quarter of 2014, the Company initiated new cost-reduction actions, including an enterprise-wide reduction-in-force. As a result of these actions, the Company recognized restructuring charges of \$8 million in personnel costs for employee termination and related benefits, the majority of which was paid during 2014. The Company expects the remaining restructuring charges will be paid throughout 2015.

### Asset Impairments

The following table reconciles our impairment charges in our Consolidated Statements of Operations

| (in millions)                                                   | Three Months    |       | Six Months      |       |
|-----------------------------------------------------------------|-----------------|-------|-----------------|-------|
|                                                                 | Ended April 30, |       | Ended April 30, |       |
|                                                                 | 2015            | 2014  | 2015            | 2014  |
| Goodwill impairment charge                                      | \$—             | \$142 | \$—             | \$142 |
| Intangible asset impairment charge                              | —               | 7     | —               | 7     |
| Other asset impairment charges related to continuing operations | 1               | 2     | 8               | 20    |
| Total asset impairment charges                                  | \$1             | \$151 | \$8             | \$169 |

In the first quarter of 2015, the Company concluded it had a triggering event related to certain operating leases. As a result, the Truck segment recorded \$7 million of asset impairment charges, which are recognized in Asset impairment charges in the Company's Consolidated Statements of Operations.

In the second quarter of 2014, we recognized a total non-cash charge of \$149 million for the impairment of certain intangible assets of our Brazilian engine reporting unit. As a result of the economic downturn in Brazil causing declines in actual and forecasted results, we tested the goodwill and indefinite-lived intangible asset of our Brazilian engine reporting unit for potential impairment. As a result, we determined that the entire \$142 million balance of goodwill and \$7 million of trademarks were impaired. For more information, see Note 1, Summary of Significant Accounting Policies.

In the first quarter of 2014, the Company concluded it had a triggering event related to potential sales of assets requiring assessment of impairment for certain intangible and long-lived assets in the Truck segment. As a result, certain amortizing intangible assets and long-lived assets were determined to be fully impaired, resulting in an impairment charge of \$19 million that was recognized in the six months ended April 30, 2014 in Asset impairment charges in the Company's Consolidated Statements of Operations.

### 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 \$2.6 billion as of both April 30, 2015 and October 31, 2014. Included in total assets of our Financial Services operations are finance receivables of \$2.2 billion and \$2.0 billion as of April 30, 2015 and October 31, 2014, respectively. 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.

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Our Finance receivables, net consist of the following:

| (in millions)                             | April 30,<br>2015 | October 31,<br>2014 |
|-------------------------------------------|-------------------|---------------------|
| Retail portfolio                          | \$667             | \$726               |
| Wholesale portfolio                       | 1,515             | 1,339               |
| Total finance receivables                 | 2,182             | 2,065               |
| Less: Allowance for doubtful accounts     | 28                | 27                  |
| Total finance receivables, net            | 2,154             | 2,038               |
| Less: Current portion, net <sup>(A)</sup> | 1,929             | 1,758               |
| Noncurrent portion, net                   | \$225             | \$280               |

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

#### Securitizations

Our Financial Services operations transfers wholesale notes, retail accounts receivable, retail notes, finance leases, and operating leases through special purpose entities ("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 may include an economic interest in the transferred receivables and, in some cases, managing exposure to interest rates using interest rate swaps and interest rate caps. There were no transfers of finance receivables that qualified for sale accounting treatment as of April 30, 2015 and October 31, 2014, 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 retail note owner trusts or wholesale note owner trusts in order to issue asset-backed securities. These trusts are VIEs of which we are determined to be the primary beneficiary and, therefore, the assets and liabilities of the trusts are included in our Consolidated Balance Sheets. The outstanding balance of finance receivables transferred into these VIEs was \$1.1 billion and \$996 million as of April 30, 2015 and October 31, 2014, respectively. Other finance receivables related to secured transactions that do not qualify for sale accounting treatment were \$149 million and \$93 million as of April 30, 2015 and October 31, 2014, 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 millions)                           | Three Months<br>Ended April 30, |      | Six Months<br>Ended April 30, |      |
|-----------------------------------------|---------------------------------|------|-------------------------------|------|
|                                         | 2015                            | 2014 | 2015                          | 2014 |
| Retail notes and finance leases revenue | \$12                            | \$16 | \$25                          | \$33 |
| Wholesale notes interest                | 24                              | 19   | 48                            | 37   |
| Operating lease revenue                 | 15                              | 15   | 30                            | 29   |
| Retail and wholesale accounts interest  | 9                               | 7    | 17                            | 13   |
| Gross finance revenues                  | 60                              | 57   | 120                           | 112  |
| Less: Intercompany revenues             | (25)                            | (19) | (49)                          | (35) |
| Finance revenues                        | \$35                            | \$38 | \$71                          | \$77 |



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#### 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:

| (in millions)                                           | Three Months Ended April 30, 2015 |                     |                             |       | Three Months Ended April 30, 2014 |                     |                             |       |
|---------------------------------------------------------|-----------------------------------|---------------------|-----------------------------|-------|-----------------------------------|---------------------|-----------------------------|-------|
|                                                         | 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 | \$23                              | \$ 3                | \$ 32                       | \$58  | \$22                              | \$ 2                | \$ 36                       | \$60  |
| Provision for doubtful accounts, net of recoveries      | 3                                 | —                   | —                           | 3     | 3                                 | —                   | 1                           | 4     |
| Charge-off of accounts <sup>(A)</sup>                   | —                                 | —                   | —                           | —     | (3                                | ) —                 | (2                          | ) (5  |
| Other <sup>(B)</sup>                                    | (1                                | ) —                 | (2                          | ) (3  | ) —                               | —                   | 3                           | 3     |
| Allowance for doubtful accounts, at end of period       | \$25                              | \$ 3                | \$ 30                       | \$58  | \$22                              | \$ 2                | \$ 38                       | \$62  |
| (in millions)                                           | Six Months Ended April 30, 2015   |                     |                             |       | Six Months Ended April 30, 2014   |                     |                             |       |
|                                                         | 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 | \$24                              | \$ 3                | \$ 38                       | \$65  | \$21                              | \$ 2                | \$ 37                       | \$60  |
| Provision for doubtful accounts, net of recoveries      | 5                                 | —                   | —                           | 5     | 7                                 | —                   | 3                           | 10    |
| Charge-off of accounts <sup>(A)</sup>                   | (1                                | ) —                 | (3                          | ) (4  | ) (5                              | ) —                 | (2                          | ) (7  |
| Other <sup>(B)</sup>                                    | (3                                | ) —                 | (5                          | ) (8  | ) (1                              | ) —                 | —                           | (1    |
| Allowance for doubtful accounts, at end of period       | \$25                              | \$ 3                | \$ 30                       | \$58  | \$22                              | \$ 2                | \$ 38                       | \$62  |

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 both less than \$1 million, for the three and six months ended April 30, 2015, as well as for the three and six months ended April 30, 2014.

(B) Amounts include 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, 2015   |                     |       | October 31, 2014 |                     |       |
|-------------------------------------------------------------|------------------|---------------------|-------|------------------|---------------------|-------|
|                                                             | Retail Portfolio | Wholesale Portfolio | Total | Retail Portfolio | Wholesale Portfolio | Total |
| Impaired finance receivables with specific loss reserves    | \$20             | \$ —                | \$20  | \$20             | \$ —                | \$20  |
| Impaired finance receivables without specific loss reserves | 7                | —                   | 7     | 1                | —                   | 1     |

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|                                                        |    |   |    |    |   |    |
|--------------------------------------------------------|----|---|----|----|---|----|
| Specific loss reserves on impaired finance receivables | 9  | — | 9  | 6  | — | 6  |
| Finance receivables on non-accrual status              | 27 | — | 27 | 21 | — | 21 |

For the impaired finance receivables in the retail portfolio as of April 30, 2015 and 2014, the average balances of those receivables were \$25 million and \$16 million during the six months ended April 30, 2015 and 2014, respectively.

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The Company uses the aging of its receivables as well as other inputs when assessing credit quality. The following table presents the aging analysis for finance receivables:

| (in millions)                       | April 30, 2015   |                     |         | October 31, 2014 |                     |         |
|-------------------------------------|------------------|---------------------|---------|------------------|---------------------|---------|
|                                     | Retail Portfolio | Wholesale Portfolio | Total   | Retail Portfolio | Wholesale Portfolio | Total   |
| Current, and up to 30 days past due | \$586            | \$ 1,515            | \$2,101 | \$643            | \$ 1,333            | \$1,976 |
| 30-90 days past due                 | 57               | —                   | 57      | 64               | 2                   | 66      |
| Over 90 days past due               | 24               | —                   | 24      | 19               | 4                   | 23      |
| Total finance receivables           | \$667            | \$ 1,515            | \$2,182 | \$726            | \$ 1,339            | \$2,065 |

#### 5. Inventories

The following table presents the components of Inventories:

| (in millions)     | April 30, 2015 | October 31, 2014 |
|-------------------|----------------|------------------|
| Finished products | \$797          | \$880            |
| Work in process   | 85             | 50               |
| Raw materials     | 363            | 389              |
| Total inventories | \$1,245        | \$1,319          |

#### 6. Debt

| (in millions)                                                                                                     | April 30, 2015 | October 31, 2014 |
|-------------------------------------------------------------------------------------------------------------------|----------------|------------------|
| Manufacturing operations                                                                                          |                |                  |
| Senior Secured Term Loan Credit Facility, as amended, due 2017, net of unamortized discount of \$3, at both dates | \$694          | \$694            |
| 8.25% Senior Notes, due 2021, net of unamortized discount of \$19 and \$20, respectively                          | 1,181          | 1,180            |
| 4.50% Senior Subordinated Convertible Notes, due 2018, net of unamortized discount of \$17 and \$19, respectively | 183            | 181              |
| 4.75% Senior Subordinated Convertible Notes, due 2019, net of unamortized discount of \$36 and \$40, respectively | 375            | 371              |
| Debt of majority-owned dealerships                                                                                | 28             | 30               |
| Financing arrangements and capital lease obligations                                                              | 50             | 54               |
| Loan Agreement related to 6.5% Tax Exempt Bonds, due 2040                                                         | 225            | 225              |
| Promissory Note                                                                                                   | 5              | 10               |
| Financed lease obligations                                                                                        | 141            | 184              |
| Other                                                                                                             | 24             | 29               |
| Total Manufacturing operations debt                                                                               | 2,906          | 2,958            |
| Less: Current portion                                                                                             | 115            | 100              |
| Net long-term Manufacturing operations debt                                                                       | \$2,791        | \$2,858          |
| (in millions)                                                                                                     | April 30, 2015 | October 31, 2014 |
| Financial Services operations                                                                                     |                |                  |
| Asset-backed debt issued by consolidated SPEs, at fixed and variable rates, due serially through 2018             | \$986          | \$914            |
| Bank revolvers, at fixed and variable rates, due dates from 2015 through 2020                                     | 1,205          | 1,242            |
| Commercial paper, at variable rates, program matures in 2017                                                      | 77             | 74               |
| Borrowings secured by operating and finance leases, at various rates, due serially through 2018                   | 29             | 36               |

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|                                                  |         |         |
|--------------------------------------------------|---------|---------|
| Total Financial Services operations debt         | 2,297   | 2,266   |
| Less: Current portion                            | 1,096   | 1,195   |
| Net long-term Financial Services operations debt | \$1,201 | \$1,071 |

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Manufacturing Operations

3.00% Senior Subordinated Convertible Notes

In October 2009, we completed the sale of \$570 million aggregate principal amount of 3.00% senior subordinated convertible notes ("2014 Convertible Notes"), including over-allotment options. The 2014 Convertible Notes were senior subordinated unsecured obligations of the Company.

In connection with the sale of the 2014 Convertible Notes, the Company purchased call options for \$125 million. The call options covered 11,337,870 shares of common stock, subject to adjustments, at an exercise price of \$50.27. The call options were intended to minimize share dilution associated with the 2014 Convertible Notes. In addition, in connection with the sale of the 2014 Convertible Notes, the Company also entered into separate warrant transactions whereby, the Company sold warrants for \$87 million to sell in the aggregate 11,337,870 shares of common stock, subject to adjustments, at an exercise price of \$60.14 per share of common stock.

During the second quarter of 2014, the Company used proceeds from the private issuance of \$411 million of 4.75% senior subordinated convertible notes due April 2019 ("2019 Convertible Notes"), as well as cash on-hand, to repurchase \$404 million of notional amount of the 2014 Convertible Notes. The Company recorded a charge of \$11 million related to the repurchase which was recognized in Other expense (income), net. In conjunction with the repurchases of the 2014 Convertible Notes, call options representing 8,026,456 shares expired or were unwound by the Company and warrants representing 6,523,319 shares were unwound by the Company. On October 15, 2014, upon maturity, the 2014 Convertible Notes were paid in full and the purchased call options expired worthless.

During the first quarter of 2015, warrants representing 1,939,376 shares were unwound by the Company, and the remaining 2,875,175 warrants expired worthless on April 10, 2015.

Financial Services Operations

Asset-backed Debt

In January 2015, the maturity date of the \$500 million variable funding notes ("VFN") facility was extended from March 2015 to January 2016.

In November 2014, NFC completed the sale of \$250 million of two-year investor notes secured by assets of the wholesale note owner trust. Proceeds were used, in part, to replace the \$200 million of investor notes that matured in January 2015. Also in November 2014, the wholesale note owner trust was amended to reduce customer concentration restrictions.

Bank Revolvers and Commercial Paper

In January 2015, NFC paid \$125 million in cash dividends to Navistar, Inc. Dividends and certain affiliate loans are subject to the restricted payment covenants set forth in the NFC bank credit facility.

Effective December 2014, our Mexican financial services operation entered into a new two-year commercial paper program for up to P\$1.8 billion (the equivalent of approximately US \$118 million at April 30, 2015). This program replaces the existing program that was to mature in August 2015.

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, 2015, we contributed \$32 million and \$62 million, respectively, and for the three and six months ended April 30, 2014, we contributed \$36 million and \$65 million, respectively, to our pension plans to meet regulatory funding requirements. In August 2014, the Highway and Transportation Funding Act of 2014 ("HATFA"), including extension of pension funding interest rate relief, was signed into law. As a result, we lowered our funding expectations. We currently anticipate additional contributions of \$51 million to our pension plans during



the remainder of 2015.

We primarily fund other post-employment benefit ("OPEB") obligations, such as retiree medical, in accordance with a 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

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1992 regarding the restructuring of the Company's then applicable retiree health care and life insurance benefits. Contributions for the six months ended April 30, 2015 and 2014, as well as anticipated contributions for the remainder of 2015, are not material.

#### Components of Net Periodic Benefit Expense

Net postretirement benefits expense included in our Consolidated Statements of Operations is comprised 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 |      |
| (in millions)                                      | 2015                         | 2014 | 2015                               | 2014 | 2015                       | 2014 | 2015                               | 2014 |
| Service cost for benefits earned during the period | \$3                          | \$2  | \$2                                | \$1  | \$6                        | \$6  | \$3                                | \$2  |
| Interest on obligation                             | 35                           | 40   | 18                                 | 17   | 71                         | 79   | 36                                 | 34   |
| Amortization of cumulative loss                    | 24                           | 23   | 9                                  | 4    | 49                         | 47   | 19                                 | 8    |
| Amortization of prior service benefit              | —                            | —    | (1)                                | (1)  | —                          | —    | (2)                                | (2)  |
| Contractual termination benefits                   | (1)                          | —    | (1)                                | —    | (1)                        | —    | (1)                                | —    |
| Premiums on pension insurance                      | 4                            | —    | —                                  | —    | 5                          | —    | —                                  | —    |
| Expected return on assets                          | (48)                         | (48) | (8)                                | (8)  | (97)                       | (96) | (15)                               | (16) |
| Net postretirement benefits expense                | \$17                         | \$17 | \$19                               | \$13 | \$33                       | \$36 | \$40                               | \$26 |

#### 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. The Company deposits 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 \$8 million and \$17 million in the three and six months ended April 30, 2015, respectively, and \$7 million and \$15 million for the three and six months ended April 30, 2014, 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 the Company's consolidated financial statements.

The Company's contingent profit sharing obligations under a certain Supplemental Benefits Trust Profit Sharing Plan ("Supplemental Benefit 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, see Note 11, Commitments and Contingencies, for a discussion of pending arbitration regarding the Supplemental Benefit Profit Sharing Plan.

#### 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 it occurs. Items included in income tax expense in the periods in which they occur include the tax effects of material restructurings, impairments, 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 ability to realize deferred tax assets in future years.

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 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. 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.

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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, 2015, the amount of liability for uncertain tax positions was \$42 million. The liability at April 30, 2015 of \$42 million has a recorded offsetting tax benefit associated with various issues that total to \$14 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, 2015, total interest and penalties related to our uncertain tax positions resulted in an income tax expense of less than \$1 million in each period.

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

#### 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 highly liquid investments, with an original maturity of 90 days or less, including U.S. Treasury bills, federal agency securities, and commercial paper, as cash equivalents. 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 primarily include investments in U.S. government securities and commercial paper 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. For more information regarding derivatives, see Note 10, Financial Instruments and Commodity Contracts.

Guarantees—We provide certain guarantees of payments and residual values to specific counterparties. Fair value of these guarantees is based upon internally developed models that utilize current market-based assumptions and historical data. We classify these liabilities within Level 3. For more information regarding guarantees, see Note 11, Commitments and Contingencies.

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

| (in millions)                              | April 30, 2015 |         |         |       | October 31, 2014 |         |         |       |
|--------------------------------------------|----------------|---------|---------|-------|------------------|---------|---------|-------|
|                                            | Level 1        | Level 2 | Level 3 | Total | Level 1          | Level 2 | Level 3 | Total |
| Assets                                     |                |         |         |       |                  |         |         |       |
| Marketable securities:                     |                |         |         |       |                  |         |         |       |
| U.S. Treasury bills                        | \$170          | \$—     | \$—     | \$170 | \$256            | \$—     | \$—     | \$256 |
| Other                                      | 103            | —       | —       | 103   | 349              | —       | —       | 349   |
| Derivative financial instruments:          |                |         |         |       |                  |         |         |       |
| Interest rate caps <sup>(A)</sup>          | —              | 1       | —       | 1     | —                | 1       | —       | 1     |
| Total assets                               | \$273          | \$1     | \$—     | \$274 | \$605            | \$1     | \$—     | \$606 |
| Liabilities                                |                |         |         |       |                  |         |         |       |
| Derivative financial instruments:          |                |         |         |       |                  |         |         |       |
| Commodity forward contracts <sup>(B)</sup> | \$—            | \$5     | \$—     | \$5   | \$—              | \$2     | \$—     | \$2   |
| Foreign currency contracts <sup>(C)</sup>  | —              | 1       | —       | 1     | —                | —       | —       | —     |
| Guarantees                                 | —              | —       | 7       | 7     | —                | —       | 8       | 8     |
| Total liabilities                          | \$—            | \$6     | \$7     | \$13  | \$—              | \$2     | \$8     | \$10  |

(A) The asset value of interest rate caps are included in other noncurrent assets as of April 30, 2015 and October 31, 2014 in the accompanying Consolidated Balance Sheets.

(B) The liability value of commodity forward contracts are included in other noncurrent liabilities as of April 30, 2015 and October 31, 2014 in the accompanying Consolidated Balance Sheets.

(C) The liability value of foreign currency contracts are included in other noncurrent liabilities as of April 30, 2015 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, |        |
|-----------------------------------------------------------------|------------------------------|--------|
|                                                                 | 2015                         | 2014   |
| Guarantees, at February 1                                       | \$(8 )                       | \$(6 ) |
| Transfers out of Level 3                                        | —                            | —      |
| Issuances                                                       | —                            | —      |
| Settlements                                                     | 1                            | —      |
| Guarantees, at April 30                                         | \$(7 )                       | \$(6 ) |
| Change in unrealized gains on assets and liabilities still held | \$—                          | \$—    |
| (in millions)                                                   | Six Months Ended April 30,   |        |
|                                                                 | 2015                         | 2014   |
| Guarantees, at November 1                                       | \$(8 )                       | \$(6 ) |
| Transfers out of Level 3                                        | —                            | —      |
| Issuances                                                       | —                            | —      |
| Settlements                                                     | 1                            | —      |
| Guarantees, at April 30                                         | \$(7 )                       | \$(6 ) |
| Change in unrealized gains on assets and liabilities still held | \$—                          | \$—    |



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

| (in millions)                                                 | April 30,<br>2015 | October 31,<br>2014 |
|---------------------------------------------------------------|-------------------|---------------------|
| Level 2 financial instruments                                 |                   |                     |
| Carrying value of impaired finance receivables <sup>(A)</sup> | \$ 20             | \$ 20               |
| Specific loss reserve                                         | (9                | ) (6                |
| Fair value                                                    | \$ 11             | \$ 14               |

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. Fair values of the underlying collateral are determined by reference to dealer vehicle value publications adjusted for certain market factors.

In the second quarter of 2014, for the purpose of impairment evaluation the Company measured the implied fair value of the Company's Brazilian engine reporting unit's goodwill and the fair value of an indefinite-lived intangible asset, trademark. The Company's Brazilian engine reporting unit's goodwill was determined to be fully impaired and resulted in a non-cash charge of \$142 million. In addition, the related trademark, with a carrying value of \$43 million was determined to be impaired and a non-cash charge of \$7 million was recognized. The impairment charges were included in Asset impairment charges in the Company's Consolidated Statements of Operations. We utilized the income approach to determine the fair value of these Level 3 assets. For more information, see Note 1, Summary of Significant Accounting Policies.

In the first quarter of 2014, the Company concluded it had a triggering event related to potential sales of assets requiring assessment of impairment for certain intangible and long-lived assets in the Truck segment. As a result, certain amortizing intangible assets and long-lived assets with a carrying value of \$18 million were determined to be fully impaired, resulting in an impairment charge of \$18 million, which was included in Asset impairment charges in the Company's Consolidated Statements of Operations. We utilized the market approach to determine the fair values of these Level 2 assets.

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. The fair values of these financial instruments are classified as Level 1. 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 6.5% 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:

|                                                                                                 | As of April 30, 2015 |         |         |       | Carrying Value |
|-------------------------------------------------------------------------------------------------|----------------------|---------|---------|-------|----------------|
| (in millions)                                                                                   | Estimated Fair Value |         |         |       |                |
|                                                                                                 | Level 1              | Level 2 | Level 3 | Total |                |
| Assets                                                                                          |                      |         |         |       |                |
| Retail notes                                                                                    | \$—                  | \$—     | \$209   | \$209 | \$208          |
| Notes receivable                                                                                | —                    | —       | 5       | 5     | 5              |
| Liabilities                                                                                     |                      |         |         |       |                |
| Debt:                                                                                           |                      |         |         |       |                |
| Manufacturing operations                                                                        |                      |         |         |       |                |
| Senior Secured Term Loan Credit Facility, as Amended, due 2017                                  | —                    | —       | 719     | 719   | 694            |
| 8.25% Senior Notes, due 2021                                                                    | 1,233                | —       | —       | 1,233 | 1,181          |
| 4.50% Senior Subordinated Convertible Notes, due 2018 <sup>(A)</sup>                            | —                    | —       | 185     | 185   | 183            |
| 4.75% Senior Subordinated Convertible Notes, due 2019 <sup>(A)</sup>                            | —                    | —       | 383     | 383   | 375            |
| Debt of majority-owned dealerships                                                              | —                    | —       | 28      | 28    | 28             |
| Financing arrangements                                                                          | —                    | —       | 21      | 21    | 45             |
| Loan Agreement related to 6.50% Tax Exempt Bonds, due 2040                                      | —                    | 243     | —       | 243   | 225            |
| Promissory Note                                                                                 | —                    | —       | 5       | 5     | 5              |
| Financed lease obligations                                                                      | —                    | —       | 141     | 141   | 141            |
| Other                                                                                           | —                    | —       | 24      | 24    | 24             |
| Financial Services operations                                                                   |                      |         |         |       |                |
| Asset-backed debt issued by consolidated SPEs, at various rates, due serially through 2018      | —                    | —       | 984     | 984   | 986            |
| Bank revolvers, at fixed and variable rates, due dates from 2015 through 2020                   | —                    | —       | 1,184   | 1,184 | 1,205          |
| Commercial paper, at variable rates, program matures in 2017                                    | 77                   | —       | —       | 77    | 77             |
| Borrowings secured by operating and finance leases, at various rates, due serially through 2018 | —                    | —       | 29      | 29    | 29             |

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|                                                                                                 | As of October 31, 2014 |         |         |       | Carrying Value |
|-------------------------------------------------------------------------------------------------|------------------------|---------|---------|-------|----------------|
| (in millions)                                                                                   | Estimated Fair Value   |         |         |       |                |
|                                                                                                 | Level 1                | Level 2 | Level 3 | Total |                |
| Assets                                                                                          |                        |         |         |       |                |
| Retail notes                                                                                    | \$—                    | \$—     | \$279   | \$279 | \$275          |
| Notes receivable                                                                                | —                      | —       | 7       | 7     | 8              |
| Liabilities                                                                                     |                        |         |         |       |                |
| Debt:                                                                                           |                        |         |         |       |                |
| Manufacturing operations                                                                        |                        |         |         |       |                |
| Senior Secured Term Loan Credit Facility, as Amended, due 2017                                  | —                      | —       | 704     | 704   | 694            |
| 8.25% Senior Notes, due 2021                                                                    | 1,285                  | —       | —       | 1,285 | 1,180          |
| 4.50% Senior Subordinated Convertible Notes, due 2018 <sup>(A)</sup>                            | —                      | —       | 196     | 196   | 181            |
| 4.75% Senior Subordinated Convertible Notes, due 2019 <sup>(A)</sup>                            | —                      | —       | 413     | 413   | 371            |
| Debt of majority-owned dealerships                                                              | —                      | —       | 30      | 30    | 30             |
| Financing arrangements                                                                          | —                      | —       | 22      | 22    | 48             |
| Loan Agreement related to 6.50% Tax Exempt Bonds, due 2040                                      | —                      | 232     | —       | 232   | 225            |
| Promissory Note                                                                                 | —                      | —       | 10      | 10    | 10             |
| Financed lease obligations                                                                      | —                      | —       | 184     | 184   | 184            |
| Other                                                                                           | —                      | —       | 28      | 28    | 29             |
| Financial Services operations                                                                   |                        |         |         |       |                |
| Asset-backed debt issued by consolidated SPEs, at various rates, due serially through 2019      | —                      | —       | 911     | 911   | 914            |
| Bank revolvers, at fixed and variable rates, due dates from 2014 through 2020                   | —                      | —       | 1,214   | 1,214 | 1,242          |
| Commercial paper, at variable rates, program matures in 2015                                    | 74                     | —       | —       | 74    | 74             |
| Borrowings secured by operating and finance leases, at various rates, due serially through 2018 | —                      | —       | 36      | 36    | 36             |

The carrying value represents the consolidated financial statement amount of the debt which excludes the (A) allocation of the conversion feature to equity, while the fair value is based on internally developed valuation techniques such as discounted cash flow modeling for Level 3 convertible notes which include the equity feature.

## 10. 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 affect 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. In addition, 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, 2015 and 2014. None of our derivatives qualified for hedge accounting treatment during the three and six months ended April 30, 2015 and 2014.

The majority of our derivative contracts are transacted under International Swaps and Derivatives Association ("ISDA") master agreements. Each agreement permits the net settlement of amounts owed in the event of default or

certain other termination events. For derivative financial instruments, we have elected not to offset derivative positions in the balance sheet with the same counterparty under the same agreement. Certain of our derivative contracts contain provisions that require us to provide collateral if certain thresholds are exceeded. Collateral of \$1 million was provided at April 30, 2015 and no collateral was provided as of October 31, 2014. Collateral is generally 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

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is limited to those assets that have been recorded, but have not yet been received in cash. We had \$1 million exposure to the credit risk of others at both April 30, 2015 and October 31, 2014.

| (in millions)               | Location in Consolidated Statements of Operations | Three Months Ended April 30, |      |
|-----------------------------|---------------------------------------------------|------------------------------|------|
|                             |                                                   | 2015                         | 2014 |
| Interest rate caps          | Interest expense                                  | \$—                          | \$2  |
| Cross currency swaps        | Other (income) expense, net                       | 1                            | (1)  |
| Foreign currency contracts  | Other (income) expense, net                       | —                            | 1    |
| Commodity forward contracts | Costs of products sold                            | (5)                          | —    |
| Total (income) loss         |                                                   | \$(4)                        | \$2  |
| (in millions)               | Location in Consolidated Statements of Operations | Six Months Ended April 30,   |      |
|                             |                                                   | 2015                         | 2014 |
| Interest rate caps          | Interest expense                                  | \$—                          | \$1  |
| Cross currency swaps        | Other (income) expense, net                       | 3                            | 1    |
| Foreign currency contracts  | Other (income) expense, net                       | 1                            | —    |
| Commodity forward contracts | Costs of products sold                            | 5                            | —    |
| Total loss                  |                                                   | \$9                          | \$2  |

#### Foreign Currency Contracts

During 2015 and 2014, we entered into foreign exchange forward and option contracts as economic hedges of anticipated cash flows denominated in Brazilian Reais, Euros, Canadian Dollars, and Mexican Pesos. All contracts were entered into to protect against the risk that the eventual cash flows resulting from certain transactions would be affected by changes in exchange rates between the U.S. Dollar and the respective foreign currency.

The following table presents the outstanding foreign currency contracts as of April 30, 2015 and October 31, 2014:

| (in millions)             | Currency | Notional Amount | Maturity                                    |
|---------------------------|----------|-----------------|---------------------------------------------|
| As of April 30, 2015      |          |                 |                                             |
| Forward exchange contract | EUR      | € 6             | May 2015                                    |
| Forward exchange contract | EUR      | € 5             | June 2015                                   |
| Forward exchange contract | EUR      | € 5             | July 2015                                   |
| Forward exchange contract | EUR      | € 6             | August 2015-October 2015 <sup>(A)</sup>     |
| Forward exchange contract | CAD      | C\$25           | May 2015                                    |
| Forward exchange contract | CAD      | C\$25           | June 2015                                   |
| Forward exchange contract | CAD      | C\$25           | July 2015                                   |
| Forward exchange contract | CAD      | C\$75           | August 2015-October 2015 <sup>(B)</sup>     |
| Forward exchange contract | MXN      | 763             | May 2015                                    |
| As of October 31, 2014    |          |                 |                                             |
| Forward exchange contract | EUR      | € 4             | November 2014                               |
| Forward exchange contract | EUR      | € 4             | December 2014                               |
| Forward exchange contract | EUR      | € 5             | January 2015                                |
| Forward exchange contract | EUR      | € 9             | February 2015 - October 2015 <sup>(C)</sup> |

(A) Forward exchange contracts of €2 million expire on the last day of each month from August 2015 through October 2015.

(B) Forward exchange contracts of C\$25 million expire on the last day of each month from August 2015 through October 2015.

(C) Forward exchange contracts of €1 million expire on the last day of each month from February 2015 through October 2015.

#### Commodity Forward Contracts

During 2015 and 2014, we entered into commodity forward contracts as economic hedges of our exposure to variability in

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commodity prices for diesel fuel and steel. As of April 30, 2015, we had outstanding diesel fuel contracts with aggregate notional values of \$17 million and outstanding steel contracts with aggregate notional values of \$11 million. The commodity forward contracts have maturity dates ranging from April 30, 2015 to October 31, 2015. As of October 31, 2014, we had outstanding diesel fuel contracts with aggregate notional values of \$24 million and outstanding steel contracts with aggregate notional values of \$23 million. All of these contracts were entered into to protect against the risk that the eventual cash flows related to purchases of the commodities will be affected by changes in prices.

#### Interest-Rate Contracts

From time to time, we enter into various interest-rate contracts, interest rate caps, and cross currency swaps. As of April 30, 2015, there were no outstanding cross currency swaps. As of October 31, 2014, the notional amount of our outstanding cross currency swaps was \$27 million. We are exposed to interest rate and exchange rate risk as a result of our borrowing activities. The objective of these contracts is to mitigate fluctuations in earnings, cash flows, and fair value of borrowings. Our Mexican financial services operation uses interest rate caps and cross currency swaps to protect against the potential of rising interest rates as required by the terms of its variable-rate asset-backed securities and fluctuations in the value of the peso, as required under Mexican bank credit facilities. As of April 30, 2015 and October 31, 2014, the notional amount of our outstanding interest rate caps was \$118 million and \$134 million, respectively.

### 11. Commitments and Contingencies

#### Guarantees

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

In March 2010, we entered into an operating agreement, as amended, which contains automatic extensions and is subject to early termination provisions, with GE (the "GE Operating Agreement"). Under the terms of the GE Operating Agreement, as amended, GE is our preferred source of retail customer financing for equipment offered by us and our dealers in the U.S. We provide GE with a loss sharing arrangement for certain credit losses. Under the loss sharing arrangement, as amended, we generally reimburse GE for credit losses in excess of the first 10% of the financed value of a contract; for certain leases we reimburse GE for credit losses up to a maximum of the first 9.5% of the financed value of those lease contracts. The Company's exposure to loss is mitigated because contracts under the GE Operating Agreement are secured by the financed equipment. There were \$1.6 billion and \$1.5 billion of outstanding loan principal and operating lease payments receivable at April 30, 2015 and October 31, 2014, financed through the GE Operating Agreement and subject to the loss sharing arrangements in the U.S. The related financed values of these outstanding contracts were \$2.3 billion at both April 30, 2015 and October 31, 2014. Generally, we do not carry the contracts under the GE Operating Agreement on our Consolidated Balance Sheets. However, for certain GE financed contracts which we have accounted for as borrowings, we have recognized equipment leased to others of \$129 million and financed lease obligations of \$139 million in our Consolidated Balance Sheets for the period ended April 30, 2015.

Historically, our losses, representing the entire loss amount, on similar contracts, measured as a percentage of the average balance of the related contracts, ranged from 0.3% to 2.1%. Under limited circumstances NFC retains the right to originate retail customer financings. Based on our historic experience of losses on similar contracts and the nature of the loss sharing arrangement, we do not believe our share of losses related to balances currently outstanding will be material.

For certain independent dealers' wholesale inventory financed by third-party banks or finance companies, we provide limited repurchase agreements to the respective financing institution. The amount of losses related to these arrangements has not been material to our Consolidated Statements of Operations or Consolidated Statements of Cash Flows and the value of the guarantees and accruals recorded are not material to our Consolidated Balance Sheets. We also have issued limited residual value guarantees in connection with various leases. 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. The amount of losses related to these arrangements has not been material to our Consolidated Statements of Operations or Consolidated Statements of Cash Flows and the value of the guarantees and accruals recorded are not material to our Consolidated Balance Sheets.



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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, 2015, the amount of stand-by letters of credit and surety bonds was \$88 million.

We extend credit commitments to certain truck fleet customers, which allow them to purchase parts and services from participating dealers. The participating dealers receive accelerated payments from us with the result that we carry the receivables and absorb the credit risk related to these customers. As of April 30, 2015, the total credit limit under this program was \$11 million of which \$7 million was unused.

In addition, as of April 30, 2015, we have entered into various purchase commitments of \$120 million and contracts that have cancellation fees of \$33 million with various expiration dates through 2020.

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. Two sites formerly owned by us: (i) Solar Turbines in San Diego, California, and (ii) the Canton Plant in Canton, Illinois; were identified as having soil and groundwater contamination. Two sites in Sao Paulo, Brazil, one at which we are currently operating and one where we formerly operated, were identified as having soil and groundwater contamination. While investigations and cleanup activities continue at these and other sites, we believe that we have adequate accruals to cover costs to complete the cleanup of all sites.

We have accrued \$22 million for these and other environmental matters, which are included within Other current liabilities and Other noncurrent liabilities, as of April 30, 2015. The majority of these accrued liabilities are expected to be paid subsequent to 2015.

Along with other vehicle manufacturers, we have been subject to an increased number of asbestos-related claims in recent years. In general, these claims relate to illnesses alleged to have resulted from asbestos exposure from component parts found in older vehicles, although some cases relate to the alleged presence of asbestos in our facilities. In these claims, we are generally not the sole defendant, and the claims name as defendants numerous manufacturers and suppliers of a wide variety of products allegedly containing asbestos. We have strongly disputed these claims, and it has been our policy to defend against them vigorously. Historically, the actual damages paid out to claimants have not been material in any year to our financial condition, results of operations, or cash flows. It is possible that the number of these claims will continue to grow, and that the costs for resolving asbestos related claims could become significant in the future.

#### Legal Proceedings

##### Overview

We are subject to various claims arising in the ordinary course of business, and are party to various legal proceedings that constitute ordinary, routine litigation incidental to our business. The majority of these claims and proceedings relate to commercial, product liability, and warranty matters. In addition, from time to time we are subject to various

claims and legal proceedings related to employee compensation, benefits, and benefits administration including, but not limited to, compliance with the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and Department of Labor requirements. 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.

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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"), comprised of non-Company individuals. 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 Benefits 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 Benefits Profit Sharing Plan. The Committee seeks damages in excess of \$50 million, injunctive relief and reimbursement of attorneys' fees and costs. In October 2013, the Company filed a Motion to Dismiss the Profit Sharing Complaint and to compel the Committee to comply with the dispute resolution procedures set forth in the Supplemental Benefits Profit Sharing Plan. In March 2014, the Court denied the Company's Motion to Dismiss and ruled, among other things, that the Company waived its right to compel the Committee to comply with the dispute resolution provisions set forth in the Supplemental Benefits Profit Sharing Plan. In April 2014, the Company appealed the Court's refusal to compel the Committee to comply with the dispute resolution process to the Court of Appeals for the 6th Circuit. The Company also filed a motion with the Court to stay all proceedings pending the appeal. In May 2014, the Court granted the motion to stay all proceedings, including discovery, pending the appeal. In March 2015, the Court of Appeals vacated the Court's March 2014 denial of the Company's Motion to Dismiss and related ruling and remanded with instructions to order that the Committee's claims in the Profit Sharing Complaint be arbitrated. 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 Profit Sharing Plan.

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.

FATMA Notice

International Indústria de Motores 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 in July 2010 from the State of Santa Catarina Environmental Protection Agency ("FATMA") in Brazil. The notice alleged that Maxion had sent wastes to a facility owned and operated by a company known as Natureza and that soil and groundwater contamination had occurred at the Natureza facility. The notice asserted liability against Maxion and assessed an initial penalty in the amount of R\$2 million (the equivalent of less than US\$1 million at April 30, 2015), 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. IIAA disputes the allegations in the notice and intends to vigorously defend itself.

Sao Paulo Groundwater Notice

In March 2014, IIAA, along with other nearby companies, received from the Sao Paulo 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 seeks certain groundwater investigations and other technical relief and proposes sanctions in the amount of R\$3 million (the equivalent of approximately US\$1 million at April 30, 2015). In November 2014, IIAA extended a settlement offer and the parties remain in discussions regarding this matter.

MaxxForce Engine EGR Warranty Litigation

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

On July 7, 2014, Par 4 Transport, LLC filed a putative class action lawsuit against Navistar, Inc. in the United States District Court for the Northern District of Illinois (the "Par 4 Action"). Subsequently, similar 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

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District of Florida, the Southern District of Texas, the District of Minnesota, the Northern District of Alabama, the Western District of Kentucky, and the Middle District of Pennsylvania (together with the Par 4 Action, the "U.S. Actions"). The U.S. Actions contained allegations substantially similar to the Canadian Actions. More specifically, the Canadian Actions and the U.S. Actions (collectively, the "EGR Class Actions") seek to certify one or more classes of persons or entities in Canada or the United States who purchased and/or leased a ProStar or other Navistar vehicle equipped with a model year 2008-2013 MaxxForce Advanced EGR engine. In substance, the EGR Class Actions allege that the MaxxForce Advanced EGR engines are defective and that Navistar, Inc. failed to disclose and/or correct the alleged defect. The EGR Class Actions assert claims based on various theories, including breach 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 Navistar, Inc. 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 U.S. Actions then pending, as well as certain non-class action MaxxForce Advanced EGR engine lawsuits pending in various federal district courts. On December 17, 2014, Navistar's motion was granted. The MDL Panel issued an order consolidating all of the U.S. Actions pending on the date the motion was filed before Judge Gottschall in the United States District Court for the Northern District of Illinois. The MDL Panel also consolidated certain non-class action MaxxForce Advanced EGR engine lawsuits pending in the various federal district courts, with the exception of one matter.

For cases filed after the initial ruling by the MDL Panel, we continue to request that the MDL Panel similarly transfer and consolidate cases involving one or more common questions of fact. To date, eight putative class actions and three non-class cases have been added to the MDL proceeding before Judge Gottschall. On March 5, 2015, Judge Gottschall entered an order in the MDL proceeding, 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. The next status conference is set for July 2015.

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 Notice of Violation**

In February 2012, Navistar, Inc. received a Notice of Violation ("NOV") from the U.S. Environmental Protection Agency ("EPA"). The NOV pertains to approximately 7,600 diesel engines which, according to the EPA, were produced by Navistar, Inc. in 2010 and, therefore, should have met the EPA's 2010 emissions standards. Navistar, Inc. previously provided information to the EPA evidencing its belief that the engines were in fact produced in 2009. The NOV contains the EPA's conclusion that Navistar, Inc.'s alleged production of the engines in 2010 violated the Federal Clean Air Act. The NOV states that the EPA reserves the right to file an administrative complaint or to refer this matter to the U.S. Department of Justice ("DOJ") with a recommendation that a civil complaint be filed in federal district court. In July 2014, the DOJ informed Navistar that the matter had been referred to the DOJ. Navistar and the DOJ are in continuing discussions concerning this matter. If the DOJ ultimately initiates litigation, it is likely that the DOJ will request a significant civil penalty.

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

**CARB Notice of Violation**

In April 2013, Navistar, Inc. received a notice of violation and proposed settlement ("Notice") from the California Air Resources Board ("CARB"). The Notice alleges violations of the California regulations relating to verification of after-treatment devices and proposed civil penalties of approximately \$2.5 million, among other proposed settlement terms. Beginning in June 2013, the Company has made settlement offers to CARB and remains in discussions

regarding this matter. In October 2014, the parties tentatively agreed to resolve the matter for a penalty payment of \$0.3 million and the Company's agreement to conduct certain in-use testing. The parties are in the process of finalizing documents formalizing the settlement.

Shareholder Litigation

In March 2013, a putative class action complaint, alleging securities fraud, was filed against us by the Construction Workers Pension Trust Fund - Lake County and Vicinity, on behalf of itself and all other similarly situated purchasers of our common stock between the period of November 3, 2010 and August 1, 2012. A second class action complaint was filed in April 2013 by

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the Norfolk County Retirement System, individually and on behalf of all other similarly situated purchasers of our common stock between the period of June 9, 2010 and August 1, 2012. A third class action complaint was filed in April 2013 by Jane C. Purnell FBO Purnell Family Trust, on behalf of itself and all other similarly situated purchasers of our common stock between the period of November 3, 2010 and August 1, 2012. Each complaint named us as well as Daniel C. Ustian, our former President and Chief Executive Officer, and Andrew J. Cederoth, our former Executive Vice President and Chief Financial Officer as defendants. These complaints (collectively, the "10b-5 Cases") contain similar factual allegations which include, among other things, that we violated the federal securities laws by knowingly issuing materially false and misleading statements concerning our financial condition and future business prospects and that we misrepresented and omitted material facts in filings with the SEC concerning the timing and likelihood of EPA certification of our EGR technology to meet 2010 EPA emission standards. The plaintiffs in these matters seek compensatory damages and attorneys' fees, among other relief. In May 2013, an order was entered transferring and consolidating all cases before one judge and in July 2013, the Court appointed a lead plaintiff and lead plaintiff's counsel. The lead plaintiff filed a consolidated amended complaint in October 2013. The consolidated amended complaint enlarged the proposed class period to June 9, 2009 through August 1, 2012, and named fourteen additional current and former directors and officers as defendants. In December 2013, we filed a motion to dismiss the consolidated amended complaint. In July 2014, the Court granted the defendants' Motions to Dismiss, denied the lead plaintiff's Motion to Strike as moot, and gave the lead plaintiff leave to file a second consolidated amended complaint. In August, 2014, the plaintiff timely filed a Second Amended Complaint, which narrows the claims in two ways. First, the plaintiff abandoned its claims against the majority of the defendants, asserting claims against only Navistar, Dan Ustian, A.J. Cederoth, Jack Allen, and Eric Tech. The plaintiff also shortened the putative class period by changing the class period commencement date from June 9, 2009 to March 10, 2010. Defendants filed their Motion to Dismiss the Second Amended Complaint in September, 2014 and in October, 2014, the plaintiff filed its opposition to defendants Motion to Dismiss. In November, 2014, defendants filed their reply brief in support of defendants Motion to Dismiss the Second Amended Complaint. Also in November 2014, the plaintiff voluntarily dismissed Eric Tech as a defendant. The Court had set a ruling date on the Motion to Dismiss the Second Amended Complaint for February 17, 2015. On the Court's own motions, the ruling date was initially extended to April 15, 2015 and subsequently extended again to May 13, 2015 and subsequently extended again to June 11, 2015.

In March 2013, James Gould filed a derivative complaint on behalf of the Company against us and certain of our current and former directors and former officers. The complaint alleges, among other things, that certain of our current and former directors and former officers committed a breach of fiduciary duty, waste of corporate assets and were unjustly enriched in relation to similar factual allegations made in the 10b-5 Cases. The plaintiff in this matter seeks compensatory damages, certain corporate governance reforms, certain injunctive relief, disgorgement of the proceeds of certain defendants' profits from the sale of Company stock, and attorneys' fees, among other relief. On May 3, 2013, the Court entered a Stipulation and Order to Stay Action, staying the case pending further order of the court or entry of an order on the motion to dismiss the consolidated amended complaint in the 10b-5 Cases. On July 31, 2014, after the amended complaint was dismissed, the parties filed a status report, and the court entered an order on August 27, 2014 continuing the stay pending a ruling on defendants' Motion to Dismiss the Second Amended Complaint in the 10b-5 Cases.

Each of these matters is pending in the United States District Court, Northern District of Illinois.

In August 2013, Abbie Griffin, filed a derivative complaint in the State of Delaware Court of Chancery, on behalf of the Company and all similarly situated stockholders, against the Company, as the nominal defendant, and certain of our current and former directors and former officers. The complaint alleges, among other things, that certain of our current and former directors and former officers committed a breach of fiduciary duty, in relation to similar factual allegations made in the 10b-5 Cases. The plaintiff in this matter seeks compensatory damages, certain corporate governance reforms, certain injunctive relief, and attorneys' fees, among other relief. On August 29, 2013, the court entered an order staying the case pending resolution of the defendant's Motion to Dismiss the consolidated amended

complaint in the 10b-5 Cases. On August 5, 2014, the parties filed a status report with the court requesting that the August 2013 stay order remain in place pending a ruling on defendant's Motion to Dismiss the Second Amended Complaint in the 10b-5 Cases and on November 9, 2014, the court entered an order continuing the stay pending a ruling on defendants' Motion to Dismiss the Second Amended Complaint in the 10b-5 Cases.

Based on our assessment of the facts underlying these matters described above, we are unable to provide meaningful quantification of how the final resolution of these matters 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, including penalties and interest, from a group of four 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



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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 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. The arbitral tribunal will issue a schedule for the arbitration submissions. As of April 30, 2015, the approximate amount of the IIAA claim against Navitrucks is R\$71 million (approximately US\$24 million as of April 30, 2015), and the approximate amount of the Navitrucks claim against IIAA is R\$182 million (approximately US\$61 million as of April 30, 2015).

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, two other truck dealers and a truck fleet owner in Brazil have initiated separate adversarial proceedings 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. Securities and Exchange Commission Inquiry

In June 2012, Navistar received an informal inquiry from the Chicago Office of the Enforcement Division of the SEC seeking a number of categories of documents for the periods dating back to November 1, 2010, relating to various accounting and disclosure issues. We received a formal order of private investigation in July 2012. We have received subsequent subpoenas from the SEC in connection with their inquiry. In December 2014, the SEC filed an application in the United States District Court for the Northern District of Illinois seeking an order compelling the production of certain documents withheld by Navistar from its responses to the administrative subpoenas on the basis of attorney-client privilege and/or work product doctrine. The discovery dispute involves a small number of documents in relation to the number of documents already produced by Navistar. A status hearing on this matter was held on April 2, 2015 and the parties are awaiting a decision from the Court. We continue to cooperate with the SEC in this matter. At this time, we are unable to predict the outcome of this matter or provide meaningful quantification of how the final resolution of this matter may impact our future consolidated financial condition, results of operations or cash flows.

12. Segment Reporting

During November 2014, we announced changes in our leadership team and in our organizational and reporting structures. We believe this realignment will guide us into the future and enable us to accelerate our performance as we finish the turnaround. These changes impact how our Chief Operating Decision Maker ("CODM") assesses the performance of our operating segments and makes decisions about resource allocations. As a result, we identified the following changes within our reportable segments:

- The export truck and parts operations, formerly in our Global Operations segment, are now included within the results of our Truck and Parts segments, respectively.

- Parts required to support the military truck lines, formerly within our Parts segment, are now included within the results of our Truck segment.

All prior period segment information has been updated to conform to the 2015 presentation. Other than the changes noted above, there were no material changes to the reportable segments disclosed in our Annual Report on Form 10-K for the year ended October 31, 2014. The change in reportable segments had no effect on the Company's consolidated financial position, results of operations, or cash flows for the periods presented.

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, along with production of engines under the MaxxForce brand name and parts

required to support the military truck lines, in the markets that include sales in the U.S., Canada, Mexico, and within 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.

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Our Parts segment provides customers with proprietary products needed to support the International commercial truck, IC Bus, MaxxForce 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 the IIAA (formerly MWM International Industria De Motores Da America Do Sul Ltda. ("MWM")) engine and truck operations in Brazil. The IIAA engine operations produce diesel engines, primarily under contract manufacturing arrangements, as well as under the MWM brand, for sale to 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.

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

#### Segment Profit (Loss)

We define segment profit (loss) as Net income (loss) from continuing operations attributable to Navistar International Corporation excluding Income tax benefit (expense). Selected financial information is as follows:

| (in millions)                                                            | Truck   | Parts | Global Operations | Financial Services <sup>(A)</sup> | Corporate and Eliminations | Total   |
|--------------------------------------------------------------------------|---------|-------|-------------------|-----------------------------------|----------------------------|---------|
| Three Months Ended April 30, 2015                                        |         |       |                   |                                   |                            |         |
| External sales and revenues, net                                         | \$1,933 | \$607 | \$115             | \$35                              | \$3                        | \$2,693 |
| Intersegment sales and revenues <sup>(B)</sup>                           | 33      | 6     | 15                | 25                                | (79)                       | —       |
| Total sales and revenues, net                                            | \$1,966 | \$613 | \$130             | \$60                              | \$(76)                     | \$2,693 |
| Income (loss) from continuing operations attributable to NIC, net of tax | \$(51)  | \$133 | \$1               | \$22                              | \$(169)                    | \$(64)  |
| Income tax expense                                                       | —       | —     | —                 | —                                 | (18)                       | (18)    |
| Segment profit (loss)                                                    | \$(51)  | \$133 | \$1               | \$22                              | \$(151)                    | \$(46)  |
| Depreciation and amortization                                            | \$47    | \$4   | \$5               | \$12                              | \$6                        | \$74    |
| Interest expense                                                         | —       | —     | —                 | 18                                | 57                         | 75      |
| Equity in income (loss) of non-consolidated affiliates                   | 1       | 1     | (1)               | —                                 | —                          | 1       |
| Capital expenditures <sup>(C)</sup>                                      | 24      | —     | 1                 | 2                                 | 1                          | 28      |
| (in millions)                                                            | Truck   | Parts | Global Operations | Financial Services <sup>(A)</sup> | Corporate and Eliminations | Total   |
| Three Months Ended April 30, 2014                                        |         |       |                   |                                   |                            |         |
| External sales and revenues, net                                         | \$1,829 | \$614 | \$265             | \$38                              | \$—                        | \$2,746 |
| Intersegment sales and revenues                                          | 60      | 16    | 6                 | 19                                | (101)                      | —       |
| Total sales and revenues, net                                            | \$1,889 | \$630 | \$271             | \$57                              | \$(101)                    | \$2,746 |
| Income (loss) from continuing operations attributable to NIC, net of tax | \$(129) | \$133 | \$(162)           | \$24                              | \$(164)                    | \$(298) |
| Income tax expense                                                       | —       | —     | —                 | —                                 | (23)                       | (23)    |
| Segment profit (loss)                                                    | \$(129) | \$133 | \$(162)           | \$24                              | \$(141)                    | \$(275) |
| Depreciation and amortization                                            | \$71    | \$4   | \$6               | \$11                              | \$7                        | \$99    |
| Interest expense                                                         | —       | —     | —                 | 17                                | 57                         | 74      |

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|                                                 |    |   |   |   |   |    |
|-------------------------------------------------|----|---|---|---|---|----|
| Equity in income of non-consolidated affiliates | 1  | 1 | 1 | — | — | 3  |
| Capital expenditures <sup>(C)</sup>             | 26 | 1 | 1 | — | 1 | 29 |

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| (in millions)                                                            | Truck   | Parts   | Global<br>Operations | Financial<br>Services <sup>(A)</sup> | Corporate<br>and<br>Eliminations | Total   |
|--------------------------------------------------------------------------|---------|---------|----------------------|--------------------------------------|----------------------------------|---------|
| Six Months Ended April 30, 2015                                          |         |         |                      |                                      |                                  |         |
| External sales and revenues, net                                         | \$3,564 | \$1,221 | \$253                | \$71                                 | \$5                              | \$5,114 |
| Intersegment sales and revenues <sup>(B)</sup>                           | 72      | 18      | 29                   | 49                                   | (168)                            | —       |
| Total sales and revenues, net                                            | \$3,636 | \$1,239 | \$282                | \$120                                | \$(163)                          | \$5,114 |
| Income (loss) from continuing operations attributable to NIC, net of tax | \$(69)  | \$278   | \$(14)               | \$46                                 | \$(347)                          | \$(106) |
| Income tax expense                                                       | —       | —       | —                    | —                                    | (25)                             | (25)    |
| Segment profit (loss)                                                    | \$(69)  | \$278   | \$(14)               | \$46                                 | \$(322)                          | \$(81)  |
| Depreciation and amortization                                            | \$99    | \$7     | \$12                 | \$24                                 | \$11                             | \$153   |
| Interest expense                                                         | —       | —       | —                    | 38                                   | 114                              | 152     |
| Equity in income (loss) of non-consolidated affiliates                   | 3       | 2       | (2)                  | —                                    | —                                | 3       |
| Capital expenditures <sup>(C)</sup>                                      | 38      | —       | 3                    | 2                                    | 2                                | 45      |
| (in millions)                                                            | Truck   | Parts   | Global<br>Operations | Financial<br>Services <sup>(A)</sup> | Corporate<br>and<br>Eliminations | Total   |
| Six Months Ended April 30, 2014                                          |         |         |                      |                                      |                                  |         |
| External sales and revenues, net                                         | \$3,220 | \$1,188 | \$469                | \$77                                 | \$—                              | \$4,954 |
| Intersegment sales and revenues                                          | 120     | 28      | 14                   | 35                                   | (197)                            | —       |
| Total sales and revenues, net                                            | \$3,340 | \$1,216 | \$483                | \$112                                | \$(197)                          | \$4,954 |
| Income (loss) from continuing operations attributable to NIC, net of tax | \$(337) | \$241   | \$(197)              | \$47                                 | \$(301)                          | \$(547) |
| Income tax expense                                                       | —       | —       | —                    | —                                    | (11)                             | (11)    |
| Segment profit (loss)                                                    | \$(337) | \$241   | \$(197)              | \$47                                 | \$(290)                          | \$(536) |
| Depreciation and amortization                                            | \$129   | \$8     | \$14                 | \$21                                 | \$13                             | \$185   |
| Interest expense                                                         | —       | —       | —                    | 34                                   | 122                              | 156     |
| Equity in income (loss) of non-consolidated affiliates                   | 2       | 2       | (1)                  | —                                    | —                                | 3       |
| Capital expenditures <sup>(C)</sup>                                      | 38      | 5       | 4                    | 1                                    | 2                                | 50      |
| (in millions)                                                            | Truck   | Parts   | Global<br>Operations | Financial<br>Services                | Corporate<br>and<br>Eliminations | Total   |
| Segment assets, as of:                                                   |         |         |                      |                                      |                                  |         |
| April 30, 2015                                                           | \$2,104 | \$669   | \$514                | \$2,611                              | \$1,027                          | \$6,925 |
| October 31, 2014                                                         | 2,245   | 672     | 657                  | 2,598                                | 1,271                            | 7,443   |

Total sales and revenues in the Financial Services segment include interest revenues of \$44 million and \$89 (A) million for the three and six months ended April 30, 2015, respectively and \$42 million and \$82 million for the three and six months ended April 30, 2014, respectively.

(B) During the second quarter of 2015, we identified a \$35 million adjustment related to the first quarter of 2015 Intersegment sales and revenues. As a result, the Truck segment and Corporate and Eliminations should have reported Intersegment sales and revenues of \$39 million and \$(89) million, respectively, and reported Total sales

and revenues, net, of \$1,670 million and \$(87) million, respectively, for the three months ended January 31, 2015.

The adjustment did not impact the consolidated results for the first quarter of 2015.

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

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

### 13. Stockholders' Deficit

#### Accumulated Other Comprehensive Loss

Changes in Accumulated other comprehensive loss, net of tax, included in the Consolidated Statements of Stockholders' Deficit, consisted of the following:

| (in millions)                                                    | Unrealized<br>Gain on<br>Marketable<br>Securities | Foreign<br>Currency<br>Translation<br>Adjustments | Defined<br>Benefit<br>Plans | Total       |
|------------------------------------------------------------------|---------------------------------------------------|---------------------------------------------------|-----------------------------|-------------|
| Balance as of January 31, 2015                                   | \$1                                               | \$ (186 )                                         | \$ (2,105 )                 | \$ (2,290 ) |
| Other comprehensive loss before reclassifications                | —                                                 | (27 )                                             | —                           | (27 )       |
| Amounts reclassified out of accumulated other comprehensive loss | —                                                 | —                                                 | 33                          | 33          |
| Net current-period other comprehensive income (loss)             | —                                                 | (27 )                                             | 33                          | 6           |
| Balance as of April 30, 2015                                     | \$1                                               | \$ (213 )                                         | \$ (2,072 )                 | \$ (2,284 ) |
| (in millions)                                                    | Unrealized<br>Gain on<br>Marketable<br>Securities | Foreign<br>Currency<br>Translation<br>Adjustments | Defined<br>Benefit<br>Plans | Total       |
| Balance as of October 31, 2014                                   | \$1                                               | \$ (127 )                                         | \$ (2,137 )                 | \$ (2,263 ) |
| Other comprehensive loss before reclassifications                | —                                                 | (86 )                                             | —                           | (86 )       |
| Amounts reclassified out of accumulated other comprehensive loss | —                                                 | —                                                 | 65                          | 65          |
| Net current-period other comprehensive income (loss)             | —                                                 | (86 )                                             | 65                          | (21 )       |
| Balance as of April 30, 2015                                     | \$1                                               | \$ (213 )                                         | \$ (2,072 )                 | \$ (2,284 ) |
| (in millions)                                                    | Unrealized<br>Gain on<br>Marketable<br>Securities | Foreign<br>Currency<br>Translation<br>Adjustments | Defined<br>Benefit<br>Plans | Total       |
| Balance as of January 31, 2014                                   | \$—                                               | \$ (137 )                                         | \$ (1,724 )                 | \$ (1,861 ) |
| Other comprehensive income (loss) before reclassifications       | —                                                 | 48                                                | (1 )                        | 47          |
| Amounts reclassified out of accumulated other comprehensive loss | —                                                 | —                                                 | 26                          | 26          |
| Net current-period other comprehensive income                    | —                                                 | 48                                                | 25                          | 73          |
| Balance as of April 30, 2014                                     | \$—                                               | \$ (89 )                                          | \$ (1,699 )                 | \$ (1,788 ) |
| (in millions)                                                    | Unrealized<br>Gain on<br>Marketable<br>Securities | Foreign<br>Currency<br>Translation<br>Adjustments | Defined<br>Benefit<br>Plans | Total       |
| Balance as of October 31, 2013                                   | \$—                                               | \$ (75 )                                          | \$ (1,749 )                 | \$ (1,824 ) |
| Other comprehensive loss before reclassifications                | —                                                 | (14 )                                             | (2 )                        | (16 )       |
| Amounts reclassified out of accumulated other comprehensive loss | —                                                 | —                                                 | 52                          | 52          |
| Net current-period other comprehensive income (loss)             | —                                                 | (14 )                                             | 50                          | 36          |
| Balance as of April 30, 2014                                     | \$—                                               | \$ (89 )                                          | \$ (1,699 )                 | \$ (1,788 ) |





Navistar International Corporation and Subsidiaries  
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The following table displays the amounts reclassified from Accumulated other comprehensive loss and the affected line item in the Consolidated Statements of Operations:

|                                                                          | Location in Consolidated<br>Statements of Operations | Three Months<br>Ended April 30,<br>2015 | Six Months<br>Ended April 30,<br>2015 |
|--------------------------------------------------------------------------|------------------------------------------------------|-----------------------------------------|---------------------------------------|
| Defined benefit plans                                                    |                                                      |                                         |                                       |
| Amortization of prior service costs                                      | Selling, general and administrative expenses         | \$(1 )                                  | \$(2 )                                |
| Amortization of actuarial loss                                           | Selling, general and administrative expenses         | 34                                      | 68                                    |
|                                                                          | Total before tax                                     | \$33                                    | \$66                                  |
|                                                                          | Tax expense                                          | —                                       | (1 )                                  |
| Total reclassifications for the period, net of tax                       |                                                      | \$33                                    | \$65                                  |
|                                                                          | Location in Consolidated<br>Statements of Operations | Three Months<br>Ended April 30,<br>2014 | Six Months<br>Ended April 30,<br>2014 |
| Defined benefit plans                                                    |                                                      |                                         |                                       |
| Amortization of prior service costs                                      | Selling, general and administrative expenses         | \$(1 )                                  | \$(2 )                                |
| Amortization of actuarial loss                                           | Selling, general and administrative expenses         | 27                                      | 54                                    |
| Total reclassifications for the period (net of tax of \$0 at both dates) |                                                      | \$26                                    | \$52                                  |

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

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

The following table presents the information used in the calculation of our basic and diluted income (loss) per share for continuing operations, discontinued operations, and net loss, all attributable to Navistar International Corporation:

|                                                                                 | Three Months<br>Ended April 30, |          | Six Months Ended<br>April 30, |          |
|---------------------------------------------------------------------------------|---------------------------------|----------|-------------------------------|----------|
| (in millions, except per share data)                                            | 2015                            | 2014     | 2015                          | 2014     |
| Numerator:                                                                      |                                 |          |                               |          |
| Amounts attributable to Navistar International Corporation common stockholders: |                                 |          |                               |          |
| Loss from continuing operations, net of tax                                     | \$(64 )                         | \$(298 ) | \$(106 )                      | \$(547 ) |
| Income from discontinued operations, net of tax                                 | —                               | 1        | —                             | 2        |
| Net loss                                                                        | \$(64 )                         | \$(297 ) | \$(106 )                      | \$(545 ) |
| Denominator:                                                                    |                                 |          |                               |          |
| Weighted average shares outstanding:                                            |                                 |          |                               |          |
| Basic                                                                           | 81.6                            | 81.4     | 81.5                          | 81.3     |
| Effect of dilutive securities                                                   | —                               | —        | —                             | —        |
| Diluted                                                                         | 81.6                            | 81.4     | 81.5                          | 81.3     |

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

|                         |           |           |           |           |
|-------------------------|-----------|-----------|-----------|-----------|
| Basic:                  |           |           |           |           |
| Continuing operations   | \$(0.78 ) | \$(3.66 ) | \$(1.30 ) | \$(6.73 ) |
| Discontinued operations | —         | 0.01      | —         | 0.03      |
| Net loss                | \$(0.78 ) | \$(3.65 ) | \$(1.30 ) | \$(6.70 ) |
| Diluted:                |           |           |           |           |
| Continuing operations   | \$(0.78 ) | \$(3.66 ) | \$(1.30 ) | \$(6.73 ) |
| Discontinued operations | —         | 0.01      | —         | 0.03      |
| Net loss                | \$(0.78 ) | \$(3.65 ) | \$(1.30 ) | \$(6.70 ) |

The conversion rate on our 2014 Convertible Notes were 19.891 shares of common stock per \$1,000 principal amount of 2014 Convertible Notes, equivalent to an initial conversion price of \$50.27 per share of common stock. In connection with the sale of the 2014 Convertible Notes, we sold warrants to various counterparties to purchase shares of our common stock from us at an exercise price of \$60.14 per share. The 2014 Convertible Notes and warrants were anti-dilutive when calculating diluted earnings per share when our average stock price is less than \$50.27 and \$60.14, respectively. During the second quarter of 2014, the Company unwound warrants representing 6.5 million shares associated with the repurchased 2014 Convertible Notes. On October 15, 2014, upon maturity the 2014 Convertible Notes were repaid in full. During the first quarter of 2015, the Company unwound warrants representing 1.9 million shares associated with the 2014 Convertible Notes, and the remaining 2.9 million warrants expired worthless on April 10, 2015.

The conversion rate on our 4.50% 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 are anti-dilutive when calculating diluted earnings per share when our average stock price is less than \$58.40.

The conversion rate on our 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 are anti-dilutive when calculating diluted earnings per share when our average stock price is less than \$54.07.

The computation of diluted earnings per share also excludes outstanding options and other common stock equivalents in periods where inclusion of such potential common stock instruments would be anti-dilutive.

For the three and six months ended April 30, 2015 and 2014, no dilutive securities were included in the computation of diluted loss per share since they would have been anti-dilutive due to the net loss attributable to Navistar International Corporation. Additionally, certain securities have been excluded from the computation of earnings per share, as our average stock price was less than their respective exercise prices. For both the three and six months ended April 30, 2015, the aggregate shares not included were 16.0 million. For the three and six months ended April 30, 2014, the aggregate shares not included were 24.0 million and 27.3 million, respectively.

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

For both the three and six months ended April 30, 2015, 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.

For the three months ended April 30, 2014, the aggregate shares not included in the computation of earnings per share were primarily comprised of 4.8 million shares related to the warrants, 3.3 million shares related to the 2014 Convertible Notes, 3.4 million shares related to the 2018 Convertible Notes, and 7.6 million shares related to the 2019 Convertible Notes.

For the six months ended April 30, 2014, the aggregate shares not included in the computation of earnings per share were primarily comprised of 8.1 million shares related to the warrants, 7.3 million shares related to the 2014 Convertible Notes, 3.4 million shares related to the 2018 Convertible Notes, and 3.8 million shares related to the 2019 Convertible Notes.

#### 15. Condensed Consolidating Guarantor and Non-guarantor Financial Information

The following tables set forth condensed consolidating balance sheets as of April 30, 2015 and October 31, 2014, and condensed consolidating statements of operations and condensed consolidating statements of comprehensive income (loss) for the three and six months ended April 30, 2015 and 2014, and condensed consolidating statements of cash flows for the six months ended April 30, 2015 and 2014.

The information is presented as a result of Navistar, Inc.'s guarantee, exclusive of its subsidiaries, of NIC's indebtedness under our 8.25% Senior Notes, due 2021, and obligations under our Loan Agreement related to the 6.5% Tax Exempt Bonds, due 2040. Navistar, Inc. is a direct wholly-owned subsidiary of NIC. None of NIC's other subsidiaries guarantee any of these notes or bonds. The guarantees are "full and unconditional", as those terms are used in Regulation S-X Rule 3-10, except that the guarantees will be automatically released in certain customary circumstances, such as when the subsidiary is sold or all of the assets of the subsidiary are sold, the capital stock is sold, when the subsidiary is designated as an "unrestricted subsidiary" for purposes of the respective indenture for each of the 8.25% Senior Notes, due 2021, and the 6.5% Tax Exempt Bonds, due 2040, upon liquidation or dissolution of the subsidiary or upon legal or covenant defeasance, or satisfaction and discharge of the notes or bonds. Separate financial statements and other disclosures concerning Navistar, Inc. have not been presented because management believes that such information is not material to investors. Within this disclosure only, "NIC" includes the financial results of the parent company only, with all of its wholly-owned subsidiaries accounted for under the equity method. Likewise, "Navistar, Inc.," for purposes of this disclosure only, includes the consolidated financial results of its wholly-owned subsidiaries accounted for under the equity method and its operating units accounted for on a consolidated basis. "Non-Guarantor Subsidiaries" includes the combined financial results of all other non-guarantor subsidiaries. "Eliminations and Other" includes all eliminations and reclassifications to reconcile to the consolidated financial statements. NIC files a consolidated U.S. federal income tax return that includes Navistar, Inc. and its U.S. subsidiaries. Navistar, Inc. has a tax allocation agreement ("Tax Agreement") with NIC which requires Navistar, Inc. to compute its separate federal income tax liability and remit any resulting tax liability to NIC. Tax benefits that may arise from net operating losses of Navistar, Inc. are not refunded to Navistar, Inc. but may be used to offset future required tax payments under the Tax Agreement. The effect of the Tax Agreement is to allow NIC, the parent company, rather than Navistar, Inc., to utilize current U.S. taxable losses of Navistar, Inc. and all other direct or indirect subsidiaries of NIC.

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

Condensed Consolidating Statement of Operations for the Three Months Ended April 30, 2015

| (in millions)                                                        | NIC     | Navistar,<br>Inc. | Non-Guarantor<br>Subsidiaries | Eliminations<br>and Other | Consolidated |
|----------------------------------------------------------------------|---------|-------------------|-------------------------------|---------------------------|--------------|
| Sales and revenues, net                                              | \$—     | \$2,009           | \$ 1,943                      | \$(1,259 )                | \$ 2,693     |
| Costs of products sold                                               | —       | 1,864             | 1,735                         | (1,239 )                  | 2,360        |
| Restructuring charges                                                | —       | —                 | 6                             | —                         | 6            |
| Asset impairment charges                                             | —       | 1                 | —                             | —                         | 1            |
| All other operating expenses (income)                                | 27      | 282               | 79                            | (22 )                     | 366          |
| Total costs and expenses                                             | 27      | 2,147             | 1,820                         | (1,261 )                  | 2,733        |
| Equity in income (loss) of affiliates                                | (37 )   | 64                | —                             | (26 )                     | 1            |
| Income (loss) before income taxes                                    | (64 )   | (74 )             | 123                           | (24 )                     | (39 )        |
| Income tax expense                                                   | —       | (1 )              | (17 )                         | —                         | (18 )        |
| Earnings (loss) from continuing operations                           | (64 )   | (75 )             | 106                           | (24 )                     | (57 )        |
| Income from discontinued operations, net of tax                      | —       | —                 | —                             | —                         | —            |
| Net income (loss)                                                    | (64 )   | (75 )             | 106                           | (24 )                     | (57 )        |
| Less: Net income attributable to non-controlling interests           | —       | —                 | 7                             | —                         | 7            |
| Net income (loss) attributable to Navistar International Corporation | \$(64 ) | \$(75 )           | \$ 99                         | \$(24 )                   | \$(64 )      |

Condensed Consolidating Statement of Comprehensive Income (Loss) for the Three Months Ended April 30, 2015

| (in millions)                                                                        | NIC     | Navistar,<br>Inc. | Non-Guarantor<br>Subsidiaries | Eliminations<br>and Other | Consolidated |
|--------------------------------------------------------------------------------------|---------|-------------------|-------------------------------|---------------------------|--------------|
| Net income (loss) attributable to Navistar International Corporation                 | \$(64 ) | \$(75 )           | \$ 99                         | \$(24 )                   | \$(64 )      |
| Other comprehensive income (loss):                                                   |         |                   |                               |                           |              |
| Foreign currency translation adjustment                                              | (27 )   | —                 | (27 )                         | 27                        | (27 )        |
| Defined benefit plans (net of tax of \$(0), for all entities)                        | 33      | 31                | 2                             | (33 )                     | 33           |
| Total other comprehensive income (loss)                                              | 6       | 31                | (25 )                         | (6 )                      | 6            |
| Total comprehensive income (loss) attributable to Navistar International Corporation | \$(58 ) | \$(44 )           | \$ 74                         | \$(30 )                   | \$(58 )      |

Condensed Consolidating Statement of Operations for the Six Months Ended April 30, 2015

| (in millions)                                   | NIC    | Navistar,<br>Inc. | Non-Guarantor<br>Subsidiaries | Eliminations<br>and Other | Consolidated |
|-------------------------------------------------|--------|-------------------|-------------------------------|---------------------------|--------------|
| Sales and revenues, net                         | \$—    | \$3,619           | \$ 3,711                      | \$(2,216 )                | \$ 5,114     |
| Costs of products sold                          | —      | 3,273             | 3,305                         | (2,173 )                  | 4,405        |
| Restructuring charges                           | —      | 3                 | 6                             | —                         | 9            |
| Asset impairment charges                        | —      | 8                 | —                             | —                         | 8            |
| All other operating expenses (income)           | 50     | 546               | 204                           | (40 )                     | 760          |
| Total costs and expenses                        | 50     | 3,830             | 3,515                         | (2,213 )                  | 5,182        |
| Equity in income (loss) of affiliates           | (56 )  | 79                | 1                             | (21 )                     | 3            |
| Income (loss) before income taxes               | (106 ) | (132 )            | 197                           | (24 )                     | (65 )        |
| Income tax expense                              | —      | (2 )              | (23 )                         | —                         | (25 )        |
| Earnings (loss) from continuing operations      | (106 ) | (134 )            | 174                           | (24 )                     | (90 )        |
| Income from discontinued operations, net of tax | —      | —                 | —                             | —                         | —            |
| Net income (loss)                               | (106 ) | (134 )            | 174                           | (24 )                     | (90 )        |

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|                                                                      |          |          |        |         |          |
|----------------------------------------------------------------------|----------|----------|--------|---------|----------|
| Less: Net income attributable to non-controlling interests           | —        | —        | 16     | —       | 16       |
| Net income (loss) attributable to Navistar International Corporation | \$(106 ) | \$(134 ) | \$ 158 | \$(24 ) | \$(106 ) |

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

Condensed Consolidating Statement of Comprehensive Income (Loss) for the Six Months Ended April 30, 2015

| (in millions)                                                                           | NIC      | Navistar,<br>Inc. | Non-Guarantor<br>Subsidiaries | Eliminations<br>and Other | Consolidated |
|-----------------------------------------------------------------------------------------|----------|-------------------|-------------------------------|---------------------------|--------------|
| Net income (loss) attributable to Navistar International Corporation                    | \$(106 ) | \$(134 )          | \$ 158                        | \$(24 )                   | \$(106 )     |
| Other comprehensive income (loss):                                                      |          |                   |                               |                           |              |
| Foreign currency translation adjustment                                                 | (86 )    | —                 | (86 )                         | 86                        | (86 )        |
| Defined benefit plans (net of tax of \$(1), \$(0), \$(1), \$1, and \$(1), respectively) | 65       | 62                | 3                             | (65 )                     | 65           |
| Total other comprehensive income (loss)                                                 | (21 )    | 62                | (83 )                         | 21                        | (21 )        |
| Total comprehensive income (loss) attributable to Navistar International Corporation    | \$(127 ) | \$(72 )           | \$ 75                         | \$(3 )                    | \$(127 )     |

Condensed Consolidating Balance Sheet as of April 30, 2015

| (in millions)                                                                     | NIC        | Navistar,<br>Inc. | Non-Guarantor<br>Subsidiaries | Eliminations<br>and Other | Consolidated |
|-----------------------------------------------------------------------------------|------------|-------------------|-------------------------------|---------------------------|--------------|
| Assets                                                                            |            |                   |                               |                           |              |
| Cash and cash equivalents                                                         | \$ 163     | \$37              | \$ 383                        | \$ —                      | \$ 583       |
| Marketable securities                                                             | 150        | —                 | 123                           | —                         | 273          |
| Restricted cash                                                                   | 17         | 6                 | 90                            | —                         | 113          |
| Finance and other receivables, net                                                | 3          | 132               | 2,558                         | (19 )                     | 2,674        |
| Inventories                                                                       | —          | 785               | 475                           | (15 )                     | 1,245        |
| Investments in non-consolidated affiliates                                        | (7,322 )   | 6,495             | 65                            | 830                       | 68           |
| Property and equipment, net                                                       | —          | 768               | 646                           | (7 )                      | 1,407        |
| Goodwill                                                                          | —          | —                 | 38                            | —                         | 38           |
| Deferred taxes, net                                                               | 5          | 9                 | 158                           | —                         | 172          |
| Other                                                                             | 32         | 141               | 179                           | —                         | 352          |
| Total assets                                                                      | \$(6,952 ) | \$8,373           | \$ 4,715                      | \$ 789                    | \$ 6,925     |
| Liabilities and stockholders' equity (deficit)                                    |            |                   |                               |                           |              |
| Debt                                                                              | \$ 1,965   | \$887             | \$ 2,357                      | \$(6 )                    | \$ 5,203     |
| Postretirement benefits liabilities                                               | —          | 2,639             | 227                           | —                         | 2,866        |
| Amounts due to (from) affiliates                                                  | (7,749 )   | 11,963            | (4,352 )                      | 138                       | —            |
| Other liabilities                                                                 | 3,606      | 249               | (182 )                        | (73 )                     | 3,600        |
| Total liabilities                                                                 | (2,178 )   | 15,738            | (1,950 )                      | 59                        | 11,669       |
| Redeemable equity securities                                                      | 1          | —                 | —                             | —                         | 1            |
| Stockholders' equity attributable to non-controlling interest                     | —          | —                 | 30                            | —                         | 30           |
| Stockholders' equity (deficit) attributable to Navistar International Corporation | (4,775 )   | (7,365 )          | 6,635                         | 730                       | (4,775 )     |
| Total liabilities and stockholders' equity (deficit)                              | \$(6,952 ) | \$8,373           | \$ 4,715                      | \$ 789                    | \$ 6,925     |

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

Condensed Consolidating Statement of Cash Flows for the Six Months Ended April 30, 2015

| (in millions)                                                | NIC      | Navistar,<br>Inc. | Non-Guarantor<br>Subsidiaries | Eliminations<br>and Other | Consolidated |
|--------------------------------------------------------------|----------|-------------------|-------------------------------|---------------------------|--------------|
| Net cash provided by (used in) operations                    | \$(168 ) | \$41              | \$ (188 )                     | \$ 78                     | \$( 237 )    |
| Cash flows from investment activities                        |          |                   |                               |                           |              |
| Net change in restricted cash and cash equivalents           | 1        | (2 )              | 54                            | —                         | 53           |
| Net sales of marketable securities                           | 229      | —                 | 103                           | —                         | 332          |
| Capital expenditures and purchase of equipment               | —        | (30 )             | (35 )                         | —                         | (65 )        |
| leased to others                                             |          |                   |                               |                           |              |
| Other investing activities                                   | —        | 7                 | 5                             | —                         | 12           |
| Net cash provided by (used in) investment activities         | 230      | (25 )             | 127                           | —                         | 332          |
| Cash flows from financing activities                         |          |                   |                               |                           |              |
| Net borrowings (repayments) of debt                          | —        | (52 )             | 66                            | 2                         | 16           |
| Other financing activities                                   | —        | 20                | 61                            | (80 )                     | 1            |
| Net cash provided by (used in) financing activities          | —        | (32 )             | 127                           | (78 )                     | 17           |
| Effect of exchange rate changes on cash and cash equivalents | —        | —                 | (26 )                         | —                         | (26 )        |
| Increase (decrease) in cash and cash equivalents             | 62       | (16 )             | 40                            | —                         | 86           |
| Cash and cash equivalents at beginning of the period         | 101      | 53                | 343                           | —                         | 497          |
| Cash and cash equivalents at end of the period               | \$ 163   | \$ 37             | \$ 383                        | \$ —                      | \$ 583       |

Condensed Consolidating Statement of Operations for the Three Months Ended April 30, 2014

| (in millions)                                                        | NIC      | Navistar,<br>Inc. | Non-Guarantor<br>Subsidiaries | Eliminations<br>and Other | Consolidated |
|----------------------------------------------------------------------|----------|-------------------|-------------------------------|---------------------------|--------------|
| Sales and revenues, net                                              | \$—      | \$1,893           | \$ 2,061                      | \$(1,208 )                | \$ 2,746     |
| Costs of products sold                                               | —        | 1,797             | 1,862                         | (1,191 )                  | 2,468        |
| Restructuring charges                                                | —        | 8                 | —                             | —                         | 8            |
| Asset impairment charges                                             | —        | —                 | 153                           | (2 )                      | 151          |
| All other operating expenses (income)                                | 41       | 273               | 89                            | (17 )                     | 386          |
| Total costs and expenses                                             | 41       | 2,078             | 2,104                         | (1,210 )                  | 3,013        |
| Equity in income (loss) of affiliates                                | (269 )   | (141 )            | 2                             | 411                       | 3            |
| Income (loss) before income taxes                                    | (310 )   | (326 )            | (41 )                         | 413                       | (264 )       |
| Income tax benefit (expense)                                         | 13       | (8 )              | (28 )                         | —                         | (23 )        |
| Earnings (loss) from continuing operations                           | (297 )   | (334 )            | (69 )                         | 413                       | (287 )       |
| Income from discontinued operations, net of tax                      | —        | —                 | 1                             | —                         | 1            |
| Net income (loss)                                                    | (297 )   | (334 )            | (68 )                         | 413                       | (286 )       |
| Less: Net income attributable to non-controlling interests           | —        | —                 | 11                            | —                         | 11           |
| Net income (loss) attributable to Navistar International Corporation | \$(297 ) | \$(334 )          | \$ (79 )                      | \$ 413                    | \$( 297 )    |





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

Condensed Consolidating Statement of Comprehensive Income (Loss) for the Three Months Ended April 30, 2014

| (in millions)                                                                        | NIC      | Navistar,<br>Inc. | Non-Guarantor<br>Subsidiaries | Eliminations<br>and Other | Consolidated |
|--------------------------------------------------------------------------------------|----------|-------------------|-------------------------------|---------------------------|--------------|
| Net income (loss) attributable to Navistar International Corporation                 | \$(297 ) | \$(334 )          | \$ (79 )                      | \$ 413                    | \$(297 )     |
| Other comprehensive income (loss):                                                   |          |                   |                               |                           |              |
| Foreign currency translation adjustment                                              | 48       | —                 | 48                            | (48 )                     | 48           |
| Defined benefit plans (net of tax of \$0, for all entities)                          | 25       | 25                | —                             | (25 )                     | 25           |
| Total other comprehensive income (loss)                                              | 73       | 25                | 48                            | (73 )                     | 73           |
| Total comprehensive income (loss) attributable to Navistar International Corporation | \$(224 ) | \$(309 )          | \$ (31 )                      | \$ 340                    | \$(224 )     |

Condensed Consolidating Statement of Operations for the Six Months Ended April 30, 2014

| (in millions)                                                        | NIC      | Navistar,<br>Inc. | Non-Guarantor<br>Subsidiaries | Eliminations<br>and Other | Consolidated |
|----------------------------------------------------------------------|----------|-------------------|-------------------------------|---------------------------|--------------|
| Sales and revenues, net                                              | \$—      | \$3,317           | \$ 3,790                      | \$(2,153 )                | \$ 4,954     |
| Costs of products sold                                               | —        | 3,222             | 3,393                         | (2,133 )                  | 4,482        |
| Restructuring charges                                                | —        | 10                | 1                             | —                         | 11           |
| Asset impairment charges                                             | —        | —                 | 171                           | (2 )                      | 169          |
| All other operating expenses (income)                                | 77       | 514               | 248                           | (28 )                     | 811          |
| Total costs and expenses                                             | 77       | 3,746             | 3,813                         | (2,163 )                  | 5,473        |
| Equity in income (loss) of affiliates                                | (481 )   | (152 )            | 1                             | 635                       | 3            |
| Income (loss) before income taxes                                    | (558 )   | (581 )            | (22 )                         | 645                       | (516 )       |
| Income tax benefit (expense)                                         | 13       | (1 )              | (23 )                         | —                         | (11 )        |
| Earnings (loss) from continuing operations                           | (545 )   | (582 )            | (45 )                         | 645                       | (527 )       |
| Income from discontinued operations, net of tax                      | —        | —                 | 2                             | —                         | 2            |
| Net income (loss)                                                    | (545 )   | (582 )            | (43 )                         | 645                       | (525 )       |
| Less: Net income attributable to non-controlling interests           | —        | —                 | 20                            | —                         | 20           |
| Net income (loss) attributable to Navistar International Corporation | \$(545 ) | \$(582 )          | \$ (63 )                      | \$ 645                    | \$(545 )     |

Condensed Consolidating Statement of Comprehensive Income (Loss) for the Six Months Ended April 30, 2014

| (in millions)                                                                        | NIC      | Navistar,<br>Inc. | Non-Guarantor<br>Subsidiaries | Eliminations<br>and Other | Consolidated |
|--------------------------------------------------------------------------------------|----------|-------------------|-------------------------------|---------------------------|--------------|
| Net income (loss) attributable to Navistar International Corporation                 | \$(545 ) | \$(582 )          | \$ (63 )                      | \$ 645                    | \$(545 )     |
| Other comprehensive income (loss):                                                   |          |                   |                               |                           |              |
| Foreign currency translation adjustment                                              | (14 )    | —                 | (14 )                         | 14                        | (14 )        |
| Defined benefit plans (net of tax of \$(1) \$0, \$(1), \$1, and \$(1), respectively) | 50       | 50                | —                             | (50 )                     | 50           |
| Total other comprehensive income (loss)                                              | 36       | 50                | (14 )                         | (36 )                     | 36           |
| Total comprehensive income (loss) attributable to Navistar International Corporation | \$(509 ) | \$(532 )          | \$ (77 )                      | \$ 609                    | \$(509 )     |



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

Condensed Consolidating Balance Sheet as of October 31, 2014

| (in millions)                                                                     | NIC         | Navistar,<br>Inc. | Non-Guarantor<br>Subsidiaries | Eliminations<br>and Other | Consolidated |
|-----------------------------------------------------------------------------------|-------------|-------------------|-------------------------------|---------------------------|--------------|
| Assets                                                                            |             |                   |                               |                           |              |
| Cash and cash equivalents                                                         | \$ 101      | \$ 53             | \$ 343                        | \$ —                      | \$ 497       |
| Marketable securities                                                             | 379         | —                 | 226                           | —                         | 605          |
| Restricted cash                                                                   | 19          | 4                 | 148                           | —                         | 171          |
| Finance and other receivables, net                                                | —           | 124               | 2,504                         | (12 )                     | 2,616        |
| Inventories                                                                       | —           | 792               | 539                           | (12 )                     | 1,319        |
| Investments in non-consolidated affiliates                                        | (7,245 )    | 6,410             | 71                            | 837                       | 73           |
| Property and equipment, net                                                       | —           | 827               | 740                           | (5 )                      | 1,562        |
| Goodwill                                                                          | —           | —                 | 38                            | —                         | 38           |
| Deferred taxes, net                                                               | 5           | 9                 | 185                           | 1                         | 200          |
| Other                                                                             | 34          | 137               | 194                           | (3 )                      | 362          |
| Total assets                                                                      | \$ (6,707 ) | \$ 8,356          | \$ 4,988                      | \$ 806                    | \$ 7,443     |
| Liabilities and stockholders' equity (deficit)                                    |             |                   |                               |                           |              |
| Debt                                                                              | \$ 1,958    | \$ 937            | \$ 2,336                      | \$ (7 )                   | \$ 5,224     |
| Postretirement benefits liabilities                                               | —           | 2,712             | 243                           | —                         | 2,955        |
| Amounts due to (from) affiliates                                                  | (7,618 )    | 11,739            | (4,267 )                      | 146                       | —            |
| Other liabilities                                                                 | 3,605       | 370               | (22 )                         | (71 )                     | 3,882        |
| Total liabilities                                                                 | (2,055 )    | 15,758            | (1,710 )                      | 68                        | 12,061       |
| Redeemable equity securities                                                      | 2           | —                 | —                             | —                         | 2            |
| Stockholders' equity attributable to non-controlling interest                     | —           | —                 | 34                            | —                         | 34           |
| Stockholders' equity (deficit) attributable to Navistar International Corporation | (4,654 )    | (7,402 )          | 6,664                         | 738                       | (4,654 )     |
| Total liabilities and stockholders' equity (deficit)                              | \$ (6,707 ) | \$ 8,356          | \$ 4,988                      | \$ 806                    | \$ 7,443     |

Condensed Consolidating Statement of Cash Flows for the Six Months Ended April 30, 2014

| (in millions)                                                   | NIC       | Navistar,<br>Inc. | Non-Guarantor<br>Subsidiaries | Eliminations<br>and Other | Consolidated |
|-----------------------------------------------------------------|-----------|-------------------|-------------------------------|---------------------------|--------------|
| Net cash provided by (used in) operations                       | \$ (458 ) | \$ (961 )         | \$ 85                         | \$ 1,008                  | \$ (326 )    |
| Cash flows from investment activities                           |           |                   |                               |                           |              |
| Net change in restricted cash and cash equivalents              | 5         | (1 )              | (25 )                         | —                         | (21 )        |
| Net sales of marketable securities                              | 389       | —                 | (93 )                         | —                         | 296          |
| Capital expenditures and purchase of equipment leased to others | —         | (67 )             | (91 )                         | —                         | (158 )       |
| Other investing activities                                      | —         | 8                 | 17                            | —                         | 25           |
| Net cash provided by (used in) investment activities            | 394       | (60 )             | (192 )                        | —                         | 142          |
| Cash flows from financing activities                            |           |                   |                               |                           |              |
| Net borrowings (repayments) of debt                             | (10 )     | 959               | 68                            | (1,006 )                  | 11           |
| Other financing activities                                      | 18        | 34                | (30 )                         | —                         | 22           |
| Net cash provided by (used in) financing activities             | 8         | 993               | 38                            | (1,006 )                  | 33           |
| Effect of exchange rate changes on cash and cash equivalents    | —         | —                 | (8 )                          | (2 )                      | (10 )        |

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|                                                      |       |       |        |     |        |   |
|------------------------------------------------------|-------|-------|--------|-----|--------|---|
| Decrease in cash and cash equivalents                | (56   | ) (28 | ) (77  | ) — | (161   | ) |
| Cash and cash equivalents at beginning of the period | 336   | 72    | 347    | —   | 755    |   |
| Cash and cash equivalents at end of the period       | \$280 | \$44  | \$ 270 | \$— | \$ 594 |   |

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## 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 Operation ("MD&A") is designed to provide information that is supplemental to, and should be read together with, our consolidated financial statements and the accompanying notes contained in our Annual Report on Form 10-K for the year ended October 31, 2014. 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, 2014 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, MaxxForce® brand diesel engines, 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 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 trucks (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 2015, we continued to make strides with our new strategy, which centers around three key components: finishing the turnaround, establishing a leading position in the market based on an uptime advantage, and developing leaders at every level. We believe our new strategy will enable us to continue to improve our sales and market share, reduce costs, and add value for our customers, including providing a lower cost of ownership and improved fuel economy.

We also continue to evaluate our portfolio of assets, with the purpose of closing or divesting non-core/non-strategic businesses, and identifying opportunities to restructure our business and rationalize our Manufacturing operations in an effort to optimize our cost structure. We believe the new strategy, coupled with our continued focus on optimizing our cost structure, will enable us to build on our progress to-date, improve our financial performance, and achieve our long-term financial goals.

We continue to focus on our Core markets which continue to show improvements. In the second quarter of 2015, the truck industry retail deliveries for our Core markets were up 16% compared to the prior year. Our chargeouts of trucks in our Core markets were up 10%, reflecting a 24% increase in Class 6 and 7 medium trucks, a 10% increase in Class 8 severe service trucks, and a 9% increase of Class 8 heavy trucks, partially offset by a 15% decrease in school buses.

### Financial Summary

**Continuing Operations Results**—In the second quarter of 2015, our consolidated net sales and revenues were \$2.7 billion, down 2% compared to the prior year quarter. The 2% decrease reflects decreased sales in our Global Operations and Parts segments, partially offset by increased sales in our Truck segment. In the first half of 2015, our consolidated net sales and revenues were \$5.1 billion, up 3% compared to the first half of 2014. The 3% increase reflects higher sales from our Truck and Parts segments, partially offset by lower sales from our Global Operations segment.

The improvement by the Truck segment reflects improved Core truck volumes, primarily Class 6 and 7 medium trucks, and an increase in our BDT joint venture, partially offset by lower export truck operations and used truck sales. The decrease in the Global Operations segment is due to lower volumes and unfavorable movements in foreign currency exchange rates in our South American engine and Brazil truck operations. The decrease in Parts segment sales in the second quarter of 2015 is primarily due to a decline in BDP and export parts sales, partially offset by improvements in our North America markets. In the first half of 2015, the Parts segment net sales increase was primarily due to improvements in our North America markets, partially offset by a decline in BDP and export parts sales.

In the second quarter and first half of 2015, we incurred a loss from continuing operations before income taxes of \$39 million and \$65 million, respectively, compared to a loss from continuing operations of \$264 million and \$516 million

in the respective periods in the prior year. The improvement in our comparative results in 2015 was primarily driven by lower asset impairment charges, lower adjustments to pre-existing warranties and favorable product mix within our Core markets, partially offset by an increase in our used truck reserves. During the second quarter of 2014, we concluded certain assets were impaired and recognized a non-cash charge of \$149 million, primarily related to goodwill, and established a valuation allowance on our deferred tax assets related to our Brazilian operations, which impacted income tax expense by \$29 million. In addition, our

gross used truck inventory increased to approximately \$375 million at April 30, 2015 from \$320 million at October 31, 2014 (offset by reserves of \$80 million and \$40 million, respectively, and including approximately \$3 million in our Financial Services segment, at the respective dates) due, in part, to an increase in used truck receipts coupled with a decrease in used truck sales.

In the second quarter of 2015, consolidated net income (loss) from continuing operations attributable to Navistar International Corporation, before manufacturing interest, taxes, depreciation and amortization expenses ("EBITDA") was \$85 million, compared to an EBITDA loss of \$119 million in 2014. Included in our EBITDA for the second quarter of 2015 are one-time net charges of \$17 million, compared to one-time charges of \$201 million in the second quarter of 2014. Excluding these items, adjusted EBITDA was \$102 million in the second quarter of 2015 compared to adjusted EBITDA of \$82 million in 2014. In the first half of 2015, EBITDA was \$186 million, compared to an EBITDA loss of \$229 million in 2014. Included in our EBITDA for the first half of 2015 are certain one-time items that resulted in a net benefit of \$30 million compared to charges of \$274 million in the first half of 2014. Excluding these items, adjusted EBITDA was \$156 million in the first half of 2015 compared to adjusted EBITDA of \$45 million in 2014. EBITDA and adjusted EBITDA are not in accordance with, or an alternative for, US GAAP. They exclude certain identified items. For more information regarding this non-GAAP financial information, see Consolidated EBITDA and Adjusted EBITDA.

In the second quarter and first half of 2015, we recognized income tax expense from continuing operations of \$18 million and \$25 million, respectively, compared to income tax expense of \$23 million and \$11 million in the respective prior periods. The difference in the income tax expense was primarily due to geographical mix and certain discrete items. The first half of 2014 included a net income tax expense of \$14 million related to our Brazilian operations, offset by a tax benefit of \$13 million resulting from the application of the intraperiod tax allocation rules due to the issuance and repurchase of our convertible notes and a tax benefit of \$8 million due to a decrease in uncertain tax positions.

In the second quarter and first half of 2015, after income taxes, the loss from continuing operations attributable to Navistar International Corporation was \$64 million and \$106 million, or \$0.78 and \$1.30 per diluted share, compared to a loss of \$298 million and \$547 million, or \$3.66 and \$6.73 per diluted share, in the respective prior year periods. We ended the second quarter of 2015 with \$856 million of consolidated cash, cash equivalents and marketable securities, compared to \$1.1 billion as of October 31, 2014. The decrease in consolidated cash, cash equivalents and marketable securities was primarily attributable to an increase in finance receivables, and decreases in accounts payable and other noncurrent liabilities, partially offset by a decrease in inventory.



## Results of Continuing 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 three and six months ended April 30, 2015 as compared to the three and six months ended April 30, 2014

| (in millions, except per share data and % change)          | Three Months Ended April 30, |           |         | % Change | Six Months Ended April 30, |           |         | % Change |
|------------------------------------------------------------|------------------------------|-----------|---------|----------|----------------------------|-----------|---------|----------|
|                                                            | 2015                         | 2014      | Change  |          | 2015                       | 2014      | Change  |          |
| Sales and revenues, net                                    | \$2,693                      | \$2,746   | \$(53 ) | (2 )%    | \$5,114                    | \$4,954   | \$160   | 3 %      |
| Costs of products sold                                     | 2,360                        | 2,468     | (108 )  | (4 )%    | 4,405                      | 4,482     | (77 )   | (2 )%    |
| Restructuring charges                                      | 6                            | 8         | (2 )    | (25 )%   | 9                          | 11        | (2 )    | (18 )%   |
| Asset impairment charges                                   | 1                            | 151       | (150 )  | (99 )%   | 8                          | 169       | (161 )  | (95 )%   |
| Selling, general and administrative expenses               | 243                          | 237       | 6       | 3 %      | 484                        | 476       | 8       | 2 %      |
| Engineering and product development costs                  | 76                           | 83        | (7 )    | (8 )%    | 155                        | 173       | (18 )   | (10 )%   |
| Interest expense                                           | 75                           | 74        | 1       | 1 %      | 152                        | 156       | (4 )    | (3 )%    |
| Other (income) expense, net                                | (28 )                        | (8 )      | (20 )   | N.M.     | (31 )                      | 6         | (37 )   | N.M.     |
| Total costs and expenses                                   | 2,733                        | 3,013     | (280 )  | (9 )%    | 5,182                      | 5,473     | (291 )  | (5 )%    |
| Equity in income of non-consolidated affiliates            | 1                            | 3         | (2 )    | (67 )%   | 3                          | 3         | —       | — %      |
| Loss from continuing operations before income taxes        | (39 )                        | (264 )    | 225     | (85 )%   | (65 )                      | (516 )    | 451     | (87 )%   |
| Income tax expense                                         | (18 )                        | (23 )     | 5       | (22 )%   | (25 )                      | (11 )     | (14 )   | 127 %    |
| Loss from continuing operations                            | (57 )                        | (287 )    | 230     | (80 )%   | (90 )                      | (527 )    | 437     | (83 )%   |
| Less: Net income attributable to non-controlling interests | 7                            | 11        | (4 )    | (36 )%   | 16                         | 20        | (4 )    | (20 )%   |
| Loss from continuing operations <sup>(A)</sup>             | (64 )                        | (298 )    | 234     | (79 )%   | (106 )                     | (547 )    | 441     | (81 )%   |
| Income from discontinued operations, net of tax            | —                            | 1         | (1 )    | N.M.     | —                          | 2         | (2 )    | N.M.     |
| Net loss <sup>(A)</sup>                                    | \$(64 )                      | \$(297 )  | \$233   | (78 )%   | \$(106 )                   | \$(545 )  | \$439   | (81 )%   |
| Diluted earnings (loss) per share: <sup>(A)</sup>          |                              |           |         |          |                            |           |         |          |
| Continuing operations                                      | \$(0.78 )                    | \$(3.66 ) | \$2.88  | (79 )%   | \$(1.30 )                  | \$(6.73 ) | \$5.43  | (81 )%   |
| Discontinued operations                                    | —                            | 0.01      | (0.01 ) | N.M.     | —                          | 0.03      | (0.03 ) | N.M.     |
|                                                            | \$(0.78 )                    | \$(3.65 ) | \$2.87  | (79 )%   | \$(1.30 )                  | \$(6.70 ) | \$5.40  | (81 )%   |
| Diluted weighted average shares outstanding                | 81.6                         | 81.4      | 0.2     | — %      | 81.5                       | 81.3      | 0.2     | — %      |

N.M. Not meaningful.

(A) Amounts attributable to Navistar International Corporation.



## Sales and revenues, net

Our sales and revenues, net, are principally generated via sales of products and services. Sales and revenues, net, by reporting segment were as follows:

| (in millions, except % change) | Three Months<br>Ended April 30, |         |        | %<br>Change |   | Six Months<br>Ended April 30, |         |        | %<br>Change |   |
|--------------------------------|---------------------------------|---------|--------|-------------|---|-------------------------------|---------|--------|-------------|---|
|                                | 2015                            | 2014    | Change |             |   | 2015                          | 2014    | Change |             |   |
| Truck                          | \$1,966                         | \$1,889 | 77     | 4           | % | \$3,636                       | \$3,340 | \$296  | 9           | % |
| Parts                          | 613                             | 630     | (17)   | (3)         | % | 1,239                         | 1,216   | 23     | 2           | % |
| Global Operations              | 130                             | 271     | (141)  | (52)        | % | 282                           | 483     | (201)  | (42)        | % |
| Financial Services             | 60                              | 57      | 3      | 5           | % | 120                           | 112     | 8      | 7           | % |
| Corporate and Eliminations     | (76)                            | (101)   | 25     | (25)        | % | (163)                         | (197)   | 34     | (17)        | % |
| Total                          | \$2,693                         | \$2,746 | \$(53) | (2)         | % | \$5,114                       | \$4,954 | \$160  | 3           | % |

In the second quarter of 2015, the Truck segment net sales increase of \$77 million, or 4%, was primarily due to improved Core truck volumes. Chargeouts from our Core market were up 10%, reflecting improvements in our Class 6 and 7 medium trucks, and our Class 8 heavy and severe service trucks. In the first half of 2015, the Truck segment net sales increase of \$296 million, or 9%, was primarily due to improved Core truck volumes. Chargeouts from our Core markets were up 13%, reflecting improvements in all truck classes, and primarily Class 6 and 7 medium trucks. Also contributing to the increase in sales in the second quarter and first half of 2015 was an increase in our BDT joint venture, partially offset by a decrease in used truck sales.

In the second quarter of 2015, the Parts segment net sales decrease of \$17 million, or 3%, was primarily due to a decline in BDP and export parts sales, partially offset by improvements in our North America markets. In the first half of 2015, the Parts segment net sales increase of \$23 million, or 2%, was primarily due to improvements in our North America markets, partially offset by a decline in BDP and export parts sales. During the second quarter and first half of 2015, sales in the North America commercial parts channel increased by \$11 million and \$63 million, or 2% and 7%, compared to the respective comparable periods in 2014.

The Global Operations segment net sales decrease of \$141 million and \$201 million, or 52% and 42%, respectively, in the second quarter and first half of 2015, was primarily due to lower volumes and unfavorable movements in foreign currency exchange rates in our South American engine operations due to the economic downturn in Brazil, and decreased revenue in our Brazil truck operations, as the prior year included a large government order.

The Financial Services segment net revenues increased \$3 million and \$8 million, or 5% and 7%, respectively, in the second quarter and first half of 2015, primarily due to an increase in the average wholesale notes receivable balance, partially offset by a decline in the average retail notes receivable balance.

## Costs of products sold

In the second quarter of 2015 and first half of 2015, Costs of products sold decreased by \$108 million and \$77 million, respectively, reflecting the impact of lower sales in our Global Operations segment and lower adjustments to pre-existing warranties, partially offset by higher sales in our Truck segment and an increase of \$14 million and \$31 million, respectively, in our used truck reserves. In addition, Costs of products sold throughout 2015 was favorably impacted by a shift in product mix in our Core markets.

In the second quarter and first half of 2015, the Company recognized charges for adjustments to pre-existing warranties of \$18 million and a benefit for adjustments to pre-existing warranties of \$39 million, compared to charges for adjustments to pre-existing warranties of \$42 million and \$94 million in the respective prior year periods. Included in the second quarter of 2015 warranty expense are \$12 million related to field campaigns we initiated to address issues in products sold. The improvement in adjustments to pre-existing warranties throughout 2015 reflects quality improvements in recent model years and continued efforts by the Company to reduce overall cost per repair. Additionally, in the second quarter of 2014, the Truck segment recognized charges of \$34 million related to the extended warranty contracts on our 2010 emission standard MaxxForce Big-Bore engines. For more information on warranty, see Note 1, Summary of Significant Accounting Policies, to the accompanying consolidated financial statements.

## Restructuring Charges

We recognized restructuring charges of \$6 million and \$9 million, respectively, in the second quarter and first half of 2015, compared to charges of \$8 million and \$11 million in the respective prior year periods. In the second quarter of 2015, we incurred restructuring charges of \$6 million related to cost reduction actions, including a reduction-in-force in our Global Operations segment. In the second quarter of 2014, we incurred restructuring charges of \$8 million related to cost reduction

actions that included a reduction-in-force in the U.S. For more information, see Note 2, Restructuring and Impairments, to the accompanying consolidated financial statements.

#### Asset impairment charges

We recognized asset impairment charges of \$1 million and \$8 million, respectively, in the second quarter and first half of 2015, primarily related to certain operating leases. We recognized asset impairment charges of \$151 million and \$169 million, respectively, in the second quarter and first half of 2014. In the second quarter of 2014, we recognized a non-cash charge of \$149 million for the impairment of certain intangible assets of our Brazilian engine reporting unit. As a result of the economic downturn in Brazil causing declines in actual and forecasted results, we tested the goodwill of our Brazilian engine reporting unit and trademark for potential impairment. As a result, we determined that the entire \$142 million balance of goodwill and \$7 million of trademark were impaired. For more information, see Note 1, Summary of Significant Accounting Policies, to the accompanying consolidated financial statements.

In addition, in the first half of 2014, the North America Truck segment recorded asset impairment charges of \$19 million, which were the result of a triggering event relating to the determination that certain assets were held-for-sale, reflecting our ongoing evaluation of our portfolio of assets to validate their strategic and financial fit. For more information, see Note 2, Restructurings and Impairments, to the accompanying consolidated financial statements.

#### Selling, general and administrative expenses

The SG&A expenses increase of \$6 million and \$8 million in the second quarter and first half of 2015, respectively, reflects an increase in compensation expense and post-retirement related costs, partially offset by the impact of our continued cost-reduction initiatives.

#### Engineering and product development costs

The Engineering and product development costs decrease of \$7 million and \$18 million in the second quarter and first half of 2015, respectively, is primarily due to decreased spend on our SCR-related projects, partially offset by new investments in our Truck segment, particularly Class 8 trucks, vocational trucks and buses, and increased spend on projects focused on 2017 greenhouse gas ("GHG") emission integration.

#### Interest expense

In the second quarter of 2015, interest expense was flat compared to the second quarter of 2014. In the first half of 2015, interest expense decreased \$4 million compared to the corresponding prior year period, primarily driven by a decrease in our outstanding Manufacturing operations debt balance compared to 2014.

The change in our average outstanding debt balance was primarily the result of the repurchase of a portion of our 3.00% senior subordinated convertible notes ("2014 Convertible Notes") in April 2014 and the repayment of the remainder of our 2014 Convertible Notes in October 2014, partially offset by the private sale of our 4.75% senior subordinated convertible notes due April 2019 ("2019 Convertible Notes") in April 2014.

#### Other (income) expense, net

We recognized Other net income of \$28 million and \$31 million in the second quarter and first half of 2015, respectively, compared to income of \$8 million and expense of \$6 million in the comparable prior periods. The income in the second quarter and first half of 2015 primarily consists of a \$14 million gain related to settlement of a customer dispute, a \$5 million tax credit, and gains on asset sales.

The income in the second quarter of 2014 consisted of a gain recognized due to the release of an asset retirement obligation associated with the purchase of certain leased manufacturing assets and a net favorable impact from foreign exchange rates, offset by \$11 million of charges related to the repurchase of a portion of our 2014 Convertible Notes, which primarily consisted of the write-off of related discount and debt issuance costs. Additionally, the expense in the first half of 2014 included a net unfavorable impact of \$17 million due to fluctuations in foreign exchange rates, particularly in the Corporate and Eliminations due to the weakening of the Canadian Dollar against the U.S. Dollar, as well as in the Global Operations segment due to the weakening of the Brazilian Real against the U.S. Dollar.

#### Income tax expense

In the second quarter and first half of 2015, we recognized income tax expense from continuing operations of \$18 million and \$25 million, respectively, compared to expense of \$23 million and \$11 million in the comparable prior year periods. The difference between the income tax expense in the first half of 2015 and 2014 is due to geographical mix and certain discrete items. The income tax expense in the first half of 2014 included: (i) a net expense of \$14 million for tax benefits recognized on losses offset with the establishment of a valuation allowance of \$29 million on

our deferred tax assets related to our Brazilian operations, (ii) a tax benefit in continuing operations of \$13 million resulting from the application of the intraperiod tax

allocation rules due to the issuance and repurchase of our convertible notes, and (iii) a tax benefit of \$8 million due to the decrease in uncertain tax positions.

In the second quarter and first half of 2015, 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 our U.S. deferred tax assets.

At October 31, 2014, we had \$2.7 billion of U.S. federal net operating losses and \$240 million of federal tax credit carryforwards. We expect our cash payments of U.S. taxes will be minimal for as long as we are able to offset our U.S. taxable income by these U.S. net operating losses and tax credits, which have carryforward periods of up to 20 years. We also have U.S. state and foreign net operating losses that are available to reduce cash payments in future periods. We maintain valuation allowances on our U.S. and certain foreign deferred tax assets because it is more-likely-than-not those deferred tax assets will not be realized. It is reasonably possible within the next twelve months that an additional valuation allowance may be required on certain foreign deferred tax assets. For more information, see Note 8, Income Taxes, to the accompanying consolidated financial statements.

Net income attributable to non-controlling interests

Net income attributable to non-controlling interests is the result of our consolidation of subsidiaries that we do not wholly own. Substantially all of our net income attributable to non-controlling interests in 2015 and 2014 relates to Ford's non-controlling interest in BDP.

Segment Results of Continuing Operations

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

Truck Segment

| (in millions, except % change) | Three Months<br>Ended April 30, |         |        | %<br>Change | Six Months<br>Ended April 30, |         |        | %<br>Change |
|--------------------------------|---------------------------------|---------|--------|-------------|-------------------------------|---------|--------|-------------|
|                                | 2015                            | 2014    | Change |             | 2015                          | 2014    | Change |             |
| Truck segment sales, net       | \$1,966                         | \$1,889 | \$77   | 4 %         | \$3,636                       | \$3,340 | \$296  | 9 %         |
| Truck segment loss             | (51)                            | (129)   | 78     | (60) %      | (69)                          | (337)   | 268    | (80) %      |
| Segment sales                  |                                 |         |        |             |                               |         |        |             |

In the second quarter of 2015, the Truck segment net sales increase of \$77 million, or 4%, was primarily due to improved Core truck volumes. Truck chargeouts from our Core markets were up 10%, reflecting a 24% increase in Class 6 and 7 medium trucks, a 10% increase in Class 8 severe service trucks, and a 9% increase in Class 8 heavy trucks, partially offset by a 15% decrease in school buses. Also contributing to the increase in sales in the second quarter of 2015 is an increase in our BDT joint venture, partially offset by a decline in our export truck operations, particularly in Colombia, and lower volumes in our used truck operations. On May 29, 2015, we acquired all of Ford's remaining 25% ownership in the BDT joint venture. For more information on the BDT joint venture, see Note 1, Summary of Significant Accounting Policies, to the accompanying consolidated financial statements.

In the first half of 2015, the Truck segment net sales increase of \$296 million, or 9%, was primarily due to improved Core truck volumes. Truck chargeouts from our Core markets were up 13%, reflecting a 24% increase in Class 6 and 7 medium trucks, a 10% increase in Class 8 severe service trucks, an 8% increase in Class 8 heavy trucks, and a 6% increase in school buses. Also contributing to the increase in sales in the first half of 2015 is an increase in our BDT joint venture, partially offset by a decline in our used truck operations.

Segment loss

In the second quarter and first half of 2015, the Truck segment improved its segment loss by \$78 million and \$268 million, respectively, primarily driven by lower charges for adjustments to pre-existing warranties. In the second quarter and first half of 2015, the Truck segment recorded charges for adjustments to pre-existing warranties of \$19 million and a benefit for adjustments to pre-existing warranties of \$36 million, respectively, compared to charges of \$42 million and \$93 million, respectively, in comparable prior year periods. The change in adjustments to pre-existing warranties reflects quality improvements in recent model years and continued efforts by the Company to reduce overall cost per repair. In addition, gross margin throughout 2015 was favorably impacted by a shift in product mix in

our Core markets, partially offset by an increase in charges for our used truck reserves of \$14 million and \$31 million in the second quarter and first half of 2015, respectively.

Selling, general and administrative ("SG&A") expenses and Engineering and product development costs continued to decline.



The lower SG&A expenses reflect the impact of our cost-reduction initiatives. The lower Engineering and product development costs were primarily due to decreased spending on our SCR-related projects, partially offset by new investments in our Truck segment, particularly Class 8 trucks, vocational trucks and buses, and increased spend on projects focused on 2017 GHG emission integration.

Additionally, in the first half of 2015, the segment recorded asset impairment charges of \$8 million, compared to \$19 million in the first half of 2014. The charges in 2015 were for certain operating leases, while the charges in 2014 were for certain intangible and long-lived assets and reflect our ongoing evaluation of our portfolio of assets to validate their strategic and financial fit. For more information on the other asset impairment charges, see Note 2, Restructurings and Impairments, to the accompanying consolidated financial statements.

Offsetting these factors were certain other charges. The segment incurred accelerated depreciation charges of \$12 million and \$25 million in the second quarter and first half of 2015, respectively, for certain assets related to the foundry facilities. For more information, see Note 2, Restructurings and Impairments, to the accompanying consolidated financial statements.

#### Parts Segment

| (in millions, except % change) | Three Months Ended April 30, |       |        | % Change | Six Months Ended April 30, |         |        | % Change |
|--------------------------------|------------------------------|-------|--------|----------|----------------------------|---------|--------|----------|
|                                | 2015                         | 2014  | Change |          | 2015                       | 2014    | Change |          |
| Parts segment sales, net       | \$613                        | \$630 | \$(17) | (3)%     | \$1,239                    | \$1,216 | \$23   | 2%       |
| Parts segment profit           | 133                          | 133   | —      | —%       | 278                        | 241     | 37     | 15%      |
| Segment sales                  |                              |       |        |          |                            |         |        |          |

In the second quarter of 2015, the Parts segment net sales decrease of \$17 million, or 3%, is due to a decline in BDP and export parts sales, partially offset by improvements in our North America markets. In the first half of 2015, the Parts segment net sales increase of \$23 million, or 2%, is due to improvements in our North America markets, partially offset by a decline in BDP and export parts sales. During the second quarter and first half of 2015, sales in the North America commercial parts channel increased by \$11 million and \$63 million, or 2% and 7%, respectively, compared to respective prior year periods.

#### Segment profit

In the second quarter of 2015, Parts segment profit was flat compared to 2014, as margin improvements in our commercial markets and lower intercompany "access fees" were offset by the decrease in net sales. In the first half of 2015, the increase in the Parts segment profit of \$37 million was primarily due to margin improvements in our commercial markets and, to a lesser extent, lower intercompany "access fees". Access fees are allocated to the Parts segment from the Truck segment, primarily for development of new products, and consist of certain engineering and product development costs, depreciation expense, and SG&A. The lower fees in 2015 are due to cost-reduction initiatives in the Truck segment.

#### Global Operations Segment

| (in millions, except % change)          | Three Months Ended April 30, |       |         | % Change | Six Months Ended April 30, |       |         | % Change |
|-----------------------------------------|------------------------------|-------|---------|----------|----------------------------|-------|---------|----------|
|                                         | 2015                         | 2014  | Change  |          | 2015                       | 2014  | Change  |          |
| Global Operations segment sales, net    | \$130                        | \$271 | \$(141) | (52)%    | \$282                      | \$483 | \$(201) | (42)%    |
| Global Operations segment profit (loss) | 1                            | (162) | 163     | N.M.     | (14)                       | (197) | 183     | (93)%    |
| Segment sales                           |                              |       |         |          |                            |       |         |          |

In the second quarter and first half of 2015, the Global Operations segment net sales decrease of \$141 million and \$201 million, respectively, was driven by a decrease of \$111 million and \$147 million, respectively, in our South America engine operations, reflecting lower volumes and unfavorable movements in foreign currency exchange rates. The continued economic downturn in the Brazil economy has contributed to lower engine volumes of 48% and 34%, respectively, in the second quarter and first half of 2015 compared to the comparable prior year. The decrease in 2015 was also attributable to a decrease in revenue from our Brazil truck operations, as the prior year included a large government order.



### Segment profit (loss)

In the second quarter and first half of 2015, the Global Operations segment results improved by \$163 million and \$183 million, respectively, primarily due to non-cash charges of \$149 million for the impairment of the goodwill of our Brazilian engine reporting unit and the related trademark during the second quarter of 2014. As a result of the economic downturn in Brazil causing declines in actual and forecasted results, we tested the goodwill of our Brazilian engine reporting unit and trademark for potential impairment. As a result, we determined that the entire \$142 million balance of goodwill and \$7 million of trademark were impaired.

Excluding the impact of the prior year impairment, the Global Operations segment results improved by \$14 million and \$34 million in the second quarter and first half of 2015, respectively. The results in both periods in 2015 reflect a \$10 million net gain related to a settlement of a customer dispute. The remaining improvements in the segment are primarily due to lower manufacturing and structural costs as a result of our restructuring and cost-reduction efforts, partially offset by the decreased results of our Brazil truck operations, including a \$6 million inventory charge related to our efforts to right-size the truck business due to the current economic conditions in Brazil.

### Financial Services Segment

| (in millions, except % change)           | Three Months Ended April 30, |      |        | % Change | Six Months Ended April 30, |       |        | % Change |
|------------------------------------------|------------------------------|------|--------|----------|----------------------------|-------|--------|----------|
|                                          | 2015                         | 2014 | Change |          | 2015                       | 2014  | Change |          |
| Financial Services segment revenues, net | \$60                         | \$57 | \$3    | 5 %      | \$120                      | \$112 | \$8    | 7 %      |
| Financial Services segment profit        | 22                           | 24   | (2)    | (8) %    | 46                         | 47    | (1)    | (2) %    |

Segment revenues  
In the second quarter and first half of 2015, net revenues in the Financial Services segment increased by \$3 million and \$8 million, or 5% and 7%, respectively, primarily driven by an increase in the average wholesale notes receivable balance, partially offset by a decline in the average retail notes receivable balance. The decline in the average retail notes receivable balance is primarily due to the continued liquidation of our U.S. retail portfolio.

### Segment profit

In the second quarter and first half of 2015, the Financial Services segment profit was comparable to the prior year as the increase in revenue was offset by an increase in provision for loan losses in Mexico due to a decline in portfolio quality of the retail portfolio, the suspension of revenue on certain impaired operating leases, and lower interest income from intercompany loans.

### Supplemental Information

The following tables provide additional information on truck industry retail units, market share data, order units, backlog units, chargeout units, and engine shipments. These tables present key metrics and trends that provide quantitative measures on the performance of the Truck and Global Operations segments.

### Truck Industry Retail Deliveries

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

| (in units)                      | Three Months Ended April 30, |        |        | % Change | Six Months Ended April 30, |         |        | % Change |
|---------------------------------|------------------------------|--------|--------|----------|----------------------------|---------|--------|----------|
|                                 | 2015                         | 2014   | Change |          | 2015                       | 2014    | Change |          |
| Core Markets (U.S. and Canada)  |                              |        |        |          |                            |         |        |          |
| School buses                    | 4,400                        | 3,900  | 500    | 13 %     | 10,100                     | 9,200   | 900    | 10 %     |
| Class 6 and 7 medium trucks     | 20,000                       | 19,500 | 500    | 3 %      | 38,000                     | 35,200  | 2,800  | 8 %      |
| Class 8 heavy trucks            | 51,700                       | 42,600 | 9,100  | 21 %     | 102,100                    | 85,200  | 16,900 | 20 %     |
| Class 8 severe service trucks   | 14,700                       | 12,000 | 2,700  | 23 %     | 29,000                     | 24,100  | 4,900  | 20 %     |
| Total Core markets              | 90,800                       | 78,000 | 12,800 | 16 %     | 179,200                    | 153,700 | 25,500 | 17 %     |
| Combined class 8 trucks         | 66,400                       | 54,600 | 11,800 | 22 %     | 131,100                    | 109,300 | 21,800 | 20 %     |
| Navistar Core retail deliveries | 15,500                       | 14,600 | 900    | 6 %      | 28,500                     | 26,700  | 1,800  | 7 %      |



### 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,<br>2015  | January 31,<br>2015 | October<br>31, 2014 | July 31,<br>2014 | April 30,<br>2014 |   |
| Core Markets (U.S. and Canada) |                    |                     |                     |                  |                   |   |
| Class 6 and 7 medium trucks    | 27                 | % 21                | % 19                | % 20             | % 26              | % |
| Class 8 heavy trucks           | 12                 | % 10                | % 15                | % 14             | % 14              | % |
| Class 8 severe service trucks  | 15                 | % 14                | % 14                | % 15             | % 17              | % |
| Combined class 8 trucks        | 13                 | % 11                | % 15                | % 14             | % 15              | % |

### 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, |        |          | % Change | Six Months Ended April 30, |        |          | % Change |
|--------------------------------|------------------------------|--------|----------|----------|----------------------------|--------|----------|----------|
|                                | 2015                         | 2014   | Change   |          | 2015                       | 2014   | Change   |          |
| Core Markets (U.S. and Canada) |                              |        |          |          |                            |        |          |          |
| School buses                   | 3,500                        | 2,900  | 600      | 21 %     | 6,000                      | 5,200  | 800      | 15 %     |
| Class 6 and 7 medium trucks    | 4,400                        | 6,000  | (1,600 ) | (27 )%   | 9,000                      | 10,300 | (1,300 ) | (13 )%   |
| Class 8 heavy trucks           | 5,600                        | 9,200  | (3,600 ) | (39 )%   | 13,700                     | 14,800 | (1,100 ) | (7 )%    |
| Class 8 severe service trucks  | 2,800                        | 2,300  | 500      | 22 %     | 4,800                      | 4,600  | 200      | 4 %      |
| Total Core Markets             | 16,300                       | 20,400 | (4,100 ) | (20 )%   | 33,500                     | 34,900 | (1,400 ) | (4 )%    |
| Combined class 8 trucks        | 8,400                        | 11,500 | (3,100 ) | (27 )%   | 18,500                     | 19,400 | (900 )   | (5 )%    |

### Truck Backlogs

We define order backlogs ("backlogs") as orders yet to be built as of the end of the period. Our backlogs do not represent guarantees of purchases by customers or dealers and are subject to cancellation. Although the backlog of unbuilt orders is one of many indicators of market demand, other factors such as changes in production rates, internal and supplier available capacity, new product introductions, and competitive pricing actions may affect point-in-time comparisons. 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, |        | Change | % Change |
|--------------------------------|-----------------|--------|--------|----------|
|                                | 2015            | 2014   |        |          |
| Core Markets (U.S. and Canada) |                 |        |        |          |
| School buses                   | 3,000           | 3,400  | (400 ) | (12 )%   |
| Class 6 and 7 medium trucks    | 5,500           | 6,200  | (700 ) | (11 )%   |
| Class 8 heavy trucks           | 13,800          | 12,800 | 1,000  | 8 %      |
| Class 8 severe service trucks  | 2,700           | 2,500  | 200    | 8 %      |
| Total Core Markets             | 25,000          | 24,900 | 100    | — %      |
| Combined class 8 trucks        | 16,500          | 15,300 | 1,200  | 8 %      |



## 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 from our continuing operations:

| (in units)                     | Three Months Ended April 30, |        |          | % Change | Six Months Ended April 30, |        |        | % Change |
|--------------------------------|------------------------------|--------|----------|----------|----------------------------|--------|--------|----------|
|                                | 2015                         | 2014   | Change   |          | 2015                       | 2014   | Change |          |
| Core Markets (U.S. and Canada) |                              |        |          |          |                            |        |        |          |
| School buses                   | 2,300                        | 2,700  | (400 )   | (15 )%   | 5,000                      | 4,700  | 300    | 6 %      |
| Class 6 and 7 medium trucks    | 6,700                        | 5,400  | 1,300    | 24 %     | 10,700                     | 8,600  | 2,100  | 24 %     |
| Class 8 heavy trucks           | 7,300                        | 6,700  | 600      | 9 %      | 12,100                     | 11,200 | 900    | 8 %      |
| Class 8 severe service trucks  | 2,300                        | 2,100  | 200      | 10 %     | 4,300                      | 3,900  | 400    | 10 %     |
| Total Core Markets             | 18,600                       | 16,900 | 1,700    | 10 %     | 32,100                     | 28,400 | 3,700  | 13 %     |
| Non "core" military            | —                            | 100    | (100 )   | — %      | —                          | 100    | (100 ) | — %      |
| Other markets <sup>(A)</sup>   | 5,400                        | 6,700  | (1,300 ) | (19 )%   | 12,400                     | 12,100 | 300    | 2 %      |
| Total worldwide unit           | 24,000                       | 23,700 | 300      | 1 %      | 44,500                     | 40,600 | 3,900  | 10 %     |
| Combined class 8 trucks        | 9,600                        | 8,800  | 800      | 9 %      | 16,400                     | 15,100 | 1,300  | 9 %      |

Other markets primarily consist of Export Truck and Mexico and also includes chargeouts related to BDT of 2,600 (A) units and 2,100 units during the three months ended April 30, 2015 and 2014, respectively, and 6,000 and 4,500 during the six months ended April 30, 2015 and 2014.

## Engine Shipments

| (in units)              | Three Months Ended April 30, |        |           | % Change | Six Months Ended April 30, |        |           | % Change |
|-------------------------|------------------------------|--------|-----------|----------|----------------------------|--------|-----------|----------|
|                         | 2015                         | 2014   | Change    |          | 2015                       | 2014   | Change    |          |
| OEM sales-South America | 11,600                       | 24,500 | (12,900 ) | (53 )%   | 27,300                     | 44,900 | (17,600 ) | (39 )%   |
| Intercompany sales      | 7,000                        | 10,100 | (3,100 )  | (31 )%   | 13,600                     | 19,600 | (6,000 )  | (31 )%   |
| Other OEM sales         | 2,600                        | 2,900  | (300 )    | (10 )%   | 5,500                      | 5,300  | 200       | 4 %      |
| Total sales             | 21,200                       | 37,500 | (16,300 ) | (43 )%   | 46,400                     | 69,800 | (23,400 ) | (34 )%   |

## Liquidity and Capital Resources

| (in millions)                                                 | As of          |                  |                |
|---------------------------------------------------------------|----------------|------------------|----------------|
|                                                               | April 30, 2015 | October 31, 2014 | April 30, 2014 |
| Consolidated cash and cash equivalents                        | \$583          | \$497            | \$594          |
| Consolidated marketable securities                            | 273            | 605              | 534            |
| Consolidated cash, cash equivalents and marketable securities | \$856          | \$1,102          | \$1,128        |

## Cash Requirements

We generate cash flow from the sale of trucks, 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, and (ii) current and forecasted cash flow from our Manufacturing operations, Financial Services operations, and financing capacities, will provide sufficient funds to meet operating requirements, capital expenditures, equity investments, and financial obligations during the next twelve months. We also believe that collections on our outstanding receivables portfolios, as well as funds available from various funding sources, will permit our Financial Services operations to meet the financing requirements of our dealers.

Our Manufacturing operations are generally able to access sufficient sources of financing to support our business plan. In July 2014, our amended and restated asset-based credit agreement in an aggregate principal amount of \$175 million (the "Amended and Restated Asset-Based Credit Facility") was amended to remove used truck inventory from the borrowing base. The



amendment had no impact on the aggregate commitment level under the Amended and Restated Asset-Based Credit Facility, which remains at \$175 million. Additionally, the calculation of availability was revised to include cash collateral posted to support outstanding designated letters of credit, subject to a \$40 million cap, and the cash management provisions were amended to reflect intercreditor arrangements with respect to a financing with NFC secured by a first priority lien on used truck inventory (and certain related assets) (the "Intercompany Used Truck Loan"). During 2014, NFC made secured intercompany loans to our Manufacturing operations under the Intercompany Used Truck Loan of \$181 million. During the first half of 2015, we increased our borrowings under the Intercompany Used Truck Loan by \$42 million to \$223 million and also received \$125 million in dividends from NFC. \$80 million of the dividends paid by NFC were funded by the partial repayment of an intercompany loan to NFC and were therefore cash neutral to NFC and NIC.

During the second quarter of 2014, the Company completed the private sale of \$411 million of our 2019 Convertible Notes, including a portion of the underwriters' over-allotment options. The Company used the net proceeds from our 2019 Convertible Notes, as well as cash on-hand, to repurchase \$404 million of notional amount of our 2014 Convertible Notes. In conjunction with the repurchases, the Company unwound a portion of the call options and warrants associated with the repurchased 2014 Convertible Notes. During the fourth quarter of 2014, the Company repaid the remainder of the 2014 Convertible Notes and the remaining purchased call options expired worthless. Consolidated cash, cash equivalents and marketable securities was \$856 million at April 30, 2015, which includes \$87 million of cash and cash equivalents attributable to BDT and BDP, as well as an immaterial amount of cash and cash equivalents of certain VIEs that is generally not available to satisfy our obligations. For additional information on the consolidation of BDT and BDP, see Note 1, Summary of Significant Accounting Policies, to the accompanying consolidated financial statements.

#### Cash Flow Overview

| (in millions)                                                | Six Months Ended April 30, 2015 |                                               |                                                |
|--------------------------------------------------------------|---------------------------------|-----------------------------------------------|------------------------------------------------|
|                                                              | Manufacturing Operations        | Financial Services Operations and Adjustments | Condensed Consolidated Statement of Cash Flows |
| Net cash used in operating activities                        | \$(32)                          | \$(205)                                       | \$(237)                                        |
| Net cash provided by investing activities                    | 295                             | 37                                            | 332                                            |
| Net cash provided by (used in) financing activities          | (132)                           | 149                                           | 17                                             |
| Effect of exchange rate changes on cash and cash equivalents | (35)                            | 9                                             | (26)                                           |
| Increase (decrease) in cash and cash equivalents             | 96                              | (10)                                          | 86                                             |
| Cash and cash equivalents at beginning of the period         | 440                             | 57                                            | 497                                            |
| Cash and cash equivalents at end of the period               | \$536                           | \$47                                          | \$583                                          |
| (in millions)                                                | Six Months Ended April 30, 2014 |                                               |                                                |
|                                                              | Manufacturing Operations        | Financial Services Operations and Adjustments | Condensed Consolidated Statement of Cash Flows |
| Net cash provided by (used in) operating activities          | \$(341)                         | \$15                                          | \$(326)                                        |
| Net cash provided by (used in) investing activities          | 224                             | (82)                                          | 142                                            |
| Net cash provided by (used in) financing activities          | (36)                            | 69                                            | 33                                             |
| Effect of exchange rate changes on cash and cash equivalents | (11)                            | 1                                             | (10)                                           |
| Increase (decrease) in cash and cash equivalents             | (164)                           | 3                                             | (161)                                          |
| Cash and cash equivalents at beginning of the period         | 727                             | 28                                            | 755                                            |
| Cash and cash equivalents at end of the period               | \$563                           | \$31                                          | \$594                                          |

Manufacturing operations cash flows and Financial Services operations cash flows are not in accordance with, or an alternative for, 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, giving effect to the adjustments shown in the reconciliation above, 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 of operating results, to illustrate the respective cash flows giving effect to the non-GAAP adjustments shown in the above reconciliation 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 \$32 million and \$341 million in the six months ended April 30, 2015 and 2014, respectively. The improvement in cash flow from operating activities in 2015 compared to 2014 was primarily attributable to a lower net loss, dividends received from NFC, and a decrease in inventories, partially offset by lower collections of accounts receivable, higher accounts payable payments and changes in other noncurrent liabilities. Cash paid for interest, net of amounts capitalized, was \$94 million and \$104 million in the six months ended April 30, 2015 and 2014, respectively.

### Manufacturing Operations Cash Flow from Investing Activities

Cash provided by investing activities was \$295 million and \$224 million in the six months ended April 30, 2015 and 2014, respectively. The net increase in cash flow from investing activities in 2015 compared to 2014 was primarily attributable to lower purchases of equipment leased to others and lower purchases of marketable securities.

### Manufacturing Operations Cash Flow from Financing Activities

Cash used in financing activities was \$132 million and \$36 million in the six months ended April 30, 2015 and 2014, respectively. The net decrease in cash flow from financing activities in 2015 compared to 2014 was primarily attributable to a partial repayment of an intercompany loan due to our Financial Services operations and lower proceeds from the exercise of employee stock options.

## Financial Services Operations

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

Cash used in operating activities was \$205 million in the six months ended April 30, 2015, compared to cash provided by operating activities of \$15 million in the six months ended April 30, 2014. The decrease in cash flow from operating activities was primarily due to the payment of dividends to the Manufacturing operations and an increase in originations of wholesale receivables.

Cash paid for interest, net of amounts capitalized, was \$31 million in the six months ended April 30, 2015, compared to \$27 million in the six months ended April 30, 2014. The increase was due to the higher average borrowing levels needed to fund the increase in average finance receivables.

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

Cash provided by investing activities was \$37 million in the three months ended April 30, 2015, compared to cash used in investing activities of \$82 million in the same period of 2014. Changes in restricted cash levels required under our secured borrowings were the primary sources and uses of cash from investing activities in 2015 and 2014, along with purchases of equipment leased to others. In 2015, restricted cash was liquidated in conjunction with the repayment of investor notes which matured in January 2015, and the repayment of the retail securitization in December 2014. Also, purchases of equipment leased to others declined.

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

Cash provided by financing activities was \$149 million and \$69 million in the six months ended April 30, 2015 and 2014, respectively. The increase was primarily due to the higher funding requirements for the increase in originations of wholesale receivables and an increase in borrowings used for the secured intercompany loan.

## Consolidated EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA, which excludes certain identified items that we do not consider to be part of our ongoing business, are not in accordance with, or an alternative for, 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 to investors, analysts and other interested parties to enable them to perform additional analyses of 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:

|                                                                 | Three Months<br>Ended April 30, |         | Six Months<br>Ended April 30, |         |
|-----------------------------------------------------------------|---------------------------------|---------|-------------------------------|---------|
| (in millions)                                                   | 2015                            | 2014    | 2015                          | 2014    |
| Loss from continuing operations attributable to NIC, net of tax | \$(64 )                         | \$(298) | \$(106)                       | \$(547) |
| Plus:                                                           |                                 |         |                               |         |
| Depreciation and amortization expense                           | 74                              | 99      | 153                           | 185     |
| Manufacturing interest expense <sup>(A)</sup>                   | 57                              | 57      | 114                           | 122     |
| Less:                                                           |                                 |         |                               |         |
| Income tax benefit (expense)                                    | (18 )                           | (23 )   | (25 )                         | (11 )   |
| EBITDA                                                          | \$85                            | \$(119) | \$186                         | \$(229) |

(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:

|                                           | Three<br>Months<br>Ended April<br>30, |      | Six Months<br>Ended April<br>30, |       |
|-------------------------------------------|---------------------------------------|------|----------------------------------|-------|
| (in millions)                             | 2015                                  | 2014 | 2015                             | 2014  |
| Interest expense                          | 75                                    | 74   | 152                              | 156   |
| Less: Financial services interest expense | 18                                    | 17   | 38                               | 34    |
| Manufacturing interest expense            | \$57                                  | \$57 | \$114                            | \$122 |

#### Adjusted EBITDA Reconciliation:

|                                                       | Three Months<br>Ended April 30, |         | Six Months<br>Ended April 30, |         |
|-------------------------------------------------------|---------------------------------|---------|-------------------------------|---------|
| (in millions)                                         | 2015                            | 2014    | 2015                          | 2014    |
| EBITDA (reconciled above)                             | \$85                            | \$(119) | \$186                         | \$(229) |
| Less significant items of:                            |                                 |         |                               |         |
| Adjustments to pre-existing warranties <sup>(A)</sup> | 18                              | 42      | (39 )                         | 94      |
| Restructuring charges <sup>(B)</sup>                  | 2                               | 8       | 5                             | 11      |
| Asset impairment charges <sup>(C)</sup>               | 1                               | 151     | 8                             | 169     |
| Gain on settlement <sup>(D)</sup>                     | (10 )                           | —       | (10 )                         | —       |
| Brazil truck business actions <sup>(E)</sup>          | 6                               | —       | 6                             | —       |
| Total adjustments                                     | 17                              | 201     | (30 )                         | 274     |
| Adjusted EBITDA                                       | \$102                           | \$82    | \$156                         | \$45    |

(A) Adjustments to pre-existing warranties reflect changes in our estimate of warranty costs for products sold in prior periods.

(B) In the second quarter of 2014, we incurred restructuring charges of \$8 million related to cost reduction actions that included a reduction-in-force in the U.S.

(C) In the second quarter of 2014, we recognized a non-cash charge of \$149 million for the impairment of certain intangible assets of our Brazilian engine reporting unit. Due to slower than expected growth in the Brazilian

economy causing declines in actual and forecasted results, we tested the goodwill of our Brazilian engine reporting unit and trademark for potential impairment. As a result, we determined that the entire \$142 million balance of goodwill and \$7 million of trademark were impaired. Additionally, in the first quarter of 2014, the Company concluded it had a triggering event related to potential sales of assets requiring assessment of impairment for certain intangible and long-lived assets in the Truck segment. As a result, the Truck segment recognized asset impairment charges of \$18 million.

In the second quarter of 2015, the Global Operations segment recognized a \$10 million net gain related to a (D) settlement of a customer dispute. The \$10 million net gain for the settlement included restructuring charges of \$4 million.

(E) In the second quarter and first half of 2015 our Global Operations segment recorded \$6 million in inventory charges to right size the Brazil Truck business.

### Pension and Other Postretirement Benefits

The Company's 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 ERISA 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 21<sup>st</sup> Century Act (the "MAP-21 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 HATFA, including extension of pension funding interest rate relief, was signed into law. As a result, we lowered our funding expectations.

Generally, our pension plans are funded by contributions made by us. 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, 2015, we contributed \$32 million and \$62 million respectively, and for the three and six months ended April 30, 2014, we contributed \$36 million and \$65 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 \$51 million during the remainder of 2015. Future contributions are dependent upon a number of factors, principally the changes in values of plan assets, changes in interest rates, the impact of any future funding relief, and the impact of funding resulting from the closure of our Chatham plant. We currently expect that from 2016 through 2018, the Company will be required to contribute at least \$100 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

#### 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 EPA and the United States National Highway Traffic Safety Administration ("NHTSA") issued final rules for greenhouse ("GHG") emissions and fuel economy on September 15, 2011. These began to apply in calendar year 2014 and will be fully implemented in model year 2017. The agencies' stated goals for these rules were to increase the use of currently existing technologies. The Company is complying with these rules through use of existing technologies and implementation of emerging technologies as they become available. Several of the Company's vehicles were certified early for the 2013 model year and the majority of our remaining vehicles and all engines were certified in 2014. The next phase of federal GHG emission and fuel economy regulations, anticipated for 2020 or later, is also under discussion among the relevant agencies, manufacturers, including the Company, and other stakeholders. Canada adopted its version of fuel economy and/or GHG emission regulations in February 2013. These regulations are substantially aligned with U.S. fuel economy and GHG emission regulations. In December 2014, California has adopted GHG emission rules for heavy duty vehicles equivalent to federal EPA rules and an optional lower emission standard for nitrogen oxide ("NOx") in California. 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. These standards will impact development and production costs for vehicles and engines. There will also be administrative costs arising from the implementation of the rules. EPA also issued a proposed rule in December 2014 that would lower the National Ambient Air Quality Standard for ozone. If adopted this 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 the Company's operations. However, these impacts are currently uncertain and the Company cannot predict

the nature and scope of those impacts.

**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, 2014. During the six months ended April 30, 2015, 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

Goodwill

Indefinite-Lived Intangible Assets

Contingency Accruals

Recently Issued and Adopted Accounting Standards

In the quarter ended April 30, 2015, the Company has not adopted any new accounting guidance that has had a material impact 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. The 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. This new guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. Our effective date is November 1, 2017. On April 29, 2015 the FASB issued an exposure draft of a proposed ASU that would delay by one year the effective date of ASU 2014-09 and allow early adoption as of the original effective date. The changes to the effective date and early adoption are still subject to final approval. We are currently evaluating the impact and method of adoption of this ASU on our consolidated financial statements.

### 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, 2014. During six months ended April 30, 2015, there have been no significant 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 the Chief Financial Officer, to allow timely decisions regarding required disclosures.

As previously disclosed under “Item 9A-Controls and Procedures” in our Annual Report on Form 10-K for our fiscal year ended October 31, 2014, we concluded that our disclosure controls and procedures were not effective as of October 31, 2014 based on the material weakness identified. Based on the material weakness, which we continue to work to remediate and view as an integral part of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the quarter ended April 30, 2015, our disclosure controls and procedures were not effective. In light of the weaknesses in internal control over financial reporting, prior to filing our Annual Report on Form 10-K for our fiscal year ended October 31, 2014, and prior to filing this Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2015, we completed substantive procedures, including, validating, and in certain cases correcting, the completeness and accuracy of the underlying data used for warranty costs estimates and other significant accounting estimates and transactions. These substantive procedures have allowed us to conclude that, notwithstanding the material weakness in our internal control over financial reporting described below, the condensed consolidated financial statements in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial position, results of operations, and cash flows for the periods presented in conformity with U.S. GAAP.

The material weakness in our internal control over financial reporting, which is described more fully in our Annual Report on Form 10-K for the fiscal year ended October 31, 2014 and continued to exist as of April 30, 2015, is as follows:

We do not have sufficient controls designed to validate the completeness and accuracy of underlying data used in the determination of significant estimates and accounting transactions. Specifically, controls were not designed to identify errors in the underlying data which was used to calculate warranty cost estimates and other significant accounting estimates and the accounting effects of significant transactions. This material weakness resulted in the recording of adjustments to the warranty reserve and related expense accounts and there is a reasonable possibility that a material misstatement of our financial statements will not be prevented or detected on a timely basis.

##### Management’s Remediation Initiatives

We continue to invest significant time and effort to address the material weakness related to the completeness and accuracy of underlying data used in the determination of significant estimates and the accounting effects of significant transactions. Specifically, the following actions were taken:

- Critical management review controls were enhanced to increase the precision of management's reviews and these reviews were expanded to validate the completeness and accuracy of the reports and data used in the operation of the controls.

- Controls were designed and implemented to validate the completeness and accuracy of the inputs and outputs for significant accounting estimates and transactions.

- Stronger system interface controls were implemented to verify the complete and accurate flow of data between systems used for the significant accounting estimates and transactions.

- We increased our investment in human capital and information technology to improve the controls over completeness and accuracy.

While progress has been made, there are still more controls that need to be implemented or existing controls to be enhanced to ensure that a material misstatement in our financial statements would be prevented or detected on a timely basis.

In addition to the actions already taken, the actions summarized below, are intended to fully remediate the material weakness and to continue to enhance our internal control over financial reporting:

• We will continue to design, document, and test controls that are intended to validate the completeness and accuracy of the data used for significant accounting estimates and transactions.

• Until full remediation is complete, we will continue to perform substantive procedures, including, validating, and in certain cases correcting, the completeness and accuracy of the underlying data used for significant accounting estimates and transactions to ensure that, in all material respects, our financial statements are presented in conformity with U.S. GAAP.

Although more time is needed to design, implement and demonstrate effectiveness of the aforementioned internal controls, the efforts summarized are intended to continue to enhance our internal control over financial reporting.

(b) Changes in Internal Control over Financial Reporting

We are taking actions to remediate the material weakness related to our internal control over financial reporting, as described above. However, our remediation efforts were not complete as of April 30, 2015. Other than the changes disclosed above, 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, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

During the six months ended April 30, 2015, there have been no material developments from the legal proceedings disclosed in our Annual Report on Form 10-K for our fiscal year ended October 31, 2014, except (i) those disclosed in Part II, Item 1 of our Quarterly Report on Form 10-Q for the fiscal quarter ended January 31, 2015, and (ii) those disclosed below:

Profit Sharing Disputes

In March 2015, the 6<sup>th</sup> Circuit Court of Appeals remanded the case to the U.S. District Court for the Southern District of Ohio ("Court") with instructions that the claims in the Committee's Profit Sharing Complaint be arbitrated pursuant to the dispute resolution procedures in the Profit Sharing Plan. In May 2015, the Court ordered that the claims be arbitrated pursuant to the order of the Court of Appeals.

Shareholder Litigation

In the "10b-5 Cases" (as defined under Note 11, Commitments and Contingencies, to the accompanying consolidated financial statements, above), on the Court's own motion, the ruling date on the Motion to Dismiss the Second Amended Complaint was extended again to June 11, 2015.

MaxxForce Engine EGR Warranty Litigation

One additional putative class action lawsuit was filed in the District of Alabama bringing the total number of U.S. Actions to eighteen. On March 5, 2015, Judge Gottschall entered an order in the MDL proceeding appointing interim lead counsel and interim liaison counsel for the Plaintiffs. On May 11, 2015, lead counsel for the Plaintiffs filed a Consolidated Amended Complaint. The next status conference is set for July 2015.

Brazil Truck Dealer Disputes

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. The arbitral tribunal will issue a schedule for the arbitration submissions. As of April 30, 2015, the approximate amount of the IIAA claim against Navitrucks is R\$71 million (approximately US\$24 million as of April 30, 2015), and the approximate amount of the Navitrucks claim against IIAA is R\$182 million (approximately US\$61 million as of April 30, 2015).

EPA Notice of Violation

Navistar and the DOJ are in continuing discussions concerning this matter. If the DOJ ultimately initiates litigation, it is likely that the DOJ will request a significant civil penalty.

Item 1A. Risk Factors

During the six months ended April 30, 2015, 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, 2014, except as disclosed below; Significant changes expected at GE Capital may adversely impact the retail and/or wholesale financing for our products in the U.S. and Canada.

Navistar Capital, an alliance with GE Capital, has been our preferred source of retail customer financing for equipment offered by us and our dealers in the U.S. since 2010. In addition, GE Capital has provided wholesale and retail financing to support the sale of our products in Canada for over 25 years (“GE NavCap Canada”). On April 10, 2015, General Electric Company, the parent of GE Capital, announced a plan to reduce the size of its financial services businesses through the sale of most of the assets and businesses of GE Capital - including Navistar Capital and GE NavCap Canada - over the next 24 months. If GE Capital is unable to sustain the volume and quality of the loan origination and other financing services it has provided to date while it is in the midst of a sale process, or if the third party or parties to whom it sells Navistar Capital and GE NavCap Canada are unable or unwilling to do so, our ability to sell our products with financing may be adversely affected, and as a result, our business, financial condition, results of operations and cash flows may suffer. Furthermore, if GE Capital is unable or unwilling to find a buyer for Navistar Capital and GE NavCap Canada, or if GE Capital’s proposed buyer is unacceptable to us, then GE Capital may exercise its right to terminate its arrangements with us upon delivery of twelve months’ advance notice. If GE Capital chooses to exercise this option, we will need to deploy significant resources to identify a new financial services partner, or prepare to assume direct control and responsibility for loan origination and other financing services, including raising capital to fund the financing activities, hiring additional financing personnel and developing internal systems and other infrastructure that had previously been managed by GE Capital. There can be no assurance that we would be able to adequately, timely or cost-effectively replace the financing services provided by GE Capital (either by identifying a new third-party partner or by internalizing such services and obtaining the capital needed to fund the financing activities), and any failure to do so could have an adverse effect on our business, financial condition, results of operations, and cash flows.

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 |
|-----------|------------------------------------------------------------------------------------|------|
| (3)       | <u>Articles of Incorporation and By-Laws</u>                                       | E-1  |
| (10)      | <u>Material Contracts</u>                                                          | E-2  |
| (31.1)    | <u>CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> | E-19 |
| (31.2)    | <u>CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> | E-20 |
| (32.1)    | <u>CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> | E-21 |
| (32.2)    | <u>CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> | E-22 |
| (99.1)    | <u>Additional Financial Information (Unaudited)</u>                                | E-23 |
| (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, 2015.

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 4, 2015