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

Form 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2017

OR

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

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



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

Delaware	**36-3359573**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2701 Navistar Drive, Lisle, Illinois	**60532**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

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

Large accelerated filer	☐	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 February 28, 2017, the number of shares outstanding of the registrant's common stock was 98,109,615, net of treasury shares.

NAVISTAR INTERNATIONAL CORPORATION FORM 10-Q
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Disclosure Regarding Forward-Looking Statements

Information provided and statements contained in this report that are not purely historical are forward-looking statements within the meaning of the federal securities laws. Such forward-looking statements only speak as of the date of this report and Navistar International Corporation assumes no obligation to update the information included in this report.

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

- estimates we have made in preparing our financial statements;
- the implementation of our new strategic alliance with Volkswagen Truck & Bus GmbH ("VW T&B");
- our development of new products and technologies;
- anticipated sales, volume, demand, markets for our products, and financial performance;
- anticipated performance and benefits of our products and technologies;
- our business strategies relating to, and our ability to meet, federal and state regulatory heavy-duty diesel emissions standards applicable to certain of our engines, including the timing and costs of compliance and consequences of noncompliance with such standards, as well as our ability to meet other federal, state and foreign regulatory requirements;
- our business strategies and long-term goals, and activities to accomplish such strategies and goals;
- our ability to implement our strategy focused on growing the core business, seeking new sources of revenue, driving operational excellence, leveraging the VW T&B alliance, investing in our people, and improving our financial performance, as well as the results we expect to achieve from the implementation of our strategy;
- our expectations related to new product launches;
- anticipated results from the realignment of our leadership and management structure;
- anticipated benefits from acquisitions, strategic alliances, and joint ventures we complete;
- our expectations and estimates relating to restructuring activities, including restructuring charges and timing of cash payments related thereto, and operational flexibility, savings, and efficiencies from such restructurings;
- our expectations relating to the potential effects of anticipated divestitures and closures of businesses;
- our expectations relating to our cost-reduction actions and actions to reduce discretionary spending;
- our expectations relating to our ability to service our long-term debt;
- our expectations relating to our wholesale and retail finance receivables and revenues;
- our expectations and estimates relating to our used truck inventory;
- liabilities resulting from environmental, health and safety laws and regulations;
- our anticipated capital expenditures;
- our expectations relating to payments of taxes;
- our expectations relating to warranty costs;
- our expectations relating to interest expense;
- our expectations relating to impairment of goodwill and other assets;
- costs relating to litigation and similar matters;
- estimates relating to pension plan contributions and unfunded pension and postretirement benefits;
- 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 results of operations and could cause actual results to differ materially from those in the forward-looking statements. Factors that could cause or contribute to differences in our future financial results include those discussed in Item 1A, Risk Factors, included within our Annual Report on Form 10-K for the fiscal year ended October 31, 2016 which was filed on December 20, 2016, as well as those factors discussed elsewhere in this report. All future written and oral forward-looking statements by us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained herein or referred to above. Except for our ongoing obligations to disclose material information as required by the federal securities laws, we do not have any obligations or intention to release publicly any revisions to any forward-looking statements to reflect events or circumstances in the future or to reflect the occurrence of unanticipated events.

Available Information

We are subject to the reporting and information requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and as a result, are obligated to file annual, quarterly, and current reports, proxy statements, and other information with the United States ("U.S.") Securities and Exchange Commission ("SEC"). We make these filings available free of charge on our website (http://www.navistar.com) as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. Information on our website does not constitute part of this Quarterly Report on Form 10-Q. In addition, the SEC maintains a website (http://www.sec.gov) that contains our annual, quarterly, and current reports, proxy and information statements, and other information we electronically file with, or furnish to, the SEC. Any materials we file with, or furnish to, the SEC may also be read and/or copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

Item 1. *Financial Statements*

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

(in millions, except per share data)	Three Months Ended January 31, 2017	2016
Sales and revenues		
Sales of manufactured products, net	**$ 1,629**	$ 1,730
Finance revenues	**34**	35
Sales and revenues, net	**1,663**	1,765
Costs and expenses		
Costs of products sold	**1,370**	1,466
Restructuring charges	**7**	3
Asset impairment charges	**2**	2
Selling, general and administrative expenses	**200**	205
Engineering and product development costs	**63**	58
Interest expense	**82**	81
Other income, net	**(8)**	(22)
Total costs and expenses	**1,716**	1,793
Equity in income (loss) of non-consolidated affiliates	**3**	(1)
Loss before income tax	**(50)**	(29)
Income tax benefit (expense)	**(4)**	5
Net loss	**(54)**	(24)
Less: Net income attributable to non-controlling interests	**8**	9
Net loss attributable to Navistar International Corporation	**$ (62)**	$ (33)
Loss per share attributable to Navistar International Corporation:		
Basic	**$ (0.76)**	$ (0.40)
Diluted	**(0.76)**	(0.40)
Weighted average shares outstanding:		
Basic	**81.8**	81.7
Diluted	**81.8**	81.7

See Notes to Consolidated Financial Statements

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

(in millions)	Three Months Ended January 31, 2017	2016
Net loss	**$ (54)**	$ (24)
Other comprehensive income (loss):		
Foreign currency translation adjustment	**(12)**	(33)
Defined benefit plans, net of tax	**35**	33
Total other comprehensive income	**23**	—
Comprehensive loss	**(31)**	(24)
Less: Net income attributable to non-controlling interests	**8**	9
Total comprehensive loss attributable to Navistar International Corporation	**$ (39)**	$ (33)

See Notes to Consolidated Financial Statements

Navistar International Corporation and Subsidiaries
Consolidated Balance Sheets

(in millions, except per share data)	January 31, 2017	October 31, 2016
ASSETS	(Unaudited)	
Current assets		
Cash and cash equivalents	**$ 573**	$ 804
Restricted cash and cash equivalents	**49**	64
Marketable securities	**198**	46
Trade and other receivables, net	**262**	276
Finance receivables, net	**1,161**	1,457
Inventories, net	**1,022**	944
Other current assets	**184**	168
Total current assets	**3,449**	3,759
Restricted cash	**48**	48
Trade and other receivables, net	**17**	16
Finance receivables, net	**202**	220
Investments in non-consolidated affiliates	**53**	53
Property and equipment (net of accumulated depreciation and amortization of $2,566 and $2,553, respectively)	**1,290**	1,241
Goodwill	**38**	38
Intangible assets (net of accumulated amortization of $140 and $136, respectively)	**50**	53
Deferred taxes, net	**162**	161
Other noncurrent assets	**85**	64
Total assets	**$ 5,394**	$ 5,653
LIABILITIES and STOCKHOLDERS' DEFICIT		
Liabilities		
Current liabilities		
Notes payable and current maturities of long-term debt	**$ 589**	$ 907
Accounts payable	**1,046**	1,113
Other current liabilities	**1,131**	1,183
Total current liabilities	**2,766**	3,203
Long-term debt	**4,276**	3,997
Postretirement benefits liabilities	**2,990**	3,023
Other noncurrent liabilities	**691**	723
Total liabilities	**10,723**	10,946
Stockholders' deficit		
Series D convertible junior preference stock	**2**	2
Common stock, $0.10 par value per share (86.8 shares issued and 220 shares authorized at both dates)	**9**	9
Additional paid-in capital	**2,496**	2,499
Accumulated deficit	**(5,025)**	(4,963)
Accumulated other comprehensive loss	**(2,617)**	(2,640)
Common stock held in treasury, at cost (5.1 and 5.2 shares, respectively)	**(198)**	(205)
Total stockholders' deficit attributable to Navistar International Corporation	**(5,333)**	(5,298)
Stockholders' equity attributable to non-controlling interests	**4**	5
Total stockholders' deficit	**(5,329)**	(5,293)
Total liabilities and stockholders' deficit	**$ 5,394**	$ 5,653

See Notes to Consolidated Financial Statements

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

(in millions)	Three Months Ended January 31, 2017	2016
Cash flows from operating activities		
Net loss	**$ (54)**	$ (24)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	**37**	39
Depreciation of equipment leased to others	**22**	19
Deferred taxes, including change in valuation allowance	**—**	(18)
Asset impairment charges	**2**	2
Amortization of debt issuance costs and discount	**10**	9
Stock-based compensation	**7**	1
Provision for doubtful accounts, net of recoveries	**4**	2
Equity in loss of non-consolidated affiliates, net of dividends	**3**	1
Other non-cash operating activities	**(3)**	(5)
Changes in other assets and liabilities, exclusive of the effects of businesses disposed	**(6)**	(128)
Net cash provided by (used in) operating activities	**22**	(102)
Cash flows from investing activities		
Purchases of marketable securities	**(212)**	(117)
Sales of marketable securities	**59**	115
Maturities of marketable securities	**1**	9
Net change in restricted cash and cash equivalents	**15**	(1)
Capital expenditures	**(46)**	(29)
Purchases of equipment leased to others	**(24)**	(49)
Proceeds from sales of property and equipment	**2**	14
Investments in non-consolidated affiliates	**(2)**	(1)
Net cash used in investing activities	**(207)**	(59)
Cash flows from financing activities		
Proceeds from issuance of securitized debt	**5**	50
Principal payments on securitized debt	**(27)**	(8)
Net change in secured revolving credit facilities	**(79)**	(108)
Proceeds from issuance of non-securitized debt	**298**	42
Principal payments on non-securitized debt	**(200)**	(77)
Net change in notes and debt outstanding under revolving credit facilities	**(48)**	(70)
Principal payments under financing arrangements and capital lease obligations	**—**	(1)
Debt issuance costs	**(5)**	(1)
Proceeds from financed lease obligations	**8**	7
Proceeds from exercise of stock options	**3**	—
Dividends paid by subsidiaries to non-controlling interest	**(8)**	(10)
Other financing activities	**—**	1
Net cash used in financing activities	**(53)**	(175)
Effect of exchange rate changes on cash and cash equivalents	**7**	3
Decrease in cash and cash equivalents	**(231)**	(333)
Cash and cash equivalents at beginning of the period	**804**	912
Cash and cash equivalents at end of the period	**$ 573**	$ 579

See Notes to Consolidated Financial Statements

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

(in millions)	Series D Convertible Junior Preference Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury, at cost	Stockholders' Equity Attributable to Non-controlling Interests	Total
Balance as of October 31, 2016	$ 2	$ 9	$ 2,499	$ (4,963)	$ (2,640)	$ (205)	$ 5	$ (5,293)
Net income (loss)	—	—	—	(62)	—	—	8	(54)
Total other comprehensive income	—	—	—	—	23	—	—	23
Stock-based compensation	—	—	1	—	—	—	—	1
Stock ownership programs	—	—	(4)	—	—	7	—	3
Cash dividends paid to non-controlling interest	—	—	—	—	—	—	(8)	(8)
Other	—	—	—	—	—	—	(1)	(1)
Balance as of January 31, 2017	**$ 2**	**$ 9**	**$ 2,496**	**$ (5,025)**	**$ (2,617)**	**$ (198)**	**$ 4**	**$ (5,329)**
Balance as of October 31, 2015	$ 2	$ 9	$ 2,499	$ (4,866)	$ (2,601)	$ (210)	$ 7	$ (5,160)
Net income (loss)	—	—	—	(33)	—	—	9	(24)
Stock-based compensation	—	—	2	—	—	—	—	2
Stock ownership programs	—	—	(1)	—	—	1	—	—
Cash dividends paid to non-controlling interest	—	—	—	—	—	—	(10)	(10)
Acquisition of remaining ownership interest from non-controlling interest holder	—	—	1	—	—	—	—	1
Other	—	—	—	—	—	—	1	1
Balance as of January 31, 2016	$ 2	$ 9	$ 2,501	$ (4,899)	$ (2,601)	$ (209)	$ 7	$ (5,190)

See Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Organization and Description of the Business

Navistar International Corporation ("NIC"), incorporated under the laws of the State of Delaware in 1993, is a holding company whose principal operating entities are Navistar, Inc. ("NI") and Navistar Financial Corporation ("NFC"). References herein to the "Company," "we," "our," or "us" refer collectively to NIC and its consolidated subsidiaries, including certain variable interest entities ("VIEs") of which we are the primary beneficiary. We operate in four principal industry segments: Truck, Parts, Global Operations (collectively called "Manufacturing operations"), and Financial Services, which consists of NFC and our foreign finance operations (collectively called "Financial Services operations"). These segments are discussed in Note 11, *Segment Reporting*.

Our fiscal year ends on October 31. As such, all references to 2017 and 2016 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.

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, 2016, which should be read in conjunction with the disclosures therein. In our opinion, these interim consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial condition, results of operations, and cash flows for the periods presented. Operating results for interim periods are not necessarily indicative of annual operating results.

Variable Interest Entities

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

We are the primary beneficiary of our Blue Diamond Parts, LLC ("BDP") joint venture with Ford Motor Company ("Ford"). As a result, our *Consolidated Balance Sheets* include assets of $50 million and $51 million and liabilities of $19 million and $16 million as of January 31, 2017 and October 31, 2016, respectively, including $11 million and $6 million of cash and cash equivalents, at the respective dates, which are not readily available to satisfy claims against our general assets. The creditors of BDP do not have recourse to our general credit.

Our Financial Services segment consolidates several VIEs. As a result, our *Consolidated Balance Sheets* include secured assets of $760 million and $865 million as of January 31, 2017 and October 31, 2016, respectively, and liabilities of $643 million and $722 million as of January 31, 2017 and October 31, 2016, 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 $180 million and $249 million as of January 31, 2017 and October 31, 2016, respectively, and corresponding liabilities of $106 million and $136 million, at the respective dates, which are related to other secured transactions that do not qualify for sale accounting treatment, and therefore, are treated as borrowings secured by operating and finance leases. Investors that hold securitization debt have a priority claim on the cash flows generated by their respective securitized assets to the extent that the related VIEs are required to make principal and interest payments. Investors in securitizations of these entities have no recourse to our general credit.

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:

	Three Months Ended January 31,	
(in millions)	**2017**	**2016**
Balance at beginning of period	**$ 818**	$ 994
Costs accrued and revenues deferred[B]	**45**	41
Currency translation adjustment	**—**	(1)
Adjustments to pre-existing warranties[A]	**(17)**	5
Payments and revenues recognized[B]	**(95)**	(117)
Balance at end of period	**751**	922
Less: Current portion	**371**	421
Noncurrent accrued product warranty and deferred warranty revenue	**$ 380**	$ 501

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

(B) During the third quarter of 2016, we determined that the amortization of loss reserves for Big Bore extended service contracts, which were included within *Costs accrued and revenues deferred,* should be applied to *Payments and revenues recognized*. As a result, for the three months ended January 31, 2016, we have reclassified $15 million of amortization of loss reserves in order to conform to our current presentation. The reclassification did not impact our *Consolidated Statements of Operations* or our *Consolidated Balance Sheets*.

Extended Warranty Programs

The amount of deferred revenue related to extended warranty programs was $317 million and $325 million at January 31, 2017 and October 31, 2016, respectively. Revenue recognized under our extended warranty programs was $34 million and $38 million for the three months ended January 31, 2017 and 2016, respectively.

Use of Estimates

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

Concentration Risks

Our financial condition, results of operations, and cash flows are subject to concentration risks related to our significant unionized workforce. As of January 31, 2017, approximately 5,500, or 83%, of our hourly workers and approximately 300, or 6%, of our salaried workers, are represented by labor unions and are covered by collective bargaining agreements. Our future operations may be affected by changes in governmental procurement policies, tax policies, budget considerations, changing national defense requirements, and political, regulatory and economic developments in the U.S. and certain foreign countries (primarily Canada, Mexico, and Brazil).

Inventories

Inventories are valued at the lower of cost or market. Cost is principally determined using the first-in, first-out method. Our gross used truck inventory decreased to approximately $388 million at January 31, 2017 from $410 million at October 31, 2016, offset by reserves of $211 million and $208 million, respectively.

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

Recently Issued Accounting Standards

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-01, "Business Combinations" (Topic 805). This ASU provides a new framework for determining whether transactions should be accounted for as acquisitions or disposals of assets or businesses. This ASU creates an initial screening test (Step 1) that reduces the population of transactions that an entity needs to analyze to determine whether there is an input and substantive processes in the acquisition or disposal (Step 2). Fewer transactions are expected to involve acquiring or selling a business. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. Our effective date for this ASU is November 1, 2018. Adoption will require a prospective transition. We do not expect the impact of this ASU to have a material effect on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows" (Topic 230). This ASU requires that a statement of cash flows explain the change during the period in the total of cash, and cash equivalents, including amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. Our effective date for this ASU is November 1, 2018. Adoption will require a retrospective transition. We do not expect the impact of this ASU to have a material effect on our consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes" (Topic 740). This ASU update requires entities to recognize the income tax consequences of many intercompany asset transfers at the transaction date. The seller and buyer will immediately recognize the current and deferred income tax consequences of an intercompany transfer of an asset other than inventory. The tax consequences were previously deferred. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. Our effective date for this ASU is November 1, 2018. Adoption will require a modified retrospective transition. We are currently evaluating the impact of this ASU on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses" (Topic 326). The ASU sets forth an expected credit loss model which requires the measurement of expected credit losses for financial instruments based on historical experience, current conditions and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost, and certain off-balance sheet credit exposures. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. Adoption will require a modified retrospective transition. Our effective date is November 1, 2020. We are currently evaluating the impact of this ASU on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" (Topic 842). This ASU requires lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases of greater than twelve months. The accounting by lessors will remain largely unchanged. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. Our effective date for this ASU is November 1, 2019. Adoption will require a modified retrospective transition. We are currently evaluating the impact of this ASU on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 606), which supersedes the revenue recognition requirements in ASC 605, "Revenue Recognition." This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. 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. In August 2015, the FASB issued ASU No. 2015-14, which postponed the effective date of ASU No. 2014-09 to fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted on the original effective date for fiscal years beginning after December 15, 2016. Our effective date for this ASU is November 1, 2018. We are in the process of completing our initial assessment of the potential impact on our consolidated financial statements and have not concluded on our adoption methodology.

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 October 31, 2016	Additions	Payments	Adjustments	Balance at January 31, 2017
Employee termination charges	$ 5	$ 6	$ (2)	$ —	$ 9
Lease vacancy	1	—	—	—	1
Other	1	—	—	—	1
Restructuring liability	$ 7	$ 6	$ (2)	$ —	$ 11

(in millions)	Balance at October 31, 2015	Additions	Payments	Adjustments	Balance at January 31, 2016
Employee termination charges	$ 62	$ 4	$ (22)	$ (2)	$ 42
Lease vacancy	5	—	(3)	—	2
Other	1	—	—	—	1
Restructuring liability	$ 68	$ 4	$ (25)	$ (2)	$ 45

North American Manufacturing Restructuring Activities

We continue to focus on our core Truck and Parts businesses and evaluate our portfolio of assets to validate their strategic and financial fit. This allows us to close or divest non-strategic businesses, and identify opportunities to restructure our business and rationalize our Manufacturing operations in an effort to optimize our cost structure. For those areas that fall outside our strategic businesses, we are evaluating alternatives which could result in additional restructuring and other related charges in the future, including but not limited to: (i) impairments, (ii) costs for employee and contractor termination and other related benefits, and (iii) charges for pension and other postretirement contractual benefits and curtailments. These charges could be significant.

Chatham restructuring activities

In the third quarter of 2011, we committed to close our Chatham, Ontario heavy truck plant, which had been idled since June 2009. At that time, we recognized curtailment and contractual termination charges related to postretirement plans. Based on a ruling regarding pension benefits received from the Financial Services Tribunal in Ontario, Canada, in the third quarter of 2014, we recognized additional charges of $14 million related to the 2011 closure of the Chatham, Ontario plant. Unsuccessful efforts to appeal the ruling in the Ontario court system ended in December 2015. On April 25, 2016, we filed a qualified partial wind-up report for approval by the Financial Services Commission of Ontario ("FSCO"). On January 12, 2017, FSCO issued its approval of the partial wind-up report. On February 27, 2017, we finalized the resolution of statutory severance pay for former employees related to the closure of our Chatham, Ontario plant, resulting in a charge of $6 million. The charge is reported within *Restructuring charges* in our *Consolidated Statements of Operation*s. Potential charges in future periods could range from $0 million to $45 million, primarily related to pension and postretirement costs, which are subject to governmental approval, employee negotiation, acceptance rates and the resolution of disputes related thereto. See Note 7, *Postretirement*

benefits for further discussion.

Asset Impairments

In the three months ended January 31, 2017, we concluded that we had triggering events related to certain operating leases. As a result, a charge of $2 million was recorded in our Truck segment.

In the first quarter of 2016, we concluded that a triggering event occurred in connection with the potential sale of Pure Power Technologies, LLC ("PPT"), a components business focused on air and fuel systems, requiring the impairment of certain assets in our Truck segment. As a result, a charge of approximately $2 million was recognized in the first quarter of 2016. The charge is reported within *Asset impairment charges* in our *Consolidated Statements of Operations.* In February 2016, we completed the sale of PPT.

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 are $1.8 billion and $2.1 billion as of January 31, 2017 and October 31, 2016, respectively. Included in total assets of our Financial Services operations are finance receivables of $1.4 billion and $1.7 billion as of January 31, 2017 and October 31, 2016, respectively. We have two portfolio segments of finance receivables that we distinguish based on the type of customer and nature of the financing inherent to each portfolio. The retail portfolio segment represents loans or leases to end-users for the purchase or lease of vehicles. The wholesale portfolio segment represents loans to dealers to finance their inventory.

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

(in millions)	January 31, 2017	October 31, 2016
Retail portfolio	**$ 391**	$ 499
Wholesale portfolio	**993**	1,199
Total finance receivables	**1,384**	1,698
Less: Allowance for doubtful accounts	**21**	21
Total finance receivables, net	**1,363**	1,677
Less: Current portion, net[(A)]	**1,161**	1,457
Noncurrent portion, net	**$ 202**	$ 220

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

Securitizations

Our Financial Services operations transfer wholesale notes, retail accounts receivable, finance leases, and operating leases to special purpose entities ("SPEs"), which generally are only permitted to purchase these assets, issue asset-backed securities, and make payments on the securities issued. In addition to servicing receivables, our continued involvement in the SPEs may include an economic interest in the transferred receivables and, in some cases, managing exposure to interest rate changes on the securities using interest rate swaps or interest rate caps. There were no transfers of finance receivables that qualified for sale accounting treatment as of January 31, 2017 and October 31, 2016, 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 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 $723 million and $829 million as of January 31, 2017 and October 31, 2016, respectively. Other finance receivables related to secured transactions that do not qualify for sale accounting treatment were $56 million and $108 million as of January 31, 2017 and October 31, 2016, respectively. For more information on assets and liabilities of consolidated VIEs and other securitizations accounted for as secured borrowings by our Financial Services segment, see Note 1, *Summary of Significant Accounting Policies.*

Finance Revenues

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

	Three Months Ended January 31,	
(in millions)	**2017**	**2016**
Retail notes and finance leases revenue	**$ 9**	$ 10
Wholesale notes interest	**23**	26
Operating lease revenue	**17**	16
Retail and wholesale accounts interest	**5**	7
Gross finance revenues	**54**	59
Less: Intercompany revenues	**20**	24
Finance revenues	**$ 34**	$ 35

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:

	Three Months Ended January 31, 2017			
(in millions)	**Retail Portfolio**	**Wholesale Portfolio**	**Trade and Other Receivables**	**Total**
Allowance for doubtful accounts, at beginning of period	**$ 19**	**$ 2**	**$ 28**	**$ 49**
Provision for doubtful accounts, net of recoveries	**5**	**—**	**1**	**6**
Charge-off of accounts	**(3)**	**—**	**(1)**	**(4)**
Other[(A)]	**(2)**	**—**	**—**	**(2)**
Allowance for doubtful accounts, at end of period	**$ 19**	**$ 2**	**$ 28**	**$ 49**

	Three Months Ended January 31, 2016			
(in millions)	**Retail Portfolio**	**Wholesale Portfolio**	**Trade and Other Receivables**	**Total**
Allowance for doubtful accounts, at beginning of period	$ 22	$ 4	$ 22	$ 48
Provision for doubtful accounts, net of recoveries	2	—	3	5
Charge-off of accounts	(3)	—	(1)	(4)
Other[(A)]	(2)	—	(1)	(3)
Allowance for doubtful accounts, at end of period	$ 19	$ 4	$ 23	$ 46

(A) Amounts include impact from currency translation.

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

The following table presents information regarding impaired finance receivables:

	January 31, 2017			October 31, 2016		
(in millions)	Retail Portfolio	Wholesale Portfolio	Total	Retail Portfolio	Wholesale Portfolio	Total
Impaired finance receivables with specific loss reserves	**$ 12**	**$ —**	**$ 12**	$ 15	$ —	$ 15
Impaired finance receivables without specific loss reserves	**—**	**—**	**—**	—	—	—
Specific loss reserves on impaired finance receivables	**9**	**—**	**9**	8	—	8
Finance receivables on non-accrual status	**12**	**—**	**12**	15	—	15

The average balances of the impaired finance receivables in the retail portfolio were $13 million and $20 million during the three months ended January 31, 2017 and 2016, respectively.

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

	January 31, 2017			October 31, 2016		
(in millions)	Retail Portfolio	Wholesale Portfolio	Total	Retail Portfolio	Wholesale Portfolio	Total
Current, and up to 30 days past due	**$ 353**	**$ 991**	**$ 1,344**	$ 449	$ 1,198	$ 1,647
30-90 days past due	**26**	**1**	**27**	37	—	37
Over 90 days past due	**12**	**1**	**13**	13	1	14
Total finance receivables	**$ 391**	**$ 993**	**$ 1,384**	$ 499	$ 1,199	$ 1,698

5. Inventories

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

(in millions)	January 31, 2017	October 31, 2016
Finished products	**$ 628**	$ 678
Work in process	**111**	46
Raw materials	**283**	220
Total inventories, net	**$ 1,022**	$ 944

6. Debt

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

(in millions)	January 31, 2017	October 31, 2016
Manufacturing operations		
Senior Secured Term Loan Credit Facility, as amended, due 2020, net of unamortized discount of $13 and $14, respectively, and unamortized debt issuance costs of $7 at both dates	**$ 1,007**	$ 1,009
8.25% Senior Notes, due 2022 net of unamortized discount of $15 at both dates and unamortized debt issuance costs of $15 and $12, respectively	**1,420**	1,173
4.50% Senior Subordinated Convertible Notes, due 2018, net of unamortized discount of $9 and $10, respectively, and unamortized debt issuance costs of $1 at both dates	**190**	189
4.75% Senior Subordinated Convertible Notes, due 2019, net of unamortized discount of $21 and $24, respectively, and unamortized debt issuance costs of $4 at both dates	**386**	383
Financing arrangements and capital lease obligations	**40**	42
Loan Agreement related to 6.5% Tax Exempt Bonds, due 2040, net of unamortized debt issuance costs of $5 at both dates	**220**	220
Financed lease obligations	**107**	52
Other	**24**	28
Total Manufacturing operations debt	**3,394**	3,096
Less: Current portion	**72**	71
Net long-term Manufacturing operations debt	**$ 3,322**	$ 3,025

(in millions)	January 31, 2017	October 31, 2016
Financial Services operations		
Asset-backed debt issued by consolidated SPEs, at fixed and variable rates, due serially through 2022, net of unamortized debt issuance costs of $6 at both dates	**$ 646**	$ 753
Bank credit facilities, at fixed and variable rates, due dates from 2017 through 2021, net of unamortized debt issuance costs of $2 and $3, respectively	**655**	861
Commercial paper, at variable rates, program matures in 2022	**73**	96
Borrowings secured by operating and finance leases, at various rates, due serially through 2021	**97**	98
Total Financial Services operations debt	**1,471**	1,808
Less: Current portion	**517**	836
Net long-term Financial Services operations debt	**$ 954**	$ 972

Manufacturing Operations

Senior Secured Term Loan Credit Facility

In February 2017, the Senior Secured Term Loan Credit Facility was amended, pursuant to which the Company's remaining approximately $1.0 billion loan was repriced and provisions regarding European Union bail-in legislation were inserted. The amendment reduces the interest rate applicable to the outstanding loan by 1.50%. Under the terms of the amendment, the interest rate on the outstanding loan is based, at our option, on an adjusted Eurodollar Rate, plus a margin of 4.00%, or a Base Rate, plus a margin of 3.00%. In connection with the amendment, we paid a consent fee equal to 0.25% of the aggregate principal amount, a call protection fee equal to 1.00% of the aggregate principal amount, and certain other fees.

Senior Notes

In October 2009, we completed the sale of $1.0 billion aggregate principal amount of our Senior Notes. In March 2013, we completed the sale of an additional $300 million aggregate principal amount of Senior Notes. In January 2017, we issued an additional $250 million aggregate principal amount of Senior Notes. Interest related to the Senior Notes is payable on May 1 and November 1 of each year until the maturity date of November 1, 2021. The Senior Notes are senior unsecured obligations of the Company.

We received net proceeds of approximately $250 million from the January 2017 issuance of additional Senior Notes, which included accrued interest of $4 million, offset by underwriter fees of $4 million. The debt issuance costs were recorded as a direct deduction from the carrying amount of the Senior Notes and will be amortized through *Interest expense*. The debt issuance costs will be amortized over the remaining life of the Senior Notes. As a result of the transaction, the effective interest rate of the Senior Notes is now 8.5%. The proceeds from the January 2017 sale of additional Senior Notes will be used for general corporate purposes, including working capital and capital expenditures.

Financial Services Operations

Asset-backed Debt

In November 2016, the maturity date of the variable funding notes ("VFN") facility was extended from May 2017 to November 2017, and the maximum capacity was reduced from $500 million to $450 million. The VFN facility is secured by assets of the wholesale note owner trust.

In December 2016, Truck Retail Accounts Corporation ("TRAC"), one of our consolidated SPEs, renewed its $100 million revolving facility to October 2017. Borrowings under this facility are secured by eligible retail accounts receivable.

Bank Credit Facilities

In May 2016, NFC amended and extended its 2011 bank credit facility which was originally due in December 2016. The 2016 amendment extended the maturity date to June 2018 and initially reduced the revolving portion of the facility from $500 million to $400 million. In December 2016, and in accordance with the amendment, the revolving portion of the facility was reduced to a maximum of $275 million, the term loan portion of the facility was paid down to $82 million, and the quarterly principal payments were reduced from $9 million to $2 million. The borrowings on the revolving portion of the facility totaled $244 million as of January 31, 2017. The balance of the term loan portion of the facility was $82 million as of January 31, 2017. The amendment allows NFC to increase revolving or term loan commitments, subject to obtaining commitments from existing or new lenders to provide additional or increased revolving commitments and/or additional term loans, to permit a maximum total facility size of $700 million after giving effect to any such increase and without taking into account the non-extended loans and commitments.

Commercial Paper

Effective February 2017, our Mexican financial services operation entered into a five-year commercial paper program for up to ₱1.8 billion (the equivalent of approximately US$86 million at January 31, 2017). This program replaced the program that matured in December 2016.

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 months ended January 31, 2017 and 2016, we contributed $22 million and $19 million, respectively, to our pension plans to meet regulatory funding requirements. We expect to contribute approximately $89 million to our pension plans during the remainder of 2017.

We primarily fund other post-employment benefit ("OPEB") obligations, such as retiree medical, in accordance with the 1993 Settlement Agreement (the "1993 Settlement Agreement"), which requires us to fund a portion of the plans' annual service cost to a retiree benefit trust (the "Base Trust"). The 1993 Settlement Agreement resolved a class action lawsuit originally filed in 1992 regarding the restructuring of our then applicable retiree health care and life insurance benefits. Contributions for the three months ended January 31, 2017, and 2016, as well as anticipated contributions for the remainder of 2017, are not material.

Components of Net Periodic Benefit Expense

Net periodic benefit expense included in our *Consolidated Statements of Operations,* and other amounts recognized in our *Consolidated Statements of Stockholders' Deficit*, for the quarters ended January 31 is comprised of the following:

	Three Months Ended January 31,			
	Pension Benefits		Health and Life Insurance Benefits	
(in millions)	2017	2016	2017	2016
Service cost for benefits earned during the period	**$ 2**	$ 2	**$ 1**	$ 1
Interest on obligation	**27**	30	**12**	15
Amortization of cumulative loss	**29**	26	**6**	8
Contractual termination benefits	**1**	—	**—**	—
Premiums on pension insurance	**4**	4	**—**	—
Expected return on assets	**(40)**	(42)	**(6)**	(6)
Net periodic benefit expense	**$ 23**	$ 20	**$ 13**	$ 18

In 2016, we changed the approach utilized to estimate the service cost and interest cost components of net periodic benefit cost for our major defined benefit postretirement plans. Historically, we estimated the service cost and interest cost components using a single weighted average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. In 2016, we began using a spot rate approach for the estimation of service and interest cost for our major plans by applying specific spot rates along the yield curve to the relevant projected cash flows, to provide a better estimate of service and interest costs.

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

Defined Contribution Plans and Other Contractual Arrangements

Our defined contribution plans cover a substantial portion of domestic salaried employees and certain domestic represented employees. The defined contribution plans contain a 401(k) feature and provide most participants with a matching contribution from the Company. We deposit the matching contribution annually. Many participants covered by the plans receive annual Company contributions to their retirement accounts based on an age-weighted percentage of the participant's eligible compensation for the calendar year. Defined contribution expense pursuant to these plans was $6 million and $7 million in the three months ended January 31, 2017 and 2016, respectively.

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

Our contingent profit sharing obligations under a certain Supplemental Benefit Trust Profit Sharing Plan ("Supplemental Benefit Trust Profit Sharing Plan") will continue until certain funding targets defined by the 1993 Settlement Agreement are met. We have recorded no profit sharing accruals based on the operating performance of the entities that are included in the determination of qualifying profits. For more information on pending arbitration regarding the Supplemental Benefit Trust Profit Sharing Plan, see Note 10, *Commitments and Contingencies*.

8. Income Taxes

We compute, on a quarterly basis, an estimated annual effective tax rate considering ordinary income and related income tax expense. For all periods presented, U.S. and certain foreign results are excluded from ordinary income due to ordinary losses for which no benefit can be recognized. Ordinary income refers to income (loss) before income tax expense excluding significant unusual or infrequently occurring items. The tax effect of a significant unusual or infrequently occurring item is recorded in the interim period in which the item occurs. Items included in income tax expense in the periods in which they 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 the majority of our U.S. deferred tax assets as well as certain foreign deferred tax assets that we believe, on a more-likely-than-not basis, will not be realized based on current forecasted results. For all remaining deferred tax assets, while we believe that it is more likely than not that they will be realized, we believe that it is reasonably possible that additional deferred tax asset valuation allowances could be required in the next twelve months.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. As of January 31, 2017, the amount of liability for uncertain tax positions was $49 million. The liability at January 31, 2017 has a recorded offsetting tax benefit associated with various issues that total $12 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 benefit (expense)*. For the three months ended January 31, 2017 and 2016, total interest and penalties related to our uncertain tax positions resulted in an income tax expense of less than $1 million, for both periods.

We have open tax years back to 2001 with various significant taxing jurisdictions including the U.S., Canada, Mexico, and Brazil. In connection with the examination of tax returns, contingencies may arise that generally result from differing interpretations of applicable tax laws and regulations as they relate to the amount, timing, or inclusion of revenues or expenses in taxable income, or the sustainability of tax credits to reduce income taxes payable. We believe we have sufficient accruals for our contingent tax liabilities. Annual tax provisions include amounts considered sufficient to pay assessments that may result from examinations of prior year tax returns, although actual results may differ. While it is probable that the liability for 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.

Guarantees—We provide certain guarantees of payments and residual values, to which losses are generally capped, 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 10, *Commitments and Contingencies.*

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

	As of January 31, 2017				As of October 31, 2016			
(in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Marketable securities:								
U.S. Treasury bills	**$ 15**	**$ —**	**$ —**	**$ 15**	$ 6	$ —	$ —	$ 6
Other	**183**	**—**	**—**	**183**	40	—	—	40
Derivative financial instruments:								
Commodity forward contracts[(A)]	**—**	**1**	**—**	**1**	—	2	—	2
Foreign currency contracts[(A)]	**—**	**2**	**—**	**2**	—	—	—	—
Interest rate caps[(B)]	**—**	**1**	**—**	**1**	—	1	—	1
Total assets	**$ 198**	**$ 4**	**$ —**	**$ 202**	$ 46	$ 3	$ —	$ 49
Liabilities								
Derivative financial instruments:								
Foreign currency contracts[(C)]	**$ —**	**$ 4**	**$ —**	**$ 4**	$ —	$ —	$ —	$ —
Guarantees	**—**	**—**	**23**	**23**	—	—	23	23
Total liabilities	**$ —**	**$ 4**	**$ 23**	**$ 27**	$ —	$ —	$ 23	$ 23

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

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

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

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

	Three Months Ended January 31,	
(in millions)	2017	2016
Guarantees, at beginning of period	$ (23)	$ (10)
Transfers out of Level 3	—	—
Issuances	(1)	(1)
Settlements	1	1
Guarantees, at end of period	$ (23)	$ (10)
Change in unrealized gains on assets (liabilities) still held	$ —	$ —

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

(in millions)	January 31, 2017	October 31, 2016
Level 2 financial instruments		
Carrying value of impaired finance receivables [(A)]	$ 12	$ 15
Specific loss reserve	(9)	(8)
Fair value	$ 3	$ 7

(A) Certain impaired finance receivables are measured at fair value on a nonrecurring basis. An impairment charge is recorded for the amount by which the carrying value of the receivables exceeds the fair value of the underlying collateral, net of remarketing costs. Fair values of the underlying collateral are determined by reference to dealer vehicle value publications adjusted for certain market factors.

In addition to the methods and assumptions we use for the financial instruments recorded at fair value as discussed above, we use the following methods and assumptions to estimate the fair value for our other financial instruments that are not marked to market on a recurring basis. The carrying amounts of *Cash and cash equivalents*, *Restricted cash*, and *Accounts payable* approximate fair values because of the short-term maturity and highly liquid nature of these instruments. *Finance receivables* generally consist of retail and wholesale accounts and retail and wholesale notes. The carrying amounts of *Trade and other receivables* and retail and wholesale accounts approximate fair values as a result of the short-term nature of the receivables. The carrying amounts of wholesale notes approximate fair values as a result of the short-term nature of the wholesale notes and their variable interest rate terms. Due to the nature of the aforementioned financial instruments, they have been excluded from the fair value amounts presented in the table below.

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

The fair values of our debt instruments classified as Level 1 were determined using quoted market prices. The 6.5% 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.

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

	As of January 31, 2017				
	Estimated Fair Value				Carrying Value
(in millions)	Level 1	Level 2	Level 3	Total	
Assets					
Retail notes	$ —	$ —	$ 137	$ 137	$ 140
Notes receivable	—	—	—	—	—
Liabilities					
Debt:					
Manufacturing operations					
Senior Secured Term Loan Credit Facility, as Amended, due 2020	—	—	1,040	1,040	1,007
8.25% Senior Notes, due 2022	1,465	—	—	1,465	1,420
4.50% Senior Subordinated Convertible Notes, due 2018[(A)]	—	—	198	198	190
4.75% Senior Subordinated Convertible Notes, due 2019[(A)]	—	—	405	405	386
Financing arrangements	—	—	16	16	35
Loan Agreement related to 6.50% Tax Exempt Bonds, due 2040	—	229	—	229	220
Financed lease obligations	—	—	107	107	107
Other	—	—	24	24	24
Financial Services operations					
Asset-backed debt issued by consolidated SPEs, at various rates, due serially through 2022	—	—	645	645	646
Bank credit facilities, at fixed and variable rates, due dates from 2017 through 2021	—	—	643	643	655
Commercial paper, at variable rates, program matures in 2022	73	—	—	73	73
Borrowings secured by operating and finance leases, at various rates, due serially through 2021	—	—	98	98	97

(in millions)	As of October 31, 2016				
	Estimated Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets					
Retail notes	$ —	$ —	$ 153	$ 153	$ 151
Notes receivable	—	—	1	1	1
Liabilities					
Debt:					
Manufacturing operations					
Senior Secured Term Loan Credit Facility, as Amended, due 2020	—	—	1,037	1,037	1,009
8.25% Senior Notes, due 2022	1,180	—	—	1,180	1,173
4.50% Senior Subordinated Convertible Notes, due 2018(A)	—	—	189	189	189
4.75% Senior Subordinated Convertible Notes, due 2019(A)	—	—	382	382	383
Financing arrangements	—	—	17	17	37
Loan Agreement related to 6.50% Tax Exempt Bonds, due 2040	—	233	—	233	220
Financed lease obligations	—	—	52	52	52
Other	—	—	26	26	28
Financial Services operations					
Asset-backed debt issued by consolidated SPEs, at various rates, due serially through 2017	—	—	754	754	753
Bank credit facilities, at fixed and variable rates, due dates from 2017 through 2021	—	—	851	851	861
Commercial paper, at variable rates, program matures in 2022	96	—	—	96	96
Borrowings secured by operating and finance leases, at various rates, due serially through 2021	—	—	98	98	98

(A) The carrying value represents the consolidated financial statement amount of the debt which excludes the allocation of the conversion feature to equity, while the 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. 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 with GE Capital which contains automatic extensions and is subject to early termination provisions (the "Navistar Capital Operating Agreement"). Effective December 1, 2015, GE Capital assigned the Navistar Capital Operating Agreement to BMO Financial Group and its wholly-owned subsidiary BMO Harris Bank N.A. (together "BMO") as part of General Electric's sale of its GE Transportation Finance business. Under the terms of the Navistar Capital Operating Agreement, GE Capital was, and now BMO is, our third-party preferred source of retail customer financing for equipment offered by us and our dealers in the U.S. We refer to this alliance as "Navistar Capital." The Navistar Capital Operating Agreement contains a loss sharing arrangement for certain credit losses. Under the loss sharing arrangement, as amended, we generally reimburse our financing partner for credit losses in excess of the first 10% of the financed value of a contract; for certain leases we reimburse our financing partner for credit losses up to a maximum of the first 9.5% of the financed value of those lease contracts. Our exposure to loss is mitigated because contracts under the Navistar Capital Operating Agreement are secured by the financed equipment. There were $1.4 billion and $1.5 billion of outstanding loan principal and operating lease payments receivable at January 31, 2017 and October 31, 2016, respectively, financed through the Navistar Capital Operating Agreement and subject to the loss sharing arrangements in the U.S. The related financed values of these outstanding contracts were $2.3 billion and $2.4 billion at January 31, 2017 and October 31, 2016, respectively.

Generally, we do not carry the contracts under the Navistar Capital Operating Agreement on our *Consolidated Balance Sheets*. However, for certain Navistar Capital financed contracts which we have accounted for as borrowings, we have recognized equipment leased to others of $100 million and $48 million and financed lease obligations of $107 million and $51 million, in our *Consolidated Balance Sheets* as of January 31, 2017 and October 31, 2016, respectively.

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

We obtain certain stand-by letters of credit and surety bonds from third-party financial institutions in the ordinary course of business when required under contracts or to satisfy insurance-related requirements. As of January 31, 2017, the amount of stand-by letters of credit and surety bonds was $88 million.

In addition, as of January 31, 2017, we have $30 million of outstanding purchase commitments and contracts with $46 million of cancellation fees with 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.

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

We have accrued $20 million for these and other environmental matters, which are included within *Other current liabilities* and *Other noncurrent liabilities*, as of January 31, 2017. The majority of these accrued liabilities are expected to be paid subsequent to 2018.

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.

Profit Sharing Disputes

Pursuant to the 1993 Settlement Agreement, the program administrator and named fiduciary of the Supplemental Benefit Program is the Supplemental Benefit Program committee (the "Committee"), composed of individuals not appointed by NI or NIC. In August 2013, the Committee filed a motion for leave to amend its February 2013 complaint (which sought injunctive relief for the Company to provide certain information to which it was allegedly entitled under the Supplemental Benefit Trust Profit Sharing Plan) and a proposed amended complaint (the "Profit Sharing Complaint") in the U.S. District Court for the Southern District of Ohio (the "Court"). Leave to file the Profit Sharing Complaint was granted by the Court in October 2013. In its Profit Sharing Complaint, the Committee alleged the Company breached the 1993 Settlement Agreement and violated ERISA by failing to properly calculate profit sharing contributions due under the Supplemental Benefit Trust Profit Sharing Plan. The Committee seeks damages in excess of $50 million, injunctive relief and reimbursement of attorneys' fees and costs. Following the resolution of a procedural dispute by the U.S. Court of Appeals for the 6th Circuit, in May 2015, the Court ordered that the claims in the Profit Sharing Complaint be arbitrated pursuant to the dispute resolution procedures in the Supplemental Benefit Trust Profit Sharing Plan. In November 2015, the Company and the Committee selected an arbitrator and the discovery process has commenced. On August 1, 2016, the parties submitted briefs on issues related to the scope of the arbitration.

In addition, various local bargaining units of the United Automobile, Aerospace and Agricultural Implement Workers of America ("UAW") have filed separate grievances pursuant to the profit sharing plans under various collective bargaining agreements in effect between the Company and the UAW that may have similar legal and factual issues as the Profit Sharing Complaint.

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

Retiree Health Care Litigation

On October 21, 2016, two lawsuits were filed in the U.S. District Court for the Southern District of Ohio relating to postretirement healthcare and life insurance obligations under the 1993 Settlement Agreement. The first lawsuit (the “Committee’s Complaint”) was filed by the Supplemental Benefit Program Committee. The Committee’s Complaint was filed against NIC, NI, NFC and a former affiliate (collectively, the “Defendants”), all of which are parties to the 1993 Settlement Agreement. Since January 1, 2012, the Navistar, Inc. Retiree Health Benefit Trust, created pursuant to the 1993 Settlement Agreement (the “Base Trust”), has received certain Medicare Part D subsidies from the federal Centers for Medicare and Medicaid Services that were made available for prescription drug benefits provided to Medicare-eligible seniors pursuant to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 and has also received certain Medicare Part D coverage-gap discounts from prescription drug manufacturers that were made available to eligible seniors pursuant to the Patient Protection and Affordable Care Act (collectively, the “Subsidies”). The Committee alleges, among other things, that the Defendants breached the 1993 Settlement Agreement since January 1, 2012 by causing the Base Trust to allocate the Subsidies in a manner that improperly decreased the Defendants’ contributions to the Base Trust and increased retiree contributions. The Committee seeks damages, attorneys’ fees and costs for all alleged violations of the 1993 Settlement Agreement, including approximately $26 million, which the Committee alleges is the eligible retirees’ “fair share” of the Subsidies that were allegedly misappropriated by the Defendants from January, 2012 through April, 2015.

The second lawsuit was filed by two individual members of the Committee (the "Committee Members") who are retirees and participants in the Navistar, Inc. Health Benefit and Life Insurance Plan (the "Plan") created pursuant to the 1993 Settlement Agreement. The Committee Members' complaint (the "Committee Members' Complaint") was filed against NIC, NI, NFC and certain other former or current affiliates, all of which are parties or employers as defined in the 1993 Settlement Agreement. The Committee Members allege, among other things, that the Company violated the terms of the Plan, breached a fiduciary duty under the ERISA, and engaged in ERISA-prohibited transactions by improperly using the Plan's assets (a portion of the Subsidies) for the Company's benefit. The Committee Members request that the court order Defendants to restore all losses to the Base Trust, including approximately $26 million, which the Committee Members allege is the Plan participants' "fair share" of the Subsidies that were allegedly misappropriated by the Defendants from January 2012 through April 2015. The Committee Members also request that the court enjoin the defendants from alleged future violations of the Plan and ERISA with respect to treatment of the Subsidies, order the Defendants to remedy all alleged ERISA-prohibited transactions and pay the Committee Members' attorneys' fees and costs.

The Defendants filed motions to dismiss each complaint on January 10, 2017.

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

FATMA Notice

International Indústria Automotiva da América do Sul Ltda. ("IIAA"), formerly known as Maxion International Motores S/A ("Maxion"), now a wholly owned subsidiary of the Company, received a notice 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 approximately less than US$1 million at January 31, 2017), 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 (the "District Attorney") a notice and proposed Consent Agreement relating to alleged neighborhood-wide groundwater contamination at or around its Sao Paulo manufacturing facility. The proposed Consent Agreement sought certain groundwater investigations and other technical relief and proposed sanctions in the amount of R$3 million (the equivalent of approximately US$1 million at January 31, 2017). In November 2014, IIAA extended a settlement offer. The parties remained in discussions and IIAA's settlement offer was never accepted, rejected or countered by the District Attorney. On August 31, 2016, the District Attorney filed civil actions against IIAA and other companies seeking soil and groundwater investigation and remediation, together with monetary payment in an unspecified amount. IIAA has not yet been served with the action. IIAA filed its defense to the civil action on January 26, 2017, alleging that IIAA has made all necessary investigations and has taken remedial measures to address the contamination and that Companhia Ambiental do Estado de São Paulo (CETESB), the environmental agency of São Paulo State, has agreed to the remedial measures taken by IIAA.

MaxxForce Engine EGR Warranty Litigation

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

From June 13-17, 2016, the court conducted a certification hearing in the N&C Action. On November 16, 2016, the court certified a Canada-wide class comprised of persons who purchased heavy-duty trucks equipped with Advanced EGR MaxxForce 11, MaxxForce 13, and MaxxForce 15 engines designed to meet 2010 EPA regulations. The court in the N&C Action denied certification to persons who operated but did not buy the trucks in question. The Company has until March 31, 2017, to appeal the class certification decision, if it chooses to do so. There are no court dates scheduled in any of the other Canadian Actions at this time.

On July 7, 2014, Par 4 Transport, LLC filed a putative class action lawsuit against NI in the United States District Court for the Northern District of Illinois (the "Par 4 Action"). Subsequently, seventeen additional putative class action lawsuits were filed in various United States district courts, including the Northern District of Illinois, the Eastern District of Wisconsin, the Southern District of Florida, the Middle District of Pennsylvania, the Southern District of Texas, the Western District of Kentucky, the District of Minnesota, the Northern District of Alabama, and the District of New Jersey (together with the Par 4 Action, the "U.S. Actions"). Some of the U.S. Actions name both NIC and NI, and allege matters substantially similar to the Canadian Actions. More specifically, the Canadian Actions and the U.S. Actions (collectively, the "EGR Class Actions") seek to certify a class of persons or entities in Canada or the United States who purchased and/or leased a ProStar or other Navistar vehicle equipped with a model year 2008-2013 MaxxForce Advanced EGR engine. In substance, the EGR Class Actions allege that the MaxxForce Advanced EGR engines are defective and that the Company and NI failed to disclose and correct the alleged defect. The EGR Class Actions assert claims based on theories of contract, breach of warranty, consumer fraud, unfair competition, misrepresentation and negligence. The EGR Class Actions seek relief in the form of monetary damages, punitive damages, declaratory relief, interest, fees, and costs.

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

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

At the request of the various law firms representing the plaintiffs in the MDL Action, on March 5, 2015, Judge Gottschall entered an order in the MDL Action appointing interim lead counsel and interim liaison counsel for the plaintiffs. On May 11, 2015, lead counsel for the plaintiffs filed a First Master Consolidated Class Action Complaint ("Consolidated Complaint"). The parties to the MDL Action exchanged initial disclosures on May 29, 2015. The Company answered the Consolidated Complaint on July 13, 2015. On May 27, 2016, Judge Gottschall entered a Case Management Order setting a July 13, 2017, date for plaintiffs' class certification motion. On September 22, 2016, lead counsel for the plaintiffs filed a First Amended Consolidated Class Action Complaint (the "Amended Consolidated Complaint"). The Amended Consolidated Complaint added twenty-five additional named plaintiffs. NI and NIC answered the Amended Consolidated Complaint on October 20, 2016. After a status hearing on November 30, 2016, the court entered an order referring discovery matters to a magistrate judge for supervision. Pursuant to the magistrate's order, the parties jointly filed a new proposed case management order on January 25, 2017 which extended the fact discovery deadline to November 22, 2017 and extended the completion of the class certification briefing to April 24, 2018. On January 26, 2017, the magistrate noted that the parties must first adjust the class action briefing schedule with Judge Gottschall before the deadlines for completing fact discovery relevant to class certification can be adjusted. The parties intend to file a joint motion with Judge Gottschall to request adjustment of the class action briefing schedule.

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

EPA Clean Air Act Litigation

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

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

Discovery in the matter will proceed in two phases. Fact discovery for the liability phase commenced on December 9, 2015. Pursuant to a Case Management Order entered on August 1, 2016, fact discovery was scheduled to be completed on February 9, 2017, followed by expert discovery, and then a deadline for dispositive motions on July 20, 2017. On January 4, 2017, the parties filed a Joint Motion for Extension of Phase I Discovery and for Entry of Second Amended Scheduling Order. That proposed Scheduling Order, among other things, included a fact discovery cutoff of August 9, 2017. On January 6, 2017, the court granted the Joint Motion in part, extended the fact discovery deadline to May 9, 2017, and ordered the parties to file a new proposed scheduling order. On January 23, 2017, the court entered its Second Amended Scheduling Order, with dates that correspond to the parties' original proposal on January 4, 2017 - namely, completion of Phase I fact discovery by August 9, 2017, and deadline for dispositive motions on February 16, 2018. After completion of the first phase, the court will, if necessary, set further dates for a remedy phase.

On May 13, 2016, the DOJ, on behalf of the EPA filed a motion for summary judgment on liability. On June 30, 2016, NIC and NI opposed the EPA's motion for summary judgment, and NIC cross-moved for summary judgment against EPA. NIC and NI filed a notice of supplemental authority and moved to supplement the summary judgment record on September 22, 2016. On March 1, 2017, the court entered a Memorandum Opinion and Order (i) granting the DOJ's motion for summary judgment on the issue of liability with respect to NI, (ii) denying the DOJ's motion for summary judgment on the issue of liability with respect to NIC, (iii) denying NIC's motion for summary judgment and (iv) granting the motion of NIC and NI to supplement the record.

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

Shareholder Derivative Litigation

In March 2013, James Gould filed a derivative complaint in the U.S. District Court for the Northern District of Illinois 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 allegedly false statements concerning the timing of EPA certification of our EGR engine technology to meet 2010 EPA emission standards. 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. The court has continued to extend the stay since that time.

In August 2013, Abbie Griffin filed a derivative complaint in the State of Delaware Court of Chancery, 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, in relation to factual allegations similar to those in the Gould action above. 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. The court has continued to extend the stay since that time.

On November 9, 2016, the parties conducted a mediation and reached an agreement in principle to settle both the Gould action and the Griffin action. The settlement includes certain corporate governance reforms and an agreement on a total fee petition on behalf of plaintiffs' counsel. The Company expects the fee to be paid by insurance. On November 22, 2016, the parties filed a Joint Status Report in the Gould case stating that they had reached an agreement in principle. On December 6, 2016, the parties executed the Stipulation of Settlement. On December 12, 2016, the Gould court entered an Order preliminarily approving of the settlement and providing for notice of the settlement. Also on December 12, 2016, the parties in the Griffin action filed a Stipulation and Proposed Order Extending Stay. The Griffin Court entered that order on December 13, 2016, and extended the stay. On February 15, 2017, the Gould court granted final approval of the settlement and entered a Final Judgment and Order of Dismissal. On February 22, 2017, the Griffin court entered a Stipulation and Order of Dismissal, completing the settlement of both derivative actions.

Brazil Truck Dealer Disputes

In January 2014, IIAA initiated an arbitration proceeding under the International Chamber of Commerce rules seeking payment for goods sold and unpaid, in the amount of R$64 million (approximately US$21 million as of January 31, 2017), including penalties and interest, from a group of affiliated truck dealers in Brazil. The truck dealers are affiliated with each other, but not with us, and are collectively referred to as Navitrucks. In the proceeding, IIAA also seeks a declaration of fault against Navitrucks related to the termination of the truck dealer agreements between IIAA and Navitrucks. Navitrucks responded in

part by submitting counterclaims against IIAA seeking the amount of R$128 million (approximately US$41 million as of January 31, 2017) for damages related to alleged unfulfilled promises and injury to Navitrucks' reputation. In October 2014, Navitrucks amended their counterclaims by increasing the amount of damages. During a preliminary hearing before the arbitral tribunal on March 24, 2015, the parties agreed to submit all of the pending claims between the parties to the exclusive jurisdiction of the arbitral tribunal. Pursuant to the timetable issued in the arbitration proceeding, IIAA presented its complaint in July 2015, Navitrucks filed its answer and counterclaims on August 24, 2015, and IIAA filed its rebuttal and answer to Navitrucks' counterclaims on October 22, 2015. On December 7, 2015, Navitrucks filed its rebuttal to IIAA's answer to counterclaims. On June 13-15, 2016, the arbitral tribunal held hearings on the parties presenting witnesses and evidence. On July 18, 2016, IIAA and Navitrucks presented additional documents and information related to such hearings. On September 30, 2016, the parties presented their closing arguments. As of January 31, 2017, the approximate amount of the IIAA claim against Navitrucks is R$139 million (approximately US$45 million as of January 31, 2017), of which Navitrucks has acknowledged that IIAA is entitled to a credit in the approximate amount of R$78 million (approximately US$25 million as of January 31, 2017), and the approximate amount of the Navitrucks claim against IIAA is R$148 million (approximately US$48 million as of January 31, 2017).

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

IC Bus Civil RICO Litigation

On June 1, 2016, Plaintiffs Polar Express School Bus and Lakeview Bus Lines filed a lawsuit against NIC, NI, and IC Bus, LLC in the U.S. District Court for the Northern District of Illinois. The lawsuit alleges that the 40 IC brand buses owned or operated by Plaintiffs contain defective ABS braking systems and also engines with defective emissions control systems. Plaintiffs claim that NIC, its subsidiaries, and their authorized dealers deliberately concealed the alleged defects, and the lawsuit seeks to plead causes of action under the Racketeer Influenced and Corrupt Organizations Act ("RICO") and common law fraud. Plaintiffs seek compensatory damages in the amount of $7 million, treble damages, punitive damages in the amount of $50 million, and attorneys' fees and costs. We dispute the allegations in the lawsuit, and in August 2016 we filed a motion to dismiss this lawsuit in its entirety. On December 16, 2016, the Court granted the motion and dismissed Plaintiffs' RICO claims without prejudice. Having dismissed the federal claims, the Court declined to exercise supplemental jurisdiction over the state common law fraud claim. On December 16, 2016, the Court dismissed Plaintiffs' Complaint but with leave to amend. On January 17, 2017, Plaintiffs filed their amended complaint. The allegations and relief sought are substantially similar to the original complaint, except that Plaintiffs added causes of action for breach of warranty and breach of implied warranty. NIC and NI filed a motion to dismiss the amended complaint on or about February 17, 2017. The Court has scheduled a ruling date of May 4, 2017, on the new motion to dismiss.

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.

Other

U.S. Department of Defense Subpoena

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

11. Segment Reporting

The following is a description of our four reporting segments:

- Our **Truck** segment manufactures and distributes Class 4 through 8 trucks, buses, and military vehicles under the International and IC Bus ("IC") brands, and produces engines under our proprietary brand name and parts required to support the military truck lines. This segment sells its products in the U.S., Canada, and Mexico markets, as well as through our export truck business. In an effort to strengthen and maintain our dealer network, this segment occasionally acquires and operates dealer locations for the purpose of transitioning ownership.
- Our **Parts** segment provides customers with proprietary products needed to support the International commercial truck, IC Bus, proprietary engine lines, and export parts business, as well as our other product lines. Our Parts segment also provides a wide selection of other standard truck, trailer, and engine aftermarket parts. Also included in the Parts segment are the operating results of BDP, which manages the sourcing, merchandising, and distribution of certain service parts we sell to Ford in North America.
- Our **Global Operations** segment primarily consists of Brazil engine operations which produces diesel engines 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. This segment also facilitates financing relationships in other countries to support our Manufacturing Operations.

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

Segment Profit (Loss)

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

(in millions)	Truck	Parts	Global Operations	Financial Services[A]	Corporate and Eliminations	Total
Three Months Ended January 31, 2017						
External sales and revenues, net	$ 1,017	$ 563	$ 46	$ 34	$ 3	$ 1,663
Intersegment sales and revenues	10	7	4	20	(41)	—
Total sales and revenues, net	$ 1,027	$ 570	$ 50	$ 54	$ (38)	$ 1,663
Income (loss) attributable to NIC, net of tax	$ (69)	$ 149	$ (4)	$ 13	$ (151)	$ (62)
Income tax expense	—	—	—	—	(4)	(4)
Segment profit (loss)	$ (69)	$ 149	$ (4)	$ 13	$ (147)	$ (58)
Depreciation and amortization	$ 37	$ 3	$ 3	$ 13	$ 3	$ 59
Interest expense	—	—	—	20	62	82
Equity in income of non-consolidated affiliates	1	1	1	—	—	3
Capital expenditures[B]	43	—	1	—	2	46

(in millions)	Truck	Parts	Global Operations	Financial Services[A]	Corporate and Eliminations	Total
Three Months Ended January 31, 2016						
External sales and revenues, net	$ 1,081	$ 562	$ 84	$ 35	$ 3	$ 1,765
Intersegment sales and revenues	51	8	8	24	(91)	—
Total sales and revenues, net	$ 1,132	$ 570	$ 92	$ 59	$ (88)	$ 1,765
Income (loss) attributable to NIC, net of tax	$ (51)	$ 150	$ (13)	$ 26	$ (145)	$ (33)
Income tax benefit	—	—	—	—	5	5
Segment profit (loss)	$ (51)	$ 150	$ (13)	$ 26	$ (150)	$ (38)
Depreciation and amortization	$ 34	$ 3	$ 5	$ 12	$ 4	$ 58
Interest expense	—	—	—	19	62	81
Equity in income (loss) of non-consolidated affiliates	1	1	(3)	—	—	(1)
Capital expenditures[B]	25	1	1	—	2	29

(in millions)	Truck	Parts	Global Operations	Financial Services	Corporate and Eliminations	Total
Segment assets, as of:						
January 31, 2017	**$ 1,694**	**$ 605**	**$ 354**	**$ 1,789**	**$ 952**	**$ 5,394**
October 31, 2016	1,520	594	407	2,116	1,016	5,653

(A) Total sales and revenues in the Financial Services segment include interest revenues of $36 million and $42 million for the three months ended January 31, 2017 and 2016, respectively.

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

12. Stockholders' Deficit

Accumulated Other Comprehensive Loss

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

(in millions)	Unrealized Gain on Marketable Securities	Foreign Currency Translation Adjustments	Defined Benefit Plans	Total
Balance as of October 31, 2016	$ 1	$ (280)	$ (2,361)	$ (2,640)
Other comprehensive loss before reclassifications	—	(12)	—	(12)
Amounts reclassified out of accumulated other comprehensive loss	—	—	35	35
Net current-period other comprehensive income (loss)	—	(12)	35	23
Balance as of January 31, 2017	**$ 1**	**$ (292)**	**$ (2,326)**	**$ (2,617)**

(in millions)	Unrealized Gain on Marketable Securities	Foreign Currency Translation Adjustments	Defined Benefit Plans	Total
Balance as of October 31, 2015	$ 1	$ (287)	$ (2,315)	$ (2,601)
Other comprehensive loss before reclassifications	—	(33)	—	(33)
Amounts reclassified out of accumulated other comprehensive loss	—	—	33	33
Net current-period other comprehensive income (loss)	—	(33)	33	—
Balance as of January 31, 2016	$ 1	$ (320)	$ (2,282)	$ (2,601)

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

		Three Months Ended January 31,	
	Location in Consolidated Statements of Operations	2017	2016
Defined benefit plans			
Amortization of actuarial loss	Selling, general and administrative expenses	**$ 35**	$ 33
Total reclassifications for the period, net of tax		**$ 35**	$ 33

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

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

	Three Months Ended January 31,	
(in millions, except per share data)	2017	2016
Numerator:		
Net loss attributable to Navistar International Corporation common stockholders	**$ (62)**	$ (33)
Denominator:		
Weighted average shares outstanding:		
Basic	**81.8**	81.7
Effect of dilutive securities	**—**	—
Diluted	**81.8**	81.7
Net loss per share attributable to Navistar International Corporation:		
Basic	**$ (0.76)**	$ (0.40)
Diluted	**(0.76)**	(0.40)

The conversion rate on our 4.5% Senior Subordinated Convertible Notes due 2018 (the "2018 Convertible Notes") is 17.1233 shares of common stock per $1,000 principal amount of 2018 Convertible Notes, equivalent to an initial conversion price of approximately $58.40 per share of common stock. The 2018 Convertible Notes have an anti-dilutive effect when calculating diluted earnings per share when our average stock price is less than $58.40.

The conversion rate on our 4.75% Senior Subordinated Convertible Notes due 2019 (the “2019 Convertible Notes”) is 18.4946 shares of common stock per $1,000 principal amount of 2019 Convertible Notes, equivalent to an initial conversion price of approximately $54.07 per share of common stock. The 2019 Convertible Notes have an anti-dilutive effect when calculating diluted earnings per share when our average stock price is less than $54.07.

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

For both the three months ended January 31, 2017 and 2016, no dilutive securities were included in the computation of diluted earnings per share because they would have been anti-dilutive due to the net loss attributable to NIC. Additionally, certain securities have been excluded from the computation of earnings per share, as our average stock price was less than their respective exercise prices. For the three months ended January 31, 2017 and 2016, the aggregate shares not included were 15.0 million for both periods.

Pursuant to a Stock Purchase Agreement with Volkswagen Truck & Bus ("VW T&B"), on February 28, 2017 we issued and VW T&B purchased 16.2 million shares of our common stock for an aggregate purchase price of $256 million at $15.76 per share (an estimated 19.9% stake (16.6% on a pro forma basis) in the Company), excluding transaction costs.

For both the three months ended January 31, 2017 and 2016, 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.

14. Condensed Consolidating Guarantor and Non-guarantor Financial Information

The following tables set forth condensed consolidating balance sheets as of January 31, 2017 and October 31, 2016, and condensed consolidating statements of operations and comprehensive income (loss) for the three months ended January 31, 2017 and 2016, and condensed consolidating statements of cash flows for the three months ended January 31, 2017 and 2016.

The information is presented as a result of NI's guarantee, exclusive of its subsidiaries, of NIC's indebtedness under our 8.25% Senior Notes, due 2022, and obligations under our Loan Agreement related to the 6.5% Tax Exempt Bonds, due 2040. NI 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 indentures for each of the 8.25% Senior Notes, due 2022, 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 NI 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, "NI," 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 NI and its U.S. subsidiaries. NI has a tax allocation agreement ("Tax Agreement") with NIC which requires NI 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 NI 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 NI, to utilize current U.S. taxable losses of NI and all other direct or indirect subsidiaries of NIC.

Condensed Consolidating Statement of Operations for the Three Months Ended January 31, 2017

(in millions)	NIC	Navistar, Inc.	Non-Guarantor Subsidiaries	Eliminations and Other	Consolidated
Sales and revenues, net	$ —	$ 1,262	$ 1,028	$ (627)	$ 1,663
Costs of products sold	—	1,104	879	(613)	1,370
Restructuring charges	—	—	7	—	7
Asset impairment charges	—	2	—	—	2
All other operating expenses (income)	25	216	110	(14)	337
Total costs and expenses	25	1,322	996	(627)	1,716
Equity in income (loss) of affiliates	(37)	23	2	15	3
Income (loss) before income tax	(62)	(37)	34	15	(50)
Income tax expense	—	—	(4)	—	(4)
Net income (loss)	(62)	(37)	30	15	(54)
Less: Net income attributable to non-controlling interests	—	—	8	—	8
Net income (loss) attributable to Navistar International Corporation	$ (62)	$ (37)	$ 22	$ 15	$ (62)

Condensed Consolidating Statement of Comprehensive Income (Loss) for the Three Months Ended January 31, 2017

(in millions)	NIC	Navistar, Inc.	Non-Guarantor Subsidiaries	Eliminations and Other	Consolidated
Net income (loss)	$ (62)	$ (37)	$ 30	$ 15	$ (54)
Other comprehensive income (loss):					
Foreign currency translation adjustment	(12)	—	(12)	12	(12)
Defined benefit plans, net of tax	35	33	2	(35)	35
Total other comprehensive income (loss)	23	33	(10)	(23)	23
Comprehensive income (loss)	(39)	(4)	20	(8)	(31)
Less: Net income attributable to non-controlling interests	—	—	8	—	8
Total comprehensive income (loss) attributable to Navistar International Corporation	$ (39)	$ (4)	$ 12	$ (8)	$ (39)

Condensed Consolidating Balance Sheet as of January 31, 2017

(in millions)	NIC	Navistar, Inc.	Non-Guarantor Subsidiaries	Eliminations and Other	Consolidated
Assets					
Cash and cash equivalents	$ 279	$ 32	$ 262	$ —	$ 573
Marketable securities	163	—	35	—	198
Restricted cash	16	7	74	—	97
Finance and other receivables, net	(2)	187	1,540	(83)	1,642
Inventories	—	633	397	(8)	1,022
Investments in non-consolidated affiliates	(7,727)	6,275	51	1,454	53
Property and equipment, net	—	737	562	(9)	1,290
Goodwill	—	—	38	—	38
Deferred taxes, net	—	10	152	—	162
Other	6	136	178	(1)	319
Total assets	$ (7,265)	$ 8,017	$ 3,289	$ 1,353	$ 5,394
Liabilities and stockholders' equity (deficit)					
Debt	$ 2,216	$ 1,152	$ 1,499	$ (2)	$ 4,865
Postretirement benefits liabilities	—	2,835	230	—	3,065
Amounts due to (from) affiliates	(7,972)	10,748	(2,832)	56	—
Other liabilities	3,824	(166)	(808)	(57)	2,793
Total liabilities	(1,932)	14,569	(1,911)	(3)	10,723
Stockholders' equity attributable to non-controlling interest	—	—	4	—	4
Stockholders' equity (deficit) attributable to Navistar International Corporation	(5,333)	(6,552)	5,196	1,356	(5,333)
Total liabilities and stockholders' equity (deficit)	$ (7,265)	$ 8,017	$ 3,289	$ 1,353	$ 5,394

Condensed Consolidating Statement of Cash Flows for the Three Months Ended January 31, 2017

(in millions)	NIC	Navistar, Inc.	Non-Guarantor Subsidiaries	Eliminations and Other	Consolidated
Net cash provided by (used in) operating activities	**$ (268)**	**$ (209)**	**$ 325**	**$ 174**	**$ 22**
Cash flows from investing activities					
Net change in restricted cash and cash equivalents	**—**	**—**	**15**	**—**	**15**
Net purchases of marketable securities	**(136)**	**—**	**(16)**	**—**	**(152)**
Capital expenditures and purchase of equipment leased to others	**—**	**(55)**	**(15)**	**—**	**(70)**
Other investing activities	**—**	**—**	**—**	**—**	**—**
Net cash used in investing activities	**(136)**	**(55)**	**(16)**	**—**	**(207)**
Cash flows from financing activities					
Net borrowings (repayments) of debt	**245**	**171**	**(298)**	**(174)**	**(56)**
Other financing activities	**3**	**8**	**(8)**	**—**	**3**
Net cash provided by (used in) financing activities	**248**	**179**	**(306)**	**(174)**	**(53)**
Effect of exchange rate changes on cash and cash equivalents	**—**	**—**	**7**	**—**	**7**
Increase (decrease) in cash and cash equivalents	**(156)**	**(85)**	**10**	**—**	**(231)**
Cash and cash equivalents at beginning of the period	**435**	**117**	**252**	**—**	**804**
Cash and cash equivalents at end of the period	**$ 279**	**$ 32**	**$ 262**	**$ —**	**$ 573**

Condensed Consolidating Statement of Operations for the Three Months Ended January 31, 2016

(in millions)	NIC	Navistar, Inc.	Non-Guarantor Subsidiaries	Eliminations and Other	Consolidated
Sales and revenues, net	$ —	$ 1,342	$ 1,200	$ (777)	$ 1,765
Costs of products sold	—	1,204	1,023	(761)	1,466
Restructuring charges	—	1	2	—	3
Asset impairment charges	—	—	2	—	2
All other operating expenses (income)	19	213	108	(18)	322
Total costs and expenses	19	1,418	1,135	(779)	1,793
Equity in income (loss) of affiliates	(14)	(13)	(1)	27	(1)
Income (loss) before income tax	(33)	(89)	64	29	(29)
Income tax benefit (expense)	—	13	(8)	—	5
Net income (loss)	(33)	(76)	56	29	(24)
Less: Net income attributable to non-controlling interests	—	—	9	—	9
Net income (loss) attributable to Navistar International Corporation	$ (33)	$ (76)	$ 47	$ 29	$ (33)

Condensed Consolidating Statement of Comprehensive Income (Loss) for the Three Months Ended January 31, 2016

(in millions)	NIC	Navistar, Inc.	Non-Guarantor Subsidiaries	Eliminations and Other	Consolidated
Net income (loss)	$ (33)	$ (76)	$ 56	$ 29	$ (24)
Other comprehensive income (loss):					
Foreign currency translation adjustment	(33)	—	(33)	33	(33)
Defined benefit plans, net of tax	33	32	1	(33)	33
Total other comprehensive income (loss)	—	32	(32)	—	—
Comprehensive income (loss)	(33)	(44)	24	29	(24)
Less: Net income attributable to non-controlling interests	—	—	9	—	9
Total comprehensive income (loss) attributable to Navistar International Corporation	$ (33)	$ (44)	$ 15	$ 29	$ (33)

Condensed Consolidating Balance Sheet as of October 31, 2016

(in millions)	NIC	Navistar, Inc.	Non-Guarantor Subsidiaries	Eliminations and Other	Consolidated
Assets					
Cash and cash equivalents	$ 435	$ 117	$ 252	$ —	$ 804
Marketable securities	27	—	19	—	46
Restricted cash	16	6	90	—	112
Finance and other receivables, net	(1)	171	1,883	(84)	1,969
Inventories	—	639	313	(8)	944
Investments in non-consolidated affiliates	(7,714)	6,253	57	1,457	53
Property and equipment, net	—	669	580	(8)	1,241
Goodwill	—	—	38	—	38
Deferred taxes, net	—	10	150	1	161
Other	2	110	175	(2)	285
Total assets	$ (7,235)	$ 7,975	$ 3,557	$ 1,356	$ 5,653
Liabilities and stockholders' equity (deficit)					
Debt	$ 1,965	$ 1,100	$ 1,841	$ (2)	$ 4,904
Postretirement benefits liabilities	—	2,865	233	—	3,098
Amounts due to (from) affiliates	(7,724)	10,709	(3,040)	55	—
Other liabilities	3,822	(152)	(665)	(61)	2,944
Total liabilities	(1,937)	14,522	(1,631)	(8)	10,946
Stockholders' equity attributable to non-controlling interest	—	—	5	—	5
Stockholders' equity (deficit) attributable to Navistar International Corporation	(5,298)	(6,547)	5,183	1,364	(5,298)
Total liabilities and stockholders' equity (deficit)	$ (7,235)	$ 7,975	$ 3,557	$ 1,356	$ 5,653

Condensed Consolidating Statement of Cash Flows for the Three Months Ended January 31, 2016

(in millions)	NIC	Navistar, Inc.	Non-Guarantor Subsidiaries	Eliminations and Other	Consolidated
Net cash provided by (used in) operating activities	$ (309)	$ (332)	$ 226	$ 313	$ (102)
Cash flows from investing activities					
Net change in restricted cash and cash equivalents	—	1	(2)	—	(1)
Net sales (purchases) of marketable securities	110	—	(103)	—	7
Capital expenditures and purchase of equipment leased to others	—	(17)	(61)	—	(78)
Other investing activities	—	—	13	—	13
Net cash provided by (used in) investing activities	110	(16)	(153)	—	(59)
Cash flows from financing activities					
Net borrowings (repayments) of debt	—	292	(152)	(313)	(173)
Other financing activities	—	7	(9)	—	(2)
Net cash provided by (used in) financing activities	—	299	(161)	(313)	(175)
Effect of exchange rate changes on cash and cash equivalents	—	—	3	—	3
Decrease in cash and cash equivalents	(199)	(49)	(85)	—	(333)
Cash and cash equivalents at beginning of the period	456	81	375	—	912
Cash and cash equivalents at end of the period	$ 257	$ 32	$ 290	$ —	$ 579

15. Subsequent Event

On February 28, 2017, we consummated our previously announced strategic alliance with VW T&B, which included an equity investment in the Company by VW T&B pursuant to the Stock Purchase Agreement, the License and Supply Framework Agreement and the Procurement JV Framework Agreement. Pursuant to the VW T&B Stock Purchase Agreement, on February 28, 2017 we issued and VW T&B purchased 16.2 million of our shares for an aggregate purchase price of $256 million at $15.76 per share (an estimated 19.9% stake (16.6% on a pro forma basis) in the Company).

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide information that is supplemental to, and should be read together with, our consolidated financial statements and the accompanying notes contained in our Annual Report on Form 10-K for the year ended October 31, 2016. 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, 2016 that we are aware of and that may have a material effect on our future performance, and (v) how certain accounting principles affect our consolidated financial statements. In addition, MD&A provides information about our business segments and how the results of those segments impact our results of operations and financial condition as a whole. Operating results for interim reporting periods are not necessarily indicative of annual operating results.

Executive Overview

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

First Quarter Summary

During the first quarter of 2017, we continued to take actions that we believe will improve our performance. Going forward, we will focus on our strategy which includes: growing the Core business, seeking new sources of revenue, driving operational excellence, leveraging the VW T&B alliance, investing in our people, and improving our financial performance. We believe our strategy will enable us to improve sales and market share by offering more value to our customers.

In January 2017, we issued an additional $250 million aggregate principal amount of our 8.25% Senior Notes. The proceeds from the January 2017 issuance of additional Senior Notes will be used for general corporate purposes, including working capital and capital expenditures.

In February 2017, we amended the Senior Secured Term Loan Credit Facility to reprice our remaining $1.0 billion loan and insert provisions regarding European Union bail-in legislation. The amendment reduces the interest rate applicable to the outstanding loan by 1.50%.

We remain committed to product investment to increase customer value. In February 2017, we launched our new International® A26™ diesel engine. The A26™ is an all-new 12.4L engine design which we believe offers superior fuel economy and will deliver the uptime our customers demand. We continue to realize our plan to release a new or redesigned product every six months through 2018.

In February 2017, we consummated our previously announced strategic alliance with VW T&B, which included an equity investment in the Company by VW T&B pursuant to a Stock Purchase Agreement (the "Stock Purchase Agreement"), a License and Supply Framework Agreement and a Procurement JV Framework Agreement. Pursuant to the Stock Purchase Agreement, we issued and VW T&B purchased 16.2 million of our shares for an aggregate purchase price of $256 million at $15.76 per share (a 19.9% stake (16.6% on a pro forma basis)) in the Company.

Financial Summary

Continuing Operations Results — In the first quarter of 2017, our consolidated net sales and revenues were $1.7 billion, a 6% decrease compared to the prior year quarter. The decrease primarily reflects lower volumes from our Truck segment.

In the first quarter of 2017, we incurred a loss before income taxes of $50 million, compared to a loss of $29 million in the first quarter of 2016. Our gross margin declined by $6 million primarily due to market pressures in our Core markets and lower volumes, partially offset by improved material costs in our Core markets, a decrease in adjustments to pre-existing warranties, as well as a decline in our used truck losses. We recorded a benefit to adjustments to pre-existing warranties of $17 million compared to a charge of $5 million in the prior year. Overall results were further impacted by lower *Other Income.*

In the first quarter of 2017, consolidated net income attributable to NIC, before manufacturing interest, taxes, depreciation and amortization expenses ("EBITDA") was $63 million, compared to EBITDA of $82 million in the first quarter of 2016. Excluding certain net benefits of $8 million and $5 million in the three months ended January 31, 2017 and 2016, respectively, Adjusted EBITDA was $55 million in the first quarter of 2017 compared to $77 million in the comparable period in 2016. EBITDA and Adjusted EBITDA are not determined in accordance with U.S. GAAP, nor are they presented as alternatives to U.S. GAAP measures. For more information regarding this non-GAAP financial information, see *Consolidated EBITDA and Adjusted EBITDA*.

In the first quarter of 2017, we recognized an income tax expense of $4 million, compared to an income tax benefit of $5 million in the first quarter of 2016. The increase in the income tax expense was primarily due to the non-recurring $13 million income tax benefit from the release of the valuation allowance on U.S. AMT credits in the first quarter of 2016.

In the first quarter of 2017, the net loss attributable to NIC was $62 million, or $0.76 per diluted share, compared to a loss of $33 million, or $0.40 per diluted share, in the first quarter of 2016.

We ended the first quarter of 2017 with $771 million of consolidated cash, cash equivalents and marketable securities, compared to $850 million as of October 31, 2016. The decrease in consolidated cash, cash equivalents and marketable securities was primarily attributable to an increase in inventories and other noncurrent assets as well as decreases in accounts payable and other current and noncurrent liabilities, repayment of short-term and long-term debt, and payments for capital expenditures and equipment leased to others, partially offset by collections of accounts and finance receivables and the issuance of $250 million of long-term debt.

Results of Operations

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

Results of Operations for the quarter ended January 31, 2017 as compared to the quarter ended January 31, 2016

	Three Months Ended January 31,			
(in millions, except per share data and % change)	**2017**	**2016**	**Change**	**% Change**
Sales and revenues, net	**$ 1,663**	$ 1,765	$ (102)	(6)%
Costs of products sold	**1,370**	1,466	(96)	(7)%
Restructuring charges	**7**	3	4	133 %
Asset impairment charges	**2**	2	—	— %
Selling, general and administrative expenses	**200**	205	(5)	(2)%
Engineering and product development costs	**63**	58	5	9 %
Interest expense	**82**	81	1	1 %
Other income, net	**(8)**	(22)	14	(64)%
Total costs and expenses	**1,716**	1,793	(77)	(4)%
Equity in income (loss) of non-consolidated affiliates	**3**	(1)	4	N.M.
Loss before income tax	**(50)**	(29)	(21)	72 %
Income tax benefit (expense)	**(4)**	5	(9)	(180)%
Net loss	**(54)**	(24)	(30)	125 %
Less: Net income attributable to non-controlling interests	**8**	9	(1)	(11)%
Net loss attributable to Navistar International Corporation	**$ (62)**	$ (33)	$ (29)	88 %
Diluted loss per share[(A)]	**$ (0.76)**	$ (0.40)	$ (0.36)	90 %
Diluted weighted average shares outstanding	**81.8**	81.7	0.1	— %

N.M. Not meaningful.
(A) Amounts attributable to NIC.

Sales and revenues, net

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

(in millions, except % change)	Three Months Ended January 31, 2017	2016	Change	% Change
Truck	**$ 1,027**	$ 1,132	$ (105)	(9)%
Parts	**570**	570	—	— %
Global Operations	**50**	92	(42)	(46)%
Financial Services	**54**	59	(5)	(8)%
Corporate and Eliminations	**(38)**	(88)	50	(57)%
Total	**$ 1,663**	$ 1,765	$ (102)	(6)%

Truck segment net sales decreased $105 million, or 9%, primarily due to lower Core truck volumes, the cessation of sales of CAT-branded units sold to Caterpillar Inc. ("Caterpillar"), as well as the decline in sales due to the sale of Pure Power Technologies ("PPT") in the second quarter of 2016. Chargeouts from our Core markets were down 7%, which is reflective of lower market share and Class 8 industry volumes. The decline primarily reflects a 25% decrease in Class 8 heavy trucks, partially offset by a 6% increase in Class 8 severe service trucks. Truck chargeouts in school buses and Class 6 and 7 medium trucks were comparable to the prior year.

Parts segment net sales were comparable to the prior year primarily due to higher U.S. and Canada parts sales related to Fleetrite™ brand and remanufactured parts sales, offset by lower volumes in Export and Mexico.

Global Operations segment net sales decrease of $42 million, or 46% was driven by lower volumes in our South America engine operations as well as the cessation of sales to an OEM customer in 2016. Engine volumes declined 69% compared to the prior year period due, in part, to the continued economic downturn in the Brazilian economy. The decrease in volume was partially offset by favorable movements in foreign currency exchange rates, as the average conversion rate of the Brazilian real to the U.S. dollar has strengthened by 15%.

Financial Services segment net revenues decreased by $5 million, or 8%. The decrease is primarily driven by lower overall finance receivable balances and unfavorable movements in foreign currency exchange rates impacting our Mexican portfolio, partially offset by higher revenues from operating leases.

Costs of products sold

In the first quarter of 2017, Costs of products sold decreased by $96 million, reflecting the impact of lower volumes, improved material costs in our Core markets, a decrease in adjustments to pre-existing warranties, as well as a decline in our used truck losses. In the first quarter of 2017, we recognized a benefit for adjustments to pre-existing warranties of $17 million, compared to a charge of $5 million in the first quarter of 2016. The benefit in 2017 is due to the favorable impact of a one time benefit recognized as an adjustment to pre-existing warranties in our Global Operations segment as well as a reduction in claim frequency across both the Medium Duty and Big Bore engine families in our Truck Segment. The benefit in our Truck segment decreased the reserve for our standard warranty obligations as well as the loss positions related to our Big Bore extended service contracts.

Engineering and product development costs

The Engineering and product development costs increase of $5 million in the first quarter of 2017 is primarily driven by higher costs in our Truck segment related to our long-term agreements with General Motor Company ("GM") in the development and manufacture of Class 4/5 vehicles. We continue efforts to focus spending on our Core markets including launching new and redesigned products. Our plan to release a new or redesigned product, on average, every six months through 2018. Engineering spend is targeted at programs that will reduce cost, improve uptime for our customers, grow market share and allow us to meet new emissions standards in 2017.

Other income, net

We recognized Other income of $8 million in the first quarter of 2017, compared to $22 million in the comparable prior year period. The decrease in Other income is primarily driven by the recognition of a $15 million one-time fee received from a third party during the comparable prior year period.

Income tax benefit (expense)

In the first quarter of 2017, we recognized income tax expense of $4 million, compared to an income tax benefit of $5 million in the first quarter of 2016. The difference between the income tax expense in 2017 and the income tax benefit in 2016 is primarily due to a $13 million benefit from the release of the valuation allowance on the U.S. AMT credit, due to U.S. enactment of the Protecting Americans from Tax Hikes Act of 2015.

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 2017 and 2016 relates to Ford's non-controlling interest in BDP.

Segment Results of Operations

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

Truck Segment

	Three Months Ended January 31,			
(in millions, except % change)	**2017**	**2016**	**Change**	**% Change**
Truck segment sales, net	**$ 1,027**	$ 1,132	$ (105)	(9)%
Truck segment loss	**(69)**	(51)	(18)	35 %

Segment sales

In the first quarter of 2017, the Truck segment net sales decreased by $105 million, or 9%, primarily due to lower Core market volumes, the cessation of sales of CAT-branded units sold to Caterpillar, as well as the decline in sales due to the sale of PPT, in the second quarter of 2016. Truck chargeouts from our Core markets were down 7%, which is reflective of lower market share and Class 8 industry volumes. The decline primarily reflects a 25% decrease in Class 8 heavy trucks, partially offset by a 6% increase in Class 8 severe service trucks. Truck chargeouts in school buses and Class 6 and 7 medium trucks were comparable to the prior year.

Segment loss

In the first quarter of 2017, the Truck segment loss increased by $18 million, or 35%. The increase in segment loss was primarily driven by market pressures, the impact of lower Core market volumes, and a decrease in *Other Income*, partially offset by lower used truck losses, improved material costs, and lower adjustments to pre-existing warranties.

In the first quarter of 2017, our Truck segment recorded a benefit for adjustments to pre-existing warranties of $8 million compared to a charge of $5 million in the comparable prior year period. The benefit in 2017 primarily relates to a reduction in claim frequency across both the Medium Duty and Big Bore engine families. This benefit decreased the reserve for our standard warranty obligations as well as the loss positions related to our Big Bore extended service contracts.

Additionally, our decline in Other Income in the three months ended January 31, 2017 is due to the recognition of a $15 million one-time fee received from a third party during the comparable prior year period.

Parts Segment

(in millions, except % change)	Three Months Ended January 31, 2017	2016	Change	% Change
Parts segment sales, net	**$ 570**	$ 570	$ —	— %
Parts segment profit	**149**	150	(1)	(1)%

Segment sales

In the first quarter of 2017, the Parts segment net sales were comparable to the prior year primarily due to higher to U.S. and Canada parts sales related to Fleetrite™ brand and remanufactured parts sales, offset by lower volumes in export and Mexico.

Segment profit

In the first quarter of 2017, the Parts segment results were comparable to the prior year period primarily due to the expected margin declines in BDP, which were offset by 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 costs. The lower fees are due to cost-reduction initiatives in the Truck segment, including significant decreases in engineering and product development costs in recent years.

Global Operations Segment

(in millions, except % change)	Three Months Ended January 31, 2017	2016	Change	% Change
Global Operations segment sales, net	**$ 50**	$ 92	$ (42)	(46)%
Global Operations segment loss	**(4)**	(13)	9	(69)%

Segment sales

In the first quarter of 2017, the Global Operations segment net sales decrease of $42 million, or 46%, was driven by lower volumes in our South America engine operations as well as the cessation of sales to an OEM customer in 2016. Engine volumes declined 69% compared to the prior year period due, in part, to the continued economic downturn in the Brazilian economy. The decrease in volume was partially offset by favorable movements in foreign currency exchange rates, as the average conversion rate of the Brazilian real to the U.S. dollar has strengthened by 15%.

Segment loss

In the first quarter of 2017, the Global Operations segment results improved by $9 million, or 69%, primarily due to lower manufacturing and SG&A costs as a result of our prior year restructuring and cost reduction efforts as well as the favorable impact of a one time benefit of $9 million recognized as an adjustment to pre-existing warranties, partially offset by lower volumes.

Financial Services Segment

(in millions, except % change)	Three Months Ended January 31, 2017	2016	Change	% Change
Financial Services segment revenues, net	**$ 54**	$ 59	$ (5)	(8)%
Financial Services segment profit	**13**	26	(13)	(50)%

Segment revenues

In the first quarter of 2017, the Financial Services segment net revenues decreased by $5 million, or 8%. The decrease is primarily driven by lower overall finance receivable balances and unfavorable movements in foreign currency exchange rates impacting our Mexican portfolio, partially offset by higher revenues from operating leases.

Segment profit

In the first quarter of 2017, the Financial Services segment profit decreased by $13 million, or 50%. The decrease is primarily driven by lower interest margins, a decline in other revenue due to lower interest income from certain intercompany loans and an increase in the provision for loan losses in Mexico.

Supplemental Information

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

Truck Industry Retail Deliveries

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

	Three Months Ended January 31,			
(in units)	2017	2016	Change	% Change
Core markets (U.S. and Canada)				
School buses[(A)]	**7,400**	6,300	1,100	17 %
Class 6 and 7 medium trucks	**19,800**	20,700	(900)	(4)%
Class 8 heavy trucks	**32,000**	47,700	(15,700)	(33)%
Class 8 severe service trucks[(B)]	**13,700**	14,300	(600)	(4)%
Total Core markets	**72,900**	89,000	(16,100)	(18)%
Combined class 8 trucks	**45,700**	62,000	(16,300)	(26)%
Navistar Core retail deliveries	**10,800**	12,800	(2,000)	(16)%

(A) The School bus retail market deliveries include buses classified as B, C, and D and are being reported on a one-month lag.
(B) Core retail deliveries include CAT-branded units sold to Caterpillar under our North America supply agreement during 2016.

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				
	January 31, 2017	October 31, 2016	July 31, 2016	April 30, 2016	January 31, 2016
Core markets (U.S. and Canada)					
Class 6 and 7 medium trucks	**20%**	18%	20%	27%	20%
Class 8 heavy trucks	**9%**	13%	9%	11%	10%
Class 8 severe service trucks[(A)]	**13%**	14%	12%	11%	16%
Combined class 8 trucks	**10%**	13%	10%	11%	11%

(A) Retail delivery market share includes CAT-branded units sold to Caterpillar under our North America supply agreement during 2016.

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:

	Three Months Ended January 31,			
(in units)	2017	2016	Change	% Change
Core markets (U.S. and Canada)				
School buses[(A)]	**2,100**	2,000	100	5 %
Class 6 and 7 medium trucks	**6,500**	5,300	1,200	23 %
Class 8 heavy trucks	**3,700**	4,100	(400)	(10)%
Class 8 severe service trucks[(B)]	**2,100**	2,400	(300)	(13)%
Total Core markets	**14,400**	13,800	600	4 %
Combined class 8 trucks	**5,800**	6,500	(700)	(11)%

(A) The School bus orders include buses classified as B, C, and D and are being reported on a one-month lag.
(B) Orders include CAT-branded units sold to Caterpillar under our North America supply agreement during 2016.

Truck Backlogs

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

	Three Months Ended January 31,			
(in units)	2017	2016	Change	% Change
Core markets (U.S. and Canada)				
School buses[(A)]	**2,400**	1,600	800	50 %
Class 6 and 7 medium trucks	**6,500**	6,100	400	7 %
Class 8 heavy trucks	**2,400**	13,700	(11,300)	(82)%
Class 8 severe service trucks[(B)]	**5,500**	2,800	2,700	96 %
Total Core markets	**16,800**	24,200	(7,400)	(31)%
Combined class 8 trucks	**7,900**	16,500	(8,600)	(52)%

(A) The School bus backlogs include buses classified as B, C, and D and are being reported on a one-month lag.
(B) Backlogs include CAT-branded units sold to Caterpillar under our North America supply agreement during 2016.

Truck Chargeouts

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

(in units)	Three Months Ended January 31, 2017	2016	Change	% Change
Core markets (U.S. and Canada)				
School buses[(A)]	**1,800**	1,800	—	— %
Class 6 and 7 medium trucks	**3,900**	3,900	—	— %
Class 8 heavy trucks	**2,700**	3,600	(900)	(25)%
Class 8 severe service trucks[(B)]	**1,800**	1,700	100	6 %
Total Core markets	**10,200**	11,000	(800)	(7)%
Non "Core" military	**200**	—	200	N.M.
Other markets[(C)]	**1,700**	1,700	—	— %
Total worldwide units	**12,100**	12,700	(600)	(5)%
Combined class 8 trucks	**4,500**	5,300	(800)	(15)%

(A) The School bus chargeouts include buses classified as B, C, and D and are being reported on a one-month lag.
(B) Chargeouts include CAT-branded units sold to Caterpillar under our North America supply agreement during 2016.
(C) Other markets primarily consist of Export Truck and Mexico.

Liquidity and Capital Resources

Consolidated cash, cash equivalents, and marketable securities

(in millions)	As of January 31, 2017	October 31, 2016
Consolidated cash and cash equivalents	**$ 573**	$ 804
Consolidated marketable securities	**198**	46
Consolidated cash, cash equivalents, and marketable securities	**$ 771**	$ 850

(in millions)	As of January 31, 2017	October 31, 2016
Manufacturing operations	**$ 697**	$ 800
Financial Services operations	**74**	50
Consolidated cash, cash equivalents, and marketable securities	**$ 771**	$ 850

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

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

Consolidated cash, cash equivalents, and marketable securities totaled $771 million at January 31, 2017, which includes an immaterial amount of cash and cash equivalents primarily attributable to BDP that is generally not available to satisfy our obligations. For additional information on the consolidation of BDP, see Note 1, *Summary of Significant Accounting Policies*, to the accompanying consolidated financial statements.

Cash Requirements

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

We have generally financed our Manufacturing operations with cash, funding from our Financial Services operations, equity, and access to the capital markets. We also have a $175 million Amended and Restated Asset-Based Credit Facility. Our borrowing capacity under this facility is subject to a $35 million liquidity block, less outstanding standby letters of credit issued under this facility, and is impacted by inventory levels at certain aftermarket parts inventory locations. As of January 31, 2017, we had no borrowings, and we have limited availability to borrow under the Amended and Restated Asset-Based Credit Facility. However, we maintain capacity under our various debt arrangements to incur incremental debt. In addition, the covenants in all of our debt agreements permit us to refinance existing debt instruments as they mature.

Our Manufacturing operations sold $1.5 billion of wholesale notes and accounts receivable to our Financial Services operations during the three months ended January 31, 2017. The total outstanding balance of wholesale notes and accounts receivable purchased was $1.1 billion as of January 31, 2017. Our Financial Services operations also make loans and provide dividends and return of capital to our Manufacturing operations. Total loans outstanding from our Financial Services operations to our Manufacturing operations were $151 million at January 31, 2017.

Included in loans made from Financial Services to Manufacturing operations is an intercompany financing from NFC that is secured by a first priority lien on used truck inventory, and certain related assets, (the "Intercompany Used Truck Loan"). During the three months ended January 31, 2017 we decreased our borrowings under the Intercompany Used Truck Loan by $27 million to $108 million. Our Manufacturing operations also has an intercompany revolving loan agreement (the "Intercompany Revolving Loan") with our captive insurance company under our Financial Services segment. During the three months ended January 31, 2017, our borrowings under the Intercompany Revolving Loan agreement remained $18 million. Our Financial Services operations in Mexico extends working capital loans to our Manufacturing operations in Mexico for orders received. During the three months ended January 31, 2017, the borrowings of our Manufacturing operations in Mexico under these loan agreements decreased by $25 million to $25 million.

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

As of January 31, 2017, the aggregate amount available to fund finance receivables under our Financial Services facilities was $648 million.

In January 2017, we issued an additional $250 million aggregate principal amount of our 8.25% Senior Notes. Interest related to the 8.25% Senior Notes is payable on May 1 and November 1 of each year until the maturity date of November 1, 2021. The proceeds from the January 2017 issuance of additional 8.25% Senior Notes will be used for general corporate purposes, including working capital and capital expenditures. For additional information, see Note 6, *Debt*, to the accompanying consolidated financial statements.

In May 2016, NFC amended and extended its 2011 bank credit facility which was originally due in December 2016. The 2016 amendment extended the maturity date to June 2018 and initially reduced the revolving portion of the facility from $500 million to $400 million. In December 2016, and in accordance with the amendment, the revolving portion of the facility was further reduced to a maximum of $275 million, the term loan portion of the facility was paid down to $82 million, and the quarterly principal payments were reduced from $9 million to $2 million. The amendment allows NFC to increase revolving or term loan commitments, subject to obtaining commitments from existing or new lenders to provide additional or increased revolving commitments and/or additional term loans, to permit a maximum total facility size of $700 million after giving effect to any such increase. The borrowings on the revolving portion of the facility totaled $244 million as of January 31, 2017. The balance of the term loan portion of the facility was $82 million as of January 31, 2017.

In November 2016, NFSC extended the maturity date of the variable funding notes facility ("VFN") facility from May 2017 to November 2017, and the maximum capacity was reduced from $500 million to $450 million. In December 2016, NFC extended its $100 million TRAC facility from April 2017 to October 2017.

Cash Flow Overview

	Three Months Ended January 31, 2017		
(in millions)	**Manufacturing Operations[A]**	**Financial Services Operations and Adjustments[A]**	**Consolidated Statement of Cash Flows**
Net cash provided by (used in) operating activities[B]	**$ (229)**	**$ 251**	**$ 22**
Net cash provided by (used in) investing activities	**(213)**	**6**	**(207)**
Net cash provided by (used in) financing activities[B]	**188**	**(241)**	**(53)**
Effect of exchange rate changes on cash and cash equivalents	**(1)**	**8**	**7**
Increase (decrease) in cash and cash equivalents	**(255)**	**24**	**(231)**
Cash and cash equivalents at beginning of the period	**761**	**43**	**804**
Cash and cash equivalents at end of the period	**$ 506**	**$ 67**	**$ 573**

	Three Months Ended January 31, 2016		
(in millions)	**Manufacturing Operations[A]**	**Financial Services Operations and Adjustments[A]**	**Consolidated Statement of Cash Flows**
Net cash provided by (used in) operating activities[B]	$ (350)	$ 248	$ (102)
Net cash used in investing activities	(20)	(39)	(59)
Net cash provided by (used in) financing activities[B]	44	(219)	(175)
Effect of exchange rate changes on cash and cash equivalents	(7)	10	3
Decrease in cash and cash equivalents	(333)	—	(333)
Cash and cash equivalents at beginning of the period	877	35	912
Cash and cash equivalents at end of the period	$ 544	$ 35	$ 579

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

(B) Adjustments have been made within *Net cash provided by (used in) operating activities* and *Net cash provided by (used in) financing activities* sections to conform to the quarter ended January 31, 2017 presentation. The reclassification did not impact our *Consolidated Statements of Cash Flows*.

Manufacturing Operations

Manufacturing Operations Cash Flow from Operating Activities

Cash used in operating activities was $229 million and $350 million in the three months ended January 31, 2017 and 2016, respectively. The lower use of cash from operating activities in 2017 compared to 2016 was primarily attributable to lower accounts payable payments, a smaller increase in inventories, and lower decreases in other current and noncurrent liabilities, partially offset by a decrease in the collection of accounts receivable, an increase in other current assets and a lower amount of funding provided by Financial Services.

Cash paid for interest, net of amounts capitalized, was $66 million and $67 million in the three months ended January 31, 2017 and 2016, respectively.

Manufacturing Operations Cash Flow from Investing Activities

Cash used in investing activities was $213 million and $20 million in the three months ended January 31, 2017 and 2016, respectively. The net decrease in cash flow from investing activities in 2017 compared to 2016 was primarily attributable to lower sales and maturities as well as higher purchases of marketable securities and higher payments for capital expenditures and purchases of equipment leased to others.

Manufacturing Operations Cash Flow from Financing Activities

Cash provided by financing activities was $188 million and $44 million in the three months ended January 31, 2017 and 2016, respectively. The net increase in cash flow from financing activities in 2017 compared to 2016 was primarily attributable to issuing an additional $250 million of our 8.25% Senior Notes, partially offset by repayments of loans to our Financial Services operations including funding under the Intercompany Used Truck Loan and other financing programs.

Financial Services Operations

Financial Services Operations and Adjustments to Cash Flow from Operating Activities

Cash provided by operating activities was $251 million and $248 million in the three months ended January 31, 2017 and 2016, respectively. The net increase in cash provided by operating activities in 2017 was primarily due to a greater decline in the level of finance receivables funded, partially offset by the decline in segment profit of our Financial Services operations.

Cash paid for interest, net of amounts capitalized, was $18 million and $15 million in the three months ended January 31, 2017 and 2016, respectively.

Financial Services Operations and Adjustments to Cash Flow from Investing Activities

Cash provided by investing activities was $6 million in the three months ended January 31, 2017 compared to cash used of $39 million in the comparable prior year period. Changes in restricted cash levels required under our secured borrowings, along with purchases of equipment leased to others, were the primary sources and uses, respectively, of cash from investing activities in 2017 and 2016. The cash provided by investing activities in the current quarter was primarily due to a decline in the restricted cash levels relating to our secured borrowings, partially offset by the decline in purchases of equipment leased to others.

Financial Services Operations and Adjustments to Cash Flow from Financing Activities

Cash used in financing activities was $241 million and $219 million in the three months ended January 31, 2017 and 2016, respectively. The net increase in cash used in financing activities in 2017 was primarily due to the repayment of debt associated with the greater decline in the level of finance receivables funded, partially offset by repayments received from the Manufacturing operations for intercompany financing programs.

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, and should not be viewed as an alternative to, U.S. GAAP. This non-GAAP financial information should be considered supplemental to, and not as a substitute for, or superior to, financial measures calculated in accordance with U.S. GAAP.

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

EBITDA reconciliation:

(in millions)	Three Months Ended January 31, 2017	2016
Loss attributable to NIC, net of tax	**$ (62)**	$ (33)
Plus:		
Depreciation and amortization expense	**59**	58
Manufacturing interest expense[(A)]	**62**	62
Less:		
Income tax benefit (expense)	**(4)**	5
EBITDA	**$ 63**	$ 82

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

(in millions)	Three Months Ended January 31, 2017	2016
Interest expense	**$ 82**	$ 81
Less: Financial services interest expense	**20**	19
Manufacturing interest expense	**$ 62**	$ 62

Adjusted EBITDA Reconciliation:

(in millions)	Three Months Ended January 31, 2017	2016
EBITDA *(reconciled above)*	**$ 63**	$ 82
Less significant items of:		
Adjustments to pre-existing warranties[(A)]	**(17)**	5
North America asset impairment charges[(B)]	**2**	2
Restructuring of North American manufacturing operations[(C)]	**7**	—
Cost reduction and other strategic initiatives	**—**	3
One-time fee received[(D)]	**—**	(15)
Total adjustments	**(8)**	(5)
Adjusted EBITDA	**$ 55**	$ 77

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

(B) During the first quarter of 2017, we recorded $2 million of asset impairment charges relating to certain operating leases. During the first quarter of 2016, we recorded $2 million of asset impairment charges relating to certain long lived assets.

(C) During the first quarter of 2017, we recorded $7 million of restructuring charges related to the 2011 closure of our Chatham, Ontario plant.

(D) During the first quarter of 2016, we received a $15 million one-time fee from a third party which was recognized in *Other income, net*.

Pension and Other Postretirement Benefits

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

For the three months ended January 31, 2017 and 2016, we contributed $22 million and $19 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 $89 million during the remainder of 2017. 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, Ontario plant. We currently expect that from 2018 through 2020, we will be required to contribute $135 million to $205 million per year to the Plans, depending on asset performance and discount rates.

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

Other Information

Environmental Matters

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

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

Impact of Environmental Regulation

Government regulation related to climate change is under consideration at the U.S. federal and state levels. Because our products use fossil fuels, they may be impacted indirectly due to regulation, such as a cap and trade program, affecting the cost of fuels. The EPA and the National Highway Traffic Safety Administration ("NHTSA") issued final rules for greenhouse gas ("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. We are complying with these rules through use of existing technologies and implementation of emerging technologies as they become available. Several of our vehicles were certified early for the 2013 model year and the majority of our remaining vehicles and all engines were certified in 2014. The EPA and NHTSA adopted a final rule on October 25, 2016 with the next phase of federal GHG emission and fuel economy regulations. This rule contains more stringent emissions levels for engines and vehicles and will take effect in model year 2021 and be implemented in three stages culminating in model year 2027. Canada has announced it also is considering a heavy duty phase 2 GHG rulemaking aligned with EPA and NHTSA phase 2 rules. In December 2014, California adopted GHG emission rules for heavy duty vehicles equivalent to EPA rules and an optional lower emission standard for NOx in California. California has also stated that it intends to propose in 2017 a heavy duty phase 2 GHG rule largely harmonized with the federal rule. California has stated its intention to lower NOx standards for California-certified engines and has requested that the EPA lower its standards. In June 2016, several regional air quality

management districts in California and other states, as well as the environmental agencies for several states, petitioned the EPA to adopt lower NOx emission standards for on-road heavy duty trucks and engines. 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 require significant investments of capital and will significantly increase costs of development for engines and vehicles, and will require us to incur administrative costs arising from implementation of the standard. EPA also issued a final rule in October 2015 that lowered the National Ambient Air Quality Standard for ozone to 70 parts per billion. This rule could lead to future lower emission standards for substances that contribute to ozone, including NOx from vehicles, at the federal and state levels. Our facilities may be subject to regulation related to climate change and climate change itself may also have some impact on our operations. However, these impacts are currently uncertain and we cannot predict the nature and scope of those impacts.

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, 2016. During the three months ended January 31, 2017, there were no significant changes in our application of our critical accounting policies.

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

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

Recently Issued Accounting Standards

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-01, "Business Combinations" (Topic 805). This ASU provides a new framework for determining whether transactions should be accounted for as acquisitions or disposals of assets or businesses. This ASU creates an initial screening test (Step 1) that reduces the population of transactions that an entity needs to analyze to determine whether there is an input and substantive processes in the set (Step 2). Fewer transactions are expected to involve acquiring or selling a business. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. Our effective date for this ASU is November 1, 2018. Adoption will require a prospective transition. We do not expect the impact of this ASU to have a material effect on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows" (Topic 230). This ASU requires that a statement of cash flows explain the change during the period in the total of cash, and cash equivalents, including amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. Our effective date for this ASU is November 1, 2018. Adoption will require a retrospective transition. We do not expect the impact of this ASU to have a material effect on our consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes" (Topic 740). This ASU update requires entities to recognize the income tax consequences of many intercompany asset transfers at the transaction date. The seller and buyer will immediately recognize the current and deferred income tax consequences of an intercompany transfer of an asset other than inventory. The tax consequences were previously deferred. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. Our effective date for this ASU is November 1, 2018. Adoption will require a modified retrospective transition. We are currently evaluating the impact of this ASU on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses” (Topic 326). The ASU sets forth an expected credit loss model which requires the measurement of expected credit losses for financial instruments based on historical experience, current conditions and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost, and certain off-balance sheet credit exposures. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. Our effective date is November 1, 2020. Adoption will require a modified retrospective transition. We are currently evaluating the impact of this ASU on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" (Topic 842). This ASU requires lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases of greater than twelve months. The accounting by lessors will remain largely unchanged. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. Our effective date for this ASU is November 1, 2019. Adoption will require a modified retrospective transition. We are currently evaluating the impact of this ASU on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 606), which supersedes the revenue recognition requirements in ASC 605, "Revenue Recognition." This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. 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. In August 2015, the FASB issued ASU No. 2015-14, which postponed the effective date of ASU No. 2014-09 to fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted on the original effective date of fiscal years beginning after December 15, 2016. Our effective date for this ASU is November 1, 2018. We are in the process of completing our initial assessment of the potential impact on our consolidated financial statements and have not concluded on our adoption methodology.

Item 3. ***Qualitative and Quantitative 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, 2016. During the three months ended January 31, 2017, there have been no material changes in our exposure to market risk.

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

(a) Evaluation of Disclosure Controls and Procedures

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

In connection with the preparation of this report, management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of January 31, 2017. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the quarter ended January 31, 2017, our disclosure controls and procedures were effective.

(b) Changes in Internal Control over Financial Reporting

There were no material changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15 and 15d-15 under the Exchange Act that occurred during the quarter ended January 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. ***Legal Proceedings***

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

Item 1A. ***Risk Factors***

During the three months ended January 31, 2017, 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, 2016.

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

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities

None.

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

None.

Item 4. ***Mine Safety Disclosures***

Not applicable.

Item 5. ***Other Information***

None.

Item 6. ***Exhibits***

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

All exhibits other than those indicated above are omitted because of the absence of the conditions under which they are required or because the information called for is shown in the consolidated financial statements and notes thereto in the Quarterly Report on Form 10-Q for the period ended January 31, 2017.

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)

March 7, 2017

Additional Financial Information (Unaudited)

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

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

	For the Three Months Ended January 31, 2017			
(in millions)	Manufacturing Operations	Financial Services Operations	Adjustments	Consolidated Statement of Operations
Sales of manufactured products	$ 1,629	$ —	$ —	$ 1,629
Finance revenues	—	54	(20)	34
Sales and revenues, net	1,629	54	(20)	1,663
Costs of products sold	1,370	—	—	1,370
Restructuring charges	7	—	—	7
Asset impairment charges	2	—	—	2
Selling, general and administrative expenses	176	25	(1)	200
Engineering and product development costs	63	—	—	63
Interest expense	64	20	(2)	82
Other (income) expense, net	13	(4)	(17)	(8)
Total costs and expenses	1,695	41	(20)	1,716
Equity in income of non-consolidated affiliates	3	—	—	3
Income (loss) before equity income from financial services operations and income tax	(63)	13	—	(50)
Equity income from financial services operations	9	—	(9)	—
Income (loss) before income tax	(54)	13	(9)	(50)
Income tax expense	—	(4)	—	(4)
Net income (loss)	(54)	9	(9)	(54)
Less: Income attributable to non-controlling interests	8	—	—	8
Net income (loss) attributable to Navistar International Corporation	$ (62)	$ 9	$ (9)	$ (62)

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

	For the Three Months Ended January 31, 2016			
(in millions)	Manufacturing Operations	Financial Services Operations	Adjustments	Consolidated Statement of Operations
Sales of manufactured products	$ 1,730	$ —	$ —	$ 1,730
Finance revenues	—	59	(24)	35
Sales and revenues, net	1,730	59	(24)	1,765
Costs of products sold	1,466	—	—	1,466
Restructuring charges	3	—	—	3
Asset impairment charges	2	—	—	2
Selling, general and administrative expenses	185	21	(1)	205
Engineering and product development costs	58	—	—	58
Interest expense	64	19	(2)	81
Other (income) expense, net	6	(7)	(21)	(22)
Total costs and expenses	1,784	33	(24)	1,793
Equity in loss of non-consolidated affiliates	(1)	—	—	(1)
Income (loss) before equity income from financial services operations and income tax	(55)	26	—	(29)
Equity income from financial services operations	15	—	(15)	—
Income (loss) before income tax	(40)	26	(15)	(29)
Income tax benefit (expense)	16	(11)	—	5
Net income (loss)	(24)	15	(15)	(24)
Less: Income attributable to non-controlling interests	9	—	—	9
Net income (loss) attributable to Navistar International Corporation	$ (33)	$ 15	$ (15)	$ (33)

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

(in millions)	As of January 31, 2017			
	Manufacturing Operations	Financial Services Operations	Adjustments	Consolidated Balance Sheet
Assets				
Cash and cash equivalents	$ 506	$ 67	$ —	$ 573
Marketable securities	191	7	—	198
Restricted cash	23	74	—	97
Finance and other receivables, net	279	1,597	(234)	1,642
Inventories	1,012	10	—	1,022
Goodwill	38	—	—	38
Property and equipment, net	1,045	245	—	1,290
Investments in and advances to financial services operations	459	—	(459)	—
Investments in non-consolidated affiliates	53	—	—	53
Deferred taxes, net	158	4	—	162
Other assets	300	19	—	319
Total assets	$ 4,064	$ 2,023	$ (693)	$ 5,394
Liabilities and stockholders' equity (deficit)				
Accounts payable	$ 1,261	$ 19	$ (234)	$ 1,046
Debt	3,395	1,470	—	4,865
Postretirement benefits liabilities	3,065	—	—	3,065
Other liabilities	1,672	75	—	1,747
Total liabilities	9,393	1,564	(234)	10,723
Stockholders' equity attributable to non-controlling interest	4	—	—	4
Stockholders' equity (deficit) attributable to controlling interest	(5,333)	459	(459)	(5,333)
Total liabilities and stockholders' equity (deficit)	$ 4,064	$ 2,023	$ (693)	$ 5,394

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

	As of October 31, 2016			
(in millions)	Manufacturing Operations	Financial Services Operations	Adjustments	Consolidated Balance Sheet
Assets				
Cash and cash equivalents	$ 761	$ 43	$ —	$ 804
Marketable securities	39	7	—	46
Restricted cash	22	90	—	112
Finance and other receivables, net	292	1,952	(275)	1,969
Inventories	930	14	—	944
Goodwill	38	—	—	38
Property and equipment, net	980	261	—	1,241
Investments in and advances to financial services operations	466	—	(466)	—
Investments in non-consolidated affiliates	53	—	—	53
Deferred taxes, net	157	4	—	161
Other assets	265	20	—	285
Total assets	$ 4,003	$ 2,391	$ (741)	$ 5,653
Liabilities and stockholders' equity (deficit)				
Accounts payable	$ 1,345	$ 43	$ (275)	$ 1,113
Debt	3,096	1,808	—	4,904
Postretirement benefits liabilities	3,098	—	—	3,098
Other liabilities	1,757	74	—	1,831
Total liabilities	9,296	1,925	(275)	10,946
Stockholders' equity attributable to non-controlling interest	5	—	—	5
Stockholders' equity (deficit) attributable to controlling interest	(5,298)	466	(466)	(5,298)
Total liabilities and stockholders' equity (deficit)	$ 4,003	$ 2,391	$ (741)	$ 5,653

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

(in millions)	For the Three Months Ended January 31, 2017			
	Manufacturing Operations	Financial Services Operations	Adjustments	Condensed Consolidated Statement of Cash Flows
Cash flows from operating activities				
Net income (loss)	$ (54)	$ 9	$ (9)	$ (54)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:				
Depreciation and amortization	36	1	—	37
Depreciation of equipment leased to others	10	12	—	22
Amortization of debt issuance costs and discount	6	4	—	10
Asset impairment charges	2	—	—	2
Equity in income of non-consolidated affiliates	(3)	—	—	(3)
Equity in income of financial services affiliates	(9)	—	9	—
Dividends from non-consolidated affiliates	6	—	—	6
Change in intercompany receivables and payables	10	(10)	—	—
Other, net	(233)	235	—	2
Net cash provided by (used in) operating activities	(229)	251	—	22
Cash flows from investing activities				
Purchases of marketable securities	(212)	—	—	(212)
Sales of marketable securities	59	—	—	59
Maturities of marketable securities	1	—	—	1
Net change in restricted cash and cash equivalents	—	15	—	15
Capital expenditures	(46)	—	—	(46)
Purchase of equipment leased to others	(13)	(11)	—	(24)
Other investing activities	(2)	2	—	—
Net cash provided by (used in) investing activities	(213)	6	—	(207)
Net cash provided by (used in) financing activities	188	(241)	—	(53)
Effect of exchange rate changes on cash and cash equivalents	(1)	8	—	7
Increase (decrease) in cash and cash equivalents	(255)	24	—	(231)
Cash and cash equivalents at beginning of the period	761	43	—	804
Cash and cash equivalents at end of the period	$ 506	$ 67	$ —	$ 573

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

(in millions)	For the Three Months Ended January 31, 2016			
	Manufacturing Operations	Financial Services Operations	Adjustments	Condensed Consolidated Statement of Cash Flows
Cash flows from operating activities				
Net income (loss)	$ (24)	$ 15	$ (15)	$ (24)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:				
Depreciation and amortization	39	—	—	39
Depreciation of equipment leased to others	7	12	—	19
Amortization of debt issuance costs and discount	6	3	—	9
Deferred income taxes	(17)	(1)	—	(18)
Asset impairment charges	2	—	—	2
Equity in loss of non-consolidated affiliates	1	—	—	1
Equity in income of financial services operations	(15)	—	15	—
Change in intercompany receivables and payables[(A)]	74	(74)	—	—
Other, net[(A)]	(423)	293	—	(130)
Net cash provided by (used in) operating activities[(A)]	(350)	248	—	(102)
Cash flows from investing activities				
Purchases of marketable securities	(117)	—	—	(117)
Sales of marketable securities	115	—	—	115
Maturities of marketable securities	9	—	—	9
Net change in restricted cash and cash equivalents	2	(3)	—	(1)
Capital expenditures	(29)	—	—	(29)
Purchase of equipment leased to others	(1)	(48)	—	(49)
Other investing activities	1	12	—	13
Net cash used in investing activities	(20)	(39)	—	(59)
Net cash provided by (used in) financing activities[(A)]	44	(219)	—	(175)
Effect of exchange rate changes on cash and cash equivalents	(7)	10	—	3
Decrease in cash and cash equivalents	(333)	—	—	(333)
Cash and cash equivalents at beginning of the period	877	35	—	912
Cash and cash equivalents at end of the period	$ 544	$ 35	$ —	$ 579

(A) Adjustments are made to Change in intercompany receivables and payables and Other, net within the *Net cash provided by (used in) operating activities* as well as *Net cash provided by (used in) financing activities* section to conform to the 2016 presentation. The reclassification did not impact our *Consolidated Statements of Cash Flows*.