

NAVISTAR INTERNATIONAL CORP  
Form 10-Q  
March 07, 2013  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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Form 10-Q

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(Mark One)

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

For the quarterly period ended January 31, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-9618

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

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Delaware 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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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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, 2013, the number of shares outstanding of the registrant's common stock was 80,114,834, net of treasury shares.

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Disclosure Regarding Forward-Looking Statements

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

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

- estimates we have made in preparing our financial statements;
- our development of new products and technologies;
- the anticipated sales, volume, demand, and markets for our products;
- the anticipated performance and benefits of our products and technologies, including our advanced clean engine solutions;
- 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;
- anticipated benefits from acquisitions, strategic alliances, and joint ventures we complete;
- our expectations relating to the dissolution of our Blue Diamond Truck joint venture with Ford Motor Company expected in December 2014;
- our expectations and estimates relating to restructuring activities, including restructuring and integration charges and timing of cash payments related thereto, and operational flexibility, savings, and efficiencies from such restructurings;
- our expectations relating to the possible effects of anticipated divestitures and closures of businesses;
- our expectations relating to our cost-reduction actions, including our voluntary separation program, involuntary reduction in force, and other actions to reduce discretionary spending;
- our implementation of a new Return-On-Invested Capital methodology;
- our realigning our management structure around functional expertise;
- our changes to our organizational and segment reporting structures expected to be completed in the second quarter of 2013;
- our expectations relating to our ability to service our long-term debt;
- our expectations relating to our retail finance receivables and retail finance revenues;
- our expectations relating to the availability of sufficient funds to meet operating requirements, capital expenditures, equity investments and strategic acquisitions;
- our anticipated costs relating to the development of our emissions solutions products and other product modifications that may be required to meet other federal, state, and foreign regulatory requirements;
- our anticipated capital expenditures;
- our expectations relating to payments of taxes;
- our expectations relating to warranty costs;
- our expectations relating to interest expense;
- costs relating to litigation and similar matters;
- estimates relating to pension plan contributions and unfunded pension and postretirement benefits;
- trends relating to commodity prices; and
- anticipated trends, expectations, and outlook relating to matters affecting our financial condition or results of operations.

These statements often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate," or similar expressions. These statements are not guarantees of performance or results and they involve risks, uncertainties, and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, there are many factors that could affect our actual financial results or results of operations and could cause actual results to

differ materially from those in the forward-looking statements. Factors that could cause or contribute to differences in our future financial results include those discussed in Item 1A, Risk Factors, included within our Annual Report on Form 10-K for the year ended October 31, 2012, which was filed on December 19, 2012, as well as those discussed elsewhere in this report. All future written and oral forward-looking statements by us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained herein or referred to above. Except for our ongoing obligations to disclose material information as required by the federal securities laws, we do not have any obligations or intention to release publicly any revisions to any forward-looking statements to reflect events or circumstances in the future or to reflect the occurrence of unanticipated events.

#### Available Information

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

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## PART I—Financial Information

## Item 1. Financial Statements

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

	Three Months Ended January 31,	
(in millions, except per share data)	2013	2012
Sales and revenues		
Sales of manufactured products, net	\$2,598	\$2,965
Finance revenues	39	44
Sales and revenues, net	2,637	3,009
Costs and expenses		
Costs of products sold	2,286	2,650
Restructuring charges	2	—
Selling, general and administrative expenses	285	355
Engineering and product development costs	111	135
Interest expense	74	61
Other expense (income), net	(38 )	8
Total costs and expenses	2,720	3,209
Equity in loss of non-consolidated affiliates	(1 )	(7 )
Loss from continuing operations before income taxes	(84 )	(207 )
Income tax benefit (expense)	(15 )	76
Loss from continuing operations	(99 )	(131 )
Loss from discontinued operations, net of tax	(9 )	(9 )
Net loss	(108 )	(140 )
Less: Net income attributable to non-controlling interests	15	13
Net loss attributable to Navistar International Corporation	\$(123 )	\$(153 )
Amounts attributable to Navistar International Corporation common shareholders:		
Loss from continuing operations, net of tax	\$(114 )	\$(144 )
Loss from discontinued operations, net of tax	(9 )	(9 )
Net loss	\$(123 )	\$(153 )
Loss per share:		
Basic:		
Continuing operations	\$(1.42 )	\$(2.06 )
Discontinued operations	(0.11 )	(0.13 )
	\$(1.53 )	\$(2.19 )
Diluted:		
Continuing operations	\$(1.42 )	\$(2.06 )
Discontinued operations	(0.11 )	(0.13 )
	\$(1.53 )	\$(2.19 )
Weighted average shares outstanding:		
Basic	80.2	69.9

Diluted

80.2

69.9

See Notes to Condensed Consolidated Financial Statements

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

(in millions)	Three Months Ended January 31,	
	2013	2012
Net loss attributable to Navistar International Corporation	\$(123 )	\$(153 )
Other comprehensive income (loss):		
Foreign currency translation adjustment	17	(13 )
Defined benefit plans (net of tax of \$0 and \$12, respectively)	38	23
Total other comprehensive income	55	10
Total comprehensive loss attributable to Navistar International Corporation	\$(68 )	\$(143 )

See Notes to Condensed Consolidated Financial Statements

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## Navistar International Corporation and Subsidiaries

## Consolidated Balance Sheets

(in millions, except per share data)

	January 31, 2013	October 31, 2012
	(Unaudited)	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$497	\$1,087
Marketable securities	771	466
Trade and other receivables, net	749	749
Finance receivables, net	1,544	1,663
Inventories	1,520	1,537
Deferred taxes, net	74	74
Other current assets	261	261
Total current assets	5,416	5,837
Restricted cash	102	161
Trade and other receivables, net	92	94
Finance receivables, net	450	486
Investments in non-consolidated affiliates	59	62
Property and equipment (net of accumulated depreciation and amortization of \$2,295 and \$2,228, respectively)	1,643	1,660
Goodwill	282	280
Intangible assets (net of accumulated amortization of \$83 and \$78, respectively)	167	171
Deferred taxes, net	190	189
Other noncurrent assets	130	162
Total assets	\$8,531	\$9,102
<b>LIABILITIES and STOCKHOLDERS' DEFICIT</b>		
Liabilities		
Current liabilities		
Notes payable and current maturities of long-term debt	\$936	\$1,205
Accounts payable	1,547	1,686
Other current liabilities	1,416	1,462
Total current liabilities	3,899	4,353
Long-term debt	3,526	3,566
Postretirement benefits liabilities	3,373	3,405
Deferred taxes, net	39	42
Other noncurrent liabilities	1,003	996
Total liabilities	11,840	12,362
Redeemable equity securities	4	5
Stockholders' deficit		
Series D convertible junior preference stock	3	3
Common stock (86.8 and 86.0 shares issued, respectively; and \$0.10 par value per share and 220.0 shares authorized, at both dates)	9	9
Additional paid in capital	2,453	2,440
Accumulated deficit	(3,288)	(3,165)
Accumulated other comprehensive loss	(2,269)	(2,325)
Common stock held in treasury, at cost (6.7 and 6.8 shares, respectively)	(267)	(272)
Total stockholders' deficit attributable to Navistar International Corporation	(3,359)	(3,310)
Stockholders' equity attributable to non-controlling interests	46	45
Total stockholders' deficit	(3,313)	(3,265)

Total liabilities and stockholders' deficit	\$8,531	\$9,102
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See Notes to Condensed Consolidated Financial Statements

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

(in millions)	Three Months Ended January 31,	
	2013	2012
Cash flows from operating activities		
Net loss	\$(108 )	\$(140 )
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	89	68
Depreciation of equipment leased to others	11	10
Deferred taxes, including change in valuation allowance	(9 )	(52 )
Amortization of debt issuance costs and discount	16	9
Stock-based compensation	5	12
Provision for doubtful accounts, net of recoveries	1	—
Equity in loss of non-consolidated affiliates, net of dividends	3	7
Write-off of debt issuance cost and discount	—	8
Other non-cash operating activities	—	1
Changes in other assets and liabilities, exclusive of the effects of businesses acquired and disposed	58	196
Net cash provided by operating activities	66	119
Cash flows from investing activities		
Purchases of marketable securities	(482 )	(459 )
Sales or maturities of marketable securities	177	738
Net change in restricted cash and cash equivalents	59	172
Capital expenditures	(72 )	(103 )
Purchase of equipment leased to others	(32 )	(25 )
Proceeds from sales of property and equipment	3	2
Investments in non-consolidated affiliates	—	(9 )
Business acquisitions, net of cash received	—	(3 )
Acquisition of intangibles	—	(12 )
Net cash provided by (used in) investing activities	(347 )	301
Cash flows from financing activities		
Proceeds from issuance of securitized debt	—	232
Principal payments on securitized debt	(190 )	(522 )
Proceeds from issuance of non-securitized debt	25	479
Principal payments on non-securitized debt	(60 )	(480 )
Net decrease in notes and debt outstanding under revolving credit facilities	(32 )	(62 )
Principal payments under financing arrangements and capital lease obligations	(47 )	(16 )
Debt issuance costs	(1 )	(15 )
Issuance of common stock	14	—
Purchase of treasury stock	—	(70 )
Proceeds from exercise of stock options	1	1
Dividends paid by subsidiaries to non-controlling interest	(13 )	(22 )
Other financing activities	—	(3 )
Net cash used in financing activities	(303 )	(478 )
Effect of exchange rate changes on cash and cash equivalents	(6 )	7
Decrease in cash and cash equivalents	(590 )	(51 )
Cash and cash equivalents at beginning of the period	1,087	539

Cash and cash equivalents at end of the period	\$497	\$488
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See Notes to Condensed Consolidated Financial Statements

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Consolidated Statements of Stockholders' Equity (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, 2012	\$ 3	\$ 9	\$ 2,440	\$ (3,165 )	\$ (2,325 )	\$ (272 )	\$ 45	\$ (3,265)
Net income (loss)				(123 )			15	(108 )
Total other comprehensive income					55			55
Transfer from redeemable equity securities upon exercise or expiration of stock options			1					1
Stock-based compensation			3					3
Stock ownership programs			(5 )			5		—
Cash dividends paid to non-controlling interest							(13 )	(13 )
October 2012 issuance of common stock, net of issuance costs and fees			14					14
Other					1		(1 )	—
Balance as of January 31, 2013	\$ 3	\$ 9	\$ 2,453	\$ (3,288 )	\$ (2,269 )	\$ (267 )	\$ 46	\$ (3,313)
Balance as of October 31, 2011	\$ 3	\$ 7	\$ 2,253	\$ (155 )	\$ (1,944 )	\$ (191 )	\$ 50	\$ 23
Net income (loss)				(153 )			13	(140 )
Total other comprehensive income					10			10
Stock-based compensation			8					8
Stock ownership programs			(8 )			8		—
Stock repurchase programs			20			(95 )		(75 )
Cash dividends paid to non-controlling interest							(22 )	(22 )
Other		1						1
Balance as of January 31, 2012	\$ 3	\$ 8	\$ 2,273	\$ (308 )	\$ (1,934 )	\$ (278 )	\$ 41	\$ (195 )

See Notes to Condensed Consolidated Financial Statements

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

1. Summary of Significant Accounting Policies

Organization and Description of the Business

Navistar International Corporation ("NIC"), incorporated under the laws of the State of Delaware in 1993, is a holding company whose principal operating subsidiaries are Navistar, Inc. and Navistar Financial Corporation ("NFC"). References herein to the "Company," "we," "our," or "us" refer collectively to NIC and its consolidated subsidiaries, including certain variable interest entities ("VIEs") of which we are the primary beneficiary. Our fiscal year ends October 31. We operate in four principal industry segments: Truck, Engine, Parts (collectively called "Manufacturing operations"), and Financial Services, which consists of NFC and our foreign finance operations (collectively called "Financial Services operations"). These segments are discussed in Note 13, Segment Reporting.

Basis of Presentation and Consolidation

The accompanying unaudited consolidated financial statements include the assets, liabilities, and results of operations of our manufacturing operations, which include majority-owned dealers ("Dealcors"), and our financial services operations, including VIEs of which we are the primary beneficiary. The effects of transactions among consolidated entities have been eliminated to arrive at the consolidated amounts. Certain reclassifications were made to prior periods' amounts to conform to the 2013 presentation.

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 Form 10-Q and Article 10 of Regulation S-X issued by the United States 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, 2012 and should be read in conjunction with the disclosures therein. In our opinion, these interim consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial condition, results of operations, and cash flows for the periods presented. Operating results for interim periods are not necessarily indicative of annual operating results.

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 the VIE's economic performance and have the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Accordingly, we include in our consolidated financial statements the assets and liabilities and results of operations of those entities, even though we may not own a majority voting interest. The liabilities recognized as a result of consolidating these VIEs do not represent additional claims on our general assets; rather they represent claims against the specific assets of these VIEs. Assets of these entities are not readily available to satisfy claims against our general assets.

We are the primary beneficiary of our Blue Diamond Parts ("BDP") and Blue Diamond Truck ("BDT") joint ventures with Ford Motor Company ("Ford"). As a result, our Consolidated Balance Sheets include assets of \$222 million and \$246 million and liabilities of \$104 million and \$109 million as of January 31, 2013 and October 31, 2012, respectively, from BDP and BDT, including \$37 million and \$26 million of cash and cash equivalents, at the respective dates, which are not readily available to satisfy claims against our general assets. The creditors of BDP and BDT do not have recourse to our general credit. In December 2011, Ford notified the Company of its intention to dissolve the BDT joint venture effective December 2014. We do not expect the dissolution of the BDT joint venture to have a material impact on our consolidated financial statements.

Our Financial Services segment consolidates several VIEs. As a result, our Consolidated Balance Sheets include assets of \$1.1 billion at both January 31, 2013 and October 31, 2012, and liabilities of \$776 million and \$914 million

as of January 31, 2013 and October 31, 2012, respectively, all of which are involved in securitizations that are treated as borrowings. In addition, our Consolidated Balance Sheets include assets of \$291 million and \$359 million and related liabilities of \$106 million and \$157 million as of January 31, 2013 and October 31, 2012, respectively, all of which are involved in transactions that do not qualify for sale accounting treatment, and therefore, are treated as borrowings. 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 trusts are entitled to make principal and interest payments. Investors in securitizations of these entities have no recourse to our general credit.

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

We also have an interest in other VIEs, which we do not consolidate because we are not the primary beneficiary. Our financial support and maximum loss exposure relating to these non-consolidated VIEs are not material to our financial condition, results of operations, or cash flows.

We use the equity method to account for our investments in entities that we do not control under the voting interest or variable interest models, but where we have the ability to exercise significant influence over operating and financial policies. Equity in loss of non-consolidated affiliates includes our share of the net income (loss) of these entities.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses for the periods presented.

Significant estimates and assumptions are used for, but are not limited to, pension and other postretirement benefits, allowance for doubtful accounts, income tax contingency accruals and valuation allowances, product warranty accruals, asbestos and other product liability accruals, asset impairment charges, and litigation-related accruals. Actual results could differ from our estimates.

Concentration Risks

Our financial condition, results of operations, and cash flows are subject to concentration risks related to concentrations of our union employees. As of January 31, 2013, approximately 4,600, or 49%, of our hourly workers and approximately 400, or 5%, 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, budget considerations, changing national defense requirements, and global, political, regulatory and economic developments in the U.S. and certain foreign countries (primarily Canada, Mexico, and Brazil).

Product Warranty Liability

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

(in millions)	Three Months Ended	
	January 31,	
	2013	2012
Balance at beginning of period	\$1,118	\$598
Costs accrued and revenues deferred	111	