NAVISTAR INTERNATIONAL CORP
Form 10-K
December 20, 2011
Table of Contents

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

Form 10-K
(Mark One)

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

For the fiscal year ended October 31, 2011

OR

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

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

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

Delaware	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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock (par value $0.10)	New York Stock Exchange
Cumulative convertible junior preference stock, Series D (par value $1.00)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 þ No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

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

As of April 30, 2011, the aggregate market value of common stock held by non-affiliates of the registrant was approximately $5.0 billion. For purposes of the foregoing calculation only, executive officers and directors of the registrant, and pension and 401(k) plans of the registrant have been deemed to be affiliates.

As of November 30, 2011, the number of shares outstanding of the registrant’s common stock was 70,186,498, net of treasury shares.

Documents incorporated by reference: Portions of the Company's proxy statement for the 2012 annual meeting of stockholders to be held on February 21, 2012 are incorporated by reference in Part III.

Table of Contents

NAVISTAR INTERNATIONAL CORPORATION FISCAL YEAR 2011 FORM 10-K
TABLE OF CONTENTS

2

Table of Contents

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 exhaust gas recirculation technologies;
- 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 and estimates relating to restructuring activities, including restructuring charges and operational flexibility, savings, and efficiencies;
- our expectations relating to our retail finance receivables and retail finance revenues;
- our anticipated capital expenditures;
- our expectations relating to payments of taxes;
- our expectations relating to warranty costs;
- estimates relating to pension plan contributions;
- trends relating to commodity prices; and
- anticipated trends, expectations, and outlook relating to matters affecting our financial condition or results of operations.

These statements often include words such as “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate,” or similar express These statements are not guarantees of performance or results and they involve risks, uncertainties, and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, there are many factors that could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements. Factors that could cause or contribute to differences in our future financial results include those discussed in Item 1A, Risk Factors, set forth in Part I, 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 Annual Report on Form 10-K. 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.

Table of Contents

PART I

Item 1. 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 to NIC and its subsidiaries, and certain variable interest entities of which we are the primary beneficiary. We report our annual results for our fiscal year, which ends October 31. As such, all references to 2011, 2010, and 2009 contained within this Annual Report on Form 10-K relate to the fiscal year unless otherwise indicated.

Overview

We are an international manufacturer of International® brand commercial and military trucks, IC Bus ("IC") brand buses, MaxxForce brand diesel engines, Workhorse® Custom Chassis ("WCC") brand chassis for motor homes and step vans, and Monaco® RV ("Monaco") recreational vehicles ("RV"), as well as a provider of service parts for all makes of trucks and trailers. Additionally, we are a private-label designer and manufacturer of diesel engines for the pickup truck, van, and sport utility vehicle ("SUV") markets. We also provide retail, wholesale, and lease financing of our trucks and parts.

Our Strategy

Our long-term strategy is primarily focused on our three pillars; focused on continuing to produce Great Products, at a Competitive Cost Structure, while attaining Profitable Growth.

I Great Products

- Growing our product lines, including an enhanced line of our Class 8 ProStar® and LoneStar® trucks and Class 4/5 TerraStar™ trucks manufactured under the International brand, an expanded line of our engines, including our new 11, 13 and 15L Big-Bore engines, manufactured under the MaxxForce® brand, and additional products manufactured and marketed under the Company's other proprietary brands, including IC and Monaco
- Maintaining strong market share in our "traditional" classes, which include School buses and Class 6 through 8 medium and heavy trucks in the U.S. and Canada
- Focusing on engine research and development in order to have a competitive advantage using Advanced Exhaust Gas Recirculation ("EGR"), coupled with other strategies, for compliance with ongoing emissions standards
- Introducing our advanced engine technology in new markets

II Competitive Cost Structure

- Continuing our seamless integration of MaxxForce branded engines in our complimentary product lines, including the establishment of our new MaxxForce 11, 13 and 15L Big-Bore engines
- Reducing material cost by increasing global sourcing, leveraging scale benefits, finding synergies among strategic partnerships, reducing manufacturing conversion costs, and seeking opportunities for vertical integration
- Leveraging commonality in our product platforms through our integrated product strategy, including chassis, cabs and engine families

III Profitable Growth

- Working in cooperation with the U.S. military to provide an extensive line of defense vehicles and product support, including but not limited to, Mine Resistant Ambush Protected ("MRAP") vehicles and other vehicles derived from our existing truck platforms
- Minimizing the impact of cyclicality in our North American markets by growing our Truck and Parts segments and "expansion" markets sales, which include Mexico, international export, U.S. and non-U.S. military, RV, commercial bus, commercial step van, and other truck and bus markets
- Broadening our Engine segment customer base within the commercial truck market, other consumer and specialty vehicle products, and other non-vehicle-based platforms

The key enablers to our long-term strategy are the ability to Leverage Our Assets and Those of Our Partners and engaging in activities designed to allow us to Control Our Destiny, as described below.

I Leverage Our Assets and Those of Our Partners

- Growing in our North American markets and globally through strategic partnerships, including through our joint ventures with Mahindra & Mahindra Ltd. (“Mahindra”) for truck and engine markets in India, our alliance with

Caterpillar Inc. ("Caterpillar") for markets in North America and various markets outside of the Indian subcontinent, and our pending ventures with Anhui Jianghuai Automobile Co. Ltd. ("JAC") for truck and engine markets in China, each of which is intended to increase our speed to market, while reducing risk and lowering the cost of our investment.

- Maintaining product and plant flexibility to fully utilize our existing facilities, people, and technologies, as well as leveraging our integrated product strategy to more quickly and cost effectively expand our product portfolio
- Attaining further operating efficiencies and economies of scale through consolidating and centralizing certain facilities and functions, including the consolidation of our executive management, certain business operations, and product development at a new world headquarters site in Lisle, Illinois and the development of a testing and validation center at our Melrose Park facility, as well as other actions including the closure of our Chatham, Ontario heavy truck plant and the restructuring of our WCC and Monaco operations
- Containing costs by combining global purchasing relationships to achieve scale and sourcing throughout the world

II Control Our Destiny

- Controlling the development process and associated intellectual property of our products
- Utilizing key supplier competencies to reduce costs of components and improve quality
- Ensuring the health and growth of our distribution network to provide our products to key markets

Our Operating Segments

We operate in four 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"). Corporate contains those items that do not fit into our four segments. Selected financial data for each segment can be found in Note 16, Segment reporting, to the accompanying consolidated financial statements.

Truck Segment

The Truck segment manufactures and distributes a full line of Class 4 through 8 trucks and buses in the common carrier, private carrier, government, leasing, construction, energy/petroleum, military vehicle, and student and commercial transportation markets under the International and IC brands. This segment also produces chassis for motor homes and commercial step-van vehicles under the WCC brand, RVs, including non-motorized towables, under the Monaco family of brands, and concrete mixers under the Continental Mixers brand. The Truck segment is our largest operating segment based on total external sales and revenues.

The Truck segment's manufacturing operations in the U.S. and Mexico (collectively called "North America") consist principally of the assembly of components manufactured by our suppliers, although this segment also produces certain sheet metal components, including truck cabs.

We compete primarily in the School bus and Class 6 through 8 medium and heavy truck markets within the U.S. and Canada, which we consider our "traditional" markets. We continue to grow in "expansion" markets, which include Mexico, international export, U.S. and non-U.S. military, RV, commercial step-van, and other truck and bus markets. In recent years, we have successfully grown our "expansion" market by increasing our sales to the U.S. military. The products we sell to the U.S. military are derivatives of our commercial vehicles and allow us to leverage our manufacturing and engineering expertise, utilize existing plants, and seamlessly integrate our engines. This segment engages in various strategic joint ventures to further our product reach to the global markets including our Mahindra Navistar Automotives Ltd. ("MNAL") joint venture with Mahindra and our Blue Diamond Truck ("BDT") joint venture with Ford Motor Company ("Ford"). In December 2011, Ford notified the Company of its intention to dissolve the BDT joint venture effective December 2014. We also sell International and CAT branded trucks in North America, as well as in various global markets through our alliance with Caterpillar and our NC^2 Global, LLC ("NC^2") operations, which became a wholly owned subsidiary of Navistar in September 2011.

We market our commercial products through our extensive independent dealer network in North America, which offers a comprehensive range of services and other support functions to our end users. Our commercial trucks are distributed in virtually all key markets in North America, as well as select markets outside of North America, through our distribution and service network comprised of 783 U.S. and Canadian dealer and retail outlets, 84 Mexican dealer locations, and 107 international dealer locations, as of October 31, 2011. We occasionally acquire and operate dealer locations ("Dealcors") for the purpose of transitioning ownership. In addition, our network of used truck centers and International certified used truck dealers in the U.S. and Canada provides trade-in support to our dealers and national accounts group, and markets all makes and models of reconditioned used trucks to owner-operators and fleet buyers.

The sales and revenues of our Truck segment largely reflect chargeouts, which we define as trucks that have been invoiced to customers.

The markets in which the Truck segment competes are subject to considerable volatility and fluctuation in response to cycles in the overall business environment. These markets are particularly sensitive to the industrial sector, which generates a significant portion of the freight tonnage hauled. Government regulation has impacted, and will continue to impact, trucking operations as well as the efficiency and specifications of trucking equipment.

The Class 4 through 8 truck and bus markets in North America are highly competitive. Major U.S.-controlled domestic competitors include: PACCAR Inc. ("PACCAR") and Ford. Competing foreign-controlled domestic manufacturers include: Freightliner and Western Star (both subsidiaries of Daimler-Benz AG ("Mercedes Benz")), and Volvo and Mack (both subsidiaries of Volvo Global Trucks). Major U.S. military vehicle competitors include: BAE Systems, Force Protection, Inc., General Dynamics Land Systems, and Oshkosh Truck. In addition, smaller, foreign-controlled market participants such as Isuzu Motors America, Inc. ("Isuzu"), UD Trucks North America (formerly known as Nissan Diesel America, Inc. ("UD Trucks")), Hino (a subsidiary of Toyota Motor Corporation ("Toyota")), and Mitsubishi Motors North America, Inc. ("Mitsubishi") are competing in the U.S. and Canadian markets with primarily imported products. For the RV business, our major competitors include: Thor Industries, Inc., Forest River, Inc., Tiffin Motorhomes, Inc., Winnebago Industries, Inc., and Fleetwood RV, Inc. In Mexico, the major domestic competitors are Kenmex (a subsidiary of PACCAR) and Mercedes Benz.

Engine Segment

The Engine segment designs and manufactures diesel engines across the 50 through 550 horsepower range under the MaxxForce brand name for use primarily in our International branded Class 6 and 7 medium trucks, Class 8 heavy trucks, and military vehicles. The Engine segment also produces diesel engines for all IC Bus and Monaco applications. In addition to providing high-tech diesel engines for Navistar captive applications, our engines are also sold to global original equipment manufacturers ("OEMs") for various on-and-off-road applications. Our engines are sold in all areas of the world for use in an assortment of applications utilizing the MaxxForce brand name. Also, we offer contract manufacturing services to OEMs for the assembly of their engines. Our strategy is to continue our efforts to expand our Engine segment sales and profitability and to grow our global presence through our South America subsidiary and joint ventures. The Engine segment is our second largest operating segment based on total external sales and revenues.

To control cost and technology, the Engine segment has expanded its operations to include Pure Power Technologies, LLC ("PPT"), a components company focused on air, fuel, and aftertreatment systems to meet more stringent Euro and U.S. Environmental Protection Agency ("EPA") emission standards. Also included in the Engine segment is our Blue Diamond Parts ("BDP") joint venture with Ford, which manages the sourcing, merchandising, and distribution of certain service parts for North American Ford vehicles.

The Engine segment has engaged in various strategic joint ventures to further product reach to global markets, including our joint venture in India with Mahindra called Mahindra-Navistar Engines Private Ltd ("MNEPL").

The Engine segment has manufacturing operations in the U.S., Brazil, and Argentina. The operations at these facilities consist principally of the assembly of components manufactured by PPT and our suppliers, as well as machining operations relating to steel and grey iron components, and certain higher technology components necessary for our engine manufacturing operations.

In South America, our subsidiary, MWM International Industria De Motores Da America Do Sul Ltda. ("MWM") merged into another wholly-owned subsidiary, International Indústria de Motores da América do Sul Ltda ("IIAA") in 2011 and is now known as IIAA. IIAA is a leader in the South American mid-range diesel engine market, sells products in more than 35 countries on five continents, and provides customers with additional engine offerings in the agriculture, marine, and light truck markets.

In the U.S. and Canada mid-range commercial truck diesel engine market, our primary competitors are Cummins Inc. ("Cummins"), Mercedes Benz, Isuzu, and Hino. In South America, IIAA competes with Mitsubishi and Toyota in the Mercosul pickup and SUV markets; Cummins, Mercedes Benz, and Fiat Powertrain ("FPT") in the light and medium truck markets; Mercedes Benz, Cummins, Scania, MAN, Volvo, and FPT in the heavy truck market; Mercedes Benz in the bus market; New Holland (a subsidiary of CNH Global N.V.), Sisu Diesel (a subsidiary of AGCO Corporation), and John Deere in the agricultural market; and Scania and Cummins in the stationary market. In Mexico, we compete in Classes 4 through 8 with our MaxxForce 4.8, 7, DT, and 9 engines, facing competition from Cummins, Isuzu, Hino, Mercedes Benz, and Ford. The introduction of the our MaxxForce 11, 13, and 15L Big-Bore engines in Mexico will depend on the availability of low sulfur diesel fuel throughout the country.

Parts Segment

The Parts segment supports our brands of International commercial and military trucks, IC buses, WCC chassis, MaxxForce engines, as well as our other product lines, by providing customers with proprietary products together with a wide selection of other standard truck, trailer, and engine service parts. We distribute service parts in North America and the rest of the world through the dealer network that supports our Truck and Engine segments.

We believe our extensive dealer channel provides us with an advantage in serving our customers by having our parts available when and where our customers require service. Goods are delivered to our customers either through one of our eleven regional parts distribution centers in North America or through direct shipment from our suppliers for parts not generally stocked at our distribution centers. We have a dedicated parts sales team within North America, as well as national account teams focused on large fleet customers and a government and military team. In addition, we serve global customers with dedicated sales teams and distribution centers in South Africa and Brazil. In conjunction with the Truck sales and technical service group, we provide an integrated support team that works to find solutions to support our customers.

Financial Services Segment

The Financial Services segment provides and manages retail, wholesale, and lease financing of products sold by the Truck and Parts segments and their dealers within the U.S. and Mexico. Substantially all revenues earned by the Financial Services segment are derived from supporting the sales of our vehicles and products. We also finance wholesale and retail accounts receivable, of which substantially all revenues earned are received from the Truck and Parts segments. The Financial Services segment continues to meet the primary goal of providing and managing financing to our customers in U.S. and Mexico markets by arranging cost effective funding sources, while working to mitigate credit losses and impaired vehicle asset values. This segment provided wholesale financing for 90% and 96% of our new truck inventory sold by us to our dealers and distributors in the U.S. in 2011 and 2010, respectively.

The Financial Services segment manages the relationship with Navistar Capital (an alliance with GE Capital) which provides retail financing in the U.S. GE Capital has provided financing to support the sale of our products in Canada for over 20 years. This segment is also facilitating financing relationships in other countries to support the Company's global expansion initiatives.

Government Contracts

As a U.S. government contractor, we are subject to specific regulations and requirements as mandated by our contracts. These regulations include Federal Acquisition Regulations, Defense Federal Acquisition Regulations, and the Code of Federal Regulations. We are also subject to routine audits and investigations by U.S. government agencies such as the Defense Contract Management Agency and Defense Contract Audit Agency. These agencies review and assess compliance with contractual requirements, cost structure, cost accounting, and applicable laws, regulations, and standards.

Many of our existing U.S. government contracts extend over multiple years and are conditioned upon the continuing availability of congressional appropriations. In addition, our U.S. government contracts generally permit the contracting government agency to terminate the contract, in whole or in part, either for the convenience of the government or for default based on our failure to perform under the contract.

Engineering and Product Development

Our engineering and product development programs are focused on product improvements, innovations, and cost reductions, and the related costs are incurred by our Truck and Engine segments. As a truck manufacturer, we have focused on further development of our existing products such as military vehicles, Big-Bore engines, ProStar and LoneStar trucks as well as modifications of our trucks to accommodate our MaxxForce engines. As a diesel engine manufacturer, we have incurred research, development, and tooling costs to design our engine product lines to meet emissions regulatory requirements and to provide engine solutions to support a global marketplace. The Company participates in very competitive markets with constant changes in regulatory requirements and technology and, accordingly, the Company continues to believe that a strong commitment to engineering and product development is required to drive long-term growth. Our engineering and product development expenditures were $532 million in 2011 compared to $464 million in 2010 and $433 million in 2009.

We continue to invest in research, development, and tooling equipment to design and produce our engine product lines to meet EPA and California Air Resources Board (“CARB”) emissions requirements. EGR, combined with other strategies, is our solution to meet ongoing emissions requirements. Advancements in EGR technology have resulted in reductions in emissions of nitrogen oxides (“NOx”) from 1.2 or more grams per brake horsepower-hour through 2009 to 0.5 grams in 2010, to as low as 0.39 grams in 2011, with additional reductions in process. Our engines meet current EPA and CARB certification requirements because of emissions credits we earned from 2007 through 2009 via the early adoption of technologies that reduced NOx levels beyond what was then mandated. We continue to invest in our EGR technology, combined with other strategies, to meet current EPA emission requirements in North America and Euro V emissions requirements in South America, as well as evaluate our emissions strategies on a platform-by-platform basis to achieve the best long-term solution for