NAVISTAR INTERNATIONAL CORP
Form 10-K
December 10, 2007

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

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended October 31, 2005

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from To

Commission file number 1-9618

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

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

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

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

Common stock, par value $0.10 per share

Cumulative convertible junior preference stock, Series D (with $1.00 par value per share)

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

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 and (2) has been subject to such filing requirements for the past 90 days. Yes o No þ

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer þ Accelerated filer o Non-accelerated filer o

As of April 30, 2007, the aggregate market value of common stock held by non-affiliates of the registrant was $3.4 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.

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 November 30, 2007, the number of shares outstanding of the registrant s common stock was 70,236,415, net of treasury shares.

Documents incorporated by reference: None.

NAVISTAR INTERNATIONAL CORPORATION FISCAL YEAR 2005 FORM 10-K

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PART I

EXPLANATORY NOTE

On April 6, 2006, the management of Navistar International Corporation (NIC), with the concurrence of the audit committee of our Board of Directors, concluded that NIC s previously issued consolidated financial statements for the years ended October 31, 2002 through 2004, and all previously issued quarterly consolidated financial statements for periods after October 31, 2004, should be restated. In addition, in April 2006, the audit committee of our Board of Directors dismissed our independent registered public accounting firm, Deloitte & Touche LLP, and approved the engagement of KPMG LLP as our independent registered public accounting firm. Also in April 2006, Deloitte & Touche LLP advised us that its previously issued independent auditors reports should not be relied upon.

This Annual Report on Form 10-K for the year ended October 31, 2005 is our first filing with the United States Securities and Exchange Commission (SEC) that includes comprehensive financial statements since our Quarterly Report on Form 10-Q for the quarter ended July 31, 2005. Unless otherwise stated, all financial information presented in this Annual Report on Form 10-K reflects restated consolidated financial statements for the years ended October 31, 2003 and 2004 and the first three quarters of the year ended October 31, 2005. The effect of the restatement on periods prior to 2003 has been presented as a reduction of stockholders equity as of November 1, 2002, the beginning of our 2003 year.

For additional information and a detailed discussion of the restatement, see Note 2, *Restatement and reclassification of previously issued consolidated financial statements*, to the accompanying consolidated financial statements and Restatement and Re-Audit within Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations.*

Item 1. *Business*

NIC, incorporated under the laws of the state of Delaware in 1993, is a holding company whose principal operating subsidiaries are International Truck and Engine Corporation (International) and Navistar Financial Corporation (NFC). NFC files periodic reports with the SEC. References herein to Navistar, the company, we, our or us r
NIC and its subsidiaries, and certain variable interest entities (VIE) of which we are the primary beneficiary. We report our annual results on a fiscal year end of October 31. As such, all references to 2005, 2004, 2003, and 2002 contained within this Annual Report on Form 10-K relate to the fiscal year unless otherwise indicated.

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 subsidiaries (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 19, *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/service, leasing, construction, energy/petroleum, and student and commercial transportation markets under the International and IC Corporation (IC) brands. In addition, this segment also produces chassis for motor homes and commercial step-van vehicles under the Workhorse Custom Chassis (WCC) brand. The truck and bus manufacturing operations in the United States (U.S.), Canada, and Mexico consist principally of the assembly of components manufactured by our suppliers, although this segment also produces some sheet metal components, including truck cabs.

We compete primarily in the class 6 through 8 bus, 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, military, recreational vehicles, and other class 4 through 8 truck and bus markets. We market our truck products through our extensive dealer network in North America, which offers a comprehensive range of services and other support functions to our customers. Our trucks are distributed in virtually all key markets in the U.S. and Canada through our distribution and service network, composed of 841 U.S. and Canadian dealer and retail outlets and 81 Mexican dealer locations at the time of filing this Annual Report on Form 10-K. In addition, our network of used truck centers in the U.S. 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 Truck segment is our largest operating segment, accounting for the majority of our total external sales and revenues in 2005.

The markets in which the Truck segment competes are subject to considerable volatility and move 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 and the efficiency and specifications of equipment.

The class 6 through 8 truck and bus markets in the U.S., Canada, and Mexico are highly competitive. Major U.S. domestic competitors include PACCAR, Inc. (PACCAR), Ford Motor Company (Ford), and General Motors Corporation (GM). Competing foreign-controlled domestic manufacturers include: Freightliner, Sterling and Western Star (subsidiaries of Daimler-Benz AG), and Volvo and Mack (subsidiaries of Volvo Global Trucks). In addition, smaller, foreign-controlled market participants such as Isuzu Motors America, Inc. (Isuzu), Nissan North America, Inc. (Nissan), and Mitsubishi Motors North America, Inc. (Mitsubishi) are competing in the U.S. and Canadian markets with primarily imported products. In Mexico, the major domestic competitors are Kenmex (a subsidiary of PACCAR), GM, and Daimler-Benz AG (Mercedes Benz). In addition to the influence of price, market share is driven by product quality, engineering, styling, utility, fuel efficiency, and distribution.

Engine Segment

The Engine segment designs and manufactures diesel engines for use primarily in our class 6/7 medium trucks, buses, and selected class 8 heavy truck models, and for sale to original equipment manufacturers (OEM) in the U.S., Mexico, and Brazil. This segment also sells engines for industrial and agricultural applications, and supplies engines for WCC, Low-Cab Forward (LCF), and class 5 vehicles. The engine segment has made a substantial investment, together with Ford, in the Blue Diamond Parts (BDP) joint venture which is responsible for the sale of service parts to our OEM customers. The Engine segment is our second largest operating segment.

The Engine segment designs and manufactures diesel engines across the 50 through 375 horsepower range for use in our medium trucks, buses, and selected class 8 heavy truck models. According to data provided by independent market researchers, we are the world s largest diesel engine maker across the 160 through 370 horsepower range. Our diesel engines are sold under the MaxxForce™ brand as well as produced for other OEMs, principally Ford. According to 2005 data published by Wards Communications and R.L. Polk & Co., we have approximately a 46% share of the diesel pickup engine market in the U.S. and Canada, and approximately a 40% share of the engine market for medium-duty commercial trucks and buses in the U.S. and Canada. The U.S. and Canadian mid-range commercial truck diesel engine market has six major players: International, Cummins, Inc. (Cummins), Mercedes Benz, Caterpillar, Inc. (Caterpillar), Isuzu, and Hino (a subsidiary of Toyota). In the heavy pick up truck markets, International (Power Stroke®) in the Ford Super Duty competes with Cummins in Dodge and GM/Isuzu (Duramax) in Chevrolet and GMC.

In South America, we have a substantial share of the diesel engine market in the mid-sized pick up and sport utility vehicle (SUV) markets as well as the mid-range diesel engines produced in that market. Our South American subsidiary MWM International Industria De Motores Da America Do Sul Ltda (MWM) competes with Mitsubishi and Toyota in the Mercosul pick up and SUV markets; Cummins and Mercedes Benz in the light truck market; Mercedes

Benz in the bus market; and New Holland, Valtra, and John Deere in the agricultural markets.

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Formed in 2005, MWM extends the Engine segment s product line to provide customers with additional engine offerings in the agriculture, marine, and light truck markets. MWM is a leader in the Brazilian mid-range diesel engine market with products in more than thirty countries on five continents.

In the commercial truck market in Mexico, International competes in classes 4 through 8 with MaxxForce 5, 7, and 9 engines, facing competition from Detroit Diesel Corporation, Cummins, Caterpillar, Isuzu, Hino, Mercedes Benz, and Ford. The application of the new big-bore engines MaxxForce 11 and 13 in Mexico will depend on the availability of low sulfur diesel fuel throughout the country. In buses, we compete in classes 6 through 8 with I-6 MaxxForce 9 engines and I-4 MWM engines branded MaxxForce 4.8 imported from Brazil, having as a main competitor Mercedes Benz with 904 and 906 series engines.

We supply our V-8 diesel engine to Ford for use in all of Ford s diesel-powered super-duty trucks and vans over 8,500 lbs. gross vehicle weight in North America. Shipments to Ford during the year ended October 31, 2005 account for 95% of our V-8 shipments and 68% of total shipments (including intercompany transactions). We are currently involved in litigation with Ford. For more information regarding our litigation with Ford, see Item 3, *Legal Proceedings*.

Our unit shipment of engines to customers other than Ford totaled 166,600 for the year ended October 31, 2005, a 63% increase over the engine units shipped to customers other than Ford for the year ended October 31, 2004. Total engine units shipped reached 522,600 in 2005, 21% higher than the 432,200 units shipped in 2004.

We also operate two U.S. foundries: Indianapolis Casting Corporation, located in Indianapolis, Indiana, which is a high volume grey iron foundry that casts large complex products such as cylinder heads and crankcases, and our ductile iron foundry located in Waukesha, Wisconsin which produces a variety of smaller components for the truck and diesel engine markets such as brackets and bedplates.

Parts Segment

The Parts segment provides customers with proprietary products needed to support International trucks, IC buses, WCC and the International MaxxForce engine lines, together with a wide selection of other standard truck, trailer, and engine aftermarket parts. We distribute service parts in virtually all key markets in the U.S., Canada, and Mexico through the same distribution and service network that serves our Truck segment, as well as through an expanding number of parts and service only locations. Through our acquisition of WCC in 2005, we also have a parts distribution network that supplies commercial fleets and recreational vehicle (RV) dealers.

Our sales force is focused on serving the dealer channel, and is based in five regions within the U.S., one in Canada, one in Mexico, and one for export business. In addition, we have a national account sales team, committed to serving major fleet customers throughout North America. At the time of filing this Annual Report on Form 10-K, we operate 11 regional parts distribution centers in the U.S., Canada, and Mexico in support of our customers and dealers.

Financial Services Segment

The Financial Services segment provides retail, wholesale, and lease financing of products sold by the Truck segment and its dealers within the U.S. and Mexico. This segment also factors Ford receivables from the Engine segment, wholesale accounts, and selected retail accounts receivable. Our foreign finance subsidiaries primary business is to provide wholesale, retail, and lease financing to the Mexican operations dealers and retail customers.

Sales of new products (including trailers of other manufacturers) are also financed regardless of whether designed or customarily sold for use with our truck products. In 2005, retail, wholesale, and lease financing of products manufactured by others approximated 11% of the financial services segment s total originations. This segment provided wholesale financing in 2005 for 96% of the new truck inventory sold by us to our dealers and distributors in the U.S. and provided retail and lease financing for 15% of all new truck units sold or leased by us to retail customers. For 2004, the Financial Services segment provided wholesale financing for

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95% of our new truck inventory sold by us to our dealers and distributors in the U.S. and provided retail and lease financing for 16% of all new truck units sold or leased by us to retail customers.

Engineering and Product Development Costs

Our engineering and product development programs are focused on product improvements, innovations, and cost reductions. As a diesel engine manufacturer, we have incurred research, development, and tooling costs to design our engine product lines to meet United States Environmental Protection Agency (U.S. EPA) and California Air Resources Board (CARB) emission requirements. In 2005, our engineering and product development expenditures were $413 million compared to $287 million in 2004.

Acquisitions, Strategic Agreements and Joint Ventures

We continuously seek and evaluate opportunities in the marketplace that provide us with the ability to leverage new technology, expand our engineering expertise, provide entrees into expansion markets, and identify component and material sourcing alternatives. During the recent past, we have entered into a number of collaborative strategic relationships and have acquired businesses that allowed us to generate manufacturing efficiencies, economies of scale and market growth opportunities. We also routinely re-evaluate our existing relationships to determine whether they continue to provide the benefits we originally envisioned.

In March 1999, we formed a joint venture with Siemens VDO Automotive Corporation (SVDO), a subsidiary of Siemens AG, a leading German designer and manufacturer of gasoline and diesel fuel systems. This venture provided us the advantage of a partnership with a global leader in fuel system development, an assured supply of critical fuel system components, and cost control through this development and manufacturing venture. In September 2007, we sold our 49% ownership interest to SVDO.

In September 2001, we formed the BDP joint venture with Ford to jointly manage the sourcing, merchandising, and distribution of various service parts for vehicles sold in North America.

In September 2001, we entered into a joint venture with Ford to capitalize on our mutual medium truck volumes. The Blue Diamond Truck (BDT) joint venture was formed to produce class 3 through 7 commercial vehicles; marketed independently under International and Ford brand names. On September 28, 2007, we informed Ford of our decision to terminate the venture effective on September 28, 2009. However, upon either party s request and under commercially reasonable terms, we will continue to supply each other components and products from the effective date for up to four additional years.

In December 2004, we announced our collaboration with MAN Nutzfahrzeuge AG (MAN), a leading European truck and engine manufacturer. This collaboration has enabled us to develop our first big-bore diesel engine in the 11 and 13 liter class, MaxxForce.

In April 2005, we acquired MWM, a leading Brazilian diesel engine producer. MWM produces a broad line of medium and high speed diesel engines, which are used in pickups, vans (light trucks), medium and heavy trucks, agricultural, marine, and electric generator applications.

In August 2005, we completed the acquisitions of WCC and Uptime. WCC is a leading manufacturer of chassis for motor homes and commercial step-van vehicles and a U.S.-based leader in the sale of the gas RV chassis and class 3 through 6 step-vans. Uptime is a parts distribution network that supplies commercial truck fleets and RV dealers.

In December 2005, we finalized our first joint venture with Mahindra & Mahindra, Ltd., a leading Indian manufacturer of multi-utility vehicles and tractors. This venture operates under the name of Mahindra International, Ltd. and will be used to produce and market light, medium and heavy commercial vehicles in India and other export markets beginning in 2007. This collaboration also provides us the opportunity to use India as a significant supply base for the global sourcing of components and materials and provides a strategic partner for engineering services. We have a 49% interest in this venture.

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In July 2007, Core Molding Technologies, Inc. (CMT) repurchased 3.6 million shares of its common stock from us. As a result of this repurchase transaction, our ownership interest in CMT was reduced to 9.9%.

In November 2007, we signed a second joint venture agreement with Mahindra & Mahindra, Ltd. of India to produce diesel engines for medium and heavy commercial trucks and buses in India. We have a 49% ownership in this joint venture. This joint venture will afford us the opportunity to enter a market in India that has significant growth potential for commercial vehicles and diesel power.

Government Contracts

By the end of 2005, we secured over $900 million of orders in the global military market. The major military contracts we secured by the end of 2005 are as follows:

$374 million contract from U.S. Army Tank-Automotive and Armaments Command (TACOM) to provide 2,781 vehicles to the Afghanistan National Army. Subsequent to our year end, the maximum quantity on this contract was increased to 2,956 vehicles.

$327 million contract from TACOM to provide up to 2,370 vehicles for use in Iraq.

$200 million five year truck contract with the Taiwan Ministry of National Defense.

The major military contracts we secured subsequent to the end of 2005 are as follows:

In December 2005, we received a $113 million delivery order to provide armored tractors for use in Iraq.

In May, June, and October 2007, we were awarded combined delivery orders worth over $1.5 billion to provide 2,971 Mine-Resistant Ambush Protected (MRAP) vehicles to the U.S. Marine Corps, to be delivered through April 2008.

In September 2007, we were awarded a contract to provide parts support kits worth over $71 million for the U.S. Marine Corps International MRAP vehicles.

In October 2007, we were awarded a contract worth over $68 million to provide field service support for the U.S. Marine Corps International MRAP vehicles.

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 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, and applicable laws, regulations, and standards.

Backlog

Our worldwide backlog of unfilled truck orders (subject to cancellation or return in certain events) at October 31, 2007, 2006, 2005, 2004, and 2003, was 18,900, 43,900, 27,800, 27,900, and 23,400 units, respectively. Although the backlog of unfilled orders is one of many indicators of market demand, other factors such as changes in production rates, internal and supplier available capacity, new product introductions, and competitive pricing actions may affect point-in-time comparisons.

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Employees

The following table outlines worldwide employees at October 31 for the periods as indicated:

	October 31,				
	2007	2006	2005	2004	2003
Total active employees	13,300	17,500	17,600	14,800	14,200
Total inactive employees	3,900	700	1,000	800	2,500
Total worldwide employees	17,200	18,200	18,600	15,600	16,700

Employees are considered inactive in certain situations including disability leave, leave of absence, layoffs, and work stoppages. Approximately 2,300 of the increase in employees for 2005 resulted from the various acquisitions that occurred during the year. Inactive employees as of October 31, 2007 include approximately 2,500 United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) workers who have commenced a work stoppage as of October 23, 2007.

The following table outlines the number of active employees represented by the UAW, the National Automobile, Aerospace and Agricultural Implement Workers of Canada (CAW), and other unions, for the periods as indicated:

	October 31,				
Total Active Union Employees	**2007[(1)]**	**2006**	**2005**	**2004**	**2003**
Total UAW	2,000	4,800	4,900	4,700	4,600
Total CAW	600	1,400	1,100	900	600
Total other unions	2,100	1,600	1,400	600	600

(1) Active union employee data as of October 31, 2007 excludes 2,500 UAW workers who have commenced a work stoppage as of October 23, 2007.

Our multi-site contract with the UAW expired on September 30, 2007. The represented workers continued to work without an extension of the contract until October 23, 2007 when they commenced a work stoppage. In April 2006, Navistar and the UAW agreed to hold early negotiations to reach a new agreement prior to the contract expiration date. A tentative agreement was reached with the UAW leadership in early June 2006, but a ratification vote failed with 87% voting against the proposed contract. Contract negotiations with UAW leadership re-commenced in late August 2007 and continued intermittently until October 23, 2007. Negotiations resumed on November 26, 2007. Our existing labor contract with the CAW runs through June 30, 2009. See Item 1A, *Risk Factors*, for further discussion related to the risk associated with labor and work stoppages.

Patents and Trademarks

We continuously obtain patents on our inventions and own a significant patent portfolio. Additionally, many of the components we purchase for our products are protected by patents that are owned or controlled by the component manufacturer. We have licenses under third-party patents relating to our products and their manufacture and grant licenses under our patents. The monetary royalties paid or received under these licenses are not material.

Our primary trademarks are an important part of our worldwide sales and marketing efforts and provide instant identification of our products and services in the marketplace. To support these efforts, we maintain, or have pending, registrations of our primary trademarks in those countries in which we do business or expect to do business. We grant licenses under our trademarks for consumer-oriented goods, such as toy trucks and apparel, outside the product lines which we manufacture. The monetary royalties received under these licenses are not material.

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Supply

We purchase raw materials, parts, and components from numerous outside suppliers. To avoid duplicate tooling expenses and to maximize volume benefits, single-source suppliers fill a majority of our requirements for parts and components.

The impact of an interruption in supply will vary by commodity and type of part. Some parts are generic to the industry while others are of a proprietary design requiring unique tooling, which require additional effort to relocate. However, we believe our exposure to a disruption in production as a result of an interruption of raw materials and supplies is no greater than the industry as a whole. In order to alleviate losses resulting from an interruption in supply, we maintain contingent business interruption insurance for loss of earnings and/or extra expense directly resulting from physical loss or damage at a direct supplier location.

While we believe we have adequate assurances of continued supply, the inability of a supplier to deliver could have an adverse effect on production at certain of our manufacturing locations.

Impact of Government Regulation

Truck and engine manufacturers continue to face significant governmental regulation of their products, especially in the areas of environment and safety. New on-highway emissions standards that came into effect in the U.S. on January 1, 2007 reduced allowable particulate matter and allowable nitrogen oxide. This change in emissions standards resulted in a significant increase in the cost of our products to meet these emissions levels, which in turn drove a significant pre-buy for pre-2007 emissions vehicles in the U.S. in the periods leading up to December 31, 2006.

We have incurred research, development, and tooling costs to design and produce our engine product lines to meet U.S. EPA and CARB emission requirements that came into effect in calendar year 2004. The 2007 emission compliance standards require a more stringent reduction of nitrogen oxide and particulate matter with an additional reduction scheduled for January 1, 2010. Our 2007 emission compliant engines are already in market and we are developing products to meet the requirements of the 2010 phase-in. Separately, we have met all of the obligations we agreed to in a consent decree entered into in July 1999 with the U.S. EPA and in a settlement agreement with CARB concerning alleged excess emissions of nitrogen oxides.

Canadian heavy-duty engine emission regulations essentially mirror those of the U.S. EPA. In Mexico, heavy-duty engine emission requirements reflect EPA 98 or Euro 3 standards with which we are compliant. More stringent reductions of nitrogen oxide are required by 2010; however, compliance in Mexico is conditioned on availability of low sulfur diesel fuel which may not be available at that time.

Truck manufacturers are also subject to various noise standards imposed by federal, state, and local regulations. The engine is one of a truck s primary sources of noise, and we therefore work closely with OEMs to develop strategies to reduce engine noise. We are also subject to the National Traffic and Motor Vehicle Safety Act (Safety Act) and Federal Motor Vehicle Safety Standards (Safety Standards) promulgated by the National Highway Traffic Safety Administration. We believe we are in substantial compliance with the requirements of the Safety Act and the Safety Standards.

Available Information

We are subject to the reporting and information requirements of the Securities Exchange Act of 1934 (Exchange Act), as amended and as a result, are obligated to file periodic reports, proxy statements and other information with the

SEC. We make these filings available free of charge on our website, the URL of which is http://www.navistar.com, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The SEC maintains a website (http://www.sec.gov) that contains our annual, quarterly, and current reports, proxy, and information statements, and other information we file electronically with the SEC. You can read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Room 1850, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Information on our website does not constitute part of this Annual Report on Form 10-K.

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Item 1A. *Risk Factors*

Forward-Looking Statements; Risk Factors

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Exchange Act of 1934 (Exchange Act), and the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties. You should not place undue reliance on those statements because they are subject to numerous uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, and such forward-looking statements only speak as of the date hereof. Forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy. These statements often include words such as believe, expect, anticipate, intend, plan, estimate, or similar expressions. These statements are based on assumptions that have made in light of our experience in the industry as well as our perceptions of historical trends, current conditions, expected future developments, and other factors we believe are appropriate under the circumstances. As you read and consider the information contained herein, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties, and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual financial results and could cause these actual results to differ materially from those in the forward-looking statements. Some of these factors include:

Risks that Relate to Our Delay in Filing Timely Reports with the SEC, the Restatement of Our Consolidated Financial Statements, Accounting and Internal Controls, Our De-listing from the New York Stock Exchange (NYSE), and Our Trading on the Over-the-Counter Market (OTC).

We are not able to access the public capital markets. We are not currently able to finance our operations through public offerings of debt or equity or to make acquisitions that involve a public offering of securities because we are not eligible to use a registration statement to sell our securities and will not be eligible to use one until we are current in our required SEC filings, and we will not be eligible to use a short-form Form S-3 registration statement until we have timely filed our SEC reports for a period of twelve months, which may increase the time and resources we would need to expend if we choose to access the public capital markets.

We could be the subject of various lawsuits or governmental investigations alleging violations of federal securities laws in relation to the restatement of our financial statements. The restatement of our financial results may lead to lawsuits and/or governmental investigations. We are engaged in an ongoing dialogue with the SEC with respect to the current restatement process and the pending formal investigation of our earlier restatement. For additional information regarding this matter see Item 3, *Legal Proceedings*.

We may have difficulty maintaining existing business and may experience a reduction in our credit rating. We may have difficulty maintaining existing business and may experience a reduction in our credit rating which could have a material adverse effect on us by, among other things, (i) reducing our revenues if existing and potential customers hesitate to, or decide not to, purchase our products or services, (ii) increasing our costs or decreasing our liquidity if suppliers desire a change in existing payment terms and (iii) increasing our borrowing costs or negatively affecting our ability to obtain new financings on acceptable terms or at all if rating agencies downgrade our credit ratings.

Failure to properly implement the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 of the Sarbanes-Oxley Act requires that we evaluate and determine the effectiveness of our internal control over financial reporting. As described in Item 9A of this Annual Report on Form 10-K, we concluded, based on our incomplete assessment as of the end of 2005 and our ongoing 2006 assessment, that there were material weaknesses in our internal control over financial reporting. If we do not correct these material weaknesses or we or our independent registered public accounting firm determines that we have additional material weaknesses in our internal control over financial reporting, we may be unable to provide financial information in a timely and reliable manner. Although we consistently review and evaluate our internal control systems to allow management to report on, and our independent auditors to attest to, the sufficiency of our internal control, we cannot assure you that we will not discover additional material weaknesses in our internal controls over financial reporting. Any such additional material weaknesses could adversely affect investor confidence in Navistar.

Our common stock is currently traded on the OTC, and as a result stockholders may encounter difficulties in disposing of, or obtaining accurate quotations as to the market value of, our common stock. Due to the delays in filing our periodic reports with the SEC, the NYSE de-listed our common stock effective February 14, 2007. Our common stock is currently traded on the OTC. There is currently an active trading market for the common stock; however there can be no assurance that an active trading market will be maintained. Trading of securities on the OTC is generally limited and is effected on a less regular basis than on other exchanges or quotation systems, such as the NYSE, and accordingly investors who own or purchase common stock will find that the liquidity or transferability of the common stock may be limited. Additionally, a shareholder may find it more difficult to dispose of, or obtain accurate quotations as to the market value of, our common stock. Although we intend to seek to have our common stock listed on a national security exchange promptly after filing our delayed periodic reports with the SEC, there can be no assurance that our common stock will ever be included for trading on any stock exchange or through any other quotation system, including, without limitation, the NYSE.

Risks that Relate to Business Operations and Liquidity.

The markets in which we compete are subject to considerable cyclicality. Our ability to be profitable depends in part on the varying conditions in the truck, bus, mid-range diesel engine, and service parts markets which are subject to cycles in the overall business environment and are particularly sensitive to the industrial sector, which generates a significant portion of the freight tonnage hauled. Truck and engine demand is also dependent on general economic conditions, interest rate levels, and fuel costs, among other factors.

We operate in the highly competitive North American truck market. The North American truck market in which we operate is highly competitive. This competition results in price discounting and margin pressures throughout the industry and adversely affects our ability to increase or maintain vehicle prices.

Our business may be adversely impacted by work stoppages and other labor relations matters. We are subject to risk of work stoppages and other labor relations matters because a significant portion of our workforce is unionized. As of October 31, 2007, approximately 67% of our hourly workers and 11% of our salaried workers are represented by labor unions and are covered by collective bargaining agreements. Many of these agreements include provisions that limit our ability to realize cost savings from restructuring initiatives such as plant closings and reductions in workforce. Our current collective bargaining agreement with the UAW expired in September 2007. Any UAW strikes, threats of strikes, or other resistance in connection with the negotiation of a new agreement could materially adversely affect our business as well as impair our ability to implement further measures to reduce structural costs and improve production efficiencies. A lengthy strike by the UAW that involves a significant portion of our manufacturing facilities could have a material adverse effect on our results of operations, cash flows, and financial condition. See Item 1, *Business*, Employees .

The loss of business from Ford, our largest customer, could have a negative impact on our business, financial condition and results of operations. Ford accounted for approximately 19% of our revenues for 2005, 19% of our revenues for 2004, and 21% of our revenues for 2003. In addition, Ford accounted for approximately 68%, 76%, and 77% of our diesel engine unit volume (including intercompany transactions) in 2005, 2004, and 2003, respectively, primarily relating to the sale of our V-8 diesel engines. See Item 3, *Legal Proceedings* and

Note 18, *Commitments and contingencies*, to the accompanying consolidated financial statements, for information related to our pending litigation with Ford.

The costs associated with complying with environmental and safety regulations could lower our margins. We, like other truck and engine manufacturers, continue to face heavy governmental regulation of our products, especially in the areas of environment and safety. We have incurred engineering and product development costs, and tooling costs to design our engine product lines to meet new U.S. EPA and CARB emission standards. Complying with environmental and safety requirements adds to the cost of our products, and increases the capital-intensive nature of our business.

Our liquidity position may be adversely affected by a continued downturn in our industry. Any downturn in our industry can adversely affect our operating results. In the event that industry conditions remain weak for any significant period of time, our liquidity position may be adversely affected, which may limit our ability to complete product development programs, capital improvement programs, or other strategic initiatives at currently anticipated levels.

Our business could be negatively impacted in the event NFC is unable to access sufficient capital to engage in its financing activities. NFC supports our manufacturing operations by providing financing to a significant portion of International dealers and retail customers. NFC traditionally obtains the funds to provide such financing from sales of receivables, medium- and long-term debt, and equity capital and from short- and long-term bank borrowings. If cash provided by operations, bank borrowings, continued sales and securitizations of receivables, and the placement of term debt does not provide the necessary liquidity, NFC may restrict its financing of International products both at the wholesale and retail level.

We have significant under-funded postretirement obligations. The under-funded portion of our accumulated benefit obligation was $1.1 billion and $1.0 billion for pension benefits at October 31, 2005 and 2004, respectively, and $1.9 billion and $2.0 billion for postretirement healthcare benefits at October 31, 2005 and 2004, respectively. Moreover, we have assumed expected rates of return on plan assets and failure to achieve these assumed rates of return could have an adverse impact on our under-funded postretirement obligations, results of operations, cash flows, and financial condition.

Our manufacturing operations are dependent upon third-party suppliers, making us vulnerable to a supply shortage. We obtain materials and manufactured components from third-party suppliers. Some of our suppliers are the sole source for a particular supply item. Any delay in receiving supplies could impair our ability to deliver products to our customers and, accordingly, could have a material adverse effect on our business, results of operations, cash flows, and financial condition.

Our ability to use net operating loss (NOL) carryovers to reduce future tax payments could be negatively impacted if there is a change in ownership of Navistar or a failure to generate sufficient taxable income. Presently there is no annual limitation on our ability to use NOLs to reduce future income taxes. However, if an ownership change as defined in Section 382 of the Internal Revenue Code of 1986, as amended, occurs with respect to our capital stock, our ability to use NOLs would be limited to specific annual amounts. Generally, an ownership change occurs if certain persons or groups increase their aggregate ownership by more than 50 percentage points of our total capital stock in a three-year period. If an ownership change occurs, our ability to use domestic NOLs to reduce taxable income is generally limited to an annual amount based on the fair market value of our stock immediately prior to the ownership change multiplied by the long-term tax-exempt interest rate. NOLs that exceed the Section 382 limitation in any year continue to be allowed as carryforwards for the remainder of the 15 or 20-year carryforward period and can be used to offset taxable income for years within the carryover period subject to the limitation in each year. Our use of new NOLs arising after the date of an ownership change would not be affected. If more than a 50% ownership change were to occur, use of our NOLs to reduce payments of federal taxable income may be deferred to later years within the 15 or 20-year carryover period; however, if the carryover period for any loss year expires, the use of the remaining NOLs for the loss year will be prohibited. If we should fail to generate a sufficient level of taxable income prior to the expiration of the NOL carryforward periods, then we will lose the ability to apply the NOLs as offsets to future taxable income.

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We are exposed to political, economic and other risks that arise from operating a multinational business. We have significant operations in foreign countries, primarily in Canada, Mexico, Brazil, and Argentina. Accordingly, our business is subject to the political, economic, and other risks that are inherent in operating in those countries and internationally. These risks include, among others:

- Trade protection measures and import or export licensing requirements
- Tax rates in certain foreign countries that exceed those in the U.S. and the imposition of withholding requirements for taxes on foreign earnings
- Difficulty in staffing and managing international operations and the application of foreign labor regulations