

NAVISTAR INTERNATIONAL CORP

Form 10-Q

June 27, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended January 31, 2008

OR

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

For the transition period from _____ To _____

Commission file number 1-9618

NAVISTAR INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	36-3359573 (I.R.S. Employer Identification No.)
4201 Winfield Road,	60555
P.O. Box 1488,	(Zip Code)
Warrenville, Illinois (Address of principal executive offices)	
Registrant's telephone number, including area code (630) 753-5000	

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

Indicate by check mark whether the registrant 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

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

As of April 30, 2008, the number of shares outstanding of the registrant's common stock was 70,239,785, net of treasury shares.

Documents incorporated by reference: None.

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Table of Contents**PART I****Item 1. Condensed Consolidated Financial Statements**
Navistar International Corporation and Subsidiaries**Consolidated Statements of Operations****(Unaudited)**

	Three Months	
	Ended	
	January 31,	
	2008	2007
(in millions, except per share data)		
Sales and revenues		
Sales of manufactured products, net	\$ 2,860	\$ 3,050
Finance revenues	94	98
Sales and revenues, net	2,954	3,148
Costs and expenses		
Costs of products sold	2,451	2,605
Selling, general and administrative expenses	321	297
Engineering and product development costs	82	103
Interest expense	167	111
Other (income) expenses, net	(1)	29
Total costs and expenses	3,020	3,145
Equity in income of non-consolidated affiliates	24	22
Income (loss) before income tax	(42)	25
Income tax expense	(11)	(13)
Net income (loss)	\$ (53)	\$ 12
Basic earnings (loss) per share	\$ (0.75)	\$ 0.17
Diluted earnings (loss) per share	\$ (0.75)	\$ 0.17
Weighted average shares outstanding		
Basic	70.3	70.3
Diluted	70.3	70.9

See Notes to Condensed Consolidated Financial Statements

Table of Contents**Navistar International Corporation and Subsidiaries****Consolidated Balance Sheets****(Unaudited)**

	As of	
	January 31, 2008	October 31, 2007
(in millions, except per share data)		
ASSETS		
Current assets		
Cash and cash equivalents	\$ 594	\$ 777
Marketable securities	21	6
Finance and other receivables (net of allowance for losses of \$61 and \$60 as of January 31, 2008 and October 31, 2007, respectively)	2,794	2,941
Inventories	1,491	1,412
Deferred taxes, net	115	115
Other current assets	162	194
Total current assets	5,177	5,445
Restricted cash and cash equivalents	864	419
Finance and other receivables (net of allowance for losses of \$46 and \$41 as of January 31, 2008 and October 31, 2007, respectively)	2,388	2,478
Investments in and advances to non-consolidated affiliates	168	154
Property and equipment (net of accumulated depreciation and amortization of \$2,257 and \$2,199 as of January 31, 2008 and October 31, 2007, respectively)	2,006	2,086
Goodwill	350	353
Intangible assets (net of accumulated amortization of \$59 and \$53 as of January 31, 2008 and October 31, 2007, respectively)	277	286
Pension assets	102	103
Deferred taxes, net	24	35
Other noncurrent assets	131	89
Total assets	\$ 11,487	\$ 11,448
LIABILITIES AND STOCKHOLDERS DEFICIT		
Liabilities		
Current liabilities		
Notes payable and current maturities of long-term debt	\$ 840	\$ 798
Accounts payable	1,763	1,770
Other current liabilities	1,243	1,423
Total current liabilities	3,846	3,991
Long-term debt	6,326	6,083
Postretirement benefits liabilities	1,258	1,327
Other noncurrent liabilities	859	781
Total liabilities	12,289	12,182
Stockholders deficit		
Series D convertible junior preference stock	4	4
Common stock and additional paid in capital (par value \$0.10 per share, 75.4 million shares issued as of January 31, 2008 and October 31, 2007)	2,106	2,101
Accumulated deficit	(2,577)	(2,519)

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Accumulated other comprehensive loss	(170)	(155)
Common stock held in treasury, at cost (5.1 million shares as of January 31, 2008 and October 31, 2007)	(165)	(165)
Total stockholders deficit	(802)	(734)
Total liabilities and stockholders deficit	\$ 11,487	\$ 11,448

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended January 31,	
	2008	2007
(in millions)		
Cash flows from operating activities		
Net income (loss)	\$ (53)	\$ 12
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities		
Depreciation and amortization	74	75
Depreciation of equipment held for or under lease	15	15
Deferred taxes	11	(3)
Amortization of debt issuance costs	4	3
Stock-based compensation	1	2
Provision for doubtful accounts	12	5
Equity in income of non-consolidated affiliates	(24)	(22)
Dividends from non-consolidated affiliates	12	28
Gain on sales of affiliate	(4)	
(Gain) loss on sale of property and equipment	(1)	4
Loss on repurchases of debt		31
Changes in other assets and liabilities	(38)	(432)
Total adjustments	62	(294)
Net cash provided by (used in) operating activities	9	(282)
Cash flows from investing activities		
Purchases of marketable securities	(25)	(127)
Sales or maturities of marketable securities	10	260
Net change in restricted cash and cash equivalents	(445)	267
Capital expenditures	(37)	(93)
Purchase of equipment held for or under lease	(11)	(19)
Proceeds from sales of property and equipment	12	7
Investments and advances to non-consolidated affiliates	(2)	(3)
Proceeds from sales of affiliate	18	
Business acquisitions, net of cash acquired		(7)
Other investing activities	2	(2)
Net cash provided by (used in) investing activities	(478)	283
Cash flows from financing activities		
Proceeds from issuance of securitized debt	510	39
Principal payments on securitized debt	(333)	(341)
Proceeds from issuance of non-securitized debt	3	1,398
Principal payments on non-securitized debt	(7)	(1,511)
Net increase (decrease) in notes and debt outstanding under revolving credit facilities	156	(309)
Principal payments under financing arrangements and capital lease obligations	(37)	(21)
Debt issuance costs	(3)	(19)

Net cash provided by (used in) financing activities	289	(764)
Effect of exchange rate changes on cash and cash equivalents	(3)	4
Decrease in cash and cash equivalents	(183)	(759)
Cash and cash equivalents at beginning of period	777	1,157
Cash and cash equivalents at end of the period	\$ 594	\$ 398

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, its subsidiaries, and certain variable interest entities (VIEs) of which we are the primary beneficiary. We operate in four principal industry segments: Truck, Engine, Parts (collectively called manufacturing operations), and Financial Services. The Financial Services segment consists of NFC and our foreign finance operations (collectively called financial services operations).

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements include the assets, liabilities, revenues, and expenses of our manufacturing operations, majority owned dealers, wholly-owned financial services subsidiaries, and 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 year amounts to conform to the 2008 presentation.

We prepared the accompanying unaudited condensed consolidated financial statements in accordance with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X issued by the 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 condensed consolidated financial statements have been prepared in accordance with accounting policies described in the Annual Report on Form 10-K for the year ended October 31, 2007 and should be read in conjunction with the disclosures therein. In our opinion, these interim financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position, results of operations, and cash flows for the periods presented. Operating results for interim periods are not necessarily indicative of annual operating results.

Accounting Changes

As of November 1, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109*. See Note 9, *Income taxes*, for more information.

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 financial statements and the reported amounts of revenues and expenses. Significant estimates and assumptions are used for, but are not limited to, pension and other postretirement benefits, allowance for losses, sales of receivables, income tax contingency accruals and valuation allowances, product warranty accruals, asbestos accruals, asset impairment, and litigation related accruals. Actual results could differ from our estimates.

Table of Contents**Navistar International Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****Concentration Risks**

Our financial position, results of operations, and cash flows are subject to concentration risks related to concentrations of union employees and two customers. As of April 30, 2008, approximately 6,100, or 64%, of our hourly workers and approximately 700, or 10%, of our salaried workers are represented by labor unions and are covered by collective bargaining agreements. See Note 13, *Segment reporting*, for discussions on customer concentration.

Product Warranty Liability

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

(in millions)	Three Months Ended January 31,	
	2008	2007
Balance, at beginning of period	\$ 677	\$ 777
Costs accrued and revenues deferred	39	66
Adjustments to pre-existing warranties ^(A)	6	24
Payments and revenues recognized	(84)	(79)
Balance, at end of period	\$ 638	\$ 788

(A) Adjustments to pre-existing warranties reflect changes in our estimate of warranty costs for products sold in prior periods. The amount of deferred revenue related to extended warranty programs was \$127 million at January 31, 2008 and October 31, 2007. Revenue recognized under our extended warranty programs for the three months ended January 31, 2008 and 2007 was \$11 million and \$5 million, respectively.

New Accounting Pronouncements

Accounting pronouncements issued by various standard setting and governmental authorities that have not yet become effective with respect to our condensed consolidated financial statements are described below, together with our assessment of the potential impact they may have on our financial position, results of operations or cash flows:

Pronouncement	Effective Date	Impact on Our Financial Condition and Results of Operations
Emerging Issues Task Force Issue No. 08-3, <i>Accounting by Lessees for Nonrefundable Maintenance Deposits</i>	Effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Early adoption is not permitted. Our	We are evaluating the potential impact, if any.

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effective date is November 1, 2009.

FASB Staff Position No. FAS 142-3,
*Determination of the Useful Life of Intangible
Assets*