

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

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 30, 2021

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.
Commission file number 1-9618



NAVISTAR INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

36-3359573
(I.R.S. Employer Identification No.)

2701 Navistar Drive
Lisle Illinois
(Address of principal executive offices)

60532
(Zip Code)

(331) 332-5000

Registrant's telephone number, including area code
Not applicable

(Former name, former address, and former fiscal year, if changed since last report)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.10	NAV	New York Stock Exchange
Cumulative convertible junior preference stock, Series D (par value \$1.00)	NAV-D	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer Emerging growth company
Non-accelerated filer Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of May 31, 2021, the number of shares outstanding of the registrant's common stock was 99,744,787, net of treasury shares.

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

Information provided and statements contained in this report that are not purely historical are forward-looking statements within the meaning of 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;
- the implementation of, and expected benefits from, our strategic alliance with TRATON SE and certain of its subsidiaries and affiliates ("TRATON Group"), and the likelihood and consequences of the previously announced acquisition of the Company by TRATON SE or one of its affiliates;
- our conditional calls for redemption of all outstanding 9.5% Senior Secured Notes due in 2025 and 4.75% Tax-Exempt Bonds due 2040;
- our development and launch of new products and technologies;
- anticipated sales, volume, demand, markets for our products, and financial performance;
- anticipated performance and benefits of our products and technologies;
- our business strategies relating to, and our ability to meet, federal and state regulatory heavy-duty diesel emissions standards applicable to certain of our engines, including the timing and costs of compliance and consequences of noncompliance with such standards, as well as our ability to meet other federal, state and foreign regulatory requirements;
- our business strategies and short-term and long-term goals and activities to accomplish such strategies and goals;
- our ability to implement our strategy and the results we expect to achieve from the implementation of our strategy;
- our expectations related to new product launches;
- anticipated results from acquisitions, dispositions, strategic alliances and joint ventures we complete;
- our expectations and estimates relating to restructuring activities, including restructuring charges and timing of cash payments related thereto, and operational flexibility, savings and efficiencies from such restructurings;
- our expectations relating to debt refinancing activities;
- our expectations relating to the potential effects of anticipated divestitures and closures of businesses;
- our expectations relating to our cost-reduction actions and actions to reduce discretionary spending;
- our expectations relating to our ability to service our long-term debt;
- our expectations relating to our wholesale and retail finance receivables and revenues;
- liabilities resulting from environmental, health and safety laws and regulations;
- our anticipated capital expenditures;
- our expectations relating to payments of taxes;
- our expectations relating to warranty costs;
- our expectations relating to interest expense;
- our expectations relating to impairment of goodwill, other intangible assets, and property, plant and equipment;
- our expectations relating to the resolution of, and costs relating to litigation, arbitration and similar matters;
- estimates relating to pension plan contributions and unfunded pension and postretirement benefits;
- our expectations relating to commodity price risk, including the impact of tariff increases or potential new tariffs;
- anticipated trends, expectations and outlook relating to matters affecting our financial condition or results of operations;

- our expectations relating to the anticipated impact that the novel strain of coronavirus (“COVID-19”) pandemic has on our business, financial condition, results of operations and cash flows; and
- our expectations relating to the fair value measurements, financial impact and volatility with respect to the value of our equity investments.

These statements often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate," or similar expressions. These statements are not guarantees of performance or results and they involve risks, uncertainties, and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, there are many factors that could affect our results of operations and could cause actual results to differ materially from those in the forward-looking statements. Factors that could cause or contribute to differences in our future financial results include those discussed in Item 1A, Risk Factors, included within our Annual Report on Form 10-K for the fiscal year ended October 31, 2020, which was filed on December 17, 2020, and this Quarterly Report on Form 10-Q for the period ended April 30, 2021, as well as those factors discussed elsewhere in this report. All future written and oral forward-looking statements by us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained herein or referred to above. Except for our ongoing obligations to disclose material information as required by the federal securities laws, we do not have any obligations or intention to release publicly any revisions to any forward-looking statements to reflect events or circumstances in the future or to reflect the occurrence of unanticipated events.

Available Information

We are subject to the reporting and information requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and as a result, are obligated to file annual, quarterly, and current reports, proxy statements, and other information with the United States ("U.S.") Securities and Exchange Commission ("SEC"). We make these filings available free of charge on our website (<http://www.navistar.com>) as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. Information on our website does not constitute part of this Quarterly Report on Form 10-Q. In addition, the SEC maintains a website (<http://www.sec.gov>) that contains our annual, quarterly, and current reports, proxy and information statements, and other information we electronically file with, or furnish to, the SEC.

PART I—Financial Information

Item 1. *Financial Statements (Unaudited)*

See Notes to Consolidated Financial Statements

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

(in millions, except per share data)	Three Months Ended April 30,		Six Months Ended April 30,	
	2021	2020	2021	2020
Sales and revenues				
Sales of manufactured products, net	\$2,121	\$1,877	\$ 3,890	\$ 3,671
Finance revenues	41	48	84	92
Sales and revenues, net	2,162	1,925	3,974	3,763
Costs and expenses				
Costs of products sold	1,731	1,624	3,238	3,153
Restructuring charges	2	—	23	1
Asset impairment charges	4	13	35	13
Selling, general and administrative expenses	304	170	509	352
Engineering and product development costs	88	78	172	164
Interest expense	62	63	126	128
Other (income) expense, net	(251)	2	(256)	13
Total costs and expenses	1,940	1,950	3,847	3,824
Equity in loss of non-consolidated affiliates	(3)	(1)	(4)	(2)
Income (loss) before income taxes	219	(26)	123	(63)
Income tax expense	(51)	(7)	(33)	(2)
Income (loss) from continuing operations	168	(33)	90	(65)
Income from discontinued operations, net of tax	—	—	1	—
Net income (loss)	168	(33)	91	(65)
Less: Net income attributable to non-controlling interests	5	5	9	9
Net income (loss) attributable to Navistar International Corporation	\$ 163	\$ (38)	\$ 82	\$ (74)
<i>Amounts attributable to Navistar International Corporation common stockholders:</i>				
Income (loss) from continuing operations, net of tax	\$ 163	\$ (38)	\$ 81	\$ (74)
Income from discontinued operations, net of tax	—	—	1	—
Net income (loss) attributable to Navistar International Corporation common stockholders	\$ 163	\$ (38)	\$ 82	\$ (74)
Income (loss) per share attributable to Navistar International Corporation:				
Basic				
Continuing operations	\$ 1.63	\$ (0.38)	\$ 0.81	\$ (0.74)
Discontinued operations	—	—	0.01	—
Basic	\$ 1.63	\$ (0.38)	\$ 0.82	\$ (0.74)
Diluted				
Continuing operations	\$ 1.63	\$ (0.38)	\$ 0.81	\$ (0.74)
Discontinued operations	—	—	0.01	—
Diluted	\$ 1.63	\$ (0.38)	\$ 0.82	\$ (0.74)
Weighted average shares outstanding:				
Basic	99.9	99.7	99.9	99.6
Diluted	100.2	99.7	100.2	99.6

See Notes to Consolidated Financial Statements

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

(in millions)	Three Months Ended April 30,		Six Months Ended April 30,	
	2021	2020	2021	2020
Net income (loss).....	\$ 168	\$ (33)	\$ 91	\$ (65)
Other comprehensive income (loss):				
Foreign currency translation adjustment	11	(103)	36	(111)
Defined benefit plans, net of tax	17	24	71	49
Total other comprehensive income (loss)	28	(79)	107	(62)
Comprehensive income (loss)	196	(112)	198	(127)
Less: Net income attributable to non-controlling interests	5	5	9	9
Total comprehensive income (loss) attributable to Navistar International Corporation.....	\$ 191	\$ (117)	\$ 189	\$ (136)

See Notes to Consolidated Financial Statements

Navistar International Corporation and Subsidiaries
Consolidated Balance Sheets

(in millions, except per share data)	As of April 30, 2021	As of October 31, 2020
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents.....	\$ 1,233	\$ 1,843
Restricted cash.....	402	64
Trade and other receivables, net.....	283	273
Finance receivables, net.....	1,360	1,371
Inventories, net.....	1,017	763
Other current assets.....	356	263
Total current assets.....	4,651	4,577
Restricted cash.....	67	66
Trade and other receivables, net.....	7	7
Finance receivables, net.....	258	251
Investments in non-consolidated affiliates.....	26	31
Property and equipment (net of accumulated depreciation and amortization of \$2,317 and \$2,335, respectively).....	1,263	1,298
Operating lease right of use assets.....	123	119
Goodwill.....	38	38
Intangible assets (net of accumulated amortization of \$139 and \$138, respectively).....	18	18
Deferred taxes, net.....	121	117
Other noncurrent assets.....	512	115
Total assets.....	\$ 7,084	\$ 6,637
LIABILITIES and STOCKHOLDERS' DEFICIT		
Liabilities		
Current liabilities		
Notes payable and current maturities of long-term debt.....	\$ 843	\$ 640
Accounts payable.....	1,529	1,278
Other current liabilities.....	1,517	1,453
Total current liabilities.....	3,889	3,371
Long-term debt.....	4,624	4,690
Postretirement benefits liabilities.....	1,439	1,705
Other noncurrent liabilities.....	772	693
Total liabilities.....	10,724	10,459
Stockholders' deficit		
Series D convertible junior preference stock.....	2	2
Common stock, \$0.10 par value per share (103.1 shares issued and 220 shares authorized at both dates).....	10	10
Additional paid-in capital.....	2,721	2,726
Accumulated deficit.....	(4,491)	(4,566)
Accumulated other comprehensive loss.....	(1,758)	(1,865)
Common stock held in treasury, at cost (3.3 and 3.5 shares, respectively).....	(127)	(133)
Total stockholders' deficit attributable to Navistar International Corporation.....	(3,643)	(3,826)
Stockholders' equity attributable to non-controlling interests.....	3	4
Total stockholders' deficit.....	(3,640)	(3,822)
Total liabilities and stockholders' deficit.....	\$ 7,084	\$ 6,637

See Notes to Consolidated Financial Statements

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

(in millions)	Six Months Ended April 30,	
	2021	2020
Cash flows from operating activities		
Net income (loss)	\$ 91	\$ (65)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	68	70
Depreciation of equipment leased to others	35	29
Deferred taxes, including change in valuation allowance	7	(9)
Asset impairment charges	35	13
Amortization of debt issuance costs and discount	7	7
Stock-based compensation	12	13
Provision for credit losses	6	9
Equity in loss of non-consolidated affiliates, net of dividends	4	2
Other non-cash operating activities	(7)	(5)
Changes in other assets and liabilities	(290)	(182)
Net cash used in operating activities	(32)	(118)
Cash flows from investing activities		
Capital expenditures	(137)	(90)
Purchases of equipment leased to others	(76)	(16)
Proceeds from sales of property and equipment	10	7
Purchases of equity investments	(143)	—
Proceeds from sales of investments and businesses	—	10
Net cash used in investing activities	(346)	(89)
Cash flows from financing activities		
Proceeds from issuance of securitized debt	26	16
Principal payments on securitized debt	(28)	(30)
Net change in secured revolving credit facilities	241	(167)
Proceeds from issuance of non-securitized debt	15	620
Principal payments on non-securitized debt	(10)	(107)
Net change in notes and debt outstanding under revolving credit facilities	(127)	24
Debt issuance costs	(1)	(10)
Proceeds from exercise of stock options	1	3
Dividends paid by subsidiaries to non-controlling interest	(10)	(10)
Other financing activities	(2)	(2)
Net cash provided by financing activities	105	337
Effect of exchange rate changes on cash, cash equivalents and restricted cash	2	(9)
Increase (decrease) in cash, cash equivalents and restricted cash	(271)	121
Cash, cash equivalents and restricted cash at beginning of the period	1,973	1,557
Cash, cash equivalents and restricted cash at end of the period	\$ 1,702	\$ 1,678

See Notes to Consolidated Financial Statements

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

(in millions)	Series D Convertible Junior Preference Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury, at cost	Stockholders' Equity Attributable to Non- controlling Interests	Total
Balance as of October 31, 2020	\$ 2	\$ 10	\$ 2,726	\$ (4,566)	\$ (1,865)	\$ (133)	\$ 4	\$(3,822)
Net income (loss)	—	—	—	(81)	—	—	4	(77)
Total other comprehensive income	—	—	—	—	79	—	—	79
Cumulative effect of adoption of new credit loss standard	—	—	—	(7)	—	—	—	(7)
Stock-based compensation	—	—	1	—	—	—	—	1
Stock ownership programs	—	—	—	—	—	1	—	1
Balance as of January 31, 2021	<u>\$ 2</u>	<u>\$ 10</u>	<u>\$ 2,727</u>	<u>\$ (4,654)</u>	<u>\$ (1,786)</u>	<u>\$ (132)</u>	<u>\$ 8</u>	<u>\$(3,825)</u>
Net income	—	—	—	163	—	—	5	168
Total other comprehensive income	—	—	—	—	28	—	—	28
Stock ownership programs	—	—	(6)	—	—	5	—	(1)
Cash dividends paid to non-controlling interest	—	—	—	—	—	—	(10)	(10)
Balance as of April 30, 2021	<u>\$ 2</u>	<u>\$ 10</u>	<u>\$ 2,721</u>	<u>\$ (4,491)</u>	<u>\$ (1,758)</u>	<u>\$ (127)</u>	<u>\$ 3</u>	<u>\$(3,640)</u>
Balance as of October 31, 2019	\$ 2	\$ 10	\$ 2,730	\$ (4,409)	\$ (1,912)	\$ (147)	\$ 3	\$(3,723)
Net income (loss)	—	—	—	(36)	—	—	4	(32)
Total other comprehensive income	—	—	—	—	17	—	—	17
Reclassification of stranded tax effects	—	—	—	189	(189)	—	—	—
Stock-based compensation	—	—	2	—	—	—	—	2
Stock ownership programs	—	—	(2)	—	—	4	—	2
Cash dividends paid to non-controlling interest	—	—	—	—	—	—	(5)	(5)
Balance as of January 31, 2020	<u>\$ 2</u>	<u>\$ 10</u>	<u>\$ 2,730</u>	<u>\$ (4,256)</u>	<u>\$ (2,084)</u>	<u>\$ (143)</u>	<u>\$ 2</u>	<u>\$(3,739)</u>
Net income (loss)	—	—	—	(38)	—	—	5	(33)
Total other comprehensive loss	—	—	—	—	(79)	—	—	(79)
Stock-based compensation	—	—	1	—	—	—	—	1
Stock ownership programs	—	—	(6)	(2)	—	7	—	(1)
Cash dividends paid to non-controlling interest	—	—	—	—	—	—	(5)	(5)
Balance as of April 30, 2020	<u>\$ 2</u>	<u>\$ 10</u>	<u>\$ 2,725</u>	<u>\$ (4,296)</u>	<u>\$ (2,163)</u>	<u>\$ (136)</u>	<u>\$ 2</u>	<u>\$(3,856)</u>

See Notes to Consolidated Financial Statements

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

(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 entities are Navistar, Inc. ("NI") and Navistar Financial Corporation ("NFC"). References herein to the "Company," "we," "our," or "us" refer collectively to NIC and its consolidated subsidiaries, including certain variable interest entities ("VIEs") of which we are the primary beneficiary. We operate in four principal industry segments: Truck, Parts, Global Operations (collectively called "Manufacturing operations"), and Financial Services, which consists of NFC and our foreign finance operations (collectively called "Financial Services operations"). These segments are discussed in Note 13, *Segment Reporting*.

Our fiscal year ends on October 31. As such, all references to 2021, 2020, and other years contained within this Quarterly Report on Form 10-Q relate to the fiscal year, unless otherwise indicated.

Basis of Presentation and Consolidation

The accompanying unaudited consolidated financial statements include the assets, liabilities, and results of operations of our Manufacturing operations and our Financial Services operations, including VIEs of which we are the primary beneficiary. The effects of transactions among consolidated entities have been eliminated to arrive at the consolidated amounts.

We prepared the accompanying unaudited consolidated financial statements in accordance with United States ("U.S.") generally accepted accounting principles ("U.S. GAAP") for interim financial information and the instructions to the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X issued by the U.S. Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and notes required by U.S. GAAP for comprehensive annual financial statements.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting policies described in our Annual Report on Form 10-K for the year ended October 31, 2020, which should be read in conjunction with the disclosures therein. In our opinion, these interim consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial condition, results of operations, and cash flows for the periods presented. Operating results for interim periods are not necessarily indicative of annual operating results.

Variable Interest Entities

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

We are the primary beneficiary of our Blue Diamond Parts, LLC ("BDP") joint venture with Ford Motor Company ("Ford"). As a result, our *Consolidated Balance Sheets* include assets of \$29 million and \$37 million, and liabilities of \$2 million and \$3 million, as of April 30, 2021 and October 31, 2020, respectively. As of April 30, 2021 and October 31, 2020, assets include \$3 million and \$4 million of cash and cash equivalents, respectively, which are not readily available to satisfy claims against our general assets. The creditors of BDP do not have recourse to our general credit. In October 2019, Ford notified us of its intention to dissolve the BDP joint venture effective October 2021.

Our Financial Services segment consolidates several VIEs. As a result, our *Consolidated Balance Sheets* include secured assets of \$996 million and \$661 million as of April 30, 2021 and October 31, 2020, respectively, and liabilities of \$885 million and \$610 million as of April 30, 2021 and October 31, 2020, respectively, all of which are involved in securitizations that are treated as asset-backed debt. In addition, our *Consolidated Balance Sheets* include secured assets of \$377 million and \$397 million as

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

of April 30, 2021 and October 31, 2020, respectively, and corresponding liabilities of \$253 million and \$288 million, at the respective dates, which are related to other secured transactions that do not qualify for sale accounting treatment, and, therefore, are treated as borrowings secured by operating and finance leases. Investors that hold securitization debt have a priority claim on the cash flows generated by their respective securitized assets to the extent that the related VIEs are required to make principal and interest payments. Investors in securitizations of these entities have no recourse to our general credit.

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

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

Related Party Transactions

On November 7, 2020, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with TRATON SE, a Societas Europaea (“Parent”), and Dusk Inc., a Delaware corporation and a wholly owned indirect subsidiary of Parent (“Merger Subsidiary”), pursuant to which Merger Subsidiary will be merged with and into the Company (the “Merger”), with the Company continuing as the surviving company in the Merger as a wholly owned indirect subsidiary of Parent (the “Surviving Corporation”). Subject to the terms and conditions set forth in the Merger Agreement, at the effective time of the Merger (the “Effective Time”), (a) each share of common stock of the Company, par value \$0.10 per share (“Company Stock”), outstanding immediately prior to the Effective Time, unless otherwise provided in the Merger Agreement, shall be automatically canceled and converted into the right to receive \$44.50 in cash, without interest (the “Common Merger Consideration”); (b) each share of Series D Convertible Junior Preference Stock of the Company, par value \$1.00 per share (“Series D Stock”), outstanding immediately prior to the Effective Time, unless otherwise provided in the Merger Agreement, shall be automatically canceled and converted into an amount in cash, without interest, equal to the portion of the Common Merger Consideration that would have been payable in respect of such share of Series D Stock had such share of Series D Stock been converted into Company Stock pursuant to the terms of the certificate of incorporation of the Company in effect immediately prior to the Effective Time; and (c) the sole share of Series B Nonconvertible Junior Preference Stock of the Company, par value \$1.00 (“Series B Stock”), issued and outstanding immediately prior to the Effective Time, shall be unaffected by the Merger and shall remain outstanding as one share of Series B Stock of the Surviving Corporation, with the same rights, powers, preferences and privileges attributable to the sole share of Series B Stock immediately prior to the Effective Time.

We have a series of commercial relationships and agreements with TRATON SE and certain of its subsidiaries and affiliates (“TRATON Group”) for royalties related to the use of certain engine technology, contract manufacturing operations performed by us, the sale of engines, the sale and purchase of parts, and a procurement joint venture. We also have development agreements with TRATON Group involving certain engine and transmission projects. This development work is being expensed as incurred. During the third quarter of 2020, we informed MAN, a subsidiary of the TRATON Group, of the cancellation of a certain engine program. The parties disagree about the effects of the cancellation under the terms of the applicable agreement and are having commercial discussions related to the consequences of the program cancellation. The ultimate resolution may result in additional expenses which could be material. We are unable to estimate the amount of these expenses at this time. Revenue recognized from the agreements with the TRATON Group for the three and six months ended April 30, 2021 was approximately \$60 million and \$110 million, respectively, compared to \$12 million and \$43 million in the respective prior year periods. Net expenses incurred for the three and six months ended April 30, 2021 were \$15 million and \$39, respectively, compared to \$7 million and \$24 million in the respective prior year periods, included primarily in *Engineering and product development costs* in our *Consolidated Statements of Operations*. Our receivable from TRATON Group was \$10 million and \$18 million as of April 30, 2021 and October 31, 2020, respectively. Our payable to TRATON Group was \$111 million and \$90 million as of April 30, 2021 and October 31, 2020, respectively.

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

We have an exclusive long-term agreement to supply military and commercial parts and chassis to our former defense business, ND Holdings, LLC (“Navistar Defense”), in which we retain a 30% ownership interest. The sale of a 70% equity interest in Navistar Defense to an affiliate of Cerberus Capital Management, L.P. was completed in December 2018. In connection with the closing of the transaction, we also entered into an intellectual property agreement and a transition services agreement. Revenue recognized for the three and six months ended April 30, 2021 was approximately \$4 million and \$8 million, respectively, compared to \$11 million and \$25 million in the respective prior year periods. As of April 30, 2021 and October 31, 2020, our receivables from Navistar Defense were \$10 million and \$8 million, respectively.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is principally determined using the first-in, first-out method. Our gross used truck inventory was \$79 million at April 30, 2021, compared to \$135 million at October 31, 2020, offset by reserves of \$13 million and \$37 million, respectively.

Property and Equipment

We report land, buildings, leasehold improvements, machinery and equipment (including tooling and pattern equipment), furniture, fixtures, and equipment, and equipment leased to others at cost, net of depreciation. We initially record assets under finance lease obligations at the present value of the aggregate future minimum lease payments. We depreciate our assets using the straight-line method over the shorter of the lease term or the estimated useful lives of the assets.

We test for impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset or asset group (hereinafter referred to as "asset group") may not be recoverable by comparing the sum of the estimated undiscounted future cash flows expected to result from the operation of the asset group and its eventual disposition to the carrying value. It is reasonably possible that within the next twelve months we could recognize additional impairment charges for certain trucks under operating leases where Navistar is a lessor, which could be material, if we experience continued declines in excess of our forecasted expected residual values, as a result of the COVID-19 pandemic, the demand for used trucks or a change in the mix of sales through various market channels. For more information regarding asset impairment charges see Note 3, *Restructuring, Impairments and Divestitures*.

Equity Investments

We have equity security investments which are included in *Other noncurrent assets* on the Consolidated Balance Sheets. These investments are accounted for in accordance with ASC 321, Investments – Equity Securities. We elect the measurement alternative for equity security investments without a readily determinable fair value. Changes in the fair values of the investments are recorded in *Other (income) expense, net* on the Consolidated Statements of Operations. One of our equity security investments has a readily determinable fair value based on quoted market prices, which makes this a Level 1 fair value instrument and had a fair value of \$386 million at April 30, 2021. During the six months ended April 30, 2021, we recognized \$246 million as an increase to the fair value of our equity security investments, included in our *Consolidated Balance Sheet* in *other noncurrent assets*. The fair value for all equity security investments at April 30, 2021 was \$394 million.

Product Warranty Liability

The following table presents accrued product warranty and deferred warranty revenue activity:

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

(in millions)	Six Months Ended April 30,	
	2021	2020
Balance at beginning of period	\$ 449	\$ 510
Costs accrued and revenues deferred	78	73
Adjustments to pre-existing warranties ^(A)	80	17
Payments and revenues recognized	(135)	(132)
Balance at end of period	472	468
Less: Current portion.....	237	215
Noncurrent accrued product warranty and deferred warranty revenue.....	\$ 235	\$ 253

(A) Adjustments to pre-existing warranties reflect changes in our estimate of warranty costs for products sold in prior fiscal periods. Such adjustments typically occur when claims experience deviates from historic and expected trends. In the first six months of 2021, we had higher adjustments to pre-existing warranties as compared to the first six months of 2020, primarily driven by increases from standard warranties as well as proactive campaign actions related to components on prior model year engines, and unfavorable costs related to standard Truck warranties. Our warranty liability is generally affected by component failure rates, repair costs, and the timing of failures. Future events and circumstances related to these factors could materially change our estimates and require adjustments to our liability. In addition, new product launches require a greater use of judgment in developing estimates until historical experience becomes available.

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 credit losses, tax contingency accruals and valuation allowances, product warranty accruals, asbestos and other product liability accruals, asset impairment charges, restructuring charges and litigation-related accruals. Actual results could differ from our estimates.

Concentration Risks

Our financial condition, results of operations, and cash flows are subject to concentration risks related to our significant unionized workforce. As of April 30, 2021, approximately 8,400, or 99%, of our hourly workers and approximately 700, or 13%, 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 political, regulatory and economic developments in the U.S. and certain foreign countries (primarily Canada, Mexico, and Brazil).

Due to disruptions in our supply chain resulting from residual COVID-19 impacts, which have been exacerbated by various events, our global manufacturing activities at certain of our production facilities have been impacted. Some of our suppliers are the sole source for a supply item (e.g., the majority of engines, parts and manufactured components) and cannot be quickly or inexpensively re-sourced to another supplier due to long design and validation lead times or proprietary product functionality. We continue to monitor our supply chain and work with suppliers and our cross functional team to develop mitigation strategies as the industry manages the impacts of supply chain disruptions.

Recently Adopted Accounting Standards

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments” (Topic 326), and subsequently issued various ASUs to clarify the implementation guidance in ASU 2016-13. This ASU sets forth an expected credit loss model which requires the measurement of expected credit losses for financial instruments based on historical experience, current conditions and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost, and certain off-balance sheet credit exposures. The impact of this ASU on our consolidated financial statements primarily resulted from our Financial Services operations and certain financial guarantees.

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

We measure expected credit losses differently depending on the type of receivable or credit exposure. To measure expected credit losses on our finance receivables we use recent historical loss data, then we apply a forward-looking adjustment based on internal and external forecasts of the relevant unemployment rate and real GDP. The forward-looking adjustment is determined using the relationship between these economic indicators and our historical loss data. The forward-looking adjustment is applied to the first two years of the amortizing receivables balances, after which the estimate reverts to the historical loss rate on a one-year straight-line basis throughout the full remaining amortization period of the receivables. We have determined that two years is a reasonable and supportable forecast period. Additionally, we may make further quantitative or qualitative adjustments to the above models if we determine that the result is not representative of the expected credit loss after assessing the current condition of the credit environment. Our wholesale notes and accounts receivable, retail accounts, trade accounts and other receivables are short term in nature and do not have a measurable pattern of historical losses; therefore, we use the average loss per occurrence, based on historical losses, if any. Expected credit losses are recorded as an allowance for credit losses and netted against finance or trade receivables on the balance sheet through a charge to *Selling, general and administrative expenses*.

When we identify the receivables of significant customers as impaired, we segregate those customers' receivables and specifically measure the expected credit loss based primarily on the market value of the collateral, less remarketing costs. We use our used truck inventory values in estimating the market value of collateral.

We measure the expected credit loss of our off-balance sheet financial guarantees using the same model as our finance receivables including the application of the two-year reasonable and supportable forecast period and the reversion to historical loss data. A guarantee reserve is established in *Other current liabilities* through a charge to *Sales of manufactured products, net*. See Note 11, *Fair Value Measurements*, and Note 12, *Commitments and Contingencies*, for more information on our financial guarantees.

The adoption of ASU No. 2016-13 includes new disclosures which can be found in Note 5, *Allowance for Credit Losses*, which was previously referred to as *Allowance for Doubtful Accounts*. See Note 5 for a beginning balance reconciliation from *Allowance for Doubtful Accounts*.

We adopted this ASU using a modified retrospective transition on November 1, 2020. The comparative information has not been restated and continues to be reported under the accounting standard in effect for those periods. The cumulative effects of the adjustment made to our November 1, 2020 *Consolidated Balance Sheet* for the adoption of the new credit loss standard were as follows:

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

(in millions)	Balance at October 31, 2020	Change Due to New Standard	Balance at November 1, 2020
ASSETS			
Current assets			
Finance receivables, net	\$ 1,371	\$ (3)	\$ 1,368
Total current assets	4,577	(3)	4,574
Finance receivables, net	251	(4)	247
Trade and other receivables, net	7	(1)	6
Deferred taxes, net.....	117	2	119
Total assets	\$ 6,637	\$ (6)	\$ 6,631
LIABILITIES and STOCKHOLDERS' DEFICIT			
Liabilities			
Current liabilities			
Other current liabilities	\$ 1,453	\$ 1	\$ 1,454
Total current liabilities.....	3,371	1	3,372
Total liabilities	10,459	1	10,460
Stockholders' deficit			
Total stockholders' deficit attributable to Navistar International Corporation .	(3,826)	(7)	(3,833)
Total liabilities and stockholders' deficit.....	\$ 6,637	\$ (6)	\$ 6,631

Recently Issued Accounting Standards

In December 2019, the FASB issued Accounting Standard Update ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes". This ASU simplifies the accounting for income taxes by removing certain exceptions previously included in the guidance. In addition, the ASU provides new guidance on accounting for specific taxes and minor codification improvements. This ASU is effective for us in the first quarter of fiscal year 2022, with early adoption permitted. We are currently evaluating the impact of this ASU on our consolidated financial statements.

2. Revenue

We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

Disaggregation of Revenue

The following tables disaggregate our external revenue by product type:

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

(Unaudited)

(in millions)	Truck	Parts	Global Operations	Financial Services	Corporate and Eliminations	Total
Three Months Ended April 30, 2021						
Truck products and services ^(A)	\$ 1,240	\$ —	\$ —	\$ —	\$ 3	\$ 1,243
Truck contract manufacturing	97	—	—	—	—	97
Used trucks	102	—	—	—	—	102
Engines	—	59	114	—	—	173
Parts	1	464	15	—	—	480
Extended warranty contracts	26	—	—	—	—	26
Sales of manufactured products, net	1,466	523	129	—	3	2,121
Retail financing ^(B)	—	—	—	38	(2)	36
Wholesale financing ^(B)	—	—	—	5	—	5
Finance revenues	—	—	—	43	(2)	41
Sales and revenues, net	\$ 1,466	\$ 523	\$ 129	\$ 43	\$ 1	\$ 2,162

(in millions)	Truck	Parts	Global Operations	Financial Services	Corporate and Eliminations	Total
Six Months Ended April 30, 2021						
Truck products and services ^(A)	\$ 2,254	\$ —	\$ —	\$ —	\$ 5	\$ 2,259
Truck contract manufacturing	206	—	—	—	—	206
Used trucks	160	—	—	—	—	160
Engines	—	109	187	—	—	296
Parts	1	879	31	—	—	911
Extended warranty contracts	58	—	—	—	—	58
Sales of manufactured products, net	2,679	988	218	—	5	3,890
Retail financing ^(B)	—	—	—	77	(4)	73
Wholesale financing ^(B)	—	—	—	11	—	11
Finance revenues	—	—	—	88	(4)	84
Sales and revenues, net	\$ 2,679	\$ 988	\$ 218	\$ 88	\$ 1	\$ 3,974

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

(Unaudited)

(in millions)	Truck	Parts	Global Operations	Financial Services	Corporate and Eliminations	Total
Three Months Ended April 30, 2020						
Truck products and services ^(A)	\$ 1,257	\$ —	\$ —	\$ —	\$ 3	\$ 1,260
Truck contract manufacturing	59	—	—	—	—	59
Used trucks	42	—	—	—	—	42
Engines	—	49	36	—	—	85
Parts	1	393	11	—	—	405
Extended warranty contracts	26	—	—	—	—	26
Sales of manufactured products, net	1,385	442	47	—	3	1,877
Retail financing ^(B)	—	—	—	41	(2)	39
Wholesale financing ^(B)	—	—	—	9	—	9
Finance revenues	—	—	—	50	(2)	48
Sales and revenues, net	\$ 1,385	\$ 442	\$ 47	\$ 50	\$ 1	\$ 1,925

(in millions)	Truck	Parts	Global Operations	Financial Services	Corporate and Eliminations	Total
Six Months Ended April 30, 2020						
Truck products and services ^(A)	\$ 2,332	\$ —	\$ —	\$ —	\$ 6	\$ 2,338
Truck contract manufacturing	156	—	—	—	—	156
Used trucks	83	—	—	—	—	83
Engines	—	99	83	—	—	182
Parts	1	835	25	—	—	861
Extended warranty contracts	51	—	—	—	—	51
Sales of manufactured products, net	2,623	934	108	—	6	3,671
Retail financing ^(B)	—	—	—	78	(4)	74
Wholesale financing ^(B)	—	—	—	18	—	18
Finance revenues	—	—	—	96	(4)	92
Sales and revenues, net	\$ 2,623	\$ 934	\$ 108	\$ 96	\$ 2	\$ 3,763

(A) Includes other markets primarily consisting of Bus, Export Truck and Mexico.

(B) Retail financing revenues in the Financial Services segment include interest revenue of \$15 million and \$29 million for the three and six months ended April 30, 2021, respectively, and \$17 million and \$32 million for the three and six months ended April 30, 2020, respectively. Wholesale financing revenues in the Financial Services segment include interest revenue of \$5 million and \$11 million for the three and six months ended April 30, 2021, respectively, and \$8 million and \$18 million for the three and six months ended April 30, 2020, respectively.

Trucks, Truck Contract Manufacturing, Used Trucks, Engines and Parts

Revenue for our truck products and services, certain truck contract manufacturing, used trucks, certain engines and parts is recognized at a point in time when control is transferred to the customer. Our trucks, used trucks, engines, and parts have a standard warranty, the estimated cost of which is included in *Costs of products sold*.

Certain truck and other contract manufacturing arrangements are recognized over time. We recognize revenue over time when the finished assets have no alternative use and we have a right to payment for work performed in the event of a contract cancellation or when we create or enhance an asset that the customer controls as it is being created or enhanced. We recognize

Navistar International Corporation and Subsidiaries
Notes to Consolidated Financial Statements—(Continued)
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revenue using a cost-based input method because it best depicts our progress in satisfying the performance obligation. The selection of the method requires judgement and is based on the nature of the products or services to be provided.

An allowance for parts sales returns is recorded as a reduction to revenue based upon estimates using historical information about returns. This includes when we are a reseller of certain service parts that include a core component. A core component is the basic forging or casting, such as an engine block, that can be remanufactured by a certified remanufacturing supplier. When a dealer returns a core component within the specified eligibility period, we refund the core return deposit, which is applied to the customer's account balance.

Extended Warranty Contracts

We sell separately-priced extended warranty contracts that can be purchased for periods ranging from one to ten years. Warranty revenue related to extended warranty contracts is recognized over the life of the contract in proportion to the costs expected to be incurred in satisfying the obligation under the contract. Costs under extended warranty contracts are expensed as incurred. We recognize losses on defined pools of extended warranty contracts when the remaining expected costs for a given pool of contracts exceed the related deferred revenue.

Retail and Wholesale Financing

Financial Services operations recognize revenue from retail notes, finance leases, wholesale notes, retail accounts, and wholesale accounts as Finance revenues over the term of the receivables utilizing the effective interest method. Certain direct origination costs and fees are deferred and recognized as adjustments to yield and are reported as part of interest income over the life of the receivable. Loans are impaired when we conclude it is probable the customer will not be able to make full payment according to contractual terms after reviewing the customer's financial performance, payment ability, capital-raising potential, management style, economic situation, and other factors. The accrual of interest on such loans is suspended when the loan becomes 90 days or more past due. Finance revenues on these loans are recognized only to the extent cash payments are received. We resume accruing interest on these accounts when payments are current according to the terms of the loans and future payments are reasonably assured.

Operating lease revenues are recognized on a straight-line basis over the life of the lease. Recognition of revenue is suspended when management determines the collection of future revenue is not probable. Recognition of revenue is resumed if collection again becomes probable.

Performance Obligations

Generally, revenue from our sales is recognized at a point in time when control is transferred to the customer which generally occurs upon shipment from our plants and distribution centers or at the time of delivery to our customers. The standard payment term is less than 30 days, but we may extend payment terms on selected receivables. We have elected the practical expedient that allows the Company to not assess whether a contract has a significant financing component when the time between cash collection and transfer of control is less than one year.

We recognize price allowances, returns and the cost of incentive programs in the normal course of business based on programs offered to dealers or fleet customers. Estimates are made for sales incentives on certain vehicles in dealer stock inventory based on historical experience and announced special programs. The estimated sales incentives and returns are adjusted at the earlier of when the estimate of consideration we expect to receive changes or the consideration becomes fixed. For contracts where there is more than one performance obligation, discounts are allocated to all of the performance obligations in the contract based on their relative standalone selling prices.

Truck sales arrangements with U.S. fleet customers are often complex and non-standard, and may include pricing allowances and other sales incentives, such as rebates, financing incentives, trade allowances and residual value guarantees, for which losses are generally capped. Truck sales to fleet customers are recognized in accordance with the terms of each contract. In certain arrangements, the evaluation of financing incentives and residual value guarantees may result in the transaction being recorded as an operating lease, as we retain control in the leased property. Concurrent with our recognition of revenue, we

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

recognize price allowances and the cost of incentive programs in the normal course of business based on programs offered to our fleet customers.

Revenue on bill and hold arrangements is not recognized until after the customer is notified that the product (i) has been completed according to customer specifications, (ii) has passed our quality control inspections, (iii) is ready for physical transfer to the customer and (iv) the reason for the bill and hold arrangement is substantive.

We have elected to account for shipping and handling activities that occur subsequent to transfer of control as a fulfillment cost and not as a separate performance obligation. The costs are recognized as an expense in *Costs of products sold* when control of the related performance obligation has transferred to the customer. We do not disclose the transaction price related to order backlogs as they have an original expected duration of less than one year.

We exclude from revenue any sales taxes, value added taxes and other related taxes collected from customers.

The impact of changes to revenue related to performance obligations satisfied in prior periods was not material to our consolidated financial statements in the second quarter of 2021.

Contract Balances

Most of our contracts are for a period of less than one year. We have certain long-term contract manufacturing and extended warranty contracts that extend beyond one year. We record deferred revenue, primarily related to extended warranty contracts, when we receive consideration from a customer prior to transferring goods or services under the terms of a sales contract. This deferred revenue represents contract liabilities which are included in our *Consolidated Balance Sheets* as components of current and long-term liabilities. The amount of manufacturing contract liabilities as of both April 30, 2021 and October 31, 2020 was not material to our consolidated financial statements.

The amount of deferred revenue related to extended warranty contracts was \$229 million and \$245 million at April 30, 2021 and October 31, 2020, respectively. Revenue recognized under our extended warranty programs was \$26 million and \$58 million for the three and six months ended April 30, 2021, respectively, and \$26 million and \$51 million for the three and six months ended April 30, 2020, respectively. We expect to recognize revenue under our extended warranty programs of approximately \$47 million in the remainder of 2021, \$82 million in 2022, \$53 million in 2023, \$26 million in 2024, \$12 million in 2025, and an aggregate amount of \$9 million thereafter.

Contract Costs

We recognize incremental costs to obtain contracts as an asset if they are recoverable. We recognize the costs of obtaining a contract as an expense when the related contract period is less than one year. Contract costs capitalized were immaterial as of April 30, 2021 and October 31, 2020, respectively.

3. Restructuring, Impairments and Divestitures

Restructuring charges are recorded based on restructuring plans that have been committed to by management and are, in part, based upon management's best estimates of future events. Changes to the estimates may require future adjustments to the restructuring liabilities.

Manufacturing Restructuring Activities

We continue to focus on our core Truck and Parts businesses and evaluate our portfolio of assets to validate their strategic and financial fit. This allows us to close or divest non-strategic businesses and identify opportunities to restructure our business and rationalize our Manufacturing operations to optimize our cost structure.

For those areas that fall outside our strategic businesses, we evaluate alternatives which could result in additional restructuring and other related charges in the future, including, but not limited to: (i) impairments, (ii) accelerated depreciation, (iii) costs for employee and contractor termination and other related benefits, (iv) relocation costs, and (v) charges for pension and other postretirement contractual benefits and curtailments. These charges could be significant.

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Notes to Consolidated Financial Statements—(Continued)
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Melrose Park Facility Disposition

On January 13, 2021, we approved a plan to sell our facility in Melrose Park, IL (the “Melrose Park Facility”) and cease all operations at the Melrose Park Facility by November 2021. In connection with the cessation of operations at the Melrose Park Facility, we expect that half of the current workforce of approximately 500 employees at the Melrose Park Facility will be transferred to our other facilities.

We estimate that we will incur total costs related to the exit from and disposition of the Melrose Park Facility of approximately \$90 million, of which \$80 million is expected to be incurred in fiscal year 2021, with the remainder being incurred in fiscal year 2022. The estimated total charges primarily include \$21 million of restructuring costs, \$21 million of relocation costs, and \$38 million for accelerated depreciation and impairment charges.

As a result of the restructuring activities, the Truck segment recognized \$2 million and \$23 million of restructuring charges for the three and six months ended April 30, 2021, respectively. For the six month period, the charges primarily include \$12 million related to pension and OPEB liabilities and \$10 million for employee termination charges recorded in *Restructuring charges* in our *Consolidated Statements of Operations*. In addition, the Truck segment recorded \$3 million and \$28 million of impairment charges for the three and six months ended April 30, 2021, respectively, recorded in *Asset impairment charges* in our *Consolidated Statements of Operations*.

The following table summarizes the changes to our Melrose Park restructuring liability:

(in millions)	Balance at October 31, 2020	Additions	Payments	Adjustments	Balance at April 30, 2021
Employee termination charges	\$ —	\$ 10	\$ —	\$ —	\$ 10
Restructuring liability	\$ —	\$ 10	\$ —	\$ —	\$ 10

See Note 9, *Postretirement Benefits*, for further discussion.

Asset Impairments

In the three and six months ended April 30, 2021 and 2020, we concluded that we had triggering events primarily related to certain trucks under operating leases, due to declines in expected residual values. As a result, for the three and six months ended April 30, 2021 we recorded charges of \$1 million and \$7 million, respectively, and for the three and six months ended April 30, 2020 we recorded charges of \$1 million, for both periods, in our Truck segment.

In the three months ended April 30, 2020, we identified a triggering event related to our operations in Brazil due to the impacts of the COVID-19 pandemic, which resulted in declines in actual and forecasted results. We performed an impairment test as of April 30, 2020 on the long-lived assets of the Brazilian asset group. As a result, we recorded charges of \$12 million in our Global Operations segment.

These charges were recorded in *Asset impairment charges* in our *Consolidated Statements of Operations*.

See Note 11, *Fair Value Measurements*, for information on the valuation of impaired operating leases and other long-lived assets.

4. Finance Receivables

Finance receivables are receivables of our Financial Services operations. Finance receivables generally consist of wholesale notes and accounts, as well as retail notes, finance leases and accounts. Total finance receivables reported on the *Consolidated Balance Sheets* are net of an allowance for credit losses. Total assets of our Financial Services operations net of intercompany balances were \$2.5 billion and \$2.2 billion as of April 30, 2021 and October 31, 2020, respectively.

Included in total assets of our Financial Services operations were finance receivables of \$1.6 billion as of both April 30, 2021 and October 31, 2020. We have two portfolio segments of finance receivables that we distinguish based on the type of customer and nature of the financing inherent to each portfolio. The retail portfolio segment represents loans or leases to end-users for the purchase or lease of vehicles. The wholesale portfolio segment represents loans to dealers to finance their inventory.

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Notes to Consolidated Financial Statements—(Continued)
(Unaudited)

In connection with the COVID-19 pandemic, we have previously received extension requests from certain customers in the retail note and finance lease portfolios in Mexico. These requests were generally granted for short-term extensions (6 months or less), without interest or principal forgiveness. The related credit exposure was not material to the consolidated financial statements. We will continue to monitor our portfolios in light of the ongoing economic uncertainties resulting from the COVID-19 pandemic. We may offer additional extensions and modifications to customers going forward in order to maximize the recoverability of outstanding receivable balances.

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

(in millions)	As of April 30, 2021	As of October 31, 2020
Retail portfolio	\$ 643	\$ 622
Wholesale portfolio	1,009	1,025
Total finance receivables	1,652	1,647
Less: Allowance for credit losses	34	25
Total finance receivables, net	1,618	1,622
Less: Current portion, net ^(A)	1,360	1,371
Noncurrent portion, net	\$ 258	\$ 251

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

Securizations

Our Financial Services operations transfer wholesale notes, retail accounts receivable, finance leases, and operating leases to special purpose entities ("SPEs"), which generally are only permitted to purchase these assets, issue asset-backed securities, and make payments on the securities issued. In addition to servicing receivables, our continued involvement in the SPEs may include an economic interest in the transferred receivables and, in some cases, managing exposure to interest rate changes on the securities using interest rate swaps or interest rate caps. There were no transfers of finance receivables that qualified for sale accounting treatment as of April 30, 2021 or October 31, 2020, and as a result, the transferred finance receivables are included in our *Consolidated Balance Sheets* and the related interest earned is included in *Finance revenues*.

We transfer eligible finance receivables into trusts in order to issue asset-backed securities. These trusts are VIEs of which we are determined to be the primary beneficiary and, therefore, the assets and liabilities of the trusts are included in our *Consolidated Balance Sheets*. The outstanding balance of finance receivables transferred into these VIEs was \$668 million and \$649 million as of April 30, 2021 and October 31, 2020, respectively.

Other finance receivables related to secured transactions that do not qualify for sale accounting treatment were \$142 million and \$182 million as of April 30, 2021 and October 31, 2020, respectively. For more information on assets and liabilities of consolidated VIEs and other securitizations accounted for as secured borrowings by our Financial Services segment, see Note 1, *Summary of Significant Accounting Policies*.

Finance Revenues

The following table presents the components of our *Finance revenues* from our Financial Services segment:

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Notes to Consolidated Financial Statements—(Continued)
(Unaudited)

(in millions)	Three Months Ended April 30,		Six Months Ended April 30,	
	2021	2020	2021	2020
Retail notes and finance leases revenue.....	\$ 15	\$ 18	\$ 31	\$ 34
Wholesale notes revenue	9	19	20	35
Operating lease revenue	24	23	47	44
Retail and wholesale accounts revenue	2	4	3	8
Gross finance revenues.....	50	64	101	121
Less: Intercompany revenues	7	14	13	25
Finance revenues	\$ 43	\$ 50	\$ 88	\$ 96

5. Allowance for Credit Losses

Our two finance receivables portfolio segments, retail and wholesale, each consist of one class of receivable based on: (i) initial measurement attributes of the receivables and (ii) the assessment and monitoring of risk and performance of the receivables. For more information, see Note 4, *Finance Receivables*.

The following tables present the activity related to our allowance for credit losses for our retail portfolio segment, wholesale portfolio segment, and trade and other receivables. On November 1, 2020, we adopted ASU 2016-13. For an explanation of the adoption of ASU 2016-13, see Note 1, *Summary of Significant Accounting Policies*:

(in millions)	Three Months Ended April 30, 2021				Six Months Ended April 30, 2021			
	Retail Portfolio	Wholesale Portfolio	Trade and Other Receivables	Total	Retail Portfolio	Wholesale Portfolio	Trade and Other Receivables	Total
Allowance for doubtful accounts at beginning of period	N/A	N/A	N/A	N/A	\$ 23	\$ 2	\$ 19	\$ 44
Adoption of ASU 2016-13	N/A	N/A	N/A	N/A	7	—	1	8
Reclassifications ^(A)	N/A	N/A	N/A	N/A	—	—	(8)	(8)
Allowance for credit losses at beginning of period	\$ 33	\$ 2	\$ 12	\$ 47	30	2	12	44
Provision for credit losses	2	—	1	3	5	—	1	6
Charge-offs	(3)	—	—	(3)	(5)	—	—	(5)
Recoveries	1	—	—	1	1	—	—	1
Other ^(B)	(1)	—	1	—	1	—	1	2
Allowance for credit losses at end of period	\$ 32	\$ 2	\$ 14	\$ 48	\$ 32	\$ 2	\$ 14	\$ 48

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Notes to Consolidated Financial Statements—(Continued)
(Unaudited)

(in millions)	Three Months Ended April 30, 2020				Six Months Ended April 30, 2020			
	Retail Portfolio	Wholesale Portfolio	Trade and Other Receivables	Total	Retail Portfolio	Wholesale Portfolio	Trade and Other Receivables	Total
Allowance for doubtful accounts at beginning of period	\$ 22	\$ 3	\$ 21	\$ 46	\$ 20	\$ 3	\$ 21	\$ 44
Provision for doubtful accounts	4	(1)	2	5	7	(1)	3	9
Charge-offs	(1)	—	—	(1)	(3)	—	—	(3)
Other ^(B)	(4)	—	(3)	(7)	(3)	—	(4)	(7)
Allowance for doubtful accounts at end of period	<u>\$ 21</u>	<u>\$ 2</u>	<u>\$ 20</u>	<u>\$ 43</u>	<u>\$ 21</u>	<u>\$ 2</u>	<u>\$ 20</u>	<u>\$ 43</u>

(A) In conjunction with the adoption of ASU 2016-13, we reclassified \$8 million of non-credit allowances existing at October 31, 2020, to other components of *Trade and other receivables, net* and *Other current liabilities*.

(B) Amounts include the impact from currency translation.

Certain loss reserves on finance receivables are recorded by our Truck segment under trade and other receivables above.

Impaired finance receivables include non-performing and troubled debt restructurings ("TDR"). Non-performing receivables are those over 90 days past due or otherwise deemed not fully collectible under existing contractual terms. The accrual of interest income is suspended on non-performing finance receivables. As such, the amortized cost of our finance receivables contains an insignificant amount of accrued interest. We may continue to collect payments on our impaired finance receivables.

The following table presents information regarding impaired finance receivables:

(in millions)	April 30, 2021			October 31, 2020		
	Retail Portfolio	Wholesale Portfolio	Total	Retail Portfolio	Wholesale Portfolio	Total
Impaired finance receivables with specific loss reserves	\$ 46	\$ —	\$ 46	\$ 31	\$ —	\$ 31
Impaired finance receivables without specific loss reserves	—	—	—	—	—	—
Specific loss reserves on impaired finance receivables	14	—	14	12	—	12
Finance receivables on non-accrual status	29	—	29	31	—	31

The average balances of the impaired finance receivables in the retail portfolio were \$39 million and \$25 million during the six months ended April 30, 2021 and 2020, respectively. See Note 11, *Fair Value Measurements*, for information on the valuation of impaired finance receivables.

In response to the COVID-19 pandemic, we may grant limited payment extensions to certain customers who were not past due before the pandemic. There is no forgiveness of principal or interest in connection with these extensions. For those extensions requiring further modifications, we concluded that such modifications are TDRs. We have TDRs in the normal course of our Financial Services operations; however, such amounts are not material.

The age analysis is used to assess risk in our portfolio segments and to aide in identifying impaired receivables. The following table presents the aging analysis for finance receivables:

(in millions)	April 30, 2021			October 31, 2020		
	Retail Portfolio	Wholesale Portfolio	Total	Retail Portfolio	Wholesale Portfolio	Total
Current, and up to 30 days past due	\$ 579	\$ 1,009	\$ 1,588	\$ 558	\$ 1,024	\$ 1,582
30-90 days past due	42	—	42	44	1	45
Over 90 days past due	22	—	22	20	—	20
Total finance receivables	<u>\$ 643</u>	<u>\$ 1,009</u>	<u>\$ 1,652</u>	<u>\$ 622</u>	<u>\$ 1,025</u>	<u>\$ 1,647</u>

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The following table presents the amortized cost of our receivables that have an original maturity of more than one year. Performing and non-performing receivables are disaggregated as we measure expected credit losses differently. This table excludes our wholesale portfolio, trade accounts and other receivables which are short term in nature.

(in millions)	Year of Origination						Total
	2021	2020	2019	2018	2017	Prior to 2017	
Retail - U.S. performing receivables	\$ 10	\$ 16	\$ 8	\$ 5	\$ 5	\$ —	\$ 44
Retail - Mexico performing receivables	76	119	87	53	16	4	355
Total performing receivables	86	135	95	58	21	4	399
Retail - U.S. non-performing receivables	—	—	—	—	—	—	—
Retail - Mexico non-performing receivables	2	4	5	9	4	4	28
Total non-performing receivables	2	4	5	9	4	4	28
Retail - Total	\$ 88	\$ 139	\$ 100	\$ 67	\$ 25	\$ 8	\$ 427

6. Inventories

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

(in millions)	April 30, 2021	October 31, 2020
Finished products	\$ 502	\$ 516
Work in process	187	25
Raw materials	328	222
Total inventories, net	\$ 1,017	\$ 763

7. Leases

Lessee

The following table presents balance sheet information related to finance and operating leases:

(in millions)	As of April 30, 2021	As of October 31, 2020
Operating lease right of use assets	\$ 123	\$ 119
Finance lease right of use assets ^(A)	2	2
Total right of use assets	\$ 125	\$ 121
Operating lease liabilities		
Other current liabilities	\$ 30	\$ 30
Other noncurrent liabilities	96	92
Finance lease liabilities		
Notes payable and current maturities of long-term debt	—	1
Long-term debt	1	1
Total lease liabilities	\$ 127	\$ 124

(A) Finance lease right of use assets are included in *Property and Equipment, net* on our *Consolidated Balance Sheets*.

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Lessor

We primarily lease trucks, tractors, and trailers to retail customers and dealers in the U.S. and Mexico through our Financial Services segment. These leases are classified as either operating or finance leases, expire at various dates, and typically have terms which allow an extension or fair value options to purchase the asset at the end of the lease term. The terms of leases generally range from 2 to 7 years, though extension periods may be for a shorter time. Our Financial Services segment manages the relationship with Navistar Capital (a program of BMO Harris Bank N.A. and Bank of Montreal (together, “BMO”)). Navistar Capital is our third-party preferred source of retail and lease customer financing for equipment offered by us and our dealers in the U.S. For certain Navistar Capital financed contracts which contain an end of term option for us to purchase the leased equipment if the customer declines to do so, we recognize the equipment subject to an operating lease as an asset on our *Consolidated Balance Sheets*. For more information related to the BMO arrangement, see Note 12, *Commitments and Contingencies*. We have also leased certain real estate to third parties to manage excess capacity through our Corporate segment.

We depreciate trucks, tractors, and trailers leased to customers under operating lease agreements on a straight-line basis to the equipment's estimated residual value over the lease term. The residual values of the equipment leased under operating lease agreements represent estimates of the value of the assets at the end of the lease contracts and are initially recorded based on estimates of future market values. Realization of the residual values is dependent on our future ability to market the equipment. We work with our customers and dealers to manage the sale of lease returns and the recovery of residual exposure. We also review residual values periodically to determine that recorded amounts are appropriate and the equipment is not impaired. For more information on key inputs and valuation methodologies in evaluating impairment of assets under operating lease agreements, see Note 11, *Fair Value Measurements*. For more information regarding impaired finance receivables, see Note 5, *Allowance for Credit Losses*, and Note 3, *Restructuring, Impairments and Divestitures* for impaired assets under operating leases.

The following table presents revenue from finance and operating leases, included in our *Consolidated Statements of Operations*:

(in millions)	Three Months Ended April 30,				Six Months Ended April 30,			
	Finance Leases ^(A)		Operating Leases		Finance Leases ^(A)		Operating Leases	
	2021	2020	2021	2020	2021	2020	2021	2020
Sales of manufactured products, net	\$ —	\$ —	\$ 6	\$ 4	\$ —	\$ —	\$ 12	\$ 12
Finance revenues	7	11	22	22	14	18	43	41
Other expense, net	—	—	2	2	—	—	3	3
Total lease revenue	\$ 7	\$ 11	\$ 30	\$ 28	\$ 14	\$ 18	\$ 58	\$ 56

(A) Finance revenues consist primarily of interest income. Additional fees, such as late fees, are not material to our consolidated financial statements.

8. Debt

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

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(in millions)	April 30, 2021	October 31, 2020
Manufacturing operations		
Senior Secured Term Loan Credit Agreement, due 2025, net of unamortized discount of \$4 and \$5, respectively, and unamortized debt issuance costs of \$7 and \$8, respectively	\$ 1,537	\$ 1,543
9.5% Senior Secured Notes, due 2025, net of unamortized debt issuance costs of \$10 and \$11, respectively	590	589
6.625% Senior Notes, due 2026, net of unamortized debt issuance costs of \$12 and \$13, respectively	1,088	1,087
Loan Agreement related to 4.75% Tax Exempt Bonds, due 2040, net of unamortized debt issuance costs of \$2 at both dates	223	223
Financed lease obligations	36	45
Other	6	9
Total Manufacturing operations debt	3,480	3,496
Less: Current portion	39	45
Net long-term Manufacturing operations debt	\$ 3,441	\$ 3,451

(in millions)	April 30, 2021	October 31, 2020
Financial Services operations		
Asset-backed debt issued by consolidated SPEs, at fixed and variable rates, due serially through 2022, net of unamortized debt issuance costs of \$2 and \$4, respectively	\$ 967	\$ 724
Bank credit facilities, at fixed and variable rates, due dates from 2021 through 2026, net of unamortized debt issuance costs of less than \$1 and \$1, respectively	836	940
Commercial paper, at variable rates, program matures in 2022	15	—
Borrowings secured by operating and finance leases, at various rates, due serially through 2026	169	170
Total Financial Services operations debt	1,987	1,834
Less: Current portion	804	595
Net long-term Financial Services operations debt	\$ 1,183	\$ 1,239

Manufacturing Operations

9.5% Senior Secured Notes due 2025

On April 26, 2021, NIC issued a notice for conditional call for redemption of all of its outstanding 9.5% Senior Secured Notes due 2025 (the “Senior Secured Notes”). The conditional redemption notice calls for redemption of the Senior Secured Notes on June 25, 2021 at a redemption price of 107.125% of the principal amount redeemed, which amount is equal to \$1,071.25 per \$1,000 principal amount of the Senior Secured Notes, plus accrued and unpaid interest up to, but not including, the redemption date, in accordance with the provisions of the indenture governing the Senior Secured Notes. The redemption is subject to and expressly conditioned upon the consummation of the closing of the merger of Merger Subsidiary with and into Navistar pursuant to the Merger Agreement, on terms satisfactory to Navistar and TRATON SE (the “Senior Secured Notes Merger Condition”). The redemption date will be delayed until such time as the Senior Secured Notes Merger Condition is satisfied (including more than 60 days after the issue date of the conditional redemption notice) or the conditional redemption notice is rescinded if the Senior Secured Notes Merger Condition is not satisfied on or prior to the redemption date or the redemption date so delayed.

4.75% Tax Exempt Bonds due 2040

On May 27, 2021, at the direction of NIC, a notice of conditional optional redemption was issued for all of the outstanding \$225 million aggregate principal amount of Illinois Finance Authority (“IFA”) Recovery Zone Facility Refunding Revenue

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Bonds (Navistar International Corporation Project) Series 2020 (the “4.75% Tax Exempt Bonds”). The original proceeds from the 4.75% Tax Exempt Bonds were loaned by the IFA to the Company pursuant to a Loan Agreement dated as of July 1, 2020. The conditional redemption notice calls for redemption of the 4.75% Tax Exempt Bonds on July 2, 2021 at the redemption price of 100.00% of the principal amount redeemed plus accrued and unpaid interest up to, but not including, the redemption date, in accordance with the provisions of the indenture governing the 4.75% Tax Exempt Bonds. The redemption is subject to and expressly conditioned upon (i) the consummation of the closing of the merger of Merger Subsidiary with and into the Company, with the Company surviving the Merger, pursuant to the Merger Agreement on terms satisfactory to the Company and the Parent and in which the holders of the common stock of the Company outstanding immediately prior to the Merger do not hold, directly or indirectly, at least a majority of the common stock of the Company after the Merger (the “4.75% Tax Exempt Bonds Merger Condition”) and (ii) the receipt by Citibank, N.A., as trustee under the indenture governing the 4.75% Tax Exempt Bonds, on or prior to the redemption date of the appropriate funds required to pay the redemption price plus accrued and unpaid interest up to, but not including, the redemption date, to redeem the 4.75% Tax Exempt Bonds on the redemption date. In the event that the 4.75% Tax Exempt Bonds Merger Condition is not satisfied on or prior to the redemption date or Citibank, N.A. does not receive sufficient monies to redeem the 4.75% Tax Exempt Bonds on the redemption date, the redemption will not occur on the redemption date.

Financial Services Operations

Asset-backed Debt

The Truck Retail Accounts Corporation (“TRAC”) funding facility has a capacity range of \$100 million to \$200 million and renews automatically, subject to six months lender cancellation notice. Amounts borrowed under this facility for the six months ended April 30, 2021 and 2020 were \$147 million and \$97 million, respectively. Repayments under this facility for the six months ended April 30, 2021 and 2020 were \$181 million and \$188 million, respectively.

In April 2021, the maturity date of our variable funding notes (“VFN”) facility was extended to April 2022, and the maximum capacity remained at \$350 million. Amounts borrowed under this facility for the six months ended April 30, 2021 and 2020 were \$285 million and \$140 million, respectively. Repayments under this facility for the six months ended April 30, 2021 and 2020 were \$10 million and \$245 million, respectively.

In May 2021, \$300 million of investor notes issued in 2019 by Navistar Financial Securities Corporation were fully repaid upon maturity.

9. Postretirement Benefits

Defined Benefit Plans

We provide postretirement benefits to a substantial portion of our employees and retirees. Costs associated with postretirement benefits include pension and postretirement health care expenses for employees, retirees, surviving spouses and dependents.

Generally, the pension plans are non-contributory. Our policy is to fund the pension plans in accordance with applicable U.S. and Canadian government regulations and to make additional contributions from time to time. For the six months ended April 30, 2021 and 2020, we contributed \$191 million and \$30 million, respectively, to our pension plans to meet regulatory funding requirements. The 2021 contributions include the \$157 million of contributions we deferred in 2020 under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”). We expect to contribute approximately \$2 million to our pension plans during the remainder of 2021, as our previously expected remaining 2021 contributions of \$129 million have been reduced under funding relief provisions in the American Rescue Plan Act (“ARPA”), enacted March 11, 2021.

We primarily fund other post-employment benefits (“OPEB”) obligations, such as retiree medical, in accordance with the 1993 Settlement Agreement (the “1993 Settlement Agreement”), which requires us to fund a portion of the plans' annual service cost to a retiree benefit trust (the “Base Trust”). The 1993 Settlement Agreement resolved a class action lawsuit originally filed in

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1992 regarding the restructuring of our then applicable retiree health care and life insurance benefits. Contributions for the six months ended April 30, 2021, as well as anticipated contributions for the remainder of 2021, are not material.

Components of Net Periodic Benefit Expense

Net periodic benefit expense included in our *Consolidated Statements of Operations* for the three and six months ended April 30, 2021 and 2020 are comprised of the following:

(in millions)	Three Months Ended April 30,				Six Months Ended April 30,			
	Pension Benefits		Health and Life Insurance Benefits		Pension Benefits		Health and Life Insurance Benefits	
	2021	2020	2021	2020	2021	2020	2021	2020
Service cost for benefits earned during the period	\$ 2	\$ 2	\$ 1	\$ 1	\$ 4	\$ 4	\$ 1	\$ 2
Interest on obligation	13	21	2	7	27	42	5	14
Amortization of cumulative loss (gain)	27	24	(10)	—	54	49	(20)	—
Contractual termination benefits	—	—	—	—	9	—	3	—
Premiums on pension insurance	2	3	—	—	5	6	—	—
Expected return on assets	(33)	(36)	(4)	(5)	(66)	(72)	(8)	(10)
Net periodic benefit expense (income)	\$ 11	\$ 14	\$ (11)	\$ 3	\$ 33	\$ 29	\$ (19)	\$ 6

Contractual termination benefits are recorded in our Truck segment within *Restructuring charges* in our *Consolidated Statements of Operations*. All other components of net periodic benefit cost other than service cost are included in *Other expense, net* in our *Consolidated Statements of Operations*.

In the first quarter of 2021, we committed to a plan to cease all operations at the Melrose Park Facility by November 2021. As a result, for the six months ended April 30, 2021, we recognized \$9 million of pension and \$3 million of OPEB contractual termination benefits charges. These charges were recorded in our Truck segment within *Restructuring charges* in our *Consolidated Statements of Operations*. See Note 3, *Restructuring, Impairments and Divestitures* for further discussion. A pension curtailment gain of \$2 million, an OPEB curtailment loss of \$7 million and net actuarial gains of \$43 million resulting from pension and OPEB remeasurements in connection with our Melrose Park Facility announcement were recognized as a component of *Accumulated other comprehensive loss* for the six months ended April 30, 2021.

Defined Contribution Plans and Other Contractual Arrangements

Our defined contribution plans cover a substantial portion of domestic salaried employees and certain domestic represented employees. The defined contribution plans contain a 401(k) feature and provide most participants with a matching contribution from the Company. In fiscal 2020, we implemented cash conservation initiatives, including a delay in certain 401(k) Company matching contributions until 2021. Prior to this, the matching contributions for non-represented employees were deposited monthly. Effective January 2021, the matching contributions went back to being deposited on a monthly basis. Many participants covered by the plans receive annual Company contributions to their retirement accounts based on an age-weighted percentage of the participant's eligible compensation for the calendar year. Defined contribution expense pursuant to these plans was \$9 million and \$16 million for the three and six months ended April 30, 2021, respectively, and \$11 million and \$19 million for the three and six months ended April 30, 2020, respectively.

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

Our contingent profit sharing obligations under a certain Supplemental Benefit Trust Profit Sharing Plan will continue until certain funding targets defined by the 1993 Settlement Agreement are met. As noted within the *Profit Sharing Disputes* section of Note 12, *Commitments and Contingencies*, the Company requested the Court reform the 1993 Settlement Agreement to

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provide clarity regarding certain “Profit Sharing Cessation Date” provisions, which relate to the timing and impact of the cessation of the Company’s Profit Sharing Plan contributions. We are currently unable to determine whether we have achieved the specific funding targets that may result in profit sharing cessation. Upon profit sharing cessation, the Company may have ongoing responsibilities related to amortized actuarial and investment losses. For the three and six months ended April 30, 2021, we recorded \$31 million in profit sharing accruals based on the operating performance of the entities that are included in the determination of qualifying profits. For the three and six months ended April 30, 2020, we did not record any profit sharing accruals. For more information on an arbitration regarding the Supplemental Benefit Trust Profit Sharing Plan, which was concluded on February 5, 2021, see Note 12, *Commitments and Contingencies*.

10. Income Taxes

For interim income tax reporting we estimate our annual effective tax rate and apply it to our year to date ordinary income (loss). Tax jurisdictions with a projected full year loss for which a tax benefit cannot be realized are excluded. Our annual effective tax rate is primarily impacted by jurisdictions that continue to be in a valuation allowance where tax benefits are not recognized. The tax effects of unusual or infrequently occurring items, including changes in judgment about valuation allowances and effects of changes in tax laws or rates, are reported in the interim period in which they occur.

For the three and six months ended April 30, 2021, we recognized an income tax expense of \$51 million and \$33 million, respectively, compared to income tax expense of \$7 million and \$2 million for the respective prior year periods. The change in tax is primarily due to the increase in income before income taxes and earnings and/or losses for which no tax expense or benefit can be recognized due to valuation allowances. Other year over year differences for the second quarter and first half of 2021 include geographical mix and certain discrete items, primarily related to the change in value of the U.S. dollar resulting in an income tax expense of \$19 million and \$23 million for the three and six months ended April 30, 2021, respectively.

We have open tax years back to 2001 with various significant taxing jurisdictions, including the U.S., Canada, Mexico, and Brazil. In connection with the examination of tax returns, contingencies may arise that generally result from differing interpretations of applicable tax laws and regulations as they relate to the amount, timing, or inclusion of revenues or expenses in taxable income, or the sustainability of tax credits to reduce income taxes payable. In our 2018 fiscal year, we received a favorable ruling from the Tribunal Regional Federal da 4 (the Fourth Regional Federal Court in Brazil, the “Brazilian Fourth Court”) in connection with certain indirect federal taxes (PIS and COFINS) credits in Brazil. In 2020 we determined that it was probable to receive the credits, which were recognized within our 2020 fiscal year results. We have a pending similar case in the Brazilian Fourth Court. The Receita Federal, a tax authority in Brazil, filed a Motion of Clarification on a leading case with the Supremo Tribunal Federal (the “Brazilian Supreme Court”). In May 2021, the Brazilian Supreme Court ruled in favor of the taxpayer in this leading case related to the calculation of the credits and the scope of the tax years applicable for credits. As a result of that ruling, we determined that it was probable to receive a benefit as a result of or connection with our pending case with the Brazilian Fourth Court and recorded an estimated \$28 million benefit in *Sales of manufactured products, net* and a \$2 million charge in *Selling, General & Administrative expenses* in our *Consolidated Statements of Operations* in our *Global Operations* segment, (translated into US dollars as of April 30, 2021) associated with tax years 2002 to 2020. Timing on realization of PIS and COFINS credits is dependent upon the timing of administrative approvals and generation of federal tax liabilities eligible for offset or sale. Additional contingencies that would result in tax recoveries may be resolved in future periods which could be material.

We have evaluated the need to maintain a valuation allowance for deferred tax assets based on our assessment of whether it is more-likely-than-not that deferred tax benefits will be realized through the generation of future taxable income. We continue to maintain a valuation allowance on the majority of our U.S. deferred tax assets as well as certain foreign deferred tax assets that we believe, on a more-likely-than-not basis, will not be realized based on our analysis of the relevant facts and circumstances. For all remaining deferred tax assets, while we believe that it is more-likely-than-not that they will be realized, we believe that it is reasonably possible that additional deferred tax asset valuation allowances could be required in the next twelve months.

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11. Fair Value Measurements

For assets and liabilities measured at fair value on a recurring and nonrecurring basis, a three-level hierarchy of measurements based upon observable and unobservable inputs is used to arrive at fair value. Observable inputs are developed based on market data obtained from independent sources, while unobservable inputs reflect our assumptions about valuation based on the best information available in the circumstances. Depending on the inputs, we classify each fair value measurement as follows:

- Level 1—based upon quoted prices for *identical* instruments in active markets,
- Level 2—based upon quoted prices for *similar* instruments, prices for identical or similar instruments in markets that are not active, or model-derived valuations, all of whose significant inputs are observable, and
- Level 3—based upon one or more significant unobservable inputs.

The following section describes key inputs and assumptions in our valuation methodologies for instruments other than those discussed in Note 1, *Summary of Significant Accounting Policies*:

Cash Equivalents and Restricted Cash Equivalents—Cash equivalents are highly liquid investments, with an original maturity of 90 days or less, which may include U.S. government and federal agency securities, commercial paper, and other highly liquid investments. The carrying amounts of cash and cash equivalents and restricted cash and cash equivalents approximate fair value because of the short-term maturity and highly liquid nature of these instruments.

Derivative Assets and Liabilities—We measure the fair value of derivatives assuming that the unit of account is an individual derivative transaction and that each derivative could be sold or transferred on a stand-alone basis. We classify within Level 2 our derivatives that are traded over-the-counter and valued using internal models based on observable market inputs.

Guarantees—We provide certain guarantees of payments and residual values, to which losses are generally capped, to specific counterparties. The fair value of these guarantees includes a contingent component and a non-contingent component that are based upon internally developed models using unobservable inputs. We classify these liabilities within Level 3. For more information regarding guarantees, see Note 12, *Commitments and Contingencies*.

Impaired Finance Receivables and Impaired Assets Under Operating Leases—Fair values of the underlying collateral are determined by current and forecasted sales prices, aging of and demand for used trucks, and the mix of sales through various market channels. For more information regarding impaired finance receivables, see Note 5, *Allowance for Credit Losses* and for more information regarding impaired assets under operating leases, see Note 3, *Restructuring, Impairments and Divestitures*.

Impaired Property, Plant and Equipment—We generally measure the fair value by discounting future cash flows expected to be received from the operation of, or disposition of, the asset or asset group that has been determined to be impaired. When appropriate, we utilize alternative methods for the measurement of fair value such as market and cost approaches. For more information regarding the impairment of property, plant and equipment, see Note 3, *Restructuring, Impairments and Divestitures*.

The following table presents the financial instruments measured at fair value on a recurring basis, other than those discussed in Note 1, *Summary of Significant Accounting Policies*:

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(in millions)	As of April 30, 2021				As of October 31, 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Derivative financial instruments:								
Commodity forward contracts ^(A)	\$ —	\$ 11	\$ —	\$ 11	\$ —	\$ 4	\$ —	\$ 4
Foreign currency contracts ^(A)	—	2	—	2	—	5	—	5
Total assets	\$ —	\$ 13	\$ —	\$ 13	\$ —	\$ 9	\$ —	\$ 9
Liabilities								
Derivative financial instruments:								
Commodity forward contracts ^(B)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2	\$ —	\$ 2
Foreign currency contracts ^(B)	—	2	—	2	—	3	—	3
Guarantees	—	—	22	22	—	—	29	29
Total liabilities	\$ —	\$ 2	\$ 22	\$ 24	\$ —	\$ 5	\$ 29	\$ 34

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

(B) The liability values of commodity forward contracts and foreign currency contracts are included in *Other current liabilities* and *Other noncurrent liabilities* in the accompanying *Consolidated Balance Sheets*.

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

(in millions)	Three Months Ended April 30,		Six Months Ended April 30,	
	2021	2020	2021	2020
Guarantees at beginning of period.....	\$ (23)	\$ (24)	\$ (29)	\$ (27)
Net (issuances) terminations.....	—	(7)	5	(5)
Settlements	1	3	2	4
Guarantees at end of period	\$ (22)	\$ (28)	\$ (22)	\$ (28)

The primary input for determining the fair value of Level 3 guarantees is expected credit losses. For more information regarding the estimate of expected credit losses, see Note 1, *Summary of Significant Accounting Policies*. There were no transfers of Level 3 financial instruments.

In addition to the methods and assumptions we use for the financial instruments recorded at fair value as discussed above, we use the following methods and assumptions to estimate the fair value for our other financial instruments that are not marked to market on a recurring basis. The carrying amounts of *Cash and cash equivalents*, *Restricted cash and cash equivalents*, and *Accounts payable* approximate fair values because of the short-term maturity and highly liquid nature of these instruments. *Finance receivables, net* generally consist of retail and wholesale accounts and notes.

The carrying amounts of *Trade and other receivables, net* and retail and wholesale accounts approximate fair values as a result of the short-term nature of the receivables. The carrying amounts of wholesale notes approximate fair values as a result of the short-term nature of the wholesale notes and their variable interest rate terms. Due to the nature of the aforementioned financial instruments, they have been excluded from the fair value amounts presented in the table below.

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

The fair values of our debt instruments classified as Level 1 were determined using quoted market prices. The 4.75% Tax-Exempt Bonds, due 2040, are traded, but the trading market is illiquid, and as a result, the Loan Agreement underlying the Tax-Exempt Bonds is classified as Level 2. Trading in our 6.625% Senior Notes and our 9.5% Senior Secured Notes is limited to qualified institutional buyers; therefore, the notes are classified as Level 2. The fair values of our Level 3 debt instruments are generally determined using internally developed valuation techniques such as discounted cash flow modeling. Inputs such as

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discount rates and credit spreads reflect our estimates of assumptions that market participants would use in pricing the instrument and may be unobservable.

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

(in millions)	As of April 30, 2021				
	Estimated Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets					
Retail notes.....	\$ —	\$ —	\$ 237	\$ 237	\$ 232
Liabilities					
Debt:					
<i>Manufacturing operations</i>					
Senior Secured Term Loan Credit Agreement, due 2025	—	—	1,546	1,546	1,537
9.5% Senior Secured Notes, due 2025	—	649	—	649	590
6.625% Senior Notes, due 2026	—	1,133	—	1,133	1,088
Loan Agreement related to 4.75% Tax Exempt Bonds, due 2040	—	238	—	238	223
Financed lease obligations.....	—	—	37	37	36
Other ^(A)	—	—	5	5	5
<i>Financial Services operations</i>					
Asset-backed debt issued by consolidated SPEs, due serially through 2022.....	—	—	969	969	967
Bank credit facilities, due dates from 2021 through 2026.....	—	—	822	822	836
Commercial paper, at variable rates, program matures in 2022	15	—	—	15	15
Borrowings secured by operating and finance leases, due serially through 2026	—	—	171	171	169
As of October 31, 2020					
(in millions)	Estimated Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets					
Retail notes.....	\$ —	\$ —	\$ 223	\$ 223	\$ 222
Liabilities					
Debt:					
<i>Manufacturing operations</i>					
Senior Secured Term Loan Credit Agreement, due 2025	—	—	1,538	1,538	1,543
9.5% Senior Secured Notes, due 2025	—	665	—	665	589
6.625% Senior Notes, due 2026	—	1,137	—	1,137	1,087
Loan Agreement related to 4.75% Tax Exempt Bonds, due 2040	—	227	—	227	223
Financed lease obligations.....	—	—	46	46	45
Other ^(A)	—	—	7	7	7
<i>Financial Services operations</i>					
Asset-backed debt issued by consolidated SPEs, at various rates, due serially through 2022.....	—	—	726	726	724
Bank credit facilities, due dates from 2021 through 2026.....	—	—	914	914	940
Borrowings secured by operating and finance leases, due serially through 2026	—	—	171	171	170

(A) Excludes non-financial instrument debt of \$1 million and \$2 million as of April 30, 2021 and October 31, 2020, respectively.

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12. Commitments and Contingencies

Guarantees

We occasionally provide guarantees that could obligate us to make future payments if the primary entity fails to perform under its contractual obligations. We have recognized liabilities for some of these guarantees in our *Consolidated Balance Sheets* as they meet the recognition and measurement provisions of U.S. GAAP. In addition to the liabilities that have been recognized, we are contingently liable for other potential losses under various guarantees. We do not believe that claims that may be made under such guarantees would have a material effect on our financial condition, results of operations, or cash flows.

Under the terms of the Navistar Capital Operating Agreement, BMO is our third-party preferred source of retail and lease customer financing for equipment offered by us and our dealers in the U.S. The Navistar Capital Operating Agreement, as amended, contains a loss sharing arrangement under which we generally reimburse BMO for excess credit losses as defined in the arrangement. Our exposure to loss is mitigated because contracts under the Navistar Capital Operating Agreement are secured by the financed equipment. There were \$1.4 billion and \$1.5 billion of outstanding loan principal and operating lease payments receivable at April 30, 2021 and October 31, 2020, respectively, financed through the Navistar Capital Operating Agreement and subject to the loss sharing arrangements in the U.S. The related financed values of these outstanding contracts were \$2.3 billion and \$2.5 billion at April 30, 2021 and October 31, 2020, respectively. We have recognized a guarantee liability for our portion of estimated Navistar Capital credit losses. Generally, we do not carry the contracts under the Navistar Capital Operating Agreement on our *Consolidated Balance Sheets*.

For certain third-party financed contracts, we have recognized equipment leased to others of \$37 million and \$39 million as of April 30, 2021 and October 31, 2020, respectively, and financed lease and other obligations of \$45 million and \$49 million, in our *Consolidated Balance Sheets* as of April 30, 2021 and October 31, 2020, respectively.

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

We obtain certain stand-by letters of credit and surety bonds from third-party financial institutions in the ordinary course of business when required under contracts or to satisfy insurance-related requirements. As of April 30, 2021, the amount of stand-by letters of credit and surety bonds issued was \$84 million.

In addition, as of April 30, 2021, we have \$157 million of outstanding purchase commitments and contracts with \$23 million of cancellation fees with expiration dates through 2028.

In the ordinary course of business, we also provide routine indemnifications and other guarantees, the terms of which range in duration and often are not explicitly defined. We do not believe these will result in claims that would have a material impact on our financial condition, results of operations, or cash flows.

Environmental Liabilities

We have been named a potentially responsible party ("PRP"), in conjunction with other parties, in a number of cases arising under an environmental protection law, the Comprehensive Environmental Response, Compensation, and Liability Act, popularly known as the "Superfund" law. These cases involve sites that allegedly received wastes from current or former Company locations. Based on information available to us, which, in most cases, consists of data related to quantities and characteristics of material generated at current or former Company locations, material allegedly shipped by us to these disposal

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sites, as well as cost estimates from PRPs and/or federal or state regulatory agencies for the cleanup of these sites, a reasonable estimate is calculated of our share of the probable costs, if any, and accruals are recorded in our consolidated financial statements. These accruals are generally recognized no later than upon completion of the remedial feasibility study and are not discounted to their present value. We review all accruals on a regular basis and believe that, based on these calculations, our share of the potential additional costs for the cleanup of each site will not have a material effect on our financial condition, results of operations, or cash flows.

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

We have accrued \$18 million for these and other environmental matters, which are included within *Other current liabilities* and *Other noncurrent liabilities*, as of April 30, 2021. The majority of these accrued liabilities are expected to be paid subsequent to 2021.

Along with other vehicle manufacturers, we have been subject to a number of asbestos-related claims. In general, these claims relate to illnesses alleged to have resulted from asbestos exposure from component parts found in older vehicles, although some cases relate to the alleged presence of asbestos in our facilities. In these claims, we are generally not the sole defendant, and the claims name as defendants numerous manufacturers and suppliers of a wide variety of products allegedly containing asbestos. We have strongly disputed these claims, and it has been our policy to defend against them vigorously. Historically, the actual damages paid out to claimants have not been material in any year to our financial condition, results of operations, or cash flows. It is possible that the number of these asbestos-related claims, and the costs for resolving them, could become significant in the future.

Legal Proceedings

Overview

We are subject to various claims arising in the ordinary course of business and are party to various legal proceedings that constitute ordinary, routine litigation incidental to our business. The majority of these claims and proceedings relate to commercial, product liability, and warranty matters. In addition, from time to time we are subject to various claims and legal proceedings related to employee compensation, benefits, and benefits administration, including, but not limited to, compliance with the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and Department of Labor requirements.

In our opinion, apart from the actions set forth below, the disposition of these proceedings and claims, after taking into account recorded accruals and the availability and limits of our insurance coverage, will not have a material adverse effect on our business or our financial condition, results of operations, or cash flows.

Profit Sharing Disputes

Pursuant to the 1993 Settlement Agreement, the program administrator and named fiduciary of the Supplemental Benefit Program is the Supplemental Benefit Program Committee (the "Committee"), composed of individuals not appointed by NI or NIC. In August 2013, the Committee filed a motion for leave to (a) amend its February 2013 complaint (which sought injunctive relief for the Company to provide certain information to which the Committee was allegedly entitled under the Supplemental Benefit Trust Profit Sharing Plan (the "Profit Sharing Plan")) and (b) file a proposed amended complaint (the "Profit Sharing Complaint") in the U.S. District Court for the Southern District of Ohio (the "Court"). Leave to file the Profit Sharing Complaint was granted by the Court in October 2013. In its Profit Sharing Complaint, the Committee alleged that the Company breached the 1993 Settlement Agreement and violated ERISA by failing to properly calculate profit sharing contributions due under the Profit Sharing Plan and sought damages in excess of \$50 million, injunctive relief and reimbursement of attorneys' fees and costs. In May 2015 the Court ordered that the claims in the Profit Sharing Complaint be arbitrated pursuant to the dispute resolution procedures in the Profit Sharing Plan. The Company and the Committee selected an arbitrator and the arbitration discovery process commenced. On June 29, 2017, the arbitrator ruled, among other things, that the

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arbitration will include Profit Sharing Plan calculations for the years ending October 31, 2001 through October 31, 2014. The Company disputes the arbitrator's June 29, 2017 ruling. On February 17, 2020, the Committee filed its written submission with the arbitrator and requested a damages award of \$588 million comprised of \$252 million in profit sharing contributions that the Committee asserts are due under the Profit Sharing Plan and \$336 million of lost earnings that the Committee asserts the Supplemental Trust would have earned had those profit sharing contributions been made and invested. On June 5, 2020 the parties and the arbitrator agreed the only years at issue for the arbitration are the plan years ending October 31, 2006, 2008, 2009, 2010, and 2011. On September 15, 2020, the arbitrator issued a "Tentative Award" concluding the Company made certain incorrect Profit Sharing Plan calculations, rejecting the Committee's claim for lost earnings, and awarding the maximum rate of interest on the Tentative Award as allowed by Illinois law. Under Illinois statute 815 ILCS 205/2, the maximum prejudgment interest rate is 5% per year. On December 2, 2020, after additional briefing and closing arguments, the arbitrator informed the parties that the next arbitrator ruling issued would not include a computation amount and would not materially change from the Tentative Award. The Company disputes the Tentative Award. On December 11, 2020, the arbitrator issued a "Semi-Final Award", concluding again, that the Company made certain incorrect Profit Sharing Plan calculations, rejecting again the Committee's claim for lost earnings, and awarding the maximum rate of interest on the Semi-Final Award as allowed by Illinois law. The Company disputes the Semi-Final Award. The arbitrator ordered the parties to meet and confer and jointly recalculate Profit Sharing Plan contributions for years ending October 31, 2006 and 2008 through 2011 based on the Semi-Final Award. On January 31, 2021, the Company and the Committee agreed that the arbitrator's final arbitration award should be \$239 million, comprised of \$156 million of Profit Sharing Plan contributions for years ending October 31, 2006 and 2008-2011 and \$83 million of pre-award interest at 5% per year through January 31, 2021. On February 5, 2021, the arbitrator issued an Amended Final Award reflecting the \$239 million award as agreed by the Company and the Committee. Also, on February 5, 2021, the Committee filed with the Court a motion to confirm the Amended Final Award and assess interest. In the motion, the Committee requests 9% per year post-award interest under Illinois law from February 5, 2021 until the date the Court enters judgment confirming the Amended Final Award.

The Company disputes the Amended Final Award, and on February 16, 2021 the Company filed with the Court its motion to vacate the Amended Final Award and stay the confirmation of the Amended Final Award pending the outcome of the Company's motion to vacate and a determination of "Profit Sharing Cessation Date" (as referenced below) issues. On February 26, 2021, the Company filed its opposition to the Committee's motion to confirm the Amended Final Award and assess interest. On March 12, 2021, the Committee filed its memorandum in support of its motion to confirm the Amended Final Award and assess interest and also filed its opposition to the Company's motion to vacate and/or stay the Amended Final Award. On March 26, 2021, the Company filed its reply memorandum in support of its motion to vacate and/or stay the Amended Final Award.

By letter dated February 14, 2019, the Committee indicated the Profit Sharing Plan calculation for the plan year ending October 31, 2018 reflects numerous positions that have caused the Committee to dispute the Profit Sharing Plan calculations in the past, and on that basis the Committee disagrees with the 2018 calculation. The Committee also requested information about the 2018 calculation. On March 12, 2019, the Committee filed a motion to enforce the 1993 Settlement Agreement for the Company's failure to respond to the Committee's February 14, 2019 information requests. On May 15, 2019, the Company responded to the information requests. The motion to enforce is still pending with the Court, but on October 30, 2019, the Company and the Committee met with the Court regarding the motion to enforce, and agreed on a plan for the Company to respond to the Committee's information and document requests related to the 2018 calculation (which also relates to the information requested for the Profit Sharing Plan calculations for the years ending October 31, 2001 through October 31, 2014). Furthermore, the Committee informed the Company, by letter dated January 19, 2020, that it disputes the Company's Profit Sharing Plan calculations for the years ending October 31, 2015 through October 31, 2019. Pursuant to a January 31, 2021 agreement between the Company and the Committee, for Profit Sharing Plan calculations for the years ending October 31, 2015 through 2020, the Company and the Committee agreed to confer regarding the impact of the arbitrator's Amended Final Award as referenced above, and to mediate with the Court any disputes they may have regarding the 2015-2020 calculations. The discussions between the parties regarding the 2015-2020 calculations continue.

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As noted under “Retiree Health Care Litigation” below, on August 14, 2018, the Company filed a motion to schedule a status hearing, in which the Company requested an in-person hearing to discuss the possibility of a global resolution of various disputes under the 1993 Settlement Agreement, including the pending Profit Sharing Complaint. As a result, in-person hearings, an in-chambers conference and several telephone conferences were held with the Court, and on April 17, 2020, the Company filed a motion to reform the 1993 Settlement Agreement. A hearing on the motion to reform the 1993 Settlement Agreement was held on June 1, 2020.

On September 9, 2020, the Committee filed a motion to dismiss the Company's filed statement regarding “Phase 2” of the hearings, in which the Company requested the Court to reform the 1993 Settlement Agreement to provide clarity regarding certain “Profit Sharing Cessation Date” provisions, which relate to the timing and impact of the cessation of the Company's Profit Sharing Plan contributions. The Committee argues the Court lacks jurisdiction because there are no pending disputes regarding the Profit Sharing Cessation Date provisions, and any future disputes fall under an arbitration provision in the 1993 Settlement Agreement. On September 30, 2020, the Company filed its opposition to the Committee's motion to dismiss, and on October 14, 2020 the Committee filed its reply. On April 14, 2021, the Court overruled the Company's motion to reform the 1993 Settlement Agreement in its entirety. Pursuant to a January 31, 2021 agreement, the Company and the Committee agreed to confer on certain "Profit Sharing Cessation Date" provisions, and to mediate with the Court any disputes related to those matters. The discussions between the parties related to the Profit Sharing Cessation Date provisions are ongoing.

In addition, various local bargaining units of the UAW have filed separate grievances pursuant to the profit sharing plans under various collective bargaining agreements in effect between the Company and the UAW that may have similar legal and factual issues as the Profit Sharing Complaint. In the second quarter, the UAW offered to settle the grievances for a lump sum payment of \$3,000 to each of 3,600 current and former UAW-represented employees. Settlement discussions between the Company and the UAW regarding the grievances are ongoing.

Based on our assessment of the facts underlying the claims in the above actions, we recorded a charge in the Company's fiscal quarter ending October 31, 2020 in the amount of \$289 million for the estimated liability, including \$85 million for estimated interest, related to the arbitrator's Amended Final Award noted above. These amounts include the estimated liability for all years ending on or before October 31, 2020. In the first quarter of 2021, we accrued an additional charge of \$2 million for interest related to the estimated liability, and in the second quarter of 2021, we accrued an additional charge of \$2 million for the estimated liability. The charge is included in *SG&A expenses* in our *Consolidated Statement of Operations*. Other than the aforementioned, we are unable to provide meaningful quantification of how the final resolution of these claims may impact our future consolidated financial condition, results of operations, or cash flows.

Retiree Health Care Litigation

On October 21, 2016, a lawsuit was filed with the Court by two individual members of the Committee (the "Committee Members") who are retirees and participants in the Navistar, Inc. Health Benefit and Life Insurance Plan (the “Plan”) created pursuant to the 1993 Settlement Agreement. The Committee Members' complaint (the “Committee Members' Complaint”) was filed against NIC, NI, NFC and certain other former or current affiliates, all of which are parties or employers as defined in the 1993 Settlement Agreement. The Committee Members allege, among other things, that the Company violated the terms of the Plan, breached a fiduciary duty under ERISA, and engaged in ERISA-prohibited transactions by improperly using the Plan's assets (a portion of certain Medicare Part D subsidies and a portion of certain Medicare Part D coverage-gap discounts (collectively, the “Subsidies”), in each case that were received by the Navistar, Inc. Retiree Health Benefit Trust created pursuant to the 1993 Settlement Agreement (the “Base Trust”)) for the Company's benefit.

The Committee Members requested that the Court order the defendants to restore all losses to the Base Trust, including approximately \$26 million, which the Committee Members allege is the Plan participants' “fair share” of the Subsidies that were allegedly misappropriated by the defendants from January 2012 through April 2015. The Committee Members also requested that the Court enjoin the defendants from alleged future violations of the Plan and ERISA with respect to treatment of

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the Subsidiaries, order the defendants to remedy all alleged ERISA-prohibited transactions and pay the Committee Members' attorneys' fees and costs.

The Court bifurcated the case and in September 2018 the Court conducted a trial on the issue of whether the Committee Members' Complaint is barred by the applicable statute of limitations. On November 20, 2018, the Committee Members filed a motion for sanctions, alleging various discovery and trial misconduct by the defendants, and requested that the Court enter judgment in favor of the Committee Members with respect to the statute of limitations issue and award attorneys' fees to the Committee Members. On March 26, 2019, the Court granted the Committee Members' motion for sanctions and subsequently extended the statute of limitations discovery period to October 7, 2019. Briefing on the statute of limitations issue was completed in January 2020. The Court also ordered the Company to pay certain of the Committee Members' legal and other costs to file the motion for sanctions and to conduct additional discovery related to the statute of limitations issue.

On August 14, 2018, under the original *Shy et. al. v. Navistar International Corporation*, Civil Action No. 3:92-CV-333 (S.D. Ohio 1992), the Company filed a motion to schedule a status hearing to request an in-person hearing to discuss the possibility of a global resolution of various disputes under the 1993 Settlement Agreement, including, but not limited to, resolving the pending Profit Sharing Complaint and Committee Members' Complaint described above. As a result, on April 17, 2020, the Company filed a motion to reform the 1993 Settlement Agreement. On April 14, 2021, the Court overruled the Company's motion to reform the 1993 Settlement Agreement in its entirety.

Based on our assessment of the facts underlying the claims in the above actions, we are unable to provide meaningful quantification of how the final resolution of these claims may impact our future consolidated financial condition, results of operations, or cash flows. However, future levels of the Subsidiaries could be impacted by the outcome of the above actions, which could be material to the Company's OPEB obligation. For more information see Note 9, *Postretirement Benefits*.

FATMA Notice

International Indústria Automotiva da América do Sul Ltda. ("IIAA"), formerly known as Maxion International Motores S/A ("Maxion"), now a wholly owned subsidiary of the Company, received a notice (the "FATMA Notice") in July 2010 from the State of Santa Catarina Environmental Protection Agency ("FATMA") in Brazil. The FATMA Notice alleged that Maxion sent waste to a facility owned and operated by a company known as Natureza (the "Natureza Facility") and that soil and groundwater contamination had occurred at the Natureza Facility.

The FATMA Notice asserted liability against Maxion and assessed an initial penalty in the amount of R\$2 million (the equivalent of less than US\$1 million as of April 30, 2021), which is not final or due until all administrative appeals are exhausted. Maxion was one of numerous companies that received similar notices. IIAA filed an administrative defense in August 2010 and has not yet received a decision following that filing.

In addition to the matter described above, there is a suit pending in the federal court of Brazil in which the federal district attorney sued (a) FATMA, for claims related to FATMA's actions in connection with licensing and inspection procedures related to the Natureza Facility, and (b) Selamix, as the current owner of the Natureza Facility. In this federal suit, Selamix was found liable for the contamination at the Natureza Facility due to it being the successor owner of the facility. However, the federal court's decision does not prohibit Selamix from seeking to recover its damages from third parties that contributed to the contamination at the Natureza Facility.

In January 2018, the district attorney of the State of Santa Catarina (the "SC District Attorney"), local and state authorities, Selamix, IIAA and the 14 other companies (together, the "Companies") that are alleged to have significantly contributed to the contamination met to discuss the matter. In March 2018, Selamix informed the SC District Attorney that it would voluntarily conduct a preliminary environmental study at the Natureza Facility in an attempt to determine and allocate the liability for the contamination pursuant to an agreement with the Companies after the study is completed. The SC District Attorney agreed to suspend further inquiry into the matter until Selamix's study had been completed.

In June 2018, Selamix presented its Environmental Preliminary Assessment Report to the SC District Attorney and the Companies alleged to have contributed to the contamination. Selamix also presented commercial proposals from two additional

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companies specializing in environmental studies to perform the next steps of the technical work. The SC District Attorney then requested a third commercial proposal. One of the commercial proposals included an Environmental Preliminary Assessment Report ("Phase 1 Study") and indicated that a Phase 2 assessment should be performed. In July 2019, the SC District Attorney requested that each of the Companies (including IIAA) inform the SC District Attorney of whether they intended to contribute to the costs of the portion of the Phase 2 assessment related to geophysical investigations to identify buried drums at the Natureza Facility. The request did not include any information related to the potential range of the associated costs or indicate whether contributions for the cost of the other portions of the Phase 2 assessment would be sought from the Companies (including IIAA). IIAA responded to the request indicating that it would not contribute to the cost of the Phase 2 assessment related to geophysical investigations and requested a meeting with the SC District Attorney to discuss the next steps in the process.

In late February 2020, IIAA became aware that the SC District Attorney filed an action in the civil court of Santa Catarina against nine of the Companies (including IIAA), Selamix, and the Municipality of Schroeder (where the Natureza Facility is located) requesting that the defendants in the action bear all of the potential costs of the investigation needed to determine the parties responsible for the contamination and manage the remediation of the contamination at the Natureza Facility and that the defendants place funds in escrow to cover such costs. Prior to ruling on these issues, the court indicated that it will schedule a hearing to allow the defendants to set forth their defenses. In May 2020, the Municipality of Schroeder presented its defenses to the court and alleged that (i) it was not liable for contamination after FATMA, as a state agency, became responsible for the environmental licensing of Natureza, (ii) Selamix should be held liable for the contamination, and (iii) the other defendants (including IIAA) should be held liable for the contamination because their irregular disposal of toxic material contributed to the environmental damage. On October 5, 2020, IIAA presented its responses to the defenses of the Municipality of Schroeder. On December 16, 2020, the SC District Attorney filed a motion noting that it will present its counterarguments after the remaining defendant, ALSCO Toalheiro do Brasil Ltda., files its defense. IIAA continues to dispute the allegations in the FATMA Notice and intends to continue to vigorously defend itself.

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

Sao Paulo Groundwater Notice

In March 2014, IIAA, along with other nearby companies, received from the Sao Paulo District Attorney (the "District Attorney") a notice and proposed Consent Agreement relating to alleged neighborhood-wide groundwater contamination at or around its Sao Paulo manufacturing facility. The proposed Consent Agreement sought certain groundwater investigations and other technical relief and proposed sanctions in the amount of R\$3 million (the equivalent of less than US\$1 million as of April 30, 2021). In November 2014, IIAA extended a settlement offer which was never accepted, rejected or countered by the District Attorney.

On August 31, 2016, the District Attorney filed civil actions against IIAA and other companies in the Central Forum of the capital of the State of Sao Paulo seeking soil and groundwater investigation and remediation, together with monetary payment in an unspecified amount. IIAA filed its defense to the civil action on January 26, 2017, alleging that IIAA had made all necessary investigations and had taken remedial measures to address the contamination and that Companhia Ambiental do Estado de Sao Paulo, the environmental agency of Sao Paulo State, had agreed to the remedial measures taken by IIAA.

A new district attorney (the "New District Attorney") assumed responsibility for the case in February 2018. The New District Attorney indicated that it would like the companies involved to try to reach a settlement agreement as to the remediation efforts to be taken after having discussions and negotiations with the New District Attorney's technical experts. On September 10, 2019, the judge granted the New District Attorney's request to require answers to inquiries related to the case from the Department of Water and Electric Energy ("DAEE") and Sao Paulo State Sewage Company ("SABESP"), but DAEE and SABESP did not provide any additional, relevant information. On April 22, 2021, the New District Attorney presented a motion arguing that the Expert Evidence could be used as evidence within the current case and the other parties were required to

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respond to the motion by May 7, 2021.

On November 8, 2020, it was determined that the New District Attorney had not presented the technical expert opinions within the applicable deadline and the New District Attorney subsequently filed a motion requesting an additional 30 days to present the technical expert opinions. The extension was granted, and the New District Attorney was required to present the technical expert opinions no later than March 2, 2021. On March 17, 2021, the New District Attorney presented technical expert opinions and requested that: (i) Companhia Ambiental do Estrado de Sao Paulo (the environmental protection agency of Sao Paulo State, "CETESB") provide a status update on the remediation and answer the questions previous formulated; and (ii) expert evidence produced in another public class action (similar to the current case) (the "Expert Evidence") be admitted as evidence within this case. The court immediately granted the first request. On April 7, 2021, CETESB filed a motion moving to dismiss the New District Attorney's request for the admittance of the Expert Evidence and requesting an additional 30 days to present its answers to the questions previously raised by the New District Attorney. On April 16, 2021, IIAA also filed a motion to dismiss the New District Attorney's request for the admittance of the Expert Evidence.

There are no current demands or offers outstanding.

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

MaxxForce Engine EGR Warranty Litigation

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

On November 16, 2016, the Supreme Court of British Columbia certified a Canada-wide class comprised of persons who purchased heavy-duty trucks equipped with Advanced EGR MaxxForce 11, MaxxForce 13, and MaxxForce 15 engines designed to meet 2010 EPA regulations. On August 1, 2018, the appellate court affirmed the November 2016 decision and certified three additional narrow issues on whether misrepresentations were made in Navistar's advertising materials. The next step will be an attendance before the case management judge regarding the details of the notice of certification to be given to the class. No date for this attendance has been set.

On May 11, 2021, NIC, NI, and Navistar Canada Inc. completed a settlement agreement with the plaintiff in the Quebec action (the "Quebec Settlement"). The Quebec Settlement consists of entities and natural persons in Quebec who purchased or leased a 2011-2014 model year vehicle equipped with a MaxxForce 11, 13, or 15 liter engine certified to comply with EPA 2010 emissions standards without selective catalytic reduction technology. Among other things, the Quebec Settlement requires that (1) NIC, NI, and Navistar Canada Inc. contribute \$2,614,486 CAD to a non-reversionary common fund (the "Cash Fund"), which will be used to pay all settlement fees and expenses, attorneys' fees and costs, and cash payments to members of the settlement class; (2) NI commit to make available rebates with a face value in the aggregate of \$145,360 CAD (the "Rebate Fund"); and (3) the settlement class releases NIC, NI, Navistar Canada, Inc. and their affiliates from all claims and potential claims arising from or related to the allegations in the Quebec action, except for claims for personal injury or damage to third-party property. The Quebec Settlement states that NIC, NI, and Navistar Canada, Inc. deny all claims in the Quebec action, deny wrongdoing, liability or damage of any kind, and deny that they acted improperly or wrongfully in any way. The settlement agreement remains subject to approval by the court, including possible appeals. Any members of the class who opt out will not receive any benefit from the Quebec Settlement or be bound by it.

On July 7, 2014, Par 4 Transport, LLC filed a putative class action lawsuit against NI in the United States District Court for the Northern District of Illinois (the "Par 4 Action"). Subsequently, seventeen additional putative class action lawsuits were filed in various United States district courts, (together with the Par 4 Action, the "U.S. Actions"). Some of the U.S. Actions named both

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NIC and NI, and alleged matters substantially similar to the Canadian Actions. More specifically, one or more of the Canadian Actions and the U.S. Actions (collectively, the "EGR Class Actions") seek to certify a class of persons or entities in Canada or the United States who purchased and/or leased a ProStar or other Navistar vehicle equipped with a model year 2008-2013 MaxxForce Advanced EGR engine.

In substance, the EGR Class Actions allege that the MaxxForce Advanced EGR engines are defective and that the Company and NI failed to disclose and correct the alleged defect. The EGR Class Actions assert claims based on theories of contract, breach of warranty, consumer fraud, unfair competition, misrepresentation and negligence. The EGR Class Actions seek relief in the form of monetary damages, punitive damages, declaratory relief, interest, fees, and costs.

In December 2014, the United States Judicial Panel on Multidistrict Litigation (the "MDL Panel") issued an order consolidating before Judge Joan B. Gottschall of the United States District Court for the Northern District of Illinois all of the U.S. Actions, as well as certain non-class action MaxxForce Advanced EGR engine lawsuits that were pending on October 3, 2014 (the "MDL Action").

On May 11, 2015, lead counsel for the plaintiffs in the MDL Action filed a consolidated complaint, which was subsequently amended multiple times.

In May 2019, the parties to the MDL Action completed negotiation of a settlement agreement (the "Settlement Agreement") to resolve the U.S. Actions. The plaintiffs submitted the Settlement Agreement to the court for preliminary approval on May 28, 2019. The Settlement Agreement class consists of entities and natural persons who owned or leased a 2011-2014 model year vehicle equipped with a MaxxForce 11 or 13 liter engine certified to meet EPA 2010 emissions standards without selective catalytic reduction technology, provided that the vehicle was purchased or leased in the U.S.

Among other things, the Settlement Agreement requires that (1) the parties establish a non-reversionary common fund consisting of cash (the "Cash Fund") and rebates (the "Rebate Fund") with a total value of \$135 million (the "Settlement Fund"); (2) NIC and NI contribute \$85 million to the Cash Fund, which will be used to pay all settlement fees and expenses, service awards, attorneys' fees and costs, and cash payments to members of the settlement class; (3) NI commit to make available rebates with a face value in the aggregate of \$50 million to the Rebate Fund; and (4) the settlement class release NIC and NI and their affiliates from all claims and potential claims arising from or related to the allegations in the U.S. Actions, except for claims for personal injury or damage to third-party property. The Settlement Agreement further provides that amounts or value remaining in either the Cash Fund or the Rebate Fund after claims are processed will be used to pay approved claims from the other fund if the other fund is oversubscribed (the "Waterfall"). The Settlement Agreement states that NIC and NI deny all claims in the U.S. Actions, deny wrongdoing, liability or damage of any kind, and deny that NIC and NI acted improperly or wrongfully in any way. On February 3, 2020, NIC and NI funded \$85 million to the Cash Fund. Any Waterfall from the Rebate Fund to the Cash Fund is capped at \$35 million. We are waiting for the final adjudication of the claims by the settlement administrator. It is possible that a Waterfall from the Rebate Fund to the Cash Fund could occur.

On June 12, 2019, the court preliminarily approved the settlement. Members of the class were provided notice of the Settlement Agreement and an opportunity to object or opt out. Any members of the class who opted out will not receive any benefit from the Settlement Agreement or be bound by it.

Four class members filed a consolidated objection to the Settlement Agreement on October 10, 2019. On January 3, 2020, the court entered an order rejecting the objection and finding the settlement to be "fair, reasonable, and adequate." The court also granted the motion of lead counsel for the class plaintiffs for approval of an award of attorneys' fees and costs. On January 21, 2020, the court entered an Order Granting Final Approval of Class Action Settlement, Award of Attorneys' Fees and Costs and Final Order and Judgment.

In February 2020, three class members intervened in the MDL Action and filed motions asking the court to exclude them from the settlement or to permit them to opt out after the opt out deadline. In April and June 2020, the court denied these motions. In May 2020, two of the intervening class members ("Drasc") appealed the court's April 2020 order. The Company filed its opposition brief on August 19, 2020. The appellate court affirmed the lower court's denial of Drasc's claims on March 11, 2021

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and denied Drasc's petition for rehearing or rehearing en banc on April 8, 2021. Drasc has until June 9, 2021, to petition for further review in the United States Supreme Court.

There are also non-class action MaxxForce Advanced EGR engine lawsuits filed against the Company in various state and federal courts. A number of non-class action lawsuits have been resolved in favor of the Company prior to trial or settled for immaterial amounts. Several cases have been resolved at trial with varying results. Several other non-class actions are pending at this time. One of the non-class action lawsuits ("Milan"), alleging violations of the Tennessee Consumer Protection Act and fraud and involving approximately 235 trucks, was tried in Tennessee state court in August 2017, and resulted in a jury verdict of approximately \$31 million against the Company, including \$20 million in punitive damages.

In the third quarter of 2017, we recorded \$31 million of charges in *SG&A expenses* in our *Consolidated Statements of Operations* related to the Milan lawsuit.

On August 14, 2019, a three-judge panel of the Tennessee Court of Appeals issued a unanimous opinion reversing the \$31 million judgment and \$1 million of fees and costs previously awarded to the Milan plaintiffs following an appeal filed by the Company in January 2018 challenging the jury verdict. In addition, the Tennessee Court of Appeals affirmed the trial court's judgment for Navistar on the Milan plaintiff's warranty claims. On October 11, 2019, the Milan plaintiffs filed an application for permission to appeal this ruling to the Tennessee Supreme Court. On January 16, 2020, the Tennessee Supreme Court granted permission to appeal. The Company filed its opposition brief on August 19, 2020. The Tennessee Supreme Court heard oral arguments on November 4, 2020.

Based on our assessment of the facts underlying the claims in the above actions, the Company recorded a charge in the Company's fiscal second quarter ended April 30, 2019 in the amount of \$159 million as a reserve for its expected obligations under the Settlement Agreement as well as for current period liabilities and potential future settlements with respect to certain other MaxxForce Advanced EGR engine lawsuits that are not included in the Settlement Agreement. In addition, the Company released a liability of \$32 million, related to the judgment reversal in the Milan case in the third quarter ended July 31, 2019. These impacts were recorded in *SG&A expenses* in our *Consolidated Statements of Operations*. As noted above, with respect to the Settlement Agreement and the claims filed in connection with it, it is possible that a Waterfall from the Rebate Fund to the Cash Fund could result in an additional cash impact. Other than the aforementioned, we are unable to provide further meaningful quantification of how the final resolution of these matters may impact our future consolidated financial condition, results of operations or cash flows.

EPA Clean Air Act Litigation

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

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

On March 1, 2017, the court entered a Memorandum Opinion and Order (i) granting a motion by the DOJ for summary judgment on the issue of liability with respect to NI, (ii) denying a motion by the DOJ for summary judgment on the issue of liability with respect to NIC, and (iii) denying a motion by NIC for summary judgment against the EPA.

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On April 3, 2018, the parties jointly filed a stipulation of dismissal with prejudice for NIC only. The stipulation with prejudice has no effect on the claims made against NI. With the dismissal of NIC, the matter moved to the remedy phase with respect to NI. Discovery for the remedy phase has been completed. On July 30, 2020, NI filed a motion for partial summary judgment as to certain aspects of the remedy sought by the DOJ. The court denied that motion on December 21, 2020.

At a status conference on October 22, 2020, the parties reported on the status of ongoing settlement discussions. Further mediation sessions were held in November and December 2020. On May 20, 2021, the EPA filed an agreed motion notifying the court that the parties tentatively reached a settlement and asking the court to stay the case while the parties negotiate the terms and conditions of a consent decree. The court granted the motion to stay on May 26, 2021. Any consent decree remains subject to review and approval by appropriate government officials and the Company, and is subject to public notice and comment.

Based on our assessment of the facts underlying the amended complaint above, we recorded an additional charge of \$77 million in the second quarter of 2021 in *SG&A expenses* in our *Consolidated Statements of Operations*, resulting in the recording of a total estimated liability of \$83 million which may change subject to the finalization of the consent decree and the actual costs incurred in satisfying its terms.

Navistar Defense MRAP Litigation

In the third quarter of 2016, Navistar Defense, LLC ("NDLLC") received a subpoena from the United States Department of Defense Inspector General (the "DOD IG"). The subpoena requested documents relating to NDLLC's sale of its independent suspension systems ("ISS") for military vehicles to the government for the period from January 1, 2009 through December 31, 2010.

Beginning in June 2016, NDLLC made submissions of documents responsive to the subpoena and engaged in ongoing discussions with government representatives, including representatives from the DOD IG and the DOJ. Such discussions included assertions that NDLLC may have overcharged the United States for the ISS components. In August 2017, NDLLC received a letter from the DOJ claiming that NDLLC made false and misleading statements during the course of price negotiations and during the Defense Contract Audit Agency audit which resulted in NDLLC overcharging the United States for the ISS components by approximately \$88 million and asking for treble damages and penalties for a total demand of approximately \$264 million. NDLLC responded to the DOJ's demand letter explaining its position that it has no liability in this matter, and outlining the bases for such position, and stating that NDLLC intends to vigorously defend its position.

On December 8, 2017, NDLLC received another subpoena from the DOD IG which requested documents relating to NDLLC's pricing of the Mine Resistant Ambush Protected ("MRAP") vehicle and its sale of parts to the government for the period from January 1, 2006 through December 31, 2013. NDLLC responded to the subpoena.

On July 10, 2018, NDLLC received another subpoena from the DOD IG requesting additional custodian emails and documents related to the MRAP and ISS components. NDLLC responded to the subpoena. Additionally, in September and October 2018, the DOJ conducted interviews of certain current and former employees.

On December 3, 2019, the DOJ filed a complaint against NDLLC in the U.S. District Court for the District of Columbia partially intervening in what had been a sealed False Claims Act ("FCA") case previously filed by a relator (the "Relator"). The Relator, a former NDLLC employee, filed his initial complaint in September 2013 in the U.S. District Court for the District of Columbia. The Relator filed an amended complaint on November 1, 2019, alleging that NDLLC submitted false pricing support to the government in connection with three MRAP contract parts or part systems - the chassis, the engine, and 13 components of the 3,898 ISS kits ("Relator's ISS Claim"). The Relator alleges single damages of \$1.1 billion for the chassis, \$36 million for the engine, and \$119 million for the Relator's ISS Claim, totaling approximately \$1.3 billion in single damages and \$3.8 billion in treble damages. The DOJ's complaint in partial intervention alleges that NDLLC submitted false pricing support in connection with 11 of the components of 3,803 ISS kits and seeks damages of an unspecified amount under the FCA and common law theories of mistake, unjust enrichment, and fraud. On January 10, 2020, NDLLC filed a motion to transfer venue

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to the Northern District of Illinois. On January 16, 2020, the U.S. District Court for the District of Columbia entered an order staying deadlines to respond to the complaints, pending resolution of the motion to transfer venue.

On November 5, 2020, the parties filed a Joint Motion to Stay and Notice of Settlement in Principle, explaining that the parties reached a settlement in principle for a comprehensive resolution of the claims in both DOJ's and Relator's complaints. We recorded an accrual of \$58 million in the fourth quarter, which included \$8 million of legal and other fees, related to the settlement in principle. On November 6, 2020, the court granted the motion, staying the action until February 5, 2021, and denying without prejudice the pending motion to transfer venue. The court ordered that on or before February 5, 2021, the parties must file a joint stipulation of dismissal or a joint status report. On February 8, 2021, after the DOJ filed a Joint Status report requesting an extension of the stay, the court ordered the parties to submit another joint report on April 8, 2021 and every 30 days thereafter. On April 7, 2021, the parties filed a Joint Status Report explaining that the settlement had not yet been finalized and informing the court that the parties would provide a further status report within 30 days. On May 27, 2021, NIC and NDLLC executed a definitive settlement agreement with the DOJ and the Relator for a payment of \$38 million to the United States government and \$12 million to the Relator, without any admission of wrongdoing or liability by NIC or NDLLC. The court dismissed this action with prejudice on May 27, 2021. On June 2, 2021, NIC and NDLLC executed a settlement agreement with Relator and Relator's counsel to settle claims for attorneys' fees in the amount of \$2 million.

13. Segment Reporting

The following is a description of our four reporting segments:

- Our **Truck** segment manufactures and distributes Class 4 through 8 trucks and buses under the International and IC Bus ("IC") brands, and produces engines under our proprietary brand name. This segment sells its products in the U.S., Canada, and Mexico markets, as well as through our export truck business.
- Our **Parts** segment provides customers with proprietary products needed to support the International commercial truck, IC Bus, proprietary engine lines, and export parts business, as well as our other product lines. Our Parts segment also provides a wide selection of other standard truck, trailer, and engine aftermarket parts. Also included in the Parts segment are the operating results of BDP, which manages the sourcing, merchandising, and distribution of certain service parts we sell to Ford in North America.
- Our **Global Operations** segment primarily consists of Brazil engine operations which produce diesel engines under contract manufacturing arrangements, as well as under the MWM brand, for sale to original equipment manufacturers (OEMs) in South America.
- Our **Financial Services** segment provides retail, wholesale, and lease financing of products sold by the Truck and Parts segments and their dealers within the U.S. and Mexico, as well as financing for wholesale accounts and selected retail accounts receivable. This segment also facilitates financing relationships in the U.S. and other countries to support our Manufacturing Operations.

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

Segment Profit (Loss)

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

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Notes to Consolidated Financial Statements—(Continued)

(Unaudited)

(in millions)	Truck	Parts	Global Operations	Financial Services ^(A)	Corporate and Eliminations	Total
Three Months Ended April 30, 2021						
External sales and revenues, net	\$ 1,466	\$ 523	\$ 129	\$ 43	\$ 1	\$ 2,162
Intersegment sales and revenues	19	1	9	7	(36)	—
Total sales and revenues, net	<u>\$ 1,485</u>	<u>\$ 524</u>	<u>\$ 138</u>	<u>\$ 50</u>	<u>\$ (35)</u>	<u>\$ 2,162</u>
Income (loss) from continuing operations attributable to NIC, net of tax	\$ 189	\$ 135	\$ 36	\$ 15	\$ (212)	\$ 163
Income tax expense	—	—	—	—	(51)	(51)
Segment profit (loss)	<u>\$ 189</u>	<u>\$ 135</u>	<u>\$ 36</u>	<u>\$ 15</u>	<u>\$ (161)</u>	<u>\$ 214</u>
Depreciation and amortization	\$ 30	\$ 1	\$ 1	\$ 20	\$ —	\$ 52
Interest expense	—	—	—	11	51	62
Equity in loss of non-consolidated affiliates	(3)	—	—	—	—	(3)
Capital expenditures ^(B)	60	1	1	—	2	64
(in millions)	Truck	Parts	Global Operations	Financial Services ^(A)	Corporate and Eliminations	Total
Three Months Ended April 30, 2020						
External sales and revenues, net	\$ 1,385	\$ 442	\$ 47	\$ 50	\$ 1	\$ 1,925
Intersegment sales and revenues	4	1	4	14	(23)	—
Total sales and revenues, net	<u>\$ 1,389</u>	<u>\$ 443</u>	<u>\$ 51</u>	<u>\$ 64</u>	<u>\$ (22)</u>	<u>\$ 1,925</u>
Income (loss) from continuing operations attributable to NIC, net of tax	\$ (51)	\$ 103	\$ (13)	\$ 24	\$ (101)	\$ (38)
Income tax expense	—	—	—	—	(7)	(7)
Segment profit (loss)	<u>\$ (51)</u>	<u>\$ 103</u>	<u>\$ (13)</u>	<u>\$ 24</u>	<u>\$ (94)</u>	<u>\$ (31)</u>
Depreciation and amortization	\$ 29	\$ 2	\$ 2	\$ 15	\$ 1	\$ 49
Interest expense	—	—	—	20	43	63
Equity in income (loss) of non-consolidated affiliates	(2)	1	—	—	—	(1)
Capital expenditures ^(B)	28	—	1	—	2	31

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

(Unaudited)

(in millions)	Truck	Parts	Global Operations	Financial Services ^(A)	Corporate and Eliminations	Total
Six Months Ended April 30, 2021						
External sales and revenues, net	\$ 2,679	\$ 988	\$ 218	\$ 88	\$ 1	\$ 3,974
Intersegment sales and revenues	43	3	15	13	(74)	—
Total sales and revenues, net	<u>\$ 2,722</u>	<u>\$ 991</u>	<u>\$ 233</u>	<u>\$ 101</u>	<u>\$ (73)</u>	<u>\$ 3,974</u>
Income (loss) from continuing operations attributable to NIC, net of tax	\$ 108	\$ 246	\$ 42	\$ 27	\$ (342)	\$ 81
Income tax expense	—	—	—	—	(33)	(33)
Segment profit (loss)	<u>\$ 108</u>	<u>\$ 246</u>	<u>\$ 42</u>	<u>\$ 27</u>	<u>\$ (309)</u>	<u>\$ 114</u>
Depreciation and amortization	\$ 59	\$ 3	\$ 2	\$ 38	\$ 1	\$ 103
Interest expense	—	—	—	24	102	126
Equity in loss of non-consolidated affiliates	(4)	—	—	—	—	(4)
Capital expenditures ^(B)	129	1	1	2	4	137

(in millions)	Truck	Parts	Global Operations	Financial Services ^(A)	Corporate and Eliminations	Total
Six Months Ended April 30, 2020						
External sales and revenues, net	\$ 2,623	\$ 934	\$ 108	\$ 96	\$ 2	\$ 3,763
Intersegment sales and revenues	8	2	11	25	(46)	—
Total sales and revenues, net	<u>\$ 2,631</u>	<u>\$ 936</u>	<u>\$ 119</u>	<u>\$ 121</u>	<u>\$ (44)</u>	<u>\$ 3,763</u>
Income (loss) from continuing operations attributable to NIC, net of tax	\$ (109)	\$ 222	\$ (13)	\$ 41	\$ (215)	\$ (74)
Income tax expense	—	—	—	—	(2)	(2)
Segment profit (loss)	<u>\$ (109)</u>	<u>\$ 222</u>	<u>\$ (13)</u>	<u>\$ 41</u>	<u>\$ (213)</u>	<u>\$ (72)</u>
Depreciation and amortization	\$ 56	\$ 4	\$ 4	\$ 32	\$ 3	\$ 99
Interest expense	—	—	—	39	89	128
Equity in income (loss) of non-consolidated affiliates	(3)	1	—	—	—	(2)
Capital expenditures ^(B)	75	5	2	—	8	90

(A) Total sales and revenues in the Financial Services segment include interest revenues of \$26 million and \$53 million for the three and six months ended April 30, 2021, respectively, and \$40 million and \$75 million for the three and six months ended April 30, 2020, respectively.

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

(in millions)	Truck	Parts	Global Operations	Financial Services	Corporate and Eliminations	Total
Segment assets, as of:						
April 30, 2021	\$ 2,332	\$ 629	\$ 282	\$ 2,493	\$ 1,348	\$ 7,084
October 31, 2020	1,619	663	216	2,191	1,948	6,637

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14. Stockholders' Deficit

Accumulated Other Comprehensive Loss

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

(in millions)	Foreign Currency Translation Adjustments	Defined Benefit Plans	Total
Balance as of January 31, 2021	\$ (379)	\$ (1,407)	\$ (1,786)
Other comprehensive income before reclassifications	11	—	11
Amounts reclassified out of accumulated other comprehensive loss ^(A)	—	17	17
Net current-period other comprehensive income	11	17	28
Balance as of April 30, 2021	\$ (368)	\$ (1,390)	\$ (1,758)

(in millions)	Foreign Currency Translation Adjustments	Defined Benefit Plans	Total
Balance as of October 31, 2020	\$ (404)	\$ (1,461)	\$ (1,865)
Other comprehensive income before reclassifications	36	37	73
Amounts reclassified out of accumulated other comprehensive loss ^(A)	—	34	34
Net current-period other comprehensive income	36	71	107
Balance as of April 30, 2021	\$ (368)	\$ (1,390)	\$ (1,758)

(in millions)	Foreign Currency Translation Adjustments	Defined Benefit Plans	Total
Balance as of January 31, 2020	\$ (329)	\$ (1,755)	\$ (2,084)
Other comprehensive loss before reclassifications	(103)	—	(103)
Amounts reclassified out of accumulated other comprehensive loss ^(A)	—	24	24
Net current-period other comprehensive income (loss)	(103)	24	(79)
Balance as of April 30, 2020	\$ (432)	\$ (1,731)	\$ (2,163)

(in millions)	Foreign Currency Translation Adjustments	Defined Benefit Plans	Total
Balance as of October 31, 2019	\$ (321)	\$ (1,591)	\$ (1,912)
Other comprehensive loss before reclassifications	(111)	—	(111)
Amounts reclassified out of accumulated other comprehensive loss ^(A)	—	49	49
Net current-period other comprehensive income (loss)	(111)	49	(62)
Reclassification of stranded tax effects ^(B)	—	(189)	(189)
Balance as of April 30, 2020	\$ (432)	\$ (1,731)	\$ (2,163)

(A) The amounts reclassified out of accumulated other comprehensive loss relate to amortization of actuarial losses and are included in *Other expense, net* in our *Consolidated Statement of Operations*. There was minimal related tax expense in the three and six months ended April 30, 2021 and 2020.

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(B) During the first six months of 2020, we reclassified \$189 million of stranded tax effects out of *Accumulated other comprehensive loss* and into *Accumulated deficit*. The stranded tax effects remained a component of *Accumulated other comprehensive loss* as a result of the remeasurement of our deferred tax assets related to our U.S. pension and OPEB plans through the statement of operations, to the new U.S. federal tax rate of 21% through our *Consolidated Statements of Operations*. As a result, stranded tax effects within *Accumulated other comprehensive loss* which would not be realized at the established historical tax rates have now been adjusted through equity.

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

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

(in millions, except per share data)	Three Months Ended April 30,		Six Months Ended April 30,	
	2021	2020	2021	2020
Numerator:				
Amounts attributable to Navistar International Corporation common stockholders:				
Income (loss) from continuing operations, net of tax	\$ 163	\$ (38)	\$ 81	\$ (74)
Income from discontinued operations, net of tax	—	—	1	—
Net income (loss) attributable to Navistar International Corporation common stockholders	\$ 163	\$ (38)	\$ 82	\$ (74)
Denominator:				
Weighted average shares outstanding:				
Basic	99.9	99.7	99.9	99.6
Effect of dilutive securities	0.3	—	0.3	—
Diluted	100.2	99.7	100.2	99.6
Net income (loss) per share attributable to Navistar International Corporation:				
Basic:				
Continuing operations	\$ 1.63	\$ (0.38)	\$ 0.81	\$ (0.74)
Discontinued operations	—	—	0.01	—
Basic	\$ 1.63	\$ (0.38)	\$ 0.82	\$ (0.74)
Diluted:				
Continuing operations	\$ 1.63	\$ (0.38)	\$ 0.81	\$ (0.74)
Discontinued operations	—	—	0.01	—
Diluted	\$ 1.63	\$ (0.38)	\$ 0.82	\$ (0.74)

The computation of diluted earnings (loss) per share excludes outstanding options and other common stock equivalents in periods where inclusion of such potential common stock instruments would be anti-dilutive. For the three and six months ended April 30, 2020, no dilutive securities were included in the computation of diluted loss per share because they would have been anti-dilutive due to the net loss attributable to NIC.

16. Subsequent Events

On May 20, 2021, the Company learned of a credible potential cybersecurity threat to its information technology system (“IT System”). Upon learning of the cybersecurity threat, the Company launched an investigation and undertook immediate action in accordance with its cybersecurity response plan, including employing containment protocols to mitigate the impact of the potential threat, engaging internal and third-party information technology security and forensics experts to assess any impact on

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the Company's IT System, and utilizing additional security measures to help safeguard the integrity of its IT System's infrastructure and data contained therein. To date, the Company's IT System continues to be fully operational.

On May 31, 2021, the Company received a claim that certain data had been extracted from the Company's IT System. The measures described above are ongoing as the Company, with the assistance of third-party experts, continues to investigate and address the scope and impact of the cybersecurity incident. Law enforcement is aware of the cybersecurity incident.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide information that is supplemental to, and should be read together with, our consolidated financial statements and the accompanying notes contained in our Annual Report on Form 10-K for the year ended October 31, 2020. Information in MD&A is intended to assist the reader in obtaining an understanding of (i) our consolidated financial statements, (ii) the changes in certain key items within those financial statements from year-to-year, (iii) the primary factors that contributed to those changes, (iv) any changes in known trends or uncertainties from items disclosed within the MD&A of our Annual Report on Form 10-K for the year ended October 31, 2020 that we are aware of and that may have a material effect on our future performance, and (v) how certain accounting principles affect our consolidated financial statements. In addition, MD&A provides information about our business segments and how the results of those segments impact our results of operations and financial condition as a whole. Operating results for interim reporting periods are not necessarily indicative of annual operating results.

Executive Overview

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

Second Quarter Summary

During the second quarter of 2021, we remained focused on Navistar 4.0, which is our enterprise-wide strategy with our customers at its core, supported by strategic initiatives that guide decision-making and investments. We define success as an unparalleled customer experience, mutually beneficial relationships with employees, dealers, partners, customers and suppliers, and improved financial returns.

Even though the economy has begun to recover, the severity and duration of the related global economic crisis is not fully known, and the COVID-19 pandemic is expected to continue to have residual negative impacts. Volumes and demand are rebounding, although the commercial truck and bus industry continues to face disruptions within the supply chain. The supply constraints include overseas freight congestion causing extended lead times, semiconductor allocation, other raw/component material shortages and supplier staffing challenges. The Texas storms in 2021 further exacerbated an already constrained semiconductor and resin supply chain. Furthermore, the volume rebound in automotive and commercial vehicle sales is challenging the supply base and supply chain to increase production with short notice and at high volume levels. Our cross functional response team continues to monitor these situations and address risks within our supply chain. Currently all parts distribution centers ("PDCs") are open and operational. We have prevention measures in place and transition plans for our packagers, carriers and PDCs if a situation causes us to implement our contingency plans. We expect to continue manufacturing operations at all plants as we navigate the constantly evolving situation.

Our facilities are following strict safety measures to protect our employees, visitors and business operations, including increased frequency in cleaning and disinfecting, as well as hygiene and social distancing practices, among other actions, in alignment with guidance from the U.S. Centers for Disease Control ("CDC") and the World Health Organization ("WHO") regarding threat assessment protocols. Additionally, many of our non-production employees continue to work remotely in order to reduce the spread of COVID-19. These working conditions allow for the continuation of key business-critical operations, including financial reporting and internal controls facilitated by the appropriate digital tools.

In November 2020, we publicly launched our Next Gen HX Series, our first product released under our Navistar 4.0 strategy and its Project Compass Initiative. Focused on flexible, modular design to meet customer needs, the program was developed with a mission to improve quality, commonality and margins.

On November 7, 2020, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with TRATON SE, a Societas Europaea ("Parent"), and Dusk Inc., a Delaware corporation and a wholly owned indirect subsidiary of Parent ("Merger Subsidiary"), pursuant to which Merger Subsidiary will be merged with and into the Company (the "Merger"), with the Company continuing as the surviving company in the Merger as a wholly owned indirect subsidiary of Parent (the

“Surviving Corporation”). Subject to the terms and conditions set forth in the Merger Agreement, at the effective time of the Merger (the “Effective Time”), (a) each share of common stock of the Company, par value \$0.10 per share (“Company Stock”), outstanding immediately prior to the Effective Time, unless otherwise provided by the Merger Agreement, shall be automatically canceled and converted into the right to receive \$44.50 in cash, without interest (the “Common Merger Consideration”); (b) each share of Series D Convertible Junior Preference Stock of the Company, par value \$1.00 per share (“Series D Stock”), outstanding immediately prior to the Effective Time, unless otherwise provided in the Merger Agreement, shall be automatically canceled and converted into an amount in cash, without interest, equal to the portion of the Common Merger Consideration that would have been payable in respect of such share of Series D Stock had such share of Series D Stock been converted into Company Stock pursuant to the terms of the certificate of incorporation of the Company in effect immediately prior to the Effective Time; and (c) the sole share of Series B Nonconvertible Junior Preference Stock of the Company, par value \$1.00 (“Series B Stock”), issued and outstanding immediately prior to the Effective Time, shall be unaffected by the Merger and shall remain outstanding as one share of Series B Stock of the Surviving Corporation, with the same rights, powers, preferences and privileges attributable to the sole share of Series B Stock immediately prior to the Effective Time.

Consummation of the Merger is subject to various closing conditions, including, (i) the adoption of the Merger Agreement by the affirmative vote of the holders of a majority of the outstanding shares of Company Stock entitled to vote on such matter at a meeting of the Company’s stockholders, (ii) the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the “HSR Waiting Period”), as well as certain non-U.S. regulatory approvals, and (iii) the absence of any law or order (whether temporary, preliminary or permanent) by a governmental entity that restrains or otherwise prohibits the Merger or the other transactions contemplated by the Merger Agreement. The Company’s stockholders approved the adoption of the Merger Agreement on March 2, 2021, and the HSR Waiting Period expired on February 12, 2021. The Merger Agreement also contains customary representations, warranties and covenants of the Company, Parent and Merger Subsidiary. The Company has also made certain covenants in the Merger Agreement, including covenants regarding the operation of the business of the Company and its subsidiaries prior to the Effective Time.

In January 2021, we approved a plan to sell our facility in Melrose Park, IL (the “Melrose Park Facility”) and cease all operations at the Melrose Park Facility by November 2021. Due to a reduction in our overall engine manufacturing, the lack of engine manufacturing at the Melrose Park Facility, and the trucking industry’s increasing interest in alternative fuel drivetrains, we believe that a property of the size of the Melrose Park Facility is not necessary for the remaining engine testing and administrative functions currently performed. In connection with the cessation of operations at the Melrose Park Facility, we expect to incur total costs of approximately \$90 million, of which approximately \$80 million will be incurred in 2021 while the remainder will be incurred in 2022. We expect that approximately half of the current workforce of approximately 500 employees at the Melrose Park Facility will be transferred to our other facilities.

In January 2021, we also announced a collaborative arrangement with General Motors Company, and OneH2, Inc. (“OneH2”) to introduce a complete solution for customer implementation of a zero-emission long-haul system. We expect to be providing customers with added flexibility through a new hydrogen truck ecosystem. We believe the integrated solution will be competitive with other powertrain offerings with a target range of over 500 miles and a hydrogen fueling time of less than 15 minutes. As part of the arrangement, we have acquired a minority ownership stake in OneH2.

In March 2021, we exercised the equity warrants with TuSimple, Inc. (“TuSimple”). These warrants were initially negotiated at the inception of the strategic partnership with TuSimple in July 2020. After exercising the warrants, our ownership stake in TuSimple is slightly less than 5%, with a fair value of approximately \$386 million.

In May 2021, we announced the upcoming availability of Cummins Connected Software Updates and programmable trim parameters for the Cummins X15 engines through our OnCommand® Connection portal. This integration will allow customers to quickly and securely calibrate and optimize engine control modules remotely, to keep fleets running at peak performance.

Financial Summary

Continuing Operations Results — In the second quarter of 2021, our consolidated net sales and revenues were \$2.2 billion, a 12% increase compared to the second quarter of 2020. In the first six months of 2021, our consolidated net sales and revenues were \$4.0 billion, a 6% increase compared to the first six months of 2020. The increase for both periods reflects higher volumes

from our Truck, Parts and Global Operations segments, partially offset by lower net revenues from our Financial Services segment.

In the three and six months ended April 30, 2021, we generated income before income taxes of \$219 million and \$123 million, respectively, compared to a loss of \$26 million and \$63 million in the respective prior year periods. Our gross margin increased by \$130 million and \$126 million in the three and six months ended April 30, 2021, respectively, primarily due to the impact of higher volumes.

In the three and six months ended April 30, 2021, we recognized an income tax expense of \$51 million and \$33 million, respectively, compared to \$7 million and \$2 million in the respective prior year periods. The change in tax is primarily due to the increase in income before income taxes and earnings and/or losses for which no tax expense or benefit can be recognized due to valuation allowances. Other year over year differences for the three and six months ended April 30, 2021, include geographical mix and certain discrete items, primarily related to the change in the value of the U.S. dollar resulting in an income tax expense of \$19 million and \$23 million for the three and six months ended April 30, 2021, respectively.

In the three and six months ended April 30, 2021, after income taxes, we recognized a net income from continuing operations attributable to NIC of \$163 million and \$81 million, respectively, or \$1.63 and \$0.81 per diluted share, respectively, compared to a net loss of \$38 million and \$74 million or \$0.38 and \$0.74 per diluted share, in the respective prior year periods.

In the three and six months ended April 30, 2021, consolidated net income attributable to NIC, before manufacturing interest, taxes, depreciation and amortization expenses ("EBITDA") was \$317 million and \$320 million, respectively, compared to \$61 million and \$116 million in the respective prior year periods. Excluding certain net impacts, adjusted EBITDA ("Adjusted EBITDA") in the three and six months ended April 30, 2021 was \$198 million and \$310 million, respectively, compared to \$88 million and \$147 million in the respective prior year periods. In the three and six months ended April 30, 2021, adjusted consolidated net income attributable to NIC, excluding certain net impacts ("Adjusted Net Income (Loss)"), was \$72 million and \$73 million, respectively, compared to losses of \$10 million and \$43 million in the respective prior year periods. EBITDA, Adjusted EBITDA, and Adjusted Net Income (Loss) are not determined in accordance with U.S. GAAP, nor are they presented as alternatives to U.S. GAAP measures. For more information regarding this non-GAAP financial information, see Non-GAAP Financial Performance Measures.

We ended the second quarter of 2021 with \$1.2 billion of consolidated cash and cash equivalents compared to \$1.8 billion as of October 31, 2020. The decrease in consolidated cash and cash equivalents was primarily attributable to net repayments of other long-term debt of \$123 million, \$191 million of contributions to our pension plans, \$143 million of purchases of equity security investments, capital expenditures of \$137 million, purchases of equipment leased to others of \$76 million, and an increase in inventories of \$248 million, partially offset by an increase in accounts payable of \$276 million, an increase in other current liabilities of \$103 million, an increase in other noncurrent liabilities of \$78 million and net proceeds from revolving debt of \$241 million. In addition, \$300 million of cash was restricted as of April 30, 2021, to repay NFSC investor notes in May 2021.

Results of Operations

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

Results of Operations for the quarter ended April 30, 2021 as compared to the quarter ended April 30, 2020

(in millions, except per share data and % change)	Three Months Ended April 30,				Six Months Ended April 30,			
	2021	2020	Change	% Change	2021	2020	Change	% Change
Sales and revenues, net	\$ 2,162	\$ 1,925	\$ 237	12 %	\$ 3,974	\$ 3,763	\$ 211	6 %
Costs of products sold	1,731	1,624	107	7 %	3,238	3,153	85	3 %
Restructuring charges	2	—	2	N.M.	23	1	22	N.M.
Asset impairment charges	4	13	(9)	(69)%	35	13	22	169 %
Selling, general and administrative expenses	304	170	134	79 %	509	352	157	45 %
Engineering and product development costs	88	78	10	13 %	172	164	8	5 %
Interest expense	62	63	(1)	(2)%	126	128	(2)	(2)%
Other (income) expense, net	(251)	2	(253)	N.M.	(256)	13	(269)	N.M.
Total costs and expenses	1,940	1,950	(10)	(1)%	3,847	3,824	23	1 %
Equity in loss of non-consolidated affiliates	(3)	(1)	(2)	200 %	(4)	(2)	(2)	100 %
Income (loss) before income taxes	219	(26)	245	942 %	123	(63)	186	295 %
Income tax expense	(51)	(7)	(44)	629 %	(33)	(2)	(31)	N.M.
Income (loss) from continuing operations	168	(33)	201	609 %	90	(65)	155	238 %
Less: Net income attributable to non-controlling interests	5	5	—	— %	9	9	—	— %
Income (loss) from continuing operations ^(A)	163	(38)	201	529 %	81	(74)	155	209 %
Income from discontinued operations, net of tax	—	—	—	— %	1	—	1	N.M.
Net income (loss) ^(A)	<u>\$ 163</u>	<u>\$ (38)</u>	<u>\$ 201</u>	529 %	<u>\$ 82</u>	<u>\$ (74)</u>	<u>156</u>	211 %
Diluted income (loss) per share ^(A)								
Continuing operations	\$ 1.63	\$ (0.38)	\$ 2.01	(529)%	\$ 0.81	\$ (0.74)	\$ 1.55	(209)%
Discontinued operations	—	—	—	— %	0.01	—	0.01	N.M.
	<u>\$ 1.63</u>	<u>\$ (0.38)</u>	<u>\$ 2.01</u>	(529)%	<u>\$ 0.82</u>	<u>\$ (0.74)</u>	<u>\$ 1.56</u>	(211)%
Diluted weighted average shares outstanding	100.2	99.7	0.5	1 %	100.2	99.6	0.6	1 %

(A) Amounts attributable to NIC.

(B) Not meaningful.

Sales and revenues, net

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

(in millions, except % change)	Three Months Ended April 30,				Six Months Ended April 30,			
	2021	2020	Change	% Change	2021	2020	Change	% Change
Truck	\$ 1,485	\$ 1,389	\$ 96	7 %	\$ 2,722	\$ 2,631	\$ 91	3 %
Parts	524	443	81	18 %	991	936	55	6 %
Global Operations	138	51	87	171 %	233	119	114	96 %
Financial Services	50	64	(14)	(22)%	101	121	(20)	(17)%
Corporate and Eliminations	(35)	(22)	(13)	59 %	(73)	(44)	(29)	66 %
Total	\$ 2,162	\$ 1,925	\$ 237	12 %	\$ 3,974	\$ 3,763	\$ 211	6 %

For the three and six months ended April 30, 2021, our Truck segment net sales increased by \$96 million and \$91 million, respectively, or 7% and 3%, respectively, compared to the prior year periods. The increase was primarily driven by higher used truck volumes of \$67 million and \$89 million, respectively, higher sales of GM branded units for GM of \$38 million and \$50 million, respectively, and higher Mexico volumes of \$26 million and \$68 million, respectively, partially offset by a reduction in volumes in our Core markets of \$28 million and \$123 million, respectively.

For the three and six months ended April 30, 2021, our Parts segment net sales increased by \$81 million and \$55 million, respectively, or 18% and 6%, respectively, compared to the prior year periods. The increase was primarily driven by lower volumes in the U.S. and Canada in the prior year due to the impact of the COVID-19 pandemic.

For the three and six months ended April 30, 2021, our Global Operations segment net sales increased by \$87 million and \$114 million, respectively, or 171% and 96%, respectively, compared to the prior year periods. The increase was primarily driven by higher volumes and parts sales revenues in our South America operations of \$74 million and \$129 million, respectively, and the recognition of an estimated \$28 million related to Brazilian tax credits in both periods, partially offset by a decrease of \$16 million and \$43 million, respectively, due to the devaluation of the Brazilian real against the U.S. dollar as the average conversion rate weakened by 14% and 23%, compared to the respective prior year periods.

For the three and six months ended April 30, 2021, our Financial Services segment net revenues decreased by \$14 million and \$20 million, respectively, or 22% and 17%, respectively, compared to the prior year periods. The decrease was primarily driven by lower average yields of \$13 million and \$17 million, respectively. In addition to a decline in average yields, \$3 million of the decrease in net revenues for the six months ended April 30, 2021 resulted from lower finance receivables due to lower volumes.

Costs of products sold

For the three and six months ended April 30, 2021, costs of products sold increased by \$107 million and \$85 million, respectively, or 7% and 3%, respectively, compared to the prior year periods. The increase was primarily driven by the impact of higher overall volumes.

For the three and six months ended April 30, 2021, we recorded charges of \$31 million and \$80 million, respectively, for adjustments to pre-existing warranties compared to charges of \$13 million and \$17 million in the respective prior year periods. For the three months ended April 30, 2021, pre-existing warranties were primarily driven by increases from standard warranties as well as proactive campaign actions related to components on prior model year engines. In addition, the six-month period was also impacted by unfavorable costs related to standard Truck warranties.

Restructuring charges

For the three and six months ended April 30, 2021, restructuring charges increased by \$2 million and \$22 million, compared with the respective prior year periods. The increase in the three-month period was due to severance and relocation costs of \$2 million related to our plan to cease all operations at the Melrose Park Facility. For the six months ended April 30, 2021, the increase was due primarily to postretirement charges of \$12 million and severance charges of \$10 million, related to our plan to cease all operations at the Melrose Park Facility. All charges related to the plan to cease operations at the Melrose Park Facility were recorded in our Truck segment. For more information, see Note 3, *Restructuring, Impairments and Divestitures*, to the accompanying financial statements.

Asset impairment charges

For the three and six months ended April 30, 2021, asset impairment charges decreased by \$9 million or 69%, and increased by \$22 million or 169%, respectively, compared to the prior year periods. The decrease for the three months ended April 30, 2021 was due to the recognition of \$12 million of asset impairment charges in our Global Operations segment in the second quarter of 2020 triggered by the impact of the COVID-19 pandemic. The increase for the six months ended April 30, 2021, was primarily attributable to the recognition of \$28 million of asset impairment charges in our Truck segment as a result of the disposition of the Melrose Park Facility. For more information on asset impairments, see Note 3, *Restructuring, Impairments and Divestitures*, to the accompanying consolidated financial statements.

SG&A expenses

For the three and six months ended April 30, 2021, SG&A expenses increased by \$134 million and \$157 million, respectively, or 79% and 45%, respectively, compared to the prior year periods. The increase was primarily attributable to increases in certain compensation expenses of \$58 million and \$83 million, respectively, costs related to the proposed merger with TRATON of \$6 million and \$16 million, respectively, and increases in SG&A expenses in our Truck segment mainly due to an additional charge for the tentative EPA settlement of \$77 million in both periods.

Other (income) expense, net

For the three and six months ended April 30, 2021, other income increased by \$253 million and \$269 million, compared to the respective prior year periods. The increase was primarily attributable to a gain from an increase in fair value of one of our equity security investments of \$242 million and \$246 million, respectively.

Income tax expense

For the three and six months ended April 30, 2021, our income tax expense increased by \$44 million and \$31 million, respectively, compared to the prior year periods. The second quarter and first half of 2021 income tax expense increase is largely the result of the impact of earnings, earnings and/or losses for which no tax expense or benefit can be recognized due to valuation allowances, geographical mix, and certain discrete items, primarily related to the change in value of the U.S. dollar.

Net income attributable to non-controlling interests

Net income attributable to non-controlling interests is the result of our consolidation of subsidiaries that we do not wholly own. Substantially all of the net income attributable to non-controlling interests in 2021 and 2020 relates to Ford Motor Company's non-controlling interest in BDP.

Segment Results of Operations

We define segment profit (loss) as net income (loss) attributable to NIC excluding income tax benefit (expense). The following sections analyze operating results as they relate to our four segments and do not include intersegment eliminations. For additional information concerning our segments, see Note 13, *Segment Reporting*, to the accompanying consolidated financial statements.

Truck Segment

(in millions, except % change)	Three Months Ended April 30,				Six Months Ended April 30,			
	2021	2020	Change	% Change	2021	2020	Change	% Change
Truck segment sales, net	\$ 1,485	\$ 1,389	\$ 96	7 %	\$ 2,722	\$ 2,631	\$ 91	3 %
Truck segment profit (loss)	189	(51)	240	471 %	108	(109)	217	199 %

Segment sales

For the three and six months ended April 30, 2021, our Truck segment net sales increased by \$96 million and \$91 million, respectively, or 7% and 3%, respectively, compared to the prior year periods. The increase was primarily driven by higher used truck volumes of \$67 million and \$89 million, respectively, higher sales of GM branded units for GM of \$38 million and \$50 million, respectively, and higher Mexico volumes of \$26 million and \$68 million, respectively, partially offset by a reduction in volumes in our Core markets of \$28 million and \$123 million, respectively.

In the three months ended April 30, 2021, chargeouts from our Core markets decreased by 2% compared to the three months ended April 30, 2020. The decrease represents a 29% decrease in school buses and a 28% decrease in Class 8 severe service trucks, partially offset by a 32% increase in Class 8 heavy trucks.

In the six months ended April 30, 2021, chargeouts from our Core markets decreased by 5% compared to the six months ended April 30, 2020. The decrease represents a 36% decrease in school buses and a 30% decrease in Class 8 severe service trucks, partially offset by a 34% increase in Class 8 heavy trucks.

Segment results

For the three and six months ended April 30, 2021, our Truck segment profit increased by \$240 million and \$217 million, respectively, or 471% and 199%, respectively, compared to the prior year periods. The increase in profit for the three and six months ended April 30, 2021 was driven by a gain from an increase in fair value of one of our equity security investments of \$242 million and \$246 million, respectively, favorable product mix in our Core markets and Mexico of \$51 million and \$73 million, respectively, and higher used truck sales of \$45 million and \$63 million, respectively, partially offset by an increase in warranty costs of \$22 million and \$45 million, respectively, and higher legal expenses due to an additional charge for the tentative EPA settlement of \$77 million. The six months ended April 30, 2021 were also impacted by increases in asset impairment charges of \$34 million and restructuring charges of \$22 million, primarily related to the cessation of the operations at the Melrose Park Facility.

For the three and six months ended April 30, 2021, we recorded charges of \$31 million and \$80 million, respectively, for adjustments to pre-existing warranties compared to \$13 million and \$17 million in the respective prior year periods. For the quarter, pre-existing warranties were primarily driven by increases from standard warranties as well as proactive campaign actions related to components on prior model year engines. In addition, the six-month period was also impacted by unfavorable costs related to standard Truck warranties.

Parts Segment

(in millions, except % change)	Three Months Ended April 30,				Six Months Ended April 30,			
	2021	2020	Change	% Change	2021	2020	Change	% Change
Parts segment sales, net	\$ 524	\$ 443	\$ 81	18 %	\$ 991	\$ 936	\$ 55	6 %
Parts segment profit	135	103	32	31 %	246	222	24	11 %

Segment sales

For the three and six months ended April 30, 2021, our Parts segment net sales increased by \$81 million and \$55 million, respectively, or 18% and 6%, respectively, compared to the prior year periods. The increase was primarily driven by lower volumes in the U.S. and Canada in the prior year due to the impact of the COVID-19 pandemic.

Segment profit

For the three and six months ended April 30, 2021, our Parts segment profit increased by \$32 million and \$24 million, respectively, or 31% and 11%, respectively, compared to the prior year periods. The increase in profit was driven by higher volumes in the U.S. and Canada of \$33 million and \$22 million, respectively.

Global Operations Segment

(in millions, except % change)	Three Months Ended April 30,				Six Months Ended April 30,			
	2021	2020	Change	% Change	2021	2020	Change	% Change
Global Operations segment sales, net	\$ 138	\$ 51	\$ 87	171 %	\$ 233	\$ 119	\$ 114	96 %
Global Operations segment profit (loss)	36	(13)	49	377 %	42	(13)	55	423 %

Segment sales

For the three and six months ended April 30, 2021, our Global Operations segment net sales increased by \$87 million and \$114 million, respectively, or 171% and 96%, respectively, compared to the prior year periods. The increase was primarily driven by higher volumes and parts sales revenues in our South America operations of \$74 million and \$129 million, respectively, and the recognition of an estimated \$28 million related to Brazilian tax credits in both periods, partially offset by a decrease of \$16 million and \$43 million, respectively, due to the devaluation of the Brazilian real against the U.S. dollar as the average conversion rate weakened by 14% and 23%, compared to the respective prior year periods.

Segment profit

For the three and six months ended April 30, 2021, our Global Operations segment profit increased by \$49 million and \$55 million, respectively, or 377% and 423%, respectively, compared to the prior year periods. The increase was primarily due to higher volumes of \$13 million and \$19 million, respectively, and the recognition of an estimated \$26 million related to Brazilian tax credits in both periods, and \$12 million of asset impairment charges recognized in the second quarter of 2020.

Financial Services Segment

(in millions, except % change)	Three Months Ended April 30,				Six Months Ended April 30,			
	2021	2020	Change	% Change	2021	2020	Change	% Change
Financial Services segment revenues, net	\$ 50	\$ 64	\$ (14)	(22)%	\$ 101	\$ 121	\$ (20)	(17)%
Financial Services segment profit	15	24	(9)	(38)%	27	41	(14)	(34)%

Segment revenues

For the three and six months ended April 30, 2021, our Financial Services segment net revenues decreased by \$14 million and \$20 million, respectively, or 22% and 17%, respectively, compared to the prior year periods. The decrease was primarily driven by lower average yields of \$13 million and \$17 million, respectively. In addition to a decline in average yields, \$3 million of the decrease in net revenues for the six months ended April 30, 2021 resulted from lower finance receivables due to lower volumes.

Segment profit

For the three and six months ended April 30, 2021, our Financial Services segment profit decreased by \$9 million and \$14 million, respectively, or 38% and 34%, respectively, compared to the prior year periods. The decrease was primarily driven by lower revenues of \$14 million and \$20 million, respectively, and an increase in SG&A expenses of \$3 million and \$6 million, respectively, due to higher depreciation on operating leases, partially offset by a decrease in interest expense of \$8 million and \$14 million, respectively, resulting from lower borrowing requirements and lower borrowing rates.

Supplemental Information

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

Truck Industry Retail Deliveries

The following table summarizes approximate industry retail deliveries for our Core markets, categorized by relevant class, according to Wards Auto and IHS Markit ("Polk") and our Core retail deliveries:

(in units)	Three Months Ended April 30,				Six Months Ended April 30,			
	2021	2020	Change	% Change	2021	2020	Change	% Change
Core markets (U.S. and Canada)								
School buses ^(A)	4,600	4,700	(100)	(2)%	11,200	11,300	(100)	(1)%
Class 6 and 7 medium trucks	21,100	18,700	2,400	13 %	43,700	41,400	2,300	6 %
Class 8 heavy trucks	47,200	33,700	13,500	40 %	92,800	77,900	14,900	19 %
Class 8 severe service trucks	16,700	16,000	700	4 %	33,300	35,500	(2,200)	(6)%
Total Core markets	89,600	73,100	16,500	23 %	181,000	166,100	14,900	9 %
Combined class 8 trucks	63,900	49,700	14,200	29 %	126,100	113,400	12,700	11 %
Navistar Core retail deliveries	13,300	12,100	1,200	10 %	27,300	24,500	2,800	11 %

(A) The School bus retail market deliveries include buses classified as B, C, and D and are being reported on a one-month lag.

Truck Retail Delivery Market Share

The following table summarizes our approximate retail delivery market share percentages for the Class 6 through 8 U.S. and Canada truck markets, based on market-wide information from Wards Auto and Polk:

	Three Months Ended				
	April 30, 2021	January 31, 2021	October 31, 2020	July 31, 2020	April 30, 2020
Class 6-8 Trucks (U.S. and Canada)					
Class 6 and 7 medium trucks	23.6 %	21.7 %	19.0 %	22.1 %	22.9 %
Class 8 heavy trucks	9.6 %	8.7 %	10.4 %	10.6 %	11.6 %
Class 8 severe service trucks	13.4 %	15.0 %	18.9 %	16.5 %	14.6 %
Combined class 8 trucks	10.6 %	10.4 %	12.5 %	12.6 %	12.5 %

Truck Orders, net

We define orders as written commitments received from customers and dealers during the year to purchase trucks. Net orders represent new orders received during the year less order cancellations made during the same year. Orders do not represent guarantees of purchases by customers or dealers and are subject to cancellation. Orders may be either sold orders, which will be built for specific customers, or stock orders, which will generally be built for dealer inventory for eventual sale to customers. These orders may be placed at our assembly plants in the U.S. and Mexico for destinations anywhere in the world and include trucks and buses. Historically, we have had an increase in net orders for stock inventory from our dealers at the end of the year due to a combination of demand and, from time to time, incentives to the dealers. Increases in stock orders typically translate to higher future chargeouts. The following table summarizes our approximate net orders for Core units:

(in units)	Three Months Ended April 30,				Six Months Ended April 30,			
	2021	2020	Change	% Change	2021	2020	Change	% Change
Core markets (U.S. and Canada)								
School buses	4,500	3,000	1,500	50 %	6,200	7,200	(1,000)	(14)%
Class 6 and 7 medium trucks	14,200	2,800	11,400	407 %	24,100	6,000	18,100	302 %
Class 8 heavy trucks	14,500	2,400	12,100	504 %	25,800	3,400	22,400	659 %
Class 8 severe service trucks	6,500	2,000	4,500	225 %	10,200	3,600	6,600	183 %
Total Core markets	39,700	10,200	29,500	289 %	66,300	20,200	46,100	228 %
Combined class 8 trucks	21,000	4,400	16,600	377 %	36,000	7,000	29,000	414 %

Truck Chargeouts

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

(in units)	Three Months Ended April 30,				Six Months Ended April 30,			
	2021	2020	Change	% Change	2021	2020	Change	% Change
Core markets (U.S. and Canada)								
School buses	2,200	3,100	(900)	(29)%	3,200	5,000	(1,800)	(36)%
Class 6 and 7 medium trucks	5,000	4,900	100	2 %	9,300	9,300	—	— %
Class 8 heavy trucks	4,900	3,700	1,200	32 %	8,200	6,100	2,100	34 %
Class 8 severe service trucks	1,800	2,500	(700)	(28)%	3,800	5,400	(1,600)	(30)%
Total Core markets	13,900	14,200	(300)	(2)%	24,500	25,800	(1,300)	(5)%
Other markets ^(A)	3,900	3,200	700	22 %	8,300	7,600	700	9 %
Total worldwide units	17,800	17,400	400	2 %	32,800	33,400	(600)	(2)%
Combined class 8 trucks	6,700	6,200	500	8 %	12,000	11,500	500	4 %

(A) Other markets primarily consist of Class 4/5 vehicles, Export Truck, Mexico, and post-sale Navistar Defense. Other markets include certain Class 4/5 vehicle chargeouts of 1,900 and 4,000 GM-branded units sold to GM during the three and six months ended April 30, 2021, respectively, and 1,100 and 3,200 during the three and six months ended April 30, 2020, respectively.

Liquidity and Capital Resources

Consolidated cash and cash equivalents

(in millions)	As of	
	April 30, 2021	October 31, 2020
Manufacturing operations.....	\$ 1,197	\$ 1,749
Financial Services operations	36	94
Consolidated cash and cash equivalents.....	\$ 1,233	\$ 1,843

Manufacturing and Financial Services cash and cash equivalents

Manufacturing cash and cash equivalents and Financial Services cash and cash equivalents are not presented in accordance with, and should not be viewed as an alternative to, U.S. GAAP. This non-GAAP financial information should be considered supplemental to, and not as a substitute for, or superior to, financial measures calculated in accordance with U.S. GAAP. However, we believe that non-GAAP reporting provides meaningful information and therefore we use it to supplement our U.S. GAAP reporting by identifying items that may not be related to the core manufacturing business. We provide this information for an additional analysis of our ability to meet our operating requirements, capital expenditures, equity investments, any legal settlements, and financial obligations. Manufacturing cash and cash equivalents represent our consolidated cash and cash equivalents, which excludes cash and cash equivalents of our Financial Services operations. Consolidated cash and cash equivalents totaled \$1.2 billion as of April 30, 2021 and \$1.8 billion as of October 31, 2020.

Cash Requirements

We generate cash flows from operations from the sale of trucks, buses, diesel engines, and parts, as well as from product financing provided to our dealers and retail customers by our Financial Services operations. We fund our operations and strategic plans primarily with cash, cash generated from operations, debt and equity. It is our opinion that, in the absence of significant extraordinary cash demands, our: (i) level of cash and cash equivalents, (ii) current and forecasted cash flow from our Manufacturing operations and Financial Services operations, (iii) availability under various funding facilities, (iv) current and forecasted availability from various funding alliances, and (v) access to capital in the capital markets, will provide sufficient funds to meet operating requirements, capital expenditures, investments, any legal settlements, and financial obligations on both a short-term and long-term basis. Future Manufacturing operations debt obligations are expected to be met through a combination of cash generation from operations and refinancing activities. We also believe the quality of our

underlying portfolio of receivables will ensure the ongoing funding from various sources and alliance partners and will permit our Financial Services operations to meet our financing requirements and those of our dealers, and retail customers.

Under certain of our debt arrangements we have the ability to raise additional cash by incurring incremental debt. The covenants in all of our debt agreements permit us to refinance existing debt instruments as they mature. In July 2020, Navistar Financial Services Corporation ("NFSC") issued \$300 million of two-year investor notes which are secured by assets of the wholesale notes owner trust. The proceeds were used to repay the \$300 million of investor notes that matured in September 2020. In May 2021, NFSC repaid \$300 million of investor notes originally issued in 2019, upon maturity, using cash accumulated and restricted for this purpose as of April 30, 2021.

Our retail accounts funding facility has a capacity range of \$100 million to \$200 million and our variable funding notes ("VFN") facility has a maximum capacity of \$350 million.

On April 26, 2021, NIC issued a notice of conditional call for redemption of all of the outstanding 9.5% Senior Secured Notes due 2025 (the "Senior Secured Notes"). The conditional redemption notice calls for redemption of the Senior Secured Notes on June 25, 2021 at a redemption price of 107.125% of the principal amount redeemed, which amount is equal to \$1,071.25 per \$1,000 principal amount of the Senior Secured Notes, plus accrued and unpaid interest up to, but not including, the redemption date, in accordance with the provisions of the indenture governing the Senior Secured Notes. The redemption is subject to and expressly conditioned upon the consummation of the closing of the merger of Merger Subsidiary with and into Navistar pursuant to the Merger Agreement, on terms satisfactory to Navistar and TRATON SE (the "Senior Secured Notes Merger Condition"). The redemption date will be delayed until such time as the Senior Secured Notes Merger Condition is satisfied (including more than 60 days after the issue date of the conditional redemption notice) or the conditional redemption notice will be rescinded if the Senior Secured Notes Merger Condition is not satisfied on or prior to the redemption date or the redemption date so delayed.

On May 27, 2021, at the direction of NIC, a notice of conditional optional redemption was issued for all of the outstanding \$225 million aggregate principal amount of Illinois Finance Authority ("IFA") Recovery Zone Facility Refunding Revenue Bonds (Navistar International Corporation Project) Series 2020 (the "4.75% Tax Exempt Bonds"). The original proceeds from the 4.75% Tax Exempt Bonds were loaned by the IFA to the Company pursuant to a Loan Agreement dated as of July 1, 2020. The conditional redemption notice calls for redemption of the 4.75% Tax Exempt Bonds on July 2, 2021 at the redemption price of 100.00% of the principal amount redeemed plus accrued and unpaid interest up to, but not including, the redemption date, in accordance with the provisions of the indenture governing the 4.75% Tax Exempt Bonds. The redemption is subject to and expressly conditioned upon (i) the consummation of the closing of the merger of Merger Subsidiary, with and into the Company, with the Company surviving the Merger, pursuant to the Merger Agreement on terms satisfactory to the Company and the Parent and in which the holders of the common stock of the Company outstanding immediately prior to the Merger do not hold, directly or indirectly, at least a majority of the common stock of the Company after the Merger (the "4.75% Tax Exempt Bonds Merger Condition") and (ii) the receipt by Citibank, N.A., as trustee under the indenture governing the 4.75% Tax Exempt Bonds, on or prior to the redemption date of the appropriate funds required to pay the redemption price plus accrued and unpaid interest up to, but not including, the redemption date, to redeem the 4.75% Tax Exempt Bonds on the redemption date. In the event that the 4.75% Tax Exempt Bonds Merger Condition is not satisfied on or prior to the redemption date or Citibank, N.A. does not receive sufficient funds to redeem the 4.75% Tax Exempt Bonds on the redemption date, the redemption will not occur on the redemption date.

Our Manufacturing operations sold \$3.4 billion of wholesale notes and accounts receivable to our Financial Services operations during the six months ended April 30, 2021. The total outstanding balance of wholesale notes and accounts receivable purchased was \$1.2 billion as of April 30, 2021.

In April 2021, NFC paid a dividend of \$13 million to NI.

Total net loans outstanding from our Financial Services operations to our Manufacturing operations were \$342 million and \$363 million as of April 30, 2021 and October 31, 2020, respectively. Loans outstanding include: an unsecured loan balance with NFC of \$200 million as of both April 30, 2021 and October 31, 2020; financing from NFC that is secured by used truck inventory of \$57 million and \$63 million as of April 30, 2021 and October 31, 2020, respectively; and an intercompany revolving loan agreement (the "Intercompany Revolving Loan") with our captive insurance company under our Financial Services segment. As of April 30, 2021 and October 31, 2020, the outstanding balance under the Intercompany Revolving Loan

was \$20 million, at both periods. As of April 30, 2021 and October 31, 2020, the net outstanding balance under a working capital loan from our Mexico financial operations to our Mexico manufacturing operations was \$65 million and \$80 million, respectively.

As of April 30, 2021, the aggregate amount available to fund finance receivables under our Financial Services funding facilities was \$700 million, and there were no borrowings outstanding under NI's \$125 million asset-based credit facility which is also used to secure certain outstanding letters of credit.

Cash Flow Overview

(in millions)	Six Months Ended April 30, 2021		
	Manufacturing Operations ^(A)	Financial Services Operations and Adjustments ^(A)	Condensed Consolidated Statement of Cash Flows
Net cash provided by (used in) operating activities.....	\$ (202)	\$ 170	\$ (32)
Net cash used in investing activities.....	(308)	(38)	(346)
Net cash provided by (used in) financing activities.....	(29)	134	105
Effect of exchange rate changes on cash, cash equivalents and restricted cash...	(12)	14	2
Increase (decrease) in cash, cash equivalents and restricted cash	(551)	280	(271)
Cash, cash equivalents and restricted cash at beginning of the period	1,793	180	1,973
Cash, cash equivalents and restricted cash at end of the period	\$ 1,242	\$ 460	\$ 1,702

(in millions)	Six Months Ended April 30, 2020		
	Manufacturing Operations ^(A)	Financial Services Operations and Adjustments ^(A)	Condensed Consolidated Statement of Cash Flows
Net cash provided by (used in) operating activities.....	\$ (481)	\$ 363	\$ (118)
Net cash used in investing activities.....	(85)	(4)	(89)
Net cash provided by (used in) financing activities.....	745	(408)	337
Effect of exchange rate changes on cash, cash equivalents and restricted cash...	(12)	3	(9)
Increase (decrease) in cash, cash equivalents and restricted cash	167	(46)	121
Cash, cash equivalents and restricted cash at beginning of the period	1,378	179	1,557
Cash, cash equivalents and restricted cash at end of the period	\$ 1,545	\$ 133	\$ 1,678

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

Manufacturing Operations

Manufacturing Operations Cash Flow from Operating Activities

Cash used in operating activities was \$202 million and \$481 million in the six months ended April 30, 2021 and 2020, respectively. The net decrease in cash flow used in operating activities in 2021 compared to 2020 was primarily attributable to increases in accounts payable, other current liabilities and noncurrent liabilities, partially offset by a significant increase in pension contributions, and increases in accounts receivable, inventories, other current assets and other noncurrent assets and a decrease in liabilities owed to Financial Services.

Cash paid for interest, net of amounts capitalized, was \$100 million and \$86 million in the six months ended April 30, 2021 and 2020, respectively.

Manufacturing Operations Cash Flow from Investing Activities

Cash used in investing activities was \$308 million and \$85 million in the six months ended April 30, 2021 and 2020, respectively. The increase in cash used in investing activities in 2021 compared to 2020 was primarily attributable to purchases of equity investments, an increase in capital expenditures and an increase in the purchase of equipment leased to others.

Manufacturing Operations Cash Flow from Financing Activities

Cash used by financing activities was \$29 million in the six months ended April 30, 2021, compared to cash provided by financing activities of \$745 million in the six months ended April 30, 2020. The net decrease in cash provided by financing activities in 2021 compared to 2020 was primarily attributable to lower borrowings under the Used Truck Loan from Financial Services operations, lower borrowings under the Asset Based Loan and a decrease in proceeds received from the issuance of long term debt, primarily related to the 9.5% Senior Secured Notes issued in April 2020.

Financial Services Operations

Financial Services Operations and Adjustments to Cash Flow from Operating Activities

Cash provided by operating activities was \$170 million and \$363 million in the six months ended April 30, 2021 and 2020, respectively. The decrease in cash provided by operating activities compared to 2020 was primarily due to a net decrease in collections on finance receivables, partially offset by a net increase in intercompany payables to our Manufacturing operations.

Cash paid for interest, net of amounts capitalized, was \$19 million and \$32 million for the six months ended April 30, 2021 and 2020, respectively.

Financial Services Operations and Adjustments to Cash Flow from Investing Activities

Cash used in investing activities was \$38 million and \$4 million in the six months ended April 30, 2021 and 2020, respectively. The increase in cash used in investing activities was primarily due to an increase in purchases of equipment leased to others.

Financial Services Operations and Adjustments to Cash Flow from Financing Activities

Cash provided by financing activities was \$134 million in the six months ended April 30, 2021, compared to cash used by financing activities of \$408 million in the 2020 period. The net decrease in cash used was primarily due to the net decrease in repayments of borrowings from the net decrease in collections of finance receivables, and the increase in borrowing requirements related to the increase in purchases of equipment leased to others.

Non-GAAP Financial Performance Measures

EBITDA, Adjusted EBITDA and Adjusted Net Income (Loss), which exclude certain identified items that we do not consider to be part of our ongoing business, are not in accordance with, and should not be viewed as an alternative to, U.S. GAAP. This non-GAAP financial information should be considered supplemental to, and not as a substitute for, or superior to, financial measures calculated in accordance with U.S. GAAP.

We believe these non-GAAP measures provide meaningful information about the performance of our business and therefore we use them to supplement our U.S. GAAP reporting. We believe that they improve the comparability of year-to-year results and are representative of our underlying performance. Management uses this information to assess and measure the performance of our operating segments. We have chosen to provide this supplemental information for additional analysis of our operating results, to illustrate the results of operations giving effect to the non-GAAP adjustments shown in the below reconciliations, and to provide additional measures of performance.

EBITDA reconciliation:

(in millions)	Three Months Ended April 30,		Six Months Ended April 30,	
	2021	2020	2021	2020
Net income (loss) attributable to NIC.....	\$ 163	\$ (38)	\$ 82	\$ (74)
<i>Plus:</i>				
Depreciation and amortization expense.....	52	49	103	99
Manufacturing interest expense ^(A)	51	43	102	89
<i>Adjusted for:</i>				
Income tax expense	(51)	(7)	(33)	(2)
EBITDA	\$ 317	\$ 61	\$ 320	\$ 116

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

(in millions)	Three Months Ended April 30,		Six Months Ended April 30,	
	2021	2020	2021	2020
Interest expense	\$ 62	\$ 63	\$ 126	\$ 128
Less: Financial services interest expense	11	20	24	39
Manufacturing interest expense.....	\$ 51	\$ 43	\$ 102	\$ 89

Adjusted EBITDA Reconciliation:

(in millions)	Three Months Ended April 30,		Six Months Ended April 30,	
	2021	2020	2021	2020
EBITDA (reconciled above)	\$ 317	\$ 61	\$ 320	\$ 116
<i>Adjusted for significant items of:</i>				
Adjustments to pre-existing warranties ^(A)	31	13	80	17
Asset impairment charges ^(B)	4	13	35	13
Restructuring of manufacturing operations ^(C)	2	—	23	1
MaxxForce Advanced EGR engine lawsuits ^(D)	1	1	1	1
TRATON merger costs ^(E)	6	—	16	—
Shy profit-sharing accrual ^(F)	2	—	4	—
TuSimple fair value adjustment ^(G)	(242)	—	(246)	—
EPA settlement ^(H)	77	—	77	—
Settlement gain ^(I)	—	—	—	(1)
Total adjustments	(119)	27	(10)	31
Adjusted EBITDA	\$ 198	\$ 88	\$ 310	\$ 147

Adjusted Net Income (Loss) attributable to NIC:

(in millions)	Three Months Ended April 30,		Six Months Ended April 30,	
	2021	2020	2021	2020
Net income (loss) attributable to NIC	\$ 163	\$ (38)	\$ 82	\$ (74)
Adjusted for significant items of:				
Adjustments to pre-existing warranties ^(A)	31	13	80	17
Asset impairment charges ^(B)	4	13	35	13
Restructuring of manufacturing operations ^(C)	2	—	23	1
MaxxFoer Advanced EGR engine lawsuits ^(D)	1	1	1	1
TRATON merger costs ^(E)	6	—	16	—
Shy profit-sharing accrual ^(F)	2	—	4	—
TuSimple fair value adjustment ^(G)	(242)	—	(246)	—
EPA settlement ^(H)	77	—	77	—
Settlement gain ^(I)	—	—	—	(1)
Total adjustments	(119)	27	(10)	31
Tax effect ^(J)	28	1	1	—
Adjusted net income (loss) attributable to NIC	\$ 72	\$ (10)	\$ 73	\$ (43)

- (A) Adjustments to pre-existing warranties reflect changes in our estimate of warranty costs for products sold in prior periods. Such adjustments typically occur when claims experience deviates from historic and expected trends. Our warranty liability is generally affected by component failure rates, repair costs, and the timing of failures. Future events and circumstances related to these factors could materially change our estimates and require adjustments to our liability. In addition, new product launches require a greater use of judgment in developing estimates until historical experience becomes available.
- (B) In the second quarter and first half of 2021, we recorded \$4 million and \$35 million, respectively, of asset impairment charges in our Truck segment. The charges for the second quarter of 2021 include \$3 million related to the Melrose Park Facility disposition and \$1 million related to certain assets under operating leases. The charges for the first half of 2021 include \$28 million related to the Melrose Park Facility disposition and \$7 million related to certain assets under operating leases. In the second quarter and first half of 2020, we recorded \$13 million of asset impairment charges comprised of \$12 million of asset impairment charges related to long-lived assets in our Brazil asset group in our Global Operations segment and \$1 million of asset impairment charges related to certain assets under operating leases in our Truck segment.
- (C) In the second quarter and first half of 2021, we recorded restructuring charges of \$2 million and \$23 million, respectively, in our Truck segment, related to the Melrose Park Facility disposition. In the first half of 2020, we recorded a restructuring charge of \$1 million in our Truck segment.
- (D) In the second quarter and first half of 2021 and 2020, we recorded a charge of \$1 million related to the MaxxFoer Advanced EGR engine class action settlement and related litigation in our Truck segment.
- (E) In the second quarter and first half of 2021, we incurred \$6 million and \$16 million, respectively, of costs related to the proposed TRATON merger.
- (F) In the second quarter and first half of 2021, we recorded a \$2 million and \$4 million charge, respectively, related to the Shy profit-sharing litigation accrual.
- (G) In the second quarter and first half of 2021, we recorded a gain of \$242 million and \$246 million, respectively, related to an increase in fair value of our equity security investment in TuSimple.
- (H) In the second quarter and first half of 2021, we recorded a charge of \$77 million related to a tentative EPA settlement in our Truck segment.
- (I) In the first half of 2020, we recorded interest income of \$1 million, in *Other expense, net* derived from the prior year settlement of a business economic loss claim relating to our former Alabama engine manufacturing facility in Corporate.
- (J) Tax effect is calculated by excluding the impact of the non-GAAP adjustments from the interim period tax provision calculations.

Pension and Other Postretirement Benefits

See the applicable section of Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, of our Annual Report on Form 10-K for the year ended October 31, 2020.

For the six months ended April 30, 2021, we contributed \$191 million to our pension plans to meet regulatory funding requirements. The 2021 contributions include the \$157 million of contributions we deferred in 2020 under provisions of the CARES Act. We expect to contribute approximately \$2 million to our pension plans during the remainder of 2021, as our previously expected remaining 2021 contributions of \$129 million have been reduced under funding relief provisions in the American Rescue Plan Act ("ARPA"), enacted March 11, 2021.

Future contributions are dependent upon a number of factors, principally the changes in values of plan assets, changes in interest rates, and the impact of any future funding relief. We currently expect that we will be required to contribute

approximately \$20 million in each of 2022, 2023 and 2024, depending on asset performance, discount rates, and current pension legislation. Future expected contribution amounts for 2022, 2023 and 2024 are also reduced from previously expected amounts under funding relief provisions in ARPA.

For more information, see Note 9, *Postretirement Benefits*, to the accompanying consolidated financial statements.

Other Information

Environmental Matters

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

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

Impact of Environmental Regulation

Government regulation related to climate change is under consideration at the U.S. federal and state levels. Because our products use fossil fuels, they may be impacted indirectly due to regulation, such as a cap and trade program, affecting the cost of fuels. The United States Environmental Protection Agency ("EPA") and National Highway Traffic Safety Administration ("NHTSA") issued final rules for greenhouse gas ("GHG") phase 1 emissions and fuel economy in 2011, which rules were fully implemented in model year 2017. The EPA and NHTSA adopted a final rule in October 2016 with the next phase of federal GHG emission and fuel economy regulations. This rule contains more stringent emissions levels for engines and vehicles and takes effect in model year 2021 and be implemented in three stages culminating in model year 2027. Canada has finalized a heavy duty phase 2 GHG rulemaking, which is substantially similar to EPA regulations with more stringent requirements for heavy haul tractors. We are complying with these rules through use of existing technologies and implementation of emerging technologies as they become available.

In December 2014, California adopted GHG emission rules for heavy duty vehicles equivalent to EPA phase 1 rules and we expect that it will seek a waiver for its phase 2 equivalent rules. In 2014, California also adopted an optional lower emission standard for oxides of nitrogen ("NOx") in California. California has stated its intention to lower NOx standards for California-certified engines and has requested that the EPA lower its standards. In June 2016, several regional air quality management districts in California and other states, as well as the environmental agencies for several states, petitioned the EPA to adopt lower NOx emission standards for on-road heavy duty trucks and engines. The EPA responded to the petition in December 2016 stating that it would consider additional NOx regulations targeting model year 2024. On January 6, 2020 the EPA submitted an Advanced Notice of Proposed Rulemaking for publication in the Federal Register. Within the notice the EPA is soliciting comments towards a potential rule which would take effect in the 2027 timeframe. The EPA is considering regulatory changes to address lower NOx emissions standards, updates to test procedures to capture real world emissions, updates to certification and in-use testing protocol, extended emissions warranty and regulatory useful life. On April 18, 2019, the California Air Resources Board ("CARB") released a white paper providing an outline of measures it feels may be feasible, including lowered NOx and particular matter emission standards, changes in testing protocols, extended emission warranty periods, changes to durability demonstration periods, in-use testing and various other changes that are being considered for implementation between 2022 and 2027. On June 23, 2020 CARB solicited comments on a proposal that lowers emissions in two stages in 2024 and 2027, culminating in a NOx standard of 0.02 g. In addition, CARB proposed increasing stringency on useful life periods,

warranty requirements and certification testing requirements. Navistar, along with an industry trade group and other companies, commented on this proposal and participated actively in this regulatory proceeding. We anticipate this rule becoming final during the second half of the 2021 calendar year. California is currently considering regulatory requirements to expand the zero emissions truck market, including the mandated sale of certain vehicles. It issued and approved a proposal that will require between 5 and 9 percent of the heavy duty vehicle fleet sold into California to be comprised of zero emission vehicles in 2024 with the percentage increasing thereafter. This rule became final on March 15, 2021. We continue to monitor the ruling for future developments.

We expect that heavy duty vehicle and engine fuel economy and GHG emissions rules will be under consideration in other global jurisdictions in the future. The EPA also issued a final rule in October 2015 that lowered the National Ambient Air Quality Standard for ozone to 70 parts per billion. This rule could lead to future lower emission standards for substances that contribute to ozone depletion, including NOx from vehicles, at the federal and state levels. Our facilities may be subject to regulation related to climate change and climate change itself may also have some impact on our operations. However, these impacts are currently uncertain and we cannot predict the nature and scope of those impacts.

These standards will require significant investments of capital and will significantly increase costs of development, costs of materials, and warranty costs for engines and vehicles and will require us to incur administrative costs arising from implementation of the standards.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP. In connection with the preparation of our consolidated financial statements, we use estimates and make judgments and assumptions about future events that affect the reported amounts of assets, liabilities, revenue, expenses, and the related disclosures. Our assumptions, estimates, and judgments are based on historical experience, current trends, and other factors we believe are relevant at the time we prepare our consolidated financial statements.

Our significant accounting policies and critical accounting estimates are consistent with those discussed in Note 1, *Summary of Significant Accounting Policies*, to the consolidated financial statements and the MD&A section of our Annual Report on Form 10-K for the year ended October 31, 2020. During the six months ended April 30, 2021, there were no significant changes in our application of our critical accounting policies.

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

- *Pension and Other Postretirement Benefits*
- *Income Taxes*
- *Impairment of Long-Lived Assets*
- *Revenue*
- *Product Warranty*

Recently Issued Accounting Standards

The information required to be set forth under this heading is incorporated by reference from Note 1, *Summary of Significant Accounting Policies*, to the consolidated financial statements included in Part I, Item 1.

Item 3. *Quantitative and Qualitative Disclosures about Market Risk*

See Item 7A, Quantitative and Qualitative Disclosures about Market Risk, of our Annual Report on Form 10-K for the year ended October 31, 2020. During the six months ended April 30, 2021, there have been no material changes in our exposure to market risk.

Item 4. *Controls and Procedures*

(a) Evaluation of Disclosure Controls and Procedures

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

In connection with the preparation of this report, management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of April 30, 2021. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the quarter ended April 30, 2021, our disclosure controls and procedures were effective.

(b) Changes in Internal Control over Financial Reporting

There were no material changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15 or 15d-15 under the Exchange Act that occurred during the quarter ended April 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—Other Information

Item 1. *Legal Proceedings*

The information required to be set forth under this heading is incorporated by reference from Note 12, *Commitments and Contingencies*, to the consolidated financial statements included in Part I, Item 1.

Item 1A. *Risk Factors*

During the six months ended April 30, 2021, there have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K for our year ended October 31, 2020, except as disclosed below:

We are exposed to, and may be adversely affected by, interruptions to our computer and information technology systems and sophisticated cyber-attacks.

We rely on our information technology systems and networks in connection with many of our business activities. Some of these networks and systems are managed by third-party service providers and are not under our direct control. Our operations routinely involve receiving, storing, processing and transmitting sensitive information pertaining to our business, customers, dealers, suppliers, employees and other sensitive matters. As with most companies, we have experienced cyber-attacks, attempts to breach our systems and other similar incidents, including the previously disclosed cybersecurity threat and cybersecurity incident which we became aware of on May 20, 2021 and May 31, 2021, respectively. Certain cyber incidents could materially disrupt operational systems; result in loss of trade secrets or other proprietary or competitively sensitive information; compromise personally identifiable information regarding customers or employees; delay our ability to deliver products to customers; and/or jeopardize the security of our facilities. Certain cybersecurity incidents could be caused by malicious outsiders or insiders using sophisticated methods to circumvent firewalls, encryption and other security defenses. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Information technology security threats, including security breaches, computer malware and other cyber-attacks, are increasing in both frequency and sophistication and could create financial liability, subject us to legal or regulatory sanctions or damage our reputation with customers, dealers, suppliers and other stakeholders. With some of our employees working from home during the COVID-19 pandemic, there may be increased opportunities for unauthorized access and cyber-attacks. Security breaches could also result in a violation of U.S. and international privacy and other laws and subject the Company to various litigations and proceedings. We continuously seek to maintain a robust program of information security and controls, but the impact of a material information technology event could have a material adverse effect on our competitive position, reputation, results of operations, financial condition and cash flows.

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

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities

None.

Item 3. *Defaults Upon Senior Securities*

None.

Item 4. *Mine Safety Disclosures*

Not applicable.

Item 5. *Other Information*

None.

Item 6. Exhibits

Exhibit:	Description	Page
(2.1)	<u>Agreement and Plan of Merger, dated as of November 7, 2020, by and among Navistar International Corporation, TRATON SE and Dusk Inc. Filed as Exhibit 2.1 to Current Report on Form 8-K dated November 7, 2020 and filed November 9, 2020. Commission File No. 001-09618.</u>	
10.1	<u>Amendment No. 14 to the Note Purchase Agreement, dated as of April 15, 2021, among Navistar Financial Securities Corporation, as the seller, Navistar Financial Corporation, as the servicer, New York Life Insurance Company, as a managing agent and a committed purchaser, New York Life Insurance and Annuity Corporation, as a managing agent and a committed purchaser, and Bank of America, National Association, as administrative agent, as a managing agent and as a committed purchaser. Filed as Exhibit 10.1 to Current Report on Form 8-K dated April 15, 2021 and filed</u>	
(22)	List of Subsidiary Guarantors	
(31.1)	<u>CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	E-2
(31.2)	<u>CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	E-3
(32.1)	<u>CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	E-4
(32.2)	<u>CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	E-5
(99.1)	<u>Additional Financial Information (Unaudited)</u>	E-6
(99.2)	<u>Voting Agreement, dated as of November 7, 2020, by and among TRATON SE, Dusk Inc., and certain stockholders of the Company affiliated with Carl C. Icahn. Filed as Exhibit 99.1 to Current Report on Form 8-K dated November 7, 2020 and filed November 9, 2020. Commission File No. 001-09618</u>	N/A
(99.3)	<u>Voting Agreement, dated as of November 7, 2020, by and among TRATON SE, Dusk Inc., and certain stockholders of the Company affiliated with Mark H. Rachesky. Filed as Exhibit 99.2 to Current Report on Form 8-K dated November 7, 2020 and filed November 9, 2020. Commission File No. 001-09618</u>	N/A
(101.INS)	Inline XBRL Instance Document	N/A
(101.SCH)	Inline XBRL Taxonomy Extension Schema Document	N/A
(101.CAL)	Inline XBRL Taxonomy Extension Calculation Linkbase Document	N/A
(101.LAB)	Inline XBRL Taxonomy Extension Label Linkbase Document	N/A
(101.PRE)	Inline XBRL Taxonomy Extension Presentation Linkbase Document	N/A
(101.DEF)	Inline XBRL Taxonomy Extension Definition Linkbase Document	N/A
(104)	Cover Page Interactive Data File (embedded within Inline XBRL documents and Included in Exhibit 101)	

All exhibits other than those indicated above are omitted because of the absence of the conditions under which they are required or because the information called for is shown in the consolidated financial statements and notes thereto in the Quarterly Report on Form 10-Q for the period ended April 30, 2021.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NAVISTAR INTERNATIONAL CORPORATION
(Registrant)

/s/ SAMARA A. STRYCKER

Samara A. Strycker
Senior Vice President and Corporate Controller
(Principal Accounting Officer)

June 8, 2021