UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A

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

For the quarterly period ended July 31, 2008

OR

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

For the transition period from To

Commission file number 1-9618

NAVISTAR INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

As of July 31, 2008, the number of shares outstanding of the registrant s common stock was 71,174,848, net of treasury shares.

Documents incorporated by reference: None.

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NAVISTAR INTERNATIONAL CORPORATION FORM 10-Q

EXPLANATORY NOTE

On December 23, 2008, management of Navistar International Corporation (NIC), with the concurrence of the audit committee of our Board of Directors, concluded that the condensed consolidated financial statements as of and for the three and nine months ended July 31, 2008 presented in NIC s previously issued Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2008 (Third Quarter Form 10-Q), filed on September 3, 2008, should be restated. This conclusion was reported in a Current Report on Form 8-K filed on December 24, 2008. NIC hereby amends Items 1, 2, and 4 of Part I and Item 6 of Part II of the Third Quarter Form 10-Q to correct errors that resulted in misstatements of inventories, accounts receivable, accounts payable, sales of manufactured products, net, and costs of products sold in the Truck segment. The corrections of the errors have the effect of increasing net income by $59 million and $43 million for the three and nine months ended July 31, 2008, respectively. A detailed description of the restatement is presented in Note 19, *Restatement and revision of previously issued condensed consolidated financial statements*. This Third Quarter Form 10-Q/A reflects changes to the condensed consolidated financial statements; Note 5, *Inventories*; Note 13, *Segment reporting*; Note 14, *Comprehensive income (loss)*; Note16, *Earnings (loss) per share*; Note18, *Condensed consolidating guarantor and non-guarantor financial information*; and the addition of Note 19. In addition, this Third Quarter Form 10-Q/A reflects the revision of management s discussion and analysis of financial condition and results of operations in Item 2 of Part I; the revision of disclosures regarding controls and procedures in Item 4 of Part I; and new certifications filed as exhibits. This Third Quarter Form 10-Q/A has not been updated for events or information subsequent to the date of filing of the original Third Quarter Form 10-Q except in connection with the foregoing. Accordingly, this Third Quarter Form 10-Q/A should be read in conjunction with the Company s other filings made with the Securities and Exchange Commission (SEC).

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PART I

Item 1. Condensed Consolidated Financial Statements

Navistar International Corporation and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

(in millions, except per share data)	Three Months Ended July 31, 2008 (Restated)	Three Months Ended July 31, 2007	Nine Months Ended July 31, 2008 (Restated)	Nine Months Ended July 31, 2007
Sales and revenues				
Sales of manufactured products, net	**$ 3,876**	$ 2,852	**$ 10,589**	$ 8,802
Finance revenues	**75**	104	**265**	292
Sales and revenues, net	**3,951**	2,956	**10,854**	9,094
Costs and expenses				
Costs of products sold	**3,052**	2,428	**8,715**	7,505
Selling, general and administrative expenses	**386**	368	**1,071**	1,010
Engineering and product development costs	**108**	86	**289**	284
Interest expense	**88**	125	**357**	367
Other income, net	**(6)**	(34)	**(11)**	(21)
Total costs and expenses	**3,628**	2,973	**10,421**	9,145
Equity in income of non-consolidated affiliates	**18**	22	**63**	62
Income before income tax	**341**	5	**496**	11
Income tax expense	**(10)**	(9)	**(19)**	(28)
Net income (loss)	**$ 331**	$ (4)	**$ 477**	$ (17)
Basic earnings (loss) per share	**$ 4.68**	$ (0.05)	**$ 6.78**	$ (0.24)
Diluted earnings (loss) per share	**$ 4.47**	$ (0.05)	**$ 6.52**	$ (0.24)
Weighted average shares outstanding				
Basic	**70.8**	70.3	**70.5**	70.3
Diluted	**74.0**	70.3	**73.3**	70.3

See Notes to Condensed Consolidated Financial Statements

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Navistar International Corporation and Subsidiaries

Consolidated Balance Sheets

(Unaudited)

	As of	
(in millions, except per share data)	**July 31, 2008 (Restated and Revised)**	**October 31, 2007 (Revised)**
ASSETS		
Current assets		
Cash and cash equivalents	**$ 678**	$ 777
Marketable securities	**18**	6
Finance and other receivables (net of allowance for losses of $74 and $60 as of July 31, 2008 and October 31, 2007, respectively)	**3,048**	2,941
Inventories	**1,692**	1,412
Deferred taxes, net	**116**	115
Other current assets	**171**	194
Total current assets	**5,723**	5,445
Restricted cash and cash equivalents	**687**	419
Finance and other receivables (net of allowance for losses of $28 and $41 as of July 31, 2008 and October 31, 2007, respectively)	**2,246**	2,478
Investments in and advances to non-consolidated affiliates	**177**	154
Property and equipment (net of accumulated depreciation and amortization of $2,347 and $2,199 as of July 31, 2008 and October 31, 2007, respectively)	**1,963**	2,086
Goodwill	**378**	353
Intangible assets (net of accumulated amortization of $71 and $53 as of July 31, 2008 and October 31, 2007, respectively)	**273**	286
Pension assets	**143**	103
Deferred taxes, net	**31**	35
Other noncurrent assets	**81**	89
Total assets	**$ 11,702**	$ 11,448
LIABILITIES, REDEEMABLE EQUITY SECURITIES AND STOCKHOLDERS DEFICIT		
Liabilities		
Current liabilities		
Notes payable and current maturities of long-term debt	**$ 803**	$ 798
Accounts payable	**2,148**	1,770
Other current liabilities	**1,228**	1,423
Total current liabilities	**4,179**	3,991
Long-term debt	**5,730**	6,083
Postretirement benefits liabilities	**1,220**	1,327
Other noncurrent liabilities	**758**	781
Total liabilities	**11,887**	12,182
Redeemable equity securities	**145**	140
Stockholders deficit		
Series D convertible junior preference stock	**4**	4

Common stock and additional paid in capital (par value $0.10 per share, 75.4 shares issued as of July 31, 2008 and October 31, 2007)	**1,958**	1,961
Accumulated deficit	**(2,048)**	(2,519)
Accumulated other comprehensive loss	**(105)**	(155)
Common stock held in treasury, at cost (4.2 and 5.1 shares as of July 31, 2008 and October 31, 2007, respectively)	**(139)**	(165)
Total stockholders deficit	**(330)**	(874)
Total liabilities, redeemable equity securities and stockholders deficit	**$ 11,702**	$ 11,448

See Notes to Condensed Consolidated Financial Statements

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Navistar International Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in millions)	Nine Months Ended July 31, 2008 (Restated and Revised)	2007 (Revised)
Cash flows from operating activities		
Net income (loss)	**$ 477**	$ (17)
Adjustments to reconcile net income (loss) to cash provided by operating activities		
Depreciation and amortization	**241**	229
Depreciation of equipment held for or under lease	**44**	41
Deferred taxes	**(8)**	(6)
Amortization of debt issuance costs	**15**	6
Stock-based compensation	**2**	6
Provision for doubtful accounts	**52**	23
Equity in income of non-consolidated affiliates	**(63)**	(62)
Dividends from non-consolidated affiliates	**54**	74
Gain on sales of affiliates	**(4)**	(9)
Loss on sale of property and equipment		8
Loss on repurchases of debt		31
Changes in other assets and liabilities	**(132)**	(242)
Net cash provided by operating activities	**678**	82
Cash flows from investing activities		
Purchases of marketable securities	**(43)**	(178)
Sales or maturities of marketable securities	**31**	309
Net change in restricted cash and cash equivalents	**(268)**	69
Capital expenditures	**(145)**	(207)
Purchase of equipment leased to others	**(29)**	(25)
Proceeds from sale of property and equipment	**20**	14
Investments and advances to non-consolidated affiliates	**(12)**	(5)
Proceeds from sales of affiliates	**20**	26
Business acquisitions, net of cash acquired		(7)
Other investing activities		2
Net cash used in investing activities	**(426)**	(2)
Cash flows from financing activities		
Proceeds from issuance of securitized debt	**1,057**	885
Principal payments on securitized debt	**(1,448)**	(1,068)
Proceeds from issuance of non-securitized debt	**127**	1,574
Principal payments on non-securitized debt	**(15)**	(1,558)
Net decrease in notes and debt outstanding under revolving credit facilities	**(19)**	(356)
Principal payments under financing arrangements and capital lease obligations	**(60)**	(36)
Debt issuance costs	**(11)**	(24)
Proceeds from exercise of stock options	**26**	
Net cash used in financing activities	**(343)**	(583)

Effect of exchange rate changes on cash and cash equivalents	**(8)**	20
Decrease in cash and cash equivalents	**(99)**	(483)
Cash and cash equivalents at beginning of period	**777**	1,157
Cash and cash equivalents at end of the period	**$ 678**	$ 674

See Notes to Condensed Consolidated Financial Statements

Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Summary of significant accounting policies

Organization and Description of the Business

Navistar International Corporation (NIC), incorporated under the laws of the state of Delaware in 1993, is a holding company whose principal operating subsidiaries are Navistar, Inc. and Navistar Financial Corporation (NFC). References herein to the company, we, our, or us refer collectively to NIC, its subsidiaries, and certain variable interest entities (VIEs) of which we are the primary beneficiary. We operate in four principal industry segments: Truck, Engine, Parts (collectively called manufacturing operations), and Financial Services. The Financial Services segment consists of NFC and our foreign finance operations (collectively called financial services operations).

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements include the assets, liabilities, revenues, and expenses of our manufacturing operations, majority owned dealers, wholly-owned financial services subsidiaries, and VIEs of which we are the primary beneficiary. The effects of transactions among consolidated entities have been eliminated to arrive at the consolidated amounts. Certain reclassifications were made to prior year s amounts to conform to the 2008 presentation.

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting policies described in the Annual Report on Form 10-K for the year ended October 31, 2007 and should be read in conjunction with the disclosures therein. In our opinion, these interim financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position, results of operations, and cash flows for the periods presented. Operating results for interim periods are not necessarily indicative of annual operating results.

Accounting Changes

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

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses. Significant estimates and assumptions are used for, but are not limited to, pension and other postretirement benefits, allowance for losses, sales of receivables, income tax contingency accruals and valuation allowances, product warranty accruals, asbestos accruals, asset impairment, and litigation-related accruals. Actual results could differ from our estimates.

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Concentration Risks

Our financial position, results of operations, and cash flows are subject to concentration risks related to concentrations of union employees and two customers. As of July 31, 2008, approximately 6,300, or 64%, of our hourly workers and approximately 700, or 9%, of our salaried workers are represented by labor unions and are covered by collective bargaining agreements. See Note 13, *Segment reporting*, for discussions of customer concentration.

Revenue Recognition

Our manufacturing operations recognize revenue when we meet four basic criteria: (i) persuasive evidence that a customer arrangement exists, (ii) the price is fixed or determinable, (iii) collectability is reasonably assured, and (iv) delivery of product has occurred or services have been rendered.

Truck sales are generally recognized when risk of ownership passes. Sales to fleet customers and governmental entities are recognized in accordance with the terms of each contract. Revenue on certain customer requested 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, and (iii) is ready for delivery based upon the established delivery terms. Engine sales are generally recognized at the time of shipment or delivery in accordance with the shipping terms.

Parts sales are recognized at the time of shipment. Parts sales to governmental entities are recognized in accordance with the terms of each contract. An allowance for sales returns is recorded as a reduction to revenue based upon estimates using historical information about returns. For the sale of service parts that include a core component, we record revenue on a gross basis including the fair market value of the core. 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 within the specified eligibility period, we provide a core return credit. At times, we may mark up the core charge beyond the amount we are charged by the supplier. This mark up is recorded as a liability, as it represents the amount that will be paid to the dealer upon return of the core component and is in excess of the fair value to be received from the supplier.

Concurrent with our recognition of revenue, we recognize price allowances and the cost of incentive programs in the normal course of business based on programs offered to dealers. Estimates are made for sales incentives on certain vehicles in dealer stock inventory when special programs that provide a specific incentive to the dealer are offered in order to facilitate a sale to the end customer.

Truck sales to the U.S. government, of non-commercial products manufactured to the government s specifications, are recognized using the units-of-delivery measure under the percentage-of-completion accounting method as units are delivered and accepted by the government. Revenue from service contracts with the U.S. government is generally recorded on a straight-line basis over the period of contract performance, unless otherwise agreed that the obligations are fulfilled upon achievement of an agreed milestone or occurrence of a specified event.

Modifications to U.S. government contracts, referred to as change orders, may be unpriced; that is, the work to be performed is defined, but the resulting contract price adjustment is to be negotiated at a later date. Revenue related to unpriced change orders is recognized when the price has been agreed with the government. Costs related to unpriced change orders are deferred when it is probable that the costs will be recovered through a contract price adjustment.

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Shipping and handling amounts billed to our customers are included in *Sales of manufactured products, net* and the related shipping and handling costs incurred are included in *Costs of products sold.*

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 an adjustment to yield and are reported as part of *Finance revenues* over the life of the receivable. Loans are considered to be impaired when we conclude there is a high likelihood the customer will not be able to make full payment after reviewing the customer s financial performance, payment ability, capital-raising potential, management style, economic situation, etc. The accrual of interest on such loans is discontinued when the collection of the account becomes doubtful (non-accrual status loans). When the accrual of interest is discontinued, all unpaid accrued interest is charged against *Finance revenues*. *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 income is not probable. Income recognition is resumed if collection again becomes probable.

Selected receivables are securitized and sold to public and private investors with limited recourse. Our financial services operations continue to service the sold receivables and receive fees for such services. Gains or losses on sales of receivables that qualify for sales accounting treatment are credited or charged to *Finance revenues* in the period in which the sale occurs. Discount accretion is recognized on an effective yield basis and is included in *Finance Revenues*.

Product Warranty Liability

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

	Nine Months Ended July 31,	
	2008	**2007**
(in millions)		
Balance, at beginning of period	**$ 677**	$ 777
Costs accrued and revenues deferred	**147**	182
Adjustments to pre-existing warranties[(A)]	**10**	25
Payments and revenues recognized	**(264)**	(265)
Balance, at end of period	**$ 570**	$ 719

(A) Adjustments to pre-existing warranties reflect changes in our estimate of warranty costs for products sold in prior periods.

The amount of deferred revenue related to extended warranty programs as of July 31, 2008 and October 31, 2007 was $124 million and $127 million, respectively. Revenue recognized under our extended warranty programs was $12 million and $10 million, and $35 million and $21 million for the three months and nine months ended July 31, 2008 and 2007, respectively.

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

New Accounting Pronouncements

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

Pronouncement	Effective Date	Impact on Our Financial Condition and Results of Operations
Emerging Issues Task Force (EITF) Issue No. 08-3, *Accounting by Lessees for Nonrefundable Maintenance Deposits*	Effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Early adoption is not permitted. Our effective date is November 1, 2009.	We are evaluating the potential impact, if any.
FASB Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*	Effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Our effective date is November 1, 2009.	We are evaluating the potential impact, if any.
FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133*	Effective for fiscal years and interim reporting periods beginning after November 15, 2008. Our effective date is February 1, 2009.	When effective, we will comply with the disclosure provisions of this Statement.
FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51*	Effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. Our effective date is November 1, 2009.	We are evaluating the potential impact, if any.
FASB Statement No. 141(R), *Business Combinations*	Applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. Our effective date is November 1, 2009.	We will adopt this Statement on a prospective basis.
Emerging Issues Task Force Issue No. 07-03, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities*	Effective for financial statements issued for fiscal years beginning after December 15, 2007. Our effective date is November 1, 2008.	We are evaluating the potential impact, if any.

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Pronouncement	Effective Date	Impact on Our Financial Condition and Results of Operations
FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*	Effective as of the beginning of the first fiscal year beginning after November 15, 2007. If we adopt the Fair Value Option, our effective date is November 1, 2008.	We are evaluating the potential impact, if any. We have not determined whether to adopt the fair value option.
FASB Statement No. 157, *Fair Value Measurements*	Effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. Our effective date is November 1, 2008.	We are evaluating the potential impact, if any.

2. Disposal of business

In December 2007, we sold all of our interests in a heavy duty truck parts remanufacturing business. In connection with the sale, we received gross proceeds of $22 million, including liabilities assumed, resulting in a gain of $4 million.

3. Finance and other receivables, net

Information regarding impaired finance receivables is as follows:

	As of	
	July 31, 2008	**October 31, 2007**
(in millions)		
Outstanding balances with specific loss reserves	**$ 59**	$ 52
Specific loss reserves	**13**	11
Outstanding balances on non-accrual status loans	**45**	39
Average balance of impaired finance receivables	**55**	42
Outstanding balances with payments over 90 days past due	**28**	120

Impaired receivables include accounts identified as critical accounts as a result of financial difficulties and accounts that are on a non-accrual status. In certain cases, we continue to collect payments on our impaired receivables.

The activity related to our allowance for losses for finance and other receivables is summarized as follows:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2008	**2007**	**2008**	**2007**
(in millions)				
Balance, at beginning of period	**$ 93**	$ 80	**$ 101**	$ 75
Provision for doubtful accounts	**34**	8	**52**	23
Charge-off of accounts, net of recoveries	**(25)**	(6)	**(51)**	(16)

Balance, at end of period	**$ 102**	$ 82	**$ 102**	$ 82

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Repossessions

We repossess leased and sold trucks on defaulted finance receivables and leases, and place them into *Inventories*. We liquidate these repossessions to partially recover the credit losses in our portfolio. Losses, recognized at the time of repossession and charged against the allowance for losses, for the three months ended July 31, 2008 and 2007 were $10 million and $4 million, and for the nine months ended July 31, 2008 and 2007 were $26 million and $11 million, respectively. Losses, recognized upon the sale of repossessed vehicles, for the three months ended July 31, 2008 and 2007 were $2 million and $1 million, and for the nine months ended July 31, 2008 and 2007 were $7 million and $2 million, respectively. Impairment losses on repossessed vehicles for the three and nine months ended July 31, 2008 were $2 million and $5 million, respectively. No impairments were recorded on repossessed vehicles in 2007.

A summary of the activity related to repossessed vehicles is as follows:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2008	**2007**	**2008**	**2007**
(in millions)				
Repossessed vehicles, at beginning of period	**$ 48**	$ 17	**$ 25**	$ 6
Repossessions	**25**	9	**84**	32
Liquidations	**(30)**	(10)	**(66)**	(22)
Repossessed vehicles, at end of period	**$ 43**	$ 16	**$ 43**	$ 16

4. Sales of receivables

The primary business of our financial services operations is to provide wholesale, retail, and lease financing for new and used trucks sold by us and our dealers and, as a result, our finance receivables and leases have a significant concentration in the trucking industry. On a geographic basis, there is not a disproportionate concentration of credit risk in any area of the U.S. or other countries where we have financial service operations. We retain as collateral an ownership interest in the equipment associated with leases and, on behalf of the various trusts we maintain, a security interest in equipment associated with wholesale notes and retail notes.

NFC finances receivables through Navistar Financial Retail Receivables Corporation (NFRRC), Navistar Financial Securities Corporation (NFSC), Truck Retail Accounts Corporation (TRAC), Truck Retail Instalment Paper Corporation (TRIP), and International Truck Leasing Corporation (ITLC), which are all special purpose, wholly-owned subsidiaries (SPEs) of NFC. In accordance with FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, these transactions are accounted for either as a sale with gain or loss recorded at the date of sale and a retained interest recorded, or as secured borrowings. We provide limited recourse for all subordinated receivables. The recourse is limited to our retained interest and relates to credit risk only.

Off-Balance Sheet Securitizations

The NFSC trust owned $848 million of wholesale notes, which includes $122 million of receivables with dealer operations (Dealcors), and $66 million of marketable securities as of July 31, 2008, and $1.1 billion of wholesale notes which includes $171 million of receivables with Dealcors and $85 million of marketable securities as of October 31, 2007. In the three months ended July 31, 2008, the NFSC trust repaid $200 million of an investor certificate that expired in July 2008.

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Components of available wholesale note trust funding certificates related to NFSC were as follows:

(in millions)	Maturity	As of July 31, 2008	As of October 31, 2007
Investor certificate	July 2008	**$**	$ 200
Investor certificate	February 2010	**212**	212
Variable funding certificate	November 2008	**800**	800
Total funding available		**1,012**	1,212
Funding utilized		**(762)**	(982)
Unutilized funding		**$ 250**	$ 230

All of the unutilized funding is related to the variable funding certificate (VFC). Our retained interest was $152 million and $200 million as of July 31, 2008 and October 31, 2007, respectively.

The TRAC trust owned $125 million of retail accounts and $23 million of marketable securities as of July 31, 2008, and $155 million of retail accounts and $26 million of marketable securities as of October 31, 2007.

The amount of available retail accounts funding related to TRAC was as follows:

(in millions)	Maturity	As of July 31, 2008	As of October 31, 2007
Funding conduit	October 2008	**$ 100**	$ 100
Funding utilized		**(35)**	(60)
Unutilized funding		**$ 65**	$ 40

In August 2008, the TRAC funding conduit, which was due to expire in August 2008, was extended to October 7, 2008.

Our retained interest was $111 million and $119 million as of July 31, 2008 and October 31, 2007, respectively.

For the three months ended July 31, 2008 and 2007, proceeds from the sale of finance receivables with off-balance sheet treatment were $1.2 billion and $1.1 billion, respectively. For the nine months ended July 31, 2008 and 2007, proceeds from the sale of finance receivables with off-balance sheet treatment were $3.0 billion and $3.9 billion, respectively.

Retained Interests

The SPEs   assets are available to satisfy their creditors   claims prior to such assets becoming available for the SPEs   own uses or to NFC or affiliated companies. NFC is under no obligation to repurchase any sold receivable that becomes delinquent in payment or otherwise is in default. The terms of receivable sales generally

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

require NFC to provide credit enhancements in the form of excess seller s interest and/or cash reserves with the trusts and conduits. The use of such cash reserves by NFC is restricted under the terms of the securitized sales agreements. The maximum exposure under all receivable sale recourse provisions was $263 million and $319 million as of July 31, 2008 and October 31, 2007, respectively.

The following is a summary of amounts due from sales of receivables (retained interest):

(in millions)	As of July 31, 2008	As of October 31, 2007
Excess seller s interest	**$ 248**	$ 296
Interest only strip	**6**	11
Restricted cash reserves	**9**	12
Total amounts due from sales of receivables	**$ 263**	$ 319

The key economic assumptions used in valuing our retained interests are as follows:

	As of July 31, 2008	As of October 31, 2007
Discount rate (annual)	**10.6 to 18.5%**	10.3 to 18.8%
Estimated credit losses	**0 to 0.18%**	0 to 0.18%
Payment speed (percent of portfolio per month)	**10.3 to 83.0%**	9.9 to 69.2%

The lower end of the discount rate assumption range and the upper end of the payment speed assumption range were used to value the $111 million retained interests in the TRAC retail account securitization The upper end of the discount rate assumption range and the lower end of the payment speed assumption range were used to value the $152 million retained interests in the NFSC wholesale note securitization facility.

The following tables reconcile the total serviced portfolio to NFC s on-balance sheet portfolio, net of unearned income:

(in millions)	Retail Notes	Finance Leases	Wholesale Notes	Accounts Receivable	Total
As of July 31, 2008					
Total portfolio	**$ 2,549**	**$ 126**	**$ 881**	**$ 291**	**$ 3,847**
Less: Sold receivables and retained interest			**(726)**	**(125)**	**(851)**
Total on balance sheet	**$ 2,549**	**$ 126**	**$ 155**	**$ 166**	**$ 2,996**
As of October 31, 2007					
Total portfolio	$ 3,012	$ 157	$ 1,025	$ 424	$ 4,618

Less: Sold receivables and retained interest			(919)	(155)	(1,074)
Total on balance sheet	$ 3,012	$ 157	$ 106	$ 269	$ 3,544

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Securitization Income

The following table sets forth the activity related to off-balance sheet securitizations, which are reported in *Finance revenues*:

	Three Months Ended July 31,		Nine Months Ended July 31,	
(in millions)	2008	2007	2008	2007
Fair value adjustments to retained interests	**$**	$ 5	**$ 5**	$ 11
Excess spread income	**4**	10	**15**	41
Servicing fees revenue	**2**	3	**8**	11
Losses on sales of receivables	**(5)**	(1)	**(12)**	(6)
Investment revenue	**1**	2	**4**	5
Securitization income	**$ 2**	$ 19	**$ 20**	$ 62

5. Inventories

The components of inventories are as follows:

	As of	
(in millions)	July 31, 2008 (Restated)	October 31, 2007
Finished products	**$ 859**	$ 851
Work in process	**303**	210
Raw materials	**445**	293
Costs deferred related to unpriced change orders	**25**	
Supplies	**60**	58
Total inventories	**$ 1,692**	$ 1,412

6. Investments in and advances to non-consolidated affiliates

Investments in and advances to non-consolidated affiliates is comprised of a 49 percent ownership interest in Blue Diamond Parts (BDP), a 51 percent ownership interest in Blue Diamond Truck (BDT), and fourteen other partially-owned affiliates. We do not control these affiliates, but have the ability to exercise significant influence over their operating and financial policies. Our ownership percentages in the fourteen other affiliates range from 9.9 percent to 51 percent. Our investment in these affiliates is an integral part of our operations, and we account for them using the equity method of accounting.

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Presented below is summarized financial information for BDP, which is considered a significant unconsolidated affiliate. BDP manages sourcing, merchandising, and distribution of various replacement parts. The following table summarizes results of operations information of BDP:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2008	**2007**	**2008**	**2007**
(in millions)				
Net service revenue	**$ 51**	$ 49	**$ 159**	$ 158
Net expenses	**8**	8	**24**	26
Income before tax expense	**43**	41	**135**	132
Net income	**43**	41	**134**	131

7. Debt

NFC s Revolving Credit Agreement (Credit Agreement), as amended in March 2007, has two primary components, a term loan of $620 million and a revolving bank loan of $800 million. The latter has a Mexican sub-revolver ($100 million), which may be used by NIC s Mexican financial services operations.

The Credit Agreement requires both NIC and NFC to file with the SEC and provide to NFC s lenders copies of their respective Annual Reports on Form 10-K for each year, their Quarterly Reports on Form 10-Q for each of the first three quarters of each year, and the related financial statements on or before the dates specified in the Credit Agreement. Failure to do so results in a default under the Credit Agreement, during which NFC may not incur any additional indebtedness under the Credit Agreement until the default is cured or waived, and which would give rise to a cross-default to NIC s $1.5 billion five-year term loan facility and synthetic revolving facility.

NFC received a series of waivers extending through December 31, 2007, which waived any default or event of default that would result solely from NFC s and NIC s failure to meet the filing requirements of Sections 13 and 15 of the Securities Exchange Act of 1934, as amended, with respect to their Annual Reports on Form 10-K for 2005 and 2006 and certain of their Quarterly Reports on Form 10-Q.

In December 2007, NFC received a fifth waiver to the Credit Agreement extending the waiver period through November 30, 2008. This waiver expands the scope of certain reporting default conditions to include the Annual Report on Form 10-K for 2007 and the Quarterly Reports on Form 10-Q for 2008. The fifth waiver continues the 0.25% rate increase through the waiver s expiration.

In November and December 2007, NFC obtained waivers for the private retail securitizations and the VFC portion of the wholesale note securitizations. These waivers are similar in scope to the Credit Agreement waivers and expire upon the earlier of November 30, 2008, or the date on which NIC and NFC each shall have timely filed a report on Form 10-K or Form 10-Q with the SEC, which will occur on the filing of this Form 10-Q.

In February 2008, April 2008, and July 2008, NFC completed separate securitization transactions for the sale of retail notes and issued secured borrowings related to these transactions in the amount of $536 million, $247 million, and $239 million, respectively. These transactions do not qualify for sale treatment under FASB Statement No. 140. Through July 31, 2008, NFC also utilized an additional $252 million of the bank revolving credit facility.

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In March 2008, NFC received an Acknowledgement and Consent from the lenders under the Credit Agreement, whereby the filing of the audited financial statements for 2006 on a Current Report on Form 8-K filed March 6, 2008 was deemed satisfactory by the lenders.

In April 2008, NFC received a second Acknowledgement and Consent from the lenders under the Credit Agreement acknowledging that the method used in calculating various financial covenants was in accordance with the Credit Agreement.

We are required under certain agreements with public and private lenders of NFC to ensure that NFC and its subsidiaries maintain consolidated income before interest expense and income tax at not less than 125% of their interest expense. Under these agreements, if NFC and its subsidiaries consolidated income before interest expense and income taxes is less than 125% of their interest expense, NIC or Navistar, Inc. must make payments to NFC to achieve the required ratio. In May 2008, NFC received a third Acknowledgement and Consent from the lenders under the Credit Agreement that clarified certain definitions used to measure the fixed charge coverage ratio. This Acknowledgement and Consent allows NFC to include contributions made by NIC in NFC s calculation of consolidated income before interest expense and income taxes. During July 2008, $25 million of such payments were required and made from Navistar, Inc. to NFC to maintain compliance with the covenant. No such contributions were made during the three and nine month periods ended July 31, 2007.

8. Postretirement benefits

Defined Benefit Plans

Generally, our 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 three months and nine months ended July 31, 2008, we contributed $6 million and $27 million, respectively, to our pension plans to meet regulatory minimum funding requirements. For the three and nine months ended July 31, 2007, we contributed $6 million and $21 million, respectively, to meet minimum funding requirements. We currently anticipate additional contributions of approximately $67 million during the remainder of 2008.

On December 16, 2007, the majority of company employees represented by the United Automobile, Aerospace and Agriculture Implement Workers of America (UAW) voted to ratify a new contract that will run through September 30, 2010. Among the changes from the prior contract was the cessation of annual lump sum payments that had been made to certain retirees. We accounted for these payments as a defined benefit plan based on the historical substance of the underlying arrangement. The elimination of these payments and other changes resulted in a net settlement and curtailment of the plan resulting in income of $42 million, which is presented as a reduction of *Selling, general and administrative expenses*, for the nine months ended July 31, 2008.

We primarily fund other post-employment benefit (OPEB) obligations, such as retiree medical, in accordance with a 1993 legal agreement, which requires us to fund a portion of the plans annual service cost. For the three months and nine months ended July 31, 2008, we contributed $1 million and $3 million, respectively, to our OPEB plans to meet legal funding requirements. For the three and nine months ended July 31, 2007, we contributed $1 million and $4 million, respectively, to our OPEB plans to meet legal funding requirements. We currently anticipate additional contributions of approximately $1 million during the remainder of 2008.

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Components of Net Postretirement Benefits (Income) Expense

Net postretirement benefits (income) expense included in our consolidated statements of operations is composed of the following:

	Three Months Ended July 31,				Nine Months Ended July 31,			
	Pension Benefits		Health and Life Insurance Benefits		Pension Benefits		Health and Life Insurance Benefits	
(in millions)	2008	2007	2008	2007	2008	2007	2008	2007
Service cost for benefits earned during the period	**$ 6**	$ 6	**$ 3**	$ 4	**$ 18**	$ 19	**$ 9**	$ 12
Interest on obligation	**56**	55	**28**	28	**168**	165	**85**	84
Amortization of net cumulative losses	**3**	15		5	**10**	45		16
Amortization of prior service cost (benefit)	**1**	1	**(1)**	(2)	**2**	3	**(3)**	(6)
Settlements and curtailments					**(42)**		**(1)**	
Premiums on pension insurance					**1**			
Expected return on assets	**(81)**	(69)	**(17)**	(14)	**(243)**	(208)	**(51)**	(42)
Net postretirement benefits (income) expense	**$ (15)**	$ 8	**$ 13**	$ 21	**$ (86)**	$ 24	**$ 39**	$ 64

Defined Contribution Plans

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. Many participants covered by the plan receive annual company contributions to their retirement account based on an age-weighted percentage of the participant s eligible compensation for the calendar year.

Defined contribution expense pursuant to these plans was $7 million and $6 million for the three months ended July 31, 2008 and 2007, respectively, and $19 million and $18 million for the nine months ended July 31, 2008 and 2007, respectively.

9. Income taxes

Under Accounting Principles Board Opinion No. 28, *Interim Financial Reporting*, we compute on a quarterly basis an estimated annual effective tax rate considering ordinary income and related income tax expense. Ordinary income refers to income before income tax expense excluding significant unusual or infrequently occurring items. The tax effect of an unusual or infrequently occurring item is recorded in the interim period in which it occurs. For our domestic tax jurisdictions, we cannot reliably estimate annual projected taxes. Therefore taxes on ordinary income for such jurisdictions are reported in the period in which they are incurred. Other items included in income tax expense in the periods in which they occur include the cumulative effect of changes in tax laws or rates, foreign exchange gains and losses, adjustments to our accruals for uncertain tax positions, and adjustments to our valuation allowance due to changes in our judgment regarding the realizability of deferred tax assets in future years.

We have assessed the need to maintain a valuation allowance for deferred tax assets based on an assessment of whether it is more likely than not that deferred tax benefits will be realized through the generation of future taxable income. Appropriate consideration is given to all available evidence, both positive and negative, in

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assessing the need for a valuation allowance. Due to our recent history of U.S. operating and taxable losses, the inconsistency of U.S. profits, and the uncertainty of our U.S. financial outlook, we continue to maintain a full valuation allowance against our domestic deferred tax assets.

On November 1, 2007, we adopted FASB Interpretation No. 48, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FASB Interpretation No. 48, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FASB Interpretation No. 48 also provides guidance on de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. Upon adoption, we increased our liability for uncertain tax positions by $4 million, resulting in a comparable increase to *Accumulated deficit*. As of November 1, 2007, after adoption of FASB Interpretation No. 48, the amount of the liability for uncertain tax positions was $91 million, $90 million of which, if recognized, would favorably affect the income tax rate. This liability was subsequently reduced by $14 million attributable to settlements of foreign and domestic state income tax audits.

We recognize interest and penalties related to uncertain tax positions as part of *Income tax expense*. Total interest and penalties recognized in the consolidated balance sheet at November 1, 2007 were $15 million.

While it is probable that the liability for uncertain tax positions may increase or decrease during the next 12 months, we do not expect any such change would have a material effect on our financial condition or results of operations.

We have open tax years from 1993 to 2007 with significant tax jurisdictions in the U.S., Canada, Mexico, and Brazil.

Congress recently enacted the Housing Assistance Tax Act of 2008, which provides a one-time refund of a portion of cumulative research tax credits and alternative minimum tax credits. Through the third quarter, we reported a $2 million tax benefit from these refundable credits.

10. Fair value of financial instruments

In January 2007, we signed a definitive loan agreement for a five-year senior unsecured term loan facility and synthetic revolving facility in the aggregate principal amount of $1.5 billion (Facilities). The Facilities were arranged by JP Morgan Chase Bank and a group of lenders that included Credit Suisse, Banc of America Securities, and Citigroup Global Markets. The Facilities are guaranteed by Navistar, Inc. The outstanding balance of the Facilities as of July 31, 2008 and October 31, 2007 was $1.3 billion. The fair value of the Facilities as of July 31, 2008 and October 31, 2007 was $1.2 billion and $1.3 billion, respectively, resulting in a decline in the fair value of $103 million over the nine month period. This decline in the fair value is due to the increase in the discount rate as a result of current credit market conditions.

11. Financial instruments

We use derivative financial instruments as part of our overall interest rate and foreign currency risk management strategy to reduce our interest rate exposure, to potentially increase the return on invested funds,

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and to reduce exchange rate risk for transactional exposures denominated in currencies other than the functional currency. From time to time, we also use commodity forward contracts to manage variability related to exposure to certain commodity price risk.

Our financial services operations manage exposure to fluctuations in interest rates by limiting the amount of fixed rate assets funded with variable rate debt. This is accomplished by funding fixed rate receivables utilizing a combination of fixed rate debt and variable rate debt and derivative financial instruments. These derivative financial instruments may include interest rate swaps, interest rate caps, and forward contracts. The fair value of these instruments is estimated based on quoted market prices and is subject to market risk, as the instruments may become less valuable due to changes in market conditions or interest rates. Notional amounts of derivative financial instruments do not represent exposure to credit loss.

In connection with a sale of retail notes, our financial services operations entered into additional interest rate swap agreements during the nine month period ending July 31, 2008. The purpose and structure of these swaps is to convert the floating rate portion of the asset-backed securities into fixed rate swap interest to match the interest basis of the receivables pool sold to the owner trust and to protect our financial services operations from interest rate volatility.

As of July 31, 2008, the net fair value of our derivative financial instruments was $37 million, consisting of $39 million recorded in *Other noncurrent assets*, $75 million in *Other noncurrent liabilities* and $1 million in *Other current liabilities.* The net fair value of our derivatives as of October 31, 2007 was $18 million, consisting of $20 million recorded in *Other noncurrent assets,* $37 million in *Other noncurrent liabilities*, and $1 million in *Other current liabilities.* The maturities of these derivatives range from 2008 through 2018.

Interest expense includes mark to market (gains) losses under our interest rate swap agreements of $1 million and $40 million for the three month and nine month periods ended July 31, 2008, respectively, and $(1) million and $(2) million for the three month and nine month periods ended July 31, 2007, respectively.

12. Commitments and contingencies

Legal Proceedings

Overview

We are subject to various claims arising in the ordinary course of business, and are parties 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 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 results of operations, cash flows, or financial condition.

Ford Litigation

In January 2007, a complaint was filed against us in Oakland County Circuit Court in Michigan by Ford Motor Company (Ford) claiming damages relating to warranty and pricing disputes with respect to certain engines purchased by Ford from us. While Ford s complaint did not quantify its alleged damages, we estimate that Ford may be seeking in excess of $500 million, and that this amount may increase (i) as we continue to sell engines to Ford at a price that Ford alleges is too high and (ii) as Ford pays its customers warranty claims, which

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Ford alleges are attributable to us. We disagree with Ford s position and are defending ourselves vigorously in this litigation. We have filed an answer to the complaint denying Ford s allegations in all material respects. We have also asserted affirmative defenses to Ford s claims, as well as counterclaims alleging that, among other things, Ford has materially breached contracts between it and us in several different respects. Based on our investigation to date, we believe we have meritorious defenses to this matter. There can be no assurance, however, that we will be successful in our defense, and an adverse resolution of the lawsuit could have a material adverse effect on our results of operations, cash flows, or financial condition. In June 2007, we filed a separate lawsuit against Ford in the Circuit Court of Cook County, Illinois, for breach of contract relating to the manufacture of new diesel engines for Ford for use in vehicles including the F-150 pickup truck. In that case, we are seeking unspecified damages. In September 2007, the judge dismissed our lawsuit against Ford, directing us to proceed with mediation. In February 2008, we re-filed the lawsuit against Ford because the parties were unable to resolve the dispute through mediation.

Securities and Exchange Commission Investigations

In October 2004, we received a request from the staff of the SEC to voluntarily produce certain documents and information related to our accounting practices with respect to defined benefit pension plans and other postretirement benefits. We are fully cooperating with this request. Based on the status of the inquiry, we are not able to predict the final outcome of this matter.

In January 2005, we announced that we would restate our financial results for 2002 and 2003 and the first three quarters of 2004. Our restated Annual Report on Form 10-K was filed in February 2005. The SEC notified us on February 9, 2005, that it was conducting an informal inquiry into our restatement. On March 17, 2005, we were advised by the SEC that the status of the inquiry had been changed to a formal investigation. On April 7, 2006, we announced that we would restate our financial results for 2002 through 2004 and for the first three quarters of 2005. We were subsequently informed by the SEC that it was expanding the investigation to include that restatement. Our 2005 Annual Report on Form 10-K, which included the restated financial statements, was filed in December 2007. We have been providing information to and fully cooperating with the SEC on this investigation. Based on the status of the investigation, we are not able to predict its final outcome.

Litigation Relating to Accounting Controls and Financial Restatement

In December 2007, a complaint was filed against us by Norfolk County Retirement System and Brockton Contributory Retirement System (collectively Norfolk). In March 2008, an additional complaint was filed by Richard Garza. Each of these matters is pending in the United States District Court, Northern District of Illinois.

The plaintiffs in the Norfolk case allege they are shareholders suing on behalf of themselves and a class of other shareholders who purchased shares of the company s common stock between February 14, 2003 and July 17, 2006. The complaint alleges that the defendants, which include the company, one of its executive officers, two of its former executive officers, and the company s former independent accountants, Deloitte & Touche LLP, violated federal securities laws by making false and misleading statements about the company s financial condition during that period. In March 2008, the court appointed Norfolk County Retirement System and the Plumbers Local Union 519 Pension Trust as joint lead plaintiffs. The plaintiffs in this matter seek compensatory damages and attorneys fees among other relief.

The plaintiff in the Garza case brought a derivative claim on behalf of the company against one of the company s executive officers, two of its former executive officers, and certain of its directors, alleging that (i) all of the defendants violated their fiduciary obligations under Delaware law by willfully ignoring certain accounting

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and financial reporting problems at the company; thereby knowingly disseminating false and misleading financial information about the company, (ii) that certain of the defendants were unjustly enriched in connection with their sale of company stock during the December 2002 to January 2006 period, and (iii) that defendants violated Delaware law by failing to hold an annual meeting of shareholders. In connection with this last allegation, the plaintiff seeks an order requiring defendants to schedule an annual meeting of shareholders. Otherwise, the plaintiffs in this matter seek compensatory damages, disgorgement of the proceeds of defendants profits from the sale of company stock, attorneys fees, and other equitable relief.

We strongly dispute the allegations in these complaints and will vigorously defend ourselves.

Guarantees

We occasionally provide guarantees that could obligate us to make future payments if the primary entity fails to perform under its contractual obligations. As described below, we have recognized liabilities for some of these guarantees in our consolidated balance sheets as they meet the recognition and measurement provisions of FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of the Indebtedness of Others*. In addition to the liabilities that have been recognized as described below, 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 position, results of operations, or cash flows.

We have issued residual value guarantees in connection with various leases that extend through 2010. The amounts of the guarantees are estimated and recorded as liabilities, and were $25 million as of July 31, 2008. Our guarantees are contingent upon the fair value of the leased assets at the end of the lease term.

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. Outstanding stand-by letters of credit and surety bonds were $50 million at July 31, 2008.

As of July 31, 2008, our Canadian operating subsidiary was contingently liable for the residual value, calculated at inception, of $23 million of retail customers contracts and $42 million of retail leases that are financed by a third party. These amounts approximate the estimated future resale market value of the collateral underlying these contracts and leases at their inception. As of July 31, 2008, we have recorded accruals totaling $5 million and $7 million for potential losses on the retail customers contracts and retail leases, respectively.

We extend credit commitments to certain truck fleet customers, which allow them to purchase parts and services from participating dealers. The participating dealers receive accelerated payments from us with the result that we carry the receivables and absorb the credit risk related to these customers. As of July 31, 2008, we have $41 million of unused credit commitments outstanding under this program.

In addition, we have entered into various guarantees for purchase commitments, credit guarantees, and contract cancellation fees with various expiration dates through 2012 totaling $61 million at July 31, 2008. 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 position, results of operations, or cash flows.

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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 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 condensed 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 position, results of operations, or cash flows.

Four sites formerly owned by us, Wisconsin Steel in Chicago, Illinois, Solar Turbines in San Diego, California, West Pullman Plant in Chicago, Illinois, and the Canton Plant in Canton, Illinois, were identified as having soil and groundwater contamination. While investigations and cleanup activities continue at all sites, we believe that we have adequate accruals to cover costs to complete the cleanup of these sites.

In 2007, a former facility location in the City of Springfield, Ohio, which we voluntarily demolished in 2004 and conducted environmental sampling on, was sold to the City of Springfield. The city has obtained funds from the U.S. Environmental Protection Agency and the State of Ohio to address relatively minor soil contamination prior to commercial/industrial redevelopment of the site.

Also in 2007, we engaged the City of Canton, Illinois in a remediation plan for the environmental clean-up of a former company facility. We anticipate that execution of this plan will not have a material effect on our financial position, results of operations, or cash flows.

We have accrued $17 million and $22 million for these environmental matters, which are included within *Other current liabilities* and *Other noncurrent liabilities*, as of July 31, 2008 and October 31, 2007, respectively. As of July 31, 2008, the majority of these accrued liabilities are expected to be paid out during the period from 2008 through 2011.

Along with other vehicle manufacturers, we have been subject to an increase in the number of asbestos-related claims in recent years. 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 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 position, results of operations, or cash flows. It is possible that the number of these claims will continue to grow, and that the costs for resolving asbestos related claims could become significant in the future.

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13. Segment reporting

The following is a description of our four reporting segments:

Our *Truck* segment manufactures and distributes a full line of class 4 through 8 trucks, buses under the International and IC Bus, LLC (IC) brands, and Navistar Defense military vehicles. We also produce chassis for motor homes and commercial step-van vehicles under the Workhorse Custom Chassis, LLC (WCC) brand. In an effort to strengthen and maintain our dealer network, this segment occasionally acquires and operates dealer locations for the purpose of transitioning ownership or providing temporary operational assistance.

Our *Engine* segment designs and manufactures diesel engines for use primarily in our class 6 and 7 medium trucks and buses and selected class 8 heavy truck models, and for sale to original equipment manufacturers (OEMs) primarily in North America. In addition, we produce diesel engines in Brazil primarily for distribution in South America under the MWM International (MWM) brand and for sale to OEMs.

Our *Parts* segment provides customers with products needed to support the International truck, IC bus, WCC chassis, Navistar Defense military vehicle, and the MaxxForce™ engine lines, together with a wide selection of other standard truck, trailer, and engine aftermarket parts.

Our *Financial Services* segment provides retail, wholesale, and lease financing of products sold by the Truck segment and its dealers within the U.S. and Mexico as well as financing for wholesale accounts and selected retail accounts receivable.

Corporate contains those items that do not fit into our four segments.

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Segment Profit (Loss)

We define segment profit (loss) as adjusted earnings (loss) before income tax. Our results for interim periods are not necessarily indicative of results for a full year. Beginning in 2008, the sales from the Parts segment to the Truck segment, specifically our Dealcors, are recorded as intersegment sales, which are eliminated within Corporate and Eliminations. Previously, such sales were eliminated within the Truck segment s external sales and revenues. As such, the Parts and Truck segment sales and revenues, in the amounts of $62 million and $187 million for the three months and nine months ended July 31, 2007, respectively, have been revised to conform to the 2008 presentation. Selected financial information is as follows:

(in millions)	Truck (Restated)	Engine	Parts	Financial Services(A)	Corporate and Eliminations	Total (Restated)
Three Months Ended July 31, 2008						
External sales and revenues, net	**$ 2,918**	**$ 580**	**$ 378**	**$ 75**	**$**	**$ 3,951**
Intersegment sales and revenues	**1**	**228**	**66**	**20**	**(315)**	
Total sales and revenues, net	**$ 2,919**	**$ 808**	**$ 444**	**$ 95**	**$ (315)**	**$ 3,951**
Depreciation and amortization	**$ 46**	**$ 40**	**$ 2**	**$ 6**	**$ 5**	**$ 99**
Interest expense				**57**	**31**	**88**
Equity in income (loss) of non-consolidated affiliates	**(3)**	**20**	**1**			**18**
Segment profit (loss)	**417**	**5**	**51**	**(1)**	**(131)**	**341**
Capital expenditures(B)	**15**	**21**	**1**	**3**	**2**	**42**
Three Months Ended July 31, 2007						
External sales and revenues, net	$ 1,714	$ 795	$ 343	$ 104	$	$ 2,956
Intersegment sales and revenues	1	176	62	29	(268)	
Total sales and revenues, net	$ 1,715	$ 971	$ 405	$ 133	$ (268)	$ 2,956
Depreciation and amortization	$ 41	$ 40	$ 2	$ 5	$ 4	$ 92
Interest expense				74	51	125
Equity in income of non-consolidated affiliates	2	18	1		1	22
Segment profit (loss)	7	65	43	40	(150)	5
Capital expenditures(B)	39	24	1	1	3	68

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(in millions)	Truck (Restated)	Engine	Parts	Financial Services(A)	Corporate and Eliminations	Total (Restated)
Nine Months Ended July 31, 2008						
External sales and revenues, net	**$ 7,518**	**$ 1,965**	**$ 1,106**	**$ 265**	**$**	**$ 10,854**
Intersegment sales and revenues	**1**	**568**	**177**	**63**	**(809)**	
Total sales and revenues, net	**$ 7,519**	**$ 2,533**	**$ 1,283**	**$ 328**	**$ (809)**	**$ 10,854**
Depreciation and amortization	**$ 132**	**$ 116**	**$ 6**	**$ 16**	**$ 15**	**$ 285**
Interest expense				**243**	**114**	**357**
Equity in income (loss) of non-consolidated affiliates	**(6)**	**66**	**3**			**63**
Segment profit (loss)	**635**	**90**	**156**	**(7)**	**(378)**	**496**
Capital expenditures(B)	**70**	**60**	**3**	**6**	**6**	**145**
Nine Months Ended July 31, 2007						
External sales and revenues, net	$ 5,755	$ 2,081	$ 966	$ 292	$	$ 9,094
Intersegment sales and revenues	5	491	187	104	(787)	
Total sales and revenues, net	$ 5,760	$ 2,572	$ 1,153	$ 396	$ (787)	$ 9,094
Depreciation and amortization	$ 117	$ 120	$ 6	$ 15	$ 12	$ 270
Interest expense				220	147	367
Equity in income of non-consolidated affiliates	3	55	3		1	62
Segment profit (loss)	132	71	120	124	(436)	11
Capital expenditures(B)	142	46	5	3	11	207
As of July 31, 2008						
Segment assets	**3,196**	**2,267**	**617**	**5,131**	**491**	**11,702**
As of October 31, 2007						
Segment assets	2,696	2,151	550	5,292	759	11,448

(A) Total sales and revenues in the Financial Services segment include interest revenues of $91 million and $303 million for the three months and nine months ended July 31, 2008, respectively, and $112 million and $330 million for the same periods in 2007, respectively.

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

Following is information about our two customers from which we derive more than 10% of our consolidated *Sales and revenues, net*:

Sales of vehicles and service parts to the U.S. government were 31% and 26% of consolidated sales and revenues for the three months and nine months ended July 31, 2008, respectively, and 3% for the same periods in 2007. U.S. government receivable balances, related to sales of vehicle and service parts, totaled $488 million and $93 million as of July 31, 2008 and October 31, 2007, respectively.

Sales of diesel engines to Ford were 5% and 9% of consolidated sales and revenues for the three months and nine months ended July 31, 2008, and 17% and 14% for the same periods in 2007, respectively. Ford accounted for 31.8% and 47.6% of our diesel unit volume (including intercompany transactions) for the three months and nine months ended July 31, 2008, and 60.4% and 59.2% for the same periods in 2007, respectively. Ford receivable balances totaled $52 million and $245 million as of July 31, 2008 and October 31, 2007, respectively.

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Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

In May 2008, Ford announced that it planned to reduce its pickup truck production levels due to current economic conditions. Due to the reduction in Ford s pickup production levels, which has resulted in a decrease of our engine shipments to Ford, the Engine segment s Indianapolis Plant has laid off over 400 employees during the third quarter of 2008. This has resulted in $10 million of employee benefit expenses recorded in the third quarter of 2008. A prolonged reduction in Ford s demand for our engines or the early termination or non-renewal of our agreement with Ford could have a material impact on our financial position, results of operations, or cash flows.

Strategic Agreements

In June 2008, we announced that we entered into a memorandum of understanding with Caterpillar Inc. to pursue a strategic alliance, involving our Truck and Engine segments, in the mutual development of on-highway truck business opportunities and global truck collaboration. The strategic alliance would include the cooperative development of mid-range diesel engines and access to global distribution centers. This transaction is subject to completion of due diligence, execution of definitive agreements, and regulatory approvals.

14. Comprehensive income (loss)

Total comprehensive income is summarized as follows:

(in millions)	Three Months Ended July 31, 2008 (Restated)	Three Months Ended July 31, 2007	Nine Months Ended July 31, 2008 (Restated)	Nine Months Ended July 31, 2007
Net income (loss)	**$ 331**	$ (4)	**$ 477**	$ (17)
Other comprehensive income (loss)				
Foreign currency translation adjustments	**38**	32	**53**	50
Pension amortization and settlements, net of tax	**3**		**(3)**	
Other		1		5
Total other comprehensive income	**41**	33	**50**	55
Total comprehensive income	**$ 372**	$ 29	**$ 527**	$ 38

15. Stockholders deficit

In July 2008, we announced a share repurchase program as authorized by our Board of Directors to acquire up to $36 million of our common stock. This repurchase program expires in July 2009. As of July 31, 2008, we have not repurchased any of our common stock under the program.

In the third quarter of 2008, certain current and former employees of the company exercised 1,289,302 stock options. As a result of these exercises, we received proceeds of $26 million, retained 357,226 shares as settlements in lieu of cash, and issued 932,076 shares of treasury stock. As of July 31, 2008, *Stockholders deficit* decreased by $21 million, due to the exercise of these options.

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

16. Earnings (loss) per share

The following table shows the information used in the calculation of our basic and diluted earnings (loss) per share:

(in millions, except per share data)	Three Months Ended July 31, 2008 (Restated)	Three Months Ended July 31, 2007	Nine Months Ended July 31, 2008 (Restated)	Nine Months Ended July 31, 2007
Numerator:				
Net income (loss) available to common stockholders	**$ 331**	$ (4)	**$ 477**	$ (17)
Denominator:				
Weighted average shares outstanding				
Basic	**70.8**	70.3	**70.5**	70.3
Effect of dilutive securities	**3.2**		**2.8**	
Diluted	**74.0**	70.3	**73.3**	70.3
Basic earnings (loss) per share	**$ 4.68**	$ (0.05)	**$ 6.78**	$ (0.24)
Diluted earnings (loss) per share	**$ 4.47**	$ (0.05)	**$ 6.52**	$ (0.24)

Shares not included in the computation of diluted earnings (loss) per share, as they would be anti-dilutive, were 3.3 million and 1.9 million for the three months and nine months ended July 31, 2007, respectively. There were no anti-dilutive shares in 2008.

17. Stock-based compensation plans

We have various stock-based compensation plans, approved by the Compensation Committee of the Board of Directors, which provide for granting of stock awards and options to employees and directors for purchase of our common stock at the fair market value of the stock on the date of grant. The grants generally have a 10-year contractual life.

Since March 1, 2006, we have been subject to the blackout trading rules of Regulation BTR of the SEC, which prohibits our directors or Section 16 officers from acquiring or selling any equity security of the company (other than exempt securities) during a blackout period as defined in Regulation BTR (Blackout Period). The Blackout Period started as a result of the delay in filing the NIC Annual Report on Form 10-K for the year ended October 31, 2005 and will extend until the decision of the independent fiduciary appointed for our 401(k) Plans is made to lift the Blackout Period.

In April 2008, the Board of Directors approved the 2008 Emergence Long-Term Incentive Grant, under the 2004 Performance Incentive Plan, to certain employees, consultants, and non-employee directors. The grant will take the form of restricted stock units or restricted stock and will vest 25% on the first anniversary of the grant date, 25% on the second anniversary, and 50% on the third anniversary. The grant is expected to be made to an estimated 250 participants five business days following the expiration of the Blackout Period and is estimated to include approximately 510,000 units or shares to be granted at the market price of the stock on the date of grant. The Long-Term Incentive Grant is primarily to replace equity-based compensation forgone during the Blackout Period.

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

18. Condensed consolidating guarantor and non-guarantor financial information

The following tables set forth condensed consolidating balance sheets as of July 31, 2008 and October 31, 2007, condensed consolidating statements of operations for the three months and nine months ended July 31, 2008 and 2007, and condensed consolidating statements of cash flows for the nine months ended July 31, 2008 and 2007. The information is presented as a result of Navistar, Inc. s guarantee, exclusive of its subsidiaries, of NIC s indebtedness under its 7.5% Senior Notes due 2011. Navistar, Inc. is a direct wholly-owned subsidiary of NIC. None of NIC s other subsidiaries guarantee any of these notes. The guarantee is full and unconditional. Separate financial statements and other disclosures concerning Navistar, Inc. have not been presented because management believes that such information is not material to investors. Within this disclosure only, NIC includes the consolidated financial results of the parent company only, with all of its wholly-owned subsidiaries accounted for under the equity method. Likewise, Navistar, Inc., for purposes of this disclosure only, includes the consolidated financial results of its wholly-owned subsidiaries accounted for under the equity method. Non-Guarantor Subsidiaries includes the combined financial results of all other non-guarantor subsidiaries. Eliminations and Other includes all eliminations and reclassifications to reconcile to the condensed consolidated financial statements. NIC files a consolidated U.S. federal income tax return that includes Navistar, Inc. and its U.S. subsidiaries, and NIC s U.S. subsidiaries. Navistar, Inc. is party to a tax allocation agreement (Tax Agreement) with NIC which requires Navistar, Inc. to compute its separate federal income tax liability and remit any resulting tax liability to NIC. Tax benefits that may arise from net operating losses of Navistar, Inc. are not refunded to Navistar, Inc. but may be used to offset future required tax payments under the Tax Agreement. The effect of the Tax Agreement is to allow NIC, the parent company, rather than Navistar, Inc., to realize the benefit of current U.S. taxable losses of Navistar, Inc. and all other direct or indirect subsidiaries of NIC.

We have revised our previously reported condensed consolidating guarantor and non-guarantor statements of cash flows for the nine months ended July 31, 2008 and 2007 to reflect the correction of errors identified in those statements including the errors described in Note 19, *Restatement and revision of previously issued condensed consolidated financial statements*, and errors in reporting of intercompany equity income and intercompany dividends. In certain cases, intercompany equity income previously reported in *Net cash provided by (used in) investment activities* is now reported in *Net cash provided by (used in) operating activities*. Dividends inflows and outflows previously reported in *Net cash provided by (used in) investment activities* are now reported in *Net cash provided by (used in) operations* for cash inflows and *Net cash provided by (used in) financing activities* for cash outflows.

During the first quarter of 2008, we revised the presentation of the condensed consolidating guarantor and non-guarantor financial information including the presentation of equity method income on an after-tax basis and the allocation income taxes on a separate return basis. The 2007 information has been revised to conform to that presentation.

(in millions)	NIC (Restated)	Navistar, Inc. (Restated)	Non-Guarantor Subsidiaries (Restated)	Eliminations and Other (Restated)	Consolidated (Restated)
Condensed Consolidating Statement of Operations for the Three Months Ended July 31, 2008					
Sales and revenues, net	$	$ 2,048	$ 3,651	$ (1,748)	$ 3,951
Costs of products sold		1,834	2,925	(1,707)	3,052
All other operating expenses (income)	(14)	411	202	(23)	576
Total costs and expenses	(14)	2,245	3,127	(1,730)	3,628
Equity in income (loss) of non-consolidated affiliates	320	496	17	(815)	18
Income (loss) before income tax	334	299	541	(833)	341
Income tax benefit (expense)	(3)	6	(13)		(10)

Net income (loss)	$ 331	$ 305	$ 528	$ (833)	$ 331

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(in millions)	NIC (Restated)	Navistar, Inc. (Restated)	Non-Guarantor Subsidiaries (Restated)	Eliminations and Other (Restated)	Consolidated (Restated)
Condensed Consolidating Statement of Operations for the Nine Months Ended July 31, 2008					
Sales and revenues, net	$	$ 5,567	$ 9,748	$ (4,461)	$ 10,854
Costs of products sold		5,053	8,052	(4,390)	8,715
All other operating expenses (income)	(62)	1,151	697	(80)	1,706
Total costs and expenses	(62)	6,204	8,749	(4,470)	10,421
Equity in income (loss) of non-consolidated affiliates	418	962	61	(1,378)	63
Income (loss) before income tax	480	325	1,060	(1,369)	496
Income tax benefit (expense)	(3)	1	(17)		(19)
Net income (loss)	$ 477	$ 326	$ 1,043	$ (1,369)	$ 477

(in millions)	NIC (Restated and Revised)	Navistar, Inc. (Restated)	Non-Guarantor Subsidiaries (Restated)	Eliminations and Other (Restated)	Consolidated (Restated and Revised)
Condensed Consolidating Balance Sheet as of July 31, 2008					
Assets					
Cash, cash equivalents, and marketable securities	$ 304	$ 43	$ 1,036	$	$ 1,383
Finance and other receivables, net		288	5,011	(5)	5,294
Inventories		615	1,140	(63)	1,692
Goodwill			378		378
Property and equipment, net		794	1,173	(4)	1,963
Investments in and advances to non-consolidated affiliates	(2,049)	3,816	215	(1,805)	177
Deferred taxes, net	1	18	128		147
Other	21	204	443		668
Total assets	$ (1,723)	$ 5,778	$ 9,524	$ (1,877)	$ 11,702
Liabilities, redeemable equity securities and stockholders equity (deficit)					
Debt	$ 1,346	$ 337	$ 5,081	$ (231)	$ 6,533
Postretirement benefits liabilities		1,062	158		1,220
Amounts due to (from) affiliates	(4,078)	5,743	(1,713)	48	
Other liabilities	1,194	1,027	2,008	(95)	4,134
Total liabilities	(1,538)	8,169	5,534	(278)	11,887
Redeemable equity securities	145				145

Stockholders equity (deficit)	(330)	(2,391)	3,990	(1,599)	(330)
Total liabilities, redeemable equity securities and stockholders equity (deficit)	$ (1,723)	$ 5,778	$ 9,524	$ (1,877)	$ 11,702

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(in millions)	NIC (Restated and Revised)	Navistar, Inc. (Restated and Revised)	Non-Guarantor Subsidiaries (Restated and Revised)	Eliminations and Other (Restated and Revised)	Consolidated (Restated and Revised)
Condensed Consolidating Statement of Cash Flows for the Nine Months Ended July 31, 2008					
Net cash provided by (used in) operations	$ (121)	$ (142)	$ 861	$ 80	$ 678
Cash flow from investment activities					
Net change in restricted cash and cash equivalents	1	7	(276)		(268)
Net increase in marketable securities	(12)				(12)
Capital expenditures		(20)	(154)		(174)
Other investing activities	2	(24)	28	22	28
Net cash provided by (used in) investment activities	(9)	(37)	(402)	22	(426)
Cash flow from financing activities					
Net borrowings (repayments) of debt		169	(374)	(164)	(369)
Other financing activities	26		(62)	62	26
Net cash provided by (used in) financing activities	26	169	(436)	(102)	(343)
Effect of exchange rate changes on cash and cash equivalents			(8)		(8)
Cash and cash equivalents					
Increase (decrease) during the period	(104)	(10)	15		(99)
At beginning of the period	391	47	339		777
Cash and cash equivalents at end of the period	$ 287	$ 37	$ 354	$	$ 678

(in millions)	NIC	Navistar, Inc.	Non-Guarantor Subsidiaries	Eliminations and Other	Consolidated
Condensed Consolidating Statement of Operations for the Three Months Ended July 31, 2007					
Sales and revenues, net	$	$ 1,625	$ 2,299	$ (968)	$ 2,956
Costs of products sold		1,431	1,943	(946)	2,428
All other operating expenses (income)	(25)	403	203	(36)	545
Total costs and expenses	(25)	1,834	2,146	(982)	2,973
Equity in income (loss) of non-consolidated affiliates	(29)	129	19	(97)	22
Income (loss) before income tax	(4)	(80)	172	(83)	5

Income tax benefit (expense)		4	(13)		(9)
Net income (loss)	$ (4)	$ (76)	$ 159	$ (83)	$ (4)

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(in millions)	NIC	Navistar, Inc.	Non-Guarantor Subsidiaries	Eliminations and Other	Consolidated
Condensed Consolidating Statement of Operations for the Nine Months Ended July 31, 2007					
Sales and revenues, net	$	$ 5,355	$ 6,959	$ (3,220)	$ 9,094
Costs of products sold		4,821	5,829	(3,145)	7,505
All other operating expenses (income)	(39)	1,161	641	(123)	1,640
Total costs and expenses	(39)	5,982	6,470	(3,268)	9,145
Equity in income (loss) of non-consolidated affiliates	(58)	443	55	(378)	62
Income (loss) before income tax	(19)	(184)	544	(330)	11
Income tax benefit (expense)	2		(30)		(28)
Net income (loss)	$ (17)	$ (184)	$ 514	$ (330)	$ (17)

(in millions)	NIC (Revised)	Navistar, Inc.	Non-Guarantor Subsidiaries	Eliminations and Other	Consolidated (Revised)
Condensed Consolidating Balance Sheet as of October 31, 2007					
Assets					
Cash, cash equivalents, and marketable securities	$ 396	$ 60	$ 746	$	$ 1,202
Finance and other receivables, net		179	5,253	(13)	5,419
Inventories		560	910	(58)	1,412
Goodwill			353		353
Property and equipment, net		889	1,199	(2)	2,086
Investments in and advances to non-consolidated affiliates	(2,503)	2,624	149	(116)	154
Deferred taxes, net	1	18	131		150
Other	26	204	442		672
Total assets	$ (2,080)	$ 4,534	$ 9,183	$ (189)	$ 11,448
Liabilities, redeemable equity securities and stockholders equity (deficit)					
Debt	$ 1,345	$ 390	$ 5,375	$ (229)	$ 6,881
Postretirement benefits liabilities		1,170	157		1,327
Amounts due to (from) affiliates	(3,272)	4,900	(1,657)	29	
Other liabilities	581	1,157	2,307	(71)	3,974
Total liabilities	(1,346)	7,617	6,182	(271)	12,182
Redeemable equity securities	140				140
Stockholders equity (deficit)	(874)	(3,083)	3,001	82	(874)
	$ (2,080)	$ 4,534	$ 9,183	$ (189)	$ 11,448

Total liabilities, redeemable equity securities and stockholders equity (deficit)

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(in millions)	NIC (Revised)	Navistar, Inc. (Revised)	Non-Guarantor Subsidiaries (Revised)	Eliminations and Other (Revised)	Consolidated (Revised)
Condensed Consolidating Statement of Cash Flows for the Nine Months Ended July 31, 2007					
Net cash provided by (used in) operations	$ (600)	$ (649)	$ 815	$ 516	$ 82
Cash flow from investment activities					
Net change in restricted cash and cash equivalents		29	40		69
Net decrease in marketable securities	104		27		131
Capital expenditures		(65)	(167)		(232)
Other investing activities	3	28	12	(13)	30
Net cash provided by (used in) investment activities	107	(8)	(88)	(13)	(2)
Cash flow from financing activities					
Net borrowings (repayments) of debt	(78)	778	(505)	(778)	(583)
Other financing activities			(275)	275	
Net cash provided by (used in) financing activities	(78)	778	(780)	(503)	(583)
Effect of exchange rate changes on cash and cash equivalents			20		20
Cash and cash equivalents					
Increase (decrease) during the period	(571)	121	(33)		(483)
At beginning of the period	814	20	323		1,157
Cash and cash equivalents at end of the period	$ 243	$ 141	$ 290	$	$ 674

19. Restatement and revision of previously issued condensed consolidated financial statements

Restatements

On December 23, 2008, the management of NIC, with the concurrence of the audit committee of our Board of Directors, concluded that NIC s previously issued condensed consolidated financial statements as of and for the three and nine months ended July 31, 2008 should be restated to correct errors related to inventories, accounts receivable, accounts payable, sales of manufactured products, net and costs of products sold in our Truck segment. The errors primarily resulted from not appropriately accounting for material price variances, freight variances, and excess and obsolete inventory reserves. In addition, there were errors related to cut off of inventory receipts and timing of revenue recognition.

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The following tables reflect the effects of the restatement on (i) the finance and other receivables, inventories, accounts payable, other current liabilities, and accumulated deficit as compared to amounts previously reported in the consolidated balance sheet and (ii) the sales of manufactured products, net, costs of products sold, and earnings as compared to amounts previously reported in the consolidated statements of operations:

(in millions, except per share data)	**Increase (Decrease)**
Consolidated Balance Sheet as of July 31, 2008	
Finance and other receivables	$ (3)
Inventories	148
Accounts payable	99
Other current liabilities	3
Accumulated deficit	(43)

	Increase (Decrease)	
	Three Months Ended July 31, 2008	**Nine Months Ended July 31, 2008**
Condensed Consolidated Statements of Earnings		
Sales of manufactured products, net	$ (3)	$ (3)
Costs of products sold	(63)	(47)
Other income, net	(1)	(1)
Income tax expense	2	2
Net income (loss)	59	43
Basic earnings (loss) per share	$ 0.83	$ 0.62
Diluted earnings (loss) per share	$ 0.79	$ 0.60

Revisions

We revised our previously reported consolidated balance sheets as of July 31, 2008 and October 31, 2007 to give effects to recording stock options as redeemable equity securities, which have been classified as mezzanine equity. The redeemable equity securities were previously included in *common stock and additional paid in capital* in *Stockholders deficit*. In June 2007 we amended the terms of then-outstanding stock option awards to allow for cash settlement in the event of a change in control and when certain other conditions exist. In accordance with EITF Topic No. D-98, *Classification and Measurement of Redeemable Securities*, the amended stock options intrinsic values should have been re-measured at the modification date and should have been recorded as *Redeemable equity securities*, which are classified as mezzanine equity on the consolidated balance sheet. To record the amount reported as mezzanine equity, we initially recorded a corresponding reduction of *Common stock and additional paid in capital* in the amount of $139 million with subsequent adjustments as options vest, expire, or are subsequently modified. The corrections had no effect on our previously reported consolidated statements of operations and condensed consolidated statements of cash flows and are not considered material to any previously reported consolidated financial statements.

We also revised our previously reported condensed consolidated statements of cash flows for the nine months ended July 31, 2008 and 2007 to reflect the correction of errors identified in those statements. The errors are not considered material to any previously reported consolidated financial statements. The errors primarily resulted from the incorrect allocation of the effects of exchange rate changes on cash and cash equivalents. The errors had no effect on our previously reported consolidated balance sheets as of July 31, 2008 and 2007 or on our consolidated statements of operations for the three and nine months ended July 31, 2008 and 2007.

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Consolidated Statements of Operations Impacts

The following table sets forth the effects of the restatement on the consolidated statements of operations for the three and nine months ended July 31, 2008:

(in millions, except per share data)	Three Months Ended July 31, 2008			Nine Months Ended July 31, 2008		
	As Previously Reported	Restatements	As Restated	As Previously Reported	Restatements	As Restated
Sales and revenues						
Sales of manufactured products, net	$ 3,879	$ (3)	$ 3,876	$ 10,592	$ (3)	$ 10,589
Finance revenues	75		75	265		265
Sales and revenues, net	3,954	(3)	3,951	10,857	(3)	10,854
Costs and expenses						
Costs of products sold	3,115	(63)	3,052	8,762	(47)	8,715
Selling, general and administrative expenses	386		386	1,071		1,071
Engineering and product development costs	108		108	289		289
Interest expense	88		88	357		357
Other income, net	(5)	(1)	(6)	(10)	(1)	(11)
Total costs and expenses	3,692	(64)	3,628	10,469	(48)	10,421
Equity in income of non-consolidated affiliates	18		18	63		63
Income before income tax	280	61	341	451	45	496
Income tax expense	(8)	(2)	(10)	(17)	(2)	(19)
Net income (loss)	$ 272	$ 59	$ 331	$ 434	$ 43	$ 477
Basic earnings (loss) per share	$ 3.85	$ 0.83	$ 4.68	$ 6.16	$ 0.62	$ 6.78
Diluted earnings (loss) per share	$ 3.68	$ 0.79	$ 4.47	$ 5.92	$ 0.60	$ 6.52
Weighted average shares outstanding						
Basic	70.8		70.8	70.5		70.5
Diluted	74.0		74.0	73.3		73.3

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Consolidated Balance Sheet Impacts

The following table sets forth the effects of the restatements and revisions on the July 31, 2008 consolidated balance sheet:

(in millions)	As Previously Reported	Restatements and Revisions	As Restated and Revised
ASSETS			
Current assets			
Cash and cash equivalents	$ 678	$	$ 678
Marketable securities	18		18
Finance and other receivables (net of allowance for losses of $74)	3,051	(3)	3,048
Inventories	1,544	148	1,692
Deferred taxes, net	116		116
Other current assets	171		171
Total current assets	5,578	145	5,723
Restricted cash and cash equivalents	687		687
Finance and other receivables (net of allowance for losses of $28)	2,246		2,246
Investments in and advances to non-consolidated affiliates	177		177
Property and equipment (net of accumulated depreciation and amortization of $2,347)	1,963		1,963
Goodwill	378		378
Intangible assets (net of accumulated amortization of $71)	273		273
Pension assets	143		143
Deferred taxes, net	31		31
Other noncurrent assets	81		81
Total assets	$ 11,557	$ 145	$ 11,702
LIABILITIES, REDEEMABLE EQUITY SECURITIES AND STOCKHOLDERS DEFICIT			
Liabilities			
Current liabilities			
Notes payable and current maturities of long-term debt	$ 803	$	$ 803
Accounts payable	2,049	99	2,148
Other current liabilities	1,225	3	1,228
Total current liabilities	4,077	102	4,179
Long-term debt	5,730		5,730
Postretirement benefits liabilities	1,220		1,220
Other noncurrent liabilities	758		758
Total liabilities	11,785	102	11,887
Redeemable equity securities		145	145

Stockholders deficit		(228)		(102)	(330)
Total liabilities, redeemable equity securities and stockholders deficit	$	11,557	$	145	$ 11,702

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Navistar International Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Condensed Consolidated Statements of Cash Flows Impacts

The following table sets forth the effects of the restatements and revisions on the condensed consolidated statements of cash flows for the nine months ended July 31, 2008 and 2007:

	Nine Months Ended July 31, 2008			Nine Months Ended July 31, 2007		
(in millions)	As Previously Reported	Restatements and Revisions	Restated and Revised	As Previously Reported	Revisions	As Restated and Revised
Net cash provided by operating activities	$ 647	$ 31	$ 678	$ 67	$ 15	$ 82
Net cash used in investing activities	(437)	11	(426)	(12)	10	(2)
Net cash used in financing activities	(336)	(7)	(343)	(592)	9	(583)
Effect of exchange rate changes on cash and cash equivalents	27	(35)	(8)	54	(34)	20
Decrease in cash and cash equivalents	(99)		(99)	(483)		(483)
Cash and cash equivalents at beginning of period	777		777	1,157		1,157
Cash and cash equivalents at end of the period	$ 678	$	$ 678	$ 674	$	$ 674

For the nine months ended July 31, 2008, *net cash provided by operating activities* includes a $43 million increase to net income and a offsetting $43 million decrease to changes in other assets and liabilities related to the restatement adjustments described above, all other adjustments primarily relate to the correction of the error in the allocation of the effect of exchange rate changes on cash and cash equivalents.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Forward-Looking Statements; Risk Factors

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 (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 the company assumes no obligation to update the information included in this report. Such forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy. These statements often include words such as believe, expect, anticipate, intend, plan, estimate, or similar expressions. These statements are not guarantees of performan results and they involve risks, uncertainties, and assumptions. For a further description of these factors, see Item 1A. Risk Factors in PART II of this Form 10-Q and Item 1A. Risk Factors included within our Form 10-K for the year ended October 31, 2007, which was filed on May 29, 2008. Although we believe that these forward-looking statements are based on reasonable assumptions, there are many factors that could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements.

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 the Financial Statements and Supplementary Data section of our 2007 Annual Report on Form 10-K. Information in this Item is intended to assist the reader in obtaining an understanding of our condensed consolidated financial statements, information about our business segments and how the results of those segments impact our results of operations and financial condition as a whole, and how certain accounting principles affect the company s condensed consolidated financial statements. Our MD&A includes the following sections:

- Executive Summary
- Results of Operations and Segment Results of Operations
- Liquidity and Capital Resources
- Other Information
  - Critical Accounting Policies
  - New Accounting Pronouncements

Executive Summary

We are an international manufacturer of International brand commercial trucks, IC brand buses, MaxxForce and MWM brand diesel engines, WCC brand chassis for motor homes and step vans, Navistar Defense military vehicles, and a provider of service parts for all makes of trucks and trailers. Additionally, we are a private-label designer and manufacturer of diesel engines for the pickup truck, van, and SUV markets. We also provide retail, wholesale, and lease financing of our trucks, and financing for our wholesale accounts and selected retail accounts receivable. We operate in four industry segments: Truck, Engine, Parts (referred to as our manufacturing segments), and Financial Services. Corporate contains those items that do not fit into our four segments. Selected financial data for each segment can be found in Note 13, *Segment reporting*, to the accompanying condensed consolidated financial statements.

Our business is heavily influenced by the overall performance of the traditional medium and heavy truck markets within U.S. and Canada, which includes vehicles in weight classes 6 through 8, including school buses. Sales from foreign locations are considered rest of world (ROW) sales, which allows us to expand our sales

while leveraging existing resources. The U.S., Canadian, and ROW markets are typically cyclical in nature but in certain years they have also been impacted by accelerated purchases of trucks (pre-buy) in anticipation of higher prices due to stricter emissions standards imposed by various domestic and foreign federal regulatory agencies, as was particularly evident throughout the U.S. in 2006. In turn, the U.S. market has experienced corresponding periods of delayed purchases of trucks during the last three quarters of 2007 and into 2008. In addition, beginning in 2008, the inefficient credit markets and the challenging economic environment in the U.S. began to impact customer purchases, further decreasing demand for new trucks. To minimize the impact of the traditional markets cyclicality, our continuing strategy incorporates further growth in U.S. military sales, our Parts segment, and an increased presence in expansion markets such as the non-U.S. military, recreational vehicle, commercial step-van, and export markets. We have placed emphasis on building strategic alliances and joint ventures to strengthen and expand into existing and global economies. In addition, within the traditional markets, we continue to focus on market share expansion to further mitigate the impact of traditional markets volatility. Furthermore, we continue to focus on improving the cost structure in our Truck and Engine segments while delivering products of distinction and evaluating opportunities to contain our legacy costs, utilize our deferred tax assets, and return to a more conventional capital structure.

In December of 2007, we entered into a non-binding memorandum of understanding with GM to purchase certain assets, intellectual property, and distribution rights for the GMC and Chevrolet class 4 through 8 truck business, as well as related GM service parts business. Due to significant marketplace and economic changes, we have mutually decided not to renew the non-binding memorandum of understanding, which has expired.

We experienced a decline in unit volumes in both the Truck and Engine segments during the nine month period ended July 31, 2008, compared to the same period in 2007 despite an increase in unit volumes within the Truck segment for the third quarter of 2008, primarily due to growth in U.S. military units. Worldwide Truck segment units invoiced to customers were 27,000 (an increase of 9.8%) and 73,500 (a decrease of 15.1%) for the quarter and the nine month period ended July 31, 2008, respectively, compared to the same three month and nine month periods in 2007. Total Engine segment units were 79,300 (a decrease of 26.7%) and 267,600 (a decrease of 12.8%) during the third quarter and year-to-date 2008, respectively, which compares to 108,200 and 307,000 in the same periods of 2007, primarily due to a decrease in Ford s production requirements. During the third quarter of 2008, to match Ford s production schedules, the Engine segment s Indianapolis plant laid off over 400 employees. A prolonged reduction in Ford s demand for our engines or the early termination or non-renewal of our agreement with Ford could have a material impact on our financial position, results of operations, or cash flows.

During the quarter ended July 31, 2008, the traditional truck retail industry, as well as the heavy duty pickup market, remained depressed, which is reflected in the 62,700 retail units sold during this period compared to 63,300 units sold in the third quarter of 2007. Total traditional truck industry units sold during the nine month period ended July 31, 2008 amounted to 181,000 compared to 255,300 units for the same nine month period in 2007. The depressed sales in the retail truck industry and heavy duty diesel pick-up truck market decreased our total engine volumes in the third quarter of 2008 but were partially offset by volume growth with OEMs other than Ford.

Despite the continuation of the downturn experienced throughout the traditional truck markets during the third quarter of 2008, we attained consolidated net sales and revenues for the quarter and the nine month period ended July 31, 2008 of $4.0 billion and $10.9 billion, respectively, which compares with $3.0 billion and $9.1 billion for the same respective periods in 2007. Growth in our U.S. military sales, the introduction of new products, competitive pricing strategies, and an increase in sales in our ROW markets contributed to overall sales and revenue growth during the third quarter and year-to-date 2008 compared to the same periods in 2007. U.S. military sales included in our consolidated net sales and revenues were $1.2 billion and $2.8 billion in the third quarter and year-to-date 2008, respectively, compared to $59 million and $166 million for the comparable periods in 2007.

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Excluding the $42 million net gain from the settlement and curtailment of one plan that was recognized in the first quarter of 2008, we recognized income of $2 million and $5 million for the third quarter and year-to-date periods ended July 31, 2008, compared to an expense of $29 million and $88 million for the same periods in 2007. This benefit resulted from better than expected return on assets and a significant reduction in the projected benefit obligation resulting from fully insuring our Medicare eligible population in our largest postretirement medical plan.

Included in the change in our results were professional, consulting, and auditing expenses of $33 million in the third quarter of 2008 as compared to expense of $54 million in the same period in 2007. Included in the change in our results were the following significant items in the year-to-date ended July 31, 2008: non-cash mark to market charge on our interest rate swap agreements of $40 million during the nine months ended July 31, 2008 as compared to a benefit of $2 million in the same period in 2007, a $42 million reduction in postretirement expense due to a net settlement and curtailment gain due to changes in our UAW agreement, professional, consulting, and auditing expenses of $138 million in the nine months ended July 31, 2008 as compared to expenses of $140 million in the same period in 2007, and debt refinancing and restructuring costs of $31 million that did not recur in the nine months ended July 31, 2008.

For the quarter and nine month period ended July 31, 2008, we realized net income of $331 million and $477 million, respectively, compared to net losses of $4 million and $17 million for the respective periods in 2007. Our diluted earnings per share were $4.47 for the quarter ended July 31, 2008 compared to a diluted loss per share of $0.05 for the same period in 2007. Our diluted earnings per share were $6.52 for the nine month period ended July 31, 2008 compared to a diluted loss per share of $0.24 for the same period in 2007. During the third quarter and year-to-date 2008, we incurred an expense of $10 million and $19 million, respectively, for state, local, and foreign income taxes.

A summary of our condensed results of operations, including diluted earnings (loss) per share, is as follows:

	Three Months Ended July 31,		**Nine Months Ended July 31,**	
(in millions, except per share data)	**2008 (Restated)**	**2007**	**2008 (Restated)**	**2007**
Sales and revenues, net	**$ 3,951**	$ 2,956	**$ 10,854**	$ 9,094
Total costs and expenses	**3,628**	2,973	**10,421**	9,145
Equity in income of non-consolidated affiliates	**18**	22	**63**	62
Income before income tax	**341**	5	**496**	11
Net income (loss)	**331**	(4)	**477**	(17)
Diluted earnings (loss) per share	**4.47**	(0.05)	**6.52**	(0.24)

Results of Operations and Segment Results of Operations

The following tables summarize our consolidated statements of operations and illustrate the key financial indicators used to assess the consolidated financial results. Financial information is presented for the quarters and nine month periods ended July 31, 2008 and 2007, as prepared in accordance with U.S. GAAP for interim financial information.

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Results of Operations

(in millions, except per share data and percentage change)	Three Months Ended July 31, 2008 (Restated)	2007	Change	Percentage Change
Sales and revenues, net	**$ 3,951**	$ 2,956	$ 995	33.7
Costs of products sold	**3,052**	2,428	624	25.7
Selling, general and administrative expenses	**386**	368	18	4.9
Engineering and product development costs	**108**	86	22	25.6
Interest expense	**88**	125	(37)	(29.6)
Other income, net	**(6)**	(34)	28	(82.4)
Total costs and expenses	**3,628**	2,973	655	22.0
Equity in income of non-consolidated affiliates	**18**	22	(4)	(18.2)
Income before income tax	**341**	5	336	N.M.
Income tax expense	**(10)**	(9)	(1)	11.1
Net income (loss)	**$ 331**	$ (4)	$ 335	N.M.
Diluted earnings (loss) per share	**$ 4.47**	$ (0.05)	$ 4.52	N.M.

(in millions, except per share data and percentage change)	Nine Months Ended July 31, 2008 (Restated)	2007	Change	Percentage Change
Sales and revenues, net	**$ 10,854**	$ 9,094	$ 1,760	19.4
Costs of products sold	**8,715**	7,505	1,210	16.1
Selling, general and administrative expenses	**1,071**	1,010	61	6.0
Engineering and product development costs	**289**	284	5	1.8
Interest expense	**357**	367	(10)	(2.7)
Other income, net	**(11)**	(21)	10	(47.6)
Total costs and expenses	**10,421**	9,145	1,276	14.0
Equity in income of non-consolidated affiliates	**63**	62	1	1.6
Income before income tax	**496**	11	485	N.M.
Income tax expense	**(19)**	(28)	9	(32.1)
Net income (loss)	**$ 477**	$ (17)	$ 494	N.M.
Diluted earnings (loss) per share	**$ 6.52**	$ (0.24)	$ 6.76	N.M.

N.M. Not meaningful.

Net Sales and Revenues

Our net sales and revenues are comprised of the following:

(in millions, except percentage change)		Three Months Ended July 31, 2008	2007	Change	Percentage Change
Sales of manufactured products, net	U.S. and Canada	**$ 3,152**	$ 2,293	$ 859	37.5
Sales of manufactured products, net	ROW	**724**	559	165	29.5
Total sales of manufactured products, net		**3,876**	2,852	1,024	35.9
Finance revenues		**75**	104	(29)	(27.9)
Sales and revenues, net		**$ 3,951**	$ 2,956	$ 995	33.7

(in millions, except percentage change)	Nine Months Ended July 31, 2008	2007	Change	Percentage Change
Sales of manufactured products, net U.S. and Canada	**$ 8,719**	$ 7,296	$ 1,423	19.5
Sales of manufactured products, net ROW	**1,870**	1,506	364	24.2
Total sales of manufactured products, net	**10,589**	8,802	1,787	20.3
Finance revenues	**265**	292	(27)	(9.2)
Sales and revenues, net	**$ 10,854**	$ 9,094	$ 1,760	19.4

Our Truck segment was our largest segment as measured in net sales and revenues, representing 73.9% and 58.0% of total consolidated net sales and revenues for the third quarter of 2008 and 2007, respectively, and 69.3% and 63.3% of total consolidated net sales and revenues for the nine month period ended July 31, 2008 and 2007, respectively. Net sales and revenues increased within this segment by $1.2 billion or 70.2% during the third quarter of 2008 as compared to the same period in 2007. Net sales and revenues increased by $1.8 billion or 30.5% for the nine month period ended July 31, 2008 as compared to the same period in 2007. Contributing to the increase in net sales and revenues were the combination of growth in our U.S. military sales, the success of our ProStar products, and ROW sales all of which offsets weakness in our traditional school bus, Class 6 and 7 medium trucks, and Class 8 heavy trucks markets. While our share of retail deliveries by traditional truck class fluctuated in 2008 and 2007, the Truck segment s bus, Class 6 and 7 medium and Class 8 severe service trucks continue to lead their markets with the greatest relative retail market share in each of their classes by brand.

Our Engine segment was our second largest segment in net sales and revenues with $808 million and $2.5 billion in the third quarter and year-to-date 2008 that compares with $971 million and $2.6 billion for the same respective periods in 2007. Due to the decrease in demand for heavy duty pickup trucks, engine units shipped to Ford in North America during the quarter ended July 31, 2008 decreased by 40,900 units or 68.3% compared to the prior year quarter ended July 31, 2007, and the nine months ended July 31, 2008 decreased by 56,300 units or 34.1% as compared to the nine month period ended July 31, 2007. The Engine segment was able to partially mitigate the third quarter 2008 reduction in shipments to Ford North America through growth of MWM shipments of 10.9% or 3,600 units as compared to the same period in 2007. Intersegment sales began to recover in the third quarter of 2008 primarily due to shipments to the truck segment for sales to the U.S. military.

Our Parts segment grew net sales 9.6% and 11.3% in the quarter and nine month period ended July 31, 2008 as compared to the same respective periods in 2007. This increase was primarily due to growth in our U.S. military sales and improved pricing.

Our Financial Services segment net revenues declined by 28.6% and 17.2% in the third quarter and year-to-date 2008 as compared to the same respective periods in 2007. Revenue for the three and nine month periods ended July 31, 2007 included higher levels of revenue related to the financing of dealer inventory. In the three and nine month periods ended July 31, 2008, there were reduced financing opportunities resulting from fewer purchases of vehicles and components due to reduced customer demand, which we attribute to higher interest rates, current tightening of the credit markets, and increased diesel fuel prices.

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Costs and Expenses

The following tables summarize the key components of *Costs of products sold*:

(in millions, except percentage change)	Three Months Ended July 31, 2008 (Restated)	2007	Change	Percentage Change
Costs of products sold, excluding items presented separately below	**$ 3,004**	$ 2,369	$ 635	26.8
Postretirement benefits expense allocated to costs of products sold	**1**	11	(10)	(90.9)
Product warranty costs	**47**	48	(1)	(2.1)
Total costs of products sold	**$ 3,052**	$ 2,428	$ 624	25.7

(in millions, except percentage change)	Nine Months Ended July 31, 2008 (Restated)	2007	Change	Percentage Change
Costs of products sold, excluding items presented separately below	**$ 8,570**	$ 7,312	$ 1,258	17.2
Postretirement benefits expense allocated to costs of products sold	**11**	35	(24)	(68.6)
Product warranty costs	**134**	158	(24)	(15.2)
Total costs of products sold	**$ 8,715**	$ 7,505	$ 1,210	16.1

Costs of products sold increased 25.7% and 16.1% for the quarter and nine month period ended July 31, 2008, respectively, as compared to the same respective periods in 2007. As a percentage of net sales of manufactured products, *Costs of products sold* decreased to 78.7% and 82.3% for the quarter and nine month period ended July 31, 2008 from 85.1% and 85.3% for the same respective periods in 2007. Product warranty costs, including extended warranty program costs and net of vendor recoveries (product warranty costs), were $47 million and $134 million for the third quarter and year-to-date 2008, respectively, and $48 million and $158 million for the comparable periods of 2007. Postretirement benefits expense included in *Costs of products sold*, inclusive of company 401(k) contributions, was $1 million and $11 million for the quarter and nine month period ended July 31, 2008 that compares with $11 million and $35 million for the same respective periods in 2007. Apart from product warranty costs and postretirement benefits expense, *Costs of products sold* as a percentage of net sales of manufactured products decreased to 77.5% and 80.9% during the third quarter and year-to-date 2008 from 83.1% for both of the same respective periods in 2007. The decrease in costs of products sold as a percentage of net sales of manufactured products between the quarters and the nine month periods ended July 31, 2008 and 2007 was primarily due to increased sales to the U.S. military and to a lesser extent sales of ProStar vehicles and improved pricing offsetting the impact of lower volumes and the associated decline in operating efficiency. The decrease in costs of products sold as a percentage of net sales of manufactured products in the three month and nine month periods ended July 31, 2008, as compared to the same respective periods in 2007, primarily results from elimination of supplier and delivery constraints, resolution of change order contracts, and deferring certain costs associated with U.S. military contracts not finalized at the end of the period.

Product warranty costs decreased by $1 million for the three months ended July 31, 2008 and by $24 million for the nine month period ended July 31, 2008 as compared to the same respective periods in 2007. The decrease in product warranty costs for the three and nine months ended July 31, 2008 as compared to the same respective period in 2007 was primarily the result of lower volumes, lower per unit costs, and the impact of changes to pre-existing warranties partially offset by an increase in extended warranty program costs. During the third quarter and year-to-date 2008, we incurred $6 million and $10 million of warranty expense associated with adjustments to pre-existing warranties compared to a nominal amount and $25 million in expense for the same respective periods in 2007. These adjustments reflect changes in our estimate of warranty costs for sales recognized in prior years associated with products at the Truck and Engine segments attributed to eliminating or

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rectifying warranty related issues earlier in the product life cycle. For more information regarding product warranty costs, see Note 1, *Summary of significant accounting policies,* to the accompanying condensed consolidated financial statements.

Our direct material costs have been impacted by industry-wide increases in commodity and fuel prices, which affected all of our manufacturing operations. We believe our costs related to steel, precious metals, resins, and petroleum products increased by $22 million during the quarter ended July 31, 2008 and $42 million on a year-to-date basis. However, we believe we generally have been able to mitigate the effects by our efforts to reduce costs through a combination of design changes, material substitution, alternative supplier resourcing, global sourcing, and price performance. We expect our direct material costs will increase or decrease in price as the global demand for these commodities change.

Selling, general and administrative expenses, including certain key items, are highlighted in the following tables:

(in millions, except percentage change)	Three Months Ended July 31, 2008	2007	Change	Percentage Change
Selling, general and administrative expenses, excluding items presented separately below	**$ 248**	$ 215	$ 33	15.3
Professional consulting and auditing fees	**33**	54	(21)	(38.9)
Postretirement benefits expense allocated to selling, general and administrative expenses	**3**	21	(18)	N.M.
Dealcor expenses	**45**	70	(25)	(35.7)
Incentive compensation and profit-sharing	**23**		23	N.M.
Provision for losses on receivables	**34**	8	26	N.M.
Total selling, general and administrative expenses	**$ 386**	$ 368	$ 18	4.9

(in millions, except percentage change)	Nine Months Ended July 31, 2008	2007	Change	Percentage Change
Selling, general and administrative expenses, excluding items presented separately below	**$ 689**	$ 579	$ 110	19.0
Professional consulting and auditing fees	**138**	140	(2)	(1.4)
Postretirement benefits (income) expense allocated to selling, general and administrative expenses	**(41)**	62	(103)	N.M.
Dealcor expenses	**165**	207	(42)	(20.3)
Incentive compensation and profit-sharing	**68**		68	N.M.
Provision for losses on receivables	**52**	22	30	136.4
Total selling, general and administrative expenses	**$ 1,071**	$ 1,010	$ 61	6.0

Selling, general and administrative expenses amounted to $386 million and $1.1 billion for the quarter and nine month period ended July 31, 2008, respectively, that compares to $368 million and $1.0 billion for the same respective periods in 2007. Our Truck segment occasionally acquires and operates dealer locations for the purpose of transitioning ownership or providing temporary operational assistance, which may increase or decrease *Selling, general and administrative expenses* in the period of acquisitions and disposals. Provision for losses on receivables is primarily driven by our Financial Services segment. We provide for certain losses related to the potential repossession and liquidation of collateral underlying finance receivables with dealers and retail customers. We have experienced an increase in repossessions and delinquencies due to the weakness in the trucking economy coupled with the sub-prime mortgage crisis resulting in an increase in our provision for losses on receivables. Our ratio of *Selling, general and administrative expenses* to net sales and revenues decreased by 2.6 percentage points to 9.8% for the quarter ended July 31, 2008 as compared to 12.4% for the same period in 2007. This ratio of *Selling, general and administrative expenses* as a percentage of net sales and revenues decreased by 1.2 percentage points to 9.9% for the nine month period ended July 31, 2008 compared to 11.1% for the same period in 2007. After separating the effects of professional, consulting, and auditing fees, postretirement benefits (income) expense, Dealcor expenses, incentive compensation and profit sharing, and provision for losses on receivables, *Selling, general and administrative expenses* as a percentage of net sales and revenues decreased from 7.3% during the quarter ended July 31, 2007 to 6.3% for the same period in 2008 and decreased from 6.4% for the nine month period ended July 31, 2007 to 6.3% for the same period in 2008. The remaining differences that impacted *Selling, general and administrative expenses* were increases in new business development, litigation expenses, and overhead and infrastructure enhancements in support of the company s growth initiatives. It is not uncommon for *Selling, general and administrative expenses* as a percentage of net sales to increase in periods of lower sales and to decrease in periods of higher sales.

Engineering and product development costs increased by 25.6% during the third quarter of 2008 and by 1.8% during the nine month period ended July 31, 2008 as compared to the same respective periods in 2007. *Engineering and product development costs* were primarily incurred by our Truck and Engine segments for product innovation and cost reduction, and to provide our customers with product and fuel-usage efficiencies. *Engineering and product development costs* incurred at our Engine segment increased $21 million or 50.0% and $19 million or 13.4% during the third quarter and year-to-date 2008, respectively, as compared to the same respective periods in 2007. This increase in costs is a result of our efforts to develop 2010 emissions-compliant engines, new engine products, and MWM Euro IV emission-compliant engines. *Engineering and product development costs* incurred at the Truck segment were $45 million and $128 million for the third quarter and year-to-date 2008, which compares to the $41 million and $132 million incurred in the same respective periods of 2007, and relate primarily to the further development of our ProStar class 8 long-haul truck. In addition, the Truck segment also incurred costs, to a lesser extent, in 2007 related to the development and roll-out of our 2007 emissions-compliant products and the development of the LoneStar class 8 tractor.

The following tables present the amounts of postretirement benefits (income) expenses allocated between *Costs of products sold, Selling, general and administrative expenses*, and *Engineering and product development costs*:

	Three Months Ended July 31,			
(in millions, except percentage change)	**2008**	**2007**	**Change**	**Percentage Change**
Postretirement benefits expense included in:				
Cost of products sold	**$ 1**	$ 11	$ (10)	(90.9)
Selling, general and administrative expenses	**3**	21	(18)	(85.7)
Engineering and product development costs	**1**	3	(2)	(66.7)
Total postretirement benefits expense	**$ 5**	$ 35	$ (30)	(85.7)

	Nine Months Ended July 31,			
(in millions, except percentage change)	**2008**	**2007**	**Change**	**Percentage Change**
Postretirement benefits (income) expense included in:				
Cost of products sold	**$ 11**	$ 35	$ (24)	(68.6)
Selling, general and administrative expenses (income) expense	**(41)**	62	(103)	N.M.
Engineering and product development costs	**2**	9	(7)	(77.8)
Total postretirement benefits (income) expense	**$ (28)**	$ 106	$ (134)	N.M.

Total postretirement benefits (income) expense includes defined benefit plans (pensions and post-employment benefits primarily health and life insurance) and defined contribution plans (401(k) contributions for active employees) as described in Note 8, *Postretirement benefits,* to the accompanying condensed consolidated financial statements.

We recognized income related to our postretirement benefits from defined benefit plans of $2 million in the third quarter of 2008 compared to an expense of $29 million for the same period in 2007. The $31 million reduction in defined benefit plan expense resulted from better than expected return on assets and a significant reduction in the projected benefit obligation resulting from fully insuring our Medicare eligible population in our largest postretirement medical plan. Each of these actions occurred in 2007 and represent variances from prior actuarial estimates. These variances significantly reduced the cumulative loss pool during 2007. Such costs amortize into income in the subsequent years as a component of postretirement benefits (income) expense. Amortization of the loss pool for pension and health and welfare plans was $3 million in the third quarter of 2008 compared to $20 million for the same period in 2007. Additionally, the growth in the asset base from the better than expected asset returns during 2007 had the effect of increasing the expected return on plan assets in 2008 (another component of postretirement benefits (income) expense). The expected return on plan assets for pension and health and welfare plans in the first quarter of 2008 was $98 million compared to $83 million for the same period in 2007. See Note 8, *Postretirement benefits,* to the accompanying condensed consolidated financial statements for further information on postretirement benefits.

We recognized income related to our postretirement benefits from defined benefit plans of $47 million in the nine months ended July 31, 2008 compared to an expense of $88 million for the same period in 2007. On December 16, 2007, the majority of company employees represented by the UAW voted to ratify a new contract that will run through September 30, 2010. Among the changes from the prior contract was the cessation of annual lump sum payments that had been made to certain retirees. We previously accounted for these payments as a defined benefit plan based on the historical substance of the underlying arrangement. The elimination of these payments and other changes resulted in a net settlement and curtailment of the plan resulting in income of $42 million during the three months ended January 31, 2008.

Excluding the effects of the plan settlement and curtailment described above, postretirement benefits income from defined benefit plans was $5 million in the nine months ended July 31, 2008. The $93 million reduction in defined benefit plan expense resulted from better than expected returns and a significant reduction in the projected benefit obligation resulting from fully insuring our Medicare eligible population in our largest postretirement medical plan. Each of these actions took place in 2007 and represent variances from prior actuarial estimates. These variances significantly reduced the cumulative loss pool during 2007. Such costs amortize into income in the subsequent years as a component of postretirement benefits (income) expense. Amortization of the loss pool for pension and health and welfare plans was $10 million for the nine months ended July 31, 2008 compared to $61 million for the same period in 2007. Additionally, the growth in the asset base from the better than expected returns during 2007 had the effect of increasing the expected return on plan assets in 2008 (another component of postretirement benefits (income) expense). The expected return on plan assets for pension and health and welfare plans for the nine months ended July 31, 2008 was $294 million compared to $250 million for the same period in 2007. See Note 8, *Postretirement benefits*, of the condensed consolidated financial statements for further information on postretirement benefits.

Postretirement benefits expense resulting from the defined contribution plans was $7 million and $6 million for the three months ended July 31, 2008 and 2007, respectively, and $19 million and $18 million for the nine months ended July 31, 2008 and 2007, respectively.

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The following tables represent the components of *Interest expense*:

	Three Months Ended July 31,			
(in millions, except percentage change)	2008	2007	Change	Percentage Change
Manufacturing operations debt	**$ 31**	$ 51	$ (20)	(39.2)
Financial Services operations debt	**56**	75	(19)	(25.3)
Non-cash mark to market charge (income) on our interest rate swaps agreements	**1**	(1)	2	N.M.
Total Interest expense	**$ 88**	$ 125	$ (37)	(29.6)

	Nine Months Ended July 31,			
(in millions, except percentage change)	2008	2007	Change	Percentage Change
Manufacturing operations debt	**$ 114**	$ 147	$ (33)	(22.4)
Financial Services operations debt	**203**	222	(19)	(8.6)
Non-cash mark to market charge (income) on our interest rate swaps agreements	**40**	(2)	42	N.M.
Total Interest expense	**$ 357**	$ 367	$ (10)	(2.7)

The overall decrease in the three month period ended July 31, 2008, compared to the same period in 2007, was primarily due to a decrease in interest rates and lower debt balances. The overall decrease for the nine month period ended July 31, 2008, compared to the same period in 2007, was primarily due to a decrease in interest rates and lower debt balances at the Financial Services segment partially offset by non-cash mark to market adjustments in our interest rate swap agreements in the Financial Services segment. For more information, see Note 10, *Debt*, included in the Annual Report on Form 10-K for 2007 and see Note 11, *Financial instruments*, to the accompanying condensed consolidated financial statements.

Other income, net amounted to $6 million and $11 million for the quarter and nine month period ended July 31, 2008, respectively, and compares with $34 million and $21 million of other income for the quarter and nine month period ended July 31, 2007, respectively. The primary drivers in *Other income, net* were foreign exchange gain and interest income. Foreign exchange gain decreased by $17 million and $24 million during the third quarter and year-to-date ended July 31, 2008, as compared to the same periods in 2007, respectively. Interest income decreased by $6 million and $12 million during the third quarter and year-to-date ended July 31, 2008, respectively, as compared to same periods in 2007. In addition, included in *Other income, net* for the nine month period ended July 31, 2007 was $31 million of expense related to the early extinguishment of debt, which did not recur in the same comparable period in 2008.

Equity in income of non-consolidated affiliates

Income and losses reported in *Equity in income of non-consolidated affiliates* are derived from our ownership interest in BDP, BDT, and fourteen other partially-owned affiliates. We reported $18 million and $63 million of income for the quarter and nine month period ended July 31, 2008 as compared to $22 million and $62 million for the quarter and nine month period ended July 31, 2007 with a majority of the income throughout these periods being derived from BDP. For more information, see Note 6, *Investments in and advances to non-consolidated affiliates*, to the accompanying condensed consolidated financial statements.

Income tax expense

Income tax expense, primarily consisting of foreign taxes, was $10 million and $19 million for the third quarter and year-to-date 2008 as compared to $9 million and $28 million for the comparable periods in 2007. Our

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income tax expense each quarter is affected by various items, including deferred tax asset valuation allowances, research and development credits, Medicare reimbursements, and other items. We have $1.0 billion of U.S. federal net operating losses as of October 31, 2007. We are able to offset our current U.S. federal taxable income with these net operating losses, which should result in minimal U.S. federal income tax cash payments. For additional information, see Note 9, *Income taxes*, to the accompanying condensed consolidated financial statements.

Net income (loss) and Diluted earnings (loss) per share

For the quarter and nine month period ended July 31, 2008, we recorded net income of $331 million and $477 million, respectively, which compares to net losses of $4 million and $17 million for the quarter and nine month period ended July 31, 2007, respectively. Diluted earnings per share for the quarter and nine month period ended July 31, 2008 were $4.47 and $6.52, respectively, calculated on 74.0 and 73.3 million shares, respectively. For the quarter and nine month period ended July 31, 2007, our diluted loss per share was $0.05 and $0.24, respectively, calculated on 70.3 million shares for both periods. Diluted shares reflect the impact of common stock options in accordance with the treasury stock method.

Segment Results of Operations

We define segment profit (loss) as adjusted income (loss) before income tax. Our results for interim periods are not necessarily indicative of results for a full year. Beginning in 2008, the sales from the Parts segment to the Truck segment, specifically our Dealcors, are recorded as intersegment sales, which are eliminated within Corporate and Eliminations. Previously, such sales were eliminated within the Truck segment s external sales and revenues. As such, the Parts and Truck segments sales and revenues in the amounts of $62 million and $187 million for the three months and nine months ended July 31, 2007, respectively, have been restated to conform to the 2008 presentation. The following sections analyze operating results as they relate to our four industry segments.

Truck Segment

The following tables summarize our Truck segment s financial and key operating results:

	Three Months Ended July 31,			
	2008	**2007**	**Change**	**Percentage Change**
(in millions, except percentage change)				
Segment sales	**$ 2,919**	$ 1,715	$ 1,204	70.2
Segment profit	**417**	7	410	N.M.

	Nine Months Ended July 31,			
	2008	**2007**	**Change**	**Percentage Change**
(in millions, except percentage change)				
Segment sales	**$ 7,519**	$ 5,760	$ 1,759	30.5
Segment profit	**635**	132	503	N.M.

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Chargeouts are defined by management as trucks that have been invoiced to customers with units held in dealer inventory primarily representing the difference between retail deliveries and chargeouts. The following tables reflect our chargeouts in units:

	Three Months Ended July 31, 2008	2007	Change	Percentage Change
Traditional Markets (U.S. and Canada)				
School buses	**2,700**	3,200	(500)	(15.6)
Class 6 and 7 medium trucks	**5,800**	5,600	200	3.6
Class 8 heavy trucks	**4,500**	2,600	1,900	73.1
Class 8 severe service trucks(A)	**5,100**	3,900	1,200	30.8
Sub-total combined class 8 trucks	**9,600**	6,500	3,100	47.7
Total Traditional Markets	**18,100**	15,300	2,800	18.3
Total Expansion Markets	**8,900**	9,300	(400)	(4.3)
Total Worldwide Units	**27,000**	24,600	2,400	9.8

(A) Includes 1,800 and 400 units in the three months ended July 31, 2008 and 2007, respectively, related to U.S. military contracts.

	Nine Months Ended July 31, 2008	2007	Change	Percentage Change
Traditional Markets (U.S. and Canada)				
School buses	**9,100**	10,700	(1,600)	(15.0)
Class 6 and 7 medium trucks	**15,800**	22,100	(6,300)	(28.5)
Class 8 heavy trucks	**11,000**	14,100	(3,100)	(22.0)
Class 8 severe service trucks(B)	**14,200**	11,800	2,400	20.3
Sub-total combined class 8 trucks	**25,200**	25,900	(700)	(2.7)
Total Traditional Markets	**50,100**	58,700	(8,600)	(14.7)
Total Expansion Markets	**23,400**	27,900	(4,500)	(16.1)
Total Worldwide Units	**73,500**	86,600	(13,100)	(15.1)

(B) Includes 5,100 and 1,100 units in the nine months ended July 31, 2008 and 2007, respectively, related to U.S. military contracts.

Truck segment sales

		Three Months Ended July 31, 2008	2007	Change	Percentage Change
(in millions, except percentage change)					
Truck segment sales of manufactured products, net	U.S. and Canada	**$ 2,559**	$ 1,415	$ 1,144	80.8
Truck segment sales of manufactured products, net	ROW	**360**	300	60	20.0

Total truck segment sales of manufactured products, net		**$ 2,919**	$ 1,715	$ 1,204	70.2

(in millions, except percentage change)		Nine Months Ended July 31, 2008	2007	Change	Percentage Change
Truck segment sales of manufactured products, net	U.S. and Canada	**$ 6,590**	$ 4,893	$ 1,697	34.7
Truck segment sales of manufactured products, net	ROW	**929**	867	62	7.2
Total truck segment sales of manufactured products, net		**$ 7,519**	$ 5,760	$ 1,759	30.5

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During the three months and nine months ended July 31, 2008, the Truck segment s net sales increased from the same respective periods in 2007 primarily due to sales growth in U.S. military, ProStar, and a slight increase in ROW.

We observed that the traditional markets began to experience a downturn at the end of our first quarter of 2007 and continued into 2008. Strongly influencing this downturn was a combination of the industry-wide increase in demand for vehicles containing the pre-2007 emissions-compliant engines ahead of the implementation of stricter engine emissions requirements and a challenging economic environment. Strength in our U.S. military sales, partially offset by the weakness across the industry, are the key drivers in the change in sales between our third quarter and year-to-date 2008 and 2007 results. Traditional market retail deliveries for the three and nine months ended July 31, 2008 and 2007 are categorized by relevant class in the tables below. The Truck segment traditional retail units sold increased by 1,800 units or 10.5% and decreased by 11,700 units or 18.0% during the third quarter and year-to-date 2008, as compared to same periods in 2007, respectively.

The following tables summarize industry retail deliveries, in the traditional truck markets in the U.S. and Canada, in units, according to Wards Communications and A.C.T. Research Company, LLC (ACT):

	Three Months Ended July 31, 2008	Three Months Ended July 31, 2007	Change	Percentage Change
Traditional Markets (U.S. and Canada)				
School buses	**5,600**	5,400	200	3.7
Class 6 and 7 medium trucks	**15,300**	18,600	(3,300)	(17.7)
Class 8 heavy trucks	**26,400**	24,900	1,500	6.0
Class 8 severe service trucks	**15,400**	14,400	1,000	6.9
Sub-total combined class 8 trucks	**41,800**	39,300	2,500	6.4
Total Traditional Truck Markets	**62,700**	63,300	(600)	(0.9)

	Nine Months Ended July 31, 2008	Nine Months Ended July 31, 2007	Change	Percentage Change
Traditional Markets (U.S. and Canada)				
School buses	**16,800**	17,900	(1,100)	(6.1)
Class 6 and 7 medium trucks	**46,200**	68,400	(22,200)	(32.5)
Class 8 heavy trucks	**75,100**	119,500	(44,400)	(37.2)
Class 8 severe service trucks	**42,900**	49,500	(6,600)	(13.3)
Sub-total combined class 8 trucks	**118,000**	169,000	(51,000)	(30.2)
Total Traditional Truck Markets	**181,000**	255,300	(74,300)	(29.1)

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The following tables summarize our retail delivery market share percentages based on market-wide information from Wards Communications and ACT:

	Three Months Ended July 31, 2008	Three Months Ended July 31, 2007
Traditional Markets (U.S. and Canada)		
School buses	**48.2**	59.3
Class 6 and 7 medium trucks	**39.2**	34.4
Class 8 heavy trucks	**18.9**	15.3
Class 8 severe service trucks	**34.4**	26.4
Sub-total combined class 8 trucks	**24.6**	19.3
Total Traditional Truck Markets	**30.3**	27.2
Impact of excluding U.S. military deliveries		
Class 8 severe service trucks, exclusive of U.S. military deliveries	**25.7**	24.3
Sub-total combined class 8 trucks, exclusive of U.S. military deliveries	**21.3**	18.5
Total Traditional Truck Markets, exclusive of U.S. military deliveries	**28.2**	26.7

	Nine Months Ended July 31, 2008	Nine Months Ended July 31, 2007
Traditional Markets (U.S. and Canada)		
School buses	**54.2**	59.8
Class 6 and 7 medium trucks	**35.9**	35.2
Class 8 heavy trucks	**16.6**	14.6
Class 8 severe service trucks	**35.2**	25.9
Sub-total combined class 8 trucks	**23.4**	17.9
Total Traditional Truck Markets	**29.4**	25.5
Impact of excluding U.S. military deliveries		
Class 8 severe service trucks, exclusive of U.S. military deliveries	**26.5**	24.2
Sub-total combined class 8 trucks, exclusive of U.S. military deliveries	**19.9**	17.3
Total Traditional Truck Markets, exclusive of U.S. military deliveries	**27.4**	25.1

For the three months and nine months ended July 31, 2008, our school bus, class 6 and 7 medium class, and severe service brands all led their markets with the greatest retail market share in each of their categories. Our continuing strategy is to maintain and grow these market share positions at our required margins while aggressively pursuing market share gains in the heavy truck market, the category in which we have the lowest market share. We continue to demonstrate our long-term commitment to the heavy truck market through our 2008 introduction of the LoneStar class 8 long-haul truck.

Our market share in the school bus class was 48.2% and 54.2% for the three months and nine months ended July 31, 2008, respectively, and 59.3% and 59.8% for the same respective periods in 2007. Market share in the school bus class declined over the reporting period as a result of competitive pricing strategies and our desire to collect for the intrinsic value of our product. We believe the school bus market share will return to our normalized share due to our recent sales agreement with the largest student transportation company. Market share in class 6 and 7 medium increased to 39.2% from 34.4% during the third quarter of 2008 compared to the respective quarter in 2007 and increased slightly during the nine months period ended July 31, 2008 and the same respective period in 2007. We have been able to mitigate the impact of new entrants into this class and discount programs instituted by our competitors due to our brand value and extensive dealer network. Our class 8 heavy truck market share rose by 3.6 and 2.0 percentage points for the three months and nine months ended July 31, 2008, respectively, compared to the same periods in 2007, due to our reengagement in this class with new models, re-established scale, and increased supplier relationships. Our severe service class market share

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increased 8.0 and 9.3 percentage points during the third quarter and year-to-date 2008, respectively, as compared to the three months and nine months ended July 31, 2007, despite the industry downturn in residential and non-residential construction, primarily due to an increase in U.S. military sales.

Net chargeouts declined during the third quarter and year-to-date 2008 in our expansion markets when compared to the same respective periods in 2007. The expansion markets include Mexico, international export, non-U.S. military, recreational vehicle, commercial step-van, and other truck and bus classes. Products such as the Low-Cab Forward vehicle, class 4 and 5 small bus, and our recreational vehicle products, as well as our entrance into the military market contributed to incremental sales within these quarters in addition to our traditional markets. It is our goal to continue to diversify into these expansion markets in future periods. The Mexican truck market increased 8.9% and decreased 5.3% in the three months and nine months ended July 31, 2008, respectively, compared to the same respective periods in 2007. Our Mexican truck market share was 36.1% and 22.3% for the quarters ended July 31, 2008 and 2007, respectively, and 33.4% and 31.3% for the nine months ended July 31, 2008 and 2007, respectively.

Truck segment costs and expenses

(in millions, except percentage change)	Three Months Ended July 31, 2008 (Restated)	2007	Change	Percentage Change
Costs of products sold, excluding items presented separately below	**$ 2,251**	$ 1,481	$ 770	52.0
Postretirement benefits expenses allocated to costs of products sold	**5**	9	(4)	(44.4)
Product warranty costs	**35**	36	(1)	(2.8)
Total costs of products sold	**$ 2,291**	$ 1,526	$ 765	50.1

(in millions, except percentage change)	Nine Months Ended July 31, 2008 (Restated)	2007	Change	Percentage Change
Costs of products sold, excluding items presented separately below	**$ 6,157**	$ 4,898	$ 1,259	25.7
Postretirement benefits expenses allocated to costs of products sold	**14**	27	(13)	(48.1)
Product warranty costs	**94**	107	(13)	(12.2)
Total costs of products sold	**$ 6,265**	$ 5,032	$ 1,233	24.5

Our *Costs of products sold* as a percentage of net sales of manufactured products decreased to 78.5% and 83.3% in the third quarter and year-to-date 2008, respectively, from 89.0% and 87.4% during the same respective periods in 2007. Product warranty costs are included in *Costs of products sold*. We generally offer one- to five-year warranty coverage for our trucks, although the terms and conditions can vary. Product warranty costs at the Truck segment were 1.5% of Truck segment s costs of products sold for both the three months and nine months ended July 31, 2008, respectively, compared to 2.4% and 2.1% of Truck segment s costs of products sold for the same respective periods in 2007. We accrue warranty related costs under standard warranty terms and for claims that we may choose to pay in an effort to strengthen and grow relationships with our customer base even though we are not contractually obligated to do so (out-of-policy). Our warranty costs declined primarily as a result of a reduction in truck shipments and quality improvements for the nine month period ended July 31, 2008, as compared to the same respective period in 2007. In addition to quality improvements, we achieved reductions in the levels of adjustments related to pre-existing warranties of $6 million and $18 million during the third quarter and year-to-date 2008, and reduced levels of out-of-policy claims have allowed us to mitigate our warranty cost for the third quarter and year-to-date 2008. Our *Costs of products sold* as a percentage of net sales of manufactured products, exclusive of product warranty costs and postretirement benefits expenses, decreased by 9.2 percentage points for the third quarter of 2008 compared to the same period in 2007 primarily due to increased sales in U.S. military and ProStar vehicles, improved pricing and operating efficiency. Our *Costs of products sold* as a percentage of net sales of manufactured products, exclusive of product warranty costs and postretirement benefits expense, decreased by 3.1 percentage points for the year-to-date period ended July 31, 2008 compared to the same period in 2007 primarily due to sales in U.S. military and ProStar vehicles, improved pricing mitigating the impact of lower volumes and the associated decline in operating efficiency. The decrease in costs of products sold as a percentage of net sales of manufactured products in the three month and nine month periods ended July 31, 2008, as compared to the same respective periods in 2007, results from elimination of supplier and delivery constraints, resolution of change order contracts, and deferring certain costs associated with U.S. military contracts not finalized at the end of the period.

(in millions, except percentage change)	Three Months Ended July 31, 2008	2007	Change	Percentage Change
Selling, general and administrative expenses, excluding items presented separately below	**$ 104**	$ 84	$ 20	23.8
Postretirement benefits expense allocated to selling, general and administrative expenses		2	(2)	(100.0)
Dealcor selling, general and administrative expenses	**45**	70	(25)	(35.7)
Provision for losses on receivables	**10**	3	7	233.3
Total selling, general and administrative expenses	**$ 159**	$ 159	$	

(in millions, except percentage change)	Nine Months Ended July 31, 2008	2007	Change	Percentage Change
Selling, general and administrative expenses, excluding items presented separately below	**$ 282**	$ 239	$ 43	18.0
Postretirement benefits expense allocated to selling, general and administrative expenses		6	(6)	(100.0)
Dealcor selling, general and administrative expenses	**165**	207	(42)	(20.3)
Provision for losses on receivables	**13**	8	5	62.5
Total selling, general and administrative expenses	**$ 460**	$ 460	$	

The Truck segment s *Selling, general and administrative expenses* amounted to $159 million and $460 million for both the three months and nine months ended July 31, 2008 and 2007, respectively. Dealcor s *Selling, general and administrative expenses* decreased primarily due to dispositions and changes in ownership composition of Dealcors and expenses related to the decrease in sales volumes. Our relative ratio of *Selling, general and administrative expenses* to net sales and revenues, exclusive of postretirement benefits expense, Dealcor expenses and provision for losses on receivables decreased to 3.6% from 4.9% for the three month periods ended July 31, 2008 and 2007, respectively, but decreased to 3.7% compared to 4.1% for the nine month periods ended July 31, 2008 and 2007, respectively. *Selling, general and administrative expenses,* exclusive of items presented separately above, for the Truck segment include expenses primarily attributable to new business development and additional segment overhead and infrastructure enhancements in support of sales activity.

For the three month and nine month periods ended July 31, 2008, the Truck segment s *Engineering and product development costs* approximated $45 million and $128 million, respectively, which compares to $41 million and $132 million for the same respective periods in 2007. Approximately half of our total consolidated *Engineering and product development costs* were incurred at the Truck segment during the three months and nine months ended July 31, 2008 and 2007, respectively. During this time, our top developmental priority was establishing our ProStar and LoneStar class 8 long-haul trucks and redeveloping our emissions-compliant

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vehicles, both of which required significant labor, material, outside engineering, and prototype tooling. Besides innovation, we also focus resources on continuously improving our existing products as a means of streamlining our manufacturing process, minimizing warranty costs, and providing our customers with product and fuel-usage efficiencies.

Truck segment profit

The Truck segment increased profitability for the quarter and nine month period ended July 31, 2008 by $410 million and $503 million, respectively, to $417 million and $635 million, respectively, compared to $7 million and $132 million for the comparable periods in 2007. This increase in profitability for the three months and nine months ended July 31, 2008 was primarily attributable to growth in our sales in U.S. military and ProStar vehicles, new truck pricing performance, and improved operational efficiencies.

Engine Segment

The following tables summarize our Engine segment s financial results and sales data:

	Three Months Ended July 31,			
	2008	**2007**	**Change**	**Percentage Change**
(in millions)				
Segment sales	**$ 808**	$ 971	$ (163)	(16.8)
Segment profit	**5**	65	(60)	(92.3)
Sales data (in units):				
Ford sales	**25,200**	65,400	(40,200)	(61.5)
Other OEM sales U.S. and Canada	**4,800**	1,600	3,200	200.0
Other OEM sales ROW	**30,300**	27,500	2,800	10.2
Intercompany sales	**19,000**	13,700	5,300	38.7
Total sales	**79,300**	108,200	(28,900)	(26.7)

	Nine Months Ended July 31,			
	2008	**2007**	**Change**	**Percentage Change**
(in millions)				
Segment sales	**$ 2,533**	$ 2,572	$ (39)	(1.5)
Segment profit	**90**	71	19	26.8
Sales data (in units):				
Ford sales	**127,500**	181,600	(54,100)	(29.8)
Other OEM sales U.S. and Canada	**10,800**	7,100	3,700	52.1
Other OEM sales ROW	**81,700**	69,400	12,300	17.7
Intercompany sales	**47,600**	48,900	(1,300)	(2.7)
Total sales	**267,600**	307,000	(39,400)	(12.8)

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Engine segment sales

(in millions, except percentage change)		Three Months Ended July 31, 2008	2007	Change	Percentage Change
Engine segment sales of manufactured products, net	U.S. and Canada	**$ 472**	$ 735	$ (263)	(35.8)
Engine segment sales of manufactured products, net	ROW	**336**	236	100	42.4
Total engine segment sales of manufactured products, net		**$ 808**	$ 971	$ (163)	(16.8)

(in millions, except percentage change)		Nine Months Ended July 31, 2008	2007	Change	Percentage Change
Engine segment sales of manufactured products, net	U.S. and Canada	**$ 1,667**	$ 1,997	$ (330)	(16.5)
Engine segment sales of manufactured products, net	ROW	**866**	575	291	50.6
Total engine segment sales of manufactured products, net		**$ 2,533**	$ 2,572	$ (39)	(1.5)

The Engine segment continues to be our second largest segment as measured in net sales and revenues, representing 20.4% and 23.3% of total consolidated net sales and revenues for the three months and nine months ended July 31, 2008, respectively, compared to 32.8% and 28.3% of total consolidated net sales and revenues for the same respective periods in 2007. The Engine segment experienced a decrease in net sales for the three months and nine months ended July 31, 2008 compared to the same respective periods in 2007. The primary drivers in the decrease in revenues for the three months and nine months ended July 31, 2008 compared to the same respective periods in 2007 were decreased product volumes in the U.S. and Canada, primarily Ford, and was partially offset by increased ROW volumes and improved pricing. Sales of engines to Ford represented 31.8% and 47.6% of our unit volume for the third quarter and year-to-date 2008, respectively, compared to 60.4% and 59.2% of our unit volume for the same respective periods in 2007.

Sales to non-Ford customers, including intercompany sales, increased approximately 11,300 and 14,700 units during the third quarter and year-to-date 2008 compared to the same respective periods in 2007 largely attributed to the increase in South American volumes and improvements in certain categories of the Truck segment.

Engine segment costs and expenses

(in millions, except percentage change)	Three Months Ended July 31, 2008	2007	Change	Percentage Change
Costs of products sold, excluding items presented separately below	**$ 725**	$ 847	$ (122)	(14.4)
Postretirement benefits (income) expenses allocated to costs of products sold	**(1)**	5	(6)	N.M.
Product warranty costs	**13**	11	2	18.2
Total costs of products sold	**$ 737**	$ 863	$ (126)	(14.6)

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	Nine Months Ended July 31, 2008	2007	Change	Percentage Change
(in millions, except percentage change)				
Costs of products sold, excluding items presented separately below	**$ 2,259**	$ 2,299	$ (40)	(1.7)
Postretirement benefits expenses allocated to costs of products sold		15	(15)	N.M.
Product warranty costs	**39**	52	(13)	(25.0)
Total costs of products sold	**$ 2,298**	$ 2,366	$ (68)	(2.9)

For the three months ended July 31, 2008, *Costs of products sold* as a percentage of net sales of manufactured products increased to 91.2% compared to 88.9% for the same period in 2007, primarily attributable to the lower production volumes and the corresponding loss of operational efficiencies, temporary layoffs at our Indianapolis plant and partially offset by increased selling prices. For the nine months ended July 31, 2008, *Costs of products sold* as a percentage of net sales of manufactured products decreased to 90.7% compared to 92.0% for the same period in 2007, as a result of improved manufacturing performance due to the change over in production to the 2007 emission-compliant engines and increased selling prices. A significant driver of the decrease in *Costs of products sold* for the three month and nine month period ended July 31, 2008 compared to the same respective periods in 2007 was a reduction in the shipments of engines to Ford partially offset by an increase in commodity costs, primarily steel and precious metals, and diesel fuel prices.

The decrease in Ford shipments was due to a reduction in the production of heavy duty pickup trucks built by Ford that contain diesel engines. As a result of the reduction in shipments to Ford, the Engine segment s Indianapolis plant laid off over 400 employees during the third quarter of 2008 to match Ford s production schedules. This resulted in recognizing an accrual of $10 million for employee benefit layoff expense within the third quarter of 2008 in *Costs of products sold*. A prolonged reduction in Ford s demand for our engines or the early termination or non-renewal of our agreement with Ford could have a material impact on our financial position, results of operations, or cash flows.

Product warranty costs for the three months and nine months ended July 31, 2008 approximated 1.8% and 1.7% of the Engine segment s cost of product sold compared to 1.3% and 2.2% of the Engine segment s cost of product sold for the same respective periods of 2007. The increase in the three months ended July 31, 2008 product warranty costs, as compared to 2007, was primarily attributable to shipments to other OEM customers, intercompany sales, and adjustments to increase the accrual for pre-existing warranties totaling $8 million. The decrease in the nine months ended July 31, 2008 in product warranty costs, as compared to 2007, at the Engine segment was attributable to a combination of lower per unit costs and adjustments to increase the accrual for pre-existing warranties in 2007 compared to 2008. The Engine segment s changes in pre-existing warranty were due to changes in our estimates of warranty costs for products sold in prior years. Progressive improvements in per unit product warranty costs were also achieved by focusing on controlling the reliability and quality of our emissions-compliant engines as evidenced by the level of spending incurred during previous quarters and periods within *Engineering and product development costs*. Costs are accrued per unit based on expected warranty claims that incorporate historical information and forward assumptions about the nature, frequency, and average cost of warranty claims.

Selling, general and administrative expenses incurred during the third quarter and nine month period ended July 31, 2008 were $44 million and $105 million, respectively, and compared to $34 million and $90 million for the comparable periods in 2007 and increased primarily due to litigation expenses.

Engineering and product development costs incurred during the third quarter and nine month period ended July 31, 2008 were $63 million and $161 million, respectively, and compare to $42 million and $142 million for the comparable periods in 2007. The Engine segment s *Engineering and product development costs* represented approximately half of our total consolidated *Engineering and product development costs* for the third quarter and year-to-date in both 2008 and 2007. Our top developmental priorities focus on further design changes to our diesel engines, the development of our MaxxForce Big-Bore engines, and on new products to meet the requirements of the 2010 emissions regulations.

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Equity in income of non-consolidated affiliates

The Engine segment has made substantial investments in various affiliated entities and joint ventures. The most significant Engine segment joint venture in terms of income is BDP. We account for these entities using the equity method of accounting, and our percentage share of the income associated with these affiliates amounted to $20 million and $66 million for the third quarter and year-to-date 2008 and compares to $18 million and $55 million for the same respective periods in 2007.

Engine segment profit

As a result of the above items, the Engine segment recognized a profit of $5 million and $90 million for the three months and nine months ended July 31, 2008 that compares to a profit of $65 million and $71 million for the same respective periods in 2007.

Parts Segment

The following tables summarize our Parts segment s financial results:

	Three Months Ended July 31,			Percentage
(in millions)	2008	2007	Change	Change
Segment sales	**$ 444**	$ 405	$ 39	9.6
Segment profit	**51**	43	8	18.6

	Nine Months Ended July 31,			Percentage
(in millions)	2008	2007	Change	Change
Segment sales	**$ 1,283**	$ 1,153	$ 130	11.3
Segment profit	**156**	120	36	30.0

Parts segment sales

For the three month and nine month periods ended July 31, 2008, the Parts segment revenue growth was due primarily to an increase in new U.S. military sales and improved pricing. The Parts segment s revenues are primarily driven by the U.S. and Canadian markets.

Parts segment profit

Selling, general and administrative expenses amounted to $43 million and $122 million for the three and nine months ended July 31, 2008, respectively, compared to $40 and $119 for the three months and nine months ended July 31, 2007, respectively. The Parts segment s relative ratio of *Selling, general and administrative expenses* to net sales and revenues were approximately 9.7% and 9.5% for the quarter and nine months ended July 31, 2008, respectively, compared to 9.9% and 10.3% for the comparable periods in 2007.

During the three month and nine month periods ended July 31, 2008, a large portion of our increase in profitability was due to volume growth primarily with the U.S. military while containing our *Selling, general and administrative expenses*.

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Financial Services Segment

The following tables summarize this segment s financial results:

(in millions)	Three Months Ended July 31, 2008	Three Months Ended July 31, 2007	Change	Percentage Change
Segment revenues	**$ 95**	$ 133	$ (38)	(28.6)
Segment profit	**(1)**	40	(41)	N.M.

(in millions)	Nine Months Ended July 31, 2008	Nine Months Ended July 31, 2007	Change	Percentage Change
Segment revenues	**$ 328**	$ 396	$ (68)	(17.2)
Segment profit (loss)	**(7)**	124	(131)	N.M.

Financial Services segment revenues

The Financial Services segment revenues include revenues from retail notes and finance leases, operating lease revenues, wholesale notes, retail and wholesale accounts, and securitization income. Our Financial Services revenues are primarily composed of retail and finance lease revenues of $93 million and $308 million for the three months and nine months ended July 31, 2008, respectively, and compares with $114 million and $334 million for the comparable periods in 2007. In addition, securitization income included in our Financial Services revenues was $2 million and $20 million for the three months and nine months ended July 31, 2008, respectively, and compares with $19 million and $62 million for the comparable periods in 2007. The Financial Services segment revenues declined during the third quarter and year-to-date 2008 compared to the same periods in 2007 due to lower interest rates on receivables, lower average balances on receivables, and fewer originations. The decline in revenues was primarily due to a decrease in financing of dealer inventory and a reduction in customer financing opportunities of purchases for vehicles and components due to the difficult credit environment and historically high diesel fuel prices.

The Financial Services segment also receives interest income from the Truck and Parts segments relating to financing of wholesale notes, wholesale accounts, and retail accounts. This income is eliminated upon consolidation of financial results. Substantially all revenues earned on wholesale and retail accounts are received from other segments. Aggregate interest revenue provided by the Truck and Parts segments was $20 million and $63 million for the three months and nine months ended July 31, 2008, respectively, and compares with $29 million and $104 million for the comparable periods in 2007.

Financial Services segment profit (loss)

The following tables present the components of *Interest expense*:

(in millions, except percentage change)	Three Months Ended July 31, 2008	Three Months Ended July 31, 2007	Change	Percentage Change
Interest expense related to debt	**$ 56**	75	(19)	(25.3)
Non-cash mark to market charge (income) on our interest rate swaps agreements	**1**	$ (1)	$ 2	N.M.
Total interest expense	**$ 57**	$ 74	$ (17)	(23.0)

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	Nine Months Ended July 31, 2008	2007	Change	Percentage Change
(in millions, except percentage change)				
Interest expense related to debt	**$ 203**	222	(19)	(8.6)
Non-cash mark to market charge (income) on our interest rate swaps agreements	**40**	$ (2)	$ 42	N.M.
Total interest expense	**$ 243**	$ 220	$ 23	10.5

In connection with our retail securitization transactions we enter into various derivative financial instruments, primarily interest rate swaps and caps to convert our interest rate exposure on both the finance receivables we originate and then sell as well as the notes issued as secured borrowings. Our intent is to convert our interest rate exposure related to our secured borrowings from a floating rate to a fixed rate in order to better match the cash flow of our fixed rate finance receivables so that the net margin spread over the life of the securitization is more predictable. Given the dramatic decrease in interest rates from October 31, 2007 to July 31, 2008, the required periodic mark to market of the derivative financial instruments resulted in a non-cash charge of $1 million and $40 million in our consolidated statements of operations for the third quarter and the year-to-date ended July 31, 2008, respectively, compared to a benefit of $1 million and $2 million in the same periods in 2007. While these derivative instruments provide us with an economic hedge of the expected future interest cash flows associated with the secured borrowings, they do not qualify for hedge accounting under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities,* thus the non-cash charge (gain). Further movement in interest rates could change the mark to market adjustments of the fair values of the derivatives in future periods.

Repossessions and delinquencies increased during the third quarter and year-to-date 2008 compared to the same respective periods in 2007 driven primarily by weakness in the underlying trucking economy, which is currently impacting our overall customer portfolio. Decreases in tonnage hauled, suppressed freight rates driven by excess capacity, increased fuel costs, and the sub-prime mortgage market crisis have all contributed to the distress of our customers. We provide for certain losses related to the potential repossession and liquidation of collateral underlying finance receivables with dealers and retail customers. During the third quarter and year-to-date 2008, our provision for losses on receivables was increased by $13 million and $19 million, respectively, when compared to the same respective periods in 2007.

In addition to the above items, we experienced margin compression, a reduction in the net interest rate spread between our financing rates and the cost of our borrowings, due to the challenging credit market and timing of customer financing compared to our funding of the related debt. The Financial Services segment recognized a loss of $1 million and $7 million for the three months and nine months ended July 31, 2008 that compares to a profit of $40 million and $124 million for the same respective periods in 2007.

Liquidity and Capital Resources

Cash Requirements

We generate cash flow primarily from the sale of trucks, diesel engines, and parts. In addition, we generate cash flow from product financing provided to our dealers and retail customers by the Financial Services segment. It is our opinion that, in the absence of significant unanticipated cash demands, current and forecasted cash flow from our manufacturing operations, financial services operations, and financing capacity will provide sufficient funds to meet anticipated operating requirements, capital expenditures, equity investments, and strategic acquisitions. We also believe that collections on the outstanding receivables portfolios as well as funds available from various funding sources will permit the financial services operations to meet the financing requirements of our dealers and retail customers. The manufacturing operations are generally able to access sufficient sources of financing to support our business plan. At July 31, 2008 our manufacturing operations had a total of $339 million available under committed credit facilities that mature in 2012.

Sources and Uses of Cash

	Nine Months Ended July 31,	
	2008	2007
(in millions)		
Net cash provided by operating activities	**$ 678**	$ 82
Net cash used in investing activities	**(426)**	(2)
Net cash used in financing activities	**(343)**	(583)
Effect of exchange rate changes on cash and cash equivalents	**(8)**	20
Decrease in cash and cash equivalents	**(99)**	(483)
Cash and cash equivalents at beginning of period	**777**	1,157
Cash and cash equivalents at end of the period	**$ 678**	$ 674

Cash Flow from Operating Activities

Cash provided by operating activities was $678 million for the nine months ended July 31, 2008 compared with cash provided by operating activities of $82 million for the nine months ended July 31, 2007. The increase in cash provided by operating activities for the nine months ended July 31, 2008 compared with the same period in 2007 was due primarily to higher net income and a positive change in net working capital. The changes in net income and net working capital were primarily attributed to growth in our military and export business, primarily related to Mine-Resistant Ambush Protected vehicles, as well as better pricing performance as a result of the introduction of our ProStar products. Net income for the nine months ended July 31, 2008 was $477 million compared with net loss of $17 million for the nine months ended July 31, 2007.

Cash paid for interest, net of amounts capitalized, was $310 million for the nine months ended July 31, 2008 versus $383 million for the nine months ended July 31, 2007. The decrease was due primarily to lower average interest rates and lower debt balances for the nine months of 2008 compared with the nine months of 2007. During the nine months of 2008, $162 million was paid for certain fees associated with the ongoing consulting and other professional services related to the preparation of our public filing documents and documentation and assessment of internal control over financial reporting. Cash paid during the nine months of 2008 for income taxes, net of refunds, was $17 million lower than the nine months of 2007 due to decreased income in foreign jurisdictions.

Cash Flow from Investing Activities

Cash used in investing activities was $426 million for the nine months ended July 31, 2008 compared with net cash used in investing activities of $2 million for the nine months ended July 31, 2007. The increase in cash used in investing activities for the nine months of 2008 compared with the nine months of 2007 was due primarily to an increase in net purchases of marketable securities and a net increase in restricted cash and cash equivalents for the nine months of 2008 compared with a net decrease in restricted cash and cash equivalents for the nine months of 2007. The net increase in restricted cash and cash equivalents for the nine months of 2008 compared with the same period in 2007 resulted from timing of transactions at one of our financial services subsidiaries. At the end of July 2008, this subsidiary s assets were all restricted cash equivalents rather than a combination of restricted cash, notes receivable, and leases receivable.

Cash Flow from Financing Activities

Cash flow used in financing activities was $343 million and $583 million for the nine months ended July 31, 2008 and 2007, respectively. The decrease in cash used in financing activities for the nine months of 2008 compared with the nine months of 2007 was due primarily to an increase in the net payments on securitized debt at our financial services operations.

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Credit Markets

In the late summer and early fall of 2007, the financial markets began a correction and period of credit tightening precipitated by large losses in the sub-prime mortgage market that bled over into other sectors of the market. The effects of this credit tightening manifested themselves primarily in our financial services operations. Pricing and liquidity were impacted in the asset-backed securitization market, a source of funding within our financial services operations. Substantial increases in the spreads on borrowing rates were seen at all credit rating levels. As a result, although we continue to believe that we will have sufficient liquidity to fund our financial services operations, future borrowings could be more costly than in the past.

Other Information

Critical Accounting Policies

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP. In connection with the preparation of our condensed 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 condensed consolidated financial statements. Our significant accounting policies and critical accounting estimates are consistent with those described in Note 1, *Summary of significant accounting policies*, accompanying the condensed consolidated financial statements and the MD&A section of our 2007 Annual Report on Form 10-K. There are no significant changes in our application of our critical accounting policies in the nine months ended July 31, 2008 with the exception of the adoption of FASB Interpretation No. 48, as further described in Note 9, *Income taxes*, to the accompanying condensed consolidated financial statements.

To aid in fully understanding and evaluating our reported 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
- Allowance for Losses
- Sales of Receivables
- Income Taxes
- Impairment of Long-Lived Assets
- Contingent Liabilities
- Product Warranty
- Goodwill and Intangible Assets

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New Accounting Pronouncements

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

Pronouncement	Effective Date	Impact on Our Financial Condition and Results of Operations
Emerging Issues Task Force Issue No. 08-3, *Accounting by Lessees for Nonrefundable Maintenance Deposits*	Effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Early adoption is not permitted. Our effective date is November 1, 2009.	We are evaluating the potential impact, if any.
FASB Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*	Effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Our effective date is November 1, 2009.	We are evaluating the potential impact, if any.
FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133*	Effective for fiscal years and interim reporting periods beginning after November 15, 2008. Our effective date is February 1, 2009.	When effective, we will comply with the disclosure provisions of this Statement.
FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51*	Effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. Our effective date is November 1, 2009.	We are evaluating the potential impact, if any.
FASB Statement No. 141(R), *Business Combinations*	Applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. Our effective date is November 1, 2009.	We will adopt this Statement on a prospective basis.
Emerging Issues Task Force Issue No. 07-03, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities*	Effective for financial statements issued for fiscal years beginning after December 15, 2007. Our effective date is November 1, 2008.	We are evaluating the potential impact, if any.

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Pronouncement	Effective Date	Impact on Our Financial Condition and Results of Operations
FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*	Effective as of the beginning of the first fiscal year beginning after November 15, 2007. If we adopt the Fair Value Option, our effective date is November 1, 2008.	We are evaluating the potential impact, if any. We have not determined whether to adopt the fair value option.
FASB Statement No. 157, *Fair Value Measurements*	Effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. Our effective date is November 1, 2008.	We are evaluating the potential impact, if any.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in our exposure to market risk since October 31, 2007. For further information, see Note 10, *Fair value of financial instrument,* and Note 11, *Financial instruments*, to the accompanying condensed consolidated financial statements, and Item 7A. of our Annual Report on Form 10-K for the year ended October 31, 2007.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act was performed under the supervision and with the participation of our senior management, including our Chief Executive Officer and Chief Financial Officer. The purpose of disclosure controls and procedures is to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s 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.

As previously disclosed under Item 9A Controls and Procedures in our Annual Report on Form 10-K for the fiscal year ended October 31, 2007 and Item 4 Controls and Procedures in our Quarterly Report on Form 10-Q/A for the quarterly period ended January 31, 2008, we concluded that our internal control over financial reporting was not effective because of the existence of material weaknesses in internal control over financial reporting. Based on those material weaknesses, which we view as an integral part of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that, as of the quarter ended July 31, 2008, our disclosure controls and procedures were not effective. In connection with the restatement discussed above in the explanatory note to this Form 10-Q/A and in Note 19 to the accompanying unaudited condensed consolidated financial statements we reevaluated our disclosure controls and procedures and our Chief Executive Officer and Chief Financial Officer have confirmed their conclusion that, as of the quarter ended July 31, 2008, our disclosure controls and procedures were not effective. Nevertheless, based on a number of factors, including the performance of additional procedures by management designed to ensure the reliability of our financial reporting, we believe that the condensed consolidated financial statements in this Quarterly Report on Form 10-Q/A fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with GAAP.

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Changes in Internal Control over Financial Reporting

As of the quarter ended July 31, 2008, we completed remediation of the following two previously reported material weaknesses:

Control Environment. Our remediation actions included:

Executive and senior management have increased their communications about the importance of internal controls, ethics, and acting with integrity across the Company.

Executive and senior management are directly sponsoring the remediation of our material weaknesses through regular discussions with action owners about the short- and long-term remediation plans and the progress to sustain solid internal control over financial reporting.

We restructured and realigned our accounting and finance organization.

We significantly invested in our accounting and finance resources to strengthen our expertise, including hiring new leadership and experienced employees as well as implementing a formal accounting development program.

We established and filled the role of Chief Ethics Officer to focus on implementing best practices for communications and activities related to ethics company-wide.

Internal Audit. Our remediation action included:

Under the direction of the Audit Committee of our Board of Directors we fully outsourced our internal audit function to improve the function s effectiveness. An independent public accounting firm is responsible for the internal audit risk assessment and planning process, performing monitoring of our key business risks under the direction of the Audit Committee, and utilizing resources with the appropriate skill sets and expertise.

The new internal audit function has completed 15 audits, maintained consistency in reporting to the Audit Committee, is currently developing the 2009 audit plan, and has integrated its scope and approach with the SOX team and the external auditors.

There were no other material changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15 and 15d-15 that occurred during the quarter ended July 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management s Remediation Initiatives

We continue to make progress toward achieving the effectiveness of our disclosure controls and procedures. Remediation generally requires making changes to how controls are designed and then adhering to those changes for a sufficient period of time such that the effectiveness of those changes is demonstrated with an appropriate amount of consistency. We believe that we have made significant improvements in our internal control over financial reporting and are committed to remediating our material weaknesses. Our Sarbanes Oxley compliance function is responsible for helping develop and monitor our short- and long-term remediation plans. In addition, we have assigned executive owners to each material weakness to oversee the necessary remedial changes to the overall design of our internal control environment and to address the root causes of our material weaknesses.

Our remediation initiatives summarized below are intended to further address our specific material weaknesses and to continue to enhance our internal control over financial reporting.

Our leadership team remains committed to achieving and maintaining a strong control environment, high ethical standards, and financial reporting integrity. This commitment will continue to be communicated to and reinforced with our employees.

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We continue to foster awareness and understanding of standards and principles for accounting and financial reporting. This includes the implementation and clarification of specific accounting policies and procedures and effective execution of our newly designed accounting development program.

Management will implement stronger inventory procedures, systems and augment our resources to address the inventory accounting material weakness. Specifically, we are changing our procedures for cost accounting, conducting physical inventory counts, establishing accruals for inventory receipts and establishing reserves for inventory obsolescence.

We continue to enhance the development, communication, and monitoring of processes and controls to ensure that appropriate account reconciliations and journal entry controls are performed, documented, and reviewed as part of our standardized procedures.

We continue to invest in modifications of our information systems to improve the reliability of our financial reporting and increase the completeness and consistency of the controls around logical access, program change, and computer operations.

We plan to redesign our period end closing and financial statement preparation process in order to improve both its effectiveness and efficiency.

We continue to support our Disclosure Committee and our internal Management Representation Letter process, both of which have been re-designed to ensure the timely assessment of accounting and disclosure matters requiring our attention.

Collectively, these and other actions are improving the foundation of our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K for our fiscal year ended October 31, 2007 other than (i) the deletion of the risk factor relating to maintaining existing business and a reduction in our credit rating, (ii) the deletion of the risk factor relating to being traded on the Over-the-Counter market, (iii) the addition of a risk factor related to government contracting, (iv) changes to the risk factor related to NFC s ability to access sufficient capital to engage in its financing activities, and (v) changes to include the impairment of our assets and incurring other cost due to the loss of or a significant reduction in Ford business. Except for the deletion of the risk factors (namely (i) and (ii) above) these other revisions are set forth below.

Current credit market conditions may impair NFC s access to sufficient capital to engage in its financing activities.

NFC supports our manufacturing operations by providing financing to a significant portion of our dealers and retail customers. NFC traditionally obtains the funds to provide such financing from sales of receivables, medium and long-term debt, and equity capital and from short and long-term bank borrowings. However, the deterioration of credit market conditions has made it difficult for finance companies to obtain the funds necessary to conduct normal operations. If cash provided by operations, bank borrowings, continued sales and securitizations of receivables, and the placement of term debt does not provide the necessary liquidity, NFC may restrict its financing of our products both at the wholesale and retail level, which may have a significant negative effect on our liquidity and results of operations.

Our business may be adversely affected by government contracting risks.

We derived approximately 27% of our revenues from the U.S. government for the nine months ended July 31, 2008 and approximately 3% for the nine months ended July 31, 2007. Our existing U.S. government contracts could extend over multiple years and are conditioned upon the continuing availability of congressional appropriations. Congress usually appropriates funds on a fiscal-year basis and if the congressional appropriations for a program under which we are contractors are not made, or are reduced or delayed, our contract could be cancelled or government purchases under the contract could be reduced or delayed, which could adversely affect our financial condition, results of operations, or cash flows. In addition, U.S. government contracts generally permit the contracting government agency to terminate the contract, in whole or in part, either for the convenience of the government or for default based on our failure to perform under the contract. If a contract is terminated for convenience, we would generally be entitled to the payment of our allowable costs and an allowance for profit on the work performed. If one of our government contracts were to be terminated for default, we could be exposed to liability and our ability to obtain future contracts could be adversely affected.

The loss of business from Ford, one of our largest customers, could have a negative impact on our business, financial condition, and results of operations.

We derived approximately 9% of our revenues from Ford for the nine months ended 2008, approximately 14% of our revenues for the year ended 2007, and approximately 12% of our revenues for the year end 2006. In addition, Ford accounted for approximately 48%, 61%, and 68% of our diesel engine unit volume (including intercompany transactions) for the nine months ended 2008, and years ended 2007 and 2006, respectively, primarily relating to the sale of our V-8 diesel engines. See Note 12, *Commitments and contingencies*, to the accompanying condensed consolidated financial statements, for information related to our pending litigation with Ford. The loss of or a significant reduction in business from Ford or the early termination or non-renewal of our agreement with Ford may also cause an impairment of certain of our assets and potentially subject us to other costs that may be material.

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

In May 2008, we issued 4,167 shares of restricted stock to a former executive upon exercise of a stock option award. The aggregate offering price of these shares was $145,880. All of these shares were issued without registration under the Securities Act in reliance on Section 4(2) based on the former executive s financial sophistication and knowledge of the company and Regulation D.

The following table sets forth information with respect to purchases of shares of the company s common stock made during the quarter ended July 31, 2008, by or on behalf of the company:

Issuer Purchase of Equity Securities

Period	Total Number of Shares (or Units) Purchased(1)	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
5/1/2008 5/31/2008		$		
6/1/2008 6/30/2008				
7/1/2008 7/31/2008	1,573	67.425		
Total:	1,573	$ 67.425		

(1) The total number of shares purchased is due to shares delivered to or withheld by the company in connection with employee payroll tax withholding upon vesting of restricted stock.

Item 6. Exhibits

Exhibit:		**Page**
(31.1)	CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	E-1
(31.2)	CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	E-2
(32.1)	CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	E-3
(32.2)	CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	E-4
(99.1)	Additional Financial Information (Unaudited)	E-5

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 financial statements and notes thereto in the Quarterly Report on Form 10-Q/A for the period ended July 31, 2008.

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NAVISTAR INTERNATIONAL CORPORATION

AND CONSOLIDATED SUBSIDIARIES

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) 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.

December 30, 2008

NAVISTAR INTERNATIONAL CORPORATION

(Registrant)

/s/ JOHN P. WALDRON
John P. Waldron
Vice President and Controller
(Principal Accounting Officer)