

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

FORM 10-Q

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

For the quarterly period ended January 31, 2002

OR

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

For the transition period from To

Commission file number 1-9618

NAVISTAR INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

**APPLICABLE ONLY TO ISSUERS INVOLVED
IN BANKRUPTCY PROCEEDINGS DURING
THE PRECEDING FIVE YEARS**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ____ No ____

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of February 28, 2002, the number of shares outstanding of the registrant's common stock was 60,095,384.

NAVISTAR INTERNATIONAL CORPORATION
AND CONSOLIDATED SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

STATEMENT OF INCOME (Unaudited)

Millions of dollars, except per share data

	Navistar International Corporation and Consolidated Subsidiaries	
	Three Months Ended	
	January 31	
	2002	2001
Sales and revenues		
Sales of manufactured products.....	\$ 1,389	\$ 1,433
Finance and insurance revenue.....	77	76
Other income	6	7
Total sales and revenues.....	<u>1,472</u>	<u>1,516</u>
Costs and expenses		
Cost of products and services sold	1,256	1,285
Restructuring adjustment	(1)	-
Postretirement benefits expense	58	46
Engineering and research expense.....	64	65
Sales, general and administrative expense.....	134	121
Interest expense	40	41
Other expense	11	14
Total costs and expenses	<u>1,562</u>	<u>1,572</u>
Loss before income taxes	(90)	(56)
Income tax benefit	<u>(34)</u>	<u>(21)</u>
Net loss	<u>\$ (56)</u>	<u>\$ (35)</u>
Earnings (loss) per share		
Basic	\$ (0.93)	\$ (0.58)
Diluted.....	\$ (0.93)	\$ (0.58)
Average shares outstanding (millions)		
Basic	59.8	59.5
Diluted.....	59.8	59.5

See Notes to Financial Statements.

STATEMENT OF FINANCIAL CONDITION (Unaudited)

Millions of dollars

Navistar International Corporation and Consolidated Subsidiaries			
	January 31 2002	October 31 2001	January 31 2001
ASSETS			
Current assets			
Cash and cash equivalents	\$ 432	\$ 822	\$ 431
Marketable securities	10	41	3
Receivables, net	704	917	767
Inventories	651	644	705
Deferred tax asset, net	151	145	209
Other assets	118	167	170
Total current assets	2,066	2,736	2,285
Marketable securities	465	222	404
Finance and other receivables, net	1,041	1,164	957
Property and equipment, net	1,670	1,669	1,815
Investments and other assets	191	169	170
Prepaid and intangible pension assets	273	272	304
Deferred tax asset, net	866	835	703
Total assets	\$ 6,572	\$ 7,067	\$ 6,638
LIABILITIES AND SHAREOWNERS' EQUITY			
Liabilities			
Current liabilities			
Notes payable and current maturities of long-term debt	\$ 369	\$ 412	\$ 320
Accounts payable, principally trade	887	1,103	968
Other liabilities	752	758	760
Total current liabilities	2,008	2,273	2,048
Debt: Manufacturing operations	907	908	582
Financial services operations	1,387	1,560	1,624
Postretirement benefits liability	811	824	667
Other liabilities	381	375	437
Total liabilities	5,494	5,940	5,358
Commitments and contingencies			
Shareowners' equity			
Series D convertible junior preference stock	4	4	4
Common stock (75.3 million shares issued)	2,139	2,139	2,139
Retained earnings (deficit)	(232)	(170)	(174)
Accumulated other comprehensive loss	(339)	(339)	(180)
Common stock held in treasury, at cost (15.3 million, 15.9 million and 15.9 million shares held) ..	(494)	(507)	(509)
Total shareowners' equity	1,078	1,127	1,280
Total liabilities and shareowners' equity	\$ 6,572	\$ 7,067	\$ 6,638

See Notes to Financial Statements.

STATEMENT OF CASH FLOW (Unaudited)

Millions of dollars

Navistar International Corporation and Consolidated Subsidiaries		
Three Months Ended January 31		
	2002	2001
Cash flow from operations		
Net loss	\$ (56)	\$ (35)
Adjustments to reconcile net loss to cash used in operations:		
Depreciation and amortization	55	53
Deferred income taxes.....	(31)	(24)
Postretirement benefits funding less than (in excess of) expense.....	(8)	8
Other, net.....	(40)	(1)
Change in operating assets and liabilities, net of effects of acquisition:		
Receivables	150	161
Inventories	(18)	(55)
Prepaid and other current assets.....	(20)	(1)
Accounts payable	(221)	(144)
Other liabilities	25	(6)
Cash used in operations	(164)	(44)
Cash flow from investment programs		
Purchases of retail notes and lease receivables	(187)	(276)
Collections/sales of retail notes and lease receivables	398	924
Purchases of marketable securities	(244)	(313)
Sales or maturities of marketable securities.....	32	86
Proceeds from sale of business.....	62	-
Capital expenditures.....	(70)	(64)
Payments for acquisition, net of cash acquired	-	(60)
Proceeds from sale -leasebacks	-	58
Property and equipment leased to others.....	(10)	(37)
Investment in affiliates	1	4
Capitalized interest and other.....	(10)	(1)
Cash provided by (used in) investment programs	(28)	321
Cash flow from financing activities		
Issuance of debt	31	118
Principal payments on debt	(51)	(78)
Net decrease in notes and debt outstanding under bank revolving credit facility and commercial paper programs	(190)	(183)
Other financing activities.....	12	-
Cash used in financing activities	(198)	(143)
Cash and cash equivalents		
Increase (decrease) during the period.....	(390)	134
At beginning of the period	822	297
Cash and cash equivalents at end of the period	\$ 432	\$ 431

See Notes to Financial Statements.

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

Note A. Summary of Accounting Policies

Navistar International Corporation (NIC) is a holding company whose principal operating subsidiary is International Truck and Engine Corporation (International). As used hereafter, “company” or “Navistar” refers to Navistar International Corporation and its consolidated subsidiaries. Navistar operates in three principal industry segments: truck, engine (collectively called “manufacturing operations”), and financial services. The consolidated financial statements include the results of the company’s manufacturing operations and its wholly owned financial services subsidiaries. The effects of transactions between the manufacturing and financial services operations have been eliminated to arrive at the consolidated totals.

The accompanying unaudited financial statements have been prepared in accordance with accounting policies described in the 2001 Annual Report on Form 10-K and should be read in conjunction with the disclosures therein.

In the opinion of management, these interim financial statements reflect all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position, results of operations and cash flow for the periods presented. Interim results are not necessarily indicative of results for the full year. Certain 2001 amounts have been reclassified to conform with the presentation used in the 2002 financial statements.

Note B. Supplemental Cash Flow Information

Consolidated interest payments during the first three months of 2002 and 2001 were \$41 million and \$47 million, respectively. Consolidated tax payments made during the first three months of 2002 were immaterial and were \$3 million for the same period in 2001.

Note C. Income Taxes

The benefit of Net Operating Loss (NOL) carryforwards is recognized as a deferred tax asset in the Statement of Financial Condition, while the Statement of Income includes income taxes calculated at the statutory rate. The amount reported does not represent cash payment of income taxes except for certain state income, foreign income and withholding and federal alternative minimum taxes. In the Statement of Financial Condition, the deferred tax asset is reduced by the amount of deferred tax expense or increased by a deferred tax benefit recorded during the year. Until the company has utilized its significant NOL carryforwards, the cash payment of United States (U.S.) federal income taxes will be minimal.

Note D. Inventories

Inventories are as follows:

Millions of dollars	January 31 2002	October 31 2001	January 31 2001
Finished products	\$ 418	\$ 405	\$ 449
Work in process.....	34	33	60
Raw materials and supplies	199	206	196
Total inventories.....	<u>\$ 651</u>	<u>\$ 644</u>	<u>\$ 705</u>

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

Note E. Financial Instruments**Accounting for Derivatives and Hedging Activities**

The company uses derivative financial instruments as part of its overall interest rate and foreign currency risk management strategy as further described under Item 7A of the 2001 Annual Report on Form 10-K.

The company is exposed to interest rate risk relating to changes in market interest rates. As part of its overall strategy to manage the level of exposure to the risk of interest rates adversely affecting net interest income or expense, the company uses interest rate swap agreements, interest rate caps, and forward contracts. The company is also occasionally required by third parties to use derivative instruments to make financing possible under sold note arrangements. These derivatives are used in asset-backed transactions in order to absorb some portfolio-related risks.

The company is exposed to foreign currency risk relating to changes in certain foreign currency exchange rates. As part of its overall strategy to manage the level of exposure to exchange rate risk, the company uses forward contracts. These derivatives are generally designated and qualify as cash flow hedges.

On the date Navistar enters into a derivative contract, management designates the derivative as either a hedging or non-hedging instrument. Additionally, management distinguishes between fair value hedging instruments, cash flow hedging instruments, and other derivative instruments.

The company documents and accounts for derivative and hedging activities in accordance with the provisions of SFAS 133. In general, SFAS 133 requires that an entity recognize all derivatives as assets or liabilities in the statement of financial position and measure them at fair value. When certain criteria are met, it also provides for matching the timing of gain or loss recognition on the derivative hedging instrument with the recognition of (a) changes in the fair value or cash flows of the hedged asset or liability attributable to the hedged risk or (b) the earnings effect of the hedged forecasted transaction. Changes in the fair value of derivatives which are not designated as, or which do not qualify as, hedges for accounting purposes are reported in earnings in the period in which they occur.

In connection with the \$179 million floating rate portion of the \$500 million sale of retail note receivables that closed in November 2001, Navistar Financial Corporation (NFC) entered into two interest rate swap agreements. The notional amount of each swap was \$179 million. As of January 31, 2002, the fair values of the swaps were offsetting immaterial amounts. The purpose of these swaps was to convert the floating rate interest of the bonds into fixed rate interest to match the interest basis of the receivable pool sold to the owner trust, and thereby protecting NFC from interest rate volatility. The net outcome, after applying the effect of these swaps, results in NFC paying a fixed rate of interest on the projected balance of the pool. To the extent that actual pool balances differ from the projected balances, NFC has retained interest rate exposure on this difference. These two derivatives are being accounted for as non-hedging derivative instruments.

As of January 31, 2002, NFC has several outstanding derivative instruments that were entered into prior to the first quarter of 2002. One interest rate swap is classified as a cash flow hedge derivative instrument and has a notional amount of \$34 million. The fair value of this derivative instrument as of January 31, 2002, was zero and is recorded in other liabilities in the Statement of Financial Condition. The impact on other comprehensive income for the quarter then ended was not material. NFC has two interest rate swap agreements with notional amounts of \$7 million and \$29 million. The fair values of these swaps at January 31, 2002, were immaterial. NFC has three interest rate caps that are classified as non-hedging derivative instruments with notional amounts of \$48 million, \$500 million and

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

Note E. Financial Instruments (continued)

\$500 million. The fair values of these caps as of January 31, 2002, are zero, \$6 million and (\$6) million, respectively. The fair values of these derivative instruments as of January 31, 2002, are recorded in other liabilities in the Statement of Financial Condition. The changes in fair value for the quarter were recorded in finance and insurance revenue and were not material.

The company has other derivatives classified as non-hedging, which are further described in Note 12 of the 2001 Annual Report on Form 10-K.

As of January 31, 2002, the company held other derivative contracts with notional amounts of \$86 million.

Note F. Earnings Per Share

Earnings (loss) per share was computed as follows:

Millions of dollars, except share and per share data	For the Three Months Ended January 31	
	2002	2001
Net loss	<u>\$ (56)</u>	<u>\$ (35)</u>
Average shares outstanding (millions)		
Basic	59.8	59.5
Dilutive effect of options outstanding and other dilutive securities	-	-
Diluted.....	<u>59.8</u>	<u>59.5</u>
Earnings (loss) per share		
Basic	\$ (0.93)	\$ (0.58)
Diluted.....	\$ (0.93)	\$ (0.58)

The computation of diluted shares outstanding for the three months ended January 31, 2002 and 2001, excludes incremental shares of 1.0 million and 0.5 million, respectively, related to employee stock options and other dilutive securities. These shares are excluded due to their anti-dilutive effect as a result of the company's loss for the first quarter of 2002 and 2001.

Note G. Comprehensive Income

The components of comprehensive loss are as follows:

Millions of dollars	For the Three Months Ended January 31	
	2002	2001
Net loss	\$ (56)	\$ (35)
Other comprehensive loss	-	(3)
Total comprehensive loss	<u>\$ (56)</u>	<u>\$ (38)</u>

Included in other comprehensive loss are charges for derivatives that had been used as cash flow type hedges in accordance with SFAS 133, as further described in Note E. For the three months ended January 31, 2002, this charge was immaterial, and was \$2 million for the comparable period in 2001.

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

Note H. Segment Data

Reportable operating segment data is as follows:

Millions of dollars	Truck	Engine	Financial Services	Total
For the quarter ended January 31, 2002				
External revenues	\$ 947	\$ 442	\$ 80	\$ 1,469
Intersegment revenues	-	96	9	105
Total revenues.....	<u>\$ 947</u>	<u>\$ 538</u>	<u>\$ 89</u>	<u>\$ 1,574</u>
Segment profit (loss).....	\$ (113)	\$ 42	\$ 31	\$ (40)
As of January 31, 2002				
Segment assets	\$ 1,771	\$ 1,025	\$ 2,368	\$ 5,164
For the quarter ended January 31, 2001				
External revenues	\$ 1,022	\$ 411	\$ 78	\$ 1,511
Intersegment revenues	-	119	17	136
Total revenues.....	<u>\$ 1,022</u>	<u>\$ 530</u>	<u>\$ 95</u>	<u>\$ 1,647</u>
Segment profit (loss).....	\$ (91)	\$ 42	\$ 24	\$ (25)
As of January 31, 2001				
Segment assets	\$ 1,968	\$ 1,239	\$ 2,399	\$ 5,606

Reconciliation to the consolidated financial statements as of and for the quarters ended January 31 is as follows:

Millions of dollars	2002	2001
Segment sales and revenues	\$ 1,574	\$ 1,647
Other income	3	5
Intercompany	(105)	(136)
Consolidated sales and revenues	<u>\$ 1,472</u>	<u>\$ 1,516</u>
Segment loss	\$ (40)	\$ (25)
Restructuring adjustment.....	1	-
Corporate items.....	(38)	(35)
Manufacturing net interest income (expense).....	(13)	4
Consolidated pretax loss	<u>\$ (90)</u>	<u>\$ (56)</u>
Segment assets	\$ 5,164	\$ 5,606
Cash and marketable securities	284	236
Deferred taxes.....	1,017	912
Corporate intangible pension assets.....	72	66
Other corporate and eliminations	35	(182)
Consolidated assets	<u>\$ 6,572</u>	<u>\$ 6,638</u>

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

Note I. Restructuring Charge

In October 2000, the company incurred charges for restructuring, asset write-downs, loss on anticipated sale of business and other exit costs totaling \$306 million as part of an overall plan to restructure its manufacturing and corporate operations ("Plan of Restructuring"). The following are the major restructuring, integration and cost reduction initiatives included in the Plan of Restructuring:

- Replacement of current steel cab trucks with a new line of high performance next generation vehicles (NGV) and a concurrent realignment of the company's truck manufacturing facilities
- Closure of certain operations and exit of certain activities
- Launch of the next generation technology diesel engines
- Consolidation of corporate operations
- Realignment of the bus and truck dealership network and termination of various dealership contracts

Of the total pretax restructuring charge of \$306 million, \$150 million represented non-cash charges. Through January 31, 2002, approximately \$208 million of the charge has been incurred, and \$12 million of curtailment loss related to the company's postretirement benefit has been reclassified as a noncurrent postretirement liability. The remaining restructuring liability of \$86 million is expected to be funded from existing cash balances and internally generated cash flows from operations.

The specific actions included in the Plan of Restructuring were substantially complete by November 2001. Components of the remaining restructuring charge are as follows:

(Millions of dollars)	Balance October 31, 2001	Amount Incurred	Balance January 31, 2002
Severance and other benefits	\$ 32	\$ (3)	\$ 29
Lease terminations	35	-	35
Loss on sale of business	2	-	2
Dealer termination and exit costs	21	(1)	20
Total	\$ 90	\$ (4)	\$ 86

The Plan of Restructuring included the reduction of approximately 2,100 employees from the workforce, primarily in North America, which was revised to 1,900 employees at October 31, 2001. During the quarter, approximately \$3 million was paid for severance and other benefits, and employee headcount was reduced by approximately 400. As of January 31, 2002, of the total net charge of \$75 million, approximately \$34 million has been paid for severance and other benefits for the reduction of approximately 1,900 employees, and \$12 million of curtailment loss has been reclassified as a noncurrent postretirement liability. The severance and other benefits balance represents costs related to future payments over the next two years for headcount reductions already incurred.

Lease termination costs include the future obligations under long-term non-cancelable lease agreements at facilities being vacated following workforce reductions. This charge primarily consists of the estimated lease costs, net of probable sublease income, associated with the cancellation of the company's corporate office lease at NBC Tower in Chicago, Illinois, which expires in 2010. As of January 31, 2002, of the total net charge of \$38 million, \$3 million has been incurred for lease termination costs.

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

Note I. Restructuring Charge (continued)

The Plan of Restructuring included the effect of the sale of Harco National Insurance Company (Harco). On November 30, 2001, NFC completed the sale of Harco to IAT Reinsurance Syndicate Ltd., a Bermuda reinsurance company. The remaining payments related to exit costs of approximately \$2 million are expected to be incurred in fiscal year 2002.

Dealer termination and exit costs include the termination of certain dealer contracts in connection with the realignment of the company's bus distribution network, and other litigation costs to implement the restructuring initiatives. As of January 31, 2002, of the total net charge of \$38 million, approximately \$18 million has been paid for dealer terminations and exit costs, of which \$1 million was incurred during the quarter.

Note J. Sale of Receivables

NFC's primary business is to provide wholesale, retail and lease financing for new and used trucks sold by International and International's dealers, and as a result, NFC's receivables and leases have significant concentration in the trucking industry. NFC retains as collateral a security interest in the equipment associated with wholesale notes, retail notes and leases.

NFC securitizes and sells certain retail and wholesale receivables through Navistar Financial Retail Receivables Corporation (NFRRC), Navistar Financial Securities Corporation (NFSC), Truck Retail Accounts Corporation (TRAC) and Truck Engine Receivables Financing Corporation (TERFCO), all special purpose entities and wholly-owned subsidiaries of NFC. The sale of receivables in each of the securitizations constitute sales under generally accepted accounting principles, with the result that the sold receivables are removed from NFC's balance sheet and the investor's interests in the related trust or conduit are not reflected as liabilities. However, the special purpose entity's residual interest in the related trusts or assets held by the conduit are reflected in the Statement of Financial Condition as assets. NFRRC, NFSC, TRAC and TERFCO have limited recourse on the sold receivables. The terms of receivable sales generally require NFC to maintain cash reserves with the trusts and conduits as credit enhancement. These cash reserves are restricted under the terms of the securitized sales agreements. The maximum exposure under all receivable sale recourse provisions at January 31, 2002, was \$408 million. Management believes the recorded reserves for losses are adequate.

At January 31, 2002, NFC has a \$500 million revolving retail warehouse facility due in October 2005. In October 2000, Truck Retail Instalment Paper Corporation, a special purpose entity and wholly-owned subsidiary of NFC, issued \$475 million of senior class AAA rated and \$25 million of subordinated class A rated floating rate asset-backed notes. The proceeds were used to purchase eligible receivables from NFC and establish a revolving retail warehouse facility for NFC's retail notes and retail leases, other than fair market value leases.

NFC continues to service the receivables, for which a servicing fee is received. Servicing fees are earned on a level yield basis over the terms of the related sold receivables. Servicing fees are typically set at 1.0% of average outstanding net receivable balances, representing NFC's estimated costs to service the receivables.

Gains or losses on sales of receivables are estimated based upon the present value of future expected cash flows using assumptions for prepayment speeds and current market interest rates. These assumptions use management's best estimates commensurate with the risks involved. An allowance for credit losses is provided prior to the receivable sale and is reclassified as part of retained interest upon sale.

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

Note J. Sale of Receivables (continued)

Finance receivable balances do not include receivables sold by NFC to public and private investors with limited recourse provisions. Outstanding sold receivable balances are as follows, in millions:

	January 31 2002	October 31 2001	January 31 2001
Retail notes	\$ 2,042	\$ 1,863	\$ 2,401
Wholesale notes	713	797	792
Retail accounts	200	191	185
Total.....	\$ <u>2,955</u>	\$ <u>2,851</u>	\$ <u>3,378</u>

Additional financial data for gross serviced finance receivables as of January 31, 2002, is as follows, in millions:

	Retail Notes	Leases	Wholesale Notes	Accounts
Gross serviced finance receivables.....	\$ 2,612	\$ 522	\$ 750	\$ 333
Gross serviced finance receivables with installments past due	37	12	7	17
Credit losses net of recoveries	4	-	-	-

During the three months ended January 31, 2002, NFC sold \$500 million of retail notes, net of unearned finance income, through NFRRC. NFC sold the retail notes to an owner trust, which, in turn, issued \$500 million of asset-backed securities that were sold to investors. Aggregate gains of \$17 million were recognized on these sales.

At January 31, 2002, NFSC has in place a revolving wholesale note trust that provides for the funding of \$837 million of eligible wholesale notes. TERFCO has in place a revolving trust that provides for the funding of \$100 million of eligible Ford Motor Company accounts receivable. TRAC has in place a revolving retail account conduit that provides for the funding of \$100 million of eligible retail accounts.

When receivables are sold, NFC retains interest in the securitized receivables in the form of interest-only strips, servicing rights, cash reserve accounts and subordinated certificates. The carrying amount of these retained interests approximate fair value and were \$392 million, \$324 million and \$357 million at January 31, 2002, October 31, 2001 and January 31, 2001, respectively. These amounts are included in finance and other receivables in the Statement of Financial Condition.

Key economic assumptions used in measuring the gains and the related retained interest at January 31, 2002, were a prepayment speed of 1.3 to 1.5, a weighted average remaining life of 22 months and a residual cash flows discount rate of 6.86%.

The following table summarizes certain cash flows received from (paid to) securitization trusts/conduits during the three months ended January 31, 2002, in millions:

Proceeds from initial sales of retail receivables	\$ 500
Proceeds from subsequent sales of receivables into revolving facilities.....	1,129
Servicing fees received.....	6
All other cash received from trusts.....	45
Purchase of delinquent or foreclosed receivables	(14)
Cash used for pool buybacks	-

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

Note K. New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 142 (SFAS 142), "Goodwill and Other Intangible Assets" and Statement of Financial Accounting Standards No. 143 (SFAS 143), "Accounting for Asset Retirement Obligations." SFAS 142 was adopted by the company on November 1, 2001, and did not have a material impact on the company's financial position, results of operations or cash flows. SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The company is evaluating the impact of SFAS 143 on its financial position, results of operations and cash flows.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The company is evaluating the impact on the company's financial position, results of operations and cash flows.

Note L. Condensed Consolidating Guarantor and Non-Guarantor Financial Information

The following tables set forth the condensed consolidating Statements of Financial Condition as of January 31, 2002 and 2001, and the Statements of Income and Cash Flow for the three months ended January 31, 2002 and 2001. The following information is included as a result of the guarantee of the \$400 million Senior Notes by International, exclusive of its subsidiaries. International is a direct wholly-owned subsidiary of NIC. International, exclusive of its subsidiaries, also guarantees NIC's obligations under its 7% senior notes due 2003 and 8% senior subordinated notes due 2008. None of NIC's other subsidiaries guarantee any of these notes. Each of the guarantees is full and unconditional. Separate financial statements and other disclosures concerning International have not been presented because management believes that such information is not material to investors. NIC includes the consolidated financial results of the parent company only, with all of its wholly-owned subsidiaries accounted for under the equity method. International, for purposes of this disclosure only, includes the consolidated financial results of its wholly-owned subsidiaries accounted for under the equity method. "Non-Guarantor Companies and Eliminations" includes the consolidated financial results of all other non-guarantor subsidiaries including the elimination entries for all intercompany transactions. All applicable corporate expenses have been allocated appropriately among the guarantor and non-guarantor subsidiaries.

NIC files a consolidated U.S. federal income tax return which includes International and its U.S. subsidiaries. International has a tax allocation agreement (Tax Agreement) with NIC which requires International to compute its separate federal income tax expense based on its adjusted book income. Any resulting tax liability is paid to NIC. In addition, under the Tax Agreement, International is required to pay to NIC any tax payments received from its subsidiaries. The effect of the Tax Agreement is to allow NIC, rather than International, to utilize U.S. operating income/losses and NIC operating loss carryforwards.

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

Note L. Condensed Consolidating Guarantor and Non-Guarantor Financial Information (continued)

	<u>NIC</u>	<u>International</u>	<u>Non-Guarantor Companies and Eliminations</u>	<u>Consolidated</u>
<u>CONDENSED CONSOLIDATING STATEMENT OF INCOME FOR THE THREE MONTHS ENDED JANUARY 31, 2002</u>				
Sales and revenues	\$ <u>2</u>	\$ <u>1,124</u>	\$ <u>346</u>	\$ <u>1,472</u>
Cost of products and services sold.....	-	1,042	214	1,256
Restructuring adjustment.....	-	-	(1)	(1)
All other operating expenses.....	<u>(6)</u>	<u>239</u>	<u>74</u>	<u>307</u>
Total costs and expenses	<u>(6)</u>	<u>1,281</u>	<u>287</u>	<u>1,562</u>
Equity in income (loss) of nonconsolidated subsidiaries	<u>(98)</u>	<u>55</u>	<u>43</u>	<u>-</u>
Income (loss) before income taxes.....	(90)	(102)	102	(90)
Income tax expense (benefit).....	<u>(34)</u>	<u>6</u>	<u>(6)</u>	<u>(34)</u>
Net income (loss)	<u>\$ (56)</u>	<u>\$ (108)</u>	<u>\$ 108</u>	<u>\$ (56)</u>
<u>CONDENSED CONSOLIDATING STATEMENT OF FINANCIAL CONDITION AS OF JANUARY 31, 2002</u>				
ASSETS				
Cash and marketable securities	\$ 263	\$ 8	\$ 636	\$ 907
Receivables, net.....	6	63	1,676	1,745
Inventories	-	344	307	651
Property and equipment, net.....	-	890	780	1,670
Investment in affiliates	(1,326)	931	395	-
Deferred tax asset and other assets.....	<u>1,012</u>	<u>267</u>	<u>320</u>	<u>1,599</u>
Total assets	<u>\$ (45)</u>	<u>\$ 2,503</u>	<u>\$ 4,114</u>	<u>\$ 6,572</u>
LIABILITIES AND SHAREOWNERS' EQUITY				
Debt	\$ 821	\$ 21	\$ 1,821	\$ 2,663
Postretirement benefits liability.....	-	977	97	1,074
Amounts due (from) to affiliates.....	(2,024)	1,645	379	-
Other liabilities.....	<u>80</u>	<u>1,245</u>	<u>432</u>	<u>1,757</u>
Total liabilities	<u>(1,123)</u>	<u>3,888</u>	<u>2,729</u>	<u>5,494</u>
Shareowners' equity (deficit).....	<u>1,078</u>	<u>(1,385)</u>	<u>1,385</u>	<u>1,078</u>
Total liabilities and shareowners' equity	<u>\$ (45)</u>	<u>\$ 2,503</u>	<u>\$ 4,114</u>	<u>\$ 6,572</u>
<u>CONDENSED CONSOLIDATING STATEMENT OF CASH FLOW FOR THE THREE MONTHS ENDED JANUARY 31, 2002</u>				
Cash provided by (used in) operations.....	\$ (448)	\$ 72	\$ 212	\$ (164)
Cash flow from investment programs				
Purchases, net of collections, of finance receivables	-	-	211	211
Net (increase) decrease in marketable securities	30	-	(242)	(212)
Capital expenditures	-	(62)	(8)	(70)
Other investing activities	<u>1</u>	<u>(8)</u>	<u>50</u>	<u>43</u>
Cash provided by (used in) investment programs	<u>31</u>	<u>(70)</u>	<u>11</u>	<u>(28)</u>
Cash flow from financing activities				
Net repayments of debt.....	-	-	(210)	(210)
Other financing activities.....	<u>12</u>	<u>-</u>	<u>-</u>	<u>12</u>
Cash provided by (used in) financing activities	<u>12</u>	<u>-</u>	<u>(210)</u>	<u>(198)</u>
Cash and cash equivalents				
Increase (decrease) during the period.....	(405)	2	13	(390)
At beginning of the period.....	<u>658</u>	<u>6</u>	<u>158</u>	<u>822</u>
Cash and cash equivalents at end of the period	<u>\$ 253</u>	<u>\$ 8</u>	<u>\$ 171</u>	<u>\$ 432</u>

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

Note L. Condensed Consolidating Guarantor and Non-Guarantor Financial Information (continued)

	<u>NIC</u>	<u>International</u>	<u>Non-Guarantor Companies and Eliminations</u>	<u>Consolidated</u>
CONDENSED CONSOLIDATING STATEMENT OF INCOME FOR THREE MONTHS ENDED JANUARY 31, 2001				
Sales and revenues	\$ 3	\$ 1,225	\$ 288	\$ 1,516
Cost of products and services sold.....	-	1,164	121	1,285
All other operating expenses.....	(20)	241	66	287
Total costs and expenses	(20)	1,405	187	1,572
Equity in income (loss) of nonconsolidated subsidiaries	(79)	83	(4)	-
Income (loss) before income taxes.....	(56)	(97)	97	(56)
Income tax expense (benefit).....	(21)	5	(5)	(21)
Net income (loss)	<u>\$ (35)</u>	<u>\$ (102)</u>	<u>\$ 102</u>	<u>\$ (35)</u>
CONDENSED CONSOLIDATING STATEMENT OF FINANCIAL CONDITION AS OF JANUARY 31, 2001				
ASSETS				
Cash and marketable securities	\$ 232	\$ 5	\$ 601	\$ 838
Receivables, net.....	6	149	1,569	1,724
Inventories	-	421	284	705
Property and equipment, net.....	-	1,043	772	1,815
Investment in affiliates	(831)	848	(17)	-
Deferred tax asset and other assets.....	885	270	401	1,556
Total assets	<u>\$ 292</u>	<u>\$ 2,736</u>	<u>\$ 3,610</u>	<u>\$ 6,638</u>
LIABILITIES AND SHAREOWNERS' EQUITY				
Debt	\$ 421	\$ 5	\$ 2,100	\$ 2,526
Postretirement benefits liability.....	-	826	(33)	793
Amounts due (from) to affiliates.....	(1,503)	1,410	93	-
Other liabilities.....	94	1,340	605	2,039
Total liabilities	(988)	3,581	2,765	5,358
Shareowners' equity (deficit).....	1,280	(845)	845	1,280
Total liabilities and shareowners' equity	<u>\$ 292</u>	<u>\$ 2,736</u>	<u>\$ 3,610</u>	<u>\$ 6,638</u>
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOW FOR THE THREE MONTHS ENDED JANUARY 31, 2001				
Cash provided by (used in) operations.....	\$ 118	\$ (25)	\$ (137)	\$ (44)
Cash flow from investment programs				
Purchases, net of collections, of finance receivables	-	-	648	648
Net (increase) decrease in marketable securities	83	-	(310)	(227)
Capital expenditures.....	-	(50)	(14)	(64)
Other investing activities	(10)	57	(83)	(36)
Cash provided by investment programs	73	7	241	321
Cash flow from financing activities				
Net repayments of debt	(23)	-	(120)	(143)
Cash and cash equivalents				
Increase (decrease) during the period.....	168	(18)	(16)	134
At beginning of the period.....	64	23	210	297
Cash and cash equivalents at end of the period	<u>\$ 232</u>	<u>\$ 5</u>	<u>\$ 194</u>	<u>\$ 431</u>

Navistar International Corporation and Consolidated Subsidiaries

Additional Financial Information (Unaudited)

The following additional financial information is provided based upon the continuing interest of certain shareholders and creditors.

Navistar International Corporation (with financial services operations on an equity basis) in millions of dollars:

Condensed Statement of Income	Three Months Ended January 31	
	2002	2001
Sales of manufactured products.....	\$ 1,389	\$ 1,433
Other income	3	6
Total sales and revenues	1,392	1,439
Cost of products sold	1,241	1,275
Postretirement benefits expense	57	45
Engineering and research expense.....	64	65
Sales, general and administrative expense.....	117	102
Other expenses.....	35	32
Total costs and expenses	1,514	1,519
Income (loss) before income taxes		
Manufacturing operations	(122)	(80)
Financial services operations	32	24
Loss before income taxes	(90)	(56)
Income tax benefit	(34)	(21)
Net loss	\$ (56)	\$ (35)

Condensed Statement of Financial Condition	January 31 2002	October 31 2001	January 31 2001
Cash, cash equivalents and marketable securities.....	\$ 369	\$ 806	\$ 323
Inventories.....	587	569	662
Property and equipment, net.....	1,370	1,359	1,476
Equity in nonconsolidated subsidiaries	425	398	375
Other assets	954	895	892
Deferred tax asset, net.....	1,013	979	905
Total assets	\$ 4,718	\$ 5,006	\$ 4,633
Accounts payable, principally trade	\$ 836	\$ 1,051	\$ 946
Postretirement benefits liability	1,062	1,069	784
Debt.....	950	966	645
Other liabilities	792	793	978
Shareowners' equity	1,078	1,127	1,280
Total liabilities and shareowners' equity.....	\$ 4,718	\$ 5,006	\$ 4,633

Navistar International Corporation and Consolidated Subsidiaries

Additional Financial Information (Unaudited)

Navistar International Corporation (with financial services operations on an equity basis)
in millions of dollars:

Condensed Statement of Cash Flow	Three Months Ended January 31	
	2002	2001
Cash flow from operations		
Net loss	\$ (56)	\$ (35)
Adjustments to reconcile net loss to cash used in operations:		
Depreciation and amortization.....	39	36
Deferred income taxes.....	(30)	(23)
Postretirement benefits funding less than (in excess of) expense.....	(8)	8
Equity in earnings of investees, net of dividends received.....	(27)	2
Other, net	(23)	7
Change in operating assets and liabilities, net of effects of acquisition	(168)	(204)
Cash used in operations	(273)	(209)
Cash flow from investment programs		
Sales or maturities of marketable securities	30	83
Capital expenditures	(69)	(64)
Payments for acquisition, net of cash acquired.....	-	(60)
Proceeds from sale-leasebacks.....	-	58
Receivable from financial services operations	(83)	272
Investment in affiliates.....	1	4
Capitalized interest and other	(10)	(1)
Cash provided by (used in) investment programs	(131)	292
Cash provided by (used in) financing activities	(3)	27
Cash and cash equivalents		
Increase (decrease) during the period.....	(407)	110
At beginning of the period	766	213
Cash and cash equivalents at end of the period	\$ 359	\$ 323

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

Certain statements under this caption that are not purely historical constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995 and involve risks and uncertainties. These forward-looking statements are based on current management expectations as of the date made. The company assumes no obligation to update any forward-looking statements. Navistar International Corporation's actual results may differ significantly from the results discussed in such forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed under the caption "Business Environment."

The company reported a net loss of \$56 million, or a \$0.93 loss per diluted common share for the first quarter ended January 31, 2002, primarily due to continued weak, new and used truck pricing and lower new truck shipments. For the comparable quarter last year, the net loss was \$35 million, or a \$0.58 loss per diluted common share.

The truck segment's loss for the first quarter of 2002 increased by \$22 million and revenues decreased \$75 million compared to the same period last year. The truck segment's profit and revenue decreases are primarily the result of reduced industry wide shipments and lower market pricing.

The engine segment's profit for the first three months of 2002 remained consistent with the same period in 2001 at \$42 million, while revenues increased slightly.

The financial services segment's profit for the first quarter of 2002 was \$31 million, a \$7 million increase over the comparable period in 2001. The increase is primarily the result of a higher gain on the sale of retail note receivables offset, in part, by lower finance receivable balances.

Sales and Revenues. Sales and revenues for the first quarter of 2002 totaled \$1,472 million, 3% lower than the \$1,516 million reported for the comparable quarter in 2001.

United States (U.S.) and Canadian industry retail sales of Class 5 through 8 trucks totaled 61,100 units in the first quarter of 2002, which is 23% lower than the 79,000 units sold during this period in 2001. Class 8 heavy truck sales of 33,500 units during the first quarter of 2002 were 22% lower than the 2001 level of 42,700 units. Industry sales of Class 5, 6 and 7 medium trucks, including school buses, decreased 24% to 27,700 units. Industry sales of school buses, which accounted for 21% of the medium truck market, decreased 7% to 5,700 units.

Market share for the first quarter of 2002 increased to 26.3% from 25.1% reported in the same period of 2001. This improvement was driven by focused sales and marketing efforts.

Shipments of mid-range diesel engines by the company to other original equipment manufacturers during the first quarter of 2002 totaled 78,000 units, a 6% increase from the same period of 2001.

Costs and expenses. Manufacturing gross margin was 10.7% of sales for the first quarter of 2002, a slight decrease from the 11.0% reported for the same period in 2001.

Postretirement benefits expense increased \$12 million from the first quarter of 2001 to \$58 million. This increase is primarily due to higher interest expense resulting from higher pension and health care obligations, higher amortization, and lower returns on assets, all of which were driven by large losses in 2001.

Sales, general and administrative expense increased 11% to \$134 million in the first quarter of 2002 from \$121 million for the comparable quarter in 2001. This increase is due to an increase in the provision for losses on receivables driven by an increase in repossession frequency and pricing pressure in the used truck market.

Other expense decreased to \$11 million in the first quarter of 2002 from \$14 million in the same period of 2001. This decrease is primarily due to lower financing charges on sold receivables.

Restructuring Charge

In October 2000, the company incurred charges for restructuring, asset write-downs, loss on anticipated sale of business and other exit costs totaling \$306 million as part of an overall plan to restructure its manufacturing and corporate operations ("Plan of Restructuring"). The following are the major restructuring, integration and cost reduction initiatives included in the Plan of Restructuring:

- Replacement of current steel cab trucks with a new line of high performance next generation vehicles (NGV) and a concurrent realignment of the company's truck manufacturing facilities
- Closure of certain operations and exit of certain activities
- Launch of the next generation technology diesel engines
- Consolidation of corporate operations
- Realignment of the bus and truck dealership network and termination of various dealership contracts

Of the total pretax restructuring charge of \$306 million, \$150 million represented non-cash charges. Through January 31, 2002, approximately \$208 million of the charge has been incurred, and \$12 million of curtailment loss related to the company's postretirement benefit has been reclassified as a noncurrent postretirement liability. The remaining restructuring liability of \$86 million is expected to be funded from existing cash balances and internally generated cash flows from operations.

The specific actions included in the Plan of Restructuring were substantially complete by November 2001. Components of the remaining restructuring charge are as follows:

(Millions of dollars)	Balance October 31, 2001	Amount Incurred	Balance January 31, 2002
Severance and other benefits	\$ 32	\$ (3)	\$ 29
Lease terminations	35	-	35
Loss on sale of business	2	-	2
Dealer termination and exit costs	21	(1)	20
Total	\$ 90	\$ (4)	\$ 86

The Plan of Restructuring included the reduction of approximately 2,100 employees from the workforce, primarily in North America, which was revised to 1,900 employees at October 31, 2001. During the quarter, approximately \$3 million was paid for severance and other benefits, and employee headcount was reduced by approximately 400. As of January 31, 2002, of the total net charge of \$75 million, approximately \$34 million has been paid for severance and other benefits for the reduction of approximately 1,900 employees, and \$12 million of curtailment loss has been reclassified as a noncurrent postretirement liability. The severance and other benefits balance represents costs related to future payments over the next two years for headcount reductions already incurred.

Lease termination costs include the future obligations under long-term non-cancelable lease agreements at facilities being vacated following workforce reductions. This charge primarily consists of the estimated lease costs, net of probable sublease income, associated with the cancellation of the company's corporate office lease at NBC Tower in Chicago, Illinois, which expires in 2010. As of January 31, 2002, of the total net charge of \$38 million, \$3 million has been incurred for lease termination costs.

The Plan of Restructuring included the effect of the sale of Harco National Insurance Company (Harco). On November 30, 2001, Navistar Financial Corporation (NFC) completed the sale of Harco to IAT Reinsurance Syndicate Ltd., a Bermuda reinsurance company. The remaining payments related to exit costs of approximately \$2 million are expected to be incurred in fiscal year 2002.

Dealer termination and exit costs include the termination of certain dealer contracts in connection with the realignment of the company's bus distribution network, and other litigation costs to implement the restructuring initiatives. As of January 31, 2002, of the total net charge of \$38 million, approximately \$18 million has been paid for dealer terminations and exit costs, of which \$1 million was incurred during the quarter.

Liquidity and Capital Resources

Cash flow is generated from the manufacture and sale of trucks, mid-range diesel engines and their associated service parts as well as from product financing provided to the company's dealers and retail customers by the financial services segment. The company's current debt ratings have made sales of finance receivables the most economic source of funding for NFC.

The company had working capital of \$58 million at January 31, 2002, compared to \$463 million at October 31, 2001. Cash used in operations during the first quarter of 2002 totaled \$164 million primarily from a net loss of \$56 million and a net change in operating assets and liabilities of \$84 million.

The net use of cash resulting from the change in operating assets and liabilities included a \$221 million decrease in accounts payable primarily due to cyclically lower truck and engine production levels in the first quarter as well as from the timing of invoices paid for capital equipment purchased in the fourth quarter of 2001, and an \$18 million increase in inventories primarily caused by the decrease in new truck shipments. These were partially offset by a \$150 million decrease in receivables primarily due to a net decrease in wholesale note and account balances and lower volumes in truck production.

Cash used in investment programs resulted from a net increase in marketable securities of \$212 million and \$70 million of capital expenditures primarily for the NGV and Next Generation Diesel (NGD) programs. These were partially offset by a net decrease in retail notes and lease receivables of \$211 million and the sale of Harco on November 30, 2001, that provided \$62 million in cash proceeds.

Cash used by financing activities resulted from a net decrease of \$190 million in notes and debt outstanding under the bank revolving credit facility and other commercial paper programs and a net decrease in long-term debt of \$20 million.

NFC has traditionally obtained the funds to provide financing to International's dealers and retail customers from sales of finance receivables, commercial paper, short and long-term bank borrowings, medium and long-term debt and equity capital. As of January 31, 2002, NFC's funding consisted of sold finance receivables of \$2,955 million, bank and other borrowings of \$999 million, subordinated debt of \$100 million, capital lease obligations of \$356 million and equity of \$349 million.

NFC securitizes and sells receivables through Navistar Financial Retail Receivables Corporation (NFRRC), Navistar Financial Securities Corporation (NFSC), Truck Retail Accounts Corporation (TRAC) and Truck Engine Receivables Financing Corporation (TERFCO), all special purpose entities and wholly-owned subsidiaries of NFC. The sale of receivables in each of the securitizations constitute sales under generally accepted accounting principles, with the result that the sold receivables are removed from NFC's balance sheet and the investor's interests in the related trust or conduit are not reflected as liabilities. However, the special purpose entity's residual interest in the related trusts or assets held by the conduit are reflected on the Statement of Financial Condition as assets.

Through the asset-backed public market and private placement sales, NFC has been able to fund fixed rate retail note receivables at rates offered to companies with higher investment grade ratings. During the first quarter of 2002, NFC sold \$500 million of retail notes, net of unearned finance income, through NFRRC. NFC sold the retail notes to an owner trust, which in turn, issued \$500 million of asset-backed securities that were sold to investors. Aggregate gains of \$17 million were recognized on these sales. Also, as of January 31, 2002, NFSC has in place a revolving wholesale note trust that provides for the funding of \$837 million of eligible wholesale notes, of which \$713 million has been utilized.

At January 31, 2002, available funding under NFC's bank revolving credit facility, the revolving retail warehouse facility, the retail account facilities and the revolving wholesale note trust was \$959 million. When combined with unrestricted cash and cash equivalents, \$1,004 million was available to fund the general business purposes of NFC.

In November 2000, NFC established TERFCO for the purpose of securitizing engine accounts receivable. The transaction provides for funding of \$100 million and expires in 2006. As of January 31, 2002, NFC has utilized \$100 million of this facility.

TRAC has in place an arrangement with a bank conduit that provides for the funding of \$100 million of eligible retail accounts. As of January 31, 2002, NFC has utilized \$100 million of this facility. The facility expires in August 2002 with an option for renewal.

There have been no material changes in the company's hedging strategies or derivative positions since October 31, 2001. Further disclosure may be found in Note E to the financial statements and in the company's 2001 Annual Report on Form 10-K.

Cash flow from the company's manufacturing operations, financial services operations and financing capacity is currently sufficient to cover planned investment in the business. The company had outstanding capital commitments of \$234 million at January 31, 2002, primarily for the NGV and NGD programs.

It is the opinion of management that, in the absence of significant unanticipated cash demands, current and forecasted cash flow as well as anticipated financing actions will provide sufficient funds to meet operating requirements and capital expenditures. Management believes 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 International's dealers and retail customers.

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 142 (SFAS 142), "Goodwill and Other Intangible Assets" and Statement of Financial Accounting Standards No. 143 (SFAS 143), "Accounting for Asset Retirement Obligations." SFAS 142 was adopted by the company on November 1, 2001, and did not have a material impact on the company's financial position, results of operations or cash flows. SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The company is evaluating the impact of SFAS 143 on its financial position, results of operations and cash flows.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The company is evaluating the impact on the company's financial position, results of operations and cash flows.

Business Environment

Sales of Class 5 through 8 trucks historically have been cyclical, with demand affected by such economic factors as industrial production, construction, demand for consumer durable goods, interest rates and the earnings and cash flow of dealers and customers. Truck sales in the first quarter were hindered by a number of factors including a significant decline in the economy and associated freight tonnage, rising insurance costs, tightened credit availability, and the used truck problems of high inventory and low prices. The demand for new trucks reflected these adverse conditions, reducing the company's U.S. and Canadian order backlog at January 31, 2002, to 19,300 units, 14% lower than the 22,300 units at January 31, 2001. Historically, retail deliveries have been impacted by the rate at which new truck orders are received. Therefore, the company continually evaluates order receipts and backlog throughout the year and will balance production with demand as appropriate. To control costs and align production schedules with demand, the company reduced its production schedules during the quarter through shutdown weeks at its Springfield, Escobedo, Garland, Conway and Tulsa Assembly Plants as well as at its Engine and Foundry Plants in Melrose Park and Waukesha.

Reflecting the continued industry-wide decline in new truck orders, the company lowered its industry projections for 2002. The company currently projects 2002 U.S. and Canadian Class 8 heavy truck demand to be 144,000 units, down from the previous forecast of 154,000 units. Class 5, 6, and 7 medium truck demand, excluding school buses, remains unchanged at 112,500 units, including 87,500 Class 6-7 trucks. Demand for school buses remains at 28,000 units.

Navistar International Corporation and Consolidated Subsidiaries

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the company's market risk exposure since October 31, 2001, as reported in the 2001 Annual Report on Form 10-K.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The company and its subsidiaries 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 the business of the company and its subsidiaries. In the opinion of the company's management, none of these proceedings or claims are material to the business or the financial condition of the company.

Various claims and controversies have arisen between the company and its current fuel system supplier, Caterpillar Inc., regarding the ownership and validity of certain patents covering fuel system technology to be used in the company's next generation version of diesel engines. In June 1999, in Federal Court in Peoria, IL, Caterpillar sued Sturman Industries, Inc. (Sturman), the company's joint venture partner in developing fuel system technology, alleging that technology invented and patented by Sturman and licensed to the company, belongs to Caterpillar. The company believes that Sturman has meritorious defenses to such claims and intends to continue to cooperate with Sturman to defend this action vigorously. The company believes that Caterpillar may assert claims against the company regarding other aspects of fuel system technology to be used in the company's new engines. In January 2002, Caterpillar sued the company in the Circuit Court in Peoria County, IL, and the company sued Caterpillar in the Circuit Court in Cook County, IL, each alleging the other breached the purchase agreement pursuant to which Caterpillar agreed to be the company's engine fuel system supplier. The alleged breaches involve Caterpillar's refusal to supply a new, improved fuel system and the company's subsequent replacement of Caterpillar as the supplier of such systems for the company's next generation version of diesel engines. The company believes that it has meritorious defenses to any such claims Caterpillar has asserted or may assert against the company and will defend vigorously any such actions. Based upon the information developed to date, the company believes that the proceedings or claims will not have a material adverse impact on the business, results of operations or financial condition of the company.

Item 2. Changes in Securities and Use of Proceeds

Payments of cash dividends and the repurchase of common stock are currently limited due to restrictions contained in the company's \$400 million Senior Notes, \$250 million Senior Subordinated Notes and \$19 million Note Purchase Agreement. The company has not paid dividends on the common stock since 1980 and does not expect to pay cash dividends on the common stock in the foreseeable future.

Item 6. Exhibits and reports on Form 8-K

10-Q Page

(a) Exhibits:

- | | |
|---|-----|
| 3. Articles of Incorporation and By-Laws | E-1 |
| 4. Instruments Defining The Rights of Security
Holders, Including Indentures | E-2 |
| 10. Material Contracts | E-6 |

(b) Reports on Form 8-K:

None

SIGNATURE

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

NAVISTAR INTERNATIONAL CORPORATION

(Registrant)

/s/ Mark T. Schwetschenau

Mark T. Schwetschenau
Vice President and Controller
(Principal Accounting Officer)

March 11, 2002

**NAVISTAR INTERNATIONAL CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

ARTICLES OF INCORPORATION AND BY-LAWS

The following documents of Navistar International Corporation are incorporated herein by reference:

- 3.1 Restated Certificate of Incorporation of Navistar International Corporation effective July 1, 1993, filed as Exhibit 3.2 to Annual Report on Form 10-K dated October 31, 1993, which was filed on January 27, 1994, Commission File No. 1-9618, and amended as of May 4, 1998.
- 3.2 The By-Laws of Navistar International Corporation effective April 14, 1995, filed as Exhibit 3.2 on Annual Report on Form 10-K dated October 31, 1995, which was filed on January 26, 1996, on Commission File No. 1-9618.

**NAVISTAR INTERNATIONAL CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

**INSTRUMENTS DEFINING RIGHTS OF SECURITY HOLDERS,
INCLUDING INDENTURES**

The following instruments of Navistar International Corporation and its principal subsidiary International Truck and Engine Corporation, and its principal subsidiary Navistar Financial Corporation defining the rights of security holders are incorporated herein by reference.

- 4.1 Indenture, dated as of May 30, 1997, by and between Navistar Financial Corporation and The Fuji Bank and Trust Company, as Trustee, for 9% Senior Subordinated Notes due 2002 for \$100,000,000. Filed on Registration No. 333-30167.
- 4.2 Indenture, dated as of February 4, 1998, by and between Navistar International Corporation and Harris Trust and Savings Bank, as Trustee, for 7% Senior Notes due 2003 for \$100,000,000. Filed on Registration No. 333-47063.
- 4.3 Indenture, dated as of February 4, 1998, by and between Navistar International Corporation and Harris Trust and Savings Bank, as Trustee, for 8% Senior Subordinated Notes due 2008 for \$250,000,000. Filed on Registration No. 333-47063.
- 4.4 \$200,000,000 Mexican Peso Revolving Credit Agreement dated as of October 20, 1998 as amended by Amendment No. 4 dated as of October 31, 2001, and renewed on November 27, 2001, among Arrendadora Financiera Navistar S.A. de C.V., Servicios Financieros Navistar S.A. de C.V. and Navistar Comercial S.A. de C.V. and Comerica Bank Mexico, S.A. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).
- 4.5 \$100,000,000 Revolving Credit Agreement dated as of July 9, 1999 as amended by Amendment No. 7 dated as of April 25, 2001, among Arrendadora Financiera Navistar S.A. de C.V., Servicios Financieros Navistar S.A. de C.V. and Navistar Comercial S.A. de C.V. and Banco Nacional de Mexico, S.A. de C.V. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).
- 4.6 \$300,000,000 Mexican Peso Revolving Credit Agreement dated as of August 10, 1999, and renewed on November 21, 2001, among Servicios Financieros Navistar S.A. de C.V., Arrendadora Financiera Navistar S.A. de C.V., Navistar Comercial S.A. de C.V. and Bancomer, S.A. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).
- 4.7 \$95,000,000 Forward contract dated as of April 20, 2000 by and between Navistar International Corporation and Royal Bank of Canada. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).

**NAVISTAR INTERNATIONAL CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

**INSTRUMENTS DEFINING RIGHTS OF SECURITY HOLDERS,
INCLUDING INDENTURES**

- 4.8 \$50,000,000 Mexican Peso Credit Agreement dated as of November 22, 2000, by and between Servicios Financieros Navistar, S.A. de C.V., Arrendadora Financiera Navistar, S.A. de C.V., Navistar Comercial, S.A. de C.V. and Banco Nacional de Obras y Servicios Publicos, S.N.C. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).
- 4.9 Credit Agreement for \$820,000,000 Revolving Credit and Competitive Advance Facility dated as of December 8, 2000, between Navistar Financial Corporation, Arrendadora Financiera Navistar, S.A. de C.V., Servicios Financieros Navistar, S.A. de C.V. and Navistar Comercial, S.A. de C.V., as borrowers, lenders party hereto, The Chase Manhattan Bank as Administrative Agent, Bank of America as Syndication Agent and Bank of Nova Scotia as Documentation Agent. Filed as Exhibit 10.05 to Navistar Financial Corporation's Form 10-Q dated March 15, 2001. Commission File No. 1-4146-1.
- 4.10 Guarantee, dated as of December 8, 2000, made by Navistar International Corporation, in favor of The Chase Manhattan Bank, as Administrative Agent, for the lenders parties to the Credit Agreement, dated as of December 8, 2000, among Navistar Financial Corporation and Arrendadora Financiera Navistar, S.A. de C.V., Servicios Financieros Navistar, S.A. de C.V. and Navistar Comercial, S.A. de C.V., the Lenders, Bank of America, N.A., as syndication agent, The Bank of Nova Scotia, as documentation agent, and the Administrative Agent. Filed as Exhibit 10.07 to Navistar Financial Corporation's Form 10-Q dated March 15, 2001. Commission File No. 1-4146-1.
- 4.11 Indenture, dated as of May 31, 2001, by and between Navistar International Corporation, International Truck and Engine Corporation and BNY Midwest Trust Company, as Trustee, for 9 3/8% Senior Notes due 2006 for \$400,000,000. Filed on Registration No. 333-64626.
- 4.12 First Supplement to Indenture, dated as of May 31, 2001, by and between Navistar International Corporation, International Truck and Engine Corporation and BNY Midwest Trust Company, as Trustee, for 7% Senior Notes due 2003 for \$100,000,000. Filed on Registration No. 333-64626.
- 4.13 First Supplement to Indenture, dated as of May 31, 2001, by and between Navistar International Corporation, International Truck and Engine Corporation and BNY Midwest Trust Company, as Trustee, for 8% Senior Subordinated Notes due 2008 for \$250,000,000. Filed on Registration No. 333-64626.

**NAVISTAR INTERNATIONAL CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

**INSTRUMENTS DEFINING RIGHTS OF SECURITY HOLDERS,
INCLUDING INDENTURES**

- 4.14 Note Purchase Agreement, dated as of June 15, 2001, as amended by Amendment dated August 16, 2001, between International Truck and Engine Corporation and the State of Wisconsin Investment Board for 9.95% Senior Notes due 2011 for \$19,000,000. The Registrant agrees to furnish to the Commission upon request a copy of such agreement, which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).
- 4.15 \$250,000,000 Mexican Peso Credit Agreement dated as of July 25, 2001 by and between Servicios Financieros Navistar S.A. de C.V., Arrendadora Financiera Navistar, S.A. de C.V., Navistar Comercial, S.A. de C.V. and Banco Nacional de Obras y Servicios Publicos, S.N.C. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).
- 4.16 First Supplement to Indenture, dated as of August 22, 2001, by and between Navistar International Corporation, International Truck and Engine Corporation and BNY Midwest Trust Company, as Trustee, for 9 3/8% Senior Notes due 2006 for \$400,000,000. Filed as Exhibit 4.19 to Annual Report on Form 10-K dated December 18, 2001. Commission File No. 1-9618.
- 4.17 Second Supplement to Indenture, dated as of August 22, 2001, by and between Navistar International Corporation, International Truck and Engine Corporation and BNY Midwest Trust Company, as Trustee, for 8% Senior Subordinated Notes due 2008 for \$250,000,000. Filed as Exhibit 4.20 to Annual Report on Form 10-K dated December 18, 2001. Commission File No. 1-9618.
- 4.18 \$30,000,000 Revolving Credit Agreement dated as of October 25, 2001, among Arrendadora Financiera Navistar S.A. de C.V., Servicios Financieros Navistar S.A. de C.V., Navistar Comercial S.A. de C.V. and Export Development Corporation. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).
- 4.19 \$500,000,000 Mexican Peso Medium Term Promissory Notes Program issued November 22, 2001, by Servicios Financieros Navistar S.A. de C.V. and placed in the market by the intermediate underwriter Casa de Bolsa Citibank, S.A. de C.V. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).

**NAVISTAR INTERNATIONAL CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

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INSTRUMENTS DEFINING RIGHTS OF SECURITY HOLDERS,
INCLUDING INDENTURES**

The following documents of Navistar International Corporation are filed herewith.

Form 10-Q Page

4.20* Navistar International Corporation Restated Stock Certificate

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Instruments defining the rights of holders of other unregistered long-term debt of Navistar and its subsidiaries have been omitted from this exhibit index because the amount of debt authorized under any such instrument does not exceed 10% of the total assets of the Registrant and its consolidated subsidiaries. The Registrant agrees to furnish a copy of any such instrument to the Commission upon request.

**NAVISTAR INTERNATIONAL CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

MATERIAL CONTRACTS

The following documents of Navistar International Corporation are filed herewith.

	<u>Form 10-Q Page</u>
10.31* Navistar 1994 Performance Incentive Plan, as amended	E-9
10.32* Navistar 1998 Supplemental Stock Plan, as amended and supplemented by the Restoration Stock Option Program	E-18
10.33* Board of Directors resolution regarding director's annual retainer	E-23
10.34* Navistar Non-Employee Director's Deferred Fee Plan	E-24
10.35* Executive Severance Agreement between J. R. Horne and the company dated June 16, 1997	E-29

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* Indicates a management contract or compensatory plan or arrangement required to be filed as an exhibit to this report pursuant to Item 14(c).

NAVISTAR INTERNATIONAL CORPORATION RESTATED STOCK CERTIFICATE



E-8

NAVISTAR 1994 PERFORMANCE INCENTIVE PLAN
(Amended as of December 11, 2001)

SECTION I
ESTABLISHMENT OF THE PLAN

The Board of Directors of Navistar International Corporation approved the establishment of the Navistar 1994 Performance Incentive Plan ("Plan"). The Plan replaces the Navistar 1988 Performance Incentive Plan, which consolidated and modified the Corporation's Annual Incentive Plan, the Long Term Incentive Plan and the 1984 Stock Option Plan into one plan.

SECTION II
PURPOSE OF THE PLAN

The purpose of the Plan is to enable the Corporation and its subsidiaries to attract and retain highly qualified personnel, to provide key employees who hold positions of major responsibility the opportunity to earn incentive awards commensurate with the quality of individual performance, the achievement of performance goals and ultimately the increase in shareowner value.

SECTION III
DEFINITIONS

For the purposes of the Plan, the following words and phrases shall have the meanings described below in this Section III unless a different meaning is plainly required by the context.

- (1) "Annual Incentive Award" means an award of cash approved by the Committee based on the level of achievement attained against annual performance goals approved by the Committee on or prior to the commencement of the applicable Fiscal year.
- (2) "Award" means an award made under the Plan.
- (3) "Board of Directors" means the Board of Directors of Navistar International Corporation.
- (4) "Change in Control" shall be deemed to have occurred if (A) any "Person" or "group" (as such terms are used in Section 13 (d) and 14 (d) of the Securities Exchange Act of 1934) other than employee or retiree benefit plans or trusts sponsored or established by the Corporation or Navistar International Transportation Corp. ("NITC") is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of securities of the Corporation representing 25% or more of the combined voting power of the Corporation's then outstanding securities, (B) as the result of, or in connection with, any cash tender offer, exchange offer, merger or other business combination, sale of assets, proxy or consent solicitation, contested election or substantial stock accumulation (a "Control Transaction"), the members of the Board of Directors of the Corporation immediately prior to the first public announcement relating to such Control Transaction shall immediately thereafter, or within two years, cease to constitute a majority of the Board of Directors of the Corporation or (C) any dissolution or liquidation of the Corporation or NITC or an agreement for the sale or disposition of all or substantially all (more than 50%) of the assets of the Corporation or NITC occurs. Notwithstanding the foregoing, the sale or disposition of any or all of the assets or stock of Navistar Financial Corporation shall not be deemed a Change in Control.

EXHIBIT 10.31 (CONTINUED)

- (5) "Committee" means the Committee on Compensation and Governance of the Board of Directors.
- (6) "Common Stock" means the common stock of the Corporation.
- (7) "Corporation" means Navistar International Corporation.
- (8) "Employee" means a person regularly employed by the Corporation or any subsidiary of the Corporation, including its officers.
- (9) "Fair Market Value" means the average of the high and the low prices of a share of Common Stock on the effective date of grant as set forth in the New York Stock Exchange - Composite Transactions listing published in the Midwest Edition of The Wall Street Journal or equivalent financial publication.
- (10) "Fiscal Year" means the fiscal year of the Corporation.
- (11) "Incentive Stock Option" means a right, as evidenced by an agreement between the Participant and the Company in a form approved by the Committee, to purchase a certain number of shares of Common Stock at Fair Market Value for a period of ten (10) years from the date of grant which options are designed to meet the requirements set out under Section 422 of the Internal Revenue Code.
- (12) "Long-term Incentive Award" means an award of Restricted Shares for a long-term cycle, the amount of the award and the length of the cycle will be determined by the Committee.
- (13) "Nonqualified Stock Option" means a right, as evidenced by an agreement between the Participant and the Company in a form approved by the Committee, to purchase a certain number of shares of Common Stock at Fair Market Value for a period of ten (10) years and one day from the date of grant on which options are stated not to be qualified as incentive stock options under Section 422 of the U.S. Internal Revenue Code.
- (14) "Participant" means an Employee selected by the Corporation for participation in the Plan.
- (15) "Plan" means the Navistar 1994 Performance Incentive Plan as set forth herein and as it may be amended hereafter from time to time.
- (16) "Qualified Retirement" means a retirement from employment of the Corporation or any of its subsidiaries at any time after the attainment of age fifty-five (55) with at least ten (10) years of credited service as defined by the applicable retirement plan.
- (17) "Restricted Share" means a share of Common Stock awarded to a Participant by the Committee without payment by the Participant which is restricted as to sale or transfer and subject to forfeiture pursuant to terms established by the Committee at the time of issuance.
- (18) "Stock Option" means either an Incentive Stock Option or a Nonqualified Stock Option.

SECTION IV
ELIGIBILITY

Management will, from time to time, select and recommend to the Committee Employees who are to become Participants in the Plan. Such Employees will be selected from those who, in the opinion of management, have substantial responsibility in a managerial or professional capacity. Employees selected for participation in the Plan may not concurrently participate in any other annual performance, long-term performance, sales incentive or profit sharing plan of the Corporation or any of its subsidiaries except as specifically approved by the Committee.

SECTION V
ANNUAL INCENTIVE AWARDS

- (1) On or before the commencement of each Fiscal Year, the Committee will approve performance goals for corporate achievement for such Fiscal Year, and the amount of the Annual Incentive Awards for such Fiscal Year will be based on the level of achievement attained against previously approved performance goals. The Committee also will approve an award percentage for each organization level for each performance goal.
- (2) Performance goals for Annual Incentive Awards will not be increased or decreased within a Fiscal Year except for extraordinary circumstances approved by the Committee.
- (3) An Annual Incentive Award determination will be made by the Committee when the financial results and performance levels for a Fiscal Year are presented to the Committee by management.
- (4) Payment of an Annual Incentive Award will be made in cash to the Participant as soon as practicable after an Annual Incentive Award determination has been made by the Committee. A Participant who is not an Employee at the end of a Fiscal Year will not be entitled to an Annual Incentive Award for that Fiscal Year unless the Committee determines otherwise.

SECTION VI
LONG TERM INCENTIVE AWARDS

- (1) On or before the commencement of each Fiscal Year, the Committee will approve performance goals for corporate achievement for a long-term cycle as determined by the Committee. The amount of any Long Term Incentive Award earned shall be based on the cumulative level of performance attained against the approved performance goals.
- (2) Criteria for Long Term Incentive Awards will not be increased or decreased for any long-term cycle that has begun except for extraordinary circumstances approved by the Committee.
- (3) Separate Long-term Incentive Award determinations will be made by the Committee for each long-term cycle.

- (4) Restricted Shares will be awarded by the Committee to each Participant approved by the Committee at the beginning of each cycle unless to do so would present a substantial risk of causing the Corporation to undergo an ownership change, as such term is defined in Section 382 of the Internal Revenue Code, in which event the Committee shall delay the award until there is no longer such a risk. The amount to be awarded will be pursuant to a formula approved by the Committee that will be based on the ability of the Participant to contribute to the efforts to achieve the performance goals approved by the Committee for the applicable cycle. The Committee shall designate which shares shall be subject to performance goals. The Committee will make the final Long-Term Award determination. No fractional shares will be issued. A Participant who quits or is involuntarily separated will forfeit any Restricted Shares. Any Restricted Shares forfeited shall be forfeited (i) to the Company or (ii) if the forfeiture to the Company creates a substantial risk of an ownership change under Section 382 of the Internal Revenue Code, then to the salaried and hourly pension trusts of the Corporation's principal operating subsidiary pro rata based on assets held in the trusts as of the beginning of the prior plan year. If a Participant dies, becomes permanently and totally disabled, or retires pursuant to a Qualified Retirement, Restricted Shares previously awarded which are subject to performance goals, will be retained until the shares are earned or forfeited for failure to meet the performance goals.
- (5) A Participant may elect, subject to the provisions of Section VII (2), to pay any withholding tax due on Stock Options or on Restricted Shares awarded pursuant to the Plan either (i) by cash including a personal check made payable to the Corporation or (ii) by delivering at Fair Market Value unrestricted Common Stock already owned by the Participant or (iii) by any combination of cash or unrestricted Common Stock. If the Participant is an officer of the Corporation who is subject to Section 16(b) of the Securities Exchange Act of 1934, he or she may make an election pursuant to (ii) or (iii) above only if it is made in writing (a) at least six (6) months following the date of grant of an option or an award and at least six (6) months prior to the date on which the amount of the minimum required withholding tax related to the option or award is determined or (b) within a ten-day period following the release of the Corporation's annual or quarterly financial results. Once an officer, who is subject to Section 16(b) of the Securities Exchange Act of 1934, makes an election pursuant to (ii) or (iii) above with respect to a specific option or award, it shall be irrevocable unless the election is disapproved by the Committee at its next meeting following the election. If the redemption of shares by the Corporation to pay withholding taxes would present a substantial risk of causing an ownership change under Section 382 of the Internal Revenue Code, the Corporation may refuse the redemption. In such a case of refusal to redeem by the Corporation, the Participant would be permitted to sell sufficient shares to pay any withholding taxes due.

SECTION VII STOCK OPTIONS

- (1) The Committee may grant Nonqualified Stock Options or Incentive Stock Options or a combination of both to Participants in the amount and at the time that the Committee approves. Option grants shall be limited to a maximum of 50,000 shares per year for any Participant. The Board may in its discretion grant options in addition to the options subject to the limitation contained in the proceeding sentence, provided that option grants shall be considered as made under the proceeding sentence to the extent the limitation is not exceeded, and any option grants in excess of the limitation contained in the proceeding sentence shall be considered as made under this sentence, and any option grants made under this sentence shall not be treated as performance-based compensation for tax purposes.

EXHIBIT 10.31 (CONTINUED)

- (2) Unless otherwise determined by the Committee, a Stock Option granted under the Plan will become exercisable in whole or in part after the commencement of the second year of the term of the Stock Option to the extent of one third of the shares, to the extent of one third of the shares after commencement of the third year, and to the extent of one third of the shares after commencement of the fourth year. The Committee will be authorized to establish the manner of exercise of a Stock Option. The effective date of the grant of a Stock Option will, unless the Committee expressly determines otherwise, be the business day on which the Committee approves the grant of such Stock Option, provided that such grant will expire if a written option agreement is not signed by the Participant receiving a Stock Option and delivered to the Corporation within thirty (30) days of such approval by the Committee. The option can be exercised in whole or in part through cashless exercises or other arrangements through agents, including stockbrokers, under arrangements established by the Corporation by paying the amounts required by instructions issued by the Secretary of the Corporation for the exercise of the options. If an exercise is not covered by instructions issued by the Corporate Secretary, the purchase price is to be paid in full to the Corporation upon the exercise of a Stock Option either (i) by cash including a personal check made payable to the Corporation; (ii) by delivering at Fair Market Value unrestricted Common Stock already owned by the Participant, for six months or more if acquired from the Corporation, or (iii) by any combination of cash and unrestricted Common Stock, and in either case, by payment to the Corporation of any withholding tax. In no event may successive simultaneous pyramiding be used to exercise an Option. If permitting the exercise of a Stock Option at the time notice of intent is given by the Participant to the Corporation would present a substantial risk of causing an ownership change under Section 382 of the Internal Revenue Code, the Corporation may refuse to permit the exercise in which event as soon as the Corporation determines that a substantial risk of causing an ownership change no longer exists, it will issue shares of Common Stock equal in value to the difference between the exercise price per share and the market price per share times the number of shares covered by the exercise plus interest on the total for the period of the delay calculated at the composite prime rate of interest to corporate borrowers as published in The Wall Street Journal. The Committee also will be authorized in its discretion to prescribe in the option agreement for the exercise of the Stock Option in specific installments. A Stock Option granted under the Plan will be exercisable during such period as the Committee may determine, and will be subject to earlier termination as hereinafter provided. In no event, however, may a Stock Option governed by the Plan be exercised after the expiration of its term. Except as provided herein, no Stock Option may be exercised at any time unless the Participant who holds the Stock Option is then an Employee. The Participant who holds a Stock Option will have none of the rights of a shareowner with respect to the shares subject to a Stock Option until such shares are issued upon the exercise of a Stock Option. Shares which otherwise would be delivered to the holder of a Stock Option may be delivered, at the election of the holder, to the Corporation in payment of Federal, state and/or local withholding taxes due in connection with an exercise.
- (3) Neither the Corporation nor any subsidiary may directly or indirectly lend money to any Participant for the purpose of assisting the individual to acquire shares of Common Stock issued upon the exercise of Stock Options granted under the Plan.

- (4) In the event of the termination of the employment of a Participant who holds an outstanding Stock Option, other than by reason of death, total and permanent disability or a Qualified Retirement, the Participant may (unless the Stock Option shall have been previously terminated) exercise the Stock Option at any time within three (3) months after such termination, but not after the expiration of the term of the grant, to the extent of the number of shares which were exercisable at the date of the termination of employment. Stock Options governed by the Plan will not be affected by any change of employment so long as the Participant continues to be an Employee.
- (5) Except as provided in the last two sentences of this Section VII(5), in the event of Qualified Retirement a Participant who holds an outstanding Stock Option may exercise the Stock Option to the extent the option is exercisable or becomes exercisable under its terms, at any time during the term of the option grant, and in the event of a total and permanent disability, a Participant who holds an outstanding Stock Option may exercise the Stock Option, to the extent the option is exercisable or becomes exercisable under its terms, at any time within three years after such termination or, if later, the date on which the option becomes exercisable with respect to such shares, but not after the expiration of the term of the option grant. In the event of the death of a Participant who holds an outstanding Stock Option, the Stock Option may be exercised by a legatee, or by the personal representatives or distributees, at any time within a period of two (2) years after death, but not after the expiration of the term of the grant. If death occurs while employed by the Corporation or a subsidiary, or during the three-year period specified in the first sentence of this paragraph, options may be exercised to the extent of the remaining shares covered by Stock Options whether or not such shares were exercisable at the date of death. If death occurs during the three-month period specified in Section VII(4) Stock Options may be exercised to the extent of the number of shares that were exercisable at the date of death. Notwithstanding the other provisions of this Section VII(5), no option which is not exercisable at the time of a retirement shall become exercisable after such retirement if, without the written consent of the Corporation, a Participant engages in a business, whether as owner, partner, officer, employee, or otherwise, which is in competition with the Corporation or one of its affiliates, and if the Participant's participation in such business is deemed by the Corporation to be detrimental to the best interests of the Corporation. The determination as to whether such business is in competition with the Corporation or any of its affiliates, and whether such participation by such person is detrimental to the best interests of the Corporation, shall be made by the Corporation in its absolute discretion, and the decision of the Corporation with respect thereto, including its determination as to when the participation in such competitive business commenced, shall be conclusive.

SECTION VIII RESTRICTED SHARES

- (1) In addition to the Restricted Shares which the Committee may award pursuant to Section VI(4), the Committee also may award Restricted Shares to individuals recommended by management for either retention or performance purposes or as part of an employment agreement.
- (2) The Participant will be entitled to all dividends paid with respect to all Restricted Shares awarded under the Plan during the period of restriction and will not be required to return any such dividends to the Corporation in the event of the forfeiture of the Restricted Shares. The Participant also will be entitled to vote Restricted Shares during the period of restriction.

- (3) All Restricted Share certificates awarded under the Plan are to be delivered to the Participant with an appropriate legend imprinted on the certificate.

SECTION IX
ADJUSTMENTS UPON CHANGES IN CAPITALIZATION

Notwithstanding any other provision of the Plan, the option agreements may contain such provisions as the Committee determines to be appropriate for the adjustment of the number and class of shares, subject to each outstanding Stock Option, the option prices in the event of changes in, or distributions with respect to, the outstanding Common Stock by reason of stock dividends, recapitalizations, mergers, consolidations, split-ups, combinations or exchanges of shares, spinoffs and the like, and, in the event of any such changes in, or distribution with respect to, the outstanding Common Stock, the aggregate number and class of shares available under the Plan shall be appropriately adjusted by the Committee, whose determination shall be conclusive.

SECTION X
ADMINISTRATION OF THE PLAN

Full power and authority to construe, interpret and administer the Plan is vested in the Committee. Decisions of the Committee will be final, conclusive and binding upon all parties, including the Corporation, shareowners and employees. The foregoing will include, but will not be limited to, all determinations by the Committee as to (a) the approval of Employees for participation in the Plan, (b) the amount of the Awards, (c) the performance levels at which different percentages of the Awards would be earned and all subsequent adjustments to such levels and (d) the determination of all Awards. Any person who accepts any Award hereunder agrees to accept as final, conclusive and binding all determinations of the Committee. The Committee will have the right, in the case of employees not employed in the United States, to vary from the provision of the Plan to the extent the Committee deems appropriate in order to preserve the incentive features of the Plan.

SECTION XI
NON-ASSIGNMENT

Awards under the Plan may not be assigned or alienated. In case of a Participant's death, the amounts distributable to the deceased Participant under the Plan with respect to which a designation of beneficiary has been made (to the extent it is valid and enforceable under applicable law) shall be distributed in accordance with the Plan to the designated beneficiary or beneficiaries. The amount distributable to a Participant upon death and not subject to such a designation shall be distributed to the Participant's estate. If there is any question as to the right of any beneficiary to receive a distribution under the Plan, the amount in question may be paid to the estate of the Participant, in which event the Corporation will have no further liability to anyone with respect to such amount.

SECTION XII
RIGHTS OF PARTICIPANT

To the extent that any Participant, beneficiary or estate acquires a right to receive payments or distributions under the Plan, such right will be no greater than the right of a general unsecured creditor of the Corporation. All payments and distributions to be made hereunder will be paid from the general assets of the Corporation. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create any contracted right or trust of any kind or fiduciary relationship between the Corporation and any Participant, beneficiary or estate.

SECTION XIII
MODIFICATION, AMENDMENT OR TERMINATION

The Committee may modify without the consent of the Participant (i) the Plan, (ii) the terms of any option previously granted or (iii) the terms of Restricted Shares previously awarded at any time, provided that, no such modification will, without the approval of the shareowners of the Corporation, increase the number of shares of Common Stock available hereunder. The Committee may terminate the Plan at any time.

SECTION XIV
RESERVATION OF SHARES

Each fiscal year, there will be reserved for issue under the Plan one (1) percent of the outstanding shares of Common Stock including Class B Common Stock of the Corporation as determined by the number of shares outstanding as of the end of the immediately preceding fiscal year. No more than Five Hundred Thousand (500,000) shares shall be granted as Incentive Stock Options in any calendar year. Such shares may be in whole or in part, as the Board of Directors shall from time to time determine, authorized and unissued shares of Common Stock or issued shares of Common Stock which shall have been reacquired by the Corporation. If less than one (1) percent of the shares is granted or awarded in any fiscal year, the difference will be available for use in the following year only and if not used in the following year, those shares will no longer be available. Any shares available from the prior year will be the last shares to be granted or awarded.

SECTION XV
AGREEMENT TO SERVE

Each Participant receiving a Nonqualified Stock Option or an Incentive Stock Option shall, as one of the terms of the option agreement, agree to remain in the service of the Corporation or of one of its subsidiaries for a period of at least one (1) year from the date of granting the option. Such service will (subject to the provisions of any contract between the Corporation or any such subsidiary and such Participant) be at the pleasure of the Corporation or of such subsidiary and at such compensation as the Corporation or such subsidiary shall determine from time to time. Any termination of a Participant's service for any reason other than death, permanent and total disability or Qualified Retirement during such period shall be deemed a violation of the Agreement contained in this Section. In the event of such violation, any Nonqualified Stock Option or Incentive Stock Option held by the Participant under the Plan will immediately be canceled. Nothing in the Plan will confer on any Participant any right to continue in the employ of the Corporation or any of its subsidiaries or interfere with or prevent in any way the right of the Corporation or any of its subsidiaries to terminate a Participant's employment at any time for any reason.

SECTION XVI
CHANGE IN CONTROL

Notwithstanding any provision contained herein to the contrary, in the event of a Change in Control, all awarded Restricted Shares will immediately be free of all restrictions and performance contingencies and will be deemed fully earned and not subject to forfeiture and all outstanding options governed by the Plan will be immediately exercisable and shall continue to be exercisable for a period of three (3) years from the date of the Change in Control regardless of the original term or employment status, except that the term of any Incentive Stock Option shall not be extended beyond ten (10) years from the date of grant.

SECTION XVII
LIMITATION OF ACTIONS

Every right of action by or on behalf of the Corporation or any shareowner against any past, present or future member of the Board of Directors, officer or Employee arising out of or in connection with the Plan will, irrespective of the place where action may be brought and irrespective of the place of residence of any such director, officer or employee, cease and be barred by the expiration of three years from whichever is the later of (a) the date of the act or omission in respect of which such right of action arises or (b) the first date upon which there has been made generally available to shareowners an annual report of the Corporation and a proxy statement for the annual meeting of shareowners following the issuance of such annual report, which annual report and proxy statement alone or together set forth, for the related period, the aggregate amount of Awards under the Plan during such period; and any and all right of action by an Employee (past, present or future) against the Corporation arising out of or in connection with the Plan shall, irrespective of the place where action may be brought, cease and be barred by the expiration of three (3) years from the date of the act or omission in respect of which such right of action arises.

SECTION XVIII
GOVERNING LAW

The Plan will be governed by and interpreted pursuant to the laws of the State of Delaware, the place of incorporation of the Corporation.

SECTION XIX
SUBSIDIARIES' PLANS

To the extent determined by the Committee, any subsidiary may, without regard to the limitations under the Plan, have a separate incentive plan or program. The Committee will have exclusive jurisdiction and sole discretion to approve or disapprove any such plan or program and, from time to time, to amend, modify, or suspend any such plan or program. Individuals eligible for Awards under any such plan or program will not be considered Employees eligible for Awards under the Plan, unless otherwise determined by the Committee. No provision of any such plan or program will be included in, or considered a part of, the Plan and any awards made under any such plan or program will not be charged against the aggregate amount available under the Plan unless otherwise determined by the Committee.

SECTION XX
EFFECTIVE DATE

The effective date of the Plan shall be December 16, 1993, if approved by the shareowners at the 1994 Annual Meeting, and the Plan shall continue in effect for ten (10) years from the effective date.

NAVISTAR 1998 SUPPLEMENTAL STOCK PLAN
(As amended December 11, 2001, and supplemented by the Restoration Stock Option Program)

SECTION I
PURPOSE OF THE PLAN

The purpose of this Navistar 1998 Supplemental Stock Plan ("Plan") is to provide an additional plan for the issuance of stock options and restricted stock for shares of the common stock of Navistar International Corporation to employees of Navistar International Corporation and its subsidiaries ("Corporation") to attract and retain highly qualified personnel, to provide key employees who hold positions of major responsibility the opportunity to earn incentive awards commensurate with the quality of individual performance, the achievement of performance goals and ultimately the increase in shareowner value. This Plan is separate from and intended to supplement the Navistar 1994 Performance Incentive Plan ("1994 Plan"). The Plan replaces the Navistar International Corporation 1998 Interim Stock Plan for grants or awards of stock made on and after the date of adoption of this Plan.

SECTION II
DEFINITIONS

The terms used in this Plan are defined as specified in the 1994 Plan unless the context indicates to the contrary.

SECTION III
ELIGIBILITY

Management will, from time to time, select and recommend to the Committee on Compensation and Governance of the Board of Directors of Navistar International Corporation ("Committee") (formerly named the Committee on Organization) Employees who are to become Participants in the Plan. Employees will be selected from those who, in the opinion of management, have substantial responsibility in a managerial or professional capacity. Employees selected for participation in the Plan may also be participants in the 1994 Plan, and participation in this Plan will not be considered participation in a plan that would affect their participation in the 1994 Plan.

SECTION IV
STOCK OPTIONS

The Committee may grant Nonqualified Stock Options to Participants in the amount and at the time that the Committee approves. No Incentive Stock Options shall be granted under this Plan. Options shall be granted under the same terms and conditions as options granted under the 1994 Plan, as amended from time to time, but subject to the limitation on the number of shares contained in this Plan, and subject to the limitation that only treasury shares, and not newly issued shares, may be used for any grant.

SECTION V
RESTRICTED SHARES

The Committee may award restricted shares for the purposes and under the same terms and conditions as specified in Sections VI and VIII, and the other provisions of the 1994 Plan, but subject to the limitations on the number of shares contained in this Plan, and subject to the limitation that only treasury shares, and not newly issued shares, may be used for any award to an officer of the Corporation.

SECTION VI ADMINISTRATION OF THE PLAN

Full power and authority to construe, interpret and administer the Plan is vested in the Committee. Decisions of the Committee will be final, conclusive and binding upon all parties, including the Corporation, shareowners and employees. The foregoing will include, but will not be limited to, all determinations by the Committee as to (i) the approval of Employees for participation in the Plan, (ii) the amount of the Awards, (iii) the performance levels at which different percentages of the Awards would be earned and all subsequent adjustments to such levels and (iv) the determination of all Awards. Any person who accepts any Award hereunder agrees to accept as final, conclusive and binding all determinations of the Committee. The Committee will have the right, in the case of employees not employed in the United States, to vary from the provision of the Plan to the extent the Committee deems appropriate in order to preserve the incentive features of the Plan.

SECTION VII MODIFICATION, AMENDMENT OR TERMINATION

The Committee may modify without the consent of the Participant (i) the Plan, (ii) the terms of any option previously granted or (iii) the terms of Restricted Shares previously awarded at any time, provided that, no such modification will, without the approval of the Board of Directors of the Corporation, increase the number of shares of Common Stock available hereunder. The Committee may terminate the Plan at any time.

SECTION VIII RESERVATION OF SHARES

The total number of shares of stock reserved and available for delivery pursuant to this Plan is 2 million shares of common stock of Navistar International Corporation. The number of shares reserved and available shall be increased by shares of stock subject to an option or award under this Plan or any other plan that is cancelled, expired, forfeited, settled in cash or otherwise terminated without a delivery of shares to the participant of the plan, including shares used to pay the option exercised price of an option issued under the Plan or any other plan or to pay taxes with respect to such an option. Only treasury shares, and not newly issued shares, may be reserved and made available for delivery.

Effective December 11, 2001 the number of shares remaining to be issued under the plan is increased by 2.5 million shares.

SECTION IX TERM OF THE PLAN

The Plan shall be effective on the date of adoption by the Board of Directors and continue through December 16, 2003.

SECTION X GOVERNING LAW

The Plan will be governed by and interpreted pursuant to the laws of the State of Delaware, the place of incorporation of the Corporation.

RESTORATION STOCK OPTION PROGRAM

Restoration options. Restoration stock options are additional options granted to an employee as a result of the employee exercising another Navistar stock option if the form and manner of the exercise of the other stock option qualify for the restoration option program.

Qualifying exercises.

- The option being exercised (the original option) can be any employee stock option granted by Navistar, whether granted before or after the commencement or revision of the restoration option program. Options that were granted as restoration options are not eligible for restoration option grants if the original nonrestoration option was granted prior to June 21, 2000. Incentive Stock Options (ISO) are not eligible.
- No restoration option exercise can be made during the six-month period following the revision of this program unless the restoration exercise is made on a deferred basis as provided for in this program document.
- The option price payable on exercise of the original option must be paid by transferring to the Corporation Navistar stock with a current value equal to the option price. The stock must be mature stock, i.e., if the stock was acquired from the Corporation, it must have been held at least six months.
- The employee must either pay cash for the withholding tax, transfer to the Corporation Navistar stock with a current value equal to the withholding tax, or request that the amount of stock necessary to cover the withholding tax be withheld from the stock otherwise payable to the employee. The employee may request additional withholding at a federal rate of up to 40%, if he presents to the Company mature shares equal in value to the additional withholding. The stock must be mature stock, i.e., if the stock was acquired from the Corporation it must have been held at least six months.
- The employee must elect that the exercise be treated as a restoration exercise and sign an agreement for the restoration option.

Terms of the restoration option grant.

- The number of shares for which the restoration option is granted is the number of shares required to be paid to the Corporation on exercise of the original option, i.e., the number of shares required to pay the option price; and the number of shares with value equal to the tax liability.
- The option price under the restoration option will be the market price of Navistar stock on the date of exercise of the original option (the date of grant of the restoration option).
- The term of the restoration option shall be for the remaining term of the original option.
- The restoration option will become exercisable six months after the date of grant of the restoration option, or, if sooner, one month before the end of the term of the original option.

EXHIBIT 10.32 (CONTINUED)

- The usual terms of Navistar stock options as specified in the plans and Committee and Board action will apply to the restoration options where specific provisions reflecting the nature of the restoration options are not applicable. For example, the options will continue to become exercisable after a qualified retirement and will be exercisable for three years after becoming exercisable; on change in control the options will become exercisable immediately and be extended for three years; options that are not exercisable will lapse if an employee quits before retirement.

Restriction on profit shares. The profit shares received on exercise of the original option are subject to restriction on transfer. The profit shares are the shares that represent the difference in value between the option price and the value of the stock on the date of exercise of the original option, less any shares withheld to pay the withholding taxes required on the exercise of the original option.

- The profit shares cannot be transferred for three years following the exercise of the original option.
- The restriction period ends immediately if the holder dies, terminates employment on account of disability, or terminates employment under a qualified retirement as defined in the stock option plan.
- Profit shares can be used to pay the option price on exercise of another Navistar stock option even though the shares are subject to the transfer restrictions. The holder is treated as transferring his profit shares to the Corporation, and getting from the Corporation in the exchange the same shares back from the Corporation. The transfer restriction continues to apply to the exchanged shares for the balance of the three-year period that started on the date of exercise of the first original option. The profit shares can only be used if the option being exercised permits their use. For example, the options prohibit use of shares that have not been held for longer than six months if the shares were acquired from the Corporation.

Deferral of Profit Shares. Each employee who makes a restoration exercise of an option may elect to have the Company defer delivery of the profit shares due on the original option for a period of years or an event such as death, disability or retirement. The profit shares are that number of shares for which the option was exercised less the number of shares used to pay the option price. An election will be made under procedures established by the Company that will provide for the following:

- The election must be made six months in advance of exercise of an option, and no options for which the employee has made an election can be exercised under the restoration program during the six-month period. However, the six-month restriction period will not apply if the employee makes a deferral election within 30 days of the revision of this program and pursuant to the election exercises an option within 6 months of the revision. During the deferral period, the employee will have no right to vote the stock, to receive any dividend declared on the stock, and no other right as a shareholder. The employee will be paid in cash the equivalent of any dividend payments. If the dividend is an extraordinary dividend, the Company may give additional units for shares instead of making a cash payment.
- The employee must select the number of years for the deferral period (between 1 and 20) and can select that the deferral period ends on death, disability, and/or retirement, or a specified time after retirement. A deferral period can be extended on six-months notice by a current employee or an employee who terminated by retirement or disability. (The terms retirement and disability are defined in the stock options and plan.)

EXHIBIT 10.32 (CONTINUED)

- The deferral period will end on change in control of the Company. In the event of a transaction that would cause an adjustment under the anti-dilution provisions of the stock option, such as a stock split, merger, spin off, a similar adjustment will be made to the deferred shares to preserve the value of the deferral.
- The Company can terminate the deferral within three months for any employee who terminates employment for a reason other than death, disability or retirement. The Company can terminate the deferral for all employees if it determines it is in the best interests of the Company to do so.
- The employee will be granted restoration options on the exercise date to cover future FIT, state, local, FICA and Medicare tax liabilities for all restorations.

Effect on share ownership requirement. The profit shares delivered to the employee and units for deferred shares can be counted as fulfilling an employee's stock ownership requirement under the Navistar Stock Ownership Program.

Termination of the program. The program has been established by resolution of the Committee on Compensation and Governance and the Board that authorized the granting of restoration stock options. The Committee and Board can terminate the program at any time by resolution terminating the prior authorization.

Board of Director's resolution regarding director's annual retainer:

FURTHER RESOLVED, that the Board hereby increases the non-employee director annual retainer to \$50,000, one-fourth of which will be paid annually in Restricted Stock as the first quarterly payment, effective January 1, 2002.

NAVISTAR NON-EMPLOYEE
DIRECTORS' DEFERRED FEE PLAN

(Adopted on August 14, 1995, amended as of June 16, 1997)

SECTION 1

PURPOSE

1.1 Navistar Non-Employee Directors' Deferred Fee Plan (hereinafter referred to as the "Plan") has been established by Navistar International Corporation (hereinafter referred to as the "Company") to attract and retain as members of the Board of Directors of the Company (hereinafter referred to as the "Board") persons who are not full-time employees of the Company or any of its subsidiaries, but whose business experience and judgment are a valuable asset to the Company and its subsidiaries.

SECTION 2

DIRECTORS COVERED

2.1 As used in the Plan, the term "Director" means any person who: (A) is now a member of the Board or is hereafter elected to the Board and (B) is not a full-time employee of the Company or any of its subsidiaries.

SECTION 3

DEFERRED DIRECTORS' FEES

3.1 Subject to obtaining the mutual consent of the Company and the Director at the time a fee deferral election is made, the Director may elect to have part or all of the cash fees otherwise payable for attendance at regular or special meetings (including executive sessions) of the Board or its committees and/or the cash part of the annual Director retainer fees, including retainer fees for chairing a Board committee, deferred in cash and paid as hereinafter provided. Any such election shall be made by filing a form of election with the secretary of the Company not later than December 31 of a calendar year and shall be effective with respect to any Directors' fees earned in all subsequent calendar years; provided, however, that such election may be changed from time to time by filing a new form of election with the secretary or on before December 31 of the year prior to the year for which such change is to be effective.

3.2 All deferred Directors' fees shall be credited to a cash account for the Director at the time such deferred Directors' fees would otherwise have been payable to such Director. Such cash account shall bear interest, compounded quarterly at the end of each calendar quarter, from the date amounts are credited thereto to the date of payment at the rate equivalent to the rate of interest as published on the first day of such quarter by The Wall Street Journal as the "prime" rate or the equivalent thereof.

3.3 A Director may elect to deferred all or any portion of the fee that would otherwise be payable in common stock of Navistar International Corporation for service as a Director in any year after 1997. Such deferral shall be subject to mutual agreement between the Corporation and the Director, and the making of an election in the time and manner set forth in Section 3.1.

3.4 For each year for which an election under Section 3.3 is in effect, there shall be credited to a deferred stock account for the Director the number of shares of Navistar common stock for which the election is effective. Any shares of Navistar common stock for which the election is not effective (determined by rounding up to the nearest whole share) shall be transferred to the Director and subject to such restriction as otherwise provided by the Restricted Shares Directors' Fees arrangement.

Each Directors' deferred stock account shall be credited with an amount equivalent to the dividend that would have been paid on an equal number of outstanding shares, which amount shall be credited in the equivalent number of shares determined based on the average of the high and low price of the shares on the date the dividend would have been paid on outstanding stock. The amount in the deferred stock account shall be adjusted for stock splits, stock dividends and similar transactions. No interest shall be paid on the deferred stock account.

The amount in each year's deferred stock account shall be paid to the Director on the date or event specified in the agreement and election pursuant to Section 3.3, or paid to another person as specified in such agreement or election. The amount shall be paid in shares of common stock of Navistar International Corporation to be transferred to the Director. The Corporation may pay amounts less than 100 shares in cash. Any shares paid to a Director shall be subject to such restriction as otherwise provided by the Restricted Shares Directors' Fees arrangement. Prior to the shares being transferred to the Director, the Director shall not be a shareholder, and shall have no rights of a shareholder, with respect to any amounts credited to the deferred stock account. A Director's interest in a deferred stock account is not assignable.

SECTION 4

PAYMENT OF DEFERRED DIRECTORS' FEES

4.1 Subject to the provisions of Section 4.2, Director's deferred fee earned and credited to the Director's cash account, including accrued interest, shall be paid as follows: prior to January 1 of any year with respect to which the Director has elected to defer fees pursuant to Section 3.1, the Director shall elect the time of payment of the fees so deferred, which election shall be irrevocable, and which shall be one of the following:

- (a) a lump sum payment at any time in any year following the year with respect to which the fees are being deferred; or
- (b) annual installments beginning on the first day of the month following the Director's retirement from the Board and continuing for a period not exceeding ten years.

4.2 The Board may, in its sole discretion, begin the payment of the Director's deferred fees prior to the Director's retirement from the Board. If the death of the Director occurs after termination of service as a Director, the Board may, in its sole discretion, accelerate the time of payment of the Director's deferred fees.

4.3 In the event of a "Change in Control" in the Company as defined below, any and all fees, including accrued interest, which have been deferred pursuant to Section 3 of this Agreement will be immediately paid to the Director.

4.4 For purposes of the Plan, a "Change in Control" shall be deemed to have occurred, if (A) any "person" or "group" (as such terms are used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934 other than employee or retiree benefit plans or trusts sponsored or established by the Company or Navistar International Transportation Corp. ("NITC")) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities, (B) as the result of, or in connection with, any cash tender offer, exchange offer, merger or other business combination, sale of assets, proxy or consent solicitation, contested election or substantial stock accumulation (a "Control Transaction"), the members of the Board of Directors of the Company immediately prior to the first public announcement relating to such Control Transaction shall immediately thereafter, or within two years, cease to constitute a majority of the Board of Directors of the Company, (C) any dissolution or liquidation of the Company or NITC or an agreement for the sale or disposition of all or substantially all (more than 50%) of the assets of the Company or of NITC occurs. Notwithstanding the foregoing, the sale or disposition of any or all of the assets or stock of Navistar Financial Corporation shall not be deemed a Change in Control.

MISCELLANEOUS

5.1 The Plan does not give the Director any right to be nominated or re-elected to the Board.

5.2 When a person entitled to a payment under the Plan is under legal disability or, in the Company's opinion, is in any way incapacitated so as to be unable to manage such person's financial affairs, the Company may direct that payment be made to such person's legal representative, or to a relative or friend of such person for such person's benefit. Any payment made in accordance with the preceding sentence shall be in complete discharge of the Company's obligation to make such payment under the Plan.

5.3 Any action required or permitted to be taken by the Company under the terms of the Plan shall be by affirmative vote of a majority of the members of the Board of Directors then in office.

5.4 Any controversy or claim arising out of or relating to the Plan or the breach hereof shall be settled by arbitration in the City of Chicago in accordance with the laws of the State of Illinois by three arbitrators, of whom one shall be appointed by the Company, one by the Director and one by the first two arbitrators. If the first two arbitrators cannot agree on the appointment of a third arbitrator, then the third arbitrator shall be appointed by the Chief Judge of the United States Court of Appeals for the Seventh Circuit. The arbitration shall be conducted in accordance with the rules of the American Arbitration Association except with respect to the selection of arbitrators which shall be as provided in this Section 5.4. Judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction thereof and will include interest on any amounts due and payable to the Director from the date of the breach of the Plan calculated for each month at the rate equal to the prime rate as published in The Wall Street Journal on the first date of its publication in the then current year. In the event that it shall be necessary or desirable for the Director to retain legal counsel and/or incur other costs and expenses in connection with the enforcement of any or all of the Director's rights under the Plan, the Company shall pay (or the Director shall be entitled to recover from the Company, as the case may be) reasonable attorney's fees and costs and expenses in connection with the enforcement of said rights (including the enforcement of any arbitration award in court), unless they determine that the Director's request to arbitrate was frivolous.

5.5 Any notices, requests, demands or other communications provided for by the Plan shall be sufficient if in writing and if sent by registered or certified mail, return receipt requested, to the Director at the last address filed in writing with the Company or, in the case of the Company, to the Company at its principal executive offices, attention Chairman.

5.6 The provisions of the Plan shall be construed in accordance with the internal law of the State of Illinois.

5.7 The Plan may be amended or canceled by mutual agreement of the parties in writing without the consent of any other person, and, no person, other than the parties hereto, shall have any rights under or interest in the Plan or the subject matter hereof.

5.8 All provisions of the Plan shall inure to the benefit of and be binding upon the successors and assigns of the Company (including any successor to, or assignee of, the assets or business of the Company or any subsidiary pursuant to a transaction constituting a change in control (as defined herein)), and the term "Company" as used herein shall include Navistar International Corporation and all such successors and assigns.

EXECUTIVE SEVERANCE AGREEMENT

THIS AGREEMENT between Navistar International Corporation, a Delaware corporation (the "Company"), its principal operating subsidiary, Navistar International Transportation Corp., a Delaware corporation ("NITC"), and J. R. Horne (the "Executive"), dated this 16th day of June 1997.

WITNESSETH

WHEREAS, the Company wishes to assure itself of stability and continuity of senior management and recognizes that organizational changes, including a change in control of the Company or NITC, may occur, and that the possibility of such changes negatively affects or may negatively affect the retention of senior management personnel of the Company and NITC and the decision-making and performance of such personnel with respect to such organizational changes, and the effectiveness of retention and incentivizing features of other elements of the Company's executive compensation program; and

WHEREAS, the Executive desires to achieve a degree of certainty as to rights to compensation upon certain terminations of employment during the Agreement Period as defined in paragraph 2 below.

NOW, THEREFORE, this Agreement is made to assure the fulfillment of the Company's and NITC's objectives in a manner which serves the best interests of the Company and NITC and their stockholders by providing the Executive and certain severance benefits in the event of a Termination as defined in paragraph 4 below during the Agreement Period. Accordingly, the Company, NITC and the Executive agree as follows:

1. Implementation of Agreement.

(a) This Agreement shall become effective on the date first set forth above.

(b) This Agreement shall be sole and exclusive agreement between the parties hereto with regard to severance payments and severance benefits provided by the Company or NITC to the Executive. Specifically, the Executive Severance Agreement between the Company and NITC and the Executive, dated 02/14/95, is hereby terminated by mutual agreement of the parties. All stock options and restricted stock of the Company granted or awarded to the Executive shall be governed by the respective plans and agreements pursuant to which they were granted or awarded. Except as provided in paragraph 5, any pension or other retirement benefits due to the Executive upon termination or retirement of the Executive from the Company or NITC shall be governed by the appropriate pension or benefit plan.

(c) This Agreement is not an employment contract nor does it alter the Executive's status as an at will employee of the Company or NITC. The Executive may terminate his or her employment with the Company or NITC at any time, and the Company and NITC retain the right to terminate the Executive's employment without notice, at any time, for any reason. This Agreement only provides the Executive with the severance payments and benefits as defined in paragraph 5 below in the event of a Termination as defined in paragraphs 4(a) or 4(b) below.

2. Agreement Period.

For purposes of this Agreement, “Agreement Period” means the period beginning on the date first set forth above and ending on the earlier of (i) June 30, 2000, or (ii) the date on which the Executive dies or becomes totally and permanently disabled or on which the Executive voluntarily elects to take retirement in accordance with the Company’s or NITC’s retirement policy, provided that such election takes place prior to a Change in Control (as defined in paragraph 3 hereof). The Agreement Period automatically shall be extended annually for successive one year periods ending on each subsequent June 30, without any further action on the part of any party hereto, unless the Company or NITC has, at least one hundred eighty (180) days prior to the effective date of such extension, notified the Executive that the Agreement shall not be so extended. If a Change in Control occurs during the Agreement Period, notwithstanding any other provision of this Section 2, the Agreement Period shall not expire earlier than three years after such Change in Control.

3. Change in Control

For purposes of this Agreement, a “Change in Control” shall be deemed to have occurred if (i) any “person” or “group” (as such terms are used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934), other than employee or retiree benefit plans or trusts sponsored or established by the Company or NITC, is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company’s then outstanding securities, (ii) the following individuals cease for any reason to constitute more than three-fourths of the number of directors then serving on the Board of Directors of the Company: individuals who, on the date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company’s stockholders was approved by the vote of at least two-thirds (2/3) of the directors then still in office or whose appointment, election or nomination was previously so approved or recommended; (iii) any dissolution or liquidation of the Company or NITC or sale or disposition of all or substantially all (more than 50%) of the assets of the Company or of NITC occurs; or (iv) as the result of, or in connection with, any cash tender offer, exchange offer, merger or other business combination, sale of assets, proxy or consent solicitation, contested election or substantial stock accumulation (a “Control Transaction”), the members of the Board of Directors of the Company immediately prior to the first public announcement relating to such Control Transaction shall immediately thereafter, or within two years, cease to constitute a majority of the Board of Directors of the Company. Notwithstanding the foregoing, the sale or disposition of any or all of the assets or stock of Navistar Financial Corporation shall not be deemed a Change in Control.

4. Termination.

(a) For purposes of this Agreement, a Termination under this paragraph 4(a) shall have occurred if, during the Agreement Period and either prior to a Change in Control or more than 36 months after the then-most recent Change in Control, (i) the Executive’s employment is terminated by the Company or by NITC for any reason other than for Cause (as defined below, or (ii) an event occurs which constitutes Good Reason (as defined below), and the Executive voluntarily terminates his or her

employment with the Company or NITC within ten (10) days after being notified of such an event. For purposes of this Agreement, “Good Reason” means the occurrence, during the Agreement Period and either prior to a Change in Control or more than 36 months after the then-most recent Change in Control, of either of the following events, unless the Executive has given his or her written consent that such event shall not be deemed Good Reason hereunder: the Company or subsidiary (A) reduces the Executive’s base salary by 10% or more in one reduction or a series of reductions over a period of time and such reduction is not part of a general reduction for his or her peers as a group and is not a deferral, or (B) takes action which makes the Executive ineligible to participate on the same basis in incentive plans or bonuses in which his or her peers as a group participate. In the event of Termination under this paragraph 4(a), the Executive shall be paid the termination payments and benefits set forth in paragraph 5(a) below. For purposes of this Agreement, the term “Cause” means that the reason for the Executive’s termination was for (i) willful misconduct involving an offense of a serious nature, (ii) conviction of a felony as defined by the United States of America or by the state in which the Executive resides, or (iii) continued intentional failure to substantially perform required duties with the Company or its subsidiaries (other than a failure due to physical or mental illness) or, prior to a Change in Control, to substantially comply with requirements as to the ownership of Common Stock of the Company under the Company’s Stock Ownership Program as in effect on June 16, 1997, in each case continuing for 15 days after the Executive is given written notice of such failure. If the Executive’s termination is for Cause, no termination payments or benefits shall be due or owing by the Company or NITC under paragraph 5(a) below.

(b) For purposes of this Agreement, a Termination under this paragraph 4(b) shall have occurred if, during the Agreement Period and during the 36 months after a Change in Control, (i) the Executive’s employment is terminated by the Company or by NITC, or (ii) an event occurs which constitutes a Constructive Termination (as defined below), and the Executive voluntarily terminates his or her employment with the Company or NITC within ten (10) days of being notified of such an event. For purposes of this Agreement, “Constructive Termination” means the occurrence, during the period of 36 months after a Change in Control, of any of the following events, unless the Executive has given his or her written consent that such event shall not be deemed a Constructive Termination hereunder: (i) a material change, adverse to the Executive, in the Executive’s positions, titles, offices, status, nature of responsibilities, organizational level or authority within the Company in effect prior to a Change in Control, except in connection with the termination of the Executive’s employment for Cause, disability, or retirement, or as a result of the Executive’s death; (ii) the Company or subsidiary reduces the Executive’s annual base salary or annual total compensation opportunities (including threshold, target, and maximum levels in the case of performance-based compensation) as compared to the highest rates in effect for the Executive in the six months prior to the Change in Control; (iii) the Executive becomes ineligible to participate on substantially the same basis in incentive plans, bonuses, benefit plans or fringe benefits in which the Executive participated immediately prior to the Change in Control or in which his or her peers as a group then participate; (iv) the Company and NITC fail to obtain agreements from any successor to assume and agree to perform this agreement as contemplated in paragraph 14 below; or (v) the Company or a subsidiary requires the Executive to be based anywhere more than 45 miles from the location of the Executive’s office or the location of the Company’s executive offices immediately prior to the Change in Control, except that the Company may require the Executive to be based more than 45 miles from such location if the relocation is to a principal executive office of the Company or principal office of a major division or subsidiary of the Company, provided that the Executive is fully reimbursed, on an after-tax basis, for all reasonable expenses incurred and losses experienced in respect of such relocation in accordance with the relocation policy of the Company or its

subsidiaries in effect immediately prior to the date of the Change in Control, and except for required travel on the Company's business to an extent substantially consistent with the business travel obligations which the Executive undertook on behalf of the Company prior to the Change in Control. In the event of a Termination under this paragraph 4(b), the Executive shall be paid the termination payments and benefits set forth in paragraph 5(b) below.

(c) For purposes of this Agreement, a termination of employment shall be deemed to have occurred only if the Executive is not, after such event, employed by the Company, NITC, or any subsidiary of the Company and/or NITC. A termination of employment by any subsidiary of the Company or NITC shall be deemed to be a termination by the Company and NITC for purposes of this Agreement, if the condition of the first sentence of this paragraph 4(c) is met.

(d) For purposes of this Agreement, a Termination shall have occurred if the Executive voluntarily terminates his employment with the Company and NITC and does not engage in a business, whether as owner, partner, officer, employee or otherwise, which is in competition with the Company, NITC or one of its affiliates for five years following the voluntary termination of employment. In the event of a Termination under this paragraph 4c, the Executive shall be paid the termination payments and benefits set forth in paragraph 5d below.

5. Termination Payments.

(a) In the event of a Termination as defined in paragraph 4(a) above, the Executive will be entitled to the following payments and benefits:

(i) The Company and NITC shall be jointly obligated to pay to the Executive, within ten (10) business days of the Executive's termination of employment, a lump sum amount in cash equal to (A) a Pro Rata (as defined below) portion of the Executive's Target Annual Incentive (as defined below) plus (B) 200% of the sum of the Executive's annual base salary in effect at the time of Termination and Target Annual Incentive. For purposes of this Agreement, "Target Annual Incentive" means the annual incentive amount that would have been payable to the Executive for the fiscal year of Termination under such plan(s), program(s), or policy(ies) which result or would result in the earning of compensation reportable as "Bonus" in the Company's Summary Compensation Table under Item 402(b)(2) of Regulation S-K or any successor thereto for that year assuming the "targeted" level of performance required for payment of such annual incentive was achieved for the fiscal year of Termination and assuming Executive's employment had not terminated. For purposes of this Agreement, "Pro Rata" means a portion of a specified amount determined by multiplying such amount by a fraction the numerator of which is the number of days from the beginning of the fiscal year of Termination through the date of Termination and the denominator of which is the total number of days in the fiscal year of Termination.

(ii) In addition, the Company and NITC shall be jointly obligated to provide the following benefits to the Executive: (A) health insurance and life insurance for a period of 12 months immediately following the date of Termination, with the same coverage, in the same amounts and at the same costs to the Executive as in effect immediately prior to the date of the Termination; (B) Company or NITC paid outplacement services normally provided to his or her peers; (C) Company or NITC paid

tax counseling and tax forms preparation normally provided to his or her peers for all years up to and including the year of Termination; (D) payment for any unused vacation; and (E) such pension and post-retirement health and life insurance benefits (including grow-in) as are provided for the Executive at his or her level, age and years of service under Company or NITC sponsored retirement plans on the date of the Termination.

(b) In the event of a Termination as defined in paragraph 4(b) above, the Executive will be entitled to the following payments and benefits:

(i) The Company and NITC shall be jointly obligated to pay to the Executive, within (10) business days after said Termination, a lump sum amount in cash equal to the sum of the amounts specified in (A) and (B) as follows:

(A) A Pro Rata portion of the Executive's Target Annual Incentive: and

(B) 300% of the sum of the Executive's annual base salary in effect at the time of Termination and Target Annual Incentive.

(ii) The Company and NITC shall be jointly obligated to pay to the Executive the amounts, if any, specified in paragraph 6, at the times specified and otherwise in accordance with paragraph 6.

(iii) In addition, the Company and NITC shall be jointly obligated to provide the following benefits to the Executive: (A) health insurance and life insurance for a period of 36 months immediately following the date of termination, with the same coverage, in the same amounts and at the same costs to the Executive as in effect immediately prior to the date of the Change in Control; (B) Company or NITC paid outplacement services normally provided to his or her peers at the time of the Change in Control; (C) Company or NITC paid tax counseling and tax forms preparation normally provided to his or her peers at the time of the Change in Control for all years up to and including the year of Termination; (D) payment for any unused vacation; and (E) such post-retirement health and life insurance benefits (including grow-in) as were provided for the Executive at his or her level, age and years of service under Company or NITC sponsored retirement plans at the time of the Change in Control.

(iv) In addition, the Company and NITC shall be jointly obligated to pay the Executive, within 30 days after Termination, a lump sum amount in cash equal to the present value of the Participant's accrued benefits under the Company's Managerial Retirement Objective Plan, the Supplemental Executive Retirement Plan, or successor plans thereto or any other supplemental, non-qualified pension plan including grow-in (together, the "Supplemental Plans") in which the Executive was participating at the time of the Change in Control, determined after giving the Executive three additional years of age and pension service credit thereunder. Such present value shall be determined using actuarial assumptions and discount rates consistent with the Company's practices in effect immediately prior to the Change in Control.

(v) The Company and NITC shall be jointly obligated to pay to the Executive, within ten (10) business days after said Termination, a lump sum amount in cash equal to the excess (if any) of the amount specified below in (A) over the amount specified below in (B):

- (A) 295% of the Executive's average annual compensation from the Company and/or NITC during the five years ended December 31, 1996 as set forth in the Executive's W-2 statements issued by the Company or NITC. If the Executive has not been employed for five years by the Company and/or NITC, his or her average annual compensation will be calculated based on the average of the Executive's annual compensation from the Company or NITC as set forth in the Executive's W-2 statements for the previously ended calendar years during which the Executive was employed by the Company or NITC. If any of the W-2 statements to be used in the calculation is for employment with the Company or NITC for part of a year, the amount shall be annualized for the purpose of the foregoing calculation.
- (B) The amount paid or payable under paragraph 5(b)(i).

(c) Except as set forth in paragraph 5(d) hereof, no portion of any payment made under this paragraph 5 shall be included in any calculation for any pension due the Executive from the Company or NITC.

(d) In the event of a Termination as defined in paragraph 4d above, the Company or NITC shall provide the Executive 52 weeks of base salary either in a lump sum amount or monthly as selected by the Executive and retirement grow-in benefits as set forth in J. V. Thompson's letter of August 25, 1986, addressed to: Managerial Employees in Marketing or Administrative Classifications Who Are Under Age 55 With 10 or More Years of Credited Pension Service on October 31, 1986, and Whose Age Plus Continuous Company Service Equals 55 or More and in Linda J. Beezhold's letter to the Executive dated September 5, 1986.

6. Tax Gross-Up Payment

In the event that there shall occur a Change in Control of the Company, if the Executive becomes entitled to one or more payments (with a "payment" including, without limitation, the vesting of an option or other non-cash benefit or property), whether pursuant to the terms of this Agreement or any other plan, arrangement, or agreement with the Company or any affiliated company (the "Total Payments"), which are or become subject to the tax imposed by Section 4999 of the Internal Revenue Code (the "Code") (or any similar tax that may hereafter be imposed) (the "Excise Tax"), an additional amount shall be payable to the Executive at the time specified below pursuant to Section 5(b)(ii) about the (the Gross-up Payment") (which shall include, without limitation, reimbursement for any penalties and interest that may accrue in respect of such Excise Tax) such that the net amount retained by the Executive, after reduction for any Excise Tax (including any penalties or interest thereon) on the Total Payments and any federal, state and local income or employment tax and Excise Tax on the Gross-up Payment provided for by this paragraph 6, but before reduction for any federal, state, or local income or employment tax on the Total Payments, shall be equal to the sum of (A) the Total Payments, and (B) an amount equal to the product of any deductions disallowed for federal, state, or local income tax purposes because of the inclusion of the Gross-up Payment in the Executive's adjusted gross income multiplied by the highest applicable marginal rate of federal, state, or local income taxation, respectively, for the calendar year in which the Gross-up Payment is to be made.

EXHIBIT 10.35 (CONTINUED)

For purposes of determining whether any of the Total Payments will be subject to the Excise Tax and the amount of such Excise Tax:

- (A) The Total Payments shall be treated as “parachute payments” within the meaning of Section 280G(b)(2) of the Code, and all “excess parachute payments” within the meaning of Section 280G(b)(1) of the Code shall be treated as subject to the Excise Tax, unless and except to the extent that, in the written opinion of independent compensation consultants or auditors of nationally recognized standing (“Independent Advisors”) selected by the Company and reasonably acceptable to the Executive, the Total Payments (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code or are otherwise not subject to the Excise Tax
- (B) The amount of the Total Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (A) the total amount of the Total Payments or (B) the total amount of excess parachute payments within the meaning of section 280G(b)(1) of the Code (after applying clause (A) above); and
- (C) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the Independent Advisors in accordance with the principles of Section 280G(d)(3) and (4) of the Code.

For the purposes of determining the amount of the Gross-up Payment, the Executive shall be deemed (A) to pay federal income taxes at the highest marginal rate of federal income taxation for the calendar year in which the Gross-up Payment is to be made; (B) to pay any applicable state and local income taxes at the highest marginal rate of taxation for the calendar year in which the Gross-up payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes if paid in such year (determined without regard to limitations on deductions based upon the amount of the Executive’s adjusted gross income); and (C) to have otherwise allowable deductions for federal, state, and local income tax purposes at least equal to those disallowed because of the inclusion of the Gross-up Payment in the Executive’s adjusted gross income. In the event that the Excise Tax is subsequently determined to be less than the amount taken into account hereunder at the time the Gross-up Payment is made, the Executive shall repay to the Company at the time that the amount of such reduction in Excise Tax is finally determined (but, if previously paid to the taxing authorities, not prior to the time the amount of such reduction is refunded to the Executive or otherwise realized as a benefit by the Executive) the portion of the Gross-up Payment that would not have been paid if such Excise Tax had been applied in initially calculating the Gross-up Payment, plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code. In the event that the Excise Tax is determined to exceed the amount taken into account hereunder at the time the Gross-up Payment is made (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-up Payment), the Company shall make an additional Gross-up Payment in respect of such excess (plus any interest and penalties payable with respect to such excess) at the time that the amount of such excess is finally determined.

The Gross-up Payment provided for above shall be paid on the 30th day (or such earlier date at the Excise Tax becomes due and payable to the taxing authorities) after it has been determined that the Total Payments (or any portion thereof) are subject to the Excise Tax; provided, however, that if the amount of such Gross-up Payment or portion thereof cannot be finally determined on or before such day, the Company shall pay to the Executive on such day an estimate, as determined by the Independent Advisors, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code), as soon as the amount thereof can be determined.

In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to the Executive, payable on the fifth day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code). If more than one Gross-up Payment is made, the amount of each Gross-up Payment shall be computed so as not to duplicate any prior Gross-up Payment. The Company shall have the right to control all proceedings with the Internal Revenue Service that may arise in connection with the determination and assessment of any Excise Tax and, at its sole option, the Company may pursue or forego any and all administrative appeals, proceedings, hearings, and conferences with any taxing authority in respect of such Excise Tax (including any interest or penalties thereon); providing, however, that the Company's control over any such proceedings shall be limited to issues with respect to which a Gross-up-Payment would be payable hereunder, and the Executive shall be entitled to settle or contest any other issue raised by the Internal Revenue Service or any other taxing authority. The Executive shall cooperate with the Company in any proceedings relating to the determination and assessment of any Excise Tax and shall not take any position or action that would materially increase the amount of any Gross-up Payment.

7. Confidentiality.

The Executive agrees that at all times during and after the Agreement Period as defined in paragraph 2 above, he or she will not divulge or appropriate for personal use or the use of others any secret or confidential proprietary information pertaining to the business of the Company or NITC obtained during the Executive's employment by the Company or NITC.

8. Offsetting Payments.

In the event of a Termination as defined in paragraph 4 above for which termination payments have been paid, the Company or NITC shall not be entitled to recover or offset any termination payment paid or owed other than for a breach of the obligations set forth in paragraph 7 above.

9. Arbitration of All Disputes.

Any controversy or claim arising out of or relating to this Agreement or the breach hereof shall be settled by arbitration in the City of Chicago in accordance with the laws of the State of Illinois by three arbitrators, of whom one shall be appointed by the Company and NITC, one by the Executive and one by the first two arbitrators. If the first two arbitrators cannot agree on the appointment of a third arbitrator, then the third arbitrator shall be appointed by the Chief Judge of the United States Court of Appeals for the Seventh Circuit. The arbitration shall be conducted in Chicago in accordance with the rules of the American Arbitration Association, except with respect to the place of arbitration and to the

selection of arbitrators which shall be as provided in this paragraph 9. Judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction thereof. Any award will include interest on any amounts due and payable to the Executive from the date due to the date of payment calculated at the greater of twelve percent (12%) simple interest per annum or one hundred and ten percent (110%) of the prime rate in effect at the Continental Illinois National Bank and Trust Company of Chicago on the first of each month. In the event that it shall be necessary or desirable for the Executive to retain legal counsel and/or incur other costs and expenses in connection with the enforcement of any or all of the Executive's rights under this Agreement, the Company and NITC shall pay, when submitted by the Executive, the Executive's reasonable attorney's fees and costs and expenses, including expenses of any expert witnesses, in connection with the enforcement of said rights (including the enforcement of any arbitration award in court) unless the arbitrators specifically find that the Executive's request to arbitrate was frivolous.

10. Notices

Any notices, requests, demands or other communications provided for by this Agreement shall be sufficient if in writing and if sent by registered or certified mail, return receipt requested, to the Executive at the last address filed in writing with the Company or, in the case of the Company or NITC, to the Company or NITC at its principal executive offices, attention General Counsel.

11. Non-Alienation.

The Executive shall not have any right to pledge, hypothecate, anticipate or in any way create a lien upon any termination payments or other benefits provided under this Agreement; and no termination payments or other benefits payable hereunder shall be assignable in anticipation of payment either by voluntary or involuntary acts, or by operation of law. This provision does not affect beneficiary designations or testamentary dispositions to the extent applicable.

12. Governing Law.

The provisions of this Agreement shall be construed in accordance with the internal law of the State of Illinois.

13. Amendment.

This Agreement may be amended or canceled by mutual agreement of the parties in writing without the consent of any other person and, so long as the Executive lives, no person, other than the parties hereto, shall have any rights under or interest in this Agreement or the subject matter hereof

14. Successors; Binding Agreement.

All provisions of this Agreement shall inure to the benefit of and be binding upon the successors and assigns of the Company and NITC. The Company and NITC will require its respective successor or assign to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company and NITC would be required to perform it if no such succession or assignment had taken place.

IN WITNESS WHEREOF, the Executive has hereunto set his or her hand and, pursuant to the authorization from its Board of Directors, the Company and NITC have each caused these presents to be executed in its name on its behalf, and its corporate seal to be hereunto affixed and attested by its Secretary, all as of the day and year first above written.

NAVISTAR INTERNATIONAL CORPORATION

By: /s/ Robert A. Boardman
Senior Vice President and
General Counsel

ATTEST:

/s/ Steve K. Covey
Secretary

(SEAL)

NAVISTAR INTERNATIONAL TRANSPORTATION CORP.

By: /s/ Robert A. Boardman
Senior Vice President and
General Counsel

ATTEST:

/s/ Gregory Lennes
Secretary

(SEAL)

/s/ J.R. Horne
Executive