

**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, 2003

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, 2003, the number of shares outstanding of the registrant's common stock was 68,236,620.

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	
	<b>Three Months Ended</b>	
	<b>January 31</b>	
	<b>2003</b>	<b>2002</b>
<b>Sales and revenues</b>		
Sales of manufactured products.....	\$ 1,481	\$ 1,382
Finance and insurance revenue.....	92	77
Other income .....	5	6
Total sales and revenues.....	<u>1,578</u>	<u>1,465</u>
<b>Costs and expenses</b>		
Cost of products and services sold .....	1,420	1,248
Loss on sale of business.....	-	(1)
Postretirement benefits expense .....	83	58
Engineering and research expense.....	57	64
Selling, general and administrative expense .....	124	133
Interest expense .....	38	39
Other expense .....	11	11
Total costs and expenses .....	<u>1,733</u>	<u>1,552</u>
Loss from continuing operations before income taxes.....	(155)	(87)
Income tax benefit.....	(57)	(34)
Loss from continuing operations .....	<u>(98)</u>	<u>(53)</u>
Loss from discontinued operations .....	<u>(1)</u>	<u>(3)</u>
<b>Net loss</b> .....	<u>\$ (99)</u>	<u>\$ (56)</u>
<b>Basic earnings (loss) per share</b>		
Continuing operations .....	\$ (1.47)	\$ (0.88)
Discontinued operations .....	(0.02)	(0.05)
Net loss.....	<u>\$ (1.49)</u>	<u>\$ (0.93)</u>
<b>Diluted earnings (loss) per share</b>		
Continuing operations .....	\$ (1.47)	\$ (0.88)
Discontinued operations .....	(0.02)	(0.05)
Net loss.....	<u>\$ (1.49)</u>	<u>\$ (0.93)</u>
Average shares outstanding (millions)		
Basic .....	66.4	59.8
Diluted.....	66.4	59.8

See Notes to Financial Statements.

**STATEMENT OF FINANCIAL CONDITION (Unaudited)**

Millions of dollars

	Navistar International Corporation and Consolidated Subsidiaries		
	January 31 2003	October 31 2002	January 31 2002
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents .....	\$ 504	\$ 620	\$ 432
Marketable securities .....	19	-	10
Receivables, net .....	839	1,054	704
Inventories .....	602	595	651
Deferred tax asset, net .....	253	242	151
Other assets .....	132	97	118
Total current assets .....	2,349	2,608	2,066
Marketable securities .....	515	116	465
Finance and other receivables, net .....	858	1,214	1,057
Property and equipment, net .....	1,337	1,479	1,670
Investments and other assets .....	336	177	191
Prepaid and intangible pension assets .....	62	63	273
Deferred tax asset, net .....	1,345	1,286	866
<b>Total assets .....</b>	<b>\$ 6,802</b>	<b>\$ 6,943</b>	<b>\$ 6,588</b>
<b>LIABILITIES AND SHAREOWNERS' EQUITY</b>			
<b>Liabilities</b>			
Current liabilities			
Notes payable and current maturities of long-term debt ....	\$ 371	\$ 358	\$ 369
Accounts payable, principally trade .....	927	1,020	887
Other liabilities .....	979	1,021	768
Total current liabilities .....	2,277	2,399	2,024
Debt: Manufacturing operations .....	890	747	907
Financial services operations .....	1,447	1,651	1,387
Postretirement benefits liability .....	1,368	1,354	811
Other liabilities .....	531	541	381
Total liabilities .....	6,513	6,692	5,510
Commitments and contingencies			
<b>Shareowners' equity</b>			
Series D convertible junior preference stock .....	4	4	4
Common stock and additional paid in capital			
(75.3 million shares issued) .....	2,121	2,146	2,139
Retained earnings (deficit) .....	(892)	(721)	(232)
Accumulated other comprehensive loss .....	(719)	(705)	(339)
Common stock held in treasury, at cost			
(7.1 million, 14.8 million and 15.3 million shares held)....	(225)	(473)	(494)
Total shareowners' equity .....	289	251	1,078
<b>Total liabilities and shareowners' equity .....</b>	<b>\$ 6,802</b>	<b>\$ 6,943</b>	<b>\$ 6,588</b>

See Notes to Financial Statements.

**STATEMENT OF CASH FLOW** (Unaudited)

Millions of dollars

Navistar International Corporation and Consolidated Subsidiaries		
Three Months Ended January 31		
	2003	2002
<b>Cash flow from operations</b>		
Net loss .....	\$ (99)	\$ (56)
Adjustments to reconcile net loss to cash used in operations:		
Depreciation and amortization .....	57	55
Deferred income taxes.....	(73)	(31)
Postretirement benefits funding in excess of expense.....	(17)	(8)
Other, net.....	(70)	(48)
Change in operating assets and liabilities:		
Receivables .....	7	150
Inventories .....	(9)	(8)
Prepaid and other current assets.....	(40)	(13)
Accounts payable .....	(86)	(220)
Other liabilities .....	(11)	25
<b>Cash used in operations</b> .....	<u>(341)</u>	<u>(154)</u>
<b>Cash flow from investment programs</b>		
Purchases of retail notes and lease receivables .....	(280)	(255)
Collections/sales of retail notes and lease receivables .....	858	457
Purchases of marketable securities .....	(428)	(244)
Sales or maturities of marketable securities.....	10	32
Proceeds from sale of business.....	-	62
Capital expenditures.....	(48)	(70)
Property and equipment leased to others.....	11	(10)
Capitalized interest and other.....	12	(10)
<b>Cash provided by (used in) investment programs</b> .....	<u>135</u>	<u>(38)</u>
<b>Cash flow from financing activities</b>		
Issuance of debt .....	218	31
Principal payments on debt .....	(81)	(51)
Net decrease in notes and debt outstanding under bank revolving credit facility and commercial paper programs .....	(193)	(190)
Proceeds from sale of stock to benefit plans .....	175	-
Premiums on call options, net .....	(25)	-
Debt issuance costs and other financing activities.....	(4)	12
<b>Cash provided by (used in) financing activities</b> .....	<u>90</u>	<u>(198)</u>
<b>Cash and cash equivalents</b>		
Decrease during the period .....	(116)	(390)
At beginning of the period .....	620	822
<b>Cash and cash equivalents at end of the period</b> .....	<u>\$ 504</u>	<u>\$ 432</u>

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 2002 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 2002 amounts have been reclassified to conform with the presentation used in the 2003 financial statements.

The disposal of the domestic truck business in Brazil has been accounted for as discontinued operations in accordance with Statement of Financial Accounting Standards No. 144 (SFAS 144), “Accounting for the Impairment or Disposal of Long – Lived Assets.” Accordingly, the operating results of this business have been classified as “Discontinued operations” and prior periods have been restated. See Note I for further information.

**Note B. New Accounting Pronouncements**

In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation No. 45 (FIN 45), “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.” FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The company has provided disclosures about guarantees in Note K.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 (SFAS 148), “Accounting for Stock-Based Compensation – Transition and Disclosure,” which amends FASB Statement No. 123, “Accounting for Stock-Based Compensation.” SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. It also requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002, and the interim disclosure provisions are effective for interim periods beginning after December 15, 2002. The company will provide the required interim disclosures beginning in the quarter ending April 30, 2003.

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

**Note B. New Accounting Pronouncements (continued)**

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities." This interpretation addresses consolidation requirements of variable interest entities. Transferors to qualified special purpose entities (QSPEs) subject to the reporting requirements of FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," are excluded from the scope of this interpretation. The company currently sells receivables to entities meeting the requirements of QSPEs.

**Note C. Supplemental Cash Flow Information**

Consolidated interest payments during the first three months of 2003 and 2002 were \$39 million and \$41 million, respectively. Consolidated tax payments made during the first three months of 2003 and 2002 were not significant.

**Note D. Income Taxes**

The Statement of Income reflects the tax benefit of current Net Operating Losses (NOL), net of valuation reserves, while the cumulative benefit of NOL carryforwards is recognized as a deferred tax asset in the Statement of Financial Condition. Cash payment of income taxes may be required for certain state income, foreign income and withholding and federal alternative minimum taxes. Until the company has utilized its significant NOL carryforwards, the cash payment of United States (U.S.) federal and state income taxes will be minimal.

**Note E. Inventories**

Inventories are as follows:

Millions of dollars	January 31 2003	October 31 2002	January 31 2002
Finished products .....	\$ 349	\$ 313	\$ 418
Work in process.....	70	65	34
Raw materials and supplies .....	183	217	199
Total inventories .....	<u>\$ 602</u>	<u>\$ 595</u>	<u>\$ 651</u>

**Note F. Sales of Receivables**

Navistar Financial Corporation's (NFC) 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 finance receivables and leases have significant concentration in the trucking industry. NFC retains as collateral an ownership interest in the equipment associated with leases and a security interest in equipment associated with wholesale notes and retail notes.

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 corporations (SPCs) and wholly owned subsidiaries of NFC. The sales of receivables in each securitization constitute sales under accounting principles generally accepted in the United States of America, 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.

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

**Note F. Sales of Receivables (continued)**

NFRRC, NFSC, TRAC and TERFCO have limited recourse on the sold receivables and their assets are available to satisfy the claims of their creditors prior to such assets becoming available for their own uses or to NFC or affiliated companies. The terms of receivable sales generally require NFC to provide credit enhancements in the form of over collateralizations and/or cash reserves with the trusts and conduits. The use of such cash reserves by NFC is restricted under the terms of the securitized sales agreements. The maximum exposure under all receivable sale recourse provisions as of January 31, 2003, was \$350 million. The allowance for losses allocated to sold receivables totaled \$17 million, \$14 million and \$16 million at January 31, 2003, October 31, 2002 and January 31, 2002, respectively.

The SPC's residual interests in the related trusts or assets held by the trusts are included in Finance and other receivables on the Statement of Financial Condition. The carrying amounts of these retained interests approximate fair value and were \$350 million, \$345 million and \$408 million at January 31, 2003, October 31, 2002 and January 31, 2002, respectively.

Management estimates the prepayment speed for the receivables sold and the discount rate used to present value the interest-only receivables in order to calculate the gain or loss. Estimates of prepayment speeds and discount rates are based on historical experience and other factors and are made separately for each securitization transaction. In addition, NFC estimates the fair value of the interest-only receivables on a quarterly basis. The fair value of the interest-only receivables is based on updated estimates of prepayment speeds and discount rates.

Key economic assumptions used in measuring the interest-only receivables at the date of the sale for sales of retail notes and finance leases completed during the quarter ended January 31, 2003, were a prepayment speed of 1.2 to 1.4, a weighted average life of 41 months and an interest-only receivables discount rate of 5.35%. For those sales completed during the quarter ended January 31, 2002, the assumptions used were a prepayment speed of 1.2 to 1.4, a weighted average life of 41 months and an interest-only receivables discount rate of 6.41%.

Sold receivable balances are summarized below.

Millions of dollars	January 31 2003	October 31 2002	January 31 2002
Retail notes, net of unearned income.....	\$ 2,016	\$ 1,522	\$ 2,042
Finance leases, net of unearned income.....	25	-	-
Wholesale notes.....	764	788	713
Retail accounts.....	103	127	200
Total.....	<u>\$ 2,908</u>	<u>\$ 2,437</u>	<u>\$ 2,955</u>

Serviced portfolio balances are summarized below.

Millions of dollars	January 31 2003	October 31 2002	January 31 2002
Gross serviced receivables:			
Retail notes.....	\$ 2,552	\$ 2,529	\$ 2,612
Finance leases.....	200	206	248
Wholesale notes.....	832	839	750
Accounts.....	337	384	333
Total gross serviced receivables.....	<u>3,921</u>	<u>3,958</u>	<u>3,943</u>
Net investment in operating leases.....	226	248	274
Total serviced portfolio.....	<u>\$ 4,147</u>	<u>\$ 4,206</u>	<u>\$ 4,217</u>



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

**Note F. Sales of Receivables (continued)**

Additional financial data for the gross serviced portfolio as of January 31, 2003, and for the quarter then ended is as follows:

Millions of dollars	Retail Notes	Finance and Operating Leases	Wholesale Notes	Accounts
Principal past due over 60 days.....	\$ 19	\$ 4	\$ 1	\$ 6
Credit losses, net of recoveries .....	4	-	-	-

The following table summarizes certain cash flows received from (paid to) securitization trusts/conduits during the quarter ended January 31.

Millions of dollars	2003	2002
Proceeds from sales of finance receivables .....	\$ 824	\$ 500
Proceeds from sales of finance receivables into revolving facilities .....	1,111	1,129
Servicing fees received .....	6	6
Repurchase of sold retail receivables.....	(18)	(14)
All other cash received from trusts.....	50	45

During the first quarter of 2003, NFC sold \$824 million of retail notes and finance leases for a pre-tax gain of \$33 million, or \$21 million, net of tax. During the first quarter of 2002, NFC sold \$500 million of retail receivables for a pre-tax gain of \$17 million, or \$11 million, net of tax.

**Note G. Debt**

In December 2002, the company completed the private placement of \$190 million of new senior convertible bonds due 2007. The bonds were priced to yield 2.5% with a conversion premium of 30% on a closing price of \$26.70. Simultaneous with the issuance of the convertible bonds, the company entered into two call option derivative contracts, the consequences of which will allow the company to minimize share dilution upon conversion of the convertible debt from the conversion price of the bond up to a 100% premium over the share price at issuance. The net premium paid for the call options was \$25 million. In February 2003, \$100 million of the net proceeds from the \$190 million offering was used to repay the aggregate principal amount of the 7% senior notes due February 2003. The remaining funds were used to repay other existing debt, replenish cash balances that were used to repay other debt that matured in fiscal 2002 and to pay fees and expenses related to the offering.

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

**Note H. Restructuring and Other Non-recurring Charges**2000 and 2002 Restructuring Charges

In October 2000, the company incurred charges for restructuring, asset write-downs and other exit costs eventually totaling \$308 million, after \$2 million in net adjustments in 2001 and 2002, as part of an overall plan to restructure its manufacturing and corporate operations (2000 Plan of Restructuring). The major restructuring, integration and cost reduction initiatives, which were substantially complete as of November 30, 2001, included in the 2000 Plan of Restructuring are as follows:

- Replacement of steel cab trucks with a new line of High Performance Vehicles (HPV) and a concurrent realignment of the company's truck manufacturing facilities
- Closure of certain operations
- Launch of the next generation technology diesel engines (NGD)
- Consolidation of corporate operations
- Realignment of the bus and truck dealership network and termination of various dealerships' contracts

In October 2002, the company's board of directors approved a separate restructuring plan (2002 Plan of Restructuring) and the company incurred charges for restructuring, asset and inventory write-downs and other exit costs totaling \$372 million. In addition, the company incurred non-recurring charges of \$170 million related to its V-6 diesel engine program and \$60 million in losses (net of tax) from discontinued operations associated with its exit of the Brazil domestic truck market (see Note I).

The following are the major restructuring, integration and cost reduction initiatives included in the 2002 Plan of Restructuring:

- Closure of facilities and exit of certain activities including the Chatham, Ontario heavy truck assembly facility, the Springfield, Ohio body plant and a manufacturing production line within one of the company's plants
- Offer of an early retirement program to certain union represented employees
- Completion of the launch of the HPV and NGD product programs

Of the 2002 pre-tax restructuring, other non-recurring charges and adjustments of \$544 million, \$157 million represented non-cash charges.

Through January 31, 2003, approximately \$581 million in charges related to the 2000 and 2002 Plans of Restructuring and the 2002 non-recurring charges have been incurred. Curtailment losses of \$169 million related to the company's postretirement benefit plans have been reclassified as a non-current postretirement benefits liability. The remaining restructuring and other non-recurring charges liability of \$271 million is expected to be funded from existing cash balances and internally generated cash flows from operations.

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

**Note H. Restructuring and Other Non-recurring Charges (continued)**2000 and 2002 Restructuring Charges (continued)

A description of the significant components of the 2000 and 2002 restructuring charges are as follows:

The 2000 Plan of Restructuring included the reduction of approximately 1,900 employees from the workforce, primarily in North America. At October 31, 2002, the remaining \$18 million balance of the total net charge of \$75 million was adjusted as part of the \$94 million charge for severance and benefits related to the 2002 restructuring charge. Pursuant to the 2002 Plan of Restructuring, an additional 3,500 positions will be eliminated throughout the company, primarily in North America. During the quarter ended January 31, 2003, approximately \$12 million was paid for severance and other benefits to approximately 1,800 employees as a result of the two Plans of Restructuring. The severance and other benefits balance represents costs related to future payments due to the company's contractual severance obligations.

Lease termination costs related to the 2000 Plan of Restructuring include future obligations under long-term non-cancelable lease agreements at facilities being vacated following workforce reductions. This charge primarily consisted 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, 2003, \$9 million of the total net charge of \$38 million has been incurred for lease termination costs, of which \$1 million was incurred during the quarter.

The 2000 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. (IAT), a Bermuda reinsurance company. Payments related to exit costs of approximately \$2 million were incurred during the quarter.

Dealer termination costs related to the 2000 Plan of Restructuring 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 2000 restructuring initiatives. Other exit costs principally include \$25 million of contractually obligated exit and closure costs incurred as a result of the planned closure of both the Chatham Assembly Plant and the Springfield Body Plant. As of January 31, 2003, \$24 million of the total net charge of \$68 million has been paid for dealer termination and other exit costs, of which \$2 million was incurred during the quarter.

Other Non-Recurring Charges

In addition to the 2002 Plan of Restructuring charges, the company recorded non-recurring charges of \$170 million primarily related to the discontinuance of the company's V-6 diesel engine program with Ford Motor Company (Ford). In October 2002, Ford advised the company that their current business case for a V-6 diesel engine in the specified vehicles was not viable and it has discontinued its program for the use of these engines. Ford is seeking to cancel the V-6 supply contract. As a result, the company has determined that the timing of the commencement of the V-6 diesel engine program is neither reasonably predictable nor probable. The non-recurring pre-tax charge of \$167 million in 2002 included the write-off of deferred pre-production costs, the write-down to fair value of certain V-6 diesel engine-related fixed assets that were abandoned, an accrual for future lease obligations under non-cancelable operating leases for certain V-6 diesel engine assembly assets that will not be used by the company, an accrual for amounts contractually owed to suppliers related to the V-6 diesel engine program and the write-down to fair value of certain other assets.

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

**Note H. Restructuring and Other Non-recurring Charges (continued)**Other Non-Recurring Charges (continued)

The company is currently working with Ford to negotiate a reimbursement of its investment and development costs as well as any amounts owed to the company's suppliers. While the company believes that it is legally entitled to such reimbursement under the agreement, Ford has not agreed to any such reimbursement of the company's investment and development costs. No anticipated recovery has been recorded as part of the \$167 million pre-tax charge. As of January 31, 2003, of the total net charge of \$170 million, \$74 million has been incurred primarily related to the write-off or write-down to fair value of fixed assets and for the payment of lease obligations of which \$8 million was incurred during the quarter.

Components of the company's restructuring plans and other non-recurring charges, including the plans initiated in both 2002 and 2000, are shown in the following table.

Millions of dollars	Balance October 31, 2002	Amount Incurred	Balance January 31, 2003
Severance and other benefits.....	\$ 112	\$ (12)	\$ 100
Lease terminations .....	30	(1)	29
Loss on sale of business.....	4	(2)	2
Dealer terminations and other exit costs ...	46	(2)	44
Other non-recurring charges.....	104	(8)	96
Total.....	<u>\$ 296</u>	<u>\$ (25)</u>	<u>\$ 271</u>

**Note I. Discontinued Operations**

In October 2002, the company announced its decision to discontinue the domestic truck business in Brazil (Brazil Truck) effective October 31, 2002. In connection with this discontinuance, the company recorded a loss on disposal of \$46 million in fiscal 2002. The loss related to the write-down of assets to fair value, contractual settlement costs for the termination of the dealer contracts, severance and other benefits costs, and the write-off of Brazil Truck's cumulative translation adjustment due to the company's substantial liquidation of its investment in Brazil Truck. The disposal of Brazil Truck has been accounted for as discontinued operations in accordance with SFAS 144. Accordingly, the operating results of Brazil Truck have been classified as "Discontinued operations" and prior periods have been restated.

**Note J. Financial Instruments**

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 and in Note 13 to the 2002 Annual Report on Form 10-K.

The financial services operations manage exposure to fluctuations in interest rates by limiting the amount of fixed rate assets funded with variable rate debt. This is accomplished by selling fixed rate receivables on a fixed rate basis and by utilizing derivative financial instruments. These derivative financial instruments may include interest rate swaps, interest rate caps and forward contracts. The fair value of these instruments is estimated based on quoted market prices and is subject to market risk as the instruments may become less valuable due to changes in market conditions or interest rates. NFC manages exposure to counter-party credit risk by entering into derivative financial instruments with major financial institutions that can be expected to fully perform under the terms of such agreements. NFC does not require collateral

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

**Note J. Financial Instruments (continued)**

or other security to support derivative financial instruments with credit risk. NFC's counter-party credit exposure is limited to the positive fair value of contracts at the reporting date. As of January 31, 2003, NFC's derivative financial instruments had a negative net fair value. Notional amounts of derivative financial instruments do not represent exposure to credit loss.

At January 31, 2003, the notional amounts and fair values of the company's derivatives are presented in the following table, in millions. The fair values of all these derivatives are recorded in other assets or other liabilities on the Statement of Financial Condition.

Inception Date	Maturity Date	Derivative Type	Notional Amount	Fair Value
January 1999 – November 2002	February 2003 – March 2007	Interest Rate Swaps	\$ 467	\$ (2)
October 2000 – November 2002	October 2003 – November 2012	Interest Rate Caps	1,015	-
November 2002	May 2003	Foreign Currency Forward Contracts	10	-

In November 2002, NFC entered into an interest rate swap agreement in connection with a sale of retail notes and lease receivables. The purpose of the swap was to convert the floating rate portion of the asset-backed securities issued into fixed rate interest to match the interest basis of the receivables pool sold to the owner trust and to protect NFC from interest rate volatility. The notional amount of this swap is calculated as the difference between the actual pool balances and the projected pool balances. At January 31, 2003, the notional amount was zero. The outcome of the swap 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 projected balances, NFC has retained interest rate exposure on this difference. This transaction is accounted for as a non-hedging derivative instrument.

In addition to those instruments described above, the company entered into two call option derivative contracts in connection with the issuance of the \$190 million senior convertible notes in December 2002. The purchased call option and written call option will allow the company to minimize share dilution associated with the convertible debt from the conversion price of the bond up to a 100% premium over the share price at issuance. In accordance with EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," the company has recorded these instruments in permanent equity, and will not recognize subsequent changes in fair value as long as the instruments remain classified as equity. The net premium paid for the call options was \$25 million.

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

**Note K. Guarantees**

The company and its subsidiaries occasionally provide guarantees that could obligate them to make future payments if the primary entity fails to perform under its contractual obligations. The company has not recorded a liability for these guarantees. The company has no recourse as guarantor in case of default.

In connection with the \$400 million 9 3/8% Senior Notes due 2006 that were issued by the company in May 2001, International provided a full and unconditional guarantee of this indebtedness along with guarantees on the \$100 million 7% Senior Notes due 2003 and the \$250 million 8% Senior Subordinated Notes due 2008 that were issued by the company in February 1998. International has also provided a guarantee on the \$190 million 2½% Senior Convertible Notes due 2007 that were issued by the company in December 2002.

The company provided a guarantee on the \$19 million 9.95% Senior Notes due 2011 that International issued in June 2001. As of January 31, 2003, the outstanding balance on this debt was \$18 million.

The company and International are obligated under certain agreements with public and private lenders of NFC to maintain the subsidiary's income before interest expense and income taxes at not less than 125% of its total interest expense. No income maintenance payments were required for the three months ended January 31, 2003.

The company guarantees a total of \$393 million of lines of credit made available to its Mexican finance subsidiaries by third parties and NFC. At January 31, 2003, outstanding loans under the lines of credit totaled \$117 million. The lines of credit have various maturity dates with June 2007 being the longest maturity date from a third party.

The company also guarantees many of the operating leases of its operating subsidiaries. The leases have various expiration dates that extend through June 2014. The remaining obligation under these leases as of January 31, 2003, totaled approximately \$716 million.

The company and International also guarantee real estate operating leases of International and of the subsidiaries of the company. The leases have various maturity dates extending out through 2013. As of January 31, 2003, the total remaining obligation under these leases is approximately \$29 million.

The company and NFC have issued residual value guarantees in connection with various operating leases. The amount of the guarantees is undeterminable because in some instances, neither the company nor NFC is responsible for the entire amount of the guaranteed lease residual. The company's and NFC's guarantees are contingent upon the fair value of the leased assets at the end of the lease term. The difference between this fair value and the guaranteed lease residual represents the amount of the company's and NFC's exposure.

NFC has an \$820 million contractually committed bank revolving credit facility that will mature in December 2005. Under this agreement, the company's Mexican finance subsidiaries are permitted to borrow up to \$100 million in the aggregate. Such borrowings by the Mexican finance subsidiaries are guaranteed by the company and NFC. As of January 31, 2003, the outstanding balance on this portion of the facility was \$28 million.

In October 2002, NFC entered into an agreement to guarantee the 200 million peso-denominated bank facility of two of the company's Mexican finance subsidiaries. The due date of the longest loan maturity is January 2006. As of January 31, 2003, the total outstanding balance of the debt was equivalent to \$18 million.

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

**Note K. Guarantees (continued)**

In May 2002, NFC entered into an agreement to guarantee the dollar- and/or peso-denominated medium term notes of two of the Mexican finance subsidiaries up to the amount of 600 million pesos, equivalent to \$55 million. The due date of the longest loan maturity is March 2006. As of January 31, 2003, the total outstanding balance of the debt was equivalent to \$24 million.

In November 2001, NFC entered into an agreement to guarantee the 500 million peso-denominated bank credit facility of one of the Mexican finance subsidiaries. The due date of the longest loan maturity is November 2004. As of January 31, 2003, the outstanding balance of peso-denominated debt was \$46 million.

As part of its sales agreement with IAT, NFC has agreed to guarantee the adequacy of Harco's loss reserves as of November 30, 2001, the closing date of the sale. There is no limit to the potential amount of future payments required under this agreement, which is scheduled to expire in November 2008. As security for its obligation under this agreement, NFC has escrowed \$5 million, which will become available for use in February 2004. The carrying amount of the liability under this guarantee is estimated at \$2 million as of January 31, 2003. Management believes this reserve is adequate to cover any future potential payments to IAT.

At January 31, 2003, the Canadian operating subsidiary was contingently liable for \$280 million of retail customers' contracts and \$38 million of retail leases that are financed by a third party. The Canadian operating subsidiary is responsible for the residual values of these financing arrangements. These contract amounts approximate the resale market value of the collateral underlying the note liabilities.

In addition, the company entered into various guarantees for purchase commitments, credit guarantees and buyback programs with various expiration dates that total approximately \$22 million. In the ordinary course of business, the company also provides routine indemnifications and other guarantees whose terms range in duration and often are not explicitly defined. The company does not believe these will have a material impact on the results of operations or financial condition of the company.

Product Warranty

Provisions for estimated expenses related to product warranty are made at the time products are sold. These estimates are established using historical information about the nature, frequency and average cost of warranty claims. Management actively studies trends of warranty claims and takes action to improve vehicle quality and minimize warranty claims. Management believes that the warranty reserve is appropriate; however, actual claims incurred could differ from the original estimates, requiring adjustments to the reserve.

Changes in the product warranty accrual for the three months ended January 31, 2003, were as follows:

Millions of dollars	
Balance, beginning of period .....	\$ 185
Change in liability for warranties issued during the period.....	39
Change in liability for preexisting warranties.....	2
Payments made .....	(44)
Balance, end of period .....	<u>\$ 182</u>

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

**Note L. Legal Proceedings and Environmental Matters**

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 is material to the business or the financial condition of the company.

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

**Note M. Segment Data**

Reportable operating segment data is as follows:

Millions of dollars	Truck	Engine	Financial Services	Total
<b>For the quarter ended January 31, 2003</b>				
External revenues .....	\$ 1,091	\$ 390	\$ 94	\$ 1,575
Intersegment revenues .....	-	110	8	118
Total revenues.....	<u>\$ 1,091</u>	<u>\$ 500</u>	<u>\$ 102</u>	<u>\$ 1,693</u>
Segment profit (loss).....	\$ (96)	\$ (35)	\$ 48	\$ (83)
<b>As of January 31, 2003</b>				
Segment assets .....	\$ 1,600	\$ 963	\$ 2,252	\$ 4,815
<b>For the quarter ended January 31, 2002</b>				
External revenues .....	\$ 942	\$ 440	\$ 80	\$ 1,462
Intersegment revenues .....	-	97	9	106
Total revenues.....	<u>\$ 942</u>	<u>\$ 537</u>	<u>\$ 89</u>	<u>\$ 1,568</u>
Segment profit (loss).....	\$ (111)	\$ 42	\$ 31	\$ (38)
<b>As of January 31, 2002</b>				
Segment assets .....	\$ 1,745	\$ 1,025	\$ 2,385	\$ 5,155



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

**Note M. Segment Data (continued)**

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

Millions of dollars	2003	2002
<b>Segment sales and revenues</b> .....	<b>\$ 1,693</b>	<b>\$ 1,568</b>
Other income .....	3	3
Intercompany .....	(118)	(106)
<b>Consolidated sales and revenues</b> .....	<b><u>\$ 1,578</u></b>	<b><u>\$ 1,465</u></b>
<b>Segment loss</b> .....	<b>\$ (83)</b>	<b>\$ (38)</b>
Restructuring adjustment .....	-	1
Corporate items .....	(56)	(37)
Manufacturing net interest expense .....	(16)	(13)
<b>Consolidated pre-tax loss from continuing operations</b> .....	<b><u>\$ (155)</u></b>	<b><u>\$ (87)</u></b>
<b>Segment assets</b> .....	<b>\$ 4,815</b>	<b>\$ 5,155</b>
Cash and marketable securities .....	355	284
Deferred taxes .....	1,598	1,017
Corporate intangible pension assets .....	12	72
Other corporate and eliminations .....	22	60
<b>Consolidated assets</b> .....	<b><u>\$ 6,802</u></b>	<b><u>\$ 6,588</u></b>

**Note N. Common Shareowners' Equity**

In November 2002, the company completed the sale of a total of 7,755,030 shares of its common stock, par value \$0.10 per share, at a price of \$22.566 per share, for an aggregate purchase price of \$175 million to the three employee benefit plan trusts of International. The securities were offered and sold in reliance upon the exemption from securities registration afforded by Section 4(2) of the Securities Act of 1933 and Rule 506 under Regulation D. The proceeds from the sale of the stock will be used to fund the company's retirement plans in 2003.

**Note O. Comprehensive Income**

The components of comprehensive loss are as follows:

Millions of dollars	For the Three Months Ended January 31	
	2003	2002
Net loss .....	\$ (99)	\$ (56)
Other comprehensive loss .....	(14)	-
Total comprehensive loss .....	<b><u>\$ (113)</u></b>	<b><u>\$ (56)</u></b>

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

**Note P. Earnings Per Share**

Earnings (loss) per share was computed as follows:

Millions of dollars, except share and per share data	<b>For the Three Months Ended January 31</b>	
	<b>2003</b>	<b>2002</b>
Loss from continuing operations .....	\$ (98)	\$ (53)
Loss from discontinued operations .....	(1)	(3)
Net loss .....	<u><u>\$ (99)</u></u>	<u><u>\$ (56)</u></u>
Average shares outstanding (millions)		
Basic .....	66.4	59.8
Diluted .....	66.4	59.8
<b>Basic earnings (loss) per share</b>		
Continuing operations .....	\$ (1.47)	\$ (0.88)
Discontinued operations .....	(0.02)	(0.05)
Net loss .....	<u><u>\$ (1.49)</u></u>	<u><u>\$ (0.93)</u></u>
<b>Diluted earnings (loss) per share</b>		
Continuing operations .....	\$ (1.47)	\$ (0.88)
Discontinued operations .....	(0.02)	(0.05)
Net loss .....	<u><u>\$ (1.49)</u></u>	<u><u>\$ (0.93)</u></u>

The computation of diluted shares outstanding for the three months ended January 31, 2003 and 2002, excludes incremental shares of 6.9 million and 1.0 million, respectively, related to employee stock options, convertible debt and other dilutive securities. These shares are excluded due to their anti-dilutive effect as a result of the company's losses for the first quarters of 2003 and 2002.

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

**Note Q. Condensed Consolidating Guarantor and Non-Guarantor Financial Information**

The following tables set forth the condensed consolidating Statements of Financial Condition as of January 31, 2003 and 2002, and the Statements of Income and Cash Flow for the three months ended January 31, 2003 and 2002. The following information is included as a result of the guarantee of the 9 3/8% senior notes due 2006 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, 2 1/2% senior convertible notes due 2007, 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 Q. Condensed Consolidating Guarantor and Non-Guarantor Financial Information (continued)**

Millions of dollars	NIC	International	Non-Guarantor Companies and Eliminations	Consolidated
<b>CONDENSED CONSOLIDATING STATEMENT OF INCOME FOR THE THREE MONTHS ENDED JANUARY 31, 2003</b>				
Sales and revenues.....	\$ 1	\$ 1,146	\$ 431	\$ 1,578
Cost of products and services sold .....	3	1,134	283	1,420
All other operating expenses.....	(6)	271	48	313
<b>Total costs and expenses .....</b>	<b>(3)</b>	<b>1,405</b>	<b>331</b>	<b>1,733</b>
Equity in income (loss) of non-consolidated subsidiaries.....	(160)	85	75	-
Income (loss) from continuing operations before income taxes.....	(156)	(174)	175	(155)
Income tax expense (benefit).....	(57)	13	(13)	(57)
<b>Income (loss) from continuing operations.....</b>	<b>(99)</b>	<b>(187)</b>	<b>188</b>	<b>(98)</b>
<b>Loss from discontinued operations .....</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>(1)</b>
<b>Net income (loss) .....</b>	<b>\$ (99)</b>	<b>\$ (187)</b>	<b>\$ 187</b>	<b>\$ (99)</b>
<b>CONDENSED CONSOLIDATING STATEMENT OF FINANCIAL CONDITION AS OF JANUARY 31, 2003</b>				
<b>Assets</b>				
Cash and marketable securities .....	\$ 244	\$ 11	\$ 783	\$ 1,038
Receivables, net .....	6	187	1,504	1,697
Inventories .....	-	344	258	602
Property and equipment, net .....	-	783	554	1,337
Investment in affiliates .....	(2,758)	757	2,001	-
Deferred tax asset and other assets.....	1,601	156	371	2,128
<b>Total assets .....</b>	<b>\$ (907)</b>	<b>\$ 2,238</b>	<b>\$ 5,471</b>	<b>\$ 6,802</b>
<b>Liabilities and shareowners' equity</b>				
Debt .....	\$ 940	\$ 19	\$ 1,749	\$ 2,708
Postretirement benefits liability .....	-	1,462	154	1,616
Amounts due (from) to affiliates.....	(2,384)	2,281	103	-
Other liabilities .....	248	1,482	459	2,189
<b>Total liabilities .....</b>	<b>(1,196)</b>	<b>5,244</b>	<b>2,465</b>	<b>6,513</b>
Shareowners' equity (deficit).....	289	(3,006)	3,006	289
<b>Total liabilities and shareowners' equity .....</b>	<b>\$ (907)</b>	<b>\$ 2,238</b>	<b>\$ 5,471</b>	<b>\$ 6,802</b>
<b>CONDENSED CONSOLIDATING STATEMENT OF CASH FLOW FOR THE THREE MONTHS ENDED JANUARY 31, 2003</b>				
<b>Cash provided by (used in) operations .....</b>	<b>\$ (493)</b>	<b>\$ 44</b>	<b>\$ 108</b>	<b>\$ (341)</b>
<b>Cash flow from investment programs</b>				
Purchases, net of collections, of finance receivables .....	-	-	578	578
Net increase in marketable securities .....	-	-	(418)	(418)
Capital expenditures.....	-	(42)	(6)	(48)
Other investing activities .....	(3)	3	23	23
<b>Cash provided by (used in) investment programs .....</b>	<b>(3)</b>	<b>(39)</b>	<b>177</b>	<b>135</b>
<b>Cash flow from financing activities</b>				
Net borrowings (repayments) of debt.....	152	(2)	(206)	(56)
Other financing activities.....	173	-	(27)	146
<b>Cash provided by (used in) financing activities .....</b>	<b>325</b>	<b>(2)</b>	<b>(233)</b>	<b>90</b>
<b>Cash and cash equivalents</b>				
Increase (decrease) during the period.....	(171)	3	52	(116)
At beginning of the period.....	415	8	197	620
<b>Cash and cash equivalents at end of the period.....</b>	<b>\$ 244</b>	<b>\$ 11</b>	<b>\$ 249</b>	<b>\$ 504</b>

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

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

Millions of dollars	NIC	International	Non-Guarantor Companies and Eliminations	Consolidated
<b><u>CONDENSED CONSOLIDATING STATEMENT OF INCOME FOR THREE MONTHS ENDED JANUARY 31, 2002</u></b>				
<b>Sales and revenues</b> .....	\$ 2	\$ 1,124	\$ 339	\$ 1,465
Cost of products and services sold .....	-	1,042	206	1,248
Loss on sale of business .....	-	-	(1)	(1)
All other operating expenses.....	(6)	239	72	305
<b>Total costs and expenses</b> .....	(6)	1,281	277	1,552
Equity in income (loss) of non-consolidated subsidiaries.....	(98)	56	42	-
Income (loss) from continuing operations before income taxes.....	(90)	(101)	104	(87)
Income tax expense (benefit).....	(34)	6	(6)	(34)
<b>Income (loss) from continuing operations</b> .....	(56)	(107)	110	(53)
<b>Loss from discontinued operations</b> .....	-	-	(3)	(3)
<b>Net income (loss)</b> .....	\$ (56)	\$ (107)	\$ 107	\$ (56)
<b><u>CONDENSED CONSOLIDATING STATEMENT OF FINANCIAL CONDITION AS OF JANUARY 31, 2002</u></b>				
<b>Assets</b>				
Cash and marketable securities .....	\$ 263	\$ 8	\$ 636	\$ 907
Receivables, net .....	6	63	1,692	1,761
Inventories.....	-	344	307	651
Property and equipment, net .....	-	890	780	1,670
Investment in affiliates .....	(1,327)	931	396	-
Deferred tax asset and other assets.....	1,012	267	320	1,599
<b>Total assets</b> .....	\$ (46)	\$ 2,503	\$ 4,131	\$ 6,588
<b>Liabilities and shareowners' equity</b>				
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 .....	79	1,245	449	1,773
<b>Total liabilities</b> .....	(1,124)	3,888	2,746	5,510
Shareowners' equity (deficit).....	1,078	(1,385)	1,385	1,078
<b>Total liabilities and shareowners' equity</b> .....	\$ (46)	\$ 2,503	\$ 4,131	\$ 6,588
<b><u>CONDENSED CONSOLIDATING STATEMENT OF CASH FLOW FOR THE THREE MONTHS ENDED JANUARY 31, 2002</u></b>				
<b>Cash provided by (used in) operations</b> .....	\$ (448)	\$ 71	\$ 223	\$ (154)
<b>Cash flow from investment programs</b>				
Purchases, net of collections, of finance receivables.....	-	-	202	202
Net (increase) decrease in marketable securities .....	30	-	(242)	(212)
Capital expenditures.....	-	(62)	(8)	(70)
Other investing activities.....	1	(7)	48	42
<b>Cash provided by (used in) investment programs</b> .....	31	(69)	-	(38)
<b>Cash flow from financing activities</b>				
Net repayments of debt.....	-	-	(210)	(210)
Other financing activities.....	12	-	-	12
<b>Cash provided by (used in) financing activities</b> .....	12	-	(210)	(198)
<b>Cash and cash equivalents</b>				
Increase (decrease) during the period.....	(405)	2	13	(390)
At beginning of the period.....	658	6	158	822
<b>Cash and cash equivalents at end of the period</b> .....	\$ 253	\$ 8	\$ 171	\$ 432

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

**Note R. Subsequent Events**

In February 2003, NFC entered into two forward starting swap agreements with notional amounts of \$500 million and \$300 million in connection with anticipated sales of retail notes and finance leases. The purpose of these swaps is to limit NFC's interest rate exposure during the period it is accumulating receivables for the anticipated sales of receivables. These are accounted for as non-hedging derivative instruments.

In February 2003, the company used \$100 million of the proceeds from the December 2002 issuance of senior convertible bonds to repay the aggregate principal amount of the 7% senior notes due February 2003.

## 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)  
Millions of dollars

<b>Condensed Statement of Income</b>	<b>Three Months Ended January 31</b>	
	<b>2003</b>	<b>2002</b>
Sales of manufactured products.....	\$ 1,481	\$ 1,382
Other income .....	3	3
<b>Total sales and revenues .....</b>	<b>1,484</b>	<b>1,385</b>
Cost of products sold .....	1,403	1,233
Postretirement benefits expense .....	83	57
Engineering and research expense.....	57	64
Selling, general and administrative expense .....	108	116
Other expense .....	36	34
<b>Total costs and expenses .....</b>	<b>1,687</b>	<b>1,504</b>
Income (loss) from continuing operations before income taxes:		
Manufacturing operations .....	(203)	(119)
Financial services operations .....	48	32
Loss from continuing operations before income taxes .....	(155)	(87)
Income tax benefit .....	(57)	(34)
Loss from continuing operations .....	(98)	(53)
Loss from discontinued operations .....	(1)	(3)
<b>Net loss .....</b>	<b>\$ (99)</b>	<b>\$ (56)</b>

<b>Condensed Statement of Financial Condition</b>	<b>January 31 2003</b>	<b>October 31 2002</b>	<b>January 31 2002</b>
Cash, cash equivalents and marketable securities.....	\$ 473	\$ 549	\$ 369
Inventories.....	567	566	587
Property and equipment, net.....	1,089	1,208	1,370
Equity in non-consolidated subsidiaries .....	474	448	425
Other assets .....	814	683	954
Deferred tax asset, net.....	1,597	1,526	1,013
<b>Total assets .....</b>	<b>\$ 5,014</b>	<b>\$ 4,980</b>	<b>\$ 4,718</b>
Accounts payable, principally trade .....	\$ 891	\$ 970	\$ 836
Postretirement benefits liability .....	1,602	1,618	1,062
Debt.....	1,022	897	950
Other liabilities .....	1,210	1,244	792
Shareowners' equity .....	289	251	1,078
<b>Total liabilities and shareowners' equity.....</b>	<b>\$ 5,014</b>	<b>\$ 4,980</b>	<b>\$ 4,718</b>

## Navistar International Corporation and Consolidated Subsidiaries

**Additional Financial Information (Unaudited)**

Navistar International Corporation (with financial services operations on an equity basis)

Millions of dollars

<b>Condensed Statement of Cash Flow</b>	<b>Three Months Ended January 31</b>	
	<b>2003</b>	<b>2002</b>
<b>Cash flow from operations</b>		
Net loss .....	\$ (99)	\$ (56)
Adjustments to reconcile net loss to cash used in operations:		
Depreciation and amortization.....	41	39
Deferred income taxes.....	(75)	(30)
Postretirement benefits funding in excess of expense.....	(17)	(8)
Equity in earnings of investees, net of dividends received.....	(29)	(27)
Other, net .....	(35)	(23)
Change in operating assets and liabilities .....	(155)	(168)
<b>Cash used in operations .....</b>	<b>(369)</b>	<b>(273)</b>
<b>Cash flow from investment programs</b>		
Purchases of marketable securities.....	(28)	-
Sales or maturities of marketable securities .....	10	30
Capital expenditures .....	(47)	(69)
Receivable from financial services operations .....	56	(83)
Investment in affiliates.....	2	1
Capitalized interest and other .....	11	(10)
<b>Cash provided by (used in) investment programs .....</b>	<b>4</b>	<b>(131)</b>
<b>Cash provided by (used in) financing activities.....</b>	<b>271</b>	<b>(3)</b>
<b>Cash and cash equivalents</b>		
Decrease during the period .....	(94)	(407)
At beginning of the period .....	549	766
<b>Cash and cash equivalents at end of the period.....</b>	<b>\$ 455</b>	<b>\$ 359</b>



## **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND 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 captions "Restructuring and Other Non-Recurring Charges" and "Business Environment." Additional information regarding factors that could cause actual results to differ materially from those in the forward-looking statements is contained from time to time in the company's filings with the Securities and Exchange Commission.*

### **RESULTS OF OPERATIONS**

The company reported a net loss of \$99 million, or a \$1.49 loss per diluted common share for the first quarter ended January 31, 2003, primarily due to higher postretirement benefits expense, higher costs associated with the delay of the V-6 engine program, lower engine shipments and higher start-up costs related to the introduction of the new 6.0 liter (6.0L) V-8 engine. For the comparable quarter last year, the net loss was \$56 million, or a \$0.93 loss per diluted common share.

The truck segment's loss for the first quarter of 2003 decreased \$15 million and revenues increased \$149 million compared to the same period last year. The truck segment's improvements are primarily the result of higher shipments driven by increased industry demand.

The engine segment's loss for the first three months of 2003 was \$35 million, a \$77 million decrease compared to the same period in 2002. The engine segment's revenues were \$500 million in the first quarter of 2003, 7% lower than the comparable quarter in 2002. The decreases in the engine segment's profits and revenues for 2003 are primarily the result of lower shipments, higher costs associated with the delay of the V-6 engine program and start-up costs related to the introduction of the new 6.0L V-8 engine.

The financial services segment's profit for the first quarter of 2003 was \$48 million, a \$17 million increase over the comparable period in 2002. The increase is primarily the result of a higher gain on the sale of retail receivables.

**Sales and Revenues.** Sales and revenues for the first quarter of 2003 totaled \$1,578 million, 8% higher than the \$1,465 million reported for the same quarter in 2002.

United States (U.S.) and Canadian industry retail sales of Class 5 through 8 trucks totaled 64,600 units in the first quarter of 2003, 6% higher than the 60,800 units sold during this period in 2002. Class 8 heavy truck sales of 36,200 units during the first quarter of 2003 were 9% higher than the 2002 level of 33,300 units. Industry sales of Class 5, 6 and 7 medium trucks, including school buses, increased 3% to 28,400 units. Industry sales of school buses, which accounted for 22% of the medium truck market, increased 13% to 6,200 units.

The company's market share in the combined U.S. and Canadian Class 5 through 8 truck market for the first quarter of 2003 increased slightly to 26.5% from 26.4% in the same period of 2002.

Total engine shipments for the first three months of 2003 reached 77,700 units, which is 14% lower than the 90,800 units shipped in the first quarter of 2002. Shipments of mid-range diesel engines by the company to other original equipment manufacturers (OEMs) during the first quarter of 2003 totaled 63,400 units, a 19% decrease from the same period of 2002.

Finance and insurance revenue was \$92 million for the first quarter of 2003, a \$15 million increase from 2002 revenue of \$77 million. The increase in 2003 is primarily attributable to a greater gain on the sale of retail receivables.

**Costs and expenses.** Manufacturing gross margin was 5.3% for the first quarter of 2003, a decrease from the 10.8% reported for the same period in 2002. The decrease is primarily due to higher costs associated with the delay of the V-6 engine program, lower volumes, the V-8 engine start-up costs previously described and exchange rate effects.

Postretirement benefits expense increased \$25 million from the first quarter of 2002 to \$83 million. This increase is due to higher interest expense resulting from higher pension and health care obligations, which were the result of the change in discount rates and the 2002 restructuring activities. The increase is also caused by lower returns on assets, resulting from asset losses in 2002 and a lower expected rate of return in 2003. In addition, higher amortization expense due to significant losses in 2002 contributed to the increase.

Engineering and research expense for the first three months of 2003 decreased \$7 million to \$57 million compared to the same period in 2002 due to the completion of new product introduction and controlled spending.

Selling, general and administrative expense decreased 7% to \$124 million in the first quarter of 2003 from \$133 million for the comparable quarter in 2002. This is due to a decrease in the provision for losses on receivables driven by a decrease in repossession frequency.

## **Restructuring and Other Non-recurring Charges**

### 2000 and 2002 Restructuring Charges

In October 2000, the company incurred charges for restructuring, asset write-downs and other exit costs eventually totaling \$308 million, after \$2 million in net adjustments in 2001 and 2002, as part of an overall plan to restructure its manufacturing and corporate operations (2000 Plan of Restructuring). The major restructuring, integration and cost reduction initiatives, which were substantially complete as of November 30, 2001, included in the 2000 Plan of Restructuring are as follows:

- Replacement of steel cab trucks with a new line of High Performance Vehicles (HPV) and a concurrent realignment of the company's truck manufacturing facilities
- Closure of certain operations
- Launch of the next generation technology diesel engines (NGD)
- Consolidation of corporate operations
- Realignment of the bus and truck dealership network and termination of various dealerships' contracts

In October 2002, the company's board of directors approved a separate restructuring plan (2002 Plan of Restructuring) and the company incurred charges for restructuring, asset and inventory write-downs and other exit costs totaling \$372 million. In addition, the company incurred non-recurring charges of \$170 million related to its V-6 diesel engine program and \$60 million in losses (net of tax) from discontinued operations associated with its exit of the Brazil domestic truck market (see Note I to the Financial Statements).

The following are the major restructuring, integration and cost reduction initiatives included in the 2002 Plan of Restructuring:

- Closure of facilities and exit of certain activities including the Chatham, Ontario heavy truck assembly facility, the Springfield, Ohio body plant and a manufacturing production line within one of the company's plants
- Offer of an early retirement program to certain union represented employees
- Completion of the launch of the HPV and NGD product programs

Of the 2002 pre-tax restructuring, other non-recurring charges and adjustments of \$544 million, \$157 million represented non-cash charges.

Through January 31, 2003, approximately \$581 million in charges related to the 2000 and 2002 Plans of Restructuring and the 2002 non-recurring charges have been incurred. Curtailment losses of \$169 million related to the company's postretirement benefit plans have been reclassified as a non-current postretirement benefits liability. The remaining restructuring and other non-recurring charges liability of \$271 million is expected to be funded from existing cash balances and internally generated cash flows from operations.

A description of the significant components of the 2000 and 2002 restructuring charges are as follows:

The 2000 Plan of Restructuring included the reduction of approximately 1,900 employees from the workforce, primarily in North America. At October 31, 2002, the remaining \$18 million balance of the total net charge of \$75 million was adjusted as part of the \$94 million charge for severance and benefits related to the 2002 restructuring charge. Pursuant to the 2002 Plan of Restructuring, an additional 3,500 positions will be eliminated throughout the company, primarily in North America. During the quarter ended January 31, 2003, approximately \$12 million was paid for severance and other benefits to approximately 1,800 employees as a result of the two Plans of Restructuring. The severance and other benefits balance represents costs related to future payments due to the company's contractual severance obligations.

Lease termination costs related to the 2000 Plan of Restructuring include future obligations under long-term non-cancelable lease agreements at facilities being vacated following workforce reductions. This charge primarily consisted 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, 2003, \$9 million of the total net charge of \$38 million has been incurred for lease termination costs, of which \$1 million was incurred during the quarter.

The 2000 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. Payments related to exit costs of approximately \$2 million were incurred during the quarter.

Dealer termination costs related to the 2000 Plan of Restructuring 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 2000 restructuring initiatives. Other exit costs principally include \$25 million of contractually obligated exit and closure costs incurred as a result of the planned closure of both the Chatham Assembly Plant and the Springfield Body Plant. As of January 31, 2003, \$24 million of the total net charge of \$68 million has been paid for dealer termination and other exit costs, of which \$2 million was incurred during the quarter.

Other Non-Recurring Charges

In addition to the 2002 Plan of Restructuring charges, the company recorded non-recurring charges of \$170 million primarily related to the discontinuance of the company's V-6 diesel engine program with Ford Motor Company (Ford). In October 2002, Ford advised the company that their current business case for a V-6 diesel engine in the specified vehicles was not viable and it has discontinued its program for the use of these engines. Ford is seeking to cancel the V-6 supply contract. As a result, the company has determined that the timing of the commencement of the V-6 diesel engine program is neither reasonably predictable nor probable. The non-recurring pre-tax charge of \$167 million in 2002 included the write-off of deferred pre-production costs, the write-down to fair value of certain V-6 diesel engine-related fixed assets that were abandoned, an accrual for future lease obligations under non-cancelable operating leases for certain V-6 diesel engine assembly assets that will not be used by the company, an accrual for amounts contractually owed to suppliers related to the V-6 diesel engine program and the write-down to fair value of certain other assets.

The company is currently working with Ford to negotiate a reimbursement of its investment and development costs as well as any amounts owed to the company's suppliers. While the company believes that it is legally entitled to such reimbursement under the agreement, Ford has not agreed to any such reimbursement of the company's investment and development costs. No anticipated recovery has been recorded as part of the \$167 million pre-tax charge. As of January 31, 2003, of the total net charge of \$170 million, \$74 million has been incurred primarily related to the write-off or write-down to fair value of fixed assets and for the payment of lease obligations of which \$8 million was incurred during the quarter.

The actions to implement the 2002 restructuring initiatives are expected to generate at least \$70 million in annual savings for the company, due to the reduction of manufacturing fixed costs. The company realized approximately \$10 million of these benefits in the first quarter of 2003 and expects to realize modestly higher savings throughout the rest of the year. Full annualized savings will be realized in late 2003, once the restructuring initiatives are fully implemented.

Components of the company's restructuring plans and other non-recurring charges, including the plans initiated in both 2002 and 2000, are shown in the following table.

Millions of dollars	Balance October 31, 2002	Amount Incurred	Balance January 31, 2003
Severance and other benefits.....	\$ 112	\$ (12)	\$ 100
Lease terminations .....	30	(1)	29
Loss on sale of business.....	4	(2)	2
Dealer terminations and other exit costs ...	46	(2)	44
Other non-recurring charges.....	104	(8)	96
Total.....	<u>\$ 296</u>	<u>\$ (25)</u>	<u>\$ 271</u>

**Liquidity and Capital Resources**

Cash flow is generated from the manufacture and sale of trucks and 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 economical source of funding for NFC.

The company had working capital of \$72 million at January 31, 2003, compared to \$209 million at October 31, 2002. Cash used in operations during the first quarter of 2003 totaled \$341 million resulting from a net loss of \$99 million, a net change in operating assets and liabilities of \$139 million and \$103 million of non-cash items.

The net use of cash resulting from the change in operating assets and liabilities included an \$86 million decrease in accounts payable primarily due to lower truck and engine production levels in the first quarter. Also included was a decrease in other liabilities primarily due to a reduction in the restructuring liability as a result of cash payments during the quarter.

Cash provided by investment programs resulted from a net decrease in retail notes and lease receivables of \$578 million. This was partially offset by a net increase in marketable securities of \$418 million.

Cash provided by financing activities resulted from the sale of 7,755,030 shares of the company's common stock for an aggregate purchase price of \$175 million as well as from a net increase in long-term debt of \$137 million, which includes \$190 million of new senior convertible bonds due 2007. These were partially offset by net premiums paid on call options on the company's stock of \$25 million and a net decrease of \$193 million in notes and debt outstanding under the bank revolving credit facility and other commercial paper programs.

NFC has traditionally obtained the funds to provide financing to the company'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, 2003, NFC's funding consisted of sold finance receivables of \$2,908 million, bank and other borrowings of \$926 million, convertible debt of \$174 million, secured borrowings of \$301 million and equity of \$387 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 corporations and wholly owned subsidiaries of NFC. The sales of finance receivables in each securitization constitute sales under accounting principles generally accepted in the United States of America, 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.

Through the asset-backed public market and private placement sales, NFC has been able to fund fixed rate retail notes and finance leases at rates which are more economical than those available to NFC in the unsecured public bond market. During the first quarter of 2003, NFC sold \$824 million of retail notes and finance leases, net of unearned finance income, for a pre-tax gain of \$33 million. The receivables were sold through NFRRC to an owner trust which, in turn, issued asset-backed securities that were sold to investors. At January 31, 2003, the remaining shelf registration available to NFRRC for the public issuance of asset-backed securities was \$1,650 million.

TERFCO has in place a trust that provides for the funding of \$100 million of unsecured trade receivables generated by the sale of diesel engines and engine service parts from International to Ford. The facility matures in 2006. As of January 31, 2003, NFC had utilized \$100 million of this facility.

TRAC has in place a revolving retail account conduit that provides for the funding of \$100 million of eligible retail accounts. As of January 31, 2003, NFC has utilized \$3 million of this facility. The facility expires in August 2003 and is renewable upon mutual consent of the parties.

As of January 31, 2003, NFSC has in place a revolving wholesale note trust that provides for the funding of \$1,012 million of eligible wholesale notes, of which \$764 million has been utilized.

At January 31, 2003, available funding under NFC's bank revolving credit facilities, the revolving retail warehouse facility and the revolving wholesale note trust was \$853 million. When combined with unrestricted cash and cash equivalents, \$875 million was available to fund the general business purposes of NFC.

There have been no material changes in the company's hedging strategies or derivative positions since October 31, 2002, except for the purchased and written call options associated with the issuance of the \$190 million convertible notes. Further disclosure may be found in Note J to the Financial Statements and in the company's 2002 Annual Report on Form 10-K.

In November 2002, the company completed the sale of a total of 7,755,030 shares of its common stock, par value \$0.10 per share, at a price of \$22.566 per share, for an aggregate purchase price of \$175 million to the three employee benefit plan trusts of International. The securities were offered and sold in reliance upon the exemption from securities registration afforded by Section 4(2) of the Securities Act of 1933 and Rule 506 under Regulation D. The proceeds from the sale of the stock will be used to fund the company's retirement plans in 2003.

In December 2002, Fitch IBCA lowered the company's and NFC's senior unsecured debt ratings to BB from BB+. They also lowered the company's and NFC's senior subordinated debt ratings to B+ from BB-. Also in December 2002, Standard and Poor's lowered the company's and NFC's senior unsecured debt ratings to BB- from BB and the company's senior subordinated debt rating to B from B+. In December 2002, Moody's also lowered the company's senior unsecured debt rating to Ba3 from Ba1 and the company's and NFC's senior subordinated debt ratings to B2 from Ba2.

In December 2002, the company completed the private placement of \$190 million of new senior convertible bonds due 2007. The bonds were priced to yield 2.5% with a conversion premium of 30% on a closing price of \$26.70. Simultaneous with the issuance of the convertible bonds, the company entered into two call option derivative contracts, the consequences of which will allow the company to eliminate share dilution upon conversion of the convertible debt from the conversion price of the bond up to a 100% premium over the share price at issuance. In February 2003, \$100 million of the net proceeds from the \$190 million offering was used to repay the aggregate principal amount of the 7% senior notes due February 2003. The remaining funds were used to repay other existing debt, replenish cash balances that were used to repay other debt that matured in fiscal 2002 and to pay fees and expenses related to the offering.

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 \$173 million at January 31, 2003, primarily for the HPV, NGD and other new engine 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. Currently, under limitations in various debt agreements, the company is generally unable to incur material amounts of additional debt. The company is generally allowed under these limitations to refinance debt as it matures.

Management of the company's financial services operations 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.

## **Critical Accounting Policies**

The company has identified critical accounting policies that, as a result of the judgments, uncertainties, uniqueness and complexities of the underlying accounting standards and operations involved, could result in material changes to its financial condition or results of operations under different conditions or using different assumptions. The company's most critical accounting policies are related to sales allowances, sales of receivables, product warranty, product liability, pension and other postretirement benefits, allowance for losses and impairment of long-lived assets. Details regarding the company's use of these policies are described in the 2002 Annual Report on Form 10-K filed with the Securities and Exchange Commission. There have been no material changes to these policies since October 31, 2002.

## **Income Taxes**

The Statement of Financial Condition at January 31, 2003, includes a deferred tax asset of \$1,598 million, net of valuation allowances of \$110 million. The company performs extensive analysis to determine the amount of the deferred tax asset. Such analysis is based on the premise that the company is, and will continue to be, a going concern and that it is more likely than not that deferred tax benefits will be realized through the generation of future taxable income. For more information, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 3 in the company's 2002 Annual Report on Form 10-K.

## **New Accounting Pronouncements**

In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The company has provided disclosures about guarantees in Note K to the Financial Statements.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 (SFAS 148), "Accounting for Stock-Based Compensation – Transition and Disclosure," which amends FASB Statement No. 123, "Accounting for Stock-Based Compensation." SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. It also requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002, and the interim disclosure provisions are effective for interim periods beginning after December 15, 2002. The company will provide the required interim disclosures beginning in the quarter ending April 30, 2003.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities." This interpretation addresses consolidation requirements of variable interest entities. Transferors to qualified special purpose entities (QSPEs) subject to the reporting requirements of FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," are excluded from the scope of this interpretation. The company currently sells receivables to entities meeting the requirements of QSPEs.

## **Business Environment**

Sales of Class 5 through 8 trucks have historically 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 the overall state of the economy, rising insurance costs, tightened credit availability and increased fuel prices. The company's U.S. and Canadian order backlog at January 31, 2003, is 19,300 units, consistent with January 31, 2002. Historically, retail deliveries have been impacted by the rate at which new truck orders are received. Therefore, in order to manage through the current downturn, the company continually evaluates order receipts and backlog throughout the year by balancing production with demand as appropriate. An industry-wide slowdown in orders for medium-duty trucks resulted in the temporary layoff of 250 workers at the company's Springfield Assembly Plant in the first quarter.

The company currently projects 2003 U.S. and Canadian Class 8 heavy truck demand to be 156,000 units, down 4% from 2002. Class 6 and 7 medium truck demand, excluding school buses, is forecast at 82,000 units, 13% higher than in 2002. Demand for school buses is expected to be 27,500 units, consistent with 2002. Mid-range diesel engine shipments by the company to OEMs in 2003 are expected to be 346,000 units, 10% higher than 2002.



## Navistar International Corporation and Consolidated Subsidiaries

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

The company's primary market risks include fluctuations in interest rates and currency exchange rates as further described in Item 7A of the 2002 Annual Report on Form 10-K.

Interest rate risk is the risk that the company will incur economic losses due to adverse changes in interest rates. The company measures its interest rate risk by estimating the net amount by which the fair value of all of its interest rate sensitive assets and liabilities would be impacted by selected hypothetical changes in market interest rates. Fair value is estimated using a discounted cash flow analysis. Assuming a hypothetical instantaneous 10% adverse change in interest rates as of January 31, 2003, the net fair value of these instruments would decrease by approximately \$27 million. The company's interest rate sensitivity analysis assumes a parallel shift in interest rate yield curves. The model, therefore, does not reflect the potential impact of changes in the relationship between short-term and long-term interest rates.

There have been no material changes in the company's foreign currency risk since October 31, 2002, as reported in the 2002 Annual Report on Form 10-K.

## Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

The company's principal executive officer and principal financial officer evaluated the company's disclosure controls and procedures (as defined in rule 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of a date within 90 days before the filing of this quarterly report (the Evaluation Date). Based on that evaluation, the principal executive officer and principal financial officer of the company concluded that, as of the Evaluation Date, the disclosure controls and procedures in place at the company were adequate to ensure that information required to be disclosed by the company, including its consolidated subsidiaries, in reports that the company files or submits under the Exchange Act, is recorded, processed, summarized and reported on a timely basis in accordance with applicable rules and regulations. Although the company's principal executive officer and principal financial officer believe the company's existing disclosure controls and procedures are adequate to enable the company to comply with its disclosure obligations, the company intends to formalize and document the procedures already in place and establish a disclosure committee.

Changes in internal controls

The company has not made any significant changes to its internal controls subsequent to the Evaluation Date. The company has not identified any significant deficiencies or material weaknesses or other factors that could significantly affect these controls, and therefore, no corrective action was taken.

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 former fuel system supplier, Caterpillar Inc. (Caterpillar), regarding the ownership and validity of certain patents covering fuel system technology used in the company's new version of diesel engines that were introduced in February 2002. In June 1999, in Federal Court in Peoria, Illinois, 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. After a trial, on July 18, 2002, the jury returned a verdict in favor of Caterpillar finding that this technology belongs to Caterpillar under a prior contract between Caterpillar and Sturman. Sturman is seeking to set aside the verdict and will appeal any adverse judgment. The company intends to cooperate in these efforts. The company believes that Caterpillar may assert claims against the company regarding this and other aspects of fuel system technology that it may claim is used in the company's new engines. In January 2002, Caterpillar sued the company in the Circuit Court in Peoria County, Illinois, and the company counter claimed against Caterpillar each alleging the other breached the purchase agreement pursuant to which Caterpillar supplied fuel systems for the company's prior version of diesel engines. The alleged breaches involve Caterpillar's refusal to supply the new fuel system and the company's subsequent replacement of Caterpillar as the supplier of such systems for the company's new 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.

PART II - OTHER INFORMATION (continued)

## Item 2. Changes in Securities and Use of Proceeds

Directors of the company who are not employees receive an annual retainer and meeting fees payable at their election in shares of common stock of the company or in cash. Currently the board of directors mandates that at least one-fourth of the annual retainer be paid in the form of common stock of the company. For the period covered by this report, receipt of approximately 1,228 shares was deferred as payment for the 2002 annual retainer and meeting fees. In each case, the shares were acquired at prices ranging from \$23.955 to \$30.305, which represented the fair market value of such shares on the date of acquisition. Exemption from registration of the shares is claimed by the company under Section 4(2) of the Securities Act of 1933, as amended.

In November 2002, the company sold an aggregate amount of 7,755,030 shares of common stock in three separate sales; 4,653,018 shares to the International Non-Contributory Retirement Plan Trust, 1,551,006 shares to the International Retirement Plan for Salaried Employees Trust, and 1,551,006 shares to the International Retiree Health Benefit Trust, for an aggregate purchase price of \$175 million, and per share purchase price of \$22.566. Each trust is a funding trust for an employee benefit plan sponsored by International. The company appointed Jennison Associates LLC (Jennison) as investment manager for each trust with respect to the company stock, and Jennison has been given discretionary authority regarding voting and disposition of the stock. The company, has, however, retained the power to revoke or change the appointment of Jennison. The company intends to use the proceeds from the offering to fund the company's retirement plans in 2003. The offer and sale of the securities was exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof and Regulation D promulgated thereunder. On December 6, 2002, the company filed a registration statement for the resale of the securities, which registration statement was declared effective on January 10, 2003.

In December 2002, the company completed an offering of \$190 million in aggregate principal amount of 2.50% Senior Convertible Notes due 2007. The notes are general unsecured obligations of the company and are convertible, at the option of the holder, into shares of the common stock of the company at a conversion price of \$34.71. International has guaranteed, on a senior unsecured basis, the company's obligations under the notes. Interest is payable on the notes semiannually in arrears on June 15 and December 15 of each year commencing on June 15, 2003. The initial purchaser of the notes was Credit Suisse First Boston. From the aggregate offering price of \$190 million, the company received \$186,200,000. The company used the proceeds from the offering as follows: (i) to repay the aggregate principal amount of the 7% Senior Notes due February 2003; (ii) to repay other existing debt; (iii) to replenish cash balances that were used to repay other debt that matured in fiscal 2002; and (iv) to pay fees and expenses related to the offering. The offer and sale of the notes were exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Rule 144A promulgated thereunder. On February 25, 2003, the company filed a registration statement for the resale of the notes and the shares of common stock issuable upon conversion of the notes.

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.

## Navistar International Corporation and Consolidated Subsidiaries

PART II – OTHER INFORMATION (continued)

## 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
99.1 CEO Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	E-6
99.2 CFO Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	E-7

## (b) Reports on Form 8-K:

The company filed a current report on Form 8-K with the Commission on November 8, 2002, in which the company announced the sale of common stock to three of the employee benefit plan trusts of International Truck and Engine Corporation.

The company furnished a current report on Form 8-K with the Commission on November 21, 2002, in which the company provided information regarding timing of and access to its fourth quarter 2002 earnings release conference call.

The company furnished a current report on Form 8-K with the Commission on December 2, 2002, in which the company announced a voluntary plan through which shareholders owning fewer than 100 shares may either sell their holdings or purchase shares to bring them up to 100.

The company filed a current report on Form 8-K with the Commission on December 3, 2002, in which the company released its fourth quarter 2002 earnings.

The company filed a current report on Form 8-K with the Commission on December 11, 2002, in which the company announced plans to issue \$190 million in senior convertible bonds.

The company filed a current report on Form 8-K with the Commission on December 11, 2002, in which the company announced that the current president and chief operating officer, Daniel C. Ustian, was elected chief executive officer effective February 19, 2003.

The company filed a current report on Form 8-K with the Commission on December 11, 2002, in which the company announced the pricing of the \$190 million new senior convertible bonds to be sold in a private placement.

The company furnished a current report on Form 8-K with the Commission on January 17, 2003, in which the company provided information regarding timing of and access to its first quarter 2003 earnings release conference call.

SIGNATURE

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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

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(Registrant)

/s/ Mark T. Schwetschenau

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

March 14, 2003

CERTIFICATION

I, Daniel C. Ustian, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Navistar International Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 14, 2003

/s/ Daniel C. Ustian  
Daniel C. Ustian  
President and Chief Executive Officer  
(Principal Executive Officer)

CERTIFICATION

I, Robert C. Lannert, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Navistar International Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 14, 2003

/s/ Robert C. Lannert  
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Robert C. Lannert  
Vice Chairman and Chief Financial Officer  
(Principal Financial Officer)

**NAVISTAR INTERNATIONAL CORPORATION  
AND CONSOLIDATED SUBSIDIARIES**

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**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 February 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**

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**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 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.
- 4.2 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.
- 4.3 \$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).
- 4.4 \$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).
- 4.5 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.
- 4.6 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.

**NAVISTAR INTERNATIONAL CORPORATION  
AND CONSOLIDATED SUBSIDIARIES**

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INSTRUMENTS DEFINING RIGHTS OF SECURITY HOLDERS,  
INCLUDING INDENTURES**

- 4.7 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.
- 4.8 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.
- 4.9 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.
- 4.10 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).
- 4.11 \$250,000,000 Mexican Peso Credit Agreement dated as of July 25, 2001, as amended by Amendment No. 2 dated as of August 21, 2002, 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).
- 4.12 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.
- 4.13 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.
- 4.14 \$30,000,000 Revolving Credit Agreement dated as of October 25, 2001, as amended by Amendment No. 2 dated as of August 29, 2002, among Arrendadora Financiera Navistar, S.A. de C.V. and Servicios Financieros Navistar, S.A. de C.V. and Export Development 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**

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

- 4.15 \$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).
- 4.16 \$200,000,000 Mexican Peso Revolving Credit Agreement dated as of November 27, 2001, as amended by Amendment No. 3 dated as of January 31, 2003, and renewed on this same date, among Arrendadora Financiera Navistar, S.A. de C.V. and Servicios Financieros Navistar, 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).
- 4.17 \$120,000,000 Mexican Peso Revolving Credit Agreement dated as of February 27, 2002, among Arrendadora Financiera Navistar, S.A. de C.V., as borrower, and Nacional Financiera, S.N.C., as lender. 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).
- 4.18 \$120,000,000 Mexican Peso Revolving Credit Agreement dated as of February 27, 2002, among Servicios Financieros Navistar, S.A. de C.V., as borrower, and Nacional Financiera, S.N.C., as lender. 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 Navistar International Corporation Restated Stock Certificate filed as Exhibit 4.20 to Form 10-Q dated March 11, 2002. Commission File No. 1-9618.
- 4.20 Indenture, dated as of March 25, 2002, by and among Navistar Financial Corporation, Navistar International Corporation and BNY Midwest Trust Company, as Trustee, for Navistar Financial Corporation's 4.75% Subordinated Exchangeable Notes due 2009 for \$220,000,000. Filed as Exhibit 4.1 to Form S-3 dated May 7, 2002. Registration No. 333-87716.
- 4.21 Registration Rights Agreement, dated as of March 25, 2002, by and among Navistar Financial Corporation, Navistar International Corporation, Salomon Smith Barney, Inc. and Banc of America Securities, LLC. Filed as Exhibit 4.2 to Form S-3 dated May 7, 2002. Registration No. 333-87716.

**NAVISTAR INTERNATIONAL CORPORATION  
AND CONSOLIDATED SUBSIDIARIES**

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

- 4.22 \$141,000,000 Mexican Peso Revolving Credit Agreement dated as of May 14, 2002, among Servicios Financieros Navistar, S.A. de C.V. and Arrendadora Financiera Navistar, S.A. de C.V., as borrowers and Ixe Banco, S.A., as lender. 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).
- 4.23 \$10,000,000 Revolving Credit Agreement dated as of May 31, 2002, among Servicios Financieros Navistar, S.A. de C.V. and Arrendadora Financiera Navistar, S.A. de C.V., as borrowers and Banco Internacional, S.A., as lender. 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).
- 4.24 \$50,000,000 Mexican Peso Revolving Credit Agreement dated as of June 24, 2002, between Servicios Financieros Navistar, S.A. de C.V., as borrower and Banco Invex, S.A., as lender. 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).
- 4.25 \$200,000,000 Mexican Peso Revolving Credit Agreement dated as of October 16, 2002, among Servicios Financieros Navistar, S.A. de C.V. and Arrendadora Financiera Navistar, S.A. de C.V., as borrowers and Scotiabank Inverlat, S.A., as lender. 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).
- 4.26 Registration Rights Agreement, dated as of November 8, 2002, by and between Navistar International Corporation and the Investors party thereto. Filed as Exhibit 4.3 to Form S-3 dated December 6, 2002. Registration No. 333-101684.
- 4.27 Indenture, dated as of December 16, 2002, by and among Navistar International Corporation, International Truck and Engine Corporation and BNY Midwest Trust Company, as Trustee, for Navistar International Corporation's 2.50% Senior Convertible Notes due 2007 for \$190,000,000. Filed as Exhibit 4.3 to Form S-3 dated February 25, 2003. Registration No. 333-103437.
- 4.28 Registration Rights Agreement, dated as of December 16, 2002, by and between Navistar International Corporation and Credit Suisse First Boston Corporation. Filed as Exhibit 4.2 to Form S-3 dated February 25, 2003. Registration No. 333-103437.

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.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Navistar International Corporation (the "Company") on Form 10-Q for the period ended January 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel C. Ustian, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Daniel C. Ustian  
Daniel C. Ustian  
Chief Executive Officer  
March 14, 2003

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Navistar International Corporation (the "Company") on Form 10-Q for the period ended January 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert C. Lannert, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Robert C. Lannert  
Robert C. Lannert  
Chief Financial Officer  
March 14, 2003

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.