

**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 July 31, 2004

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)

<u>Delaware</u> (State or other jurisdiction of incorporation or organization)	<u>36-3359573</u> (I.R.S. Employer Identification No.)
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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 \_\_\_\_

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule12b-2 of the Act.)  
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 August 31, 2004, the number of shares outstanding of the registrant's common stock was 69,827,185.

NAVISTAR INTERNATIONAL CORPORATION  
AND CONSOLIDATED SUBSIDIARIES

INDEX

	<u>Page Reference</u>
Part I. Financial Information:	
Item 1. Financial Statements	
Statement of Income	
Three and Nine Months Ended July 31, 2004 and 2003 .....	3
Statement of Financial Condition	
July 31, 2004, October 31, 2003 and July 31, 2003 .....	4
Statement of Cash Flow	
Nine Months Ended July 31, 2004 and 2003 .....	5
Notes to the Financial Statements .....	6
Additional Financial Information .....	23
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	25
Item 3. Quantitative and Qualitative Disclosures About Market Risk .....	35
Item 4. Controls and Procedures.....	35
Part II. Other Information:	
Item 1. Legal Proceedings .....	36
Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities .....	37
Item 6. Exhibits and Reports on Form 8-K.....	38
Signature .....	39

**PART I - FINANCIAL INFORMATION****ITEM 1. Financial Statements****STATEMENT OF INCOME (Unaudited)**

Millions of dollars, except per share data

Navistar International Corporation and Consolidated Subsidiaries				
	Three Months Ended		Nine Months Ended	
	July 31		July 31	
	2004	2003	2004 [1]	2003
<b>Sales and revenues</b>				
Sales of manufactured products .....	\$ 2,301	\$ 1,810	\$ 6,362	\$ 5,097
Finance revenue .....	59	81	179	226
Other income .....	-	3	9	13
Total sales and revenues .....	<u>2,360</u>	<u>1,894</u>	<u>6,550</u>	<u>5,336</u>
<b>Costs and expenses</b>				
Cost of products and services sold .....	1,984	1,579	5,563	4,587
Restructuring and other non-recurring charges .....	(5)	-	(1)	-
Postretirement benefits expense .....	46	71	165	225
Engineering and research expense .....	66	57	181	175
Selling, general and administrative expense .....	151	120	405	366
Interest expense .....	29	33	90	104
Other expense .....	4	2	20	20
Total costs and expenses .....	<u>2,275</u>	<u>1,862</u>	<u>6,423</u>	<u>5,477</u>
Income (loss) from continuing operations before income taxes .....	85	32	127	(141)
Income tax expense (benefit) .....	<u>29</u>	<u>13</u>	<u>39</u>	<u>(50)</u>
Income (loss) from continuing operations .....	56	19	88	(91)
Loss from discontinued operations .....	-	(1)	-	(4)
<b>Net income (loss) .....</b>	<u>\$ 56</u>	<u>\$ 18</u>	<u>\$ 88</u>	<u>\$ (95)</u>
<b>Basic earnings (loss) per share</b>				
Continuing operations .....	\$ 0.80	\$ 0.27	\$ 1.27	\$ (1.35)
Discontinued operations .....	-	(0.01)	-	(0.06)
Net income (loss) .....	<u>\$ 0.80</u>	<u>\$ 0.26</u>	<u>\$ 1.27</u>	<u>\$ (1.41)</u>
<b>Diluted earnings (loss) per share</b>				
Continuing operations .....	\$ 0.73	\$ 0.26	\$ 1.19	\$ (1.35)
Discontinued operations .....	-	(0.01)	-	(0.06)
Net income (loss) .....	<u>\$ 0.73</u>	<u>\$ 0.25</u>	<u>\$ 1.19</u>	<u>\$ (1.41)</u>
Average shares outstanding (millions)				
Basic .....	69.9	68.5	69.6	67.7
Diluted .....	80.0	74.8	80.2	67.7

[1] Pre-third quarter results were restated to reflect the retroactive impact of adopting FSP 106-2 in the third quarter. See Note B to the financial statements.

See Notes to Financial Statements

**STATEMENT OF FINANCIAL CONDITION (Unaudited)**

Millions of dollars

	Navistar International Corporation and Consolidated Subsidiaries		
	<b>July 31 2004</b>	October 31 2003	July 31 2003
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents.....	\$ 473	\$ 447	\$ 187
Marketable securities .....	6	78	125
Receivables, net .....	749	869	818
Inventories.....	787	494	518
Deferred tax asset, net.....	152	176	256
Other assets .....	<u>186</u>	<u>149</u>	<u>273</u>
Total current assets .....	<u>2,353</u>	<u>2,213</u>	<u>2,177</u>
Marketable securities.....	424	517	439
Finance and other receivables, net.....	878	955	935
Property and equipment, net.....	1,333	1,350	1,304
Investments and other assets.....	348	336	322
Prepaid and intangible pension assets.....	70	66	59
Deferred tax asset, net .....	<u>1,466</u>	<u>1,463</u>	<u>1,346</u>
<b>Total assets</b> .....	<u><b>\$ 6,872</b></u>	<u><b>\$ 6,900</b></u>	<u><b>\$ 6,582</b></u>
<b>LIABILITIES AND SHAREOWNERS' EQUITY</b>			
<b>Liabilities</b>			
Current liabilities			
Notes payable and current maturities of long-term debt	\$ 259	\$ 214	\$ 229
Accounts payable, principally trade .....	1,134	1,079	892
Other liabilities.....	<u>856</u>	<u>911</u>	<u>958</u>
Total current liabilities .....	<u>2,249</u>	<u>2,204</u>	<u>2,079</u>
Debt: Manufacturing operations .....	1,071	863	871
Financial services operations .....	1,253	1,533	1,418
Postretirement benefits liability.....	1,391	1,435	1,362
Other liabilities .....	<u>517</u>	<u>555</u>	<u>559</u>
Total liabilities .....	<u>6,481</u>	<u>6,590</u>	<u>6,289</u>
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).....	2,087	2,118	2,121
Retained earnings (deficit) .....	(770)	(824)	(890)
Accumulated other comprehensive loss .....	(784)	(786)	(725)
Common stock held in treasury, at cost (5.5 million, 6.5 million and 7.0 million shares held)	<u>(146)</u>	<u>(202)</u>	<u>(217)</u>
Total shareowners' equity .....	<u>391</u>	<u>310</u>	<u>293</u>
<b>Total liabilities and shareowners' equity</b> .....	<u><b>\$ 6,872</b></u>	<u><b>\$ 6,900</b></u>	<u><b>\$ 6,582</b></u>

See Notes to Financial Statements.

**STATEMENT OF CASH FLOW** (Unaudited)  
 Millions of dollars

	Navistar International Corporation and Consolidated Subsidiaries	
	<b>Nine Months Ended July 31</b>	
	<b>2004</b>	<b>2003</b>
<b>Cash flow from operations</b>		
Net income (loss) .....	\$ 88	\$ (95)
Adjustments to reconcile net income (loss) to cash used in operations:		
Depreciation and amortization .....	156	156
Deferred income taxes .....	16	(78)
Postretirement benefits funding less than (in excess of) expense .....	(173)	15
Gains on sales of receivables .....	(40)	(59)
Other, net .....	59	(51)
Change in operating assets and liabilities:		
Receivables .....	(64)	38
Inventories .....	(280)	59
Prepaid and other current assets .....	(26)	(86)
Accounts payable .....	50	(113)
Other liabilities .....	67	1
<b>Cash used in operations .....</b>	<b>(147)</b>	<b>(213)</b>
<b>Cash flow from investment programs</b>		
Purchases of retail notes and lease receivables .....	(1,242)	(1,003)
Collections/sales of retail notes and lease receivables .....	1,396	1,442
Purchases of marketable securities .....	(235)	(673)
Sales or maturities of marketable securities .....	400	225
Capital expenditures .....	(103)	(131)
Property and equipment leased to others .....	5	26
Other investment programs .....	(27)	(19)
<b>Cash provided by (used in) investment programs .....</b>	<b>194</b>	<b>(133)</b>
<b>Cash flow from financing activities</b>		
Issuance of debt .....	31	218
Principal payments on debt .....	(109)	(264)
Net increase (decrease) in notes and debt outstanding under bank revolving credit facility and commercial paper programs .....	56	(192)
Proceeds from sale of stock to benefit plans .....	-	175
Premiums on call options, net .....	(22)	(25)
Other financing activities .....	23	1
<b>Cash used in financing activities .....</b>	<b>(21)</b>	<b>(87)</b>
<b>Cash and cash equivalents</b>		
Increase (decrease) during the period .....	26	(433)
At beginning of the period .....	447	620
<b>Cash and cash equivalents at end of the period .....</b>	<b>\$ 473</b>	<b>\$ 187</b>

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 2003 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 2003 amounts have been reclassified to conform with the presentation used in the 2004 financial statements.

Statement of Financial Accounting Standards No. 123 (SFAS 123), “Accounting for Stock-Based Compensation” and Statement of Financial Accounting Standards No. 148 (SFAS 148), “Accounting for Stock-Based Compensation – Transition and Disclosure,” encourage, but do not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The company has chosen to continue to account for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees,” and related interpretations. Accordingly, no compensation cost has been recognized for fixed stock options because the exercise prices of the stock options equal the market value of the company’s common stock at the date of grant. Further disclosure about the company’s stock compensation plans can be found in Note 20 to the company’s 2003 Annual Report on Form 10-K. The following table illustrates the effect on the company’s net income (loss) and earnings (loss) per share if the company had applied the fair value recognition provision of SFAS 123 in accordance with the disclosure provisions of SFAS 148.

	<b>Three Months Ended July 31</b>		<b>Nine Months Ended July 31</b>	
Millions of dollars, except per share data	<b>2004</b>	2003	<b>2004</b>	2003
Net income (loss), as reported .....	\$ <b>56</b>	\$ 18	\$ <b>88</b>	\$ (95)
Add: Interest expense on 2.5% senior convertible and 4.75% subordinated exchangeable debt for dilutive purposes (net of tax) [1] .....	<u><b>3</b></u>	<u>1</u>	<u><b>7</b></u>	<u>-</u>
Adjusted net income (loss) available to common shareholders plus assumed conversions .....	<b>59</b>	19	<b>95</b>	(95)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards net of related tax effects .....	<u><b>(4)</b></u>	<u>(3)</u>	<u><b>(10)</b></u>	<u>(8)</u>
Pro forma net income (loss) .....	<u><b>\$ 55</b></u>	<u>\$ 16</u>	<u><b>\$ 85</b></u>	<u>\$ (103)</u>
Earnings (loss) per share:				
Basic – as reported .....	\$ <b>0.80</b>	\$ 0.26	\$ <b>1.27</b>	\$ (1.41)
Basic – pro forma .....	\$ <b>0.75</b>	\$ 0.23	\$ <b>1.12</b>	\$ (1.53)
Diluted – as reported .....	\$ <b>0.73</b>	\$ 0.25	\$ <b>1.19</b>	\$ (1.41)
Diluted – pro forma .....	\$ <b>0.68</b>	\$ 0.21	\$ <b>1.06</b>	\$ (1.53)

[1] Interest expense on the 2.5% senior convertible and the 4.75% subordinated exchangeable debt is added back for dilutive purposes for the three months and nine months ended July 31, 2004. Interest expense on the 2.5% senior convertible debt is added back for the three months ended July 31, 2003.

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

**Note B. New Accounting Pronouncements**

In December 2003, the Financial Accounting Standards Board (FASB) issued a revision to SFAS No. 132 (SFAS 132), "Employers' Disclosure about Pensions and Other Postretirement Benefits." This Statement retains the disclosures previously required by SFAS 132 but adds additional disclosure requirements about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. It also calls for the required information to be provided separately for pension plans and for other postretirement benefit plans. The interim-period disclosures required by this Statement are included in Note D to the financial statements.

FASB Staff Position (FSP) 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (the Act) provides guidance on the accounting for the effects of the Act and requires certain disclosures regarding the effect of the federal subsidy provided by the Act. The company has adopted this FSP as of May 1, 2004, and has restated net income for the prior two fiscal quarters. The following table shows the effect of the retroactive application of the Medicare subsidy and the restated net income and earnings per share for the quarters ended January 31 and April 30, 2004. See Note D for the required disclosures.

Millions of dollars	Three Months Ended January 31			Three Months Ended April 30		
	Effect of			Effect of		
	Reported	Subsidy	Restated	Reported	Subsidy	Restated
Net income (loss).....	\$ (23)	\$ 5	\$ (18)	\$ 41	\$ 9	\$ 50
Earnings (loss) per share						
Basic.....	\$ (0.34)	\$ 0.07	\$ (0.27)	\$ 0.59	\$ 0.13	\$ 0.72
Diluted.....	\$ (0.34)	\$ 0.07	\$ (0.27)	\$ 0.54	\$ 0.11	\$ 0.65

**Note C. Supplemental Cash Flow Information**

Consolidated interest payments during the first nine months of 2004 and 2003 were \$99 million and \$109 million, respectively. Consolidated tax payments made during the first nine months of 2004 and 2003 were \$16 million and \$15 million, respectively.

**Note D. Postretirement Benefits***Postretirement Benefits Expense*

The company provides postretirement benefits to a substantial portion of its employees. Costs associated with postretirement benefits include pension and postretirement health care expenses for employees, retirees and surviving spouses and dependents. In addition, as part of the 1993 restructured health care and life insurance plans, profit sharing payments to the Retiree Supplemental Benefit Trust (Trust) are required.

*Medicare Prescription Drug Act*

On December 8, 2003, the President signed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) into law. The Act introduces a voluntary prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree healthcare plans that provide prescription drug benefits that are at least actuarially equivalent to Medicare Part D. This subsidy covers a defined portion of an individual beneficiary's annual covered prescription drug costs, and is exempt from federal taxation.

In May 2004, the FASB issued FSP 106-2 which provides guidance on the accounting for the effects of the Act. The company adopted the provisions of FSP 106-2 in the third quarter of 2004, retroactive to December 8, 2003.

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

**Note D. Postretirement Benefits (continued)***Medicare Prescription Drug Act (continued)*

The retroactive application of the Medicare subsidy reduced the company's previously reported benefit expense by \$5 million and \$9 million in the quarters ended January 31, 2004 and April 30, 2004, respectively. For the three months ended July 31, 2004, the effect of the subsidy is a reduction in postretirement benefit expense of \$9 million.

The company's accumulated postretirement benefit obligation (APBO) was reduced by \$271 million at December 8, 2003 for the subsidy related to benefits attributed to past service. The company used a 6.5 percent discount rate to value the related APBO at December 8, 2003, which was 0.1 percentage point lower than the discount rate used at October 31, 2003, and caused a \$23 million increase in the APBO as of that date.

*Postretirement Benefits Expense*

The cost of postretirement benefits is segregated as a separate component on the Statement of Income and is as follows:

Millions of dollars	Three Months Ended July 31		Nine Months Ended July 31	
	2004	2003	2004	2003
Pension expense .....	\$ 14	\$ 25	\$ 52	\$ 86
Other benefits .....	32	46	108	139
Profit sharing provision to Trust.....	-	-	5	-
Postretirement benefits expense .....	<u>\$ 46</u>	<u>\$ 71</u>	<u>\$ 165</u>	<u>\$ 225</u>

Net periodic postretirement benefits expense included on the Statement of Income is composed of the following:

Millions of dollars	Pension Benefits			
	Three Months Ended July 31		Nine Months Ended July 31	
	2004	2003	2004	2003
Service costs for benefits earned during the period.....	\$ 3	\$ 7	\$ 17	\$ 20
Interest on obligation.....	58	62	174	187
Amortization of cumulative losses .....	12	11	37	41
Amortization of prior service cost.....	1	1	4	2
Other.....	7	2	20	10
Less expected return on assets.....	(67)	(58)	(200)	(174)
Net postretirement benefits expense.....	<u>\$ 14</u>	<u>\$ 25</u>	<u>\$ 52</u>	<u>\$ 86</u>

Millions of dollars	Other Benefits			
	Three Months Ended July 31		Nine Months Ended July 31	
	2004	2003	2004	2003
Service costs for benefits earned during the period.....	\$ 3	\$ 4	\$ 10	\$ 14
Interest on obligation.....	34	38	105	115
Amortization of cumulative losses .....	10	15	31	44
Other.....	(1)	1	3	1
Less expected return on assets.....	(14)	(12)	(41)	(35)
Net postretirement benefits expense.....	<u>\$ 32</u>	<u>\$ 46</u>	<u>\$ 108</u>	<u>\$ 139</u>

"Other" includes the expense related to yearly lump-sum payments to retirees required by negotiated labor contracts, expense related to defined contribution plans and other postretirement benefit costs.



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

**Note D. Postretirement Benefits (continued)***Employer Contributions*

The company previously disclosed in its financial statements for the year ended October 31, 2003 that it expected to contribute approximately \$162 million to its pension plans in 2004. As of July 31, 2004, \$227 million of contributions have been made to the company's qualified pension plans. The company presently anticipates contributing an additional \$5 million to fund these plans in 2004 for a total contribution of \$232 million.

The company also makes contributions to partially fund retiree health care benefits. As of July 31, 2004, \$7 million of contributions have been made to the company's retiree healthcare plans and the company anticipates contributing an additional \$2 million in 2004 for a total contribution of \$9 million.

**Note E. Income Taxes**

The Statement of Income reflects tax expense which primarily reduces the cumulative benefit of NOL carryforwards currently recognized as a deferred tax asset in the Statement of Financial Condition. Cash payment of income taxes may be required for federal alternative minimum tax, certain state income, foreign income and withholding 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 F. Inventories**

Inventories are as follows:

Millions of dollars	July 31 2004	October 31 2003	July 31 2003
Finished products .....	\$ 470	\$ 279	\$ 292
Work in process .....	69	47	58
Raw materials and supplies .....	248	168	168
Total inventories .....	<u>\$ 787</u>	<u>\$ 494</u>	<u>\$ 518</u>

**Note G. Debt**

In June 2004, the company issued \$250 million in Senior Notes due in 2011 and used the proceeds to finance its offer to purchase and redeem its outstanding 8% Senior Subordinated Notes due in 2008. The company obtained certain amendments from existing bondholders of its \$400 million 9 3/8% Senior Notes due in 2006 that permitted the refinancing and the amendment of other covenant limitations. The new Senior Notes were priced at a discount with a coupon rate of 7.50% to yield 7.625%.

In June 2004, the company also assumed \$220 million 4.75% Subordinated Exchangeable Notes due in 2009 from Navistar Financial Corporation (NFC) and received approximately \$170 million in cash from NFC as compensation for assumption of the debt. The company previously received \$50 million from NFC as compensation for providing the shares in case the bonds convert.

**Note H. Sales of Receivables**

NFC's primary business is to provide wholesale, retail and lease financing for new and used trucks sold by International and International's dealers and, as a result, NFC's 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.

During the first nine months of fiscal 2004, NFC sold \$1,120 million of retail notes and leases for a pre-tax gain of \$40 million compared to the first nine months of fiscal 2003, when NFC sold \$1,350 million of retail receivables for a pre-tax gain of \$59 million.

Navistar International Corporation and Consolidated Subsidiaries  
Notes to Financial Statements (Unaudited)**Note H. Sales of Receivables (continued)**

NFC's retained interests which include interest-only receivables, cash reserve accounts, and subordinated certificates, are recorded at fair value in the periods in which the sales occur. The fair value of the interest-only receivable is based on estimates of prepayment speeds and discount rates. NFC evaluates the fair value of the retained interests quarterly and makes adjustments to these values when it deems permanent changes in its assumptions have changed.

**Note I. Restructuring and Other Non-recurring Charges***Restructuring Charges*

In 2000 and 2002, the company's board of directors approved separate plans to restructure its manufacturing and corporate operations. The company incurred charges for severance and other benefits, curtailment losses, lease terminations, asset and inventory write-downs and other exit costs relating to these plans. The following are the major restructuring, integration and cost reduction initiatives originally included in the 2000 and 2002 Plans of Restructuring (Plans of Restructuring):

- 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
- 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
- Closure of certain facilities and operations 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 early retirement and voluntary severance programs to certain union represented employees

The Plans of Restructuring originally called for a reduction in workforce of approximately 5,400 employees, primarily in North America, resulting in charges totaling \$169 million. The decision, in 2003, to keep open the Chatham facility along with changes in staffing requirements at other manufacturing facilities will lower the total number of employee reductions to 4,200. The change in expected employee reductions along with an evaluation of the severance reserves related to the HPV and NGD product programs resulted in a net reversal to the previously recorded severance and other benefits reserves totaling \$46 million in 2003. In the first quarter of 2004, the company recorded an adjustment of \$2 million to previously recorded charges to account for those employees who accepted the early retirement and voluntary severance program at the Chatham facility since October 31, 2003. In the third quarter of 2004, the company recorded an adjustment of \$6 million to relieve excess reserves caused by employees returning to work. This was driven by increases in vehicle production and the timing of employee acceptance of the UAW window program.

A curtailment loss of \$157 million was recorded in 2002 relating to the company's postretirement plans. This loss was the result of an early retirement program for represented employees at the company's Springfield and Indianapolis plants and the planned closure of the Chatham facility. In 2003, the decision to keep open the Chatham facility, the offer of an early retirement and voluntary severance program to certain employees at the Chatham facility, and the completion of the sign-up period for the early retirement window program offered to certain eligible, long serviced UAW employees, resulted in a net reduction to the previously recorded curtailment loss totaling \$5 million. An additional \$2 million adjustment in the first quarter of 2004 finalized the postretirement curtailment charge taken in 2003. The curtailment liability has been classified as a postretirement benefits liability on the Statement of Financial Condition.

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

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

Lease termination charges include estimated lease costs, net of probable sublease income, under long-term non-cancelable lease agreements. These charges primarily relate to the lease at the company's previous corporate office in Chicago, Illinois, which expires in 2010. The company recorded a favorable adjustment of \$7 million in the third quarter of 2004 due to a change in estimate on sublease income. As of July 31, 2004, \$15 million of the total net charge of \$37 million has been incurred, of which \$3 million was incurred during the quarter.

Dealer termination costs include the termination of certain dealer contracts in connection with the realignment of the company's bus distribution network. Other exit costs include contractually obligated exit and closure costs associated with facility closures and an accrual for the loss on sale of Harco National Insurance Company (Harco). An adjustment of \$2 million was recorded in the third quarter due to the realignment of our dealer network. As of July 31, 2004, \$49 million of the total net charge of \$68 million has been incurred, of which \$7 million was incurred during the quarter.

*Other Non-Recurring Charges*

In October 2002, Ford Motor Company (Ford) advised the company that its current business case for a V-6 diesel engine in the specified vehicles was not viable and discontinued its program for the use of these engines. Accordingly, the company recorded charges of \$170 million for the write-off of deferred pre-production costs, the write-down of fixed assets that were abandoned, lease obligations under non-cancelable operating leases, and accruals for amounts contractually owed to suppliers. In 2003, the company recorded an adjustment of \$11 million for additional amounts contractually owed to suppliers related to the V-6 diesel engine program. In April 2003, the company reached a comprehensive agreement with Ford concerning the termination of its V-6 diesel engine program. The terms of the agreement include compensation to neutralize certain current and future V-6 diesel engine program related costs not accrued for as part of the 2002 non-recurring charge, resolution of ongoing pricing related to the company's V-8 diesel engine program and a release by the parties of all of their obligations under the V-6 diesel engine contract. The company, under current agreements, will continue as Ford's exclusive supplier of V-8 diesel engines through 2012. The agreement with Ford does not have a material net impact on the Statement of Financial Condition or the Statement of Income for the periods covered in this report. In the third quarter of 2004, the company recorded an adjustment of \$6 million for additional amounts contractually owed to suppliers related to the V-6 diesel engine program.

*Summary*

Through July 31, 2004, the company has recorded cumulative charges of \$818 million relating to the Plans of Restructuring and other non-recurring charges. The remaining liability of \$114 million is expected to be funded from existing cash balances and internally generated cash flows from operations. The total cash outlay for the remainder of 2004 is expected to be \$11 million with the remaining obligation of \$103 million, primarily related to non-recurring charges and long-term non-cancelable lease agreements, to be settled in 2005 and beyond.

Components of the company's Plans of Restructuring and other non-recurring charges are shown in the following table.

Millions of dollars	Balance October 31 2003	Adjustments	Amount Incurred	Balance July 31 2004
Severance and other benefits .....	\$ 21	\$ (4)	\$ (16)	\$ 1
Curtailment loss .....	-	2	(2)	-
Lease terminations .....	33	(7)	(4)	22
Dealer terminations and other charges .....	29	2	(12)	19
Other non-recurring charges .....	74	6	(8)	72
<b>Total .....</b>	<b>\$ 157</b>	<b>\$ (1)</b>	<b>\$ (42)</b>	<b>\$ 114</b>

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

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

The first and third quarter adjustments are included in “Restructuring and other non-recurring charges” on the Statement of Income. The company is in the process of completing certain aspects of the Plans of Restructuring and will continue to evaluate the remaining restructuring reserves as the plans are executed. As a result, there may be additional adjustments to the reserves noted above. Since the company-wide restructuring plans are an aggregation of many individual components requiring judgments and estimates, actual costs have differed from estimated amounts.

**Note J. 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. 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, “Accounting for the Impairment or Disposal of Long-Lived Assets.” Accordingly, the operating results of Brazil Truck have been classified as “Discontinued operations.”

**Note K. 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 2003 Annual Report on Form 10-K.

The company entered into fixed-for-floating interest rate swap agreements with several counter-parties for its 7.5% \$250 million fixed-rate Senior Notes that were issued in June 2004. 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. The company 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. As of July 31, 2004 the fair value of the above mentioned fixed-for-floating interest rate swap agreements was \$3 million.

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 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 July 31, 2004, NFC’s derivative financial instruments had a negative net fair value. Notional amounts of derivative financial instruments do not represent exposure to credit loss.

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

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

At July 31, 2004, the notional amounts and fair values of the company's derivatives are presented in the following table, in millions of dollars. 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
June 2000 – July 2004	August 2004 – April 2008	Interest Rate Swaps *	\$ 113	\$ (1)
June 2004	June 2011	Interest Rate Swaps	250	3
October 2000 – June 2004	October 2004 – November 2012	Interest Rate Caps	1,023	-
July 2004	August 2004	Cross Currency Swaps *	10	-

\*Accounted for as non-hedging instruments.

The company repurchased 75% of its written call option derivative contracts which it entered into in December 2002 in connection with its \$190 million Senior Convertible Notes and wrote new call options at \$75.00. The effect of this transaction will allow the company to minimize share dilution associated with the convertible debt from the conversion price of each note up to \$75.00 per share. The remaining 25% under the original option will continue to have minimal share dilution from the conversion price of each note up to \$53.40 per share. The maturity and terms of the hedge match the maturity and certain terms of the notes.

**Note L. 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 a guarantee on the \$250 million 7½% Senior Notes due 2011 that were issued by the company in June 2004. 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 July 31, 2004, the outstanding balance on this debt was \$15 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 nine months ended July 31, 2004.

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

**Note L. Guarantees (continued)**

NIC guarantees lines of credit made available to its Mexican finance subsidiaries by third parties and NFC. NFC guarantees the borrowings of the Mexican finance subsidiaries. The following table summarizes the borrowings as of July 31, 2004, in millions of dollars.

Entity	Amount of Guaranty	Outstanding Balance	Maturity dates extend to
NIC	\$ 393	\$ 93	2009
NFC	\$ 111	\$ 93	2007
NIC and NFC	\$ 100	\$ 21	2005

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 maximum obligation under these leases as of July 31, 2004, totaled approximately \$582 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 through 2019. As of July 31, 2004, the total remaining obligation under these leases is approximately \$47 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.

As of July 31, 2004, NFC had guaranteed derivative contracts for interest rate swaps and cross currency swaps related to two of the company's Mexican finance subsidiaries. NFC is liable up to the fair market value of these derivative contracts only in cases of default by the two Mexican finance subsidiaries. As of July 31, 2004, there was an outstanding notional balance of \$65 million related to interest rate swaps and cross currency swaps, and the fair market value of the outstanding balance was immaterial.

As part of the sale of Harco, NFC 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 reserved \$5 million. Management believes the carrying amount of the liability is adequate to cover any future potential payments.

At July 31, 2004, the Canadian operating subsidiary was contingently liable for \$366 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 \$93 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.

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

**Note L. Guarantees (continued)**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 nine months ended July 31, 2004, were as follows:

Millions of dollars	
Balance, beginning of period .....	\$ 173
Change in liability for warranties issued during the period .....	145
Change in liability for pre-existing warranties.....	9
Payments made .....	(141)
Balance, end of period .....	<u>\$ 186</u>

**Note M. 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.

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 has appealed the adverse judgment, and the company is cooperating with Sturman in this effort. In May 2003, in Federal Court in Columbia, South Carolina, Caterpillar sued the company, its supplier of fuel injectors and joint venture, Siemens Diesel Systems Technology, L.L.C., and Sturman for patent infringement alleging that the Sturman fuel system technology patents and certain Caterpillar patents are infringed in the company's new engines. The company believes that it has meritorious defenses to the claims of infringement of the Sturman patents as well as the Caterpillar patents and will vigorously defend such claims. Based on the information developed to date, the company believes that the proceedings will not have a material adverse impact on the business, results of operations or financial condition of the company.

**Note M. Legal Proceedings and Environmental Matters (continued)**

In January 2002, Caterpillar sued the company in the Circuit Court in Peoria County, Illinois, and the company counterclaimed 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. Caterpillar's claims involve a 1990 agreement to reimburse Caterpillar for costs associated with the delayed launch of the company's V-8 diesel engine program. Reimbursement of the delay costs was made by a surcharge of \$8.08 on each injector purchased and the purchase of certain minimum quantities of spare parts. In 1999, the company concluded that, in accordance with the 1990 agreement, it had fully reimbursed Caterpillar for its delay costs and stopped paying the surcharge and purchasing the minimum quantities of spare parts. Caterpillar is asserting that the surcharge and the spare parts purchase requirements continue throughout the life of the contract and has sued the company to recover these amounts, plus interest. Caterpillar also asserts that the company failed to purchase all of its fuel injector requirements under the contract and, in collusion with Sturman, failed to pursue a future fuel systems supply relationship with Caterpillar. The company has counterclaimed that Caterpillar breached the Supply Agreement by refusing to supply the new fuel system for the company's new diesel engines. The company is seeking damages from Caterpillar on account of this refusal and the company's subsequent replacement of Caterpillar as its fuel system supplier. Based upon the information developed to date, and taking into account established reserves, the company believes that the ultimate resolution of the foregoing matters will not have a material adverse impact on the business, results of operations or financial condition of the company.

Along with other vehicle manufacturers, the company and certain of its subsidiaries have been subject to an increase in the number of asbestos-related claims in recent years. Management believes that such claims will not have a material adverse affect on the company's financial condition or results of operations. In general these claims relate to illnesses alleged to have resulted from asbestos exposure from component parts found in older vehicles, although some cases relate to the presence of asbestos in company facilities. In these claims the company is not the sole defendant, and the claims name as defendants numerous manufacturers and suppliers of a wide variety of products allegedly containing asbestos. Management has strongly disputed these claims, and it has been the company's policy to defend against them vigorously. Historically, the actual damages paid out to claimants have not been material to the company's financial condition. However, management believes the company and other vehicle manufacturers are being more aggressively targeted, largely as a result of bankruptcies of manufacturers of asbestos and products containing asbestos. It is possible that the number of these claims will continue to grow, and that the costs for resolving asbestos related claims could become significant in the future.



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

**Note N. Segment Data**

Reportable operating segment data is as follows:

Millions of dollars	Truck	Engine	Financial Services	Total
<b>For the three months ended July 31, 2004</b>				
External revenues.....	\$ 1,797	\$ 504	\$ 59	\$ 2,360
Intersegment revenues .....	<u>-</u>	<u>160</u>	<u>10</u>	<u>170</u>
Total revenues .....	<u>\$ 1,797</u>	<u>\$ 664</u>	<u>\$ 69</u>	<u>\$ 2,530</u>
Segment profit.....	\$ 83	\$ 33	\$ 28	\$ 144
<b>For the nine months ended July 31, 2004</b>				
External revenues.....	\$ 4,841	\$ 1,521	\$ 183	\$ 6,545
Intersegment revenues .....	<u>-</u>	<u>440</u>	<u>29</u>	<u>469</u>
Total revenues .....	<u>\$ 4,841</u>	<u>\$ 1,961</u>	<u>\$ 212</u>	<u>\$ 7,014</u>
Segment profit.....	\$ 161	\$ 69	\$ 82	\$ 312
<b>As of July 31, 2004</b>				
Segment assets .....	\$ 1,639	\$ 1,094	\$ 2,161	\$ 4,894
<b>For the three months ended July 31, 2003</b>				
External revenues.....	\$ 1,307	\$ 503	\$ 82	\$ 1,892
Intersegment revenues .....	<u>-</u>	<u>124</u>	<u>8</u>	<u>132</u>
Total revenues .....	<u>\$ 1,307</u>	<u>\$ 627</u>	<u>\$ 90</u>	<u>\$ 2,024</u>
Segment profit .....	\$ 22	\$ 29	\$ 41	\$ 92
<b>For the nine months ended July 31, 2003</b>				
External revenues.....	\$ 3,654	\$ 1,444	\$ 230	\$ 5,328
Intersegment revenues .....	<u>-</u>	<u>360</u>	<u>25</u>	<u>385</u>
Total revenues .....	<u>\$ 3,654</u>	<u>\$ 1,804</u>	<u>\$ 255</u>	<u>\$ 5,713</u>
Segment profit (loss).....	\$ (96)	\$ 41	\$ 101	\$ 46
<b>As of July 31, 2003</b>				
Segment assets .....	\$ 1,392	\$ 970	\$ 2,253	\$ 4,615

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

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

Reconciliation to the consolidated financial statements as of and for the three and nine months ended July 31 is as follows:

Millions of dollars	Three Months Ended July 31		Nine Months Ended July 31	
	2004	2003	2004	2003
<b>Segment sales and revenues</b> .....	\$ 2,530	\$ 2,024	\$ 7,014	\$ 5,713
Other income .....	-	2	5	8
Intercompany .....	(170)	(132)	(469)	(385)
<b>Consolidated sales and revenues</b> .....	<u>\$ 2,360</u>	<u>\$ 1,894</u>	<u>\$ 6,550</u>	<u>\$ 5,336</u>
<b>Segment profit (loss)</b> .....	\$ 144	\$ 92	\$ 312	\$ 46
Restructuring adjustment .....	5	-	1	-
Corporate items .....	(47)	(46)	(144)	(145)
Manufacturing net interest expense .....	(17)	(14)	(42)	(42)
<b>Consolidated pre-tax income (loss) from continuing operations</b> .....	<u>\$ 85</u>	<u>\$ 32</u>	<u>\$ 127</u>	<u>\$ (141)</u>
<b>Segment assets</b> .....	\$ 4,894	\$ 4,615		
Cash and marketable securities .....	281	203		
Deferred taxes .....	1,618	1,602		
Other corporate and eliminations .....	79	162		
<b>Consolidated assets</b> .....	<u>\$ 6,872</u>	<u>\$ 6,582</u>		

**Note O. Comprehensive Income**

The components of comprehensive income (loss) are as follows:

Millions of dollars	Three Months Ended July 31		Nine Months Ended July 31	
	2004	2003	2004	2003
Net income (loss) .....	\$ 56	\$ 18	\$ 88	\$ (95)
Other comprehensive income (loss) .....	(4)	(2)	2	(20)
Total comprehensive income (loss) .....	<u>\$ 52</u>	<u>\$ 16</u>	<u>\$ 90</u>	<u>\$ (115)</u>

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	Three Months Ended July 31		Nine Months Ended July 31	
	2004	2003	2004	2003
Income (loss) from continuing operations.....	\$ 56	\$ 19	\$ 88	\$ (91)
Add: Interest expense on 2.5% Senior Convertible and 4.75% Subordinated Exchangeable Notes for dilutive purposes (net of tax) [1].....	3	1	7	-
Adjusted income (loss) from continuing operations.....	59	20	95	(91)
Loss from discontinued operations.....	-	(1)	-	(4)
Net income (loss) available to common shareholders plus assumed conversions.....	<u>\$ 59</u>	<u>\$ 19</u>	<u>\$ 95</u>	<u>\$ (95)</u>
Average shares outstanding (millions)				
Basic.....	69.9	68.5	69.6	67.7
Diluted .....	80.0	74.8	80.2	67.7
<b>Basic earnings (loss) per share</b>				
Continuing operations .....	\$ 0.80	\$ 0.27	\$ 1.27	\$ (1.35)
Discontinued operations .....	-	(0.01)	-	(0.06)
Net income (loss) .....	<u>\$ 0.80</u>	<u>\$ 0.26</u>	<u>\$ 1.27</u>	<u>\$ (1.41)</u>
<b>Diluted earnings (loss) per share</b>				
Continuing operations .....	\$ 0.73	\$ 0.26	\$ 1.19	\$ (1.35)
Discontinued operations .....	-	(0.01)	-	(0.06)
Net income (loss) .....	<u>\$ 0.73</u>	<u>\$ 0.25</u>	<u>\$ 1.19</u>	<u>\$ (1.41)</u>

The computation of diluted shares outstanding for three months ended July 31, 2003 and for the nine months ended July 31, 2003, excludes incremental shares of 3.9 million and 8.8 million, respectively, related to employee stock options, convertible debt and other dilutive securities. These shares are excluded due to their anti-dilutive effect.

[1] Interest expense on the 2.5% Senior Convertible and 4.75% Subordinated Exchangeable Note is added back for dilutive purposes for the three months and nine months ended July 31, 2004. Interest expense on the 2.5% Senior Convertible Note is added back for the three months ended July 31, 2003.

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 July 31, 2004 and 2003, and the Statements of Income and Cash Flow for the nine months ended July 31, 2004 and 2003. The following information is included as a result of International's (exclusive of its subsidiaries) guarantees of NIC's indebtedness under the 9 3/8% Senior Notes due 2006, 2.5% Senior Convertible Notes due 2007, and 7.5% Senior Notes due 2011. International is a direct wholly owned subsidiary of NIC. 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 that 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 the parent company, 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 NINE MONTHS ENDED JULY 31, 2004</b>				
Sales and revenues.....	\$ 1	\$ 5,132	\$ 1,417	\$ 6,550
Cost of products and services sold.....	(30)	4,709	884	5,563
Restructuring and other non-recurring charges .....	-	1	(2)	(1)
All other operating expenses.....	(13)	701	173	861
<b>Total costs and expenses.....</b>	<b>(43)</b>	<b>5,411</b>	<b>1,055</b>	<b>6,423</b>
Equity in income (loss) of non-consolidated subsidiaries .....	83	254	(337)	-
Income (loss) from continuing operations before income taxes .....	127	(25)	25	127
Income tax expense (benefit) .....	39	26	(26)	39
<b>Net income (loss).....</b>	<b>\$ 88</b>	<b>\$ (51)</b>	<b>\$ 51</b>	<b>\$ 88</b>
<b>CONDENSED CONSOLIDATING STATEMENT OF FINANCIAL CONDITION AS OF JULY 31, 2004</b>				
<b>Assets</b>				
Cash and marketable securities .....	\$ 165	\$ 14	\$ 724	\$ 903
Receivables, net.....	1	138	1,488	1,627
Inventories.....	-	421	366	787
Property and equipment, net .....	-	761	572	1,333
Investment in affiliates .....	(2,708)	1,059	1,649	-
Deferred tax asset and other assets .....	1,639	211	372	2,222
<b>Total assets.....</b>	<b>\$ (903)</b>	<b>\$ 2,604</b>	<b>\$ 5,171</b>	<b>\$ 6,872</b>
<b>Liabilities and shareowners' equity</b>				
Debt .....	\$ 1,058	\$ 14	\$ 1,511	\$ 2,583
Postretirement benefits liability .....	-	1,348	208	1,556
Amounts due to (from) affiliates.....	(2,622)	3,097	(475)	-
Other liabilities .....	270	1,333	739	2,342
<b>Total liabilities.....</b>	<b>(1,294)</b>	<b>5,792</b>	<b>1,983</b>	<b>6,481</b>
Shareowners' equity (deficit).....	391	(3,188)	3,188	391
<b>Total liabilities and shareowners' equity.....</b>	<b>\$ (903)</b>	<b>\$ 2,604</b>	<b>\$ 5,171</b>	<b>\$ 6,872</b>
<b>CONDENSED CONSOLIDATING STATEMENT OF CASH FLOW FOR THE NINE MONTHS ENDED JULY 31, 2004</b>				
Cash provided by (used in) operations .....	\$ (233)	\$ (4)	\$ 90	\$ (147)
<b>Cash flow from investment programs</b>				
Purchases, net of collections, of finance receivables.....	-	-	154	154
Net decrease in marketable securities.....	22	-	143	165
Capital expenditures.....	-	(72)	(31)	(103)
Other investing activities .....	(8)	73	(87)	(22)
<b>Cash provided by (used in) investment programs .....</b>	<b>14</b>	<b>1</b>	<b>179</b>	<b>194</b>
<b>Cash flow from financing activities</b>				
Net issuance (repayments) of debt .....	168	(3)	(187)	(22)
Other financing activities .....	(2)	(1)	4	1
<b>Cash provided by (used in) financing activities .....</b>	<b>166</b>	<b>(4)</b>	<b>(183)</b>	<b>(21)</b>
<b>Cash and cash equivalents</b>				
Increase (decrease) during the period .....	(53)	(7)	86	26
At beginning of the period .....	218	21	208	447
<b>Cash and cash equivalents at end of the period .....</b>	<b>\$ 165</b>	<b>\$ 14</b>	<b>\$ 294</b>	<b>\$ 473</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>CONDENSED CONSOLIDATING STATEMENT OF INCOME FOR NINE MONTHS ENDED JULY 31, 2003</b>				
Sales and revenues.....	\$ 2	\$ 4,030	\$ 1,304	\$ 5,336
Cost of products and services sold.....	58	3,743	786	4,587
All other operating expenses.....	(18)	772	136	890
<b>Total costs and expenses.....</b>	<b>40</b>	<b>4,515</b>	<b>922</b>	<b>5,477</b>
Equity in income (loss) of non-consolidated subsidiaries.....	(103)	322	(219)	-
Income (loss) from continuing operations before income taxes .....	(141)	(163)	163	(141)
Income tax expense (benefit) .....	(50)	37	(37)	(50)
<b>Income (loss) from continuing operations .....</b>	<b>(91)</b>	<b>(200)</b>	<b>200</b>	<b>(91)</b>
Loss from discontinued operations.....	(4)	-	-	(4)
<b>Net income (loss).....</b>	<b>\$ (95)</b>	<b>\$ (200)</b>	<b>\$ 200</b>	<b>\$ (95)</b>
<b>CONDENSED CONSOLIDATING STATEMENT OF FINANCIAL CONDITION AS OF JULY 31, 2003</b>				
<b>Assets</b>				
Cash and marketable securities .....	\$ 80	\$ 6	\$ 665	\$ 751
Receivables, net.....	6	137	1,610	1,753
Inventories .....	-	318	200	518
Property and equipment, net .....	-	788	516	1,304
Investment in affiliates.....	(2,706)	949	1,757	-
Deferred tax asset and other assets .....	1,611	189	456	2,256
<b>Total assets.....</b>	<b>\$ (1,009)</b>	<b>\$ 2,387</b>	<b>\$ 5,204</b>	<b>\$ 6,582</b>
<b>Liabilities and shareowners' equity</b>				
Debt .....	\$ 840	\$ 17	\$ 1,661	\$ 2,518
Postretirement benefits liability .....	-	1,485	170	1,655
Amounts due to (from) affiliates.....	(2,432)	2,474	(42)	-
Other liabilities .....	290	1,438	388	2,116
<b>Total liabilities .....</b>	<b>(1,302)</b>	<b>5,414</b>	<b>2,177</b>	<b>6,289</b>
Shareowners' equity (deficit).....	293	(3,027)	3,027	293
<b>Total liabilities and shareowners' equity.....</b>	<b>\$ (1,009)</b>	<b>\$ 2,387</b>	<b>\$ 5,204</b>	<b>\$ 6,582</b>
<b>CONDENSED CONSOLIDATING STATEMENT OF CASH FLOW FOR THE NINE MONTHS ENDED JULY 31, 2003</b>				
Cash provided by (used in) operations .....	\$ (565)	\$ 91	\$ 261	\$ (213)
<b>Cash flow from investment programs</b>				
Purchases, net of collections, of finance receivables.....	-	-	439	439
Net increase in marketable securities.....	(53)	-	(395)	(448)
Capital expenditures.....	-	(107)	(24)	(131)
Other investing activities.....	(2)	19	(10)	7
<b>Cash provided by (used in) investment programs .....</b>	<b>(55)</b>	<b>(88)</b>	<b>10</b>	<b>(133)</b>
<b>Cash flow from financing activities</b>				
Net borrowings (repayments) of debt .....	52	(4)	(286)	(238)
Other financing activities .....	180	(1)	(28)	151
<b>Cash provided by (used in) financing activities .....</b>	<b>232</b>	<b>(5)</b>	<b>(314)</b>	<b>(87)</b>
<b>Cash and cash equivalents</b>				
Increase (decrease) during the period .....	(388)	(2)	(43)	(433)
At beginning of the period .....	415	8	197	620
<b>Cash and cash equivalents at end of the period .....</b>	<b>\$ 27</b>	<b>\$ 6</b>	<b>\$ 154</b>	<b>\$ 187</b>

**Additional Financial Information (Unaudited)**

The following additional financial information is provided based upon the continuing interest of certain shareowners and creditors to assist them in understanding our core manufacturing business.

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

Millions of dollars <b>Condensed Statement of Income</b>	<b>Three Months Ended July 31</b>		<b>Nine Months Ended July 31</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
Sales of manufactured products .....	\$ 2,301	\$ 1,811	\$ 6,363	\$ 5,098
Other income .....	-	2	5	9
<b>Total sales and revenues</b> .....	<b>2,301</b>	<b>1,813</b>	<b>6,368</b>	<b>5,107</b>
Cost of products sold .....	1,973	1,566	5,526	4,542
Restructuring and other non-recurring charges .....	(5)	-	(1)	-
Postretirement benefits expense .....	45	69	163	222
Engineering and research expense .....	66	57	181	175
Selling, general and administrative expense .....	137	104	365	318
Other expense .....	30	26	94	92
<b>Total costs and expenses</b> .....	<b>2,246</b>	<b>1,822</b>	<b>6,328</b>	<b>5,349</b>
<b>Income (loss) from continuing operations before income taxes:</b>				
Manufacturing operations .....	55	(9)	40	(242)
Financial services operations .....	30	41	87	101
Income (loss) from continuing operations before income taxes .....	85	32	127	(141)
Income tax expense (benefit) .....	29	13	39	(50)
Income (loss) from continuing operations .....	56	19	88	(91)
Loss from discontinued operations .....	-	(1)	-	(4)
<b>Net income (loss)</b> .....	<b>\$ 56</b>	<b>\$ 18</b>	<b>\$ 88</b>	<b>\$ (95)</b>

Millions of dollars <b>Condensed Statement of Financial Condition</b>	<b>July 31 2004</b>	October 31 2003	July 31 2003
Cash, cash equivalents and marketable securities .....	\$ 367	\$ 502	\$ 278
Inventories .....	767	484	504
Property and equipment, net .....	1,161	1,144	1,094
Equity in non-consolidated subsidiaries .....	527	470	500
Other assets .....	902	831	892
Deferred tax asset, net .....	1,617	1,639	1,602
<b>Total assets</b> .....	<b>\$ 5,341</b>	<b>\$ 5,070</b>	<b>\$ 4,870</b>
Accounts payable, principally trade .....	\$ 1,101	\$ 1,036	\$ 850
Postretirement benefits liability .....	1,535	1,995	1,639
Debt .....	1,211	896	904
Other liabilities .....	1,103	833	1,184
Shareowners' equity .....	391	310	293
<b>Total liabilities and shareowners' equity</b> .....	<b>\$ 5,341</b>	<b>\$ 5,070</b>	<b>\$ 4,870</b>

**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>Nine Months Ended July 31</b>	
	<b>2004</b>	<b>2003</b>
<b>Cash flow from operations</b>		
Net income (loss).....	\$ 88	\$ (95)
Adjustments to reconcile net income (loss) to cash used in operations:		
Depreciation and amortization .....	121	114
Deferred income taxes .....	21	(80)
Postretirement benefits funding less than (in excess) of expense.....	(173)	15
Equity in earnings of investees, net of dividends received.....	(54)	(53)
Other, net.....	54	(53)
Change in operating assets and liabilities.....	(195)	(184)
<b>Cash used in operations .....</b>	<b>(138)</b>	<b>(336)</b>
<b>Cash flow from investment programs</b>		
Purchases of marketable securities .....	(225)	(348)
Sales or maturities of marketable securities .....	302	225
Capital expenditures .....	(102)	(130)
Receivable from financial services operations .....	(13)	39
Investment in affiliates .....	(10)	5
Other investment programs .....	(16)	(6)
<b>Cash used in investment programs .....</b>	<b>(64)</b>	<b>(215)</b>
<b>Cash provided by financing activities .....</b>	<b>144</b>	<b>158</b>
<b>Cash and cash equivalents</b>		
Decrease during the period.....	(58)	(393)
At beginning of the period.....	424	549
<b>Cash and cash equivalents at end of the period .....</b>	<b>\$ 366</b>	<b>\$ 156</b>



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

### Overview

Navistar International Corporation is a holding company and its principal operating subsidiary is International Truck and Engine Corporation (International). Navistar operates in three principal industry segments: truck, engine (collectively called "manufacturing operations") and financial services. The company's principal operations are located in the U.S., Canada, Mexico, and Brazil. In this discussion and analysis, "company", "Navistar", "we" or "our" refers to Navistar International Corporation and its consolidated subsidiaries.

The company is currently focused on three key areas: quality, cost and growth. Improvements in quality and cost are anticipated through changes in manufacturing, design, engineering, supplier management and customer service, while growth is expected through the introduction of new products and the development of new markets.

The third quarter was encouraging despite facing new challenges. The company's revenue and net income continues to improve and the company's combined market share in Class 8 – both our Heavy and Severe Service products – continues to increase. Our Class 8 market share in the third quarter was 19.8%, our highest share since 1998. The company also launched its new I-6 engine which has more horsepower, better fuel economy and an anticipated longer life than our previous six-cylinder engines. The company is still working toward reducing costs but steel prices have had a negative impact on our cost structure. Costs associated with the launch of the new I-6 engine have also had a negative impact on cost initiatives. Supplier constraints have caused industry-wide issues due to allocations of Big Bore engines, axles and transmissions. The company hopes to mitigate the impact of current market and economic challenges and anticipates earnings for the 2004 fiscal year of \$2.95 per diluted common share.

### Results of Operations

The following table illustrates the key financial indicators that management uses to assess the consolidated financial results for the three months and nine months ended July 31, 2004 and 2003.

	Three Months Ended July 31		Nine Months Ended July 31	
Key Financial Indicators: (Millions of dollars, except per share data and margin)	2004	2003	2004	2003
Sales and revenues.....	\$ 2,360	\$ 1,894	\$ 6,550	\$ 5,336
Cost of products and services sold.....	1,984	1,579	5,563	4,587
Total expenses .....	291	283	860	890
Total costs and expenses .....	2,275	1,862	6,423	5,477
Net income (loss).....	\$ 56	\$ 18	\$ 88	\$ (95)
Diluted income (loss) per share.....	\$ 0.73	\$ 0.25	\$ 1.19	\$ (1.41)
Manufacturing gross margin .....	14.3%	13.5%	13.2%	10.9%

**Results of Operations (continued)**

The company continues to improve earnings and sales and revenues over the comparable periods last year as a result of better operating results from the manufacturing operations. These improved results were primarily due to higher sales volume and the company's cost reduction initiatives within the manufacturing process. Income from the financial services segment was lower due to reduced sales volume and a decline in average portfolio yield due to an increase in interest rates. The events that impacted the performance of the company's three operating segments will be analyzed, in detail, later in this discussion.

Gross margins from manufacturing operations in the third quarter and first nine months of fiscal 2004 improved over a year ago. Margin improvements in the third quarter were related to a 2.2 percentage point increase in manufacturing performance and product pricing but were partially offset by the impact of steel price increases and emission costs on the new I-6 engine. The company's exposure to steel price fluctuations had a greater impact on our margins than our competitors. About 80% of our truck cabs are steel and with bus bodies being steel, we are impacted greater than those companies without a bus business. The company's margins within the engine segment were impacted as well by rising steel prices. The company anticipates that steel prices will remain high for the rest of the fiscal year. Margin increases year over year are primarily attributable to cost reductions within the manufacturing process.

Total expenses for the quarter were comparable to the prior year but included in the third quarter 2004 results is an accrual for profit sharing and incentive compensation that did not occur in 2003. Also included in the current quarter is additional selling, general and administrative expense of \$14 million relating to our company owned dealers. Without these additional charges, total expenses continue to show the effects of our cost saving initiatives and lower postretirement benefits expense. In the third quarter, postretirement costs were further reduced by recognizing a benefit of \$9 million as a result of the Medicare prescription drug act and the adoption of FSP 106-2. Also, the retroactive application of the Medicare subsidy reduced the company's previously reported benefit expense by \$5 million and \$9 million in the quarters ended January 31, 2004 and April 30, 2004, respectively.

The following sections analyze the company's third quarter operating results as they relate to its three principal segments: truck, engine, and financial services.

*Truck*

The truck segment manufactures and distributes a full line of Class 6 through 8 diesel-powered trucks and school buses in the common carrier, private carrier, government/service, leasing, construction, energy/petroleum and student transportation markets. The truck segment also provides customers with proprietary products needed to support the International® truck and the IC™ bus lines, together with a wide selection of other standard truck and trailer aftermarket parts. Sales of Class 6 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 as well as the earnings and cash flow of dealers and customers. In addition, the Class 6 through 8 truck markets in the U.S. and Canada are highly competitive. The intensity of this competition results in price discounting and margin pressures throughout the industry. Even though sales volume has improved, the company continues to experience competitive pricing pressure on its new truck sales. In addition to the influence of price, market position is driven by product quality, engineering, styling, utility and distribution.

**Results of Operations (continued)***Truck (continued)*

The following table highlights the truck segment's financial and industry results for the three months and nine months ended July 31, 2004 and 2003.

	<b>Three Months Ended July 31</b>		<b>Nine Months Ended July 31</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
Results (Millions of dollars):				
Sales .....	\$ <b>1,797</b>	\$ 1,307	\$ <b>4,841</b>	\$ 3,654
Net income (loss) .....	<b>83</b>	22	<b>161</b>	(96)
Industry data (in units) [1]:				
U.S. and Canadian sales (Class 6 through 8)	<b>90,400</b>	70,600	<b>248,200</b>	192,300
Class 8 heavy truck .....	<b>58,700</b>	44,000	<b>154,400</b>	114,300
Class 6 and 7 medium truck [2] .....	<b>25,200</b>	18,500	<b>73,800</b>	56,000
School buses .....	<b>6,500</b>	8,100	<b>20,000</b>	22,000
Company data (in units):				
U.S. and Canadian sales (Class 6 through 8)	<b>24,900</b>	19,100	<b>69,200</b>	56,400
Class 8 heavy truck sales .....	<b>11,600</b>	6,800	<b>28,100</b>	18,900
Class 6 and 7 medium truck [2] .....	<b>9,400</b>	7,600	<b>29,300</b>	23,400
School buses .....	<b>3,900</b>	4,700	<b>11,800</b>	14,100
Order backlog (in units) .....			<b>27,600</b>	17,700
Overall U.S. and Canada market share (Class 6 through 8 and bus) .....	<b>27.6%</b>	27.1%	<b>27.9%</b>	29.4%

[1] Industry data derived from materials produced by Ward's Communications.

[2] The company does not meaningfully participate in the Class 5 medium truck market.

The truck segment's improved financial performance for the third quarter and the first nine months of 2004 is the result of increased sales volume in heavy and medium truck and increased efficiency within its manufacturing processes. The company's growth within the heavy truck market is a direct result of the company's recommitment to the market and our dealer distribution strategy. The company's U.S. and Canadian order backlog increased 56%, when compared to last year, due to strong orders for heavy trucks. The company's overall market share in the third quarter increased slightly over the prior year. The increase in heavy market share was offset by a slight decrease in medium truck market share. The company's market share for the first nine months is below last year. The company's improved heavy market share could not offset market share decreases in medium truck and bus. The market share decreases within medium truck and bus are due to increased pricing competition and timing of deliveries.

The company has raised its truck industry forecast for the fiscal year from 328,500 units to 330,000 units, reflecting a decrease of 1,500 schools buses and an increase in heavy trucks of 3,000 units. Using the new guidance, the company forecast currently projects fiscal 2004 U.S. and Canadian Class 8 heavy truck demand to be 211,000 units, up 33% from 2003. Class 6 and 7 medium truck demand, excluding school buses, is forecast at 93,000 units, 24% higher than in 2003. Demand for school buses is expected to be 26,000 units, down 11% from 2003.

**Results of Operations (continued)***Engine*

The engine segment designs and manufactures diesel engines in the 160-325 horsepower range for use in the company's Class 6 and 7 medium trucks, school buses and selected Class 8 heavy truck models. The company's diesel engines are also produced for original equipment manufacturers (OEMs), principally Ford Motor Company (Ford). This segment also sells engines for industrial and agricultural applications. In addition, the engine segment provides customers with proprietary products needed to support the International® engine lines, together with a wide selection of other standard engine and aftermarket parts.

The following table highlights the engine segment's financial results and sales data for the three months and nine months ended July 31, 2004 and 2003.

	<b>Three Months Ended July 31</b>		<b>Nine Months Ended July 31</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
Results (Millions of dollars):				
Sales.....	<b>\$ 664</b>	\$ 627	<b>\$ 1,961</b>	\$ 1,804
Net income (loss) .....	<b>33</b>	29	<b>69</b>	41
Sales data (in units):				
Total engine sales .....	<b>101,700</b>	97,900	<b>302,300</b>	287,500
OEM sales .....	<b>83,000</b>	82,200	<b>248,600</b>	241,300

The increases in the engine segment's profits and revenues for the first nine months of fiscal 2004 are the result of higher engine shipments to OEMs and increased sales volume in medium trucks. In the third quarter of 2004, the company experienced some margin pressure from the cost of steel and the launch of our new I-6 diesel engine, but cost reduction initiatives on the I-6 engine have been re-initiated which we anticipate will favorably impact margins over the next four to six quarters. The company had comparable margin pressure on the 6.0 liter V-8 engine in the third quarter of 2003. The company's V-8 shipments to Ford accounted for 86% of year-to-date OEM engine sales for the first nine months of fiscal 2003 and 2004.

The company continues to forecast that OEM shipments of mid-range diesel engines in fiscal 2004 are expected to be 349,000 units, 5% higher than 2003.

*Financial Services*

Financial Services provides wholesale, retail and lease financing for sales of new and used trucks sold by the company and its dealers in the U.S. and Mexico. Financial services also finances the company's wholesale accounts and selected retail accounts receivable. Sales of new products (including trailers) of other manufacturers are also financed regardless of whether designed or customarily sold for use with the company's truck products.

**Results of Operations (continued)***Financial Services (continued)*

The following table highlights the financial services segment's financial results for the three months and nine months ended July 31, 2004 and 2003.

	<b>Three Months Ended July 31</b>		<b>Nine Months Ended July 31</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
Results (Millions of dollars):				
Revenue .....	\$ <b>69</b>	\$ 90	\$ <b>212</b>	\$ 255
Net income.....	<b>28</b>	41	<b>82</b>	101
Sales of retail receivables .....	\$ <b>325</b>	\$ 500	\$ <b>1,120</b>	\$ 1,350
Gain on sales of retail receivables .	<b>8</b>	26	<b>40</b>	59

The third quarter sale of receivables was made to avoid the additional costs of hedging due to rising interest rates. Revenue from retail notes and leases decreased as a result of a decline in average portfolio yield. Lease portfolio yield dropped during fiscal 2004 as liquidations of older higher yielding leases were replaced with acquisitions of lower yielding leases. The decrease in revenue was partially offset by reductions in expenses.

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

In 2000 and 2002, the company's board of directors approved two separate plans to restructure its manufacturing and corporate operations (Plans of Restructuring). The company incurred charges for severance and other benefits, curtailment losses, lease terminations, asset and inventory write-downs and other exit costs relating to the major restructuring, integration and cost reduction initiatives originally included in the Plans of Restructuring. A detailed discussion of the charges and initiatives can be found in Note H to the financial statements.

*Other Non-Recurring Charges*

The company entered into an agreement with Ford to develop and manufacture a V-6 diesel engine to be used in specific Ford vehicles. In October 2002, Ford advised the company that its current business case for a V-6 diesel engine in the specified vehicles was not viable and discontinued its program for the use of these engines. Accordingly, in 2002, the company recorded charges for the write-off of deferred pre-production costs, the write-down of fixed assets that were abandoned, lease obligations under non-cancelable operating leases, and accruals for amounts contractually owed to suppliers. In April 2003, the company reached a comprehensive agreement with Ford concerning termination of its V-6 diesel engine program. The terms of the agreement include compensation to neutralize certain current and future V-6 diesel engine program related costs not accrued for as part of the 2002 non-recurring charge, resolution of ongoing pricing related to the company's V-8 diesel engine program and a release by the parties of all of their obligations under the V-6 diesel engine contract. The company, under current agreements, will continue as Ford's exclusive supplier of V-8 diesel engines through 2012.

*Status*

The company recorded an adjustment in the first quarter of 2004 totaling \$4 million of additional expense to the previously recorded restructuring charge. The adjustment relates to the early retirement and voluntary severance program offered to employees at the Chatham facility. This adjustment finalized the postretirement curtailment charge taken in 2003, which was based upon estimates, and records the increased benefit expense for those who have accepted the program since October 31, 2003.

**Restructuring and Other Non-recurring Charges (continued)**

In the third quarter of 2004, the company recorded a \$5 million favorable adjustment to previously recorded restructuring reserves. The total adjustment was driven by the reversal of reserves relating to employee severance and a change in estimate on sublease income for lease terminations, partially offset by additional costs related to the realignment of our dealer network and additional amounts contractually owed to suppliers for the V-6 diesel engine program.

Through July 31, 2004, the company has recorded cumulative charges of \$818 million relating to the Plans of Restructuring and other non-recurring charges. The remaining liability of \$114 million is expected to be funded from existing cash balances and internally generated cash flows from operations. The total cash outlay for the remainder of 2004 is expected to be \$11 million with the remaining obligation of \$103 million, primarily related to non-recurring charges and long-term non-cancelable lease agreements, to be settled in 2005 and beyond.

The initiatives resulting from the Plans of Restructuring are expected to generate at least \$70 million of annualized savings for the company, primarily from lower salary and benefit costs and plant operating costs. The company will continue to realize these benefits in 2004 and beyond.

Components of the company's Plans of Restructuring and other non-recurring charges are shown in the following table.

Millions of dollars	Balance October 31 2003	Adjustments	Amount Incurred	Balance July 31 2004
Severance and other benefits .....	\$ 21	\$ (4)	\$ (16)	\$ 1
Curtailment loss.....	-	2	(2)	-
Lease terminations .....	33	(7)	(4)	22
Dealer terminations and other charges .....	29	2	(12)	19
Other non-recurring charges .....	74	6	(8)	72
<b>Total</b> .....	<u>\$ 157</u>	<u>\$ (1)</u>	<u>\$ (42)</u>	<u>\$ 114</u>

The first and third quarter adjustments are included in "Restructuring and other non-recurring charges" on the Statement of Income. The company is in the process of completing certain aspects of the Plans of Restructuring and will continue to evaluate the remaining restructuring reserves as the plans are executed. As a result, there may be additional adjustments to the reserves noted above. Since the company-wide restructuring plans are an aggregation of many individual components requiring judgments and estimates, actual costs have differed from estimated amounts.

**Liquidity and Capital Resources***Cash Requirements*

The company generates cash flow from the manufacture and sale of trucks, mid-range diesel engines and service parts. In addition, cash flow is generated from product financing provided to the company's dealers and retail customers by the financial services segment. It is the opinion of management that, in the absence of significant unanticipated cash demands, current and forecasted cash flow from the company's manufacturing operations, financial services operations and financing capacity will provide sufficient funds to meet operating requirements and capital expenditures. 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.

**Liquidity and Capital Resources (continued)***Sources and Uses of Cash*

<u>Millions of dollars</u>	<b>Nine Months Ended July 31, 2004</b>
Cash flow from operations .....	\$ (147)
Cash flow from investment programs .....	194
Cash flow from financing activities .....	(21)
Total cash flow .....	<u>\$ 26</u>
Cash and cash equivalents, beginning balance .....	\$ 447
Cash and cash equivalents, ending balance.....	\$ 473
Outstanding capital commitments .....	\$ 63

The company had working capital of \$104 million at July 31, 2004, compared to \$98 million at July 31, 2003. Cash used in operations includes an increase in receivables primarily due to an increase in wholesale notes and account balances resulting from higher truck sales to dealers. In addition, inventories increased by \$280 million reflecting inventory increases of \$158 million at the truck manufacturing facilities due to higher production levels and ongoing constraints within the supply base which have impacted the assembly process and inventory levels increased \$91 million at company owned dealers as a result of growth in retail sales volumes since prior year-end as well as anticipated future growth. Cash was provided by income of \$88 million and an increase in accounts payable of \$50 million resulting from higher truck production.

The increase in cash provided by investment programs was impacted by a decrease in retail notes and lease receivables of \$154 million related to the timing of the sales of finance receivables. Cash was also provided by a decrease in marketable securities of \$165 million. This cash was used for general business purposes, for contributions to the company's pension plans and to fund capital expenditures of \$103 million. The decrease in cash used in financing activities resulted from a net increase in notes and debt outstanding under the bank revolving credit facility and other commercial paper programs of \$56 million reflecting the increase in truck financing related to the growth in sales. Cash was also used to reduce long-term debt by \$78 million dollars.

There have been no material changes in the company's hedging strategies or derivative positions since October 31, 2003. The company entered into fixed-for-floating interest rate swap agreements with several counter-parties for its refinanced 7.5% \$250 million fixed-rate public notes that were issued in June 2004. 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. The company 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. Further disclosure may be found in Note J to the Financial Statements and in the company's 2003 Annual Report on Form 10-K.

In June 2004, manufacturing operations assumed the \$220 million 4.75% subordinated exchangeable notes due in 2009 from NFC. As compensation for the assumption of this debt, NFC paid manufacturing operations approximately \$170 million in cash. Manufacturing operations previously received \$50 million from NFC as compensation for providing NFC the company's stock in case the bonds had converted. The company used a portion of the proceeds from this transaction to increase its 2004 pension contribution, which will improve future cash flow by reducing 2005-2006 required pension contributions.

**Liquidity and Capital Resources (continued)***Financial Services*

The financial services segment, mainly Navistar Financial Corporation (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 and medium and long-term debt. As of July 31, 2004, NFC's funding consisted of sold finance receivables of \$3,359 million, bank and other borrowings of \$1,131 million, and secured borrowings of \$162 million. NFC securitizes and sells receivables through Navistar Financial Retail Receivables Corporation (NFRRC), Navistar Financial Securities Corporation (NFSC), Truck Retail Accounts Corporation (TRAC), Truck Engine Receivables Financing Corporation (TERFCO) and Truck Retail Installment Paper Corporation (TRIP), 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 investors' 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 nine months of 2004, NFC sold \$1,120 million of retail notes and finance leases, net of unearned finance income, for a pre-tax gain of \$40 million. The receivables were sold through NFRRC to an owner trust which, in turn, issued asset-backed securities that were sold to investors. At July 31, 2004, there was no remaining shelf registration available to NFRRC for the public issuance of asset-backed securities. In August 2004, a \$4.0 billion shelf registration filed by NFRRC was approved.

The following are the funding facilities, in millions of dollars, that NFC and its related affiliates have in place as of July 31, 2004.

<u>Company</u>	<u>Instrument type</u>	<u>Total Amount</u>	<u>Purpose of funding</u>	<u>Amount utilized</u>	<u>Matures or expires</u>
TERFCO	Trust	\$ 100	Unsecured Ford trade receivables	\$ 81	2006
NFSC	Revolving wholesale note trust	\$1,236	Eligible wholesale notes	\$ 997	various
NFSC	Marketable securities	\$ 170	Eligible wholesale notes	-	-
TRAC	Revolving retail account conduit	\$ 100	Eligible retail accounts	\$ 94	2005
TRIP	Revolving retail facility	\$ 500	Retail notes and leases	130	2005
NFC	Revolving credit facilities	\$ 820	Retail notes and leases	\$ 652	2005

As of July 31, 2004, the aggregate available to fund finance receivables under the various facilities was \$1,049 million.

In June 2004 International Truck Leasing Corp. ("ITLC"), a special purpose, wholly-owned subsidiary of NFC, was established to provide for the funding of certain leases. ITLC's assets are available to satisfy its creditors' claims prior to such assets becoming available for ITLC's uses or to the Corporation or affiliated companies.



**Liquidity and Capital Resources (continued)***Pension and Other Postretirement Benefits*

Generally, the company's pension plans are non-contributory. The company's policy is to fund its pension plans in accordance with applicable U.S. and Canadian government regulations and to make additional payments as funds are available to achieve full funding of the accumulated benefit obligation. Other benefits obligations are primarily funded in accordance with the legal agreement, which governs the Voluntary Employees Beneficiary Association (VEBA) that currently requires the company to fund a portion of the plan's annual service cost.

**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 2003 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, 2003, except as noted below.

In May 2004, the FASB issued FSP 106-2 which provides guidance on the accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The company adopted the provisions of FSP 106-2 in the third quarter of 2004, retroactive to December 8, 2003. The company used a 6.5 percent discount rate to value the related accumulated postretirement benefit obligation (APBO) at December 8, 2003, which was .1 percent lower than the discount rate used at October 31, 2003, and caused a \$23 million increase in the APBO as of that date. For more information, see Note D to the financial statements of this report.

**Income Taxes**

The Statement of Financial Condition at July 31, 2004, includes a deferred tax asset of \$1,618 million, net of valuation allowances of \$110 million. The company performs extensive analyses to evaluate the balance of deferred tax assets. Such analyses are 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 2003 Annual Report on Form 10-K.

**New Accounting Pronouncements**

In December 2003, the Financial Accounting Standards Board (FASB) issued a revision to SFAS No. 132 (SFAS 132), "Employers' Disclosure about Pensions and Other Postretirement Benefits." This Statement retains the disclosures previously required by SFAS 132 but adds additional disclosure requirements about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. It also calls for the required information to be provided separately for pension plans and for other postretirement benefit plans. The interim-period disclosures required by this Statement are included in Note D to the financial statements.

FASB Staff Position (FSP) 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (the Act) provides guidance on the accounting for the effects of the Act and requires certain disclosures regarding the effect of the federal subsidy provided by the Act. The company has adopted this FSP as of May 1, 2004, and has reported the effect of the subsidy on the periodic postretirement benefit cost on the Income Statement for the three and nine months ended July 31, 2004.

**Forward Looking Statements**

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Exchange Act, and the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties. You should not place undue reliance on those statements because they are subject to numerous uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, and such forward-looking statements only speak as of the date of this Form 10-Q. Forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy. These statements often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate" or similar expressions. These statements are based on assumptions that we have made in light of our experience in the industry as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. As you read and consider this Form 10-Q, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements. For a further description of these factors, see Exhibit 99.1 to Form 10-K for the year ended October 31, 2003, filed with the SEC on December 19, 2003.

**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 2003 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 July 31, 2004, the net fair value of these instruments would decrease by approximately \$26 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.

The company is exposed to changes in the price of commodities used in its manufacturing operations. Due to the amount of steel used in its production of truck cabs, buses and engines, the company is exposed to steel price fluctuations. The steel prices have increased and the company believes that the price of steel will remain high throughout the fiscal year and have an estimated \$50 million impact on its cost structure.

There have been no material changes in the company's foreign currency risk since October 31, 2003, as reported in the 2003 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, along with other management of the company, evaluated the effectiveness of the company's disclosure controls and procedures (as defined in rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of July 31, 2004. Based on that evaluation, the principal executive officer and principal financial officer of the company concluded that, as of July 31, 2004, the disclosure controls and procedures in place at the company were (1) designed to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to them to allow timely decisions regarding required disclosure and (2) effective, in that such disclosure controls and procedures provide reasonable assurance 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 has established a disclosure committee and is in the process of formalizing and documenting the controls and procedures already in place.

Changes in internal controls

The company has not made any significant changes to its internal control over financial reporting (as defined in rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended July 31, 2004 that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

**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. The majority of these claims and proceedings relate to commercial, product liability and warranty matters. In the opinion of the company's management, the disposition of these proceedings and claims, after taking into account established reserves and the availability and limits of the company's insurance coverage, will not have a material adverse affect on 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 has appealed the adverse judgment, and the company is cooperating with Sturman in this effort. In May 2003, in Federal Court in Columbia, South Carolina, Caterpillar sued the company, its supplier of fuel injectors and joint venture, Siemens Diesel Systems Technology, L.L.C., and Sturman for patent infringement alleging that the Sturman fuel system technology patents and certain Caterpillar patents are infringed in the company's new engines. The company believes that it has meritorious defenses to the claims of infringement of the Sturman patents as well as the Caterpillar patents and will vigorously defend such claims. Based on the information developed to date, the company believes that the proceedings will not have a material adverse impact on the business, results of operations or financial condition of the company.

In January 2002, Caterpillar sued the company in the Circuit Court in Peoria County, Illinois, and the company counterclaimed 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. Caterpillar's claims involve a 1990 agreement to reimburse Caterpillar for costs associated with the delayed launch of the company's V-8 diesel engine program. Reimbursement of the delay costs was made by a surcharge of \$8.08 on each injector purchased and the purchase of certain minimum quantities of spare parts. In 1999, the company concluded that, in accordance with the 1990 agreement, it had fully reimbursed Caterpillar for its delay costs and stopped paying the surcharge and purchasing the minimum quantities of spare parts. Caterpillar is asserting that the surcharge and the spare parts purchase requirements continue throughout the life of the contract and has sued the company to recover these amounts, plus interest. Caterpillar also asserts that the company failed to purchase all of its fuel injector requirements under the contract and, in collusion with Sturman, failed to pursue a future fuel systems supply relationship with Caterpillar. The company has counterclaimed that Caterpillar breached the Supply Agreement by refusing to supply the new fuel system for the company's new diesel engines. The company is seeking damages from Caterpillar on account of this refusal and the company's subsequent replacement of Caterpillar as its fuel system supplier. Based upon the information developed to date, and taking into account established reserves, the company believes that the ultimate resolution of the foregoing matters will not have a material adverse impact on the business, results of operations or financial condition of the company.

Along with other vehicle manufacturers, the company and certain of its subsidiaries have been subject to an increase in the number of asbestos-related claims in recent years. Management believes that such claims will not have a material adverse affect on the company's financial condition or results of operations. In general these claims relate to illnesses alleged to have resulted from asbestos exposure from component parts found in older vehicles, although some cases relate to the presence of asbestos in company facilities. In these claims the company is not the sole defendant, and the claims name as

**Item 1. Legal Proceedings (continued)**

defendants numerous manufacturers and suppliers of a wide variety of products allegedly containing asbestos. Management has strongly disputed these claims, and it has been the company's policy to defend against them vigorously. Historically, the actual damages paid out to claimants have not been material to the company's financial condition. However, management believes the company and other vehicle manufacturers are being more aggressively targeted, largely as a result of bankruptcies of manufacturers of asbestos and products containing asbestos. It is possible that the number of these claims will continue to grow, and that the costs for resolving asbestos related claims could become significant in the future.

**Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities**

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 1,579 shares were deferred as payment for the fiscal year 2004 annual retainer and meeting fees. In each case, the shares were acquired at prices ranging from \$35.46 to \$39.385 per share, 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.

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 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.

During the quarter ended July 31, 2004, the company did not repurchase any of its equity securities, however, the company repurchased 75% of its written call option derivative contracts which it entered into in December 2002 in connection with its \$190 million Senior Convertible Notes and wrote new call options at \$75.00. The effect of this transaction will allow the company to minimize share dilution associated with the convertible debt from the conversion price of each note up to \$75.00 per share. The remaining 25% under the original option will continue to have minimal share dilution from the conversion price of each note up to \$53.40 per share. The maturity and terms of the hedge match the maturity and certain terms of the notes.

<b>Item 6.</b>	<b>Exhibits and reports on Form 8-K</b>	<u>Page</u>
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## (a) Exhibits:

3.	Articles of Incorporation and By-Laws	E-1
4.	Instruments Defining the Rights of Security Holders, Including Indentures	E-2
10.	Material Contracts	E-11
31.1	CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	E-12
31.2	CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	E-13
32.1	CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	E-14
32.2	CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	E-15

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

The company filed a current report on Form 8-K with the Commission on May 12, 2004, in which the company announced its plans to refinance its \$250 million 8% senior subordinated notes and assume the \$220 million 4.75% convertible subordinated debt due in 2009 from its finance subsidiary.

The company filed a current report on Form 8-K with the Commission on May 20, 2004, in which the company released its second quarter 2004 earnings.

The company filed a current report on Form 8-K with the Commission on May 26, 2004, in which the company announced the pricing of its \$250 million of senior notes due in 2011 and filed Form T-1 with respect to naming BNY Midwest Trust Company as trustee.

The company filed a current report on Form 8-K with the Commission on June 2, 2004, in which the company announced it sold \$250 million of its 7.5% senior notes due June 15, 2011 in an underwritten offering.

The company filed a current report on Form 8-K with the Commission on June 27, 2004, in which the company announced it had ratified new labor contracts with members of the Canadian Auto Workers that will run through June 30, 2009.

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)

Date: September 10, 2004

/s/ Mark T. Schwetschenau  
Mark T. Schwetschenau  
Senior Vice President and Controller  
(Principal Accounting 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 Certificate of Retirement of Stock filed with the Secretary of State for the State of Delaware effective July 30, 2003 retiring the Class B common stock of Navistar International Corporation in accordance with the Restated Certificate of Incorporation of Navistar International Corporation, filed as Exhibit 3.2 to Quarterly Report on Form 10-Q dated September 12, 2003, which was filed on September 12, 2003 on Commission File No. 001-09618.
- 3.3 The Amended and Restated By-Laws of Navistar International Corporation effective October 21, 2003, filed as Exhibit 3.3 to Annual Report on Form 10-K dated October 31, 2003, which was filed on December 19, 2003, Commission No. 001-09618.



**NAVISTAR INTERNATIONAL CORPORATION  
AND CONSOLIDATED SUBSIDIARIES**

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

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

- 4.1 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.
- 4.2 Guarantee, dated as of December 8, 2000, made by Navistar International Corporation, in favor of The Chase Manhattan Bank, as Administrative Agent, for the lenders parties to the Credit Agreement, dated as of December 8, 2000, among Navistar Financial Corporation and Arrendadora Financiera Navistar, S.A. de C.V., Servicios Financieros Navistar, S.A. de C.V. and Navistar Comercial, S.A. de C.V., the Lenders, Bank of America, N.A., as syndication agent, The Bank of Nova Scotia, as documentation agent, and the Administrative Agent. Filed as Exhibit 10.07 to Navistar Financial Corporation's Form 10-Q dated March 15, 2001. Commission File No. 1-4146-1.
- 4.3 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 as Exhibit 4.3.
- 4.4 Note Purchase Agreement, dated as of June 15, 2001, as amended from time to time, 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).
- 4.5 555,000,000 Mexican Peso Credit Agreement dated as of July 25, 2001, as restructured as of May 14, 2004, by and among Servicios Financieros Navistar, S.A. de C.V., Arrendadora Financiera Navistar, S.A. de C.V., Navistar Comercial, S.A. de C.V. and 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).
- 4.6 First Supplement to Indenture, dated as of August 22, 2001, by and among 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.

**NAVISTAR INTERNATIONAL CORPORATION  
AND CONSOLIDATED SUBSIDIARIES**

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

- 4.7     \$30,000,000 Revolving Credit Agreement dated as of October 25, 2001, as amended from time to time, by and 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).
  
- 4.8     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).
  
- 4.9     200,000,000 Mexican Peso Revolving Credit Agreement dated as of November 27, 2001, as amended from time to time, by and 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).
  
- 4.10    120,000,000 Mexican Peso Revolving Credit Agreement dated as of February 27, 2002, by and between 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).
  
- 4.11    120,000,000 Mexican Peso Revolving Credit Agreement dated as of February 27, 2002, by and between 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).
  
- 4.12    Navistar International Corporation Restated Stock Certificate filed as Exhibit 4.20 to Form 10-Q dated March 11, 2002. Commission File No. 1-9618.
  
- 4.13    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.
  
- 4.14    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**

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

- 4.15 170,000,000 Mexican Peso Revolving Credit Agreement dated as of May 12, 2004, by and among Servicios Financieros Navistar, S.A. de C.V., as borrower 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).
- 4.16 \$7,000,000 Revolving Credit Agreement dated as of September 29, 2003, by and between Servicios Financieros Navistar, S.A. de C.V., as borrower and HSBC Mexico, S.A. (f/k/a 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).
- 4.17 80,000,000 Mexican Peso Revolving Credit Agreement dated as of September 3, 2003, by and 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).
- 4.18 200,000,000 Mexican Peso Revolving Credit Agreement dated as of October 16, 2002, and ratified on October 29, 2003, by and 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).
- 4.19 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.
- 4.20 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.
- 4.21 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.
- 4.22 \$3,000,000 Revolving Credit Agreement dated as of September 29, 2003, by and between Arrendadora Financiera Navistar, S.A. de C.V., as borrower and HSBC Mexico S.A. (f/k/a 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).

**NAVISTAR INTERNATIONAL CORPORATION  
AND CONSOLIDATED SUBSIDIARIES**

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

- 4.23 100,000,000 Mexican Peso Revolving Credit Agreement dated as of December 11, 2003, by and between 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).
- 4.24 100,000,000 Mexican Peso Revolving Credit Agreement dated as of December 11, 2003, by and between 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).
- 4.25 First Amendment to the 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 thereto, The Chase Manhattan Bank as Administrative Agent, Bank of America as Syndication Agent and Bank of Nova Scotia as Documentation Agent. Filed as Exhibit 3.2 to Navistar Financial Corporation's Form 10-Q dated and filed March 8, 2004. Commission File No. 001-04146.
- 4.26 \$50,000,000 Mexican Peso Revolving Credit Agreement dated as of May 18, 2004, between Servicios Financieros Navistar, S.A. de C.V., as borrower and Banco Mercantil del Norte, 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).
- 4.27 \$50,000,000 Mexican Peso Revolving Credit Agreement dated as of June 3, 2004, between Servicios Financieros Navistar, S.A. de C.V., as borrower and Banco del Bajio, 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).
- 4.28 \$25,000,000 Mexican Peso Revolving Credit Agreement dated as of June 3, 2004, between Arrendadora Financiera Navistar, S.A. de C.V., as borrower and Banco del Bajio, 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).
- 4.29 \$50,000,000 Mexican Peso Revolving Credit Agreements dated as of June 11, 2004, between Servicios Financieros Navistar, S.A. de C.V., and Arrendadora Financiera Navistar, S.A. de C.V. as borrowers and Banco Ve por Más, S.A., as lender. The Registrant agrees to furnish to the Commission upon request a copy of such agreements 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**

- 4.30 Indenture, dated as of June 2, 2004, by and among Navistar International Corporation, International Truck and Engine Corporation and BNY Midwest Trust Company, as Trustee, for 7 1/2% Senior Notes due 2011 for \$250,000,000. Filed as Exhibit 4.1 to Current Report on Form 8-K dated June 4, 2004. Commission File No. 1-9618.
- 4.31 First Supplement to Indenture, dated as of June 2, 2004, by and among Navistar International Corporation, International Truck and Engine Corporation and BNY Midwest Trust Company, as Trustee, for 7 1/2% Senior Notes due 2011 for \$250,000,000. Filed as Exhibit 4.2 to Current Report on Form 8-K dated June 4, 2004. Commission File No. 1-9618.
- 4.32 Second Supplement to Indenture, dated as of June 2, 2004, by and among 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 4.3 to Current Report on Form 8-K dated June 4, 2004. Commission File No. 1-9618.

The following documents of Navistar International Corporation are filed herewith:

- 4.33 First Supplement to Indenture, dated as of June 11, 2004, 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.

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.

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**NAVISTAR FINANCIAL CORPORATION**  
**AND**  
**NAVISTAR INTERNATIONAL CORPORATION**  
**4.75% SUBORDINATED EXCHANGEABLE NOTES DUE 2009**

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**FIRST SUPPLEMENT TO INDENTURE**  
**DATED AS OF JUNE 11, 2004**

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**BNY MIDWEST TRUST COMPANY,**  
**AS TRUSTEE**

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**FIRST SUPPLEMENT TO INDENTURE**

This First Supplement to Indenture (the “First Supplement”) is dated as of June 11, 2004 by and among Navistar Financial Corporation, a Delaware corporation (the “Company”), Navistar International Corporation, a Delaware corporation (“Navistar”), and BNY Midwest Trust Company, an Illinois banking corporation (the “Trustee”), with respect to the Company’s 4.75% Subordinated Exchangeable Notes due 2009 (the “Exchangeable Notes”). Capitalized terms used but not otherwise defined in this First Supplement shall have the meanings ascribed to such terms in the Indenture (hereinafter defined). To the extent terms defined herein differ from the Indenture, the terms defined herein shall govern.

WHEREAS, the Company, Navistar and the Trustee entered into that certain Indenture, dated as of March 25, 2002 (as may be further amended and supplemented from time to time in accordance with its terms, the “Indenture”);

WHEREAS, Article 13 of the Indenture provides that Navistar may, at its option, assume the obligations of Company under the Exchangeable Notes and the Indenture provided that the conditions outlined in such Section 13.1 of the Indenture are satisfied;

WHEREAS, Navistar desires to assume the obligations of the Company under the Exchangeable Notes and the Indenture in accordance with Article 13 of the Indenture;

WHEREAS, the conditions set forth in the Indenture for the execution and delivery of this First Supplement have been complied with or satisfied;

WHEREAS, all things necessary to make this First Supplement a valid agreement of the Company, Navistar and the Trustee, in accordance with its terms, and a valid supplement to the Indenture, have been done; and

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree, for the equal and proportionate benefit of all holders of the Exchangeable Notes, as follows:

**ARTICLE I**  
**ASSUMPTION OF OBLIGATIONS**

**Section 1.1**      **Assumption of Obligations.** In accordance with and pursuant to Section 13.1 of the Indenture, Navistar hereby assumes the obligations of the Company under the Exchangeable Notes and the Indenture and the performance of each of the Company's covenants under the Exchangeable Notes and the Indenture except as provided in Section 13.1 of the Indenture.

**Section 1.2**      **Effects of Assumption.** Upon the assumption provided by Section 1.1 of this First Supplement, the Exchangeable Notes will be general unsecured obligations of Navistar and will be subordinated in right of payment to all of Navistar's existing and future senior indebtedness, and Navistar will succeed to, and be substituted for the Company, and may exercise the Company's right and power, under the Indenture with the same effect as if Navistar had been named as the Company in the Indenture and all references in the Indenture to the Company shall be to Navistar, except that (1) clauses (1)(b), (2)(b) and (3)(b) in the definition of Change of Control shall not apply to Navistar as successor and (2) Navistar, as successor, shall be permitted to effect a Permitted Joint Venture notwithstanding the prohibition on the Company from selling, assigning, transferring, leasing, conveying or otherwise disposing of all or substantially all of its assets.

**Section 1.3**      **Release of the Company.** Upon the assumption provided by Section 1.1 of this First Supplement, the Company will be relieved of all further obligations and covenants under the Exchangeable Notes and the Indenture.

**ARTICLE II**  
**MISCELLANEOUS PROVISIONS**

**Section 2.1**      **Instruments to be Read Together.** This First Supplement is an indenture supplement to and in implementation of the Indenture, and said Indenture and this First Supplement shall henceforth be read together.

**Section 2.2**      **Confirmation.** The Indenture, as amended and supplemented by this First Supplement, is in all respects ratified and confirmed, and nothing herein shall affect the validity or enforceability of the Indenture as amended and supplemented by this First Supplement.

**Section 2.3**      **Counterparts.** This First Supplement may be executed in any number of counterparts, each of which, when so executed, shall be deemed to be an original, but all of which shall together constitute one and the same instrument.

**Section 2.4**      **Effectiveness.** This First Supplement shall become effective immediately upon its execution by the parties hereto.

**Section 2.5**      **GOVERNING LAW.** THIS FIRST SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK. THE COMPANY AND NAVISTAR AGREE TO SUBMIT TO THE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK, COUNTY OF NEW YORK, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS FIRST SUPPLEMENT.



Section 2.6      Disclaimer of Trustee's Responsibility. In executing this First Supplement, the Trustee shall be entitled to all the privileged and immunities afforded to the Trustee under the terms and conditions of the Indenture.

Section 2.7      No Recourse Against Others. No director, officer, employee, shareholder or Affiliate, as such, of the Company or Navistar from time to time shall have any liability for any obligations of the Company or Navistar under this First Supplement or for any claim based on, in respect of, or by reason of such obligations or their creation. Each of such directors, officers, employees, shareholders and Affiliates is a third party beneficiary of this Section 2.7.

Section 2.8      No Adverse Interpretation of Other Agreements. This First Supplement may not be used to interpret another indenture, loan or debt agreement of the Company or Navistar or any of their respective subsidiaries. Any such other indenture, loan or debt agreement may not be used to interpret this First Supplement.

Section 2.9      Successors. All agreements of the Company and Navistar in this First Supplement shall bind their respective successors. All agreements of the Trustee in this First Supplement shall bind its successor.

Section 2.10      Severability. In case any provision in this First Supplement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 2.11      TIA Controls. If any provisions hereof limits, qualifies or conflicts with a required or deemed provision of the TIA, the required or deemed provision in the TIA shall control.

IN WITNESS WHEREOF, the parties hereto have caused this First Supplement to be duly executed as of the date first above written.

NAVISTAR FINANCIAL CORPORATION

By: /s/ Andrew J. Cederoth  
Name: Andrew J. Cederoth  
Title: Vice President and Treasurer

NAVISTAR INTERNATIONAL CORPORATION

By: /s/ Terry M. Endsley  
Name: Terry M. Endsley  
Title: Vice President and Treasurer

BNY MIDWEST TRUST COMPANY

By: /s/ Dan Donovan  
Name: D.G. Donovan  
Title: Vice President

**NAVISTAR INTERNATIONAL CORPORATION  
AND CONSOLIDATED SUBSIDIARIES**

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**MATERIAL CONTRACTS**

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

- 10.42 Indenture dated as of June 10, 2004, between Navistar Financial Dealer Note Master Owner Trust, as Issuer, and The Bank of New York, as Indenture Trustee. Filed as Exhibit 4.2 to Navistar Financial Dealer Note Master Owner Trust's Current Report on Form 8-K dated June 10, 2004. Filed on File No. 333-104639.
  
- 10.43 Series 2004-1 Indenture Supplement, dated as of June 10, 2004, between Navistar Financial Dealer Note Master Owner Trust, as Issuer, and The Bank of New York, as Indenture Trustee. Filed as Exhibit 4.3 to Navistar Financial Dealer Note Master Owner Trust's Current Report on Form 8-K dated June 10, 2004. Commission File No. 333-104639.
  
- 10.44 Indenture, dated as of November 21, 2000, between Truck Engine Receivables Master Trust and The Bank of New York, as Indenture Trustee. Filed as Exhibit 10.63 to Navistar Financial Corporation's Quarterly Report on Form 10-Q dated September 10, 2004. Commission File No. 001-04146.
  
- 10.45 Series 2000-1 Indenture Supplement, dated as of November 21, 2000, between Truck Engine Receivables Master Trust and the Bank of New York, as Indenture Trustee. Filed as Exhibit 10.67 to Navistar Financial Corporation's Quarterly Report on Form 10-Q dated September 10, 2004. Commission File No. 001-04146.

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

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 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 10, 2004

/s/ Daniel C. Ustian

Daniel C. Ustian

Chairman, 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 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 10, 2004

/s/ Robert C. Lannert

Robert C. Lannert

Vice Chairman and Chief Financial Officer  
(Principal Financial Officer)

**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 July 31, 2004 as filed with the Securities and Exchange Commission (the "SEC") 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 results of operations of the Company.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: September 10, 2004

/s/ Daniel C. Ustian

Daniel C. Ustian

Chairman, President and Chief Executive Officer  
(Principal Executive Officer)

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, or otherwise subject to the liability of that section. This certification shall also not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates it by reference.

**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 July 31, 2004 as filed with the Securities and Exchange Commission (the "SEC") 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 results of operations of the Company.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: September 10, 2004

/s/ Robert C. Lannert

Robert C. Lannert

Vice Chairman and Chief Financial Officer

(Principal Financial Officer)

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, or otherwise subject to the liability of that section. This certification shall also not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates it by reference.