

NAVISTAR INTERNATIONAL CORP  
Form DEF 14A  
February 23, 2005

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**SCHEDULE 14A  
(RULE 14a-101)**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant  x

Filed by a Party other than the Registrant  o

Check the appropriate box:

- o Preliminary proxy statement.
- o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)).
- x Definitive Proxy Statement.
- o Definitive Additional Materials.
- o Soliciting Material Pursuant to Rule 14a-12.

**Navistar International Corporation**

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(Name of Registrant as Specified in Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(1) Amount previously paid:

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(2) Form, schedule or registration statement no.:

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(3) Filing party:

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(4) Date filed:

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**NAVISTAR INTERNATIONAL CORPORATION**

4201 Winfield Road  
P. O. Box 1488  
Warrenville, Illinois 60555

**NOTICE OF 2005 ANNUAL MEETING OF SHAREOWNERS**

**To be held Wednesday, March 23, 2005**

To Our Shareowners:

You are cordially invited to attend Navistar International Corporation's 2005 Annual Meeting of Shareowners. This year's meeting will be held at the Hyatt Lisle Hotel, 1400 Corporetum Drive, Lisle, Illinois 60532 on Wednesday, March 23, 2005 at 10:00 a.m., Central Standard Time. The purposes of the Annual Meeting are:

1. To elect three directors;
2. To ratify the selection of Deloitte & Touche LLP as our independent auditor for fiscal year 2005;
3. To approve certain amendments to the Company's 2004 Performance Incentive Plan; and
4. To transact such other business as may properly come before the meeting and any adjournments or postponements thereof.

Shareowners of record at the close of business on February 17, 2005 are entitled to notice of and to vote at this meeting.

**YOUR VOTE IS IMPORTANT.** Whether you plan to attend the meeting or not, we urge you to vote your shares either via the Internet, by using a toll-free telephone number or by signing, dating, and mailing the enclosed proxy card. Instructions regarding all methods of voting are contained on the proxy card. If you attend the meeting and prefer to vote in person, you may do so, even if you have previously submitted your proxy.

By Order of the Board of Directors,

Robert J. Perna  
Secretary  
February 23, 2005

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**PROXY STATEMENT**

Navistar International Corporation  
4201 Winfield Road  
P.O. Box 1488  
Warrenville, Illinois 60555

**INFORMATION ABOUT THE ANNUAL MEETING**

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors (the Board) of Navistar International Corporation, a Delaware corporation (the Company), for use at the 2005 Annual Meeting of Shareowners and at any meeting following postponement or adjournment thereof. The meeting will be held at the Hyatt Lisle Hotel, 1400 Corporetum Drive, Lisle, Illinois on Wednesday, March 23, 2005 at 10:00 a.m., Central Standard Time. This Proxy Statement summarizes information that we are required to provide you under the rules of the U.S. Securities and Exchange Commission and is designed to assist you in voting your shares. On or about February 23, 2005, we began sending these proxy materials to all shareowners entitled to vote at the Annual Meeting.

**INFORMATION ABOUT VOTING**

Shareowners of record can vote in person at the Annual Meeting or by proxy. There are three ways to vote by proxy:

**By Internet** If you hold your shares in your own name rather than through a broker, you can vote via the Internet at <http://www.proxyvote.com>. Please see your proxy card for specific instructions. We encourage you to vote this way as it is the most cost-effective method.

**By Telephone** If you hold your shares in your own name rather than through a broker, you can vote by telephone by calling the toll-free number listed on the proxy card. Please see your proxy card for specific instructions.

**By Mail** You can vote by mail by signing, dating and mailing the enclosed proxy card.

If you hold your shares through a bank, broker, or other record holder, you may vote your shares by following the instructions they have provided.

By voting by proxy, you will direct the individuals named on the card (your proxies) to vote your shares at the Annual Meeting in the manner you indicate. The persons named as proxies were selected by the Board of Directors and are either directors or officers of the Company or both. If you sign and return the card without indicating your instructions, then the designated proxies will vote your shares FOR the election of all three nominees for director, FOR the proposal to ratify the selection of Deloitte & Touche LLP as our independent auditor, FOR the amendment to the Company's 2004 Performance Incentive Plan, and in the discretion of the named proxies, upon such other matters as may properly come before the meeting or any adjournments thereof.

You may revoke or change your proxy at any time before it is exercised by sending a written revocation letter to the Company's Secretary at the address shown on the front page of this Proxy Statement, by providing a later dated proxy, by voting by telephone or by Internet at a later time, or by attending the Annual Meeting and voting in person.

You may have your votes kept confidential by so indicating in the designated place on the proxy card or when prompted during telephone or Internet voting. If you are a participant in any of the Company's 401(k) or retirement savings plans the proxy card will represent the number of shares allocated to your account under the Plan and will serve as a direction to the Plan's trustee as to how the shares in your account are to be voted.

Holders of record of the Company's Common Stock at the close of business on February 17, 2005 are entitled to receive notice of and to vote their shares at the Annual Meeting. As of that date, there were outstanding 69,963,758 shares of Common Stock, held of record by 16,427 shareowners. You are entitled to one vote per share, exercisable in person or by proxy, with respect to all matters to come before the Annual Meeting. Representatives of ADP Investor Communication Services or its agent will tabulate the votes and act as inspectors of election at the Annual Meeting.

### **Quorum Requirements**

A quorum is necessary to hold a valid meeting. Under the Company's By-Laws at least one-third of the Company's Common Stock must be represented at the Annual Meeting, whether in person or by proxy, to constitute a quorum. Abstentions and broker non-votes are counted as present for establishing a quorum for the transaction of business at the Annual Meeting, but neither will be counted as votes cast. A broker non-vote occurs when a broker votes on some matter on the proxy card but not on others because the broker does not have the authority to do so.

### **Required Vote**

Directors are elected by a plurality vote of shares present (in person or by proxy) at the meeting, meaning that the three nominees for director receiving the highest number of votes will be elected. Abstentions and broker non-votes are not counted in determining the number of shares voted for or against any nominee for director.

For each other proposal the approval of the holders of the majority of the voting shares of Common Stock of the Company represented in person or by proxy at the meeting is required for approval. Abstentions and broker non-votes with respect to those matters will not be counted as participating in the voting and will therefore have no effect. The Company believes that, under the rules of the New York Stock Exchange, Proposal 3 is a non-routine matter whereby brokers would not be permitted to vote in their discretion on behalf of a client if the client had not furnished voting instructions.

### **Other Matters**

The Board of Directors does not know of any other matters that will be presented at the Annual Meeting other than the proposals discussed in this Proxy Statement. If any other matter properly comes before the Annual Meeting, your proxies will vote your shares in accordance with their best judgment. Discretionary authority to vote on other matters is included in the proxy.

## **PROPOSAL NO. 1 ELECTION OF DIRECTORS**

Our Board of Directors currently has 11 members, who are divided into three classes (Class I, Class II, and Class III). One class is elected at each Annual Meeting of shareowners to serve for a three-year term or until their earlier death, resignation or retirement pursuant to the Board's retirement policy.

Three directors will be elected at the Annual Meeting to serve as Class III directors for a three-year term beginning at this Annual Meeting and expiring at our Annual Meeting in the year 2008. The Board of Directors has nominated Eugenio Clariond, John D. Correnti and Daniel C. Ustian for election as Class III directors. Each nominee is presently a director of the Company. Your proxies will vote your shares FOR the nominees, unless you instruct otherwise.

### ***The Board of Directors Recommends a vote FOR the Election of these Nominees as Directors.***

The Company expects each nominee to be able to serve. If a nominee is unavailable for election for any presently unforeseen reason, the Board may choose another nominee and your proxies will then vote your shares for that nominee or, as an alternative, the Board may reduce the number of directors to be elected at the Annual Meeting. The Board has authority under the Company's By-Laws to fill vacancies and to increase and decrease its size.

The Board's retirement policy provides for director's retirement prior to the first Annual Meeting of shareowners which is held after the date they attain age 70. Mr. William F. Patient, currently a Class III director, will have attained age 70 prior to the Annual Meeting and will retire from the Board. As a result, effective upon Mr. Patient's retirement, the total number of directors of the Company will be decreased to 10.

The following are brief biographies of each of the nominees and the other directors whose terms of office will continue after the Annual Meeting.

### Nominees for Class III Directors Whose Terms Expire 2008

**Eugenio Clariond**, 61, director since 2002. He is Chairman of the Board and Chief Executive Officer of Grupo IMSA, a producer of steel processed products, steel and plastic construction products and aluminum and other related products, since 2003. Prior to his present position he was President and Chief Executive Officer, since 1984. He is a director of Texas Industries, Inc. and Vice Chairman of the World Business Counsel for Sustainable Development and Vice President of the Mexican chapter of the Latin American Business Counsel. *Committees: Compensation and Finance.*

**John D. Correnti**, 57, director since 1994. He was Chairman of the Board and Chief Executive Officer of Birmingham Steel Corporation, a manufacturer of steel and steel products, from 1999 to 2002. On June 3, 2002, Birmingham Steel Corporation filed for voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code. Mr. Correnti served as Chief Executive Officer, President and Vice Chairman of Nucor Company, a mini mill manufacturer of steel products, from 1996 to 1999, and as its President and Chief Operating Officer and as a director from 1991 to 1996. He is a director of Corrections Corporation of America. *Committees: Audit and Compensation.*

**Daniel C. Ustian**, 54, director since 2002. He is President and Chief Executive Officer of the Company since 2003 and Chairman of the Board of the Company since February 2004. Prior to his present position, he was President and Chief Operating Officer, from 2002 to 2003, and President of the Engine Group of International Truck and Engine Corporation, the Company's principal operating subsidiary, from 1999 to 2002, and he served as Group Vice President and General Manager of Engine & Foundry from 1993 to 1999. He is a director of Monaco Coach Corporation and a member of the Society of Automotive Engineers and the American Foundry Association and participates in the Electrical Council for the Economy. *Committee: Executive.*

### Class II Directors Whose Terms Expire 2007

**Michael N. Hammes**, 63, director since 1996. He is Chairman and Chief Executive Officer of Sunrise Medical Inc., which designs, manufactures and markets home medical equipment worldwide, since 2000. He was Chairman and Chief Executive Officer of the Guide Corporation, an automotive lighting business, from 1998 to 2000. He was also Chairman and Chief Executive Officer of The Coleman Company, Inc., a manufacturer and distributor of camping and outdoor recreational products and hardware/home products, from 1993 to 1997. He is a member of the Board of Visitors of Georgetown University's School of Business. *Committees: Compensation, Finance (Chair), Nominating and Governance (Chair), and Executive.*

**James H. Keyes**, 64, director since 2002. He retired as Chairman of the Board of Johnson Controls, Inc., an automotive system and facility management and control company, in 2003, a position he had held since 1993. He served as Chief Executive Officer of Johnson Controls, Inc. from 1988 until 2002. He is a director of LSI Logic Corporation and Pitney Bowes, Inc. *Committees: Audit (Chair), Compensation, Nominating and Governance, and Executive.*

**Southwood J. Morcott**, 66, director since 2000. He retired as Chairman of the Board of Dana Corporation, a manufacturer and distributor of automotive and vehicular parts, in 2000, a position he had held since 1990. He was Chief Executive Officer from 1989 to 1999 and President from 1986 to 1996 of Dana Corporation. He is a director of CSX Corporation and Johnson Controls, Inc. *Committees: Compensation (Chair), Finance Nominating and Governance, and Executive.*

### Class I Directors Whose Terms Expire 2006

**Y. Marc Belton**, 45, director since 1999. He is Senior Vice President of General Mills, Inc. and President of Yoplait USA, General Mills Canada Corporation and New Business Development since 2002. General Mills, Inc. is engaged in manufacturing and marketing of consumer food products. He was President of the Big G Cereal Division from 1999 to 2002. From 1997 to 1999 he was President of the New Ventures Division. From 1994 to 1997 he was President, Snacks Division. He was named a Vice President of General Mills in 1991. He serves on the board of directors of Urban Ventures, the Guthrie Theater, as well as the Board of Trustees of Northwestern College. He is also a member of the Executive Leadership Council and Co-Chairman of the Salvation Army Capital Campaign. *Committees: Audit and Finance.*

**Dr. Abbie J. Griffin**, 50, director since 1998. She is a Professor of Business Administration at the University of Illinois, Urbana-Champaign since 1997. She was Associate Professor of Marketing and Production Management from 1993 to 1997 at the University of Chicago, Graduate School of Business. *Committees: Audit and Finance.*

**Robert C. Lannert**, 64, director since 1990. He is Vice Chairman of the Board of Directors of the Company since 2002, and he is Chief Financial Officer of the Company since 1990. He was Executive Vice President from 1990 to 2002. Mr. Lannert is also a member of the Executive Board of Des Plaines Valley Council Boy Scouts of America and a member of the Dean Advisory Council of the Krannert School, Purdue University.





**Additional Director**

In July 1993, the Company restructured its post-retirement health care and life insurance benefits pursuant to a settlement agreement, which required, among other things, the addition of a seat on the Company's Board of Directors. The director's seat is filled by a person appointed by the United Automobile, Aerospace & Agricultural Implement Workers of America (the UAW). This director is not part of the classes referred to above and is not standing for election by shareowners at the Annual Meeting.

**David McAllister**, 49, director since 2001. He is Administrative Assistant to the UAW's Vice President since 1999. He was Administrative Assistant and Co-Director from 1998 to 1999, Associate Co-Director from 1996 to 1998 and Program Coordinator from 1989 to 1996, of the UAW-DaimlerChrysler National Training Center. He is a founding member of the Chelsea Civic Foundation and a member of the NAACP. *Committees: Audit and Finance.*

**PROPOSAL NO. 2 RATIFICATION OF SELECTION OF INDEPENDENT AUDITOR**

The Audit Committee has selected the firm of Deloitte & Touche LLP, Two Prudential Plaza, 180 N. Stetson Avenue, Chicago, Illinois 60601, as our independent auditor to examine the financial statements of the Company for the fiscal year ending October 31, 2005, and the Audit Committee recommends ratification of such selection by the shareowners.

Deloitte & Touche has audited our accounts for many years. The Audit Committee considers Deloitte & Touche well qualified to serve as the independent auditor for the Company. Representatives of Deloitte & Touche will be present at the Annual Meeting, will have the opportunity to make a statement if they desire, and will also be available to respond to appropriate questions. Although action by shareowners for this matter is not required, the Audit Committee believes that it is appropriate to seek shareowner ratification of this appointment, and will reconsider the appointment if it is not ratified by the shareowners.

*The Board of Directors Recommends a vote FOR the Ratification of the Appointment of Deloitte & Touche as the Company's Independent Auditor for Fiscal Year 2005.*

**PROPOSAL NO. 3 APPROVAL OF CERTAIN AMENDMENTS TO THE 2004 PERFORMANCE INCENTIVE PLAN**

On February 17, 2004, the shareowners of the Company approved the Company's 2004 Performance Incentive Plan, which was subsequently amended on April 21, 2004 (the Plan).

The Company is now proposing to amend the Plan to permit key consultants and advisors to participate in the Plan and receive equity-based awards. The Company believes that this amendment will enable it to attract and retain strategic consultants and advisors and to further align the interests of those consultants and advisors with the interest of our shareowners. The Board and the independent Compensation Committee (the Committee) approved these amendments on December 14, 2004 and the Company is submitting these amendments to the shareowners at this time in accordance with the rules of the New York Stock Exchange. The proposed amendment will not increase the number of shares authorized under the Plan.

The Plan is an omnibus type of equity compensation plan that provides the Company the means by which to grant annual incentive compensation (i.e., bonuses) as well as long-term incentive compensation to its key employees. The types of awards that are used for employees under the Plan are primarily performance-based cash and stock awards, restricted stock and stock unit awards, stock appreciation rights (SARs) and stock options. The Plan also allows the Company to provide equity compensation to its non-employee directors.

Below is a description of the principal features of the Plan as amended by this proposal.

*The Board of Directors Recommends a vote FOR the Approval of these Amendments to the Company's 2004 Performance Incentive Plan.*

**Principal Features of the Plan**

The following is a summary of the principle features of the Plan, as amended by this proposal if so approved by the shareowners, and is qualified in its entirety by reference to the complete text of the Plan (marked to indicate the proposed amendments), which is attached to this Proxy Statement as Appendix A.

**Eligibility.** Employees eligible to be considered for awards under the Plan are key employees of the Company and its subsidiaries, including the Company's executive officers, who are designated by the Committee (typically senior managers and above). All non-employee directors and consultants are also eligible to be considered for certain awards under the Plan.

**Shares Authorized under the Plan.** No more than 3,250,000 shares of Common Stock may be issued under the Plan. No more than 1,000,000 of these shares may be used over the term of the Plan for awards other than stock options. In addition, the total number of shares of Common Stock that will be available to make incentive stock option awards under the Plan in any calendar year will not exceed 1,000,000 shares. Shares subject to awards under the Plan or any other prior plan that are cancelled, expired, forfeited, settled in cash, tendered to satisfy the purchase price of an award, withheld to satisfy tax obligations or otherwise terminated without a delivery of shares to the participant again become available for awards. The Committee may make appropriate adjustments in the number of shares available under the Plan to reflect any stock dividend, recapitalization, merger, consolidation, split-up, combination or exchange of shares, spinoffs or other similar event.

As of January 31, 2005, a total of (i) 1,196,861 options were granted under the Plan with the exercise price of such options ranging from \$40.915 to \$45.61, of which 481,561 options were granted to executive officers, (ii) 2,200 shares of restricted stock were granted under the Plan, of which no shares were granted to executive officers and (iii) 5,773 restricted stock units were granted under the Plan, of which 2,469 units were granted to executive officers. As of January 31, 2005, options to purchase a total of 1,196,861 shares of common stock were outstanding under the Plan and 2,255,465 shares remain available for issuance under the Plan.

**Administration.** The Committee has been designated by the Board to administer all awards under the Plan. The Committee has the discretion to determine the employees, non-employee directors and consultants who will participate in the Plan, the size and types of the awards, the performance levels at which awards will be earned, and the terms and conditions of such awards, subject to certain limitations set forth in the Plan. In addition, the Committee has full and final authority to interpret the Plan.

**Effective Date; Term of the Plan.** The effective date of the Plan is February 17, 2004 and the effective date of the proposed amendment to the Plan is February 15, 2005. The term of the Plan is ten years from February 17, 2004. No awards may be granted under the Plan after February 16, 2014, but awards made before that date may continue to be exercisable and/or to vest after that date, and will otherwise be governed by the terms of the Plan.

**Awards under the Plan.** At the discretion of the Committee, (i) employees may be granted awards under the Plan in the form of annual cash incentive awards, stock options, restricted stock or stock unit awards, SARs or other awards, as described below, (ii) non-employee directors may be granted awards in the form of non-qualified stock options or restricted stock or stock units awards, as described below and (iii) consultants may be granted awards in the form of non-qualified stock options, restricted stock or stock units awards, SARs or other stock based awards as described below. Such awards may be granted singly, in combination, or in tandem.

**Stock Options.** The Plan provides for the granting of incentive stock options, which are intended to meet the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the Code), to employees and non-qualified stock options to employees, directors and consultants. A stock option is a right to purchase a specified number of shares of Common Stock at a specified grant price. All stock options granted under the Plan must have an exercise price per share that is not less than 100% of the fair market value of the Common Stock on the date of grant and a term of no more than ten years. The grant price, number of shares, term and conditions of exercise, whether an option will qualify as an incentive stock option under the Code or a non-qualified stock option, and other terms of a stock option grant will be determined by the Committee as of the grant date.

Unless otherwise determined by the Committee, one-third of the stock options will become exercisable after one year from the date of the grant, one-third after two years from the date of the grant and one-third after three years after the date of the grant. Subject to certain exceptions, stock options will expire three months after the termination of a participant's employment or service with the Company. If a participant dies while employed by or serving the Company or after retirement, all outstanding stock options will fully vest, and may be exercised by the personal representatives or distributees, for a period of two years after the date of death. If an employee terminates employment or service on or after age 55 with ten or more years of continuous service, or in the case of a non-employee director, retires from the Board in accordance with Board's retirement policy, the participant may thereafter exercise stock options according to their original terms.

The exercise price of any stock option must be paid in full at the time the stock option is exercised in cash, Common Stock owned by the participant or by a combination of cash and Common Stock. In addition, the participant must remit an amount in cash or Common Stock sufficient to satisfy tax withholding requirements.

Provisions that permit a participant to elect to restore a stock option upon exercise may be contained in the terms of the stock options awarded to employees or consultants. However, the Committee may not reprice, or otherwise discount, any outstanding stock option. Restoration provisions under the Plan generally permit the exercise of vested non-qualified stock options (the underlying option) by use of Common Stock that has been owned by the participant, for at least six months if acquired from the Company. New restoration stock options are then granted to the participant at the fair market value of the Common Stock on the date of the grant of the restoration option in an amount equal to the number of shares that were used to exercise the underlying stock option, plus the number of shares that were withheld for the required tax liability. The restoration stock option will have a term equal to the remaining term of the underlying option, will generally become exercisable six months after the date of grant, and otherwise will have the same general terms and conditions of other non-qualified stock option granted under the Plan. The shares that represent the difference between the exercise price of the underlying option and the value of the shares on the date of exercise (less withholding taxes) generally cannot be transferred by the participant for a period of three years after exercise of the underlying option. At the election of the participant, delivery of those shares may be deferred. Non-employee directors may not be granted restoration stock options under the Plan.

*Restricted Stock and Stock Units.* The Plan also provides for the granting of stock awards to employees, consultants and non-employee directors that consist of grants of restricted Common Stock or units denominated in Common Stock. The terms, conditions and limitations applicable to any award of restricted stock or stock unit will be decided by the Committee. However, any restricted stock and stock unit award must have a minimum restriction period of three years from the date of grant, except that the Plan provides for earlier vesting upon a termination due to death. Participants holding restricted stock awarded under the Plan will be entitled to receive dividends.

*Other Stock-Based Awards.* The Plan also provides for the granting of stock appreciation rights (SARs) and other stock-based awards to employees and consultants that the Committee deems consistent with the purposes of the Plan. A SAR is a right to receive a payment, in cash or Common Stock, equal to the excess of the fair market value of a specified number of shares of Common Stock over a specified grant price. A SAR may be granted to the holder of a stock option with respect to all or a portion of the shares of Common Stock subject to such stock option (a tandem SAR) or may be granted separately. The holder of a tandem SAR may elect to exercise either the stock option or the SAR, but not both. All SARs granted under the Plan must have an exercise price per share that is not less than the fair market value of the Common Stock on the date of grant and a term of no more than ten years. The grant price, term, number of shares, terms and conditions of exercise, and other terms of a SAR grant will be fixed by the Committee as of the grant date.

*Annual Cash Incentive Awards.* The Plan also provides for the granting of annual cash incentive awards to employees contingent on attainment of performance or other objectives established by the Committee at the beginning of each fiscal year. Generally, the terms, conditions and limitations applicable to any cash incentive award will be decided in the discretion of the Committee. At the discretion of the Committee, amounts payable in respect of cash incentive awards granted under the Plan may be deferred.

**Performance Measures.** At the discretion of the Committee, any of the above-described awards to employees may be contingent on attainment of performance goals which are based on one or more of the following pre-established criteria: (a) income measures; (b) return measures; (c) cash flow, cash flow return on investments, which equals net cash flows divided by owners equity; (d) gross revenues from operations; (e) total revenue; (f) cash value added; (g) economic value added; (h) share price; (i) sales growth; (j) market share; (k) the achievement of certain quantitatively and objectively determinable non-financial performance measures; and (l) any combination of, or a specified increase in, any of the foregoing (the Performance Measures).

Where applicable, Performance Measures will be expressed in terms of attaining a specified level of the particular criteria or attaining a specified increase (or decrease) in the particular criteria and may be applied to the performance of the employee or the Company as a whole, at a subsidiary level or at an operating unit level, or a combination thereof, all as determined by the Committee. Generally, the terms, conditions and limitations applicable to any award that is subject to the attainment of the Performance Measures will be decided by the Committee. Performance Measures may include varying levels of performance at which different percentages of the award will be made (or specified vesting will occur). The achievement of Performance Measures will be subject to certification by the Committee. The Committee has the authority to make equitable adjustments to the Performance Measures. In no event will the performance period for any performance-based equity award be less than one year.

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At the discretion of the Committee, certain awards granted under the Plan that are subject to the attainment of one or more of the Performance Measures will be intended to qualify as performance-based compensation under Section 162(m) of the Code. Section 162(m) generally disallows deductions for compensation in excess of \$1,000,000 for some executive officers unless the compensation qualifies as performance-based compensation. The Plan contains provisions consistent with the Section 162(m) requirements for performance-based compensation. However, the Committee may award non-deductible compensation when such grants are in the best interest of the Company, balancing tax efficiency with long-term strategic objectives

**Employee Award Limitations.** Under the Plan, no employee may be granted during any fiscal year:

Stock Options or SARs that are exercisable for more than 1,000,000 shares of Common Stock;

Restricted Stock and Stock Unit covering or relating to more than 1,000,000 shares of Common Stock; or

Cash Incentive Awards having a value, as determined on the date of grant, in excess of \$4,000,000.

**Transferability.** Awards made under the Plan may not be assigned or otherwise encumbered, except as provided by the participant's last will and testament and by the applicable laws of descent and distribution.

**Change in Control.** The Plan provides that upon the occurrence of a Change in Control (as defined in the Plan), all restricted stock and stock unit awards will be immediately vested and free of all restrictions, and all outstanding unexercised stock options will become immediately exercisable and remain fully exercisable for a period of three years from the date of the Change in Control.

**Amendment, Modification, and Termination.** The Committee may amend, modify, or terminate the Plan, at any time, except that shareowner approval is required for any amendment that would (i) increase the number of shares of Common Stock available for issuance under the Plan or increase the limits applicable to Awards under the Plan; (ii) lower the exercise price of a stock option or SAR grant value below 100% of the fair market value of the Common Stock on the date of grant; (iii) remove the prohibition on repricing set forth in the Plan; or (iv) require stockowner approval as a matter of law or under rules of the New York Stock Exchange.

### Federal Income Tax Consequences

The following is a brief summary of the federal income tax aspects of awards that may be made under the Plan based on existing U.S. federal income tax laws. This summary is general in nature and does not address issues related to the tax circumstances of any particular participant. This discussion is not to be construed as tax advice.

**Restricted Stock and Stock Units Awards.** Generally, the grant of restricted stock has no federal income tax consequences at the time of grant. Rather, at the time the shares are no longer subject to a substantial risk of forfeiture (as defined in the Code), the grantee will recognize ordinary income to the extent of the excess of the fair market value of the stock on the date the risk of forfeiture ceases over the participant's cost for such stock (if any). A grantee may, however, elect to be taxed at the time of the grant. The Company generally will be entitled to a tax deduction at the time and in the amount that the grantee recognizes ordinary income.

In general, no taxable income is realized by a participant in the Plan upon the award of stock units. Such participant generally would include in ordinary income the fair market value of the award of stock at the time shares of stock are delivered to her free of any substantial risk of forfeiture. The Company generally will be entitled to a tax deduction at the time and in the amount that the grantee recognizes ordinary income.

**Stock Options and SARs.** Some of the stock options issuable under the Plan may constitute incentive stock options within the meaning of Section 422 of the Code, while other options granted under the Plan may be non-qualified stock options. Generally, in the case of an incentive stock option, the optionee will not recognize any income for U.S. federal income tax purposes upon the grant of the incentive stock option. However, upon the exercise of an incentive stock option, the difference between the exercise price of the incentive stock option and the fair market value of the Common Stock at the time of exercise is an item of tax preference that may require payment of an alternative minimum tax. An optionee will generally realize taxable income upon the sale of shares acquired by exercise of an incentive stock option. If certain holding period requirements have been satisfied with respect to outstanding shares so acquired, taxable income will constitute long-term capital gain and the Company will not be entitled to a tax deduction.

In the case of the exercise of a non-qualified stock option, the optionee will generally not be taxed upon the grant of an option. Rather, at the time of exercise of the non-qualified stock option, the optionee will generally recognize ordinary taxable income (subject to withholding) in an amount equal to the difference between the fair market value of the shares on the date of exercise and the exercise price. The Company is

generally entitled to a deduction at the time and in an amount equal to the income recognized by the optionee.

A grant of SARs has no federal income tax consequences at the time of grant. Upon exercise of SARs the amount of any cash received by the holder under the Plan will be subject to ordinary income tax in the year of receipt, and the Company will be entitled to a corresponding deduction for federal income tax purposes.

**Cash Incentive Awards.** The recipient of a cash incentive award normally will recognize ordinary income at the time the payment is received, and the Company will be entitled to a corresponding deduction for federal income tax purposes.

**General.** In addition to ordinary income tax, amounts that are treated as wages will be subject to payroll tax and withholding by the Company.

#### **Other Information**

For a discussion of the Company's executive compensation policy, refer to the Committee on Compensation Executive Compensation Report on page 18 of this Proxy Statement.

### **BOARD MEETINGS AND COMMITTEES**

The Board of Directors has documented its governance practices in the Board Corporate Governance Guidelines, a copy of which is available on the Investor Relations section of the Company's website at [www.nav-international.com](http://www.nav-international.com). The Board has five standing committees: an Audit Committee, a Compensation Committee, an Executive Committee, a Finance Committee and a Nominating and Governance Committee.

In fiscal year 2004 the full Board met 6 times. In addition, the Board's outside (non-management) directors met 3 times in regularly scheduled executive sessions to evaluate the performance of the Board, the performance of the Chief Executive Officer, and to discuss corporate strategies. The Chairs of our Audit, Compensation, Nominating and Governance and Finance committees of the Board each preside as the chair at meetings or executive sessions of outside directors at which the principal items to be considered are within the scope of the authority of his or her committee. You may communicate with the chair of any of these committees by sending an e-mail to [presiding.director@nav-international.com](mailto:presiding.director@nav-international.com) or by writing to the Presiding Director c/o the Corporate Secretary, at the address set forth on the front page of this Proxy Statement. In addition, you can contact any of our directors or our Board as a group by writing to them c/o the Corporate Secretary at the same address. All communications will be received and processed by the Corporate Secretary. You will receive a written acknowledgement from the Corporate Secretary's Office upon receipt of your communication.

All of the directors attended at least 75% of all the meetings of the Board and the committees on which he or she serves. The Company encourages all Board members to attend all meetings, including the Annual Meeting of Shareowners. Last year all directors attended the Annual Meeting.

Below is a description of each committee of the Board. Committee membership is noted for each director next to the director's name in the biographical section above.

**Audit Committee** The Audit Committee is composed of 6 directors, none of whom are employees of the Company. The Committee oversees the Company's financial reporting process on behalf of the Board. During fiscal 2004, the Committee reviewed the fiscal 2004 audit plans of the Company's independent public accountants and internal audit staff, reviewed the audit of the Company's accounts with the independent public accountants and the internal auditors, considered the adequacy of audit scope and reviewed and discussed with the auditors and management the auditors' reports. The Committee recommended the selection of the Company's independent public accountants. The Committee also reviewed environmental surveys and compliance activities for the Company's facilities and the expense accounts of principal executives and reviews and decides on conflicts of interest that may affect directors. The Committee is governed by a written charter, a copy of which is available on the Investor Relations section of the Company's website at [www.nav-international.com](http://www.nav-international.com). In fiscal year 2004, the Committee held 12 meetings, including 6 telephone meetings.

**Compensation Committee** The Compensation Committee (formerly, the Committee on Compensation and Governance) is composed of 6 directors, none of whom are employees of the Company. All of the members of the Committee meet the independence requirements of the NYSE listing standards and the Board's Corporate Governance Guidelines. The Committee recommends to the Board the election, responsibilities and compensation of all executive officers. Upon management's recommendation, the Committee also reviews basic changes to non-represented employees' base compensation and incentive and benefit plans. Until February 1, 2005, the Compensation Committee was also responsible for the organization of the Board and performed the functions of a nominating committee, reviewing and making recommendations to the Board concerning nominees for election as directors. The Committee is governed by a written charter, a copy of which is available on the Investor Relations section of the Company's website at [www.nav-international.com](http://www.nav-international.com). The Committee held 7 meetings in fiscal year 2004, including 1 telephone meeting.

**Executive Committee** The Executive Committee is composed of 4 directors, three of whom are not employees of the Company. The Committee represents the Board between meetings for the purpose of consulting with officers, considering matters of importance and either taking action or making recommendations to the Board. The Committee held no meetings in fiscal year 2004.

**Finance Committee** The Finance Committee is composed of 6 directors, none of whom are employees of the Company. The Committee reviews the Company's financing requirements; custody and management of assets which fund the pension and retirement savings plans of the Company's subsidiaries; procedures by which projections and estimates of cash flow are developed; dividend policy; and operating and capital expenditure budgets. The Committee is governed by a written charter, a copy of which is available on the Investor Relations section of the Company's website at [www.nav-international.com](http://www.nav-international.com). In fiscal year 2004, the Committee held 7 meetings, including 1 telephone meeting.

**Nominating and Governance Committee** The Nominating and Governance Committee is a new standing committee of the Board effective as February 1, 2005. The Committee was created to perform the governance and nominating functions formerly performed by the Committee on Compensation and Governance. Accordingly, on February 1, 2005, the Committee on Compensation and Governance was renamed the Compensation Committee and the Nominating and Governance Committee assumed responsibility for the organization of the Board, reviewing and making recommendations to the Board concerning nominees for election as directors and reviewing and recommending corporate governance practices and policies of the Company. The Committee is composed of 3 directors, none of whom are employees of the Company. All of the members of the Committee meet the independence requirements of the NYSE listing standards and the Board's Corporate Governance Guidelines. The Committee held no meetings in fiscal year 2004. The Committee is governed by a written charter, a copy of which is available on the Investor Relations section of the Company's website at [www.nav-international.com](http://www.nav-international.com).

## BOARD INDEPENDENCE

For a number of years, a substantial majority of the Company's Board has been comprised of independent directors. A copy of the Company's existing guidelines for determining director independence, as included in the Board's Corporate Governance Guidelines, are attached as Appendix B, and are consistent with the NYSE's corporate governance listing standards. Currently, the only non-independent members of the Board are Messrs. Ustian and Lannert. The Board has affirmatively determined that Messrs. Belton, Clariond, Correnti, Hammes, Keyes, Morcott, McAllister, Patient and Ms. Griffin, being all of the other members of the Board, meet the standards for independence set by the Board and are independent from management.

## NOMINATING DIRECTORS

If you want to recommend a director candidate, you may do so in accordance with the Company's By-Laws that require advance notice to the Company and certain other information. In general, under the By-Laws written notice must be received by the Secretary of the Company not less than 120 days nor more than 180 days prior to the meeting. The notice must contain (i) as to each nominee, all information required to be disclosed in solicitation of proxies for elections of directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, (ii) the name and address of the shareowner giving the notice, (iii) a representation that the shareowner is a holder of the Company's Common Stock and intends to appear at the meeting to make the nomination, (iv) a description of all arrangements or understandings among the shareowner and the nominee; and (v) the written consent of each nominee to serve as a director if so elected. If you are interested in recommending a director candidate, you should request a copy of the By-Laws provisions by writing the Company's Secretary at the address set forth on the front page of this Proxy Statement.

The Nominating and Governance Committee identifies nominees for directors from various sources and in the past has used third party consultants to assist in identifying and evaluating potential nominees. The Committee will consider persons recommended by the shareowners in the same manner as a Committee-recommended nominee. The Committee has specified the following minimum qualifications that it believes must be met by a nominee for a position on the Board:

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have the highest personal and professional ethics and integrity and whose values are compatible with the Company's values;

have had experiences and achievements that have given them the ability to exercise good business judgment;

can make significant contributions to the Company's success;

are willing to devote the necessary time to the work of the Board and its committees which includes being available for the entire time of meetings;

can assist and evaluate the Company's management;

are involved only in other activities or interests that do not create a conflict with their responsibilities to the Company and its shareowners;

understand and meet their responsibilities to the Company's shareowners including the duty of care (making informed decisions) and the duty of loyalty (maintaining confidentiality and avoiding conflicts of interest); and

have the potential to serve on the Board for at least five years.

The Committee believes that consideration should also be given to having a diversity of backgrounds, skills, and perspectives among the directors, and that generally, directors should not be persons whose primary activity is investment banking, law, accounting, or consulting. In addition, the selection of directors should consider the need to strengthen the Board by providing a diversity of persons in terms of their expertise, age, sex, race, education, and other attributes which contribute to the Board's diversity.



**DIRECTORS COMPENSATION**

Directors who are employees of the Company receive no fees for their service as directors. Directors who are not employees of the Company receive separate compensation for Board service. That compensation includes:

Annual Retainer:	\$60,000
Attendance Fees:	\$1,500 for each Board or Committee meeting they attend (including any telephone meetings), and \$1,500 per day for any special services performed at the request of a Committee Chair and/or Chairman of the Board. We also reimburse directors for expenses related to attendance.
Committee Chairman Additional Annual Retainer:	\$9,000 for the Chairman of Compensation, Nominating and Governance and Finance Committees, and \$12,000 for the Chairman of the Audit Committee.
Committee Member Additional Annual Retainer:	\$3,000 for members of the Audit Committee.
Stock Options:	4,000 shares annually. (The exercise price of these options is equal to the fair market value of Company Common Stock on the date of grant. The options expire 10 years after the grant date.)
Other Benefits:	The Company also pays the premiums on directors and officers liability insurance policies covering the Directors and reimburses directors for expenses related to attending director continuing education seminars.

To encourage directors to own our shares, at least one-fourth of each director's annual retainer is paid in the form of restricted stock each year. The stock is priced as of the date the first quarterly disbursement of the annual retainer is due. The restricted stock portion of the Annual Retainer has been provided pursuant to the Non-Employee Directors Restricted Stock Plan.

Under the Company's Non-Employee Directors Deferred Fee Plan, directors may defer payment of fees in cash or in restricted stock. The amount deferred in cash is paid to the director, with interest at the prime rate, at the date specified by the director at the time of his or her election to defer. The amount deferred in restricted stock is credited in stock units into the director's account at the then current market price. Such units are distributed to the director in the form of common stock of the Company at the date specified by the director at the time of his or her election to defer. At the request of the UAW (the organization which elected Mr. McAllister to the Board), all of the cash portion of Mr. McAllister's annual retainer and attendance fees (together with a cash amount equal to the value of the restricted stock which otherwise would be payable to Mr. McAllister) is contributed to a trust created in 1993 pursuant to a restructuring of the Company's retiree health care benefits. Also at the request of the UAW, Mr. McAllister does not receive stock options.

## NAVISTAR COMMON STOCK OWNERSHIP BY DIRECTORS AND OFFICERS

This table shows how much Common Stock the executive officers and directors beneficially own as of January 31, 2005. In general, beneficial ownership includes those shares a director or executive officer has the power to vote or transfer, and stock options exercisable within 60 days. Except as noted, the persons named in the table below have the sole voting and investment power with respect to all shares beneficially owned by them.

Name/Group	Number of Shares			Percent of Class
	Owned (1)(2)	Obtainable Through Stock Option Exercise	Total	
John J. Allen	19,184	25,759	44,943	*
Y. Marc Belton	2,510	15,000	17,510	*
Eugenio Clariond	639	8,000	8,639	*
John D. Correnti	9,120	23,000	32,120	*
Dr. Abbie Griffin	2,590	10,500	13,090	*
Michael N. Hammes	2,970	19,000	21,970	*
John R. Horne	0	897,818	897,818	1.3
Deepak T. Kapur	54,209	19,978	74,187	*
James H. Keyes	5,384	8,000	13,384	*
Robert C. Lannert	225,225	348,385	573,610	*
David McAllister	0	0	0	