

OCCIDENTAL PETROLEUM CORP /DE/
Form SC 13G
February 11, 2004

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

SCHEDULE 13G

Under the Securities Exchange Act of 1934*

Occidental Petroleum Corporation

(Name of Issuer)

Common Stock

(Title of Class of Securities)

674599105

(CUSIP Number)

December 31, 2003

(Date of Event Which Requires Filing of this Statement)

Check appropriate box to designate the rule pursuant to which this Schedule is filed:

Rule 13d-1(b)

Rule 13d-1(c)

Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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CUSIP No. 674599105

13G

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NAMES OF REPORTING PERSON

1. S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Barrow, Hanley, Mewhinney & Strauss, Inc.
752403190

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)

2. (a)
(b)

SEC USE ONLY

3.

CITIZENSHIP OR PLACE OF ORGANIZATION

4. A Nevada corporation

SOLE VOTING POWER

5. NUMBER OF SHARES 5,829,306 shares

SHARED VOTING POWER

6. BENEFICIALLY OWNED BY EACH 18,032,414 shares

SOLE DISPOSITIVE POWER

7. REPORTING PERSON 23,861,720 shares

SHARED DISPOSITIVE POWER

8. WITH --

AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

9. 23,861,720 shares

CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES
(See Instructions)

10.

PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

11. 6.20%

TYPE OF REPORTING PERSON (See Instructions)

12. IA

SCHEDULE 13G

Item 1(a) Name of Issuer:

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Occidental Petroleum Corporation

1(b) Address of Issuer's Principal Executive Offices:
10889 Wilshire Boulevard
Los Angeles, CA 90024

Item 2(a) Name of Person Filing:
Barrow, Hanley, Mewhinney & Strauss, Inc.

2(b) Address of Principal Business Office or, if none, Residence:
One McKinney Plaza
3232 McKinney Avenue, 15th Floor
Dallas, TX 75204-2429

2(c) Citizenship:
A Nevada corporation

2(d) Title of Class of Securities:
Common Stock

2(e) CUSIP Number:
674599105

Item 3 If this statement is filed pursuant to Rules 13d-1(b), or 13d-2(b);
The reporting person is an Investment Adviser registered under
Section 203 of the Investment Advisers Act of 1940.

Item 4 Ownership:

4(a) Amount beneficially owned:
23,861,720 shares

4(b) Percent of Class:
6.20%

4(c) Number of shares as to which person has:

(i) Sole power to vote or to direct the vote:
5,829,306 shares

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(ii) Shared power to vote or to direct the vote:
18,032,414 shares

(iii) Sole power to dispose or to direct the disposition of:
23,861,720 shares

(iv) Shared power to dispose or to direct the disposition of:
--

Item 5 Ownership of Five Percent or Less of a Class:
Not Applicable.

Item 6 Ownership of More than Five Percent on Behalf of Another Person:

The right to receive or the power to direct the receipt of
dividends from, or the proceeds from the sale of, the common
stock is held by certain clients of the reporting person, none

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of which has such right or power with respect to five percent or more of the common stock.

Item 7 Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company:

Not Applicable

Item 8 Identification and Classification of Members of the Group:

Not Applicable.

Item 9 Notice of Dissolution of Group:

Not Applicable.

Item 10 Certification:

By signing below the undersigned certifies that, to the best of its knowledge and belief, the securities referred to above were acquired in the ordinary course of business and were not acquired for the purpose of and do not have the effect of changing or influencing the control of the issuer of such securities and were not acquired in connection with or as a participant in any transaction having such purpose or effect.

After reasonable inquiry and to the best of my knowledge and belief, the undersigned certifies that the information set forth in this statement is true, complete and correct.

BARROW, HANLEY, MEWHINNEY &
STRAUSS, INC.

By: /s/ James P. Barrow
Name: James P. Barrow
Title: President

February 10, 2004

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="bottom" >

(3)

8,162

.69

4

44.575

12-13-10

102,841

5,712

(3)

.49

44.575

12-13-10

71,971

	16,805
(3)	
	1.43
	44.575
	12-11-12
	211,743
	10,523
(3)	
	.89
	44.575
	12-11-12

Deepak T. Kapur

(1)

6,993

.59

42.885

7

12-09-13

88,112

40,707

(2)

3.46

42.885

12-10-13

512,908

John J. Allen

2,895

(1)

.25

42.885

12-09-13

36,477

	7,505
(2)	
	.64
	42.885
	12-10-13
	94,563
	3,096
(3)	
	.26
	45.610
	10

12-12-11

39,010

(3)

4,168

.35

45.610

12-12-12

52,517

Pamela J. Turbeville

2,895

(1)

.25

42.885

12-09-13

36,477

	28,005
(2)	
	2.38
	42.885
	12-10-13
	352,863

-
- (1) Incentive Stock Options
 - (2) Non-Qualified Options
 - (3) Restoration options with the following terms: granted at fair market value; becoming exercisable six months from the grant date, or, if sooner, one month before the end of the remaining term of the options they replaced; and expiring coincident with the options they replaced. Restoration options are issued when an executive uses shares of Company Common Stock to pay the option exercise price of a previously issued option.
 - (4) All options, other than restoration options, become exercisable under the following schedule: one-third on the first anniversary of the grant, one-third on the second anniversary, and one-third on the third anniversary. In the event an optionee exercises a non-qualified option with already-owned shares, he or she may be eligible to receive restoration options. Restoration options contain the same expiration dates and other terms as the options they replace except that they have an exercise price per share equal to the fair market value of the Common Stock on the date the restoration option is granted and become exercisable in full six months after they are granted or, if sooner, one month before the end of the remaining term of the options they replace.
 - (5) The Black-Scholes model was used to calculate the grant date present value of the options granted. The following assumptions were used to estimate the value of options: a 3.5 year expected life of the options; a dividend yield of 0%; expected volatility for Company Common Stock of 39.1%; and a risk-free rate of return of 2.5%. The actual value, if any, the named executive officers may realize from these options will depend solely on the gain in stock price over the exercise price when the options are exercised.

This table sets forth certain information regarding exercises of options during fiscal 2004, and total options held at year end by the individuals named in the Summary Compensation Table.

**Aggregated Option/SAR Exercises During Fiscal Year 2004
And Fiscal Year End Option/SAR Values**

	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/SARs at 2004 Fiscal Year End (#)	Value of Unexercised In-the Money Options/SARs at 2004 Fiscal Year End (\$)
			Exercisable/ Unexercisable/	Exercisable/ Unexercisable
John R. Horne	177,609	2,328,779	670,817/461,966	0/1,644,970
Daniel C. Ustian	0	0	202,416/272,067	1,003,477/1,002,768
Robert C. Lannert	77,282	1,353,172	312,456/161,167	0/592,779
Deepak T. Kapur	0	0	4,078/55,855	0/0
John J. Allen	17,206	257,845	13,959/24,666	8/96,886
Pamela J. Turbeville	3,463	30,145	136,371/78,966	879,311/280,329

Termination and Other Compensatory Arrangements

To assure stability and continuity of management, the Company has entered into executive termination agreements with each of its executive officers. The agreements provide that if the officer's employment is terminated by the Company for any reason other than for cause, as defined in the agreement, the officer will receive a lump sum payment varying in amounts from 200% of his or her annual base salary plus annual target bonus (for the Chief Executive Officer) to 100% of his or her annual base salary plus annual target bonus (for the other executive officers), plus a pro rata portion of the officer's annual target bonus. However, if the officer's employment is terminated by the Company within 3 years after a change in control or prior thereto in anticipation of a change in control, the officer will receive a lump sum payment equal to the greater of: (i) a pro rata portion of the officer's annual target bonus and three times the officer's current annual base salary plus annual target bonus; and (ii) 295% of the officer's average annual compensation during the previous five years. The agreements' definition of a change in control includes the acquisition by any person or group of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities. Each agreement expires June 30, 2005 and is then renewed automatically for successive one-year periods unless the Board, six months prior to the renewal date, elects not to renew it.

On July 8, 2002, the Company entered into an Employment Agreement with each of Mr. Horne and Mr. Lannert providing for their leadership in the Company's management transition process. Under the Agreements, in consideration for Mr. Horne and Mr. Lannert agreeing to extend their planned retirement dates and to provide certain consulting services to the Company following retirement, their annual retirement benefit under the Company's MRO Plan will be determined based on their highest consecutive five years of base salary plus certain amounts of their highest five years of short-term incentive compensation, in each case out of the ten years immediately preceding retirement. The effect of the agreements would be to increase the estimated annual retirement benefit for Mr. Horne by approximately \$135,000 per year and for Mr. Lannert by approximately \$93,500 per year. The agreements require Messrs. Horne and Lannert to refrain from competing with the Company for their lifetimes. Mr. Horne's also received a payment in the amount of \$1,260,000 at the time of his retirement pursuant to his employment agreement originally entered into with the Company in 1986 which provided that upon termination of Mr. Horne's employment with the Company and agreement not to compete with the Company, he would receive an amount equal to 100% of his annual base salary.

In addition, in connection with Mr. Kapur's recruitment on August 13, 2003, the Company agreed to award Mr. Kapur 54,000 shares of restricted stock and to pay him a sign-on bonus of \$150,000 in September 2003, \$150,000 in December 2003 and \$200,000 in December 2004.

Retirement Plans

Pension Plan Tables

**Estimated Annual Retirement Benefit Objective
Upon Normal Retirement at Age 65
(Assuming all service is earned prior to January 1, 1989)**

Final Average Annual Earnings	Years of Service				
	15	20	25	30	35 and Over
\$ 300,000	\$ 108,000	\$ 144,000	\$ 180,000	\$ 180,000	\$ 180,000
400,000	144,000	192,000	240,000	240,000	240,000
500,000	180,000	240,000	300,000	300,000	300,000
600,000	216,000	288,000	360,000	360,000	360,000
700,000	252,000	336,000	420,000	420,000	420,000
800,000	288,000	384,000	480,000	480,000	480,000
900,000	324,000	432,000	540,000	540,000	540,000
1,000,000	360,000	480,000	600,000	600,000	600,000
1,500,000	540,000	720,000	900,000	900,000	900,000
2,000,000	720,000	960,000	1,200,000	1,200,000	1,200,000
2,500,000	900,000	1,200,000	1,500,000	1,500,000	1,500,000
3,000,000	1,080,000	1,440,000	1,800,000	1,800,000	1,800,000

**Estimated Annual Retirement Benefit Objective
Upon Normal Retirement at Age 65
(Assuming all service is earned after December 31, 1988)**

Final Average Annual Earnings	Years of Service				
	15	20	25	30	35 and Over
\$ 300,000	\$ 76,500	\$ 102,000	\$ 127,500	\$ 153,000	\$ 180,000
400,000	102,000	136,000	170,000	204,000	240,000
500,000	127,500	170,000	212,500	255,000	300,000
600,000	153,000	204,000	255,000	306,000	360,000
700,000	178,500	238,000	297,500	357,000	420,000
800,000	204,000	272,000	340,000	408,000	480,000
900,000	229,500	306,000	382,500	459,000	540,000
1,000,000	255,000	340,000	425,000	510,000	600,000
1,500,000	382,500	510,000	637,500	765,000	900,000
2,000,000	510,000	680,000	850,000	1,020,000	1,200,000
2,500,000	637,500	850,000	1,062,500	1,275,000	1,500,000
3,000,000	765,000	1,020,000	1,275,000	1,530,000	1,800,000

The International Truck and Engine Corporation Retirement Plan for Salaried Employees (RPSE), which covers substantially all of the salaried employees of the Company first hired before January 1, 1996, provides annual retirement benefits based upon age, credited service and final average annual earnings computed on the basis of the individual's highest consecutive five years of base salary out of the ten years immediately preceding retirement, reduced by a portion of the social security benefits to which it is estimated the participant will be entitled. Benefits accrue at a lower rate for service after December 31, 1988, than for service prior to that date. Maximum benefits that may be provided to an employee under the RPSE are subject to the annual pension dollar limitation (\$170,000 in 2005, indexed for inflation) imposed for qualified plans under the Internal Revenue Code (Code). In addition, these benefits are subject to a requirement that annual compensation in excess of an annual limit (\$210,000 in 2005, indexed for inflation) is not taken into account. Employees who are first hired on or after January 1, 1996 are not eligible to participate in the RPSE.

Effective January 1, 2005, for employees first hired prior to January 1, 1996 and who are under age 45 as of January 1, 2005, the RPSE benefit calculation formula will change. Service under the RPSE for benefit accrual purposes is limited to the amount of service accrued as of

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December 31, 2004. Any future credited service will be recognized only for purposes of determining eligibility for early retirement and vesting. Any future salary changes will continue to be recognized when computing the final average salary that is used to calculate the amount of pension benefits. With regard to service on and after January 1, 2005, such employees will be provided an annual contribution to be allocated to their individual 401(k) plan accounts, based on an age-weighted percentage of the participant's eligible compensation for the calendar year, identical to the allocation for the Retirement Accumulation Plan described below.

With respect to eligible upper level employees who retire at or after age 55 with at least 10 years of credited service, the Company also has a Managerial Retirement Objective (MRO) Plan. The MRO Plan currently provides a retirement benefit objective based upon age, credited service and final average annual earnings computed on the basis of the individual's highest consecutive five years of base salary plus certain amounts of short-term incentive compensation out of the ten years immediately preceding retirement. Benefits accrue at a lower rate for service after December 31, 1988, than for service prior to that date. If the annual retirement benefits of any eligible employee from all sources from both the Company contributions and employee contributions (including benefits under the RPSE and a portion of the social security benefits to which it is estimated the individual will be entitled, but not including the International Truck and Engine Corporation 401(k) Retirement Savings Plan or any individual deferred compensation agreements) do not equal the retirement benefit objective under the MRO Plan, the Company will pay the difference to the employee. Employees who are first hired on or after January 1, 1996 are not eligible to participate in the MRO Plan. It is estimated that the annual benefits payable under the MRO upon normal retirement (at age 65) to Mr. Horne would be approximately 60% of his individual final average annual earnings, to Mr. Ustian would be approximately 60% of his individual final average annual earnings, to Mr. Lannert would be approximately 60% of his individual final average annual earnings, and to Mr. Allen would be approximately 60% of his individual final average annual earnings. See also Termination and Other Compensation Arrangements with respect to Messrs. Horne and Lannert above.

Effective January 1, 2005, the MRO Plan is being replaced by a non-qualified account balance plan for upper level employees first hired before January 1, 1996 who are under age 45 as of January 1, 2005. An account balance will be established for each eligible employee. The account balance will be credited with contributions, that may be notional, based on a percentage of compensation in excess of the annual IRS compensation limit (\$210,000 for 2005) and/or future bonuses. The percentages will be the same age-weighted percentages that determine Company contributions to the Retirement Accumulation Plan. Further for eligible upper level employees, in recognition of pension service to date that would have been recognized under the MRO Plan, a fixed points factor will also be used to determine the amount of contributions. The points factor is based on an employee's age and credited service as of December 31, 2004. The account balance will be credited with earnings which may also be notional. Employees will be vested in the account balance upon attainment of age 55, and after completing at least 10 years of service. At retirement the account balance will be paid in a lump sum.

A substantial portion of the salaried employees of the Company, who are first hired on or after January 1, 1996, are covered by the International Truck and Engine Corporation Retirement Accumulation Plan (RAP), or by a comparable plan of a subsidiary company. The RAP is a defined contribution plan that provides for an annual contribution to be allocated to each participant's retirement account based on an age-weighted percentage of the participant's eligible compensation for the calendar year. The RAP also contains a 401(k) feature and provides for a Company match, currently 50% of the first 6% of pre-tax salary reduction contributions made on behalf of the participant.

Effective January 1, 2005, a non-qualified account balance plan is being established for certain upper level employees first hired on or after January 1, 1996. An account balance will be established for each eligible employee. The account balance will be credited with contributions, that may be notional, based on a percentage of compensation in excess of the annual IRS compensation limit (\$210,000 for 2005) and/or future bonuses. The percentages will be the same age-weighted percentages that apply to Retirement Accumulation Plan participants. The account balance will be credited with earnings, which may also be notional. Further, for those employees that would have received a contribution following the date they were first hired based on any compensation in excess of the annual IRS limit or past bonuses they had received, the company will credit the account balance with the accumulated contributions they would have received. Employees will be vested in the account balance upon attainment of age 55, and after completing at least 10 years of service. At retirement the account balance will be paid in a lump sum. Mr. Kapur and Ms. Turbeville are the only named executives that currently participate in this plan. Under this plan, Ms. Turbeville's account will be credited with retrospective contributions in recognition of her past contributions to the Company.

The Company also has a Supplemental Executive Retirement Plan (SERP). The SERP covers certain executive officers who have attained age 55, and provides annual retirement income objectives to such executive officers who have at least five years of credited service, based upon age, credited service and final average annual earnings (as defined above for purposes of the MRO Plan). SERP objectives range from 30% to 50% of final average annual earnings, and are reduced by benefits, if any, under the RPSE (or other defined benefit plans or programs) and the MRO Plan, by the actuarial equivalent of the executive's retirement account under the RAP or the International Truck and Engine Corporation 401(k) Retirement Savings Plan (but not the employee pre-tax salary reduction contribution or Company match accounts) and the non-qualified account balance plan, by 50% of the participant's social security benefit and by retirement benefits from prior employers. It is estimated that the annual benefits payable under the

SERP upon normal retirement (at age 65) to Mr. Kapur would be approximately 50% of his individual final average annual earnings and to Ms. Turbeville would be approximately 50% of her individual final average annual earnings (without regard to the reduction by the actuarial equivalent of the retirement account under the RAP or by the other offsets indicated above). It is estimated that Messrs. Lannert and Ustian would derive no benefit from the SERP. Also Mr. Horne did not receive any benefit under the SERP and Mr. Allen is not covered by the SERP. Payments under the SERP in fiscal 2004 were \$338,578.

In the event of a termination of employment by the Company following a change in control, certain benefits under the MRO Plan and the SERP will become contractual rights and not subject to change without the consent of those affected employees who have accrued at least five years of credited service as of the date of such termination.

The number of years of credited service as of October 31, 2004 for Mr. Horne was 37.5; Mr. Ustian is 31.7; Mr. Lannert is 41.6; and Mr. Allen is 23.8; Mr. Kapur and Ms. Turbeville are not participants in the RPSE or the MRO Plan.

Legislation Impacting Certain Company-Sponsored Nonqualified Deferred Compensation Plans

Section 885 of the recently enacted American Jobs Creation Act of 2004 (Act) added §409A to the Code. In general, Section 409A provides that all amounts deferred under a nonqualified deferred compensation plan (within the meaning of the Act) for all taxable years are currently includible in gross income to the extent not subject to a substantial risk of forfeiture and not previously included in income, unless certain requirements are met. Accordingly, beginning January 1, 2005, any Company-sponsored nonqualified deferred compensation plan adopted before December 31, 2005 will be operated in good faith compliance with the provisions of §409A of the Code and applicable IRS guidance, and will be amended on or before December 31, 2005 to conform to the provisions of §409A with respect to amounts subject to §409A.

CERTAIN RELATED TRANSACTIONS

The Company established the Navistar International Corporation Executive Stock Ownership Program in 1997 to more closely align the interests of shareowners and the Company's senior management. Under the Program all executive officers and certain senior managers of the Company are required to purchase and hold a specified amount of Company Common Stock equal to a multiple of his or her annual base salary. Certain executive officers received full-recourse loans for the purchase price of the Common Stock they purchased through the Program. Effective July 30, 2002, however, and in accordance with the Sarbanes-Oxley Act of 2002, the Company ceased offering its executive officers loans to assist them in meeting their ownership requirements under the Program. The loans extended to the Company's executive officers prior to July 30, 2002, however, remain in effect in accordance with their then existing terms and conditions. These existing loans accrue interest at the applicable federal rate (as determined by Section 1274(d) of the Internal Revenue Code) on the purchase date for loans of stated maturity, compounded annually, are unsecured obligations and have a nine-year term.

For current outstanding loans, principal and interest is due at maturity in a balloon payment. The payment of the loan will be accelerated if a participant's employment is terminated for cause or for certain other reasons prior to or following a change of control. The loan may be prepaid at any time at the participant's option.

The following executive officers of the Company have outstanding loans under the program. The table indicates the largest amount of the indebtedness outstanding during fiscal year 2004, the interest rate charged, and the aggregate outstanding balance as of January 31, 2005:

Name	Maximum Indebtedness During Fiscal Year 2004(\$)	Aggregate Outstanding Balance as of January 31, 2005(\$)	Interest Rate (%)
Robert A. Boardman	461,155	0	4.77
Terry M. Endsley	77,238	78,146	4.77
Gregory W. Elliott	103,461	104,703	4.77
John R. Horne	1,615,859	0	4.77
Thomas M. Hough	129,291	130,810	4.77
Robert C. Lannert	1,520,535	1,538,401	4.77
Mark T. Schwetschenau	171,364	173,377	4.77
Daniel C. Ustian	322,915	326,709	4.77

The Company's former Director, Investor Relations, Ramona Long, married Daniel C. Ustian, the Chairman, President and Chief Executive Officer of the Company, in May 2003 and resigned from the Company effective June 1, 2003 following approximately 10 years of service. Under her termination agreement, she received \$221,474 as a severance payment, an amount equal to her annual base pay, incentive compensation and unused vacation time. She remained covered by certain employee benefit plans, including medical benefit plans, until May 31, 2004. She also agreed to provide consulting services to the Company for up to one year in consideration for \$7,500 per month in consulting fees. The Company's Board of Directors reviewed and approved the termination and consulting terms.

EQUITY COMPENSATION PLAN INFORMATION

This table provides information regarding the equity securities authorized for issuance under our equity compensation plans as of October 31, 2004.

Plan category(1)	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))
Equity compensation plans approved by shareowners	2,748,661(2) \$	35.1497	3,351,855(3)
Equity compensation plans not approved by shareowners(4)	3,456,984(5) \$	34.3010(6)	0(7)
Total	6,205,645	N/A	3,351,855

(1) This table does not include information regarding the Company's 401(k) Plans. The Company's 401(k) plans consist of the following: International Truck and Engine Corporation 401(k) Retirement Savings Plan; the IC Corporation 401(k) Plan; International Truck and Engine Corporation 401(k) Plan for Represented Employees; and International Truck and Engine Corporation Retirement Accumulation Plan. As of October 31, 2004, there were 626,218 shares of Common Stock outstanding and held in these plans.

(2) This number includes stock options granted under the Company's 1994 Performance Incentive Plan (the 1994 Plan) and restoration stock options and premium share units (as described in the Executive Stock Ownership Program discussed below) granted under the Company's 2004 Performance Incentive Plan (the 2004 Plan). Prior to February 17, 2004, restoration stock options were granted under the Company's 1998 Supplemental Stock Plan (a non-shareowner approved plan), as supplemented by the Restoration Stock Option Program. Under the Restoration Stock Option Program generally one may exercise vested options by presenting shares that have a total market value equal to the option price times the number of options. Restoration options are then granted at the market price in an amount equal to the number of mature shares that were used to exercise the original option, plus the number of shares that are withheld for the required tax liability. Participants may also defer the receipt of shares of Company Common Stock due in connection with a restoration stock option exercise. Participants who elected to defer receipt of these shares will receive deferred stock units. Stock options awarded to employees for the purchase of Common Stock from the 1994 Plan and the 2004 Plan were granted at the fair market value of the stock on the date of grant, generally have a 10-year contractual life and generally become exercisable one-third on the first anniversary of grant, one-third on the second anniversary and one-third on the third anniversary. Awards of restricted stock granted under the 1994 Plan and the 2004 Plan were established by the Board of Directors or committee thereof at the time of issuance. The 1994 Plan expired on December 16, 2003, and as such no further awards may be granted under the 1994 Plan.

(3) On October 15, 2003 the Board and the independent Compensation and Governance Committee approved the 2004 Plan and on February 17, 2004 the shareowners of the Company approved the 2004 Plan. The 2004 Plan replaced, on a prospective basis, the Company's 1994 Plan, the 1998 Supplemental Stock Plan, both which expired on December 16, 2003, and the Company's 1998 Non-Employee Director Stock Option Plan (collectively, the Prior Plans). A total of 3,250,000 shares of common stock were reserved for awards under the 2004 Plan. Shares subject to awards under the 2004 Plan, or the Prior Plans after February 17, 2004, 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 deliver of shares to the participant again become available for awards. This number represents the remaining number of unused shares from the fiscal year ended October 31, 2004, which are available for issuance for the following fiscal year.

The Non-Employee Directors Restricted Stock Plan, our other shareowner approved plan, requires that one-fourth of the annual retainer to non-employee directors be paid in the form of restricted shares of Common Stock. The Non-Employee Directors Restricted Stock Plan expires on December 31, 2005. There is no limit on the number securities remaining for issuance under the Non-Employee Directors Restricted Stock Plan.

(4) The following plans were not approved by the shareowners of the Company: The 1998 Interim Stock Plan (the Interim Plan);

The 1998 Supplemental Stock Plan (as supplemented by the Restoration Stock Option Program (the Supplemental Plan)); The Executive Stock Ownership Program (the Ownership Program); The 1998 Non-Employee Director Stock Option Plan (the Director Stock Option Plan) and The Non-Employee Directors Deferred Fee Plan (the Deferred Fee Plan). Below is a brief description of the material features of each plan, but in each case the information is qualified in its entirety by the text of such plans.

The Interim Plan. The Interim Plan was approved by the Board of Directors on April 14, 1998. A total of 500,000 shares of Common Stock were reserved for awards under the Interim Plan. As of October 31, 2004, 15,520 stock option awards remain outstanding for shares of Common Stock reserved for issuance under the Interim Plan. Stock options awarded to employees under the Interim Plan for the purchase of Common Stock were granted at the fair market value of the stock on the date of grant, generally have a 10-year contractual life and generally become exercisable one-third on the first anniversary of grant, one-third on the second anniversary and one-third on the third anniversary. Awards of restricted stock granted under the Interim Plan were established by the Board of Directors or committee thereof at the time of issuance. The Interim Plan is separate from and intended to supplement the 1994 Plan, which was approved by the shareowners of the Company. The Interim Plan terminated on April 15, 1999 and as such no further awards may be granted under the Interim Plan.

The Supplemental Plan. The Supplemental Plan was approved by the Board of Directors on December 15, 1998. A total of 4,500,000 shares of Common Stock are reserved for awards under the Supplemental Plan. Stock options awarded under the Supplemental Plan were granted at the fair market value of the stock on the date of grant, generally have a 10-year contractual life and generally become exercisable one-third on the first anniversary of grant, one-third on the second anniversary and one-third on the third anniversary. Awards of restricted stock granted under the Supplemental Plan are established by the Board of Directors or committee thereof at the time of issuance. As of October 31, 2004, 3,035,789 stock option awards remain outstanding for shares of Common Stock reserved for issuance under the Supplemental Plan. Prior to February 17, 2004 the Restoration Stock Option Program was administered under and supplemented by the Supplemental Plan. As of October 31, 2004 there were 160,099 deferred stock units outstanding under the Supplemental Plan which relate to restoration stock options. For more information on the Restoration Stock Option Program, please see the description contained in footnote 2 above. The Supplemental Plan expired December 16, 2003, and as such no further awards may be granted under the Supplemental Plan.

The Ownership Program. On June 16, 1997, the Board of Directors approved the terms of the Ownership Program, and on April 17, 2001, October 15, 2002 and August 30, 2004, the Board of Directors approved certain amendments thereto. In general, the Ownership Program requires all officers and senior managers of the Company to acquire, by direct purchase or through salary or annual bonus reduction, an ownership interest in the Company by acquiring a designated amount of company Common Stock at specified timelines. Participants are required to hold such stock for the entire period in which they are employed by the Company. Participants may defer their cash bonus into deferred share units (DSUs). These DSUs vest immediately. There were 14,287 DSUs outstanding as of October 31, 2004. Premium share units (PSUs) may also be awarded to participants who complete their ownership requirement on an accelerated basis. PSUs vest in equal installments on each of the first three anniversaries of the date on which they are awarded. There were 96,366 PSUs (which includes 5,773 PSUs granted under the 2004 PIP after February 17, 2004) outstanding as of October 31, 2004. Each vested DSU and PSU will be settled by delivery of one share of Common Stock. Such settlement will occur within ten days after a participant's termination of employment. PSUs are no longer granted under the Ownership Program but instead are granted under the 2004 Plan.

The Director Stock Option Plan. The Director Stock Option Plan was approved by the Board of Directors on December 16, 1997, amended on December 11, 2001. A total of 250,000 shares of Common Stock are reserved for awards under the Director Stock Option Plan. The Director Stock Option Plan provides for an annual grant to each non-employee director of the Company an option to purchase 4,000 shares of Common Stock. The option price in each case will be 100% of the fair market value of the Common Stock on the business day following the day of grant. As of October 31, 2004, 119,000 stock option awards remain outstanding for shares of Common Stock reserved for issuance under the Director Stock Option Plan. Stock options awarded under the Director Stock Option Plan generally become exercisable in whole or in part after the commencement of the second year of the term of the option, which term is 10 years. The optionee is also required to remain in the service of the company for at least one year from the date of grant. The Director Stock Option Plan was terminated on February 17, 2004. All future grants to non-employee directors will be issued under the 2004 Plan.

The Deferred Fee Plan. Under the Deferred Fee Plan, directors may elect to receive all or a portion of their annual retainer fees (in excess of their mandatory one-fourth restricted stock grant (as discussed above)) and meeting fees in cash or restricted stock, or they may defer payment of those fees in cash (with interest) or in phantom stock units. Deferrals in the deferred stock account are valued as if each deferral was vested in Common Stock as of the deferral date. As of October 31, 2004, there were 21,696 outstanding deferred stock units under the Deferred Fee Plan.

(5) Includes 160,099 deferred stock units granted under the Supplemental Plan, 14,287 DSUs and 90,593 PSUs granted under the Ownership Program and 21,696 deferred stock units granted under the Deferred Fee Plan; all of which were outstanding as of October 31, 2004 under such plans.

(6) Since the deferred stock units and DSUs and PSUs granted under such plans do not have an exercise price and are settled only for shares of the company's Common Stock on a one-for-one basis, these awards have been disregarded for purposes of computing the weighted-average exercise price.

(7) Upon approval of the 2004 Plan by our shareowners on February 17, 2004, the Supplemental Plan and the Director Stock Option Plan were terminated and there are no longer any shares available for issuance under these plans. There is no limit on the number of securities representing deferred share units remaining available for issuance under the Ownership Program or the Deferred Fee Plan.

OTHER INFORMATION

Annual Report

A copy of our Annual Report, which includes our Consolidated Financial Statements for the three years ended October 31, 2004, is being delivered to all shareowners of record as of February 17, 2005 together with this Proxy Statement. The Annual Report is not to be regarded as proxy soliciting materials.

Householding Information

Some banks, brokers and other record holders may be participating in the practice of householding proxy statements and annual reports. To reduce our printing costs and postage fees the Company has also adopted this procedure. This means that you and other holders of the Company's Common Stock in your household that share the same last name may not receive separate copies of our Proxy Statement or Annual Report. We will promptly deliver an additional copy of either document to you if you call or write us at the following address or phone number: Investor Relations, Navistar International Corporation, 4201 Winfield Road, P.O. Box 1488, Warrenville, Illinois 60555, (630) 753-2143.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers and persons who own beneficially more than ten percent of a registered class of our equity securities to file reports of holdings and transfers of Company stock with the U.S. Securities and Exchange Commission and the New York Stock Exchange and to provide copies of those reports to the Company. Based solely on our review of copies of those reports received by the Company or written representations that all such reports were timely filed, we believe that in fiscal 2004 our directors, executive officers and greater than ten beneficial percent shareowners made all required filings on time, except that Mr. Endsley inadvertently filed a Form 4 thirteen days late reporting one transaction and Mr. Lannert inadvertently filed a Form 4 twenty-two days late reporting seven transactions.

Proxy Solicitation

The cost of this proxy solicitation will be borne by the Company. Georgenson Shareholder Communications, Inc., 17 State Street, New York, New York 10004 has been retained to assist in the solicitation of proxies and will receive a fee not to exceed \$8,000 plus expenses. Directors, officers and employees of the Company at no additional cost may also solicit proxies. Banks, brokerage houses and other institutions, nominees or fiduciaries will be requested to forward the proxy materials to the beneficial owners of the Common Stock and will be reimbursed for their reasonable expenses incurred in forwarding such matters.

Shareowner Proposals for the 2006 Annual Meeting

Under the rules of the U.S. Securities and Exchange Commission, proposals of shareowners intended to be presented at the Company's 2006 Annual Meeting must be received by the Company's Secretary no later than the close of business on October 26, 2006 for the proposal to be considered for inclusion in our proxy material for that meeting. To otherwise bring a proposal before the Company's 2006 Annual Meeting, you must comply with our By-Laws. One of the procedural requirements of our By-Laws, as now in effect, is that you must notify the Company's Secretary in writing at the address set forth on the front page of this Proxy Statement not later than 120 days nor earlier than the 180 days in advance of the meeting of your intent to present a proposal. Based on the anticipated date of next year's annual meeting, the proposals would have to be received between August 25, 2005 and October 24, 2005 for the Company's 2006 Annual Meeting. A copy of our By-Laws may be obtained from the Company's Secretary by written request to the same address.

By Order of the Board of Directors,

Robert J. Perna
Secretary
February 23, 2005

NAVISTAR INTERNATIONAL CORPORATION

**2004 PERFORMANCE INCENTIVE PLAN
(AS AMENDED AND RESTATED AS OF FEBRUARY 15, 2005)**

SECTION I

ESTABLISHMENT OF THE PLAN

The Board of Directors of Navistar International Corporation approved the establishment of the Navistar International Corporation 2004 Performance Incentive Plan (Plan) on October 21, 2003, subject to approval by the Stockholders at the Corporation s annual meeting to be held on February 17, 2004, or any adjournment thereof. The Plan replaces the Navistar 1994 Performance Incentive Plan and the Navistar 1998 Supplemental Stock Plan, each of which terminate December 16, 2003 under the terms of the plans, and the Plan will replace and supercede the Navistar 1988 Non-Employee Directors Stock Option Plan. The Plan was amended on December 14, 2004, subject to approval by the Stockholders at the Corporation s annual meeting to be held on February 15, 2005.

SECTION II

PURPOSE OF THE PLAN

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

SECTION III

DEFINITIONS

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

- (1) Annual Incentive Award means an award of cash determined by the Committee after the end of the Fiscal Year.
- (2) Award means an award made under the Plan.
- (3) Award Agreement means an agreement entered into by the Corporation and a Participant setting forth the terms and provisions applicable to an Award granted to a Participant.
- (4) Board of Directors means the Board of Directors of Navistar International Corporation.
- (5) Change in Control shall be deemed to have occurred if (i) any person or group (as such terms are used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934), other than employee or retiree benefit plans or trusts sponsored or established by the Corporation or International Truck and Engine Corporation, is or becomes the beneficial owner (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of securities of the Corporation representing 25% or more of the combined voting power of the Corporation s then outstanding securities, (ii) the following individuals cease for any reason to constitute more than three-fourths of the number of directors then serving on the Board of Directors of the Corporation: individuals who, on the date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Corporation) whose appointment or election by the Board or nomination for election by the Corporation s stockholders was approved by the vote of at least two-thirds (2/3) of the directors then still in office or whose appointment, election or nomination was previously so approved or recommended; (iii) any dissolution or liquidation of the Corporation or International Truck and Engine Corporation or sale or disposition of all or substantially all (more than 50%) of the assets of the Corporation or of International Truck

and Engine Corporation occurs; or (iv) as the result of, or in connection with, any cash tender offer, exchange offer, merger or other business combination, sale of assets, proxy or consent solicitation, contested election or substantial stock accumulation (a Control Transaction), the members of the Board of Directors of the Corporation immediately prior to the first public announcement relating to such Control Transaction shall immediately thereafter, or with two (2) years, cease to constitute a majority of the Board of Directors of the Corporation. Notwithstanding the foregoing, the sale or disposition of any or all of the assets or stock of Navistar Financial Corporation shall not be deemed a Change in Control.

(6) Code or Internal Revenue Code means the Internal Revenue Code of 1986, as amended from time to time.

(7) Committee means the Committee on Compensation and Governance of the Board of Directors.

(8) Common Stock means the common stock of the Corporation.

(9) Consultant means a person engaged under a written contract with the Corporation or any subsidiary of the Corporation that was executed by the Corporation's Chief Executive Officer or Chief Financial Officer to provide consulting or advisory services (other than as an Employee or a Non-Employee Director) to such entity, provided that the identity of such person, the nature of such services or the entity to which such services are provided would not preclude the Corporation from offering or selling Common Stock to such person pursuant to the Plan in reliance on either the exemption from registration provided by Rule 701 under the Securities Act of 1933, as amended, or, if the Corporation is required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, registration on a Form S-8 (Registration Statement Under the Securities Act of 1933).

(10) Corporation means Navistar International Corporation.

(11) Employee means a person regularly employed by the Corporation or any subsidiary of the Corporation, including its officers.

(12) Exercise Price means the amount for which one share of Common Stock may be purchased upon exercise of a Stock Option, as specified in the applicable Award Agreement.

(13) Fair Market Value means the average of the high and the low prices of a share of Common Stock on the Grant Date as set forth in the New York Stock Exchange Composite Transactions listing published in the Midwest Edition of *The Wall Street Journal* or equivalent financial publication.

(14) Fiscal Year means the fiscal year of the Corporation.

(15) Freestanding SAR means any SAR that is granted independently of any Stock Option.

(16) Grant Date means, as determined by the Board or authorized Committee, (i) the date as of which the Board or such Committee approves an Award, or (ii) such other date as may be specified by the Board or such Committee. The Grant Date of a Stock Option will, unless the Committee expressly determines otherwise, be the business day on which the Committee approves the grant of such Stock Option.

(17) Incentive Stock Option means a right, as evidenced by an Award Agreement to purchase a certain number of shares of Common Stock at Fair Market Value for a period of no longer than ten (10) years from the date of grant which options are designed to meet the requirements set out under Section 422 of the Code.

(18) Non-Employee Director means as of the Grant Date of an Award an individual who is a director of the Corporation and is neither a Consultant nor an Employee of the Corporation or any of its subsidiaries.

(19) Nonqualified Stock Option means a right, as evidenced by an Award Agreement to purchase a certain number of shares of Common Stock at Fair Market Value for a period of not more than ten (10) years which options are stated not to be Incentive Stock Options under the Code.

(20) **Participant** means (a) an Employee selected by the Corporation for participation in the Plan, (b) with respect to Nonqualified Stock Options, SARs, Restricted Stock and Stock Units, a Consultant, and (c) with respect to Nonqualified Stock Options, Restricted Stock and Stock Units, a Non-Employee Director.

(21) **Performance-Based Exception** means the performance-based exception from the tax deductibility limitation imposed by Code Section 162(m) as set forth in Section 162(m)(4)(C).

(22) **Performance Measure** means the performance measurement provided by Section VI.

(23) **Performance Period** means the period during which performance goals must be met for purposes of the Performance Measure.

(24) **Plan** means the Navistar International Corporation 2004 Performance Incentive Plan as set forth herein and as it may be amended hereafter from time to time.

(25) **Qualified Retirement** means with respect to an Employee a termination from employment from the Corporation or any of its subsidiaries that occurs after the Employee attains age 55 and at the time of the termination the Employee has either: (i) 10 or more years of continuous service, or (ii) 10 or more years of service that would constitute credited service under the definition contained in the International Truck and Engine Corporation Retirement Plan for Salaried Employees (RPSE). Qualified Retirement for a Non-Employee Director means retirement under a retirement policy of the Board for Non-Employee Directors.

(26) **Restoration Stock Option** means a Nonqualified Stock Option granted pursuant to Section VII(7) and which is awarded upon the exercise of a Stock Option earlier awarded under the Plan or any other plan of the Corporation, including an earlier awarded Restoration Stock Option (an **Underlying Option**).

(27) **Restricted Stock** means a right to acquire one or more shares of Common Stock, as evidenced by an Award Agreement, that is restricted as to sale or transfer and subject to forfeiture.

(28) **Stock Appreciation Right** or **SAR** means an Award, granted either alone or in connection with a related Stock Option, pursuant to the terms of Section X of the Plan.

(29) **Stock Option** means either an Incentive Stock Option or a Nonqualified Stock Option.

(30) **Stock Units** mean units for Restricted Stock granted pursuant to Section XI.

(31) **Tandem SAR** means an SAR granted with respect to a share pursuant to Section X hereof in connection with a related Stock Option, under which: (a) the exercise of the SAR with respect to the share shall cancel the right to purchase such share under the related Stock Option, and (b) the purchase of the share under the related Stock Option shall cancel the right to exercise the SAR with respect to such share.

SECTION IV

ELIGIBILITY

Management will, from time to time, select and recommend to the Committee Employees who are to become Participants in the Plan. Such Employees will be selected from those who, in the opinion of management, have substantial responsibility in a managerial or professional capacity. Similarly, management will, from time to time, select and recommend to the Committee Consultants who are to become Participants in the Plan for the purpose of Nonqualified Stock Option Awards, SARs, Restricted Stock and Stock Units. Such Consultants will be selected from those who, in the opinion of management, have substantial responsibility in an advisory or professional capacity. Non-Employee Directors shall also be Participants in the Plan for the purpose of Nonqualified Stock Option Awards, Restricted Stock and Stock Units.

SECTION V

ANNUAL INCENTIVE AWARDS

(1) As soon as practical following the end of the Fiscal Year, the Committee will certify performance achieved against the performance criteria established at the beginning of the Fiscal Year. The performance criteria shall be determined in the discretion of the Committee considering all factors relevant to the management of the Corporation, provided that an Award under this Section that is intended to qualify for the Performance-Based Exception shall satisfy the Performance Measures and the requirements of Section 162(m) of the Internal Revenue Code.

(2) The Committee, in its sole discretion, may reduce or eliminate any Award otherwise earned based on an assessment of individual performance, but in no event may any such reduction result in an increase of the Award. The Committee shall determine the amount of any such reduction by taking into account such factors as it deems relevant including, without limitation: (a) performance against other financial or strategic objectives; (b) its subjective assessment of the Participant's overall performance for the year; and (c) prevailing levels of total compensation among similar companies.

(3) Performance criteria for Annual Incentive Awards will not be increased or decreased within a Fiscal Year except for extraordinary circumstances approved by the Committee.

(4) Payment of an Annual Incentive Award will be made in cash to the Participant as soon as practicable after an Annual Incentive Award determination has been made by the Committee. A Participant who is not an Employee at the end of a Fiscal Year will not be entitled to an Award for that Fiscal Year unless the Committee determines otherwise.

(5) The Committee may permit the deferral of any Award and may permit payment on deferrals to be made subject to rules and procedures it may establish. These rules may include provisions crediting interest on deferred cash accounts.

(6) The Committee shall set the performance criteria for each year's Annual Incentive Awards no later than the first 90 days of the Fiscal Year.

(7) It shall be presumed unless the Committee determines to the contrary, that all Awards to Employees under this Section are intended to qualify for Performance-Based Exception. If the Committee does not intend an Award to qualify for the Performance-Based Exception the Committee shall reflect its intent in its records in such manner as the Committee determines to be appropriate. For the purpose of complying with the Performance-Based Exception rules of Section 162(m) of the Internal Revenue Code, the maximum Award under this Section of the Plan to any one Employee during any one Fiscal Year shall not exceed \$4,000,000.

SECTION VI

PERFORMANCE MEASUREMENT

(1) Unless and until the Corporation's stockholders approve a change in the general Performance Measures set forth in this Section VI, the attainment of which may determine the degree of payout and/or vesting with respect to Awards that are designed to qualify for the Performance-Based Exception, the Performance Measures to be used for purposes of such Awards may be measured at the Corporation level, at a subsidiary level, or at an operating unit level and shall be chosen from among: (a) income measures (including, but not limited to, gross profits, operation income, earnings before or after taxes, earnings per share, cost reductions); (b) return measures (including, but not limited to, return on assets, capital, investment, equity, or sales); (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 (including, but not limited to, growth measures and total shareholder return); (i) sales growth; (j) market share; (k) the achievement of certain quantitatively and objectively determinable non-financial performance measures (including, but not limited to, growth strategies, strategic initiatives, product development, product quality, corporate development, and leadership development); and (l) any combination of, or a specified increase in, any of the foregoing.

(2) The Committee shall set the Performance Measures for each year's Annual Incentive Awards no later than the first 90 days of the Fiscal Year.

(3) The Committee shall have the discretion to adjust the determination of the degree of attainment of the preestablished goals; provided that the Awards that are designated to qualify for Performance-Based Exception may not be adjusted upward (although the Committee shall retain the discretion to adjust such Awards downward). In no event shall the Performance Period for any performance-based equity Award be less than one year.

(4) In the case of any Award that is granted subject to the condition that a specific Performance Measure be achieved, no payment under such Award shall be made prior to the time the Committee certifies in writing that that the Performance Measure has been achieved. For this purpose, approved minutes of the Committee meeting at which the certification is made shall be treated as a written certification. No such certification is required, however, in the case of an Award that is based solely on an increase in the value of a share of Common Stock from the date the Award is made.

SECTION VII

STOCK OPTIONS FOR EMPLOYEES AND CONSULTANTS

(1) The Committee may grant Nonqualified Stock Options or Incentive Stock Options or a combination of both to Employee Participants in the amount and at the time that the Committee approves. The Committee may grant Nonqualified Stock Options to Consultant Participants in the amount and at the time that the Committee approves. In order to provide a limitation on the number of shares as provided for in Section 162(m) of the Internal Revenue Code and the regulations thereunder, Stock Option grants shall be limited to a maximum of 1,000,000 shares per year for any Employee Participant.

(2) The Committee will document the terms of the Stock Option in an Award Agreement to include the Grant Date and Exercise Price, as well as any other terms that it may desire. The Exercise Price under a Stock Option shall not be less than one hundred percent (100%) of the Fair Market Value of a share of Common Stock on the Grant Date. Subject to adjustment pursuant to Section XII, the Exercise Price of outstanding Options fixed by the Committee shall not be modified.

(3) Unless otherwise determined by the Committee, a Stock Option granted under the Plan will become exercisable in whole or in part after the commencement of the second year of the term of the Stock Option to the extent of one third of the shares, to the extent of one third of the shares after commencement of the third year, and to the extent of one third of the shares after commencement of the fourth year.

(4) A Stock Option granted under the Plan will be exercisable during such period as the Committee may determine, and will be subject to earlier termination as hereinafter provided. In no event, however, may a Stock Option governed by the Plan be exercised after the expiration of its term. Except as provided herein, no Stock Option granted under this Section of the Plan to an Employee or Consultant may be exercised at any time unless the Participant who holds the Stock Option is then an Employee or Consultant, respectively. The option can be exercised in whole or in part through cashless exercises or other arrangements through agents, including stockbrokers, under arrangements established by the Corporation by paying the amounts required by instructions issued by the Secretary of the Corporation for the exercise of the Stock Options. If an exercise is not covered by instructions issued by the Corporate Secretary, the purchase price is to be paid in full to the Corporation upon the exercise of a Stock Option either (i) by cash including a personal check made payable to the Corporation, (ii) by delivering at Fair Market Value unrestricted Common Stock already owned by the Participant, for six months or more if acquired from the Corporation, or (iii) by any combination of cash and unrestricted Common Stock, and in either case, by payment to the Corporation of any withholding tax. In no event may successive simultaneous pyramiding be used to exercise a Stock Option. Shares which otherwise would be delivered to the holder of a Stock Option may be delivered, at the election of the holder, to the Corporation in payment of federal, state and/or local withholding taxes payable in connection with an exercise.

(5) The Participant who holds a Stock Option will have none of the rights of a shareowner with respect to the shares subject to a Stock Option until such shares are issued upon the exercise of a Stock Option.

(6) Neither the Corporation nor any subsidiary may directly or indirectly lend money to any Participant for the purpose of assisting the individual to acquire shares of Common Stock issued upon the exercise of Stock Options granted under the Plan.

(7) Provisions for Restoration Stock Options may be contained in the terms of options granted under the Plan. Restoration Stock Options may be granted under the Plan pursuant to the following terms: (a) Restoration Stock Options may be granted if the Participant elects to make a restoration option exercise of an Underlying Option, pays the exercise price by transferring to the Corporation Common Stock of the Corporation held by the Participant, for six months or more if acquired from the Corporation, and pays the withholding tax by transferring Common Stock or cash. The number of Restoration Stock Options that will be granted is equal to the number of shares used to pay the exercise price and the number of shares with value equal to the tax liability; (b) The

Restoration Stock Options will have a term equal to the remaining term of the Underlying Option, will have an Exercise Price equal to the Fair Market Value of the stock on the date of grant of the Restoration Option, and will become exercisable in six months after grant (or, if sooner, one month before the end of the term of the Underlying Option), and otherwise will have the same general terms and conditions Nonqualified Stock Options granted by the Corporation; (c) 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 for a period of three (3) years; and (d) At the election of the Participant delivery of the shares may be deferred.

(8) In the event of the termination of the employment of an Employee who holds an outstanding Stock Option, other than by reason of death, total and permanent disability or a Qualified Retirement, the Employee may (unless the Stock Option shall have been previously terminated) exercise the Stock Option at any time within three (3) months after such termination, but not after the expiration of the term of the grant, to the extent of the number of shares which were exercisable at the date of the termination of employment. In the event of termination of service as a Consultant who holds an outstanding Stock Option, other than by reason of death or total and permanent disability, the Consultant may (unless the Stock Option shall have been previously terminated) exercise the Stock Option at any time within three (3) months after such termination, but not after the expiration of the term of the grant, to the extent of the number of shares which were exercisable at the date of the termination of service. Stock Options granted under this Section of the Plan to an Employee will not be affected by any change of employment so long as the Participant continues to be an Employee. Provided, however, if the Participant is terminated for cause as defined in the International Truck and Engine Corporation Income Protection Plan, or if the Participant is covered by a different severance plan or agreement, then as defined in such plan or agreement, the three-month period provided by this subsection shall not apply and the Stock Option shall cease to be exercisable and shall lapse as of the effective date of the termination of the Employee.

(9) Except as provided in Section VII(12), in the event of a Qualified Retirement an Employee who holds an outstanding Stock Option may exercise the Stock Option to the extent the option is exercisable or becomes exercisable under its terms, at any time during the term of the option grant.

(10) In the event of a total and permanent disability, as defined by the Corporation's long term disability programs, an Employee or Consultant who holds an outstanding Stock Option may exercise the Stock Option, to the extent the Stock Option is exercisable or becomes exercisable under its terms, at any time within three (3) years after such termination or, if later, the date on which the option becomes exercisable with respect to such shares, but not after the expiration of the term of the option grant.

(11) In the event of the death of an Employee or Consultant who holds an outstanding Stock Option, the Stock Option may be exercised by a legatee, or by the personal representatives or distributees, at any time within a period of two (2) years after death, but not after the expiration of the term of the grant. If death occurs while employed by the Corporation or a subsidiary or performing services as a Consultant, or after a Qualified Retirement, or during the three- year period specified in Section VII(10), Stock Options may be exercised to the extent of the remaining shares covered by Stock Options whether or not such shares were exercisable at the date of death. If death occurs during the three-month period specified in Section VII(8), Stock Options may be exercised to the extent of the number of shares that were exercisable at the date of death.

(12) Notwithstanding the other provisions of Sections VII(9) or VII(11), no Stock Option which is not exercisable at the time of a Qualified Retirement shall become exercisable after such Qualified Retirement if, without the written consent of the Corporation, a Participant engages in a business, whether as owner, partner, officer, employee, or otherwise, which is in competition with the Corporation or one of its affiliates, and if the Participant's participation in such business is deemed by the Corporation to be detrimental to the best interests of the Corporation. The determination as to whether such business is in competition with the Corporation or any of its affiliates, and whether such participation by such person is detrimental to the best interests of the Corporation, shall be made by the Corporation in its absolute discretion, and the decision of the Corporation with respect thereto, including its determination as to when the participation in such competitive business commenced, shall be conclusive.

SECTION VIII

STOCK OPTIONS NON-EMPLOYEE DIRECTORS

(1) The Committee may grant Nonqualified Stock Options to Non-Employee Directors.

(2) The Committee will document the terms of the Stock Option to include the Grant Date and Exercise Price, as well as any other terms that it may desire. The Exercise Price under a Stock Option shall not be less than one hundred percent (100%) of the Fair Market Value of a share of Common Stock on the Grant Date. Subject to adjustment pursuant to Section XII, the Exercise Price of outstanding Stock Options fixed by the Committee shall not be modified.

(3) Unless otherwise determined by the Committee, a Stock Option granted under this Section of the Plan will become exercisable in whole or in part after the commencement of the second year of the term of the Stock Option to the extent of one third of the shares, to the extent of one third of the shares after commencement of the third year, and to the extent of one third of the shares after commencement of the fourth year.

(4) A Stock Option granted this Section of the Plan will be exercisable during such period as the Committee may determine, and will be subject to earlier termination as hereinafter provided. In no event, however, may a Stock Option governed by the Plan be exercised after the expiration of its term.

(5) Except as provided herein, no Stock Option granted under this Section of the Plan may be exercised at any time unless the Participant who holds the Stock Option is then a Non-Employee Director.

(6) A Stock Option granted under this Section of the Plan can be exercised in whole or in part through cashless exercises or other arrangements through agents, including stockbrokers, under arrangements established by the Corporation by paying the amounts required by instructions issued by the Secretary of the Corporation for the exercise of the options. If an exercise is not covered by instructions issued by the Corporate Secretary, the purchase price is to be paid in full to the Corporation upon the exercise of a Stock Option either (i) by cash including a personal check made payable to the Corporation; (ii) by delivering at Fair Market Value unrestricted Common Stock already owned by the Participant, for six months or more if acquired from the Corporation, or (iii) by any combination of cash and unrestricted Common Stock, and in either case, by payment to the Corporation of any withholding tax. In no event may successive simultaneous pyramiding be used to exercise a Stock Option. Shares which otherwise would be delivered to the holder of a Stock Option may be delivered, at the election of the holder, to the Corporation in payment of federal, state and/or local withholding taxes payable in connection with an exercise.

(7) The Non-Employee Director who holds a Stock Option will have none of the rights of a shareowner with respect to the shares subject to a Stock Option until such shares are issued upon the exercise of a Stock Option.

(8) Neither the Corporation nor any subsidiary may directly or indirectly lend money to any Non-Employee Director for the purpose of assisting the individual to acquire shares of Common Stock issued upon the exercise of Stock Options granted under the Plan.

(9) In the event of the termination of service as a Non-Employee Director, other than by reason of death, total and permanent disability or a Qualified Retirement, a Non-Employee Director who holds an outstanding Stock Option may (unless the Stock Option shall have been previously terminated) exercise the Stock Option at any time within three (3) months after such termination, but not after the expiration of the term of the grant, to the extent of the number of shares which were exercisable at the date of the termination of service.

(10) Except as provided in Section VII(13), in the event of Qualified Retirement a Non-Employee Director who holds an outstanding Stock Option may exercise the Stock Option to the extent the Stock Option is exercisable or becomes exercisable under its terms, at any time during the term of the option grant.

(11) In the event of a total and permanent disability, as determined by the Committee, a Non-Employee Director who holds an outstanding Stock Option may exercise the Stock Option, to the extent the option is exercisable or becomes exercisable under its terms, at any time within three (3) years after such termination or, if later, the date on which the Stock Option becomes exercisable with respect to such shares, but not after the expiration of the term of the option grant.

(12) In the event of the death of a Non-Employee Director who holds an outstanding Stock Option, the Stock Option may be exercised by a legatee, or by the personal representatives or distributees, at any time within a period of two (2) years after death, but not after the expiration of the term of the grant. If death occurs while the Participant is serving as a Non-Employee Director, or after a Qualified Retirement, or during the three-year period specified in Section VIII(11), Stock Options may be exercised to the extent of the remaining shares covered by the Stock Options whether or not such shares were exercisable at the date of death. If death occurs during the three-month period specified in Section VIII(9), Stock Options may be exercised to the extent of the number of shares that were exercisable at the date of death.

(13) Notwithstanding the other provisions of Sections VIII(10) or VIII(12), no option which is not exercisable at the time of a Qualified Retirement shall become exercisable after such Qualified Retirement if, without the written consent of the Corporation, a Non-Employee Director engages in a business, whether as owner, partner, officer, employee, or otherwise, or serves as a director for such business, which is in competition with the Corporation or one of its affiliates, and if the Non-Employee Director's participation in such business is deemed by the Corporation to be detrimental to the best interests of the Corporation. The determination as to whether such business is in competition with the Corporation or any of its affiliates, and whether such participation by such person is detrimental to the best interests of the Corporation, shall be made by the Corporation in its absolute discretion, and the decision of the Corporation with respect thereto, including its determination as to when the participation in such competitive business commenced, shall be conclusive.

SECTION IX

PROHIBITION ON REPRICING AND DISCOUNTED OPTIONS

Notwithstanding any other provision in the Plan, no Stock Option issued under the Plan may be amended or modified in any way that changes the Exercise Price of the Stock Option, and no Stock Option may be issued with an Exercise Price that is less than the Fair Market Value of one share of Common Stock on the Grant Date of the Stock Option or in any other way discounted. This provision shall not limit any adjustments provided by Section XII relating to adjustments upon changes in capitalization.

SECTION X

STOCK APPRECIATION RIGHTS AND OTHER AWARDS

(1) Subject to the terms of the Plan, the Committee may grant any types of Awards other than Stock Options provided for in Sections VII and VIII, and Restricted Stock provided for in Section XI, including but not limited to SARs. The Committee shall determine the terms and conditions of such Awards.

(2) The Committee may, subject to the terms of the Plan, grant SARs to Employee and Consultant Participants at any time and from time to time as shall be determined by the Committee. The Committee may grant Freestanding SARs, Tandem SARs, or any combination thereof. The Committee shall have complete discretion in determining the number of SARs, subject to the terms of the Plan, and to determine the terms of the SARs. The grant price of a Freestanding SAR shall equal the Fair Market Value of one share of Common Stock on the Grant Date. The Exercise Price of Tandem SARs shall equal the Exercise Price of the related Stock Option.

(3) Tandem SARs may be exercised for all or part of the shares subject to the related Stock Option upon the surrender of the right to exercise the equivalent portion of the related Stock Option. A related Stock Option is then exercisable.

(4) Notwithstanding any other provision of the Plan to the contrary, with respect to a Tandem SAR granted in connection with an Incentive Stock Option: (a) The Tandem SAR shall expire no later than the expiration than the expiration of the Incentive Stock Option; (b) The value of the payout with respect to the Tandem SAR shall not exceed the excess of the fair market value of the shares subject to Incentive Stock Option at the time the Tandem SAR is exercised over the Exercise Price under the Incentive Stock Option; and (c) The Tandem SAR may be exercised only when the Fair Market Value of the shares subject to the Incentive Stock Option exceed the Exercise Price of the Incentive Stock Option.

(5) Freestanding SARs may be exercised upon whatever terms and conditions the Committee, in its discretion, impose upon them, subject, however, to the terms of the Plan.

(6) The term of SARs shall be determined by the Committee, in its discretion; provided that such term shall not exceed 10 years.

(7) Upon exercise of a SAR, a Participant shall be entitled to receive payment from the Corporation in an amount determined by multiplying: (a) the excess of fair market value of one share of Common Stock on the date of exercise over the Exercise Price, by (b) the number of shares with respect to which the SAR is exercised. At the discretion of the Committee, the payment upon exercise of a SAR may be in cash, in share equivalent fair market value, or in a combination thereof.

(8) It shall be presumed unless the Company determines to the contrary, that all awards to Employees under this Section are intended to qualify for Performance-Based Exception. If the Committee does not intend an Award to an Employee to qualify for the Performance-Based Exception the Committee shall reflect its intent in its records in such manner as the Committee determines to be appropriate. For the purpose of complying with the Performance-Based Exception rule of Section 162(m) of the Internal Revenue

Code, the number of SARs that can be granted to any one Employee in any Fiscal Year shall not exceed 1,000,000 shares, less the number of stock options grant to such Employee during the year. Any Award the value of which is not solely dependent on value of the stock on which the award is based shall not exceed \$4,000,000 for any Employee for the year.

SECTION XI

RESTRICTED STOCK

(1) Restricted Stock, or Stock Units, may be granted during a Fiscal Year or at any time thereafter. Awards under the Plan may be granted in the form of Restricted Stock, in the form of Stock Units, or in any combination of both. Restricted Stock or Stock Units may also be awarded in combination with Stock Options, and such an Award may provide that the Restricted Shares or Stock Units will be forfeited in the event that the terms of the Award Agreement are not fulfilled.

(2) Awards of Restricted Stock or Stock Units may be made under the Plan to Participants for meeting the stock ownership requirements as described in the Navistar Executive Stock Ownership Program, as may be amended from time to time by the Board of Directors, in their sole discretion, or for any other purpose.

(3) Each Award of Restricted Stock or Stock Units shall become vested, in full or in installments, upon satisfaction of the conditions specified in the Award Agreement. In no event will an Award of Restricted Stock or Stock Units granted under the Plan vest in full prior to the commencement of the third year anniversary of the Grant Date.

(4) The Participant will be entitled to all dividends paid with respect to all Restricted Stock awarded under the Plan during the period of restriction and will not be required to return any such dividends to the Corporation in the event of the forfeiture of the Restricted Stock. The Participant also will be entitled to vote Restricted Stock during the period of restriction.

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

(6) In the event a Participant dies while employed by the Corporation or a subsidiary, performing services as a Consultant, or serving as a Non-Employee-Director of the Corporation, or following a Qualified Retirement or total or permanent disability, the Restricted Stock or Stock Units will vest as of the date of death and all restrictions shall lapse and the Restricted Stock or Stock Units will be immediately transferable to the named beneficiary or to the Participant's estate. Any Restricted Stock or Stock Units that becomes payable after the Participant's death shall be distributed to the Participant's beneficiary or beneficiaries. A beneficiary designation may be changed by filing the prescribed form with the Secretary of the Corporation at any time before the Participant's death. If no beneficiary was designated or if no designated beneficiary survives the Participant, then any Restricted Stock or Stock Units that becomes payable after the Participant's death shall be distributed to the Participant's estate.

(7) In the event a Participant who holds unvested Restricted Stock or Stock Units, terminates employment or service as a Non-Employee Director with the Corporation by reason of Qualified Retirement or total and permanent disability, the Restricted Stock or Stock Units will continue to vest according to the terms of the Restricted Stock. In the event a Participant who holds unvested Restricted Stock or Stock Units, terminates service as a Consultant by reason of total and permanent disability, the Restricted Stock or Stock Units will continue to vest according to the terms of the Restricted Stock.

(8) In the event a Participant otherwise terminates employment or service as a Consultant or Non-Employee Director, any Restricted Stock or Stock Units that is not vested forfeits to the Corporation.

(9) It shall be presumed unless the Committee determines to the contrary, that all awards to Employees under this Section of the Plan are intended to qualify for Performance-Based Exception. If the Committee does not intend an Award to an Employee to qualify for the Performance-Based Exception the Committee shall reflect its intent in its records in such manner as the Committee determines to be appropriate. For the purpose of complying with the Performance-Based Exception rules of Section 162(m) of the Internal Revenue Code, the maximum Award under this Section of the Plan to any one Employee during any one Fiscal Year shall not exceed 1,000,000 shares.

SECTION XII

ADJUSTMENTS UPON CHANGES IN CAPITALIZATION

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

SECTION XIII

ADMINISTRATION OF THE PLAN

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

SECTION XIV

NON-ASSIGNMENT

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

SECTION XV

WITHHOLDING TAXES

A Participant may elect, subject to the provisions of the applicable Sections of the Plan and the terms of the Award, to pay any withholding tax due in connection with the exercise of any Stock Option or SAR or upon the vesting of Restricted Stock or the settlement of any other Award either (i) by cash including a personal check made payable to the Corporation or (ii) by delivering at Fair Market Value unrestricted Common Stock already owned by the Participant and if acquired from the Corporation owned for at least six months, or (iii) by any combination of cash or unrestricted Common Stock. The Committee may provide, in the Award Agreement, that in the event that a Participant is required to pay to the Corporation any amount to be withheld in connection with the exercise, vesting or settlement of an Award denominated in shares, the Participant may satisfy such obligation (in whole or in part) by electing to have the Corporation withhold a portion of the shares of Common Stock otherwise to be issued upon exercise, vesting or settlement of such Award equal in value to the minimum amount required to be withheld. The value of the shares to be withheld shall be the Fair Market Value on the date that the amount of tax to be withheld is determined.

SECTION XVI

RIGHTS OF PARTICIPANT

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

SECTION XVII

MODIFICATION, AMENDMENT OR TERMINATION

The Committee may modify, amend, or terminate the Plan at any time, provided that, unless the requisite approval of stockholders is obtained, no amendment shall be made to the Plan if such amendment 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, in each case, except as provided in Section XII; (ii) lower the Exercise Price of the Stock Option or SAR grant value below 100% of the Fair Market Value of one share of Common Stock on the Grant Date, except as provided in Section XII; (iii) remove the repricing restriction set forth in Section IX; or (iv) require stockholder approval as a matter of law or under rules of the New York Stock Exchange. No Plan amendment shall, without the affected Participant's consent, terminate or adversely affect any right or obligation under any Stock Option or other Award previously granted under the Plan.

SECTION XVIII

RESERVATION OF SHARES

(1) The total number of shares of Common Stock reserved and available for delivery pursuant to this Plan is 3,250,000 shares of Common Stock. The number of shares authorized and available shall be increased by shares of Common Stock subject to an option or award under this Plan or any other plan, including the Navistar 1994 Performance Incentive Plan, the Navistar 1998 Supplemental Stock Plan, or the 1998 Non-Employee Director Stock Option Plan, that is cancelled, expired, forfeited, settled in cash or otherwise terminated without a delivery of shares to the Participant of the plan, including shares used to pay the option exercise price of an option issued under the Plan or any other plan or to pay taxes with respect to such an option.

(2) In order to provide a limitation on the number of shares that may be issued as Incentive Stock Options as provided by the Code, no more than 1,000,000 shares of Common Stock, or if less the number of shares that may be issued under the Plan, shall be granted as Incentive Stock Options in any calendar year. Such shares may be in whole or in part, as the Board of Directors shall from time to time determine, authorized and unissued shares of Common Stock or issued shares of Common Stock which shall have been reacquired by the Corporation.

(3) In order to provide a limitation on the number of shares that may be issued as Restricted Stock, Stock Units, SARs, and Awards other than Stock Options, no more than 1,000,000 shares of Common Stock that may be issued under the Plan shall be granted as Restricted Stock, Stock Units, SARs, or Awards other than Stock Options.

SECTION XIX

RIGHTS OF EMPLOYEES

Status as an Employee shall not be construed as a commitment that any one or more Awards will be made under this Plan to an Employee or to Employees generally. Status as a Participant shall not entitle the Participant to any additional future Awards. Nothing in the Plan will confer on any Employee or Participant any right to continue in the employ of the Corporation or any of its subsidiaries or interfere with or prevent in any way the right of the Corporation or any of its subsidiaries to terminate an Employee or Participant's employment at any time for any reason.

SECTION XX

CHANGE IN CONTROL

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

SECTION XXI

LIMITATION OF ACTIONS

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

SECTION XXII

GOVERNING LAW

The Plan will be governed by and interpreted pursuant to the laws of the State of Delaware, the place of incorporation of the Corporation, without giving effect to the principals of conflict of laws.

SECTION XXIII

EFFECTIVE DATE

The effective date of the Plan shall be February 17, 2004 (the Effective Date), subject to approval by the stockholders at the Corporation's Annual Meeting to be held on February 17, 2004, or any adjournment thereof. The Plan shall continue in effect for ten (10) years from the Effective Date, expiring February 16, 2014. No Awards may be granted under the Plan subsequent to February 16, 2014, but Awards theretofore granted may extend beyond that date in accordance with their terms.

NAVISTAR INTERNATIONAL CORPORATION

BOARD INDEPENDENCE CRITERIA

The Board has established the following guidelines to assist it in determining director independence in accordance with the New York Stock Exchange (NYSE) corporate governance rules. An Independent Director shall mean a Director who, in the opinion of the Board: (a) is not and has not been employed by the Corporation within the previous three years; (b) is not and has not been employed by or affiliated with a (present or former) auditor of the Corporation within the previous three years; (c) is not and has not been (and is not and has not been affiliated with an organization that has been) a significant advisor or consultant to the Corporation within the previous three years; (d) is not affiliated with a significant customer or supplier of the Corporation; (e) does not provide and has not provided within the previous three years significant personal services to the Corporation; (f) is not affiliated with a tax-exempt entity that receives or has received significant contributions from the Corporation within the previous three years; (g) is not, and has not been within the previous three years, a part of an interlocking directorate in which an executive officer of the Corporation serves on the compensation committee of another company that concurrently employs the director; and (h) is not an Immediate Family Member of any person described in (a) through (g).

In forming its opinion as to the independence of any Director, the Board will be guided by the principle that in order to be independent, a Director should be independent of Management and free from any material relationship that would interfere with that person's exercise of independent judgment as a Director.

The following commercial relationships will not be considered to be significant relationships that would impair a director's independence: (a) if a director of the Corporation is an executive officer of another company that does business with the Corporation and the annual sales to, or purchases from, the Corporation during any of the previous three years are less than the greater of \$1,000,000 or two percent of the annual revenues of the company he or she serves as an executive officer; or (b) if a director of the Corporation is an executive officer of another company which is indebted to the Corporation, or to which the Corporation is indebted, and the total amount of either company's indebtedness to the other during any of the previous three years is less than the greater of \$1,000,000 or two percent of the total consolidated assets of the company he or she serves as an executive officer.

For purposes of the above definition, the following phrases shall have the meaning given to them:

A person affiliated with a specified person, shall mean a person that directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the specified person.

Corporation shall mean Navistar International Corporation and its subsidiaries, which includes any corporation a majority of the voting stock of which is owned, directly or indirectly through one or more other subsidiaries, by Navistar International Corporation.

An Immediate Family Member includes a person's spouse, parents, children, siblings, mothers and fathers-in-laws, sons and daughters-in-laws, brothers and sisters-in-laws, and anyone (other than domestic employees) who shares such person's home.

