

STEWART & STEVENSON SERVICES INC
Form DEF 14A
June 04, 2004

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

SCHEDULE 14A

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12
Stewart & Stevenson Services, Inc.

(Name of Registrant as Specified In Its Charter)

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

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- No fee required.
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STEWART & STEVENSON SERVICES, INC.
2707 NORTH LOOP WEST
P.O. BOX 1637
HOUSTON, TEXAS 77251-1637

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD JULY 9, 2004

Dear Shareholder:

The Annual Meeting of Shareholders of Stewart & Stevenson Services, Inc. (the "Company") will be held at 9:00 a.m. on Friday, July 9, 2004, at the Company's fabrication facility at 5000 I-10 West, Sealy, Texas, for the following purposes:

1. Election of three directors to the Board of Directors.
2. Ratification of Ernst & Young LLP as the Company's independent auditor for the fiscal year ending January 31, 2005.
3. Approval of Amendment No. 1 to the Stewart & Stevenson Services, Inc. Amended and Restated 1996 Director Stock Plan.
4. Approval of the Stewart & Stevenson Services, Inc. Amended and Restated 1993 Nonofficer Employee Stock Option Plan.
5. If necessary, approval of any proposal to postpone or adjourn the meeting to a later date to solicit additional proxies if there are not sufficient votes to constitute a quorum or sufficient votes to approve the Stewart & Stevenson Services, Inc. Amended and Restated 1996 Director Stock Plan and the Stewart & Stevenson Services, Inc. Amended and Restated 1993 Nonofficer Employee Stock Option Plan at the meeting.
6. Transaction of such other business as may properly come before the meeting or any adjournment thereof.

Only record holders of our Common Stock at the close of business on May 24, 2004 will be entitled to vote at the meeting or any adjournment thereof.

It is important that your shares be represented at the meeting. Even if you plan to attend, we urge you to complete and sign the proxy card, and return it in the postage paid envelope enclosed in this package. The giving of such proxy does not affect your right to vote in person if you attend this meeting. The prompt return of your signed proxy will aid the Company in reducing the expense of additional proxy solicitation.

BY ORDER OF THE BOARD OF DIRECTORS

June 7, 2004

CARL B. KING
Senior Vice President, Secretary and General Counsel

YOUR VOTE IS IMPORTANT. PLEASE DATE, SIGN AND PROMPTLY RETURN YOUR PROXY SO THAT YOUR SHARES MAY BE VOTED IN ACCORDANCE WITH YOUR WISHES. THE GIVING OF SUCH PROXY DOES NOT AFFECT YOUR

RIGHT TO VOTE IN PERSON IN THE EVENT YOU ATTEND THE MEETING. YOUR PROXY MAY BE REVOKED AT ANY TIME BEFORE IT IS VOTED BY SIGNING AND DELIVERING A PROXY BEARING A LATER DATE, BY GIVING

NOTICE OF REVOCATION IN WRITING TO THE SECRETARY OF THE COMPANY AT ANY TIME PRIOR TO ITS USE, OR BY VOTING IN PERSON AT THE MEETING.

**STEWART & STEVENSON SERVICES, INC.
2707 North Loop West
P.O. Box 1637
Houston, Texas 77251-1637**

**PROXY STATEMENT FOR ANNUAL MEETING OF SHAREHOLDERS
July 9, 2004, and Adjournments**

**Approximate date proxy material first sent to shareholders:
June 7, 2004**

SOLICITATION, VOTING AND REVOCABILITY OF PROXIES

The proxy furnished herewith, for use only at the Annual Meeting of Shareholders to be held at 9:00 a.m. on Friday, July 9, 2004, at the Company's fabrication facility at 5000 I-10 West, Sealy, Texas, and any and all adjournments thereof, is solicited by the Board of Directors of Stewart & Stevenson Services, Inc. (the "Company"). Such solicitation is being made by mail and may also be made in person or by telephone by officers, directors and non-officer employees of the Company, and arrangements may be made with brokerage houses or other custodians, nominees and fiduciaries to send proxy material to their principals. In addition, the Company has retained MacKenzie Partners, Inc., a professional proxy solicitation firm, to assist in the solicitation of proxies. The Company has agreed to reimburse MacKenzie Partners, Inc. for expenses incurred in connection with the solicitation and to pay a solicitation fee of approximately \$10,000.00. The Company will pay all expenses incurred in this solicitation of proxies.

As of the date of these proxy materials, the Board of Directors is aware of the following matters that will be considered at the meeting:

1. The election of three directors to the Board of Directors of the Company.
2. The ratification of Ernst & Young LLP as the Company's independent auditor for the fiscal year ending January 31, 2005.
3. The approval of Amendment No. 1 to the Stewart & Stevenson Services, Inc. Amended and Restated 1996 Director Stock Plan.
4. The approval of the Stewart & Stevenson Services, Inc. Amended and Restated 1993 Nonofficer Employee Stock Option Plan.
5. If necessary, approval of any proposal to postpone or adjourn the meeting to a later date to solicit additional proxies if there are not sufficient votes to constitute a quorum or sufficient votes to approve the Stewart & Stevenson Services, Inc. Amended and Restated 1996 Director Stock Plan and the Stewart & Stevenson Services, Inc. Amended and Restated 1993 Nonofficer Employee Stock Option Plan at the meeting.
6. The transaction of such other business as may properly come before the meeting or any adjournment thereof.

The presence of the holders of a majority of the issued and outstanding shares of the Company's common stock, without par value (the "Common Stock"), entitled to vote, either in person or represented by proxy, is necessary to constitute a quorum for the transaction of business

at the Annual

Meeting. Proxies that withhold authority to vote for a nominee or abstain from voting on any matter are counted for the purpose of determining whether a quorum is present. Broker non-votes, which may occur when a broker or nominee has not received timely voting instructions on certain proposals, are not counted for the purpose of determining whether a quorum is present. If there are not sufficient shares represented at the meeting to constitute a quorum, the meeting may be adjourned until a specified future date to allow the solicitation of additional proxies.

Directors are elected by a plurality of the votes cast at the meeting. The three nominees that receive the greatest number of votes will be elected even though the number of votes received may be less than a majority of the shares represented in person or by proxy at the meeting. Proxies that withhold authority to vote for a nominee and broker non-votes will not prevent the election of such nominee if other shareholders vote for such a nominee.

The ratification of Ernst & Young LLP as the Company's independent auditor requires the affirmative vote of a majority of the shares represented in person or by proxy at the meeting. Proxies that abstain from voting on this proposal have the same effect as a vote against this proposal. Broker non-votes will not have any effect on this proposal.

The approval of Amendment No. 1 to the Stewart & Stevenson Services, Inc. Amended and Restated 1996 Director Stock Plan (the "Amendment to the 1996 Plan") requires the affirmative vote of a majority of the shares represented in person or by proxy at the meeting. Proxies that abstain from voting on this proposal have the same effect as a vote against this proposal. Broker non-votes will not have any effect on this proposal.

The approval of the Stewart & Stevenson Services, Inc. 1993 Amended and Restated Nonofficer Employee Stock Option Plan (the "Amended and Restated 1993 Plan") requires the affirmative vote of a majority of the shares represented in person or by proxy at the meeting. Proxies that abstain from voting on this proposal have the same effect as a vote against this proposal. Broker non-votes will not have any effect on this proposal.

The rules of the New York Stock Exchange require that equity compensation plans which require stockholder approval must be approved by a majority of the votes cast on the proposal, provided that the total vote cast on the proposal represents over fifty percent in interest of all shares entitled to vote on the proposal. Broker non-votes do not constitute "votes cast" and are subtracted when determining whether fifty percent of the outstanding shares have been voted on an equity compensation plan proposal. Abstentions, however, are treated as "votes cast" for the purpose of determining if the proposal has been approved.

Any shareholder executing a proxy retains the right to revoke it by signing and delivering a proxy bearing a later date, by giving notice of revocation in writing to the Secretary of the Company at any time prior to its use, or by voting in person at the meeting. All properly executed proxies received by the Company and not revoked will be voted at the meeting, or any adjournment thereof, in accordance with the specifications of the shareholder. ***If no instructions are specified on the proxy, shares represented thereby will be voted FOR the election of the three director nominees described herein, FOR the ratification of Ernst & Young LLP as the Company's independent auditor for the fiscal year ending January 31, 2005, FOR the approval of the Amendment to the 1996 Plan, FOR the approval of the Amended and Restated 1993 Plan, and FOR Proposal No. 5, if necessary. Proxies also grant discretionary authority as to matters presented at the meeting of which the Board of Directors had no notice on the date hereof, approval of the minutes of the prior annual meeting and matters incident to the conduct of the meeting.***

**VOTING SECURITIES AND OWNERSHIP THEREOF
BY CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

At the close of business on May 24, 2004, the record date for the 2004 Annual Meeting of Shareholders, the Company had outstanding 28,728,885 shares of Common Stock. Each outstanding share of Common Stock is entitled to one vote with respect to each of the three director positions, one vote with respect to the ratification of Ernst & Young LLP as the Company's independent auditor for the fiscal year ending January 31, 2005, one vote with respect to the approval of Amendment No. 1 to the Amended and Restated 1996 Director Stock Plan and one vote with respect to the approval of the Stewart & Stevenson Services, Inc. 1993 Nonofficer Employee Stock Option Plan. Cumulative voting is not permitted under the Company's Third Restated Articles of Incorporation. Only shareholders of record at the close of business on May 24, 2004 are entitled to vote at, or execute proxies relating to, the 2004 Annual Meeting of Shareholders.

The following table lists the beneficial ownership of shares of the Company's Common Stock by (i) all persons and groups known by the Company to own beneficially more than 5% of the outstanding shares of the Company's Common Stock, (ii) each director and nominee, (iii) each person who held the office of Chief Executive Officer during the last fiscal year and the four additional highest compensated executive officers who were serving as executive officers on January 31, 2004, (iv) each person who would have been one of such four highest compensated executive officers but was not serving as an executive officer on January 31, 2004, and (v) all directors and officers as a group. None of the directors, nominees or officers of the Company owned any equity security issued by the Company's subsidiaries other than director's qualifying shares. Information with respect to officers, directors and their families is as of April 30, 2004 and is based on the books and records of the Company and information obtained from each individual. Information with respect to institutional shareholders is

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based upon the Schedule 13D or Schedule 13G filed by such shareholders with the Securities and Exchange Commission (the "Commission").

Name of Individual or Group	Amount and Nature of Beneficial Ownership				Total Beneficial Ownership	Percent Of Class
	Sole Voting Power	Shared Voting Power	Sole Investment Power	Shared Investment Power		
5% OR GREATER SHAREHOLDERS						
ICM Asset Management, Inc. W. 601 Main Avenue, Suite 600 Spokane, WA 99201	-0-	1,387,170	-0-	2,220,470	2,220,470	7.8%
Barclays Global Investors, NA 45 Fremont Street San Francisco, CA 94105	1,857,916	-0-	1,857,916	-0-	2,071,072	7.2%
Dimensional Fund Advisors Inc. 1299 Ocean Avenue, 11 th Floor Santa Monica, CA 90401	1,810,409	-0-	1,810,409	-0-	1,810,409	6.3%
Stevenson Voting Group(1) c/o Donald E. Stevenson P.O. Box 1637 Houston, TX 77251	1,699,679	1,976	1,699,679	1,976	1,728,130(2)	6.0%
DIRECTORS AND NOMINEES						
Donald E. Stevenson	304,176	1,976	304,176	1,976	337,026(3)	1.2%
Robert S. Sullivan	3,222	-0-	3,222	-0-	21,222(4)	*
Khleber V. Attwell	7,774	-0-	7,774	-0-	22,774(5)	*
Darvin M. Winick	5,211	-0-	5,211	-0-	19,211(6)	*
Howard Wolf	20,211	-0-	20,211	-0-	34,211(6)	*
Monroe M. Luther	8,190	-0-	8,190	-0-	19,190(7)	*
Charles R. Ofner	3,190	-0-	3,190	-0-	14,190(7)	*
Max L. Lukens	31,266	-0-	31,266	-0-	142,266(8)	*
James M. Tidwell	-0-	-0-	-0-	-0-	-0-(9)	*
NON-DIRECTOR EXECUTIVE OFFICERS						
Richard M. Wiater(10)	5,000	-0-	5,000	-0-	99,000(11)	*
Dennis M. Dellinger	835	-0-	835	-0-	47,085(12)	*
Carl B. King	-0-	-0-	-0-	-0-	48,375(13)	*
Caldwell Phillip Joy	-0-	-0-	-0-	-0-	16,250(14)	*
FORMER EXECUTIVE OFFICER						
Michael L. Grimes(15)	23,582	-0-	23,582	-0-	23,582(16)	*
ALL DIRECTORS AND EXECUTIVE OFFICERS						
(18 Persons)	392,957	1,976	392,957	1,976	893,907(17)	3.1%

*

Less than 1%

(1)

According to an amended Schedule 13D filed with the Commission on February 7, 2002, Donald E. Stevenson, Keith T. Stevenson, the Donald E. Stevenson Testamentary Trust (of which

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Donald E. Stevenson is trustee) and the Estate of Madlin Stevenson (of which Donald E. Stevenson and Keith T. Stevenson are co-executors) are parties to a voting agreement. The voting agreement provides that the parties thereto will agree how to vote all of the shares of Common Stock currently owned by those parties (and any after acquired shares of Common Stock if the addition is approved by the holders of a majority of the shares subject to the voting agreement at that time) on any matter submitted by the Company to a shareholder vote. If the parties to the voting agreement fail to unanimously agree how to vote such shares, such parties agree to vote in accordance with the wishes of Donald E. Stevenson. The voting agreement will terminate on January 31, 2010 unless earlier terminated by a majority vote of the shares subject to the voting agreement. The shares of Common Stock described as beneficially owned by Donald E. Stevenson are included in the Stevenson Voting Group. Mr. Stevenson has indicated that he will not stand for reelection to the Board of Directors.

- (2) Pursuant to the Company's records, includes options to purchase 26,475 shares of Common Stock.
- (3) Includes options to purchase 32,850 shares of Common Stock.
- (4) Includes options to purchase 18,000 shares of Common Stock.
- (5) Includes options to purchase 15,000 shares of Common Stock.
- (6) Includes options to purchase 14,000 shares of Common Stock.
- (7) Includes options to purchase 11,000 shares of Common Stock.
- (8) Includes options to purchase 111,000 shares of Common Stock.
- (9) Mr. Tidwell has been nominated for election to the Board of Directors at the Annual Meeting to serve as a director until the 2007 Annual Meeting of Shareholders.
- (10) Mr. Wiater retired as an officer of the Company effective February 29, 2004.
- (11) Includes options to purchase 94,000 shares of Common Stock.
- (12) Includes options to purchase 46,250 shares of Common Stock.
- (13) Includes options to purchase 48,375 shares of Common Stock.
- (14) Includes options to purchase 16,250 shares of Common Stock.
- (15) Mr. Grimes resigned as President and Chief Executive Officer and director of the Company effective September 15, 2003.
- (16) Mr. Grimes' Common Stock ownership is based on the books and records of the Company before his resignation as a director and officer of the Company.
- (17) Includes options to purchase 500,950 shares of Common Stock.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

The Board of Directors of the Company consists of eight directors divided into two classes of three members and one class of two members. At each Annual Meeting of Shareholders one class is elected to hold office for a term of three years. Members of the other classes continue to serve for the remainder of their respective terms. In accordance with the Bylaws of the Company, a director must retire upon the expiration of such director's term following his 73rd birthday. Max L. Lukens, Robert S. Sullivan, and Donald E. Stevenson are members of the class of Directors whose term expires at the 2004 Annual Meeting of Shareholders. Mr. Stevenson has notified the Company that he will not stand for reelection to the Board of Directors. Max L. Lukens, Robert S. Sullivan, and James M. Tidwell have been nominated for election to the Board of Directors at the Annual Meeting to serve as directors until the 2007 Annual Meeting of Shareholders. Mr. Lukens and Mr. Sullivan were last elected as directors at the 2001 Annual Meeting.

Each of the nominees has consented to be named herein and to serve if elected. The Board of Directors believes that each of the nominees will be willing and able to serve. If any such person is unable to serve for good cause, or is unwilling to serve for any reason, proxies will be voted for the election of another person selected by the Board of Directors. ***The Board of Directors recommends that the shareholders elect the nominees listed below. Unless otherwise specified, all properly executed proxies received by the Company will be voted at the Annual Meeting or any adjournment thereof for the election of the three persons whose names are listed in the following table as nominees for directors whose term will expire in 2007. Proxies cannot be voted for a greater number of persons than the number of nominees named below.***

PERSONS NOMINATED FOR DIRECTOR WHOSE TERM WILL EXPIRE IN 2007

Name and Principal Occupation	Age	Director Since
MAX L. LUKENS(1)	55	2000
<p>Mr. Lukens is President and Chief Executive Officer of the Company. He previously served as Chairman of the Board and Interim Chief Executive Officer and President of the Company. He also previously served as Chairman of the Board, President and Chief Executive Officer of Baker Hughes Incorporated, an oilfield services company. Mr. Lukens is a Director for NCI Building Systems, Inc., a maker of engineered metal building systems and components, and is Treasurer of the Children's Museum of Houston.</p>		
ROBERT S. SULLIVAN(2)(3)	60	1992
<p>Dr. Sullivan is Dean of the University of California, San Diego, Rady School of Management. He previously served as Chairman of the Board of the Company; Dean of the Kenan-Flagler Business School of the University of North Carolina at Chapel Hill; Director of the IC² Institute at The University of Texas at Austin; and Dean of the Graduate School of Industrial Administration, Carnegie Mellon University, Pittsburgh, Pennsylvania.</p>		
JAMES M. TIDWELL	57	Nominee
<p>Mr. Tidwell is Vice President of Finance and Chief Financial Officer of WEDGE Group Incorporated, a privately owned investment firm with holdings in manufacturing, hotels, commercial real estate, and oilfield services. He previously served as President of Daniel Measurement & Control, a division of Emerson Electric Co. and provider of flow measurement equipment and services to the energy industry. Mr. Tidwell was Executive Vice President and Chief Financial Officer of Daniel Industries, Inc. from 1996 to 1999 before its acquisition by Emerson Electric Co., and Vice President and Chief Financial Officer of Hydril Company LP, a manufacturer of blowout preventers and premium connections for oilfield tubulars, from 1993 to 1996. Mr. Tidwell is a Director of Pioneer Drilling Company, a provider of land contract drilling services to oil and gas operators, T-3 Energy, Services, Inc., a provider of oilfield products and services, and Link Energy LLC, a marketer and transporter of crude oil that has sold its operations and is winding up its business.</p>		

The following persons have been previously elected as Directors of the Company and will continue to serve after the Annual Meeting.

DIRECTORS WHOSE TERM EXPIRES IN 2005

Name and Principal Occupation	Age	Director Since
KHLEBER V. ATTWELL(1)(3)(4)	73	1998
<p>Mr. Attwell is in private practice as a Management Consultant since 1989. Prior to that time he was a partner in the international accounting firm of Ernst & Young LLP. His major clients have represented oil and gas, food processing, manufacturing and distribution, education, health care, construction, and publishing. He is a Certified Public Accountant and Certified Management Accountant. Mr. Attwell taught at Rice University for 11 years as an adjunct professor.</p>		
DARVIN M. WINICK, PH.D.(1)(3)(4)	74	1999
<p>Dr. Winick is President of Winick Consultants, an Organizational Consulting firm. He is a Senior Research Fellow at The University of Texas at Austin, and Chairman of the National Assessment Governing Board, a 26 member policy-making board for the National Assessment of Education Progress. Dr. Winick previously served as Chairman of the Executive Committee of Maxim Bank.</p>		
HOWARD WOLF(1)(2)(4)	69	1999
<p>Mr. Wolf is Chairman of the Board of the Company, a private investor and attorney. He previously was a Senior Partner in the international law firm of Fulbright & Jaworski L.L.P. In December 2003, Mr. Wolf was appointed by the Texas Lieutenant Governor, David Dewhurst, to serve a two year term as a member of the Texas Sunset Advisory Commission, which reports to the Legislature of Texas and recommends the termination or modification of State agencies and commissions.</p>		

DIRECTORS WHOSE TERM EXPIRES IN 2006

Name and Principal Occupation	Age	Director Since
MONROE M. LUTHER(2)(3)	63	2000

Mr. Luther is Chairman of Wind River Capital Company, a venture capital company, Chairman of The Prague Post, a newspaper publisher, and Chairman of Bigger Than That Productions, a magazine publisher. Mr. Luther was the founder and former Chief Executive Officer of Eagle Management & Trust Company, an investment management and trust company.

CHARLES R. OFNER(2)(4)	58	2000
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Mr. Ofner is a Private Investor and Consultant in the international oil and gas business. He previously served as Senior Vice President of R&B Falcon Corporation, an offshore drilling company, until its merger with Transocean Sedco Forex, Inc. on January 31, 2001. Mr. Ofner also previously served as Senior Vice President of Reading & Bates Corporation, an offshore drilling company. Mr. Ofner's thirty years in the oil and gas business include assignments in operations, marketing and finance, with eighteen years in foreign assignments in the Middle East, Southeast Asia and Europe.

- (1) Member of Executive Committee.
- (2) Member of Compensation and Management Development Committee.
- (3) Member of Audit Committee.
- (4) Member of Nominating and Governance Committee.

CORPORATE GOVERNANCE

The principal responsibility of the Company's Board of Directors is to exercise governance as representative of the Company's shareholders so as to promote the successful performance of the Company. The Company's Board of Directors has five primary functions:

select, compensate and evaluate the chief executive and other officers and review succession planning;

review and evaluate the Company's performance against broad financial objectives, major strategies and plans and actions of the Company;

provide direction, advice and counsel to senior management;

select appropriate candidates for election as directors; and

review the Company's systems and practices designed to bring about compliance with applicable laws and regulations, including its accounting and financial reporting obligations.

The Board has adopted and adheres to guidelines on corporate governance, which the Board and management believe promote these functions, and which are intended to assist the Board in its exercise of its responsibilities. These guidelines (the "Governance Guidelines") are set forth in the "Guidelines on Corporate Governance and Nominating and Governance Committee Charter," which are available under the Corporate Governance section of the Company's website at <http://www.ssss.com>.

Board of Directors

The Board of Directors held twelve meetings during the fiscal year ended January 31, 2004 ("Fiscal 2003"). During Fiscal 2003, no director attended fewer than 80% of the aggregate of (a) the total number of meetings of the Board of Directors and (b) the total number of meetings held by all committees of the Board of Directors on which he served.

Compensation of Directors

During Fiscal 2003, directors whose principal occupation was other than employment with the Company were compensated in cash at the rate of \$20,000 per year plus \$2,000 for each meeting of the Board of Directors and each committee meeting attended in person and \$1,000 for each meeting attended by telephone. Each committee chairman received an annual fee of \$5,000, except the Chairman of the Audit Committee received an annual fee of \$7,500. Mr. Lukens received additional compensation as Chairman of the Board in the amount of \$90,000 for the period between February 1, 2003 and September 15, 2003, at which time he became interim President and Chief Executive Officer. The directors were also reimbursed for any out-of-pocket expenses incurred to attend meetings.

During Fiscal 2003, each director who was not an officer or employee of the Company participated in the Stewart & Stevenson Services, Inc. 1996 Director Stock Plan (the "1996 Plan"). Under the 1996 Plan, such directors received, on the date of the Annual Meeting in 2003, (i) the number of shares of the Company's Common Stock determined by dividing (A) the sum of \$15,000 by (B) the fair market value of a share of the Company's Common Stock, and (ii) options to purchase 5,000 shares of the Company's Common Stock. In addition to the options received on the date of the 2003 Annual Meeting, Mr. Lukens was separately awarded options under the 1996 Plan to purchase 160,000 shares of the Company's Common Stock during Fiscal 2003. All options were granted at the closing price on the date of grant and will become exercisable on the first anniversary of the grant. All options granted under the 1996 Plan expire on the tenth anniversary of the grant.

Committees of the Board

The Board of Directors has, in addition to other committees, an Audit Committee, a Compensation and Management Development Committee and a Nominating and Governance Committee. The Audit Committee, Compensation and Management Development Committee and Nominating and Governance Committees are comprised solely of independent directors in accordance with New York Stock Exchange ("NYSE") corporate governance listing standards. The Board of Directors has adopted charters for the Audit Committee, Compensation and Management Development Committee and Nominating and Governance Committee that comply with the requirements of the NYSE standards, applicable provisions of the Sarbanes-Oxley Act of 2002 and the Commission's rules. Each of such charters is available under the Corporate

Governance section of the Company's website at <http://www.ssss.com>.

Audit Committee. The Audit Committee, which is comprised of Messrs. Attwell (Chairman), Luther, Sullivan and Winick, held 19 meetings during Fiscal 2003. The Board of Directors has determined that the Audit Committee members meet the NYSE standards for independence. The Audit Committee provides assistance to the Board in fulfilling its oversight responsibility to the shareholders, the investment community, and others relating to the integrity of the Company's financial statements, the disclosure and financial reporting process, the systems of internal accounting and financial controls, the performance of the Company's internal audit function and independent auditor, the Company's disclosure controls and procedures, the independent auditor's qualifications and independence and the Company's compliance with ethics policies and legal and regulatory requirements. The Board of Directors has adopted a written charter governing the responsibilities of the Audit Committee, a copy of which is attached as Appendix A to these proxy materials, and a copy of which is available under the Corporate Governance section of the Company's website at <http://www.ssss.com>.

The Board of Directors has reviewed the experience of the members of the Audit Committee and has found that Messrs. Attwell and Luther meet the qualifications to be an "audit committee financial expert" under the Commission's rules. The Board has designated Khleber V. Attwell as the member of the Audit Committee who will serve as the "audit committee financial expert" of the Company's Audit Committee.

Compensation and Management Development Committee. The Compensation and Management Development Committee, which is comprised of Messrs. Ofner (Chairman), Luther, Sullivan and Wolf, held six meetings during Fiscal 2003. The Board of Directors has determined that the Compensation and Management Development Committee members meet the NYSE standards for independence. The Compensation and Management Development Committee recommends stock option grants and the total compensation payable by the Company to its executive officers, subject to approval by those members of the Board of Directors that are not and never have been an officer of the Company or its subsidiaries; grants options pursuant to the option plans relating to non-officer employees; conducts such investigations and studies as it deems necessary; and considers management succession and related matters. The Board of Directors has adopted a written charter governing the responsibilities of the Compensation and Management Development Committee, which is available under the Corporate Governance section of the Company's website at <http://www.ssss.com>.

Nominating and Governance Committee. The Nominating and Governance Committee, which is comprised of Messrs. Winick (Chairman), Attwell, Ofner and Wolf, held two meetings during Fiscal 2003. The Board of Directors has determined that the Nominating and Governance Committee members meet the NYSE standards for independence. The Nominating and Governance Committee is responsible for administering the Guidelines on Nominating and Governance set forth in the Guidelines on Corporate Governance and Nominating and Governance Committee Charter (the "Nominating and Governance Charter") and develops and makes recommendations to the Board with respect thereto. The functions performed by the Nominating and Governance Committee include overseeing the Company's corporate governance affairs and administering the Governance Guidelines. In addition, the Nominating and Governance Committee establishes criteria for selection as nominees for election as directors of the Company and reviews the qualifications of all candidates, including those proposed by shareholders, for recommendation to the Board. The Nominating and Governance Committee nominates candidates for the Board of Directors, reviews the structure, composition and effectiveness of the Board and its committees, considers the qualifications required for continuing Board service and develops and recommends to the Board a code of conduct and ethics for directors, officers, employees and agents of the Company. The Board of Directors has adopted a written charter governing the responsibilities of the Nominating and Governance Committee, which is available under the Corporate Governance section of the Company's website at <http://www.ssss.com>.

The Nominating and Governance Committee has established a policy that encourages shareholders to submit recommendations for directors. Shareholders desiring to make such recommendations should submit such recommendations, in accordance with the Company's Bylaws and the Governance

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Guidelines to the Corporate Secretary c/o Stewart & Stevenson Services, Inc., 2707 North Loop West, P.O. Box 1637, Houston, Texas 77251-1637 and such recommendations should be accompanied by the same information as is required under the Company's Bylaws for shareholder nominees.

The Nominating and Governance Committee has implemented policies regarding Board membership. The Nominating and Governance Committee will consider candidates based upon the size and existing composition of the Board, the number of employee directors, the number and qualifications of candidates, the benefit of continuity on the Board and the relevance of the candidate's ability, judgment, objectivity, background and experience to issues facing the Company. In considering possible candidates for election as independent directors, including those submitted by shareholders, the Nominating and Governance Committee and the Board shall be guided by, among other things, the following minimum qualifications, selection criteria and other requirements:

Each Director should be an individual of the highest character and integrity and have an inquiring mind, experience at a strategy/policy-setting level, or otherwise at a senior executive level of experience, and the ability to work well with others.

Each Director should have sufficient time available to devote to the affairs of the Company in order to carry out the responsibilities of a Director and no director should be simultaneously serving on the board of directors of more than 4 other entities, excluding non-public companies such as those related to personal or family business and charitable, educational or other non-profit entities. Directors are not qualified for service on the Board unless they are able to make a commitment to prepare for, and attend, meetings of the Board and its committees on a reasonably regular basis.

Each independent Director should be free of any conflict of interest that would interfere with the independence and proper performance of the responsibilities of a Director.

Directors should not be chosen as representatives of a constituent group or organization; each should utilize his or her unique experience and background to represent and act in the best interests of all shareholders as a group.

Directors should have an equity ownership in the Company. Toward that end each outside Director shall be paid a portion of his or her Director's fees in Company Common Stock to the extent permitted by law and stock exchange rule.

Persons who have attained the age of 73 will not be considered for election to the Board of Directors. Beginning in 2008 a Director who has served for 12 years shall not be considered for election to the Board of Directors.

Non-employee Directors are required to own stock in the Company equal in value to three times their annual cash retainer within the later of 5 years of joining the Board or the adoption of this guideline.

The Nominating and Governance Committee will evaluate candidates properly proposed by shareholders in the same manner as all other candidates.

Mr. Lukens and Mr. Sullivan are existing directors standing for reelection to the Board of Directors. Mr. Tidwell is standing for election to the Board of Directors for the first time. Mr. Tidwell was initially recommended as a director nominee to the Nominating and Governance Committee by the Chairman of the Nominating and Governance Committee and by an outside legal advisor to the Company. After the initial recommendations and introductions, several independent directors and a director search firm hired by the Company also recommended to the Nominating and Governance Committee that Mr. Tidwell be nominated for election to the Board of Directors. The company believes that Mr. Tidwell, if elected to the Board of Directors, will meet the qualifications to be an "audit committee financial expert" under the Commission's rules.

In 2004, the Company hired Spencer Stuart and Heidrick & Struggles International, Inc., executive search firms, to help facilitate the screening and interview process of new director nominees.

Attendance at Annual Meetings; Shareholder Communications with the Board of Directors

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All directors and nominees for election as directors are requested and encouraged to personally attend the Company's Annual Meeting. All of the Company's directors and director nominees attended the Company's 2003 Annual Meeting. Shareholders who desire to communicate to the Board of Directors with respect to their views and concerns about the Company are encouraged to do so by writing to the Corporate Secretary c/o Stewart & Stevenson Services, Inc., 2707 North Loop West, P.O. Box 1637, Houston, Texas 77251-1637, who shall assure that the Chairman of the Nominating and Governance Committee receives such correspondence.

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

The Board of Directors, upon recommendation of the Audit Committee, has appointed Ernst & Young LLP ("Ernst & Young") as independent auditor for the Company for the fiscal year ending January 31, 2005. *The Board of Directors recommends that the appointment of Ernst & Young as independent auditor for the Company for the fiscal year ending January 31, 2005 be ratified by the shareholders. Unless otherwise indicated, all properly executed proxies received by the Company will be voted for such ratification at the Annual Meeting or any adjournment thereof.* While the Audit Committee is responsible for the appointment, compensation, retention, termination and oversight of the independent auditor, the Company is requesting, as a matter of good corporate governance, that the shareholders ratify the appointment of Ernst & Young as the Company's independent auditor. If the shareholders fail to ratify the selection, the Audit Committee will reconsider whether to retain Ernst & Young and may retain that firm or another without re-submitting the matter to the Company's shareholders. Even if the appointment is ratified, the Audit Committee may, in its discretion, direct the appointment of a different independent auditor at any time during the year if it determines that such change would be in the best interests of the Company and its shareholders. Ernst & Young served as the Company's independent auditor for the fiscal year ended January 31, 2004. A representative of Ernst & Young will be present at the Annual Meeting to make a statement if such representative desires and to respond to appropriate questions.

FEES PAID TO ERNST & YOUNG

In Fiscal 2003 and Fiscal 2002, Ernst & Young billed the Company and its subsidiaries for the aggregate fees set forth in the table below. These fees include all fees paid by the Company for (i) professional services rendered for the audit of the Company's annual financial statements and review of quarterly financial statements, (ii) assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements, (iii) professional services rendered for tax compliance, tax advice, and tax planning, and (iv) other products and services provided by Ernst & Young.

	Fiscal Year 2003	Fiscal Year 2002
Audit Fees(1)	\$ 1,133,625	\$ 891,725
Audit-Related Fees(2)	76,985	39,600
Tax Fees(2)	209,223	212,100
All Other Fees(2)	31,213	
Total Fees	\$ 1,451,046	\$ 1,143,425

(1) Includes fees and expenses related to the fiscal year audit and interim reviews, notwithstanding when the fees and expenses were billed or when the services were rendered.

(2) Includes fees and expenses for services rendered during the fiscal year.

Either the Audit Committee or Mr. Attwell, as Chairman of the Audit Committee, approves all engagements of Ernst & Young in advance except with respect to the appointment of the independent audit firm, which is made by the Audit Committee. In the event Mr. Attwell approves any such engagement, he discusses such approval with the Audit Committee at the next meeting.

Fiscal 2003

"Audit Fees" primarily relate to audit services of Ernst & Young for Fiscal 2003 consisting of the examination of the consolidated financial statements of the Company and quarterly review of financial

statements. "Audit-Related Fees" includes benefit plan audits and accounting consultation, including consultation with respect to the Sarbanes-Oxley Act of 2002. "Tax Fees" includes charges primarily related to tax return reviews and tax consulting. "All Other Fees" primarily includes pension plan consultation. The Audit Committee or Mr. Attwell, as Chairman of the Audit Committee, approved all of the services described above.

Fiscal 2002

"Audit Fees" primarily relate to audit services of Ernst & Young for Fiscal 2002 consisting of the examination of the consolidated financial statements of the Company and quarterly review of financial statements. "Audit-Related Fees" includes benefit plan audits. "Tax Fees" includes charges primarily related to tax return reviews and tax consulting. The Audit Committee or Mr. Attwell, as Chairman of the Audit Committee, approved all of the services described above.

The Audit Committee has determined that the provision of services rendered for all other fees, as described in the paragraphs above, is compatible with maintaining independence of Ernst & Young.

PRIOR AUDITOR OF THE COMPANY

On April 22, 2002, the Board of Directors of the Company, upon recommendation of the Audit Committee, made a determination to no longer engage Arthur Andersen LLP ("Arthur Andersen") as its independent auditor and appointed Ernst & Young as the Company's independent auditor for the fiscal year ending January 31, 2003.

Arthur Andersen's reports on the Company's consolidated financial statements for the fiscal year ended January 31, 2002 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles.

During the fiscal year ended January 31, 2002 and through the date of the dismissal of Arthur Andersen, there were no disagreements with Arthur Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Arthur Andersen's satisfaction, would have caused it to make reference to the subject matter of the disagreements in connection with its report on the Company's consolidated financial statements for such fiscal year; and there were no "reportable events" as such term is defined in Item 304(a)(1)(v) of Regulation S-K.

During the fiscal year ended January 31, 2002 and through the date of the dismissal of Arthur Andersen and the appointment of Ernst & Young, the Company did not consult Ernst & Young with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements, or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

PROPOSAL NO. 3

**AMENDMENT NO. 1 TO STEWART & STEVENSON SERVICES, INC.
AMENDED AND RESTATED 1996 DIRECTOR STOCK PLAN**

On March 31, 2004, the Board of Directors adopted the Amendment to the 1996 Plan, subject to the approval thereof by the shareholders of the Company. The Amendment to the 1996 Plan was adopted primarily because most of the shares available for issuance pursuant to options granted under the 1996 Plan have been issued or are subject to issuance under outstanding option grants. The Amendment to the 1996 Plan (i) increases the number of shares dedicated for issuance pursuant to options granted under the 1996 Plan by 300,000 and (ii) prohibits repricing of options previously granted. The 1996 Plan is intended to encourage the ownership of the Company's Common Stock by the independent directors of the Company and to provide an additional means for the Company to attract and retain qualified persons to act as independent directors of the Company. *The Board of Directors recommends that the shareholders approve the Amendment to the 1996 Plan. Unless otherwise indicated, all properly executed proxies received by the Company will be voted to approve the Amendment to the 1996 Plan at the Annual Meeting or any adjournment thereof.* The summary set forth below is qualified in its entirety by reference to the Stewart & Stevenson Services, Inc. Amended and Restated 1996 Director Plan (the "1996 Plan") and the Amendment to the 1996 Plan, a copy of which is included as Appendix B to these proxy materials.

Eligibility; Director Stock Awards; Grant of Options

Each director that is not an officer or employee of the Company or one of its subsidiaries on the date of grant is eligible to participate in the 1996 Plan. On the date hereof, there are six directors eligible to participate in the 1996 Plan.

On the date of each Annual Meeting of Shareholders, the 1996 Plan provides for the automatic award and issue to each eligible director who is elected to serve as a director at, or whose term as director continues after, such meeting, the number of shares of the Company's Common Stock determined by dividing (i) the sum of \$15,000 by (ii) the fair market value of a share of the Company's Common Stock on the date of such meeting.

Also on the date of each Annual Meeting of Shareholders, the 1996 Plan provides for the automatic grant of an option to purchase 5,000 shares of the Company's Common Stock to each eligible director who is elected to serve as a director at, or whose term as director continues after, such meeting. Subject to applicable regulatory requirements, the Board of Directors may, in its discretion by majority vote, increase or decrease the number of shares subject to such automatic grant. Additionally, the 1996 Plan provides that the Board of Directors may, from time to time in its discretion, grant one or more eligible director(s) an additional option to purchase shares of the Company's Common Stock.

Description of Options

Options granted pursuant to the 1996 Plan have an exercise price equal to the last transaction price reported by the NYSE on the date of grant, or if there is no transaction on the date of grant, on the first preceding date on which there is a transaction in the Company's Common Stock.

Such options vest and become exercisable on the first anniversary of the grant and become fully vested and immediately exercisable if the recipient dies, fails to stand for re-election or be re-elected, or retires after serving at least 60 consecutive calendar months as a director of the Company. Options also become fully vested and immediately exercisable if the Company merges, consolidates or combines with another company and the Company is not the surviving entity. All options granted pursuant to the 1996 Plan terminate on the tenth anniversary of the date of grant or one year after recipient ceases to be a director of the Company, whichever first occurs. The exercise price under any option may be paid

either in cash or by delivering certificates representing shares of the Company's Common Stock having a market value on the date of exercise equal to the exercise price.

Federal Income Tax Consequences

Options granted under the 1996 Plan to persons subject to United States taxation generally have the following federal income tax consequences:

The grant of options under the 1996 Plan will not result in the recognition of any taxable income by the option holder. The option holder will recognize ordinary income on the date of exercise of the option equal to the difference between (1) the fair market value on the date of exercise and (2) the exercise price. The tax basis of these shares of Common Stock for the purpose of a subsequent sale includes the option price paid and the ordinary income reported on exercise of the option. Subject to the requirement of reasonableness, the Company will generally be entitled to a deduction in the amount reportable as income by the optionholder on the exercise of an option.

Upon disposition of the Company's Common Stock, the optionholder will recognize a capital gain or loss equal to the difference between the selling price and the sum of the amount paid for such stock plus any amount recognized as ordinary income upon acquisition of the stock. Such gain or loss will be long-term or short-term depending on whether the optionholder held the stock for more than one year.

Amendments

Subject to applicable regulatory requirements, the Board of Directors may amend, suspend or terminate the 1996 Plan at any time. However, no such amendment, suspension or termination will affect any outstanding stock award or option without the holder's consent.

The following table sets forth the estimated annual benefits that will be received by each of the persons or groups set forth therein under the 1996 Plan if the Amendment to the 1996 Plan is approved by the shareholders.

**NEW PLAN BENEFITS
1996 PLAN**

Name and Position	Dollar Value (\$)	Number of Options
Non-Executive Director Group (6 eligible persons as of the date hereof)	\$90,000 (\$15,000/person)	30,000 (5,000/person)

PROPOSAL NO. 4

AMENDMENT AND RESTATEMENT OF THE STEWART & STEVENSON SERVICES, INC. 1993 NONOFFICER EMPLOYEE STOCK OPTION PLAN

Effective January 31, 2004, the Board of Directors approved the Amended and Restated 1993 Plan, subject to the approval thereof by the shareholders of the Company. The Amended and Restated 1993 Plan, as it existed prior to the Board's approval of the Amended and Restated 1993 Plan (the "1993 Plan"), contained a formula whereby the number of shares authorized under the Plan was automatically increased on February 1st of each fiscal year by the number of shares awarded under options granted under the 1993 Plan during the prior year. The Board amended the 1993 Plan to eliminate the formula so that no new options would be authorized for grant thereunder. The Board also amended the 1993 Plan to provide that no options could be repriced thereunder and to clarify the definition of the option strike price. Accordingly, the purpose of the Amended and Restated 1993 Plan is to (i) eliminate the formula for increasing the number of options available for grant thereunder, (ii) prohibit repricing of options previously granted, (iii) clarify the price at which options may be exercised, and (iv) continue providing a means by which the Company may, by granting options to purchase Common Stock, attract and retain talented employees, and motivate such employees to exert their best efforts on behalf of the Company. ***The Board of Directors recommends that the Amended and Restated 1993 Plan be approved by the shareholders. Unless otherwise indicated, all properly executed proxies received by the Company will be voted to approve the amendment and restatement at the Annual Meeting or any adjournment thereof.*** The summary of the Amended and Restated 1993 Plan set forth below is not a complete statement of the Amended and Restated 1993 Plan, and the summary is qualified in its entirety by reference to the Amended and Restated 1993 Plan, a copy of which is included as Appendix C to these proxy materials.

Generally

The 1993 Plan originally authorized the granting of options to purchase an aggregate of up to 300,000 shares of Common Stock (taking into account stock splits and stock dividends). The 1993 Plan also contained a formula whereby the number of shares authorized for issuance under the Plan was automatically increased on February 1st of each fiscal year by the number of shares awarded under options during the preceding year. Pursuant to such formula, 1,927,600 shares have previously been added to the 1993 Plan during the fiscal years prior to January 31, 2004. As of January 31, 2004, there were 1,034,670 options available for grant and 870,750 options outstanding. Accordingly, the number of shares available for issuance pursuant to options granted under the Amended and Restated 1993 Plan will be limited to the shares previously authorized pursuant to the terms of the 1993 Plan.

Description of Options

The Amended and Restated 1993 Plan provides for the grant of options that are not intended to qualify as "incentive stock options" within the meaning of section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

Administration

The Amended and Restated 1993 Plan will be administered by a committee (the "Committee") appointed by the Board of Directors, and the Committee will be comprised solely of two or more directors who are (i) outside directors (within the meaning of section 162(m) of the Code), and (ii) non-employee directors (within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934). The Committee may interpret the Amended and Restated 1993 Plan, determine and designate from time to time the persons to whom options are to be granted and the number of shares of Common Stock to be covered thereby, and establish the date and manner in which any option is

exercisable. The exercise price shall be equal to the last transaction price reported by the on the date of grant.

Eligibility

The Amended and Restated 1993 Plan generally is intended to benefit all of the Company's employees who are not directors or officers of the Company.

Terms of Options

Exercise Price; Payment. The exercise price of an option may not be less than 100% of the fair market value of the Common Stock subject to the option on the date of the grant. An option may be exercised at the time, in the manner, and subject to the conditions the Committee specifies in the option agreement in its sole discretion. No option holder will have any rights as a stockholder with respect to Common Stock covered by the option until the date a certificate is issued for the Common Stock.

Term. Unless the option agreement specifies a shorter term, the term of options granted under the Amended and Restated 1993 Plan will be 10 years or less, and such options generally will terminate no later than 30 days after termination of the option holder's service. If the termination of the optionholder's employment is due to his or her retirement, disability or death, the options generally will vest in full and may be exercised at any time prior to the earlier of the option's expiration or one year after the optionholder's retirement, disability or death. If an employee's employment with the Company is terminated for cause, all rights to exercise any option shall terminate at the date of such termination of employment. Unless the option agreement specifies otherwise, an option shall not continue to vest after the termination of the optionholder's employment or affiliation relationship with the Company.

Restrictions on Transfer

The optionholder may not transfer an option otherwise than by will or by the laws of descent and distribution.

Duration, Amendment and Termination

The Board of Directors may amend, suspend or terminate the Amended and Restated 1993 Plan at any time or from time to time. Shareholder approval of any amendment to the Amended and Restated 1993 Plan must be sought if necessary under applicable laws or regulations. Shareholder approval also must be sought for any material amendment to the Amended and Restated 1993 Plan. The Board may submit any other amendment under the Amended and Restated 1993 Plan for shareholder approval at its discretion.

Federal Income Tax Consequences

Options granted under the Amended and Restated 1993 Plan to persons subject to United States taxation generally have the following federal income tax consequences:

The grant of options under the Amended and Restated 1993 Plan will not result in the recognition of any taxable income by the option holder. The optionholder will recognize ordinary income on the date of exercise of the option equal to the difference between (1) the fair market value on the date of exercise and (2) the exercise price. The tax basis of these shares of Common Stock for the purpose of a subsequent sale includes the option price paid and the ordinary income reported on exercise of the option. The income reportable on exercise of the option is subject to federal tax withholding. Subject to the requirement of reasonableness, the provisions of section 162(m) of the Code and the satisfaction of

a tax reporting obligation, the Company will generally be entitled to a deduction in the amount reportable as income by the optionholder on the exercise of an option.

Upon disposition of the Company's Common Stock, the optionholder will recognize a capital gain or loss equal to the difference between the selling price and the sum of the amount paid for such stock plus any amount recognized as ordinary income upon acquisition of the stock. Such gain or loss will be long-term or short-term depending on whether the optionholder held the stock for more than one year.

Potential Limitation on Company Deductions. Under section 162(m) of the Code, the Company's federal income tax deduction for certain compensation paid to designated executives is limited to \$1 million per year. These executives include the Company's Chief Executive Officer and its next four highest compensated officers. Section 162(m) of the Code provides an exception to this deduction for certain "performance based" compensation that meets certain requirements and are approved by a committee consisting solely of at least two "outside directors". The Amended and Restated 1993 Plan is generally designed to satisfy the requirements of section 162(m) of the Code with respect to stock options granted under the Amended and Restated 1993 Plan.

PROPOSAL NO. 5

Adjournments

In the event that there are not sufficient votes to constitute a quorum or to approve the Stewart & Stevenson Services, Inc. Amended and Restated 1996 Director Stock Plan and the Stewart & Stevenson Services, Inc. Amended and Restated 1993 Nonofficer Employee Stock Option Plan at the meeting, the Company may recommend the adjournment of the meeting to a later date to solicit additional proxies. In order to allow proxies that have been received by the Company at the time of the annual meeting to be voted for an adjournment, if necessary, the Company has submitted the question of adjournment to its stockholders as a separate matter for their consideration. **The Board of Directors recommends that you vote FOR the approval of any such adjournment or postponement of the meeting, if necessary.**

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Notwithstanding any statement contained in a previous filing by the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, neither the Performance Graph set forth below nor the Report of the Compensation and Management Development Committee or the Report of the Audit Committee that follows is incorporated by reference into any such filing.

PERFORMANCE OF STEWART & STEVENSON COMMON STOCK

The following graph compares the cumulative total shareholder return on the Company's Common Stock to the cumulative total shareholder return of the S&P 500 Industrial Machinery Index and the S&P Smallcap 600 Index for the Company's last five fiscal years. The graph assumes that the value of an investment in the Company's Common Stock and each index was \$100 on January 31, 1999 and that all dividends were reinvested.

	Year Ended January 31,					
	1999	2000	2001	2002	2003	2004
Stewart & Stevenson Services, Inc.	100	133	312	221	187	181
S&P Smallcap 600 Index	100	110	133	137	112	165
S&P 500 Industrial Machinery Index						