

NAVISTAR INTERNATIONAL CORP  
Form DEF 14A  
January 16, 2009  
Table of Contents

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

(Rule 14a-101)

**SCHEDULE 14A INFORMATION**

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

Filed by the Registrant:  \_\_\_\_\_

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

**Navistar International Corporation**

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

Edgar Filing: NAVISTAR INTERNATIONAL CORP - Form DEF 14A

\_\_\_\_\_ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
- (4) Proposed maximum aggregate value of transaction:
- (5) Total fee paid:

\_\_\_\_\_ Fee paid previously with preliminary materials.

\_\_\_\_\_ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:
- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
- (4) Date Filed:

Table of Contents

**NAVISTAR INTERNATIONAL CORPORATION**

**4201 WINFIELD ROAD**

**P.O. BOX 1488**

**WARRENVILLE, ILLINOIS 60555**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**TUESDAY, FEBRUARY 17, 2009**

**11:00 A.M. CENTRAL STANDARD TIME**

**HYATT LISLE HOTEL**

**1400 CORPORETUM DRIVE**

**LISLE, ILLINOIS 60532**

January 16, 2009

To our stockholders:

On behalf of the Board of Directors of Navistar International Corporation you are cordially invited to attend our 2009 Annual Meeting of Stockholders to:

Elect as directors the nominees named in the attached proxy statement;

Ratify the selection of our Independent Registered Public Accounting Firm;

Approve the material terms of the performance measurements and goals set forth in our 2004 Performance Incentive Plan; and

Conduct any other business properly brought before the meeting.

You must have an admission ticket to attend. Procedures for requesting an admission ticket are detailed on page 54 of this proxy statement. Attendance and voting is limited to stockholders of record at the close of business on January 2, 2009.

By Order of the Board of Directors,

Curt A. Kramer

Secretary

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS**

**FOR THE STOCKHOLDERS MEETING TO BE HELD ON FEBRUARY 17, 2009:**

Edgar Filing: NAVISTAR INTERNATIONAL CORP - Form DEF 14A

**THE ANNUAL REPORT AND PROXY STATEMENT ARE AVAILABLE AT**

**[HTTP://IR.NAVISTAR.COM/ANNUALPROXY.CFM](http://ir.navistar.com/annualproxy.cfm)**

Page i

**Table of Contents**

**TABLE OF CONTENTS**

<b><u>PART ONE ATTENDANCE AND VOTING MATTERS</u></b>	<b>2</b>
<u>Frequently Asked Questions regarding Attendance and Voting</u>	2
<b><u>PART TWO PROPOSAL AND CORPORATE GOVERNANCE INFORMATION</u></b>	<b>6</b>
<u>Corporate Governance Guidelines</u>	6
<u>Board of Directors</u>	6
<u>b Proposal 1 Election of Directors</u>	6
<u>Related Party Transactions and Approval Policy</u>	9
<u>Director Independence Determinations</u>	11
<u>Nominating Directors</u>	11
<u>Board Meetings, Communications and Committees</u>	12
<u>Code of Conduct</u>	14
<u>Audit Committee Report</u>	14
<u>Independent Registered Public Accounting Firm Fee Information</u>	15
<u>b Proposal 2 Ratification of Independent Registered Public Accounting Firm</u>	15
<u>2004 Performance Incentive Plan Performance Measures</u>	16
<u>b Proposal 3 Approval of the material terms of the performance measurements and goals set forth in our 2004 Performance Incentive Plan</u>	16
<b><u>PART THREE OTHER IMPORTANT INFORMATION</u></b>	<b>21</b>
<u>Persons Owning More than Five Percent of Navistar Common Stock</u>	21
<u>Navistar Common Stock Owned by Executive Officers and Directors</u>	25
<u>Compensation</u>	26
<u>Compensation Discussion &amp; Analysis</u>	26
<u>Compensation Committee Report</u>	33
<u>Executive Compensation Tables</u>	34
<u>Compensation of Directors</u>	48
<u>Equity Compensation Plan Information</u>	51
<u>Other Matters</u>	53
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	53
<u>Availability of Form 10-K and Annual Report to Stockholders</u>	53
<u>Matters Raised at the Meeting not Included in this Proxy Statement</u>	53
<u>Admission &amp; Ticket Request Procedure</u>	54

Table of Contents

**PART ONE - ATTENDANCE AND VOTING MATTERS**

***FREQUENTLY ASKED QUESTIONS REGARDING ATTENDANCE AND VOTING***

**Q: Why am I receiving this proxy statement?**

**A:** You are receiving this proxy statement because the Board of Directors (the Board) of Navistar International Corporation (Navistar or the Company) is soliciting your proxy to vote your shares at our 2009 annual meeting of stockholders (the Annual Meeting). This proxy statement includes information that we are required to provide to you under the rules of the U.S. Securities and Exchange Commission (SEC) and is designed to assist you in voting your shares.

**Q: What is the purpose of the Annual Meeting?**

**A:** The purpose of the Annual Meeting is to have stockholders act upon the matters outlined in the notice of annual meeting and this proxy statement, which include the election of the nominees named in this proxy statement as directors, the ratification of Navistar's independent registered public accounting firm and approval of the material terms of the performance measurements and goals set forth in our 2004 Performance Incentive Plan. In addition, management may report on the performance of Navistar and respond to questions from stockholders.

**Q: Who can attend the Annual Meeting of Stockholders?**

**A:** Anyone wishing to attend the Annual Meeting must have an admission ticket issued in his or her name. Admission is limited to:  
stockholders of record on January 2, 2009, or  
a stockholder's authorized proxy holder or representative.

You must provide evidence of your ownership of shares with your ticket request. The specific requirements for obtaining an admission ticket are specified in the Admission & Ticket Request Procedure on page 54.

**Q: What is the difference between a stockholder of record and stock held in street name ?**

**A:** A stockholder of record or registered stockholder is a stockholder whose ownership of Navistar stock is reflected directly on the books and records of our transfer agent, Mellon Investor Services (the Transfer Agent). If you hold stock through a bank, broker or other intermediary, you hold your shares in street name and are not a stockholder of record. For shares held in a street position, the record owner of the shares is your bank, broker or other intermediary. Navistar only has access to ownership records for the registered shares so, if you are not a registered stockholder, for the purpose of requesting a ticket to attend the Annual Meeting, the Company needs additional documentation to evidence your stock ownership as of the record date, such as, a copy of your brokerage account statement, a letter from your broker, bank or other nominee or a copy of your voting instruction card.

**Q: When is the record date and who is entitled to vote?**

**A:** The Board set January 2, 2009, as the record date for the Annual Meeting. Holders of Navistar common stock on that date are entitled to one vote per share. As of January 2, 2009, there were approximately 71,229,235 shares of Navistar common stock outstanding. If you are a participant in any of the Company's 401(k) or retirement savings plans, your proxy card will represent the number of shares allocated to your account under the plan and will serve as a direction to the plan's trustee as to how the shares in your account are to be voted.

A list of all registered holders will be available for examination by stockholders during normal business hours at 4201 Winfield Road, Warrenville, Illinois 60555 at least ten days prior to the Annual Meeting and will also be available for examination at the Annual Meeting.



## **Table of Contents**

### **Q: How do I vote?**

**A:** You may vote by any of the following methods:

**in person** stockholders who obtain an admission ticket (following the specified procedure) and attend the Annual Meeting will receive a ballot for voting.

**by mail** use the proxy and/or voting instruction card provided.

**by phone or via the Internet** follow the instructions on the enclosed proxy and/or voting instruction card.

If you vote by phone or via the Internet, please have your proxy and/or voting instruction card available. The control number appearing on your card is necessary to process your vote. A phone or Internet vote authorizes the named proxies in the same manner as if you marked, signed and returned the card by mail.

### **Q: How can I authorize someone else to vote for me?**

**A:** If you want to authorize someone other than the individual(s) named on the proxy card to vote for you:

cross out the individual(s) named and insert the name of the individual you are authorizing to vote; or

provide a written authorization to the individual you are authorizing to vote along with your proxy card.

*For holders in street name:* You should contact your broker to obtain documentation with authorization to attend or vote at the Annual Meeting.

To obtain an admission ticket for your authorized proxy representative, see the requirements specified in the Admission & Ticket Request Procedure on page 54.

### **Q: How can I change or revoke my proxy?**

**A:** *For stockholders of record:* You may change or revoke your proxy at any time before it is exercised by (i) submitting a written notice of revocation to Navistar c/o the Corporate Secretary at 4201 Winfield Road, P.O. Box 1488, Warrenville, IL 60555, (ii) providing a later dated proxy, (iii) voting by telephone or Internet at a later time or (iv) attending the Annual Meeting and voting in person. For all methods of voting, the last vote cast will supersede all previous votes.

*For holders in street name:* You may change or revoke your voting instructions by following the specific directions provided to you by your bank or broker.

### **Q: Is my vote confidential?**

**A:** Yes. Proxy cards, ballots and voting tabulations that identify stockholders are kept confidential. There are exceptions for contested proxy solicitations or when necessary to meet legal requirements. Broadridge Financial Solutions, Inc., the independent proxy tabulator used by Navistar, counts the votes and acts as the inspector of election for the meeting.

### **Q: Will my shares be voted if I do not provide my proxy?**

**A:** If your shares are held in street name, your shares may be voted even if you do not provide the brokerage firm with voting instructions. Under New York Stock Exchange ( NYSE ) rules, your broker may vote shares held in street name on certain routine matters.

NYSE rules consider the election of directors, the ratification of the selection of independent auditors and the approval of the 162(m) performance measures to be routine matters. As a result, your broker is permitted to vote your shares on those matters at its discretion without instruction from you. When a proposal is not a routine matter, and the beneficial owner of the shares has not



Edgar Filing: NAVISTAR INTERNATIONAL CORP - Form DEF 14A

provided voting instructions to the brokerage firm with respect to that proposal, the brokerage firm cannot vote the shares on that proposal. This is called a broker non-vote

Page 3

## **Table of Contents**

### **Q: What is the quorum requirement for the Annual Meeting?**

**A:** Under Navistar's bylaws, holders of at least one-third of the shares of Navistar common stock outstanding must be present in person or represented by proxy in order to constitute a quorum. Abstentions and broker non-votes are counted as present for purposes of establishing a quorum.

### **Q: What vote is necessary for action to be taken on proposals?**

**A:** Directors are elected by a plurality vote of the shares present at the Annual Meeting, meaning that the director nominees with the most affirmative votes are elected to fill the available seats. As outlined in our Corporate Governance Guidelines, any director who receives more withheld votes than for votes in an uncontested election is required to tender his or her resignation to the Nominating and Governance Committee for consideration and recommendation to the Board. All other actions require an affirmative vote of the majority of shares present or represented at the Annual Meeting. Abstentions and broker non-votes have the effect of a vote against matters other than director elections, ratification of the selection of independent auditors and approval of 162(m) performance measures, which are considered routine matters as discussed above.

Votes submitted by mail, telephone or Internet will be voted by the individuals named on the card (or the individual properly authorized) in the manner indicated. If you do not specify how you want your shares voted, they will be voted in accordance with management's recommendations. If you hold shares in more than one account, you must vote each proxy and/or voting instruction card you receive to ensure that all shares you own are voted.

### **Q: What is house-holding?**

**A:** If you and other residents at your mailing address own shares of Navistar common stock in street name, your broker or bank may have notified you that your household will receive only one annual report and proxy statement for each corporation in which you hold stock through that broker or bank. In this practice known as "house-holding," you were deemed to have consented to that process. House-holding benefits both you and the Company because it reduces the volume of duplicate information received at your household and helps the Company to reduce expenses. Accordingly, the Company and your broker or bank will send one copy of our annual report and proxy statement to your address. Each stockholder will continue to receive a separate proxy card or voting instruction card. 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.

### **Q: What does it mean if I receive more than one proxy card?**

**A:** Whenever possible, registered shares and plan shares for multiple accounts with the same registration will be combined into the same card. Shares with different registrations cannot be combined and as a result, the stockholder may receive more than one proxy card. For example, registered shares held individually by John Doe will not be combined on the same proxy card as registered shares held jointly by John Doe and his wife.

Street shares are not combined with registered or plan shares and may result in the stockholder receiving more than one proxy card. For example, street shares held by a broker for John Doe will not be combined with registered shares for John Doe.

If you hold shares in more than one account, you must vote each proxy and/or voting instruction card you receive to ensure that all shares you own are voted. If you receive more than one card for accounts that you believe could be combined because the registration is the same, contact our stock transfer agent (for registered shares) or your broker (for street shares) to request that the accounts be combined for future mailings.

### **Q: Who pays for the solicitation of proxies?**

**A:** Navistar pays the cost of soliciting proxies. This solicitation is being made by mail, but also may be made by telephone, e-mail or in person. Proxies may be solicited by our directors, officers and employees who will not be additionally compensated for those activities. We will reimburse brokerage firms and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for sending proxy materials to stockholders and obtaining their votes.



**Table of Contents**

**Q: When are stockholder proposals or nominations due for the 2010 annual meeting?**

**A:** Our annual meeting of stockholders is typically held on the third Tuesday in February. Accordingly, we expect to hold our 2010 annual meeting of stockholders on or around February 16, 2010. Under the rules of the SEC, we must receive any stockholder proposals to be included in our proxy statement for the 2010 annual meeting of stockholders no later than the close of business on September 14, 2009.

To otherwise seek to present a proposal at an annual meeting of stockholders or nominate directors, under our bylaws notice must be given not more than 180 days and not less than 120 days in advance of the meeting. Therefore, based on the anticipated date of our 2010 annual meeting, advance notice of any nominations for directors and any other proposals sought to be presented at the 2010 annual meeting of stockholders must be received between August 20, 2009 and October 19, 2009. All stockholder proposals and director nominations must be in accordance with our bylaws and delivered to Navistar by mail c/o the Corporate Secretary at 4201 Winfield Road, P.O. Box 1488, Warrenville, Illinois 60555.

**Q: Are there any matters to be voted on at the Annual Meeting that are not included in the proxy?**

**A:** We do not know of any matters to be acted upon at the Annual Meeting other than those discussed in this proxy statement. If any other matter is presented, proxy holders will vote on the matter in their discretion.

**Q: May stockholders ask questions at the Annual Meeting?**

**A:** Yes. During the Annual Meeting, stockholders may ask questions or make remarks directly related to the matters being voted on. In order to ensure an orderly meeting, we ask that stockholders direct questions and comments to the Chairman. In order to provide the opportunity to every stockholder who wishes to speak, each stockholder's remarks will be limited to two minutes. Stockholders may speak a second time only after all other stockholders who wish to speak have had their turn.

**Table of Contents**

PART TWO PROPOSALS AND CORPORATE GOVERNANCE INFORMATION

***CORPORATE GOVERNANCE GUIDELINES***

Our Board has adopted Corporate Governance Guidelines, which are available on the Investor Relations section of our website at <http://ir.navistar.com> (click on Corporate Governance and then Governance Documents ) and are available in print upon written request to Navistar c/o the Corporate Secretary at 4201 Winfield Road, P.O. Box 1488, Warrenville, IL 60555. These guidelines reflect the Board's commitment to oversee the effectiveness of policy and decision-making both at the Board and management level, with a view to enhancing stockholder value over the long term.

BOARD OF DIRECTORS

**▶ PROPOSAL 1 ELECTION OF DIRECTORS**

Our Board consists of 10 directors.<sup>1</sup> One director is appointed by the United Automobiles, Aerospace and Agricultural Implement Workers of America (the UAW ) and is not part of our classified Board. The remaining 9 directors are divided into three equal classes for purposes of election (i.e., Class I, Class II and Class III). Only members of Class I of our classified Board are up for election at the Annual Meeting. The nominees were evaluated and recommended by the Nominating and Governance Committee in accordance with the process for nominating directors as found on page 11 of this proxy statement. If elected, each director will hold office for the term expiring as set forth next to his class, or until their earlier death, resignation or retirement.

If a nominee is unavailable for election, proxy holders will vote for another nominee proposed by the Board or, as an alternative, the Board may reduce the number of directors to be elected at the Annual Meeting.

***YOUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE NOMINEES PRESENTED IN PROPOSAL 1.***

**Class I Directors Whose Term Expires at the 2009 Annual Meeting THIS IS THE ONLY CLASS OF DIRECTORS UP FOR ELECTION AT THE ANNUAL MEETING.**

**Y. Marc Belton,\*** 49, Director since 1999. He is Executive Vice President, Worldwide Health, Brand and New Business Development of General Mills, Inc. since 2005. General Mills, Inc. is engaged in manufacturing and marketing of consumer food products. Prior to this position he was Senior Vice President of Yoplait USA, General Mills Canada Corporation and New Business Development from 2002 to 2005 and was President of the Big G Cereal Division from 1999 to 2002. From 1997 to 1999 he was President of the New Ventures Division. From 1994 to 1997 he was President, Snacks Division. He was named a Vice President of General Mills in 1991. He serves on the Board of Directors of the Guthrie Theater and the National Board of the Salvation Army. He is also a member of The Executive Leadership Council. *Committees: Audit and Finance.*

**Terry M. Endsley,** 53, Director since 2008. He is Executive Vice President and Chief Financial Officer of Navistar since 2008. He is also a director and Executive Vice President and Chief Financial Officer of Navistar, Inc. since 2008. Prior to these positions, he served as Senior Vice President and Treasurer of Navistar since 2006 and Vice President and Treasurer of Navistar since 2003. Mr. Endsley also served as Senior Vice President and Treasurer of Navistar, Inc. since 2006 and Vice President and Treasurer of Navistar, Inc. since 2003. Prior to that, Mr. Endsley served as Assistant Treasurer of Navistar from 1997 to 2003 and as Assistant Treasurer of Navistar, Inc. from 1997 to 2003.

**Michael N. Hammes,\*** 67, Director since 1996. He served as Chairman and Chief Executive Officer of Sunrise Medical Inc., which designs, manufactures and markets home medical equipment worldwide, from 2000 until his

## Edgar Filing: NAVISTAR INTERNATIONAL CORP - Form DEF 14A

retirement as CEO in 2007 and as Chairman in 2008. He was Chairman and Chief Executive Officer of the Guide Corporation, an automotive lighting business, from 1998 to 2000. He was also Chairman and Chief Executive Officer of The Coleman Company, Inc., a manufacturer and distributor of camping and outdoor recreational products and hardware/home products, from 1993 to 1997. He is Chairman of James Hardie, a world leader in fibre cement technology. *Committees: Compensation, Finance (Chair), Nominating and Governance (Chair) and Executive.* He is also Lead Director of the company since December 2007.

Page 6

---

**Table of Contents**

THE FOLLOWING CLASSES OF DIRECTORS ARE NOT UP FOR ELECTION AT THE ANNUAL MEETING.

**Class II Directors Whose Term Expires at the 2010 Annual Meeting**

**Eugenio Clariond,\*** 65, Director since 2002. He retired as Chairman of the Board of Directors and Chief Executive Officer of Group IMSA, S.A., a producer of steel processed products, steel and plastic construction products and aluminum and other related products, in 2006. He served as Chief Executive Officer from 1985 through 2006 and as Chairman from 2003 through 2006. He is a director of Group Financier Banorte, S.A., Group Industrial Sattillo, S.A., Mexichem S.A., the Mexico Fund, Inc. and Johnson Controls, Inc. He is also Chairman of the Mexican Fund for Nature Conservancy and President of the USA-Mexico Business Council. *Committees: Compensation and Finance.*

**David D. Harrison,\*** 61, Director since 2007. He served as Executive Vice President and Chief Financial Officer of Pentair, Inc., a \$3 billion global manufacturing company, with more than 15,000 employees, from 2000 until his retirement in February 2007. Prior to joining Pentair, he held several executive positions with General Electric Co. and Borg Warner Corp., including positions in Europe and Canada. Mr. Harrison is currently managing partner of HCl, Inc., a real estate investment firm, a director of National Oilwell Varco, Inc., a leading global manufacturer of oil well drilling equipment and a director of James Hardie, a world leader in fibre cement technology. *Committees: Audit and Finance.*

**Steven J. Klinger,\*** 49, Director since 2008. He has been President and Chief Operating Officer of Smurfit-Stone Container Corporation since 2006. Prior to this position, he served as Executive Vice President, Packaging, Pulp & Global Procurement at Georgia-Pacific Corporation from 2003 to 2006 and President of Packaging, Georgia-Pacific from 2000 to 2002. Prior to 2000, he held numerous other positions within Georgia-Pacific. He is also a director of Smurfit-Stone Container Corporation since December 2008. *Committees: Audit and Compensation.*

**Class III Directors Whose Term Expires at the 2011 Annual Meeting**

**James H. Keyes,\*** 68, Director since 2002. He retired as Chairman of the Board of Johnson Controls, Inc., an automotive system and facility management and control company, in 2003, a position he had held since 1993. He served as Chief Executive Officer of Johnson Controls, Inc. from 1988 until 2002. He is a director of Pitney Bowes, Inc. and on the Board of Trustees of Fidelity Mutual Funds. *Committees: Audit (Chair), Compensation, Nominating and Governance and Executive.*

**John D. Correnti,\*** 61, Director since 1994. He is Chairman and Chief Executive Officer of Steel Development Co., LLC, a steel mill operational and development company. Prior to this position he was President and Chief Executive Officer of SeverCorr, LLC, a manufacturer of high quality flat-rolled steel products, from 2005 until 2008 and Chairman of the Board of Directors and Chief Executive Officer of Birmingham Steel Corporation, a manufacturer of steel and steel products, from 1999 to 2002. Mr. Correnti served as Chief Executive Officer, President and Vice Chairman of Nucor Company, a mini mill manufacturer of steel products, from 1996 to 1999, and as its President and Chief Operating Officer and as a director from 1991 to 1996. He is a director of Corrections Corporation of America. *Committees: Audit, Nominating and Governance and Compensation (Chair).*

**Daniel C. Ustian,** 58, Director since 2002. He is President and Chief Executive Officer of Navistar since 2003 and Chairman of the Board of Directors of Navistar since 2004. He is also Chairman of Navistar, Inc. since 2004 and President and Chief Executive Officer of Navistar, Inc. since 2003 and a director since 2002. Prior to these positions he was President and Chief Operating Officer, from 2002 to 2003, and President of the Engine Group of Navistar, Inc. from 1999 to 2002, and he served as Group Vice President and General Manager of Engine & Foundry from 1993 to 1999. He is a director of Monaco Coach Corporation and a member of the Business Roundtable, Society of Automotive Engineers and the American Foundry Association. *Committee: Executive.*

**Table of Contents**

**Additional Director Who Is Not Elected by Stockholders**

**Dennis D. Williams**,\* \*\* 55, Director since 2006. The UAW employs Mr. Williams as a director of UAW Region 4, a position he has held since 2001. Prior to this position, Mr. Williams served as Assistant Director of Region 4 since 1995. Prior to joining the UAW, Mr. Williams was employed by Case Company from 1977 to 1988. Mr. Williams also served for four years in the United States Marine Corps. *Committee: Finance.*

(1) Dr. Abbie J. Griffin, age 54 and a director of the Company since 1998, was not re-nominated for election at the Annual Meeting. Dr. Griffin is the Royal L. Garff Presidential Chair in Marketing at the David Eccles School of Business at the University of Utah since July 2006. Prior to this position she was a Professor of Business Administration at the University of Illinois, Urbana-Champaign since 1997 and was Associate Professor of Marketing and Production Management from 1993 to 1997 at the University of Chicago, Graduate School of Business. *Committees: Finance.*

\* Indicates each director deemed independent in accordance with our Corporate Governance Guidelines and Section 303A of the NYSE Listed Company Manual Corporate Governance Standards.

\*\* In July 1993, we restructured our post-retirement health care and life insurance benefits pursuant to a settlement agreement, which required, among other things, the addition of a seat on our Board. The director's seat is filled by a person appointed by the UAW. This director is not part of our classified Board and is not elected by stockholders at the Annual Meeting. Mr. Williams was elected as a director in June 2006 to fill the seat previously held by David McAllister, the former UAW director who held this position from 2001 until his removal by the UAW in June 2006.



**Table of Contents*****RELATED PARTY TRANSACTIONS AND APPROVAL POLICY***

We established the Navistar International Corporation Executive Stock Ownership Program in 1997 to more closely align the interests of stockholders and our senior management. Under this program all of our executive officers and certain senior managers are required to purchase and hold a specified amount of our 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 our common stock they purchased through the program. Effective July 30, 2002, we ceased offering to our executive officers loans under this program. The loans extended to our 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 (or date of refinance) 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 present and former executive officers of the Company have outstanding loans under this program. The table indicates the largest amount of the indebtedness outstanding during fiscal 2008, the interest rate charged and the aggregate outstanding balance as of December 31, 2008.

<b>Name</b>	<b>Maximum Indebtedness During Fiscal 2008(\$)</b>	<b>Aggregate Outstanding Balance as of December 31, 2008(\$)</b>	<b>Interest Rate (%)</b>
Gregory W. Elliott	126,152	126,152	4.77
Daniel C. Ustian	392,060	392,060	4.77

On February 18, 2008, the Nominating and Governance Committee of our Board recommended and, on February 19, 2008 our Board approved and adopted a new written policy to cover related-person transactions as defined by SEC rules. The Policy and Procedures with Respect to Related Person Transactions governs the review, approval and ratification of transactions involving the Company and related persons. Related persons include our executive officers, directors, director nominees, immediate family members of such persons and entities in which one of these persons has a direct or indirect material interest. Under this new policy, prior to entering into any related-person transaction, the General Counsel or Corporate Secretary of Navistar is to be notified of the facts and circumstances of the proposed transaction, including: (i) the related person's relationship to the Company and interest in the transaction; (ii) the material facts of the proposed transaction, including the proposed aggregate value of such transaction or, in the case of indebtedness, the amount of principal that would be involved; (iii) the benefits to the Company of the proposed transaction; (iv) if applicable, the availability of other sources of comparable products or services; and (v) an assessment of whether the proposed transaction is on terms that are comparable to the terms available to an unrelated third party or to employees generally.

The General Counsel or Corporate Secretary will then assess whether the proposed transaction is a related-person transaction for purposes of the policy and SEC rules. If the General Counsel or Corporate Secretary determines that the proposed transaction is a related-person transaction, the proposed transaction is then submitted to the Audit Committee of the Board for its consideration. The Audit Committee considers all of the relevant facts and circumstances available, including (if applicable) but not limited to: (i) the benefits to the Company; (ii) the impact on a director's independence, in the event such person is a director; (iii) the availability of other sources for comparable products or services; (iv) the terms of the transaction; and (v) the terms available to unrelated third parties or to employees generally. No member of the Audit Committee shall participate in any review, consideration or approval of any related-person transaction with respect to which such member or any of his or her immediate family members is the related person. The Audit Committee approves only those proposed transactions that are in, or are not inconsistent with, the best interests of the Company and its stockholders, as determined by the Audit Committee in good faith. In the event that the Company becomes aware of a related-person transaction that has not been previously approved or ratified, a similar process will be undertaken in order to determine if the existing transaction should continue or be terminated and/or if any disciplinary action is appropriate. The General Counsel or Corporate Secretary may also develop, implement and maintain from time to time certain administrative procedures to ensure the effectiveness of this policy.



**Table of Contents**

Prior to the adoption of the Policy and Procedures with Respect to Related Person Transactions, our Ethical Business Conduct Policy (which is now part of our Code of Conduct), governed the review, approval and ratification procedures of transactions involving the Company and related persons. Copies of our Policy and Procedures with Respect to Related Person Transactions and our Code of Conduct are available on the Investor Relations section of our website at <http://ir.navistar.com> (click on Corporate Governance and then Governance Documents ) and are available free of charge on request of our Corporate Secretary at 4201 Winfield Road, P.O. Box 1488, Warrenville, IL 60555.

For fiscal year 2008 and to the date of this proxy statement, our Audit Committee approved four related person transactions as follows:

The first occurred in December 2007 and related to our Chairman, Chief Executive Officer and President, Daniel C. Ustian, in regards to his brother's employment by OmniSource Corporation, a scrap metal recycling company. OmniSource sells to and purchases from one of our subsidiaries scrap metals and in fiscal 2007 the value of these transactions was approximately \$27.5 million. Mr. Ustian did not participate in the solicitation or provision of these services, nor did he receive any direct or indirect material benefit from that relationship. After consideration of the matter the Audit Committee determined that this related person transaction is not inconsistent with the best interests of the Company and ratified and approved the transaction.

The second occurred in December 2007 and related to United States Trust Company's retention as an investment manager for certain of our employee benefit plan trusts as more fully described in footnote (D) to the table disclosing more than 5% owners of our common stock on page 21 of this proxy statement. As compensation for its investment manager services, United States Trust Company is paid an aggregate yearly service fee of \$250,000. The Audit Committee determined that the investment manager service provided by United States Trust Company is not inconsistent with the best interests of the Company and ratified and approved the transaction.

The third occurred in April 2008 and related to Mr. Jack Allen, President, North American Truck Operations and formerly President of the Engine Group of Navistar, Inc., in regard to his sister's employment by Marriott International, Inc., a global company providing hotel, resort and convention services. Marriott International, Inc. provided Navistar, Inc. with services in fiscal 2007 with a value in excess of \$306,000. Mr. Allen did not participate in the solicitation or provision of these services by Marriott to Navistar, Inc. nor did he receive any direct or indirect material benefit from that relationship. Mr. Allen's sister did assist in the provision of some of the services Marriott provided to Navistar, Inc. but the amount of her compensation was not related to these services. Because assisting in providing services by Marriott to Navistar, Inc. reflected on her job performance, Mr. Allen's sister had a direct material interest in the services Marriott provides to Navistar, Inc. but the Audit Committee determined the Navistar/Marriott relationship is not inconsistent with the best interests of the Company and ratified and approved the transaction.

The fourth occurred in August 2008 and related to our Vice President and Treasurer, James M. Moran, in regards to his wife Kristin Moran's employment as the General Counsel of our finance subsidiary, Navistar Financial Corporation. As General Counsel of Navistar Financial Corporation, Mrs. Moran receives compensation in excess of \$120,000 per year. The Audit Committee considered the related person transaction at hand and noted that this relationship posed no issues under either the Company's conflict of interest policy or nepotism policy and determined that this related person transaction is not inconsistent with the best interests of the Company and ratified and approved the transaction.

---

**Table of Contents**

***DIRECTOR INDEPENDENCE DETERMINATIONS***

We believe that a majority of our members of our Board should be independent non-employee directors. Our Board has affirmatively determined that each of Messrs. Belton, Clariond, Correnti, Hammes, Harrison, Keyes, Klinger and Williams qualifies as an independent director in accordance with the NYSE's independence requirements and our own internal guidelines for determining director independence and is financially literate. All of the members of our Audit Committee, Compensation Committee and the Nominating and Governance Committee are independent and financially literate.

Both the NYSE requirements and our own guidelines include a series of objective tests for determining the independence of a director, such as that the director is not an employee of Navistar and has not engaged in various types of commercial or charitable relationships with Navistar. A copy of our existing guidelines for determining director independence, as included in our Corporate Governance Guidelines, is available on the Investor Relations section of our website at <http://ir.navistar.com> (click on Corporate Governance and then Governance Documents) and is available free of charge on request of our Corporate Secretary at 4201 Winfield Road, P.O. Box 1488, Warrenville, IL 60555. Our Board has made a determination as to each independent director that no relationship exists which, in the opinion of the Board, would interfere with the exercise of the director's independent judgment in carrying out his or her responsibilities as a director. In making these determinations, our Board reviewed and discussed information provided by the directors and Navistar with regard to each director's business and personal activities as they may relate to Navistar, its management and/or its independent registered public accounting firm. We intend to explain in our public filings the basis for any determination by the Board that a relationship is not material if the relationship does not satisfy one of the specific categories of immaterial relations contained in our existing guidelines.

***NOMINATING DIRECTORS***

If you want to recommend a director candidate, you must do so in accordance with our bylaws that require advance notice to the Company and certain other information. If you are interested in recommending a director candidate, you should request a copy of the bylaw provisions by writing to our Corporate Secretary at 4201 Winfield Road, P.O. Box 1488, Warrenville, IL 60555.

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

- have the highest personal and professional ethics and integrity and values that are compatible with the Company's values;
- have had experiences and achievements that have given them the ability to exercise good business judgment;
- can make significant contributions to the Company's success;
- are willing to devote the necessary time to the work of the Board and its committees which includes being available for the entire time of meetings;
- can assist and evaluate the Company's management;
- are involved only in other activities or interests that do not create a conflict with their responsibilities to the Company and its stockholders;
- understand and meet their responsibilities to the Company's stockholders including the duty of care (making informed decisions) and the duty of loyalty (maintaining confidentiality and avoiding conflicts of interest); and
- have the potential to serve on the Board for at least five years.

The Nominating and Governance Committee believes that consideration should also be given to having a diversity of backgrounds, skills, and perspectives among the directors, and that generally directors should not be persons whose primary activity is investment banking, law, accounting, or consulting. In addition, the selection of directors should consider the need to strengthen the Board by providing a diversity of persons in terms of their expertise, age, sex, race, education, and other attributes which contribute to the Board's diversity. As outlined in our Corporate Governance Guidelines, any director who receives more withheld votes than for votes in an uncontested election is required to tender his or her resignation to the Nominating and Governance Committee for consideration and recommendation to the Board. The Board will publicly disclose its decision.



**Table of Contents****BOARD MEETINGS, COMMUNICATIONS AND COMMITTEES**

The Board has documented its governance practices in our Corporate Governance Guidelines. These governance standards embody many of our long-standing practices, policies and procedures, which are the foundation of our commitment to best practices. In December 2008, the Board conducted an evaluation of the directors, the committees and the Board.

The Board has five standing committees: an Audit Committee (the Audit Committee), a Compensation Committee (the Compensation Committee), an Executive Committee (the Executive Committee), a Finance Committee (the Finance Committee) and a Nominating and Governance Committee (the Nominating and Governance Committee). Each of the committees, except for the Executive Committee, is governed by a written charter, copies of which are available on the Investor Relations section of our website at <http://ir.navistar.com> (click on Corporate Governance and then Governance Documents) and are available free of charge on request of our Corporate Secretary at 4201 Winfield Road, P.O. Box 1488, Warrenville, IL 60555.

In fiscal year 2008, the full Board met 10 times. In addition, the Board's independent directors met 2 times in regularly scheduled executive sessions to evaluate the performance of the Chief Executive Officer and to discuss corporate strategies. The Chairs of our Audit, Compensation, Nominating and Governance and Finance committees of the Board each preside as the chair at meetings or executive sessions of outside directors at which the principal items to be considered are within the scope of the authority of his or her committee. You may communicate with the chair of any of these committees by sending an e-mail to [presiding.director@navistar.com](mailto:presiding.director@navistar.com) or by writing to the Presiding Director c/o the Corporate Secretary, at the address set forth above. In addition, you can contact any of our directors or our Board as a group by writing to them c/o the Corporate Secretary at the same address. All communications will be received and processed by the Corporate Secretary in his discretion. Communications that relate to ordinary business matters that are not within the scope of the Board's responsibilities will be forwarded to the appropriate employee within the Company. Solicitations, junk email and obviously frivolous or inappropriate communications will not be forwarded. You will receive a written acknowledgement from the Corporate Secretary's Office upon receipt of your communication.

All of the directors attended 75% or more of all the meetings of the Board and the committees on which he or she serves. The Company encourages all Board members to attend all meetings, including the Annual Meeting. 10 out of the then 11 directors attended our combined 2006, 2007 and 2008 annual meeting of stockholders.

Below is a table indicating committee membership and a description of each committee of the Board.

**Committee Membership<sup>(1)</sup>****(as of January 12, 2009)**

	<b>Audit</b>	<b>Compensation</b>	<b>Executive</b>	<b>Finance</b>	<b>Nominating &amp; Governance</b>
Y. Marc Belton	ü			ü	
Eugenio Clariond		ü		ü	
John D. Correnti	ü	ü*			ü
Terry M. Endsley					
Dr. Abbie J. Griffin				ü	
Michael N. Hammes		ü	ü	ü*	ü*
David D. Harrison	ü			ü	
James H. Keyes	ü*	ü	ü		ü
Steven J. Klinger	ü	ü			

Edgar Filing: NAVISTAR INTERNATIONAL CORP - Form DEF 14A

Daniel C. Ustian

ii\*

Dennis D. Williams

ii

(1) On April 15, 2008, Southwood J. Morcott retired from the Board and each committee he served on and Dr. Abbie J. Griffin was not re-nominated for election at the Annual Meeting.

\* Indicates the chair of the committee

Page 12

## **Table of Contents**

**Audit Committee** The Audit Committee oversees the Company's financial reporting process on behalf of the Board. The Audit Committee reviewed the fiscal 2008 audit plans of the Company's independent registered public accounting firm and internal audit staff, reviewed the audit of the Company's accounts with the independent public accountants and the internal auditors, considered the adequacy of audit scope and reviewed and discussed with the auditors and management the auditors' reports. The Audit Committee also reviewed environmental surveys and compliance activities for the Company's facilities and the expense accounts of executive officers and directors. The Audit Committee also reviews and decides on conflicts of interest and related person transactions that may affect executive officers and directors. In January 2009 the Board designated Mr. James H. Keyes, Mr. Steven J. Klinger and Mr. David D. Harrison as Audit Committee financial experts, as defined by applicable law. In fiscal year 2008, the Audit Committee held 12 meetings. The Audit Committee conducted an evaluation of its performance in January 2009.

**Compensation Committee** The Compensation Committee makes recommendations to the Board with respect to the election and responsibilities of all executive officers, reviews and approves the compensation of executive officers who are not also directors of the Company, recommends to the independent members of the Board the compensation of executive officers who also are directors of the Company, administers the Company's equity compensation plans, furnishes an annual Compensation Committee Report on executive compensation and reviews and discusses the Compensation Discussion & Analysis ( CD&A ) with management and recommends to the Board the inclusion of the CD&A in the Company's proxy statement. Upon management's recommendation, the Compensation Committee also reviews basic changes to non-represented employees' base compensation and incentive and benefit plans. Additional information on the roles and responsibilities of the Compensation Committee is provided in the CD&A on page 26 of this proxy statement. The Compensation Committee held 8 meetings in fiscal year 2008. The Compensation Committee conducted an evaluation of its performance in December 2008.

**Executive Committee** The Executive Committee is composed of 3 directors, 2 of whom are independent directors. The Executive Committee represents the Board between meetings for the purpose of consulting with officers, considering matters of importance and either taking action or making recommendations to the Board. The Executive Committee held no meetings in fiscal year 2008.

**Finance Committee** The Finance Committee reviews the Company's financing requirements, custody and management of assets which fund the pension and retirement savings plans of the Company's subsidiaries, procedures by which projections and estimates of cash flow are developed, dividend policy and operating and capital expenditure budgets. The Finance Committee held 6 meetings in fiscal year 2008. The Finance Committee conducted an evaluation of its performance in December 2008.

**Nominating and Governance Committee** The Nominating and Governance Committee is responsible for the organization of the Board, reviewing and making recommendations to the Board concerning nominees for election as directors and reviewing and recommending corporate governance practices, policies of the Company and changes to the Company's charter and by-laws. In addition, the Nominating and Governance Committee leads the Board in its self-evaluation process. The Nominating and Governance Committee held 9 meetings in fiscal year 2008. The Nominating and Governance Committee conducted an evaluation of its performance in December 2008.



**Table of Contents**

**CODE OF CONDUCT**

Our Code of Conduct is a code of ethics (the Code ) applicable to all of our directors, officers and employees which establishes the principles, policies and conduct for professional behavior in the workplace. Every director, officer and employee is required to read and follow the Code. Any waiver of the Code for executive officers or directors of the Company requires the approval of the Audit Committee and must be promptly disclosed to the Company's stockholders. We intend to disclose on the Investor Relations section of our website (<http://ir.navistar.com> - click on Corporate Governance and then Governance Documents ) any amendments to, or waivers from, the Code that is required to be publicly disclosed under the rules of the SEC.

The Audit Committee has established procedures for employees, vendors and others interested parties to communicate concerns with respect to our accounting, internal controls or financial reporting to the Audit Committee, which has responsibility for these matters. Concerns may be reported as follows:

**Via the Navistar Business Abuse**

<b>and Compliance Hotline</b>	<b>Write to the Audit Committee</b>	<b>E-mail the Audit Committee</b>
<p>1 -877-734-2548</p> <p>or via the Internet at</p> <p><a href="http://tnwinc.com/webreport/default.asp">tnwinc.com/webreport/default.asp</a></p>	<p style="text-align: center;">Audit Committee</p> <p style="text-align: center;">c/o Corporate Secretary</p> <p style="text-align: center;">Navistar International Corporation</p> <p style="text-align: center;">4201 Winfield Road</p> <p style="text-align: center;">P.O. Box 1488</p> <p style="text-align: center;">Warrenville, IL 60555</p>	<p style="text-align: center;"><a href="mailto:Audit.committee@navistar.com">Audit.committee@navistar.com</a></p>

**AUDIT COMMITTEE REPORT**

Management of the Company has the primary responsibility for the integrity of the accounting, auditing and financial reporting practices of the Company. The Independent Registered Public Accounting Firm (the Auditors ) are responsible for performing an independent audit of the Company's consolidated financial statements and internal controls over financial reporting in accordance with standards established by the Public Company Accounting Oversight Board (United States) and issuing a report thereon. The Audit Committee's responsibility is to monitor these processes. In this regard, the Audit Committee meets periodically with management, the internal auditors and the Auditors. The Audit Committee has the authority to conduct or authorize investigations into any matters within the scope of its responsibilities and the authority to retain such outside counsel, experts and other advisors as it determines appropriate to assist it in conducting any such investigations. The Audit Committee is responsible for selecting and, if appropriate, replacing our auditors, KPMG LLP ( KPMG ).

The Audit Committee has discussed with the Company's auditors the overall scope and execution of the independent audit and has reviewed and discussed the audited financial statements with management. Discussions about the Company's audited financial statements included the auditors' judgments about not only the acceptability of the accounting principles, but also the quality, the reasonableness of significant judgments and the clarity of disclosures in the financial statements. The Audit Committee also discussed with the auditors other matters required by Statement on Auditing Standards No. 114 *The Auditor's Communication With Those Charged With Governance* (which replaced Statement on Auditing Standards No. 61 *Communication with Audit Committees, as amended by SAS No. 90 Audit Committee Communications*). The Auditors provided to the Audit Committee the written disclosures and the letter required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence, and the Audit

## Edgar Filing: NAVISTAR INTERNATIONAL CORP - Form DEF 14A

Committee discussed the auditors' independence with management and the Auditors. The Audit Committee concluded that the Auditors' independence had not been impaired.

Based on the above-mentioned review and discussions with management and KPMG, and subject to the limitations on the roles and responsibilities of the Audit Committee referred to above and in the Audit Committee's written charter, the Audit Committee recommended to the Board that the Company's audited consolidated financial statements be included in its Annual Report on Form 10-K for the fiscal year ended October 31, 2008 for filing with the SEC. In addition, the Audit Committee has engaged KPMG to serve as the Company's Independent Registered Accounting Firm for 2009.

Audit Committee

James H. Keyes, Chairman

Y. Marc Belton

John D. Correnti

David D. Harrison

Steven J. Klinger

Table of Contents**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FEE INFORMATION**

In February 2008 our Audit Committee approved the engagement of KPMG as our independent registered public accounting firm. The following table presents aggregate fees billed or expected to be billed by KPMG for audit services and fees for audit-related services (including associated out-of-pocket costs) incurred for the years ended October 31, 2008 and 2007, on our behalf:

(in millions)	2008	2007
Audit fees	\$25.3	\$25.7
Audit-related fees	\$ 0.2	0.2
Total fees	\$25.5	\$25.9

A description of the types of services provided in each category is as follows:

**Audit Fees** These are fees for professional services for the audit of our annual consolidated financial statements, limited review of our quarterly consolidated financial statements, and services that are normally provided in connection with statutory and regulatory filings. This includes fees for the audit of Navistar Financial Corporation ( NFC ) and fees in connection with the ongoing SEC investigation related to our financial statements.

**Audit-Related Fees** These are fees for the assurance and related services that are reasonably related to the performance of the audit or review of our financial statements, including procedures related to NFC s securitization transactions.

The Audit Committee pre-approved all audit and non-audit services provided to us in accordance with the Audit Committee s pre-approval policy. In accordance with the Audit Committee s pre-approval policy, the Audit Committee annually considers for pre-approval all proposed audit and non-audit services which are known early in the year to be performed in the coming year by our independent registered public accounting firm and the estimated fees for such services. Additional fees related to audit services proposed to be provided within the scope of the approved engagement may be pre-approved by management, so long as the fees for such additional services individually or in the aggregate do not exceed \$400,000 in any 12-month period, and are reported to the Audit Committee at the next regularly scheduled committee meeting. Other proposed audit-related or non-audit services (not within the scope of the approved engagement) may be considered and, if appropriate, pre-approved by the chair of the Audit Committee if the related additional fees are estimated to be less than \$250,000, otherwise the Audit Committee must pre-approve all additional audit-related and non-audit services to be performed by our independent registered public accounting firm. In making its decision to utilize our independent registered public accounting firm, the Audit Committee considers whether the provision of such services is compatible with maintaining that firm s independence and to that end receives certain representations from the firm regarding their independence and permissibility under applicable laws and regulations of non-audit services provided by the firm to us.

## *RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM*

### **PROPOSAL 2 RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board seeks an indication from stockholders of their approval or disapproval of the Audit Committee's appointment of KPMG as the Company's Independent Registered Public Accounting Firm for fiscal 2009. KPMG has been the Company's auditors since 2006. For additional information regarding the Company's relationship with KPMG, please refer to the Audit Committee Report on page 14 and the Audit Fees presented above.

If the appointment of KPMG as auditors for 2009 is not approved by the stockholders, the adverse vote will be considered a direction to the Audit Committee to consider other auditors for next year. However, because of the difficulty in making any substitution of auditors after the beginning of the current year, the appointment for fiscal 2009 will stand, unless the Audit Committee finds other good reason for making a change.

Representatives of KPMG will be present at the Annual Meeting and will have the opportunity to make a statement if they desire to do so. The representatives will also be available to respond to questions at the Annual Meeting.

***YOUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSAL 2.***

**Table of Contents**

**2004 PERFORMANCE INCENTIVE PLAN PERFORMANCE MEASUREMENTS**

**▶ PROPOSAL 3 APPROVAL OF THE MATERIAL TERMS OF THE PERFORMANCE MEASUREMENTS AND GOALS SET FORTH IN OUR 2004 PERFORMANCE INCENTIVE PLAN**

On February 17, 2004, the stockholders of the Company approved our 2004 Performance Incentive Plan (the Plan), including the performance measurements and goals set forth therein. The Plan has been amended from time to time and was most recently amended and restated on January 9, 2009.

In accordance with Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code) and the regulations promulgated thereunder, we are now requesting stockholder re-approval of the material terms of the performance measurements and goals set forth in the Plan. We are submitting this proposal to the stockholders at this time in accordance with the requirements of Section 162(m) of the Code and the rules of the New York Stock Exchange.

Specifically, re-approval of the material terms of the performance measurements and goals under the Plan is required under Section 162(m) of the Code to preserve the Company's deduction for compensation relating to certain awards granted under the Plan to certain executive officers. The Board believes that re-approval of the Plan is necessary to meet the Company's objectives of attracting, motivating and retaining employees, directors and consultants. The performance measurements and goals were approved by our stockholders when the Plan was originally adopted and have not been changed since then. You are not being asked to approve any amendments to the Plan.

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

Below is a description of the principal features of the Plan.

***YOUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSAL 3.***

**Principle Features of the Plan**

The following is a summary of the principle features of the Plan and is qualified in its entirety by reference to the complete text of the Plan, which is attached to this proxy statement as Appendix A.

**Eligibility.** Employees eligible to be considered for awards under the Plan are key employees of the Company and its subsidiaries, including the Company's executive officers, who are designated by the Compensation Committee (typically senior managers and above). All non-employee directors and consultants are also eligible to be considered for certain awards under the Plan. As of January 12, 2009, there were approximately 12 of current or former non-employee directors, 1 current consultant and 305 of current or former key employees eligible to participate in the Plan.

**Shares Authorized under the Plan.** A total of 3,250,000 shares of common stock are reserved for awards under the Plan. No more than 1,000,000 of these shares may be used over the term of the Plan for awards other than stock options. In addition, the total number of shares of common stock that will be available as awards under the Plan in any calendar year to any one individual will not exceed 1,000,000 shares. Shares subject to awards under the Plan or any other prior plan that are cancelled, expired, forfeited, settled in cash, tendered to satisfy the purchase price of an award, withheld to satisfy tax obligations or otherwise terminated without a delivery of shares to the participant again become available for awards under the Plan. The Compensation Committee may make appropriate adjustments in the number of shares available under the Plan to reflect any stock dividend, recapitalization, merger, consolidation, split-up, combination or exchange of shares, spinoffs or other similar event. As of January 2, 2009, 895,150 shares of common stock remain available for issuance under the Plan.

**Plan Benefits.** Future benefits under the Plan are not currently determinable. Moreover, the benefits to any director, officer, employee or consultant from future equity awards will not increase by reason of approval of this proposal. Whether future awards will be made will depend on Compensation Committee action, and the value of any future equity awards will ultimately depend on the future price of the Company's common stock, among other factors, and will be subject to such

**Table of Contents**

vesting conditions as the Compensation Committee determines from time to time. For further details on the awards grant for fiscal 2008, please refer to the executive and director compensation tables beginning on page 34 and 48, respectively, of this proxy statement.

In accordance with SEC rules, the following table lists all options granted to the individuals and groups indicated below since the adoption of the Plan in 2004. The option awards listed below for the covered executives and directors include the option awards listed in the executive and director compensation tables beginning on page 34 and 48, respectively, of this proxy statement and are not additional awards. As of January 12, 2009, the closing price of Navistar stock on the NYSE was \$28.80 per share.

<b>Persons or Groups of Persons</b>	<b>Options</b>
Daniel C. Ustian Chairman, President and Chief Executive Officer	365,256
William A. Caton Executive Vice President and Chief Risk Officer  (formerly Chief Financial Officer)	89,642
Terry M. Endsley Executive Vice President and Chief Financial Officer	52,759
Deepak T. Kapur President, Truck Group	127,359
Pamela J. Turbeville Senior Vice President and Chief Executive Officer  Navistar Financial Corporation	123,117 <sup>(1)</sup>
Steve K. Covey Senior Vice President, Chief Ethics Officer  and General Counsel	82,503
All current executive officers as a group <sup>(2)</sup>	840,636
All current directors who are not executive officers as a group	76,800
Each nominee for election as a director	
Y. Marc Belton	11,600
Terry M. Endsley	52,759
Michael N. Hammes	11,600
Each associate of any such director, executive officer or nominees	
Each other person who received or is to receive 5% of such options, warrants or rights	
All employees, including all current officers who are not executive officers as a group	2,090,212

<sup>(1)</sup> Includes 40,614 restoration stock option grants.

<sup>(2)</sup> Includes the executives listed above.

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



## **Table of Contents**

**Effective Date; Term of the Plan.** The effective date of the Plan is February 17, 2004 and the effective date of this proposal if approved would be February 17, 2009. The term of the Plan is ten years from February 17, 2004. No awards may be granted under the Plan after February 16, 2014, but awards made before that date may continue to be exercisable and/or to vest after that date, and will otherwise be governed by the terms of the Plan.

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

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

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

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

Provisions that permit a participant to elect to restore a stock option upon exercise may be contained in the terms of the stock options awarded to employees or consultants. However, the Compensation Committee may not reprice, or otherwise discount, any outstanding stock option. Restoration provisions under the Plan generally permit the exercise of vested non-qualified stock options (the underlying option) by use of common stock that has been owned by the participant, for at least six months if acquired from the Company. New restoration stock options are then granted to the participant at the fair market value of the common stock on the date of the grant of the restoration option in an amount equal to the number of shares that were used to exercise the underlying stock option, plus the number of shares that were withheld for the required tax liability. The restoration stock option will have a term equal to the remaining term of the underlying option, will generally become exercisable six months after the date of grant, and otherwise will have the same general terms and conditions of other non-qualified stock option granted under the Plan. The shares that represent the difference between the exercise price of the underlying option and the value of the shares on the date of exercise (less withholding taxes) generally cannot be transferred by the participant for a period of three years after exercise of the underlying option. Prior to January 1, 2005, a participant may have elected to defer delivery of those shares. For any grants made under the Plan after January 1, 2005, participants may no longer defer delivery of those shares. Non-employee directors may not be granted restoration stock options under the Plan. In December 2008, the Compensation Committee approved the elimination of the Restoration Stock Option Program under the Plan in connection with future long-term incentive grants, beginning with the grants made in December 2008.

**Restricted Stock and Stock Units.** The Plan also provides for the granting of stock awards to employees, consultants and non-employee directors that consist of grants of restricted common stock or units denominated in common stock. The terms, conditions and limitations applicable to any award of restricted stock or stock unit will be



**Table of Contents**

decided by the Compensation Committee. However, any restricted stock and stock unit award must have a minimum restriction period of three years from the date of grant, except that the Plan provides for earlier vesting upon a termination due to death. Participants holding restricted stock awarded under the Plan will be entitled to receive dividends, if and when declared by the Board.

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

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

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

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

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

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

Stock Options and/or SARs that are exercisable for more than 1,000,000 shares of common stock in the aggregate;

Restricted stock and/or stock units covering or relating to more than 1,000,000 shares of common stock in the aggregate; or

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



## **Table of Contents**

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

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

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

## **Federal Income Tax Consequences**

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

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

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

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

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

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

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

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

**Table of Contents****PART THREE OTHER IMPORTANT INFORMATION*****PERSONS OWNING MORE THAN FIVE PERCENT OF NAVISTAR COMMON STOCK***

This table indicates, as of January 12, 2009, all persons we know to be beneficial owners of more than 5% of our common stock. This information is based on a review of Schedule 13D, Schedule 13G and Form 4 reports filed with the SEC by each of the firms listed in the table below.

Name and Address	Total Amount and Nature of Beneficial Ownership	Percent of Class
Harbinger Capital Partners Master Fund I, Ltd c/o International Fund Services (Ireland) Limited Third Floor, Bishop s Square Redmond s Hill Dublin, L2 00000 Harbinger Capital Partners Special Situations Fund, L.P. Harbinger Capital Partners Special Situations GP, LLC HMC-New York, Inc. Philip Falcone 555 Madison Avenue, 16(th) Floor New York, New York 10022 Harbinger Capital Partners Offshore Manager, L.L.C. HMC Investors, L.L.C. Harbert Management Corporation Raymond J. Harbert Michael D. Luce 2100 Third Avenue, Suite 600 Birmingham, Alabama 35203	9,650,969(A)(B)	13.55%

Edgar Filing: NAVISTAR INTERNATIONAL CORP - Form DEF 14A

International Truck and Engine Corporation

Non-contributory Retirement Plan Trust

International Truck and Engine Corporation

Retirement Plan for Salaried Employees Trust

International Truck and Engine Corporation

7,755,030(C)

10.30%

Retiree Health Benefit Trust

c/o International Truck and Engine Corporation

4201 Winfield Road

Warrenville, Illinois 60555

Bank of America Corporation

NB Holdings Corporation

Bank of America N.A.

United States Trust Company, N.A.

BAC North America Holding Company

LaSalle Bank Corporation

LaSalle Bank, N.A.

(D)

(D)

Banc of America Securities Holdings Corporation

Banc of America Securities LLC

Columbia Management Group, LLC

Columbia Management Advisors, LLC

100 North Tryon Street, 25th Floor

Bank of America Corporate Center

Charlotte, NC 28255

FMR LLC

Edward C. Johnson 3d

82 Devonshire Street

Boston, Massachusetts 02109

7,643,053(E)

10.74%



**Table of Contents**

Name and Address	Total Amount and Nature of Beneficial Ownership	Percent of Class
Owl Creek I, L.P.		
Owl Creek II, L.P.		
Owl Creek Advisors, LLC		
Owl Creek Asset Management, L.P.	6,729,452(F)	9.45%
Jeffrey A. Altman		
640 Fifth Avenue, 20th Floor, New York, NY 10019		
Tontine Overseas Associates, LLC		
Tontine Partners, L.P.		
Tontine Management, LLC		
Jeffrey L. Gendell	4,724,400(G)	6.73%
55 Railroad Avenue		
Greenwich, Connecticut 06830		
Schneider Capital Management Corporation		
460 E Swedesford Road. Suite 2000	3,537,335(H)	5.04%
Wayne, Pennsylvania 19087		

(A) As reported in a Schedule 13G, as amended by Amendment No. 2, filed with the SEC on February 14, 2008 and a Form 4 filed with the SEC on January 8, 2009. It was reported in the Schedule 13G that (1) 7,000,000 shares, or 10.0% of the common stock outstanding of Navistar are beneficially owned by Harbinger Capital Partners Master Fund I, Ltd. (the Master Fund), over which it has shared voting power and shared dispositive power and no sole voting power or sole dispositive power, (2) 7,000,000 shares, or 10.0% of the common stock outstanding of Navistar are beneficially owned by Harbinger Capital Partners Offshore Manager, L.L.C. ( Harbinger Management), over which it has shared voting power and shared dispositive power and no sole voting power or sole dispositive power, (3) 7,000,000 shares, or 10.0% of the common stock outstanding of Navistar are beneficially owned by HMC Investors, L.L.C. ( HMC Investors), over which it has shared voting power and shared dispositive power and no sole voting power or sole dispositive power (4) 10,150,969 shares, or 14.5% of the common stock outstanding of Navistar are beneficially owned by Harbert Management Corporation ( HMC), over which it has shared voting power and shared dispositive power and no sole voting power or sole dispositive power, (5) 10,150,969 shares, or 14.5% of the common stock outstanding of Navistar are beneficially owned by Philip Falcone, over which he has shared voting power and shared dispositive power and no sole voting power or sole dispositive power, (6) 10,150,969 shares, or 14.5% of the common stock outstanding of Navistar are beneficially owned by Raymond J Harbert, over which he has shared voting power and shared dispositive power and no sole voting power or sole dispositive power and (7) 10,150,969 shares, or 14.5% of the common stock outstanding of Navistar are beneficially owned by Michael D. Luce, over which he has shared voting power and shared dispositive power and no sole voting power or sole dispositive power. Some or all of the information reported in the Schedule 13G may be superseded by the information contained in the Form 4 filing.

(B) It was reported in the Form 4 filed with the SEC on January 8, 2009 that 500,000 shares of common stock were sold leaving 6,500,000 shares, or 9.13% of the common stock outstanding of Navistar, are beneficially owned by the Master Fund and that such securities may be deemed to

## Edgar Filing: NAVISTAR INTERNATIONAL CORP - Form DEF 14A

be beneficially owned by HMC, Philip Falcone, Raymond J. Harbert and Michael D. Luce. As stated in the Form 4, HMC serves as managing member of the managing member of the investment manager of the Master Fund. Philip Falcone is the portfolio manager of the Master Fund and a shareholder of HMC, and Raymond J. Harbert and Michael D. Luce are stockholders of HMC. It is stated in the Form 4 that each reporting person disclaims beneficial ownership of the reported securities except to the extent of his or its pecuniary interest therein. It was further reported in the Form 4 that 3,150,969 shares, or 4.42% of the common stock of Navistar, are beneficially owned by Harbinger Capital Partners Special Situations Fund, L.P. (the Special Situations Fund ) and that such securities may be deemed to be beneficially owned by HMC, Philip Falcone, Raymond J. Harbert and Michael Luce. As stated in the Form 4, HMC wholly owns the managing member of the Special Situations Fund's general partner, Philip Falcone is the portfolio manager of the Special Situations Fund and is a shareholder of HMC, and Raymond J. Harbert and Michael D. Luce are stockholders of HMC. It is stated in the Form 4 that each reporting person disclaims beneficial ownership of the reported securities except to the extent of his or its pecuniary interest therein.

Page 22

**Table of Contents**

- (C) As reported in Schedule 13G, as amended by Amendment No. 1, filed May 19, 2006 with the SEC by Navistar, International Truck and Engine Corporation ( International ), International Truck and Engine Corporation Non-Contributory Retirement Plan Trust (the Hourly Trust ), International Truck and Engine Corporation Retirement Plan for Salaried Employees Trust (the Salaried Trust ), and International Truck and Engine Corporation Retiree Health Benefit Trust (the Health Benefit Trust ). It is reported in the Schedule 13G that on November 8, 2002 NIC sold an aggregate amount of 7,755,030 shares of its common stock, in three separate transactions as follows: 4,653,018 shares to the Hourly Trust, 1,551,006 shares to the Salaried Trust and 1,551,006 shares to the Health Benefit Trust. Each trust is a funding trust for an employee benefit plan sponsored by International. The trust agreements of the Hourly Trust and the Salaried Trust provide that the trustee of the trust is only a directed trustee with respect to Navistar stock held by the trusts and that the Pension Fund Investment Committee of International (whose members are for the most part executive officers of Navistar, the PFIC ), or an investment manager designated by the PFIC, is to direct the trustee with respect to the voting or disposition of Navistar stock. The trust agreement for the Health Benefit Trust provides that International, or an investment manager appointed by International, is to direct the trustee with respect to voting and disposition of Navistar stock. International has delegated authority for such matters related to the Health Benefit Trust to the PFIC. Jennison Associates LLC had subsequently been appointed the investment manager for each trust with respect to the Navistar stock, and Jennison had been given discretionary authority regarding voting and disposition of the Navistar stock. Subsequently, on May 8, 2006, the United States Trust Company, National Association ( US Trust ) was appointed as investment manager for each of the trusts to replace Jennison Associates, LLC who resigned its appointment effective the close of business May 7, 2006. Like Jennison, US Trust has been given discretionary authority regarding voting and disposition power over the Navistar stock. See paragraph D below. Since the PFIC and Navistar have the power to revoke or change the appointment of US Trust (and therefore reacquire the voting and dispositive control over the Navistar stock), the committee, International or Navistar could be considered beneficial owners of the Navistar stock.
- (D) As reported in Schedule 13G, as amended by Amendment No. 2, filed February 11, 2008 with the SEC by Bank of America Corporation ( BofA ) and the other reporting persons indicated above. It is reported in the Schedule 13G that 7,763,030 shares or 11.05% of the common stock outstanding of Navistar are beneficially owned by BofA, over which it has shared voting power and shared dispositive power. This filing amends the statement on Schedule 13G filed by United States, N.A. ( US Trust ) with the SEC on February 14, 2007. United States Trust Company, N.A. merged into Bank of America Corporation on July 1, 2007. On May 8, 2006, US Trust was appointed as investment manager for each of the trusts to replace Jennison Associates, LLC who resigned its appointment effective the close of business May 7, 2006. US Trust has been given discretionary authority regarding voting and disposition power over the Navistar stock. See paragraph C above.
- (E) As reported in a Schedule 13G filed October 10, 2008 with the SEC by FMR LLC ( FMR ), Edward C. Johnson, 3d, Chairman of FMR, and Fidelity Management and Research Company, a wholly-owned subsidiary of FMR and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940 ( Fidelity ). It is reported in the Schedule 13G that (1) Fidelity is the beneficial owner of 5,581,584 shares or 7.842% of the common stock outstanding of Navistar as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940, (2) Edward C. Johnson 3d, FMR, through its control of Fidelity, and certain funds each has sole power to dispose of 5,581,584 shares owned by such funds and neither FMR nor Edward C. Johnson 3d, has sole power to vote or direct the voting of the shares owned directly by such funds, which power resides with such funds Boards of Trustees. Fidelity carries out the voting of the shares under written guidelines established by such funds Boards of Trustees, (3) Pyramis Global Advisors, LLC ( PGALLC ), an indirect wholly-owned subsidiary of FMR and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, is the beneficial owner of 392,080 shares or 0.551% of the common stock outstanding of Navistar as a result of its serving as investment advisor to the institutional account(s), non-U.S. mutual funds, or investment companies registered under Section 8 of the Investment Company Act of 1940 owning such shares, (4) Edward C. Johnson 3d and FMR, through its control of PGALLC, each has sole dispositive power over 392,080 shares and sole power to vote or to direct the voting of 392,080 shares owned by the institutional account(s) or funds advised by PGALLC as reported above, (5) Members of the family of Edward C. Johnson 3d are the predominant owners, directly or through trusts, of Series B voting common shares of FMR, representing 49% of the voting power of FMR. The Johnson family group and all other Series B shareholders have entered into a shareholders voting agreement under which all Series B voting common shares will be voted in accordance with the majority vote of Series B voting common shares. Accordingly, through their ownership of voting common shares and the execution of the shareholders voting agreement, members of the Johnson family may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR, (6) Pyramis Global Advisors Trust Company ( PGATC ), an indirect wholly-owned subsidiary of FMR and a bank as defined in Section 3(a)(6) of the Securities Exchange Act of 1934, is the beneficial owner of 862,690 shares or 1.212% of the outstanding common stock of Navistar as a result of its serving as investment manager of institutional accounts owning such shares, (7) Edward C. Johnson 3d and FMR, through its control of PGATC, each has sole dispositive power over 862,690 shares and sole power to vote or to direct the voting of 828,810 shares of common stock owned by the institutional accounts managed by PGATC as reported above, and (8) FIL Limited ( FIL ) and various foreign-based subsidiaries provide investment advisory and management services to a number of non-U.S. investment companies and certain institutional investors. FIL is the beneficial owner of 806,699 shares or 1.133% of the common stock outstanding of Navistar.
- (F) As reported in Schedule 13D, as amended by Amendment No. 2, filed November 18, 2008 with the SEC by Owl Creek I, L.P., Owl Creek II, L.P., Owl Creek Advisors, LLC, Owl Creek Asset Management, L.P. and Jeffrey A. Altman. It is reported in the Schedule 13D that (1) 137,502 shares, or 0.19% of the common stock outstanding of Navistar are beneficially owned by Owl Creek I, L.P., over which it has shared voting power and shared dispositive power, (2) 1,124,902 shares, or 1.58% of the common stock outstanding of Navistar are beneficially owned by Owl Creek II, L.P., over which it has shared voting power and shared dispositive power, (3) 1,262,404 shares, or 1.77% of the common stock outstanding of Navistar are beneficially owned by Owl Creek Advisors, LLC, over which it has shared voting power and shared dispositive power, (4) 5,467,048 shares, or 7.68% of the common stock outstanding of Navistar are beneficially owned by Owl Creek Asset Management,

## Edgar Filing: NAVISTAR INTERNATIONAL CORP - Form DEF 14A

L.P. over which it has shared voting power and shared dispositive power, (5) 6,729,452 shares, or 9.45% of the common stock outstanding of Navistar are beneficially owned by Jeffrey A. Atiman, over which he has shared voting power and shared dispositive power and (6) Owl Creek Advisors, LLC is the general partner of Owl Creek I and Owl Creek II, and as such has the power to direct the affairs of Owl Creek I and Owl Creek II, Owl Creek Asset Management, L.P. is the investment manager of Owl Creek Overseas Fund, Ltd and Owl Creek Socially Responsible Investment Fund, Ltd, and as such has the power to direct the affairs of Owl Creek Overseas Fund, Ltd and Owl Creek Socially Responsible Investment Fund, Ltd and Jeffrey A. Altman is the managing member of Owl Creek Advisors, LLC and the managing member of the general partner of Owl Creek Asset Management, L.P., and in such capacities has the power to direct their operations.

**Table of Contents**

- (G) As reported in Schedule 13G, as amended by Amendment No. 2, filed February 12, 2008 with the SEC by Tontine Overseas Associates, LLC, Tontine Partners, LP, Tontine Management, LLC and Jeffrey L. Gendell. It is reported in the Schedule 13G that (1) 1,894,820 shares, or 2.70% of the common stock outstanding of Navistar are beneficially owned by Tontine Overseas Associates, LLC, over which it has shared voting power and shared dispositive power and no sole voting power or sole dispositive power, (2) 2,829,580 shares, or 4.03% of the common stock outstanding of Navistar are beneficially owned by Tontine Partners, L.P., over which it has shared voting power and shared dispositive power and no sole voting power or sole dispositive power, (3) 2,829,580 shares, or 4.03% of the common stock outstanding of Navistar are beneficially owned by Tontine Management, LLC., over which it has shared voting power and shared dispositive power and no sole voting power or sole dispositive power, and (4) Tontine Management, LLC is the general partner of Tontine Partners, LP, and as such has the power to direct the affairs of Tontine Partners, LP and that Jeffrey Gendell is the managing member of Tontine Management, LLC and Tontine Overseas Associates, LLC, and in that capacity directs their operations.
- (H) As reported in Schedule 13G, as amended by Amendment No. 1, filed February 13, 2008 with the SEC by Schneider Capital Management Corporation. It is reported in the Schedule 13G that 3,537,335 shares, or 5.04% of the common stock outstanding of Navistar are beneficially owned by Schneider Capital Management Corporation, over which it has sole voting power with respect to 2,561,977 shares, shared voting power with respect to 0 shares, sole dispositive power with respect to 3,537,335 shares and shared dispositive power with respect to 0 shares.

**Table of Contents****NAVISTAR COMMON STOCK OWNED BY EXECUTIVE OFFICERS AND DIRECTORS**

This table shows how much common stock our executive officers and directors beneficially own as of December 31, 2008. In general, beneficial ownership includes those shares a director or executive officer has the power to vote or transfer, and stock options exercisable within 60 days. Except as noted, the persons named in the table below have the sole voting and investment power with respect to all shares beneficially owned by them.

Name/Group	Number of Shares			Percent of Class
	Owned <sup>(1)</sup>	Obtainable Through Stock Option Exercise	Total	
Y. Marc Belton	4,252	23,000	27,252	*
William A. Caton	78,861	47,700	126,561	*
Eugenio Clariond	7,374	16,000	23,374	*
John D. Correnti	19,707	23,000	42,707	*
Steven K. Covey	27,869	75,400	103,269	*
Terry M. Endsley	34,860	65,633	100,493	*
Dr. Abbie Griffin	4,332	18,500	22,832	*
Michael N. Hammes	4,712	16,500	21,212	*
David D. Harrison	1,333		1,333	*
Deepak T. Kapur	71,104	155,333	226,437	*
James H. Keyes	17,757	16,000	33,757	*
Steven J. Klinger	1,333		1,333	*
Daniel C. Ustian	132,559	730,970	863,529	1.2
Dennis D. Williams				*
All Directors and Executive Officers as a Group (19 persons)	466,675	1,347,748	1,814,423 <sup>(2)</sup>	2.6

\* Percentage of shares beneficially owned does not exceed one percent.

(1) The number of shares shown for each executive officer (and all executive officers as a group) includes the number of shares of Company common stock owned indirectly, as of December 31, 2008, by such executive officers in our 401(k) Retirement Savings Plan and Retirement Accumulation Plan, as reported to us by the Plan trustee.

(2) Includes shares over which there is shared voting and investment power as follows: Directors and Executive Officers as a Group 6,357 shares. The number of shares owned by each director and executive officer (and all directors and executive officers as a group) includes restricted stock units ( RSUs ) that were granted under the 2004 Performance Incentive Plan on September 18, 2008. The RSUs vest ratably over a three year period with 25% vesting on each of the first and second anniversary of the date of grant, with the remaining 50% vesting on the third anniversary of the date of grant. At the request of the UAW, the UAW representative director, Dennis Williams, does not receive stock or stock option grant awards.

Under our Executive Stock Ownership Program, executives may defer their cash bonus into deferred share units ( DSUs ). If an executive officer has elected to defer a cash bonus, the number of shares shown for such executive officer includes these DSUs. These DSUs vest immediately. The number of shares shown for each executive officer (and all executive officers as a group) also includes premium share units ( PSUs ) that were awarded pursuant to the Executive Stock Ownership Program. PSUs vest in equal installments on each of the first three anniversaries of the date on which they are awarded.

Under our Non-Employee Directors Deferred Fee Plan, directors may defer all or a portion of their annual retainer and meeting fees into phantom stock units. If a director has elected to defer a portion of their annual retainer and/or meeting fees into phantom stock units, these phantom stock units are shown in this column.

Under our 2004 Performance Incentive Plan and prior plans, executives may defer the receipt of shares of Company common stock due in connection with a restoration stock option exercise of non-qualified stock options that were vested prior to December 31, 2004. If an executive has elected to defer receipt of these shares into stock units, these stock units are also shown

in this column. The deferral feature has been eliminated with respect to future stock option grants under the 2004 Performance Incentive Plan and for non-qualified stock options granted from prior plans that vest on or after January 1, 2005. In December 2008, the Compensation Committee approved the elimination of the Restoration Stock Option Program under the 2004 Performance Incentive Plan in connection with future long-term incentive grants, beginning with the grants made in December 2008.

---

**Table of Contents**

**COMPENSATION**

**Compensation Discussion and Analysis for Fiscal 2008 (November 1, 2007 - October 31, 2008)**

The Compensation Committee (the Committee) of our Board has the responsibility to approve and monitor all compensation and benefit programs for our executive officers (designated as Section 16 Officers) and makes recommendations for the compensation and benefits of our Chief Executive Officer (the CEO) and the Chief Financial Officer (the CFO), which are then approved by the independent members of our Board. As part of its responsibility, the Committee reviews the performance of executive officers and approves compensation based on the overall successes of the individual executive, his or her specific business unit to the extent applicable, and the organization as a whole. The Committee is governed by a written charter, a copy of which is available on the Investor Relations section of our website at <http://ir.navistar.com> (click on Corporate Governance and then Governance Documents) and is available free of charge on request of our Corporate Secretary at 4201 Winfield Road, P.O. Box 1488, Warrenville, IL 60555.

Our executive compensation program for our named executive officers (NEOs), as well as other executives, is designed to closely align executive rewards with corporate, group and individual performance and the total return to stockholders. We developed an overall compensation philosophy that is built on a foundation of guiding principles:

*Competitive Positioning:* Total remuneration is designed to attract and retain the executive talent required to achieve our goals through a market competitive total remuneration package.

*Performance Orientation:* Executive compensation is performance-based with a direct link to Company, business unit, and individual performance. It is also designed to align the interests of executives and stockholders.

*Fairness:* Compensation programs are designed to be fair and equitable across all employee groups and should not unfairly discriminate in favor of any one individual or group on the basis of age, service, or other non-performance related criteria.

*Ownership and Responsibility:* Programs recognize individual contributions as well as link executive and stockholder interests through compensation programs that reward our executives, including our NEOs based on the financial success of the Company and increases to stockholder value.

**Market Compensation Review**

We continuously monitor the market competitiveness of our executive compensation. Over the past couple of years, the Committee has reviewed the executive compensation programs to ensure that (i) pay opportunities are competitive with the market, (ii) there is an appropriate link between performance and pay and (iii) the programs support our stated compensation philosophy. This process included consultation with Hewitt Associates (Hewitt), which compared compensation of our executives, including our NEOs, on base salaries, short-term incentive awards, long-term incentives, perquisites, other benefits and our overall compensation and benefits philosophy to that of our comparator group and broader market practice. Hewitt was engaged by the Committee and is responsible solely to the Committee. The Committee considered both Hewitt's advice and management's opinion in determining the compensation strategy.

On an ad hoc basis, the Committee may engage Hewitt to provide information regarding specific executive compensation topics of interest. From March 1, 2006 through September 11, 2008, we were subject to the blackout trading rules of Regulation BTR of the SEC and as such have been unable to grant equity to our executive officers during that time frame. In anticipation of the lifting of Regulation BTR in 2008, the Committee engaged Hewitt to provide benchmarking information and design recommendations on a long-term incentive program to be granted once Regulation BTR was lifted. As described in the long-term incentive section below, this collaboration between Hewitt, the Committee and management resulted in the development of the Emergence Grant.



Edgar Filing: NAVISTAR INTERNATIONAL CORP - Form DEF 14A

For 2008, our comparator group of 24 companies was chosen from a cross section of manufacturing and transportation and equipment companies that have revenues from one half to two times our revenues. For 2008, American Standard was deleted and Terex Corporation was added to the list. We review executive compensation against this peer group of companies with which we compete for talent. Information about this list of companies is used by Hewitt and management when the Committee requests specific executive compensation analysis. The Committee approved the following peer group for 2008.

Page 26

## **Table of Contents**

### **2008 Compensation Peer Group**

AGCO Corporation	General Dynamics	Lear Corporation
ArvinMeritor, Incorporated	Genuine Parts Company	Masco Corporation
Cummins Incorporated	Goodrich Corporation	PACCAR Incorporated
Danaher Corporation	Goodyear Tire and Rubber	Parker-Hannifin
Deere and Company	Harley Davidson, Incorporated	PPG Industries, Inc.
Dover Corporation	Illinois Tool Works	Terex Corporation
Eaton Corporation	Ingersoll-Rand Co. Ltd.	Textron, Incorporated
Emerson Electric	ITT Industries, Incorporated	TRW Automotive Holdings

Corporation

A broader industry survey published by Hewitt was also used to provide us with additional compensation market data. For individual executive positions, if the market data from the peer group of companies was not statistically reliable because of the small sample size, we also used the manufacturing group (or if the sample size is large enough, the all-industry group) of the broader survey data. When we use broader industry surveys, we use market data within our revenue scope, either overall consolidated revenue for corporate roles and/or business unit revenue for business unit specific roles. This is especially true for the base salary competitive market review.

For base salary, annual incentive, and long-term incentives, we target the 50<sup>th</sup> percentile (market median). We established a policy of targeting base salaries at the 50<sup>th</sup> percentile (market median) of the competitive market, based on the peer group, where available, or the broader industry survey. We refer to this as the competitive market data, competitive marketplace, or the like. We consider an executive to be competitively paid if his or her base salary is within 85 to 115 percent of the market median. Under special circumstances when we are recruiting for critical roles, we target an executive's salary at the 75<sup>th</sup> percentile. Our incentive compensation plans provide executives with the opportunity to earn total compensation at the 50<sup>th</sup> percentile of the competitive market for target corporate performance and at the 75<sup>th</sup> percentile for distinguished corporate and individual performance.

Typically, the Chief Executive Officer (the CEO) makes recommendations to the Committee on annual base salary increases for the NEOs other than himself (see the section entitled *Summary of the Executive Salary Planning Approval Process*). For our Annual Incentives, the CEO may recommend that the Committee adjust awards to reflect individual performance. For long-term incentives, awards generally follow our fixed share guidelines with no adjustments recommended by the CEO.

### **Pay Mix**

Our pay mix of base salary, annual incentive, and long-term incentives generally tracks to the marketplace with the majority of total compensation opportunity, specifically annual and long-term incentives, being contingent on and variable with performance. This structure supports our pay-for-performance compensation philosophy.

### **Elements of Executive Compensation**

The key elements of our executive compensation program include base salary, an annual incentive program, long-term incentives, retirement benefits, perquisites, and other benefits. We also maintain stock ownership guidelines for our executives, including our NEOs. Although decisions relative to each of these compensation elements are made separately, the Committee considers the total compensation and benefits package when making any compensation decision.

### **Base Salary**

We pay each executive officer, on a monthly basis, a competitive base salary for services rendered during the year. Base salaries for executive officers, including our NEOs, were reviewed and adjusted based on evaluating (i) the responsibilities of their positions, (ii) the competitive marketplace data and (iii) the performance of each executive during 2008.

### **Summary of the Executive Salary Planning Approval Process**

The head of each business unit reviews competitive salary market data relevant to his or her direct and indirect reports.

## **Table of Contents**

The head of each business unit provides salary recommendations for his or her direct and indirect reports.

The CEO reviews and approves or adjusts all of these salary recommendations.

The Committee reviews the salary for the CEO and CFO, and the CEO's salary recommendations for all Section 16 Officers. The CEO does not recommend nor is he involved in decisions regarding his own compensation.

The Committee then recommends and the independent members of the Board approve or adjust the salary recommendation for the CEO and CFO. As described in greater detail below, we have a detailed procedure in place for reviewing the performance of the CEO and determining annually the salary of the CEO.

In 2008, based on competitive survey data and a review of individual performance, the Committee increased the base pay of the NEOs by 5.9% on average. These base salary increases resulted in the NEOs as a group being paid at approximately 94% of the competitive market median. Due to the economic environment and our focus on controlling costs, fiscal year 2009 performance increases for executives has been postponed until a later date.

### **CEO Performance Evaluation**

Each year, typically in December, the Committee and the independent members of the Board evaluate the CEO's performance for the prior fiscal year. This review is based on the CEO's achievement of goals set prior to the start of that year. The CEO presents this information to the full independent members of the Board, who then discuss it in executive session. The CEO is not present during this discussion. The independent members' evaluation of the CEO's performance then forms the basis for the decision on the CEO Annual Incentive Plan award ( AI ) for the prior fiscal year and base salary for the new fiscal year. The chair of the Committee then informs the CEO of the compensation decisions and the performance evaluation on which those decisions were based.

In December 2007, the Committee and the independent members of the Board went through the process described above and increased Mr. Ustian's base salary approximately 5% from \$1,125,000 to \$1,180,000 effective January 1, 2008. Prior to this adjustment, Mr. Ustian's last base salary increase was effective January 1, 2006. The independent members of the Board did not recommend a 2009 base salary increase for Mr. Ustian when they met in December 2008.

In December 2008, the independent members of the Board approved a 2008 AI award for Mr. Ustian based upon both the Company's successful financial results and his strong performance in 2008.

### **Annual Incentive**

The Annual Incentive Plan (the AI Plan ) is a short-term incentive program that exists to reward, motivate and retain employees as well as connect rewards with performance for 2008. The AI Plan is a key element in the executive compensation package as the Company intends for a significant portion of an executive's, including the NEO's, total compensation to be performance-related. The AI Plan for 2008 was based on attaining financial and non-financial performance goals established and approved by the Committee. The AI Plan is authorized under our stockholder approved 2004 Performance Incentive Plan (the Plan ). The Plan is an omnibus plan that allows for various awards such as cash, stock options, stock appreciation rights, restricted stock, premium share units, and deferred share units. The AI Plan and the Plan do not have claw-back provisions, which would retract a prior incentive award when financial results are restated after the award was paid.

Traditionally, there are three key performance elements that influence awards under the AI Plan.

*Consolidated Financial Performance:* For all of our executives, consolidated financial performance is heavily weighted in the calculation of incentive payments in order to encourage integrated execution across organizational boundaries within the Company. We believe it is important to encourage executives to work together for the best consolidated results rather than to focus on results at one business unit at the expense of other business units. Consolidated financial goals are based on our Return on Equity ( ROE ), as determined by the Committee. We use ROE because we believe that, in

the long term, it is highly correlated with stock price and stockholder value. We are in a volatile industry, in which demand for our products is subject to cyclical fluctuation. The profitability of our business is heavily influenced by the cycle of truck sales in North America. Consequently, we use the following truck industry demand-adjusted (volume-adjusted) ROE target methodology to evaluate Company performance. We target a 16.5% ROE on average over the business cycle based on a

**Table of Contents**

forecasted average truck industry volume, which is re-evaluated every year based upon industry forecast. This prevents us from giving management an unduly large incentive payment in years when the truck market is strong. Rather, financial results must be even stronger than industry performance for management to receive a payment. Conversely, this methodology is intended to prevent us from unduly under-compensating management in years when the truck market is weak. The volume-adjusted ROE target for 2008 was 3.2%. The amount of income required to earn incentive payments was calculated using this ROE target. The earnings target was \$.59 per share.

*Business Unit Performance:* For executives at our business units, business unit performance is also considered in determining incentive payments, which encourages strong performance at the business unit level. The business unit results are measured on the income (i.e. profit before taxes) needed to support the corporate ROE goal. Other non-financial goals that support cost, quality, and growth initiatives may also be utilized where appropriate. However, generally only financial goals are applicable to awards to our NEOs except where non-financial goals are used for purposes of downward discretion.

*Individual Performance:* This is measured by our annual Total Performance Management (the TPM) assessment. The TPM process is a performance management tool that focuses on employee career development, goal setting, performance appraisals, and evaluation. The TPM assessment reviews how well the executive performed with regard to both individual goals and defined skills and behaviors. However, generally only financial goals are applicable to awards to our NEOs except where individual performance is used for downward discretion.

For 2008, the Committee approved a plan modification under which the monetary pool for AI awards for all participants was based only upon consolidated financial results. Due to our fiscal year 2008 EPS results, the pool was created based upon the maximum percentage allowed under the Plan. In determining final individual AI awards, the Committee used its downward discretion and considered the results of each business unit's achievement of non-financial goals.

The AI Plan has threshold, target, distinguished, and super-distinguished performance payout levels for the NEOs which range from 25% to 200% of target. Based upon performance, in some years, the Company may not make AI payments, but the Company also has the ability under the plan to make maximum payments at 200% of target bonus opportunity for super-distinguished performance. Consolidated financial results between performance levels are interpolated on a straight-line basis to determine payment amounts.

Generally, AI awards are not paid when consolidated results are below threshold, however, in rare circumstances, the plan may allow for payments to executives, including NEOs, who work for a business unit with above-threshold performance when consolidated performance is below threshold. However, under no circumstances will the AI Plan provide payments when net income is negative.

The Committee has the discretion to adjust a bonus payment. In doing so, the Committee historically has considered the requirements of Section 162(m) of the Internal Revenue Code. While the Committee generally intends for incentive compensation to be tax deductible, there may be instances when the Committee decides to award a non-deductible amount. The Committee did not award a non-deductible AI amount for fiscal year 2008.

**2008 AI Plan Weights**

<b>Named Executive Officer</b>	<b>Corporate /Business Unit Weight</b>	<b>Business Unit <sup>(1)</sup></b>
Daniel C. Ustian	100% / 0%	Corporate / Consolidated
William A. Caton	100% / 0%	Corporate / Consolidated
Terry M. Endsley	100% / 0%	Corporate / Consolidated
Deepak T. Kapur	80% / 20%	Truck
Pamela J. Turbeville	80% / 20%	Navistar Financial Corporation
Steven K. Covey	100% / 0%	Corporate / Consolidated

Edgar Filing: NAVISTAR INTERNATIONAL CORP - Form DEF 14A

- (1) For 2008, financial results were measured based on consolidated performance only. Business Unit performance for nonfinancial goals was also considered in determining individual awards for downward discretion only.

**Table of Contents****2008 AI Award Formula**

*Executive's AI Plan Award = Base Salary x AI Plan Target Award Percentage x Consolidated Financial Performance x Business Unit Performance (non-financial goals, if applicable) x Individual Performance*

**2008 AI Target Award Percentages and Amount Earned**

<b>Named Executive Officer</b>	<b>Target as a % of Base Salary</b>	<b>2008 Annual Incentive Amount Earned</b>
Daniel C. Ustian	110%	\$ 2,589,500
William A. Caton	95%	\$ 800,000
Terry M. Endsley	75%	\$ 625,000
Deepak T. Kapur	75%	\$ 900,000
Pamela J. Turbeville	65%	\$ 444,000
Steven K. Covey	65%	\$ 640,000

**Long-Term Incentive**

As discussed above, we were subject to the blackout trading rules of Regulation BTR of the SEC from March 1, 2006 through September 11, 2008 and as such have been unable to grant equity-based compensation to our executive officers during that time frame. An Emergence Grant of restricted stock units ( RSUs ) was granted to eligible plan participants on September 18, 2008. The grant of RSUs vest 25% at the end of years one and two and 50% at the end of year three. At the end of three years, all vested units are converted to, and settled in the form of, Navistar common stock.

Traditionally, our objectives for including long-term incentives as part of our executives' total compensation package include:

- Aligning executive and shareowner interests; tying compensation to share price appreciation;
- Emphasizing returns to stockholders; and
- Cultivating ownership.

Historically, we have focused our long-term incentive plan on the use of stock options to align executives' interests with those of stockholders. To manage the allocation of stock options, the Committee used a fixed share grant approach. The fixed share guideline takes into account the long-term incentive target by position, Black-Scholes valuation methodology, and estimated stock price. This approach was used because:

- Managed dilution;
- Provided the same number of options for similar job roles; and
- Provided a way for us to allocate stock options.

We have never backdated stock options. In addition, as set forth in the Plan, we prohibit stock option repricing. However, within the Plan, there is a Restoration Stock Option Program. Specifically, the Restoration Stock Option Program allows an executive to exercise vested non-qualified stock options by presenting shares that have a total market value equal to the option exercise price times the number of options. New restoration options are then granted with an exercise price equal to the fair market value of our stock at that time in an amount equal to the number of mature shares that were used to exercise the original option, plus the number of shares that were withheld for the required tax liability. The restoration stock options have a term equal to the remaining term of the original option, generally become exercisable six months after the date of grant, and otherwise have the same general terms and conditions of other non-qualified stock options granted under the Company's stock plans. In 2008, none of the NEOs utilized this program. In December 2008, the Committee approved the elimination of the Restoration Stock Option Program under the Plan in connection with future long-term incentive grants, beginning with the grants made in December 2008.



## Edgar Filing: NAVISTAR INTERNATIONAL CORP - Form DEF 14A

In December 2008, a fiscal year 2009 long-term incentive grant under the Plan was approved to eligible plan participants. The grant was based upon our fixed share grant approach, however, we modified our use of 100% stock options to an equity mix of 67% stock options and 33% restricted stock units. We changed the mix to manage our share pool usage.

Page **30**

**Table of Contents****Executive Stock Ownership Program**

We feel that it is important to encourage senior executives to hold a material amount of Company stock and to link their long-term economic interest directly to that of the stockholders. To achieve this goal, we established stock ownership requirements. During 2008, our stock ownership guidelines applied to approximately 58 executives, including our NEOs, the majority of who hold the title of vice president and above. Executives are expected to attain the ownership level of their position within five years of attaining that position. The ownership requirements range from 75% to 300% of base salary and are fixed at the number of shares that are required to be held as of the date of an executive's promotion or hire, based on the fair market value of the shares at that time.

**Executive Stock Ownership as of October 31, 2008**

Named Executive Officer	Ownership Requirement as a % of Base Salary	Number of Shares Required	Number of Shares Owned
Daniel C. Ustian	300%	60,806	114,868
William A. Caton	225%	56,575	70,598
Terry M. Endsley	225%	28,419	28,564
Deepak T. Kapur	225%	25,568	64,808
Pamela J. Turbeville	225%	22,083	38,830
Steven K. Covey	225%	15,666	23,874

**Executive Benefits and Perquisites**

The following table summarizes the executive benefits and perquisites that we provide to our NEOs:

NEO	Life Insurance <sup>(1)</sup>	Executive Physical Program <sup>(2)</sup>	Flexible Perquisite Program <sup>(3)</sup>	Pension /Retirement/ 401(k) Plans <sup>(4)</sup>					Retiree Medical Benefits
				RPSE	MRO	RAP	SRAP	SERP	
Daniel C. Ustian	X	X	X	X	X			X	X
William A. Caton	X	X	X			X	X	X	
Terry M. Endsley	X	X	X	X	X			X	X
Deepak T. Kapur	X	X	X			X	X	X	
Pamela J. Turbeville	X	X	X			X	X	X	
Steven K. Covey	X	X	X	X	X			X	X

(1) Life Insurance. We provide Company paid life insurance equal to five times base salary.

(2)

## Edgar Filing: NAVISTAR INTERNATIONAL CORP - Form DEF 14A

Physical Exams. This program provides a company-paid physical when an executive is first hired or promoted to an executive position. A physical is also required every two years prior to age 50 and every year after age 50. This program helps us ensure the health of our key executives.

- (3) Executive Perquisites for our NEOs. We maintain a perquisite program for our NEOs, which we believe is competitive and consistent with our overall compensation program, and which enables us to attract and retain our executive officers. The Executive Flexible Perquisite Program provides a cash stipend to each of our NEOs, the amount of which varies by executive, based upon the executive's organization level. The purpose of the cash stipend is to provide each of our NEOs with the ability to choose the perquisite that best fits his or her professional and personal situation. This program is in lieu of providing and administering such items as car leases, tax preparation, financial planning, and home security systems. We do not require the NEOs to substantiate the expenses for which they use this stipend. The annual perquisite amount is paid semi-annually in equal installments in May and November.

**Table of Contents****Annual Flexible Perquisite Payments During 2008**

<b>Named Executive Officer</b>	<b>Annual Flexible Perquisite Payment</b>
Daniel C. Ustian	\$ 46,000
William A. Caton	37,000
Terry M. Endsley	37,000
Deepak T. Kapur	37,000
Pamela J. Turbeville	28,000
Steven K. Covey	28,000

In certain circumstances, where a commercial flight is not available to meet a NEOs travel schedule, our NEOs and directors use chartered aircraft for business purposes only. In these situations, we believe chartered aircraft allows us to make effective use of the executive's time. After a review of the chartered flight usage in 2008, we confirmed the use was for business purposes only. A spouse may accompany an NEO while he or she is traveling on Company business. Although this occurs on a limited basis, the reimbursement of the spouse travel expense is included in taxable compensation including a gross-up for the taxable fringe benefit.

**(4) Pension/Retirement/401(k) Plans**

We began transitioning to defined contribution/401(k) plans as the primary retirement income program for all non-represented employees hired on or after January 1, 1996. Thus participation in our defined benefit pension plans has been limited to those hired prior to that date.

RPSE ( Retirement Plan for Salaried Employees ). This is our tax-qualified defined benefit pension plan for salaried employees hired prior to January 1, 1996.

MRO ( Managerial Retirement Objective Plan ). The MRO is our unfunded non-qualified defined benefit pension plan designed primarily to restore the benefits that executives, including our NEOs, would otherwise have received if the Internal Revenue Code restrictions had not applied to the RPSE.

RAP ( Retirement Accumulation Plan ). This is our tax-qualified defined contribution / 401(k) plan for salaried employees hired on or after January 1, 1996.

SRAP ( Supplemental Retirement Accumulation Plan ). This is our non-qualified deferred compensation plan designed primarily to restore the contributions that participants would otherwise have received under the RAP, if the Internal Revenue Code restrictions had not been in place.

SERP ( Supplemental Executive Retirement Plan ). This is designed as a pension supplement to attract and retain key executives. The SERP is unfunded and is not qualified for tax purposes.

Additional information on the pension / 401(k) plans are provided in the *Pension Benefits, Non-Qualified Defined Contribution and Other Non-Qualified Deferred Compensation* sections.

Retiree Medical Benefits. Non-represented employees, including our NEOs, hired on or after January 1, 1996, are not eligible for the retiree medical benefits program.

**Employment Contracts and Executive Severance Arrangements**

We do not have employment contracts with our NEOs as employment with each of them is at will. However, like many companies, to ensure stability and continuity of management, we provide those individuals with an Executive Severance Agreement ( ESA ), which provides for severance benefits in the event of a specified termination such as an involuntary termination and a termination in connection with a change in control. Please refer to the *Potential Payments and Benefits upon Termination or Change in Control* below for more information on the subject.

**Role of Executive Officers in Compensation Decisions**

The Committee makes all compensation decisions for the NEOs, excluding the CEO and CFO which decisions are approved by the independent members of the Board. The CEO makes recommendations to the Committee regarding the compensation for his direct reports (which includes the other NEOs) based on a review of their performance, job responsibilities, and importance to our business strategy. The CEO does not make recommendations to the Committee regarding his own compensation.

**Tax and Accounting Implications**

**Policy on Deductibility of Compensation**

Section 162(m) of the Internal Revenue Code provides that a public company generally may not deduct the amount of non-performance based compensation paid to certain executive officers that exceeds \$1 million in any one calendar year. However, this provision does not apply to performance-based compensation that satisfies certain legal requirements including income from certain stock options and certain formula driven compensation. In general, the Committee has considered the effect of the Internal Revenue Code limitation and under certain circumstances may decide to grant compensation that is outside of the limits.

## **Table of Contents**

### **Non-Qualified Deferred Compensation**

The American Jobs Creation Act of 2004 changed the tax rules applicable to non-qualified deferred compensation arrangements. We are complying in good faith with the statutory provisions, which generally became effective as of January 1, 2005, and the applicable regulations. Please refer to the *Non-Qualified Deferred Compensation* table below for more information on the subject.

### **Accounting for Stock-Based Compensation**

In November 2005, we began accounting for our equity based long-term incentive vehicles under the Plan in accordance with the requirements of Statement of Financial Accounting Standards No. 123(R) ( SFAS 123(R) ).

### **Compensation Committee Report**

The Committee reviewed and discussed the Compensation Discussion and Analysis required by item 402(b) of Regulation S-K with management, and based upon this review and discussion, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement. The independent members of the Board reviewed and discussed the compensation of the CEO and CFO.

#### The Compensation Committee

John D. Correnti, Chairperson  
Eugenio Clariond  
Michael N. Hammes  
James H. Keyes  
Steven J. Klinger

#### The Independent Members of the

Board of Directors (non Compensation Committee members)  
Y. Marc Belton  
David D. Harrison  
Dennis D. Williams

**Table of Contents****EXECUTIVE COMPENSATION TABLES**

The table below summarizes the total compensation paid to or earned by each of our NEOs for the years ended October 31, 2008, 2007, and 2006:

**Summary Compensation Table**

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) <sup>(1)</sup>	Option Awards (\$) <sup>(2)</sup>	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value & Non-Qualified Deferred Compensation Earnings (\$) <sup>(3)</sup>	All Other Compensation (\$) <sup>(4)</sup>	Total (\$)
Daniel C. Ustian Chairman, President & Chief Executive Officer	2008	\$ 1,170,833		\$ 2,775,216		\$ 2,589,500		\$ 107,198	\$ 6,642,747
	2007	\$ 1,125,000					\$ 1,041,054	\$ 67,801	\$ 2,233,855
	2006	\$ 1,104,167	\$ 130,587 <sup>(7)</sup>			\$ 1,419,413	\$ 883,752	\$ 66,081	\$ 3,604,000
William A. Caton Executive Vice President & Chief Risk Officer <sup>(9)</sup>	2008	\$ 650,533		\$ 622,243	\$ 180,784	\$ 800,000		\$ 159,059 <sup>(10)</sup>	\$ 2,412,619
	2007	\$ 628,200	\$ 250,000 <sup>(5)</sup>	\$ 564,217	\$ 180,786		\$ 299,332	\$ 106,371 <sup>(8)</sup>	\$ 2,028,906
	2006	\$ 545,833	\$ 998,051 <sup>(6)</sup>	\$ 485,453	\$ 180,783	\$ 95,949	\$ 974,404	\$ 133,960	\$ 3,414,433
Terry M. Endsley Executive Vice President & Chief Financial Officer	2008	\$ 459,683		\$ 88,615	\$ 43,859	\$ 625,000		\$ 99,640	\$ 1,316,797
Deepak T. Kapur President, Truck Group	2008	\$ 640,000		\$ 44,186	\$ 201,159	\$ 900,000		\$ 103,649	\$ 1,888,994
	2007	\$ 613,200			\$ 499,405		\$ 407,922	\$ 92,345	\$ 1,612,872
	2006	\$ 580,000	\$ 41,055 <sup>(7)</sup>	\$ 892,257	\$ 864,306	\$ 498,945		\$ 148,318	\$ 3,024,881
Pamela J. Turbeville Senior Vice President & Chief Executive Officer, Navistar Financial Corporation	2008	\$ 427,000		\$ 626,858	\$ 119,919	\$ 444,000	\$ 94,630	\$ 362,561	\$ 1,647,968
	2007	\$ 407,100			\$ 328,621		\$ 274,768	\$ 69,045	\$ 1,079,534
	2006	\$ 390,000	\$ 235 <sup>(7)</sup>		\$ 676,611	\$ 290,765	\$ 140,890	\$ 106,043	\$ 1,604,544
Steven K. Covey Senior Vice President, Chief Ethics Officer & General Counsel	2008	\$ 495,000		\$ 626,858		\$ 640,000	\$ 131,795	\$ 36,916	\$ 1,930,569

(1) Reflects the amortized dollar amount recognized as expense for financial statement reporting purposes in accordance with SFAS 123(R) and not the compensation realized by the NEOs. Includes amounts for the following RSUs that were granted to our NEOs on September 18, 2008: Mr. Ustian 45,600; Mr. Caton 20,867; Mr. Endsley 15,900; Mr. Kapur 15,900; Ms. Turbeville 10,300; and Mr. Covey 10,300. Under the provisions of SFAS 123(R), September 11, 2008, was determined to be the grant date for calculation of expense for financial statement reporting purposes (the closing price of our stock on September 11, 2008 was \$60.86, in comparison, the closing price of our stock on September 18, 2008, was \$55.365). The compensation expense recognized by us for the RSUs is spread out over the service period (3 years) and we do not adjust the expense based on actual gains or losses. We recognize the entire expense of an RSU award made to retirement eligible employees on the date of grant because once an executive attains retirement eligibility there is no longer a substantial risk of forfeiture of their RSUs. Of the named executive officers, Mr. Ustian, Ms. Turbeville and Mr. Covey are retirement eligible. Mr. Ustian became retirement

## Edgar Filing: NAVISTAR INTERNATIONAL CORP - Form DEF 14A

eligible in 2005, Ms. Turbeville became retirement eligible in August 2008 and Mr. Covey became retirement eligible in 2006. Because Mr. Endsley will become retirement eligible within 3 years his RSU award is being expensed over 18 months rather than 3 years. Also included is the amortized expense recognized for restricted stock and PSUs for 2006, 2007 and 2008. The PSUs represent shares of common stock granted pursuant to our Executive Stock Ownership Program and is based on the attainment of certain stock ownership thresholds. Both the restricted stock and PSUs vest over a 3 year period with 1/3 of the shares vesting on each of the first three anniversaries of the date of grant. The PSUs convert into Common Stock upon termination of employment. We use the closing price of our stock on the date of grant to value the restricted stock and PSUs and then spread the expense out over the vesting period (generally 3 years). The following PSU and restricted stock awards had amounts expensed by us on our financial statements in 2006, 2007 and 2008. Mr. Caton received 8,449 PSUs on November 23, 2005; the closing price of our stock on the date of grant was \$27.98. Mr. Caton also received 52,919 shares of restricted stock in connection with his recruitment to the Company on October 31, 2005; the closing price of our stock on the date of grant was \$27.52. Mr. Kapur received 54,000 restricted shares in connection with his recruitment to the Company and 5,879 PSUs, both awards were granted on September 2, 2003; the closing price of our stock on the date of grant was \$44.70.

- (2) No stock options were granted in 2008. The values in this column reflect the dollar amount, without any reduction for risk of forfeiture, recognized as expense, in accordance with the provisions of SFAS 123(R), for financial statement reporting purposes related to stock options awarded to our executives in prior years. The compensation expense recognized by us for stock options is calculated using the fair value of our common stock on the date of grant (we use the Black-Scholes option pricing model for this calculation) and then we amortize the expense over the vesting period of the options (generally 3 years) and we do not adjust the expense based on actual gains or losses. We recognize the entire expense of a stock



**Table of Contents**

option grant made to retirement eligible employees on the date of grant because once an executive attains retirement eligibility there is no longer a substantial risk of forfeiture of their options. As mentioned in footnote 1 above, Mr. Ustian became retirement eligible in 2005, Ms. Turbeville became retirement eligible in August 2008 and Mr. Covey became retirement eligible in 2006. The table below includes the assumptions used to calculate the compensation expense in 2006, 2007 and 2008 on a grant-date by grant-date basis.

Grant Date	Exercise Price	Volatility	Expected Life	Risk-Free Interest Rate	Dividend Yield	Grant Date Fair Value of 1 Option
			(Years)	(%)	(%)	
10/31/2005	\$ 27.400	41.08%	4.8	4.25%	0%	\$ 11.37
10/18/2005	\$ 26.150	41.10%	4.8	4.15%	0%	\$ 10.81
09/16/2005	\$ 34.130	45.44%	4.8	3.82%	0%	\$ 14.97
08/15/2005	\$ 33.365	45.38%	4.8	3.97%	0%	\$ 14.69
03/15/2005	\$ 42.490	47.24%	4.8	4.18%	0%	\$ 19.39
12/14/2004	\$ 40.915	48.03%	4.8	3.47%	0%	\$ 18.47

- (3) This amount represents the change in the actuarial present value of the RPSE and MRO for Messrs. Ustian, Endsley and Covey and the change in actuarial present value of the SERP and certain interest on the SRAP for Messrs. Caton and Kapur and Ms. Turbeville.
- (4) Because of the Regulation BTR Blackout described above, Mr. Ustian had 2,217 non-qualified stock options with an exercise price of \$36.72 expire on December 17, 2007. Mr. Endsley had 2,237 non-qualified stock options with an exercise price of \$23.3125 expire on December 16, 2007. Ms. Turbeville had 6,537 non-qualified stock options with an exercise price of \$28.875 expire on June 10, 2008. Includes one-time cash settlement of expired stock options. The cash settlements are as follows: \$33,211 for Mr. Ustian, \$66,411 for Mr. Endsley, and \$289,099 for Ms. Turbeville. Also includes such items as Flexible Perquisites cash allowances, company-paid life insurance premiums, company contributions to the Retirement Accumulation Plan and the SRAP, and the company-provided excess personal liability premiums (this program was discontinued on December 31, 2006). The annual flexible perquisite payments are as follows: \$46,000 for Mr. Ustian, \$37,000 for each of Messrs. Caton and Kapur, and \$28,000 for Messrs. Endsley and Covey and Ms. Turbeville. The company-paid life insurance premiums are as follows: \$22,777 for Mr. Ustian, \$11,554 for Mr. Caton, \$5,229 for Mr. Endsley, \$15,982 for Mr. Kapur, \$8,513 for Ms. Turbeville and \$8,916 for Mr. Covey. Our contribution to the Retirement Accumulation Plan was \$23,558 for Mr. Caton \$25,146 for Mr. Kapur, and \$24,897 for Ms. Turbeville. Our contribution for the Supplemental Retirement Accumulation Plan was \$26,208 for Mr. Caton, \$25,523 for Mr. Kapur, and \$12,052 for Ms. Turbeville.
- (5) Represents a guaranteed payment in connection with Mr. Caton's recruitment to the Company in 2005. Mr. Caton's date of hire was October 31, 2005.
- (6) \$600,000 represents the second of two sign-on bonus installments in connection with Mr. Caton's recruitment to the Company in 2005. \$397,500 represents the guaranteed portion of the 2006 AI award and \$551 represents a discretionary payment determined by the Committee and made at the same time as 2006 AI.
- (7) Represents a discretionary payment determined by the Committee and made at the same time as 2006 AI.
- (8) Includes \$10,000 for country club dues reimbursement and \$4,174 for the tax gross-up on this reimbursement in connection with Mr. Caton's promotion to CFO.
- (9) Mr. Caton was formerly the Chief Financial Officer of the Company until June 2008.
- (10) Includes \$42,851.81 for country club dues reimbursement and \$17,887.82 for the tax gross-up on this reimbursement in connection with Mr. Caton's promotion to CFO.



**Table of Contents****Grants of Plan-Based Awards Table - 2008**

The following table complements the disclosure set forth in columns captioned Stock Awards and Option Awards of the *Summary Compensation Table* above. All Stock Awards and Option Awards were granted under the Plan.

Name	Grant Date <sup>(1)</sup>	Approval Date <sup>(1)</sup>	Estimated Future Payouts Under Non-Equity Incentive Plan Awards <sup>(2)</sup>			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options (#)	Market Price on Grant Date (\$/Sh) <sup>(3)</sup>	Grant Date Fair Value of Stock Awards (\$) <sup>(4)</sup>
			Threshold (\$)	Target (\$)	Maximum (\$)				
Daniel C. Ustian	9/18/2008	4/15/08	\$ 324,500	\$ 1,298,000	\$ 2,596,000	45,600		\$ 60.86	\$ 2,775,216
William A. Caton	9/18/2008	4/15/08	\$ 155,563	\$ 622,250	\$ 1,244,500	20,867		\$ 60.86	\$ 1,269,966
Terry M. Endsley	9/18/2008	4/15/08	\$ 105,000	\$ 420,000	\$ 1,064,000	15,900		\$ 60.86	\$ 967,674
Deepak T. Kapur	9/18/2008	4/15/08	\$ 120,000	\$ 480,000	\$ 960,000	15,900		\$ 60.86	\$ 967,674
Pamela J. Turbeville	9/18/2008	4/15/08	\$ 69,388	\$ 277,550	\$ 555,100	10,300		\$ 60.86	\$ 626,858
Steven K. Covey	9/18/2008	4/15/08	\$ 80,438	\$ 321,750	\$ 643,500	10,300		\$ 60.86	\$ 626,858

(1) On April 15, 2008, upon recommendation of the Committee, the Board approved the award of long-term incentive grants for executive management in the form of RSUs. The RSUs were to be granted one week after we were no longer subject to the blackout trading rules of Regulation BTR of the SEC. The BTR blackout period ended on September 11, 2008, and the RSUs were granted on September 18, 2008.

(2) These amounts represent compensation opportunity for 2008 under the AI Plan. For additional information regarding such awards, see *Compensation Discussion and Analysis Annual Incentives* above.

(3) The RSUs were awarded on September 18, 2008, and the closing price of our stock on the date of grant was \$55.365, however, under SFAS 123(R), September 11, 2008, was deemed to be the date the RSUs were awarded for determining the expense we would recognize on our financial statements. The closing price of our stock on September 11, 2008 was \$60.86.

(4) The grant date fair value is generally the amount that we will expense in our financial statements over the award's service period, but does not include a reduction for forfeitures.

**Outstanding Equity Awards at 2008 Fiscal Year-End**

The following table provides information on the holdings of stock options and stock awards by our NEOs as of the end of 2008. The table includes unexercised and unvested stock option awards; unvested PSUs and unvested RSUs. The vesting information for each grant is provided in the footnotes to this table, based on the option or stock award grant date. The market value of the stock awards is based on the closing price of our common stock as of October 31, 2008, which was \$30.12. For additional information about the stock option awards and stock awards, see the description of long-term incentive compensation in the *Compensation Discussion and Analysis* above.

Name	Number of Securities Underlying Unexercised Options (#) <sup>(1)</sup>		Option Awards Grant Date	Option Exercise Price (\$)	Option Expiration Date	Stock Awards	
	Exercisable	Unexercisable				Number of Shares or Units of Stock Held that Have Not Vested (#) <sup>(2) (3)</sup>	Market Value of Units of Stock Held that Have Not

Edgar Filing: NAVISTAR INTERNATIONAL CORP - Form DEF 14A

				Vested (\$)
Daniel C. Ustian	2,474	12/14/1999	\$ 40.4063	12/14/2009
	41,626	12/14/1999	40.4063	12/15/2009
	8,680	10/03/2000	36.7200	12/16/2008
	4,713	12/12/2000	21.2200	12/12/2010
	32,953	12/12/2000	21.2200	12/13/2010
	61,983	12/11/2001	38.2000	12/12/2011
	2,617	12/11/2001	38.2000	12/11/2011
	7,204	4/16/2002	44.1500	04/17/2012
	2,873	12/10/2002	26.3850	12/10/2012

**Table of Contents**

Name	Option Awards					Stock Awards	
	Number of Securities Underlying Unexercised Options (#) <sup>(1)</sup>		Grant Date	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock Held that Have Not Vested (#) <sup>(2) (3)</sup>	Market Value of Shares or Units of Stock Held that Have Not Vested (\$)
Exercisable	Unexercisable						
	106,027		12/10/2002	26.3850	12/11/2012		
	58,100		02/19/2003	23.9650	02/20/2013		
	133,905		12/09/2003	42.8850	12/10/2013		
	2,895		12/09/2003	42.8850	12/09/2013		
	136,800		12/14/2004	40.9150	12/14/2014		
	136,800		10/18/2005	26.1500	10/18/2015		
<b>Total:</b>	<b>739,650</b>					<b>44,938</b>	<b>1,353,533</b>
William A. Caton	47,700		10/31/2005	27.4000	10/31/2015		
<b>Total:</b>	<b>47,700</b>					<b>23,684</b>	<b>713,362</b>
Terry M. Endsley	2,508		12/15/1998	25.8750	12/15/2008		
	4,106		12/14/1999	40.4063	12/14/2009		
	3,094		12/14/1999	40.4063	12/15/2009		
	2,953		12/12/2000	21.2200	12/12/2010		
	2,147		12/12/2000	21.2200	12/13/2010		
	3,702		12/11/2001	38.2000	12/11/2011		
	3,498		12/11/2001	38.2000	12/12/2011		
	2,465		12/10/2002	26.3850	12/10/2012		
	6,735		12/10/2002	26.3850	12/11/2012		
	5,733		02/28/2003	24.0200	03/01/2013		
	7,060		12/09/2003	42.8850	12/10/2013		
	3,340		12/09/2003	42.8850	10/09/2013		
	10,400		12/14/2004	40.9150	12/14/2014		
	10,400		10/18/2005	26.1500	10/18/2015		
<b>Total:</b>	<b>68,141</b>					<b>15,900</b>	<b>478,908</b>
Deepak T. Kapur	12,233		09/02/2003	44.6600	09/03/2013		
	6,993		12/09/2003	42.8850	12/09/2013		
	40,707		12/09/2003	12.8850	12/10/2013		
	47,700		12/14/2004	40.9150	12/14/2014		
	47,700		10/18/2005	26.1500	10/18/2015		
<b>Total:</b>	<b>155,333</b>					<b>15,900</b>	<b>478,908</b>
Pamela J. Turbeville	7,727		12/15/1998	25.8750	12/15/2008		
	2,474		12/14/1999	40.4063	12/14/2009		
	2,760		12/14/1999	40.4063	12/15/2009		
	4,714		12/12/2000	21.2200	12/12/2010		
	20,195		12/12/2000	21.2200	12/13/2010		
	2,617		12/11/2001	38.2000	12/11/2011		
	38,583		12/11/2001	38.2000	12/12/2011		

**Table of Contents**

Name	Option Awards					Stock Awards	
	Number of Securities Underlying Unexercised Options (#) <sup>(1)</sup>		Grant Date	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock Held that Have Not Vested (#) <sup>(2) (3)</sup>	Market Value of Shares or Units of Stock Held that Have Not Vested (\$)
Exercisable	Unexercisable						
	2,873		12/10/2002	26.3850	12/10/2012		
	48,627		12/10/2002	26.3850	12/11/2012		
	2,895		12/09/2003	42.8850	12/09/2013		
	28,005		12/09/2003	42.8850	12/10/2013		
	30,900		12/14/2004	40.9150	12/14/2014		
	19,274		03/15/2005	42.4900	12/15/2009		
	11,009		09/16/2005	34.1300	12/16/2008		
	10,331		09/16/2005	34.1300	12/13/2010		
	30,900		10/18/2005	26.1500	10/18/2015		
<b>Total:</b>	<b>263,884</b>					<b>10,150</b>	<b>305,718</b>
Steven K. Covey	2,900		12/14/1999	40.4063	12/14/2009		
	1,000		12/14/1999	40.4063	12/15/2009		
	3,202		12/11/2001	38.2000	12/11/2011		
	98		12/11/2001	38.2000	12/12/2011		
	2,982		12/10/2002	26.3850	12/10/2012		
	918		12/10/2002	26.3850	12/11/2012		
	282		12/09/2003	42.8850	12/10/2013		
	2,218		12/09/2003	42.8850	12/09/2013		
	30,900		12/14/2004	40.9150	12/14/2014		
	30,900		10/18/2005	26.1500	10/18/2015		
<b>Total:</b>	<b>75,400</b>					<b>10,150</b>	<b>305,718</b>

(1) All options, other than restoration options, become exercisable under the following schedule: one-third on each of the first three anniversaries of the date of grant. In the event an optionee exercises a non-qualified option with already-owned shares, he or she may be eligible to receive restoration options, if at the time of exercise an election was made to restore the exercised 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.

(2) All of the RSUs become exercisable under the following schedule: 25% on each of the first two anniversaries of the date of grant and 50% on the third anniversary of the date of grant. The PSUs become exercisable under the following schedule: one-third on each of the first three anniversaries of the date of grant.

**Table of Contents**

(3) The vesting dates of outstanding unvested RSUs and unvested PSUs at October 31, 2008 are as follows:

Name	Type of Award	Grant Date	Number of Unexercised or Unvested Shares Remaining from Original Grant	Number of Shares Vesting and Vesting Date in 2008	Number of Shares Vesting and Vesting Date in 2009	Number of Shares Vesting and Vesting Date in 2010	Number of Shares Vesting and Vesting Date in 2011
Daniel C. Ustian	RSUs	9/18/2008	44,938		10,738 on 09/18/2009	11,400 on 09/18/2010	22,800 on 09/18/2011
William A. Caton	RSUs	9/18/2008	20,867		5,216 on 09/18/2009	5,217 on 09/18/2010	10,434 on 09/18/2011
	PSUs	11/23/2005	2,817	2,817 on 11/23/2008			
Terry M. Endsley	RSUs	9/18/2008	15,900		3,975 on 09/18/2009	3,975 on 09/18/2010	7,950 on 09/18/2011
Deepak T. Kapur	RSUs	9/18/2008	15,900		3,975 on 09/18/2009	3,975 on 09/18/2010	7,950 on 09/18/2011
Pamela J. Turbeville	RSUs	9/18/2008	10,150		2,425 on 09/18/2009	2,575 on 09/18/2010	5,150 on 09/18/2011
Steven K. Covey	RSUs	9/18/2008	10,150		2,425 on 09/18/2009	2,575 on 09/18/2010	5,150 on 09/18/2011

**Option Exercises and Stock Vested Table 2008**

The following table provides information for our NEOs on stock option exercises during 2008, including the number of shares acquired upon exercise and the value realized and the number of shares acquired upon the vesting of restricted stock and premium share units and the value realized by the executive before payment of any applicable withholding tax and broker commissions based on the fair market value (or market price) of our stock on the date of exercise or vesting, as applicable.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized Upon Exercise (\$)	Number of Shares Acquired on Vesting (#) <sup>(1)</sup>	Value Realized Upon Vesting (\$)
Daniel C. Ustian			662	36,652
William A. Caton <sup>(2)</sup>			20,456	663,668
Terry M. Endsley				
Deepak T. Kapur				
Pamela J. Turbeville			150	8,305
Steven K. Covey	4,000	8,480	150	8,305

(1) Amounts in this column include RSUs that were surrendered to the Company by Mr. Ustian, Ms. Turbeville and Mr. Covey in satisfaction of employment tax withholdings due upon receipt of RSUs that were awarded to each of them on September 18, 2008. The employment tax withholdings were a result of Mr. Ustian, Ms. Turbeville and Mr. Covey having attained retirement eligibility status under the stock plan from which the RSUs were granted. The market price of our stock on the date the shares were surrendered was \$55.365.

(2) Upon the vesting of restricted stock on October 31, 2008, Mr. Caton acquired 17,640 shares with a market price of \$30.12. Upon the vesting of premium share units on November 23, 2007, Mr. Caton acquired 2,816 shares with a market price of \$47.00. The premium share units will be delivered to Mr. Caton in the form of common stock within 10 days after he terminates employment with the Company.

**Table of Contents****Pension Benefits 2008**

The amounts reported in the table below equal the present value of the accumulated benefit at October 31, 2008, for the NEOs under each plan based on the assumptions described below the table:

**Pension Benefits Table**

<b>Named Executive Officers</b>	<b>Plan</b>	<b>Number of Years of Credited Service (#)</b>	<b>Present Value of Accumulated Benefits (\$)</b>
Daniel C. Ustian	RPSE	35.7	\$ 518,673
	MRO	35.7	4,334,925
	SERP	35.7	
William C. Caton	SERP	3.0	1,159,306
Deepak T. Kapur	SERP	5.4	1,008,460
Terry M. Endsley	RPSE	31.7	525,107
	MRO	31.7	314,921
	SERP	31.7	
Pamela J. Turbeville	SERP	10.6	1,041,175
Steven K. Covey	RPSE	27.5	626,678
	MRO	27.5	701,877
	SERP	27.5	

Unless otherwise noted, all present values reflect benefits payable at the earliest retirement date when the pension benefits are unreduced. Also unless otherwise noted, form of payment, discount rate (8.40%) and mortality (RP-2000 Combined Mortality Table projected at 50% of scale AA) is based on SFAS 87 assumptions. Additionally, SERP benefits have only been offset by benefits under Navistar sponsored retirement programs. At actual retirement these benefits will also be offset by benefits accumulated under programs for employment prior to Navistar, Inc.

Historically, we have provided our employees with retirement income programs since 1908. Over the years the programs have changed for various reasons. Effective January 1, 1996, we began transitioning from defined benefit retirement income programs to defined contribution retirement income programs as the primary vehicle to deliver those benefits. Employees hired before that date participate in defined benefit pension plans and those hired on or after that date participate in defined contribution plans. We also provide non-tax qualified benefit restoration programs that provide benefits or contributions that are in addition to those provided under our tax-qualified programs. The following briefly describes the various programs.

*International Truck and Engine Corporation Retirement Plan for Salaried Employees ( RPSE ).* The RPSE is a funded and tax qualified defined benefit retirement program. The plan provides benefits primarily based on a formula that takes into account the employee's years of service, final average earnings and a percentage of final average earnings per year of service (accrual rates). The table below summarizes the benefit accrual rates under the RPSE.

**RPSE Benefit as Percent of Final Average Pay**

	<b>Prior to 1989</b>	<b>After 1988</b>	<b>Maximum</b>
Rate of Benefit Accrual per Year of Service	2.4%	1.7%	60%



Edgar Filing: NAVISTAR INTERNATIONAL CORP - Form DEF 14A

The eligible earnings are averaged over the highest 60 consecutive months within the final 120 consecutive months prior to retirement. Eligible earnings include base compensation and specifically exclude AI Plan compensation.

Page 40

**Table of Contents**

Thus any increase in AI payments will not increase benefits under the RPSE. Such compensation may not exceed an IRS-prescribed statutory limit applicable to tax-qualified plans (\$230,000 for 2008).

The resulting benefit which may commence at age 62, is offset by a percentage of estimated or actual Social Security benefits. The percentage offset is equal to 1.7% for each year of service with a maximum offset equal to 60% of Social Security benefits.

The RPSE is available only to employees who were hired prior to January 1, 1996 and thus is closed to new participants. Additionally, effective January 1, 2005, service has been limited to the service accrued as of December 31, 2004, for the employees who were hired prior to January 1, 2005 and were under age 45 as of January 1, 2005.

Benefits under the RPSE are subject to the limitations imposed under Section 415 of the Internal Revenue Code. The Section 415 limit for 2008 is \$185,000 per year for a single life annuity payable at an Internal Revenue Service-prescribed retirement age. This ceiling may be actuarially adjusted in accordance with IRS rules for items such as employee contributions, other forms of distributions and different starting dates.

Of the NEOs, Messrs. Ustian, Endsley and Covey participate in the RPSE.

*Navistar, Inc. Managerial Retirement Objective Plan ( MRO ).* We offer the MRO to approximately 300 eligible managers and executives. The MRO provides for retirement benefits that are either not covered by or that are above those provided under our tax-qualified pension plan ( RPSE ). The MRO is unfunded and is not qualified for tax purposes.

Benefits payable under the MRO are equal to the excess of (i) the amount that would be payable in accordance with the terms of the RPSE, disregarding the limitations imposed under the Internal Revenue Code over (ii) the retirement benefit actually payable under the RPSE, taking such Internal Revenue Code limitations into account. Benefits under the MRO are generally payable at the same time and in the same manner as the RPSE, other than if a delay is required under Internal Revenue Code Section 409A.

A fraction of AI Plan payments are included in the definition of eligible compensation and the amount included is also subject to a cap determined as a percentage of the executive s annualized base salary. The fraction and the cap depend on the executive s organizational level in the Company.

An executive must have been hired by us prior to January 1, 1996 to be eligible to participate in the MRO. Executives who were under age 45 as of December 31, 2004 no longer participate in the MRO. Instead, they now participate in the SRAP, which is described below.

Of the NEOs, Messrs. Ustian, Endsley and Covey participate in the MRO.

*Navistar, Inc. Supplemental Executive Retirement Plan ( SERP ).* The SERP is designed as a pension supplement to attract and retain key executives. A study of consistency of our nonqualified retirement income programs revealed an internal equity issue existed. Therefore, to improve our ability to retain executives, eligibility was expanded, effective July 31, 2008, to include not only executives who upon their date of hire meet a certain job classification, but also those executives who are internally promoted into these positions as well.

The SERP is unfunded and is not qualified for tax purposes. An eligible executive s benefit under the SERP is equal to a percentage of his or her final average compensation. The final average compensation is computed similarly to that in the MRO plan. The following table summarizes the determination of the total percentage of final average compensation, which is the sum of the accrual rates described below.

	Up to Age 55	On or After Age 55
Each Year of Age	1/2%	1%

Edgar Filing: NAVISTAR INTERNATIONAL CORP - Form DEF 14A

Each Year of Service	1/2%	1%
In no event shall the total percentage be greater than 50%.		

Page 41

**Table of Contents**

That resulting benefit is offset by 50% of the executive's Social Security benefit, and any defined benefit pension plan (qualified or non-qualified) of the Company or any prior employer. The benefit is also offset by the actuarial equivalent of any of our defined contribution pension plans (qualified or non-qualified) or that of any prior employer that is funded by the employer's contributions and is an integral part of the employer's retirement program. Normal retirement age is 65 and the program allows for an earlier commencement of payments.

All of the NEOs are eligible to participate in the SERP. However, because the 50% of final average earnings limit is lower than the target benefit provided under the MRO, generally no MRO participant will receive a benefit from the SERP.

*Other Retirement Income Programs.* Any employee not represented by a labor union and who was hired on or after January 1, 1996 will not participate in any defined benefit pension plan sponsored by us. His or her primary retirement income is derived from age-weighted employer contributions into a 401(k) plan account, such as the International Truck and Engine Corporation Retirement Accumulation Plan (RAP). Additionally, for those individuals whose employer contributions would be limited by the Internal Revenue Code, the Supplemental Retirement Accumulation Plan (SRAP) provides for contributions in excess of the Internal Revenue Code limitations. This plan is described in more detail within *Non-Qualified Deferred Compensation* section of this proxy statement.

Of the NEOs, Messrs. Caton and Kapur, and Ms. Turbeville participate in the RAP and the SRAP.

No pension benefits were paid to any of the NEOs in 2008. We do not have a policy for granting extra pension service.

The non-qualified plans were amended to reflect the Company name change to Navistar, Inc. effective July 31, 2008. The tax-qualified plans will be amended to change the name at the end of the 2008 calendar year.

**Non-Qualified Deferred Compensation Plans**

The table below provides information on the non-qualified deferred compensation that our NEOs participated in during the fiscal year ending October 31, 2008.

**Non-Qualified Deferred Compensation Table**

Named Executive Officers <sup>(1)</sup>	Executive Contributions in Last Fiscal Year	Company Contributions in Last Fiscal Year <sup>(1)</sup>	Aggregate Earnings In Last Fiscal Year <sup>(2)</sup>	Aggregate Balance As of Last Fiscal Year End <sup>(3)</sup>
Daniel C. Ustian	N/A			\$ 906,943
William A. Caton	N/A	\$ 26,208		\$ 307,724
Terry M. Endsley	N/A			\$ 69,969
Deepak T. Kapur	N/A	\$ 25,523		\$ 346,743
Pamela J. Turbeville	N/A	\$ 12,052		\$ 289,879
Steven K. Covey	N/A			\$ 72,318

(1) Our contributions represent the sum of any notional contribution credits to the SRAP during the year and the value, based on our common stock share price at year end, of the PSUs granted during that fiscal year.

(2) Aggregate Earnings represent the notional interest credited during the year for participants in the SRAP, if applicable, plus the change in value from the beginning of the year to the end of the year in the PSUs and/or DSUs held by each NEO. For the SRAP, Aggregate Earnings in Last Fiscal Year is the interest credited to each NEO from the beginning of the fiscal year until the end of the fiscal year at a 7.5% interest crediting rate. Aggregate Earnings in Last Fiscal Year for purposes of the PSU is the aggregate change in value of the PSUs held during the year. For

## Edgar Filing: NAVISTAR INTERNATIONAL CORP - Form DEF 14A

fiscal year 2008, aggregate earnings were negative because of the change in the share price during the year. The respective decreases in value are: Mr. Ustian (\$990,050), Mr. Caton (\$274,399), Mr. Endsley (\$76,380), Mr. Kapur (\$181,767), Ms. Turbeville (\$113,967) and Mr. Covey (\$78,945).

- (3) The Aggregate Balance as of Last Fiscal Year End consists of the sum of each NEO's notional account balance in the SRAP at the end of the year and the value at year end of the outstanding PSUs and/or DSUs.

We sponsor the following non-qualified deferred compensation programs.

*Navistar, Inc. Supplemental Retirement Accumulation Plan ( SRAP ).* The SRAP provides executives, including our NEOs, with contributions equal to the amount by which their annual company age-weighted contributions to the RAP are limited under our tax qualified defined contribution plans because of Internal Revenue Code limitations. The SRAP is unfunded and is not qualified for tax purposes.

---

## **Table of Contents**

A bookkeeping account balance is established for each participant. The account balance is credited with notional contributions and notional interest. The SRAP does not permit any executives to electively defer any of their base compensation or bonuses. Any increase in AI payments will increase contributions to the SRAP.

The interest crediting rate is 7.5% per annum compounded on a daily basis. This is the rate used to design the SRAP as a comparable replacement for the MRO. The interest crediting rate constitutes an above-market interest rate under the Internal Revenue Code.

Effective January 1, 2005, executives who were hired prior to January 1, 1996 and were under age 45 on December 31, 2004 ceased participation in the MRO and now participate in the SRAP. These individuals receive an adjustment to their notional contributions. The adjustment is a Points Multiplier designed to provide them with value from the SRAP comparable to what they would have received had they continued to participate in the MRO until they reached age 62.

At retirement, each participant may elect to receive the bookkeeping account balance by either or some combination of (1) a lump-sum payment or (2) annual installments over a period of 2 to 20 years. The NEOs cannot withdraw any amounts from their bookkeeping account balances until they either retire or otherwise terminate employment with us. No withdrawals or distributions were made in 2008.

Of the NEOs, Messrs. Caton and Kapur and Ms. Turbeville participate in the SRAP.

*Premium Share Units ( PSU ).* In general, our Executive Stock Ownership Program requires all of our executives, including our NEOs to acquire, by direct purchase or through salary or annual bonus reduction, an ownership interest in Navistar by acquiring a designated amount of our common stock at specified timelines. Participants are required to hold such stock for the entire period in which they are employed by us. PSUs may be awarded under the 2004 PIP 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. Each vested PSU will be settled by delivery of one share of common stock. Such settlement will occur within 10 days after a participant's termination of employment or at such later date as required by Internal Revenue Code Section Rule 409A.

All of the NEOs participate in the Executive Stock Ownership Program and are eligible to acquire PSUs.

*Deferred Share Units ( DSU ).* Under the Restoration Stock Option Program, participants generally may exercise vested options by presenting shares that have a total market value equal to the applicable option exercise price times the number of options. Restoration options are then granted with an exercise price equal to the then current fair market price in an amount equal to the number of shares held by the option holder for at least six months that were presented to exercise the original option, plus the number of shares that are withheld for the required tax liability. Participants who hold non-qualified stock options that were vested prior to December 31, 2004 may also defer the receipt of shares of our common stock that would have been acquired upon exercise of a restoration stock option exercise of these options. Participants who elect to defer receipt of these shares receive DSUs. DSUs are awarded under the Plan. DSUs are credited into the participant's account at the then current market price. The DSUs are generally distributed to the participant in the form of our common stock at the date specified by the participant at the time of his or her election to defer. During the deferral period, the participants will have no right to vote the stock, to receive any dividend declared on the stock, and no other right as a shareholder. In December 2008, we eliminated the Restoration Stock Option Program for future restorations under the Plan.

### **Potential Payments Upon Termination or Change-in-Control**

The amount of compensation payable to each of the NEOs upon voluntary termination, involuntary terminations for or not for cause, involuntary termination in the event of a change in control, death, disability or retirement are shown in the tables below. The amounts shown assume that such termination was effective October 31, 2008, and are estimates of the amounts which would be paid out to the executives upon their termination. The actual amounts of payments and benefits can only be determined at the time the relevant termination event occurs.

To assure stability and continuity of management, we entered into Executive Severance Agreements ( ESA ) with each of our NEOs. The ESAs provide that if the executive officer's employment is terminated by us for any reason other than for cause, as defined in

the ESA, the officer will receive a lump sum payment (the Severance Payment ) varying in amounts from 150% of the sum of his or her annual base salary plus annual target bonus plus a pro rata portion of the annual

---

## **Table of Contents**

target bonus (for Ms. Turbeville and Mr. Covey) to 200% of the sum of his annual base salary plus annual target bonus plus a pro rata portion of the annual target bonus (for Messrs. Ustian, Caton, Endsley and Kapur) in addition to other benefits described below.

Effective December 31, 2007, we amended our ESAs based upon industry best practice and compliance with Internal Revenue Code Section 409A. Terminologies such as separation of service, good reason termination, and constructive termination have been updated to comply with Section 409A including safe harbor language. We have also included non-disparagement, non-solicitation and cooperation, and non-compete language. In general change in control under the revised ESA is deemed to have occurred if (a) any person or group is or becomes the beneficial owner representing 25% or more of the voting power of the then outstanding securities, (b) certain individuals (as defined) cease to constitute <sup>3</sup>/<sub>4</sub> of the number of directors then serving on the Board, (c) any complete dissolution or liquidation of the Company (as defined), and (d) as a result of a defined change in control transaction, the members of the Board cease to constitute the majority of the Board. The Change in Control Payment is calculated as the sum of the pro rata portion of the executive officer's annual target bonus plus three times the executive officer's current annual base salary plus annual target bonus. We have maintained the automatic renewal feature of the ESA, except that the Board now has the ability to decide to not renew it one month prior to the renewal date, whereas previously, the Board had to determine this six months prior.

## **Summary of the Circumstances, Rights and Obligations Attendant to Each Type of Termination**

*Voluntary and Involuntary (For Cause) Termination:* A NEO may terminate his or her employment at any time and we may terminate a NEO at any time pursuant to the at will employment arrangement. We are not obligated to provide the executive with any additional or special compensation or benefits upon a voluntary termination by the executive or involuntary (for cause) termination by us. All compensation, bonuses, benefits, and perquisites cease upon a voluntary termination by the executive or involuntary (for cause) termination by us. In general, in the event of either such termination, a NEO would:

- Be paid the value of unused vacation;
- Not be eligible for an annual incentive payment if the termination occurred prior to year end or if the termination occurred after year end and prior to the payment date;
- Be able to exercise vested stock options for three months following a voluntary termination;
- Forfeit any unvested stock options; and
- Forfeit any unvested restricted stock and RSUs.

As defined in the ESA, *cause* means the reason for the executive's termination was for (i) willful misconduct involving an offense of a serious nature that is demonstrably and materially injurious to the company, (ii) conviction of, or entry of a plea of guilty or nolo contendere to, a felony as defined by the United States of America or by the laws of the State or other jurisdiction in which the executive is so convicted, or (iii) continued intentional failure to substantially perform required duties after written demand to so perform.

The NEOs would not receive any cash severance in the event of either a voluntary or involuntary (for cause) termination of employment.

*Retirement and Early Retirement:* If a NEO terminates employment due to retirement, then the officer would generally be eligible to receive:

The value of unused vacation;

Monthly income from any defined benefit pension plans, both tax-qualified and non-tax qualified, that the executive participated in solely to the extent provided under the terms of such plans; and



## Edgar Filing: NAVISTAR INTERNATIONAL CORP - Form DEF 14A

Lump sum distributions from any defined contribution plans, both tax-qualified and non-tax qualified, that the executive participated in solely to the extent provided under the terms of such plans.

Retirement and early retirement are defined in the respective plans in which the executive participate. In addition, if an executive meets the qualified retirement definition under the Plan and holds outstanding stock options, he or she may exercise those stock options to the extent that those stock options are exercisable or become exercisable in accordance with their terms, at any time during the term of the option grant. If he or she holds restricted stock or RSUs, they will continue to vest according to the terms of the restricted stock grant. If he or she holds PSUs, vesting accelerates and the shares are issued after retirement.

---

**Table of Contents**

*Involuntary Not-For-Cause Termination or Good Reason Termination:* If the employment of a NEO is terminated due to either an involuntary, not-for-cause termination by us or a good reason (as defined below) termination by the executive, then the officer would generally be eligible to receive:

- The Severance Payment;
- Twelve months of continued health insurance and life insurance;
- Outplacement counseling;
- The value of unused vacation;
- The right to exercise vested stock options for three months; and
- Upon meeting certain conditions, an executive participating in a defined benefit pension plan, both tax-qualified or non-tax-qualified, will continue to grow into eligibility to retire early under each plan's early retirement provisions for active employees but solely to the extent provided under the terms of such plans.

In addition, the officer would forfeit any unvested stock options and any unvested restricted stock, RSUs or PSUs.

As defined by the ESA, *good reason* means the executive's termination of his or her employment if we: (i) reduce the executive's base salary by 10% or more or (ii) take action which is a material diminution in the executive's authority.

*Termination Related to a Change in Control:* If the employment of a NEO is involuntarily terminated for any reason other than for cause or if a Constructive Termination (as described below) occurs in connection with a change in control, the executive officer would generally be eligible to receive:

- The Change in Control Payment;
- Thirty-six months of continued health insurance and life insurance coverage;
- Outplacement counseling;
- Reimbursement of any excise tax imposed by Section 4999 of the Internal Revenue Code and any taxes on the reimbursement, generally referred to as an Internal Revenue Code Section 280G gross-up;
- The value of unused vacation;
- Acceleration of the exercisability of options that would otherwise have vested over a period of three years from the date of the change in control had the executive continued employment for that period; and
- The value of any non-tax-qualified pension plan that the executive participates in payable in a single lump sum payment. The value is determined by assuming the executive has three additional years of service and is three years older at the time of the change in control. This single sum payment is in addition to the right to accrued benefits under the non-tax-qualified plan. *(See below for more detail).*

As defined in the ESA, *Constructive Termination* means the occurrence of any of the following events or conditions: (i) a material diminution in the executive's authority, duties or responsibilities, (ii) the executive's base salary is reduced by 10% or more, (iii) a material breach of this agreement, and (iv) the executive is required to be based more than 45 miles from the location of either the executive's office or Company headquarter office.

*Disability and Death:* If a NEO is disabled and is prevented from working for pay or profit in any job or occupation, he or she may be eligible for our Non-Represented Employee Disability Benefit Program which provides for short-term and long-term disability ( LTD ) benefits. Our NEOs are not covered under a separate program. While covered under an LTD, a NEO is eligible for 60 percent of his or her base salary reduced (or offset) by other sources of income, such as social security disability. In the event of a total and permanent disability as defined by this program, a NEO may exercise outstanding stock options any time within three years after such termination. In the event a NEO has restricted stock, or RSUs, the restricted stock or RSUs will continue to vest according to the terms of the grant. In the event an NEO has PSUs, vesting accelerates and the shares are issued immediately. In addition, while classified as disabled, the NEO continues to accrue benefits under the defined benefit plans.

In the event of an NEO's death, a beneficiary of the NEO may exercise an outstanding stock option at any time within a period of two years after death. Restricted stock, RSUs or PSUs will vest as of the date of death and all restrictions lapse and the restricted stock, RSUs or PSUs will be immediately transferable to the NEO's beneficiary or estate. The NEO's beneficiary will also be eligible

for a pro-rata annual incentive payment based upon the number of months the NEO was an active employee during the year. The executive's beneficiary will also receive surviving spouse benefits under the defined benefit and defined contribution plans solely to the extent provided in those plans.

**Table of Contents**

The table below shows the estimated cash payments that our NEOs would receive if their employment were terminated under various circumstances. In accordance with applicable SEC regulations, we have not provided an estimate of the value of any payments or benefits that do not discriminate in scope, terms or operation in favor of a NEO and that are generally available to all salaried employees.

NEO	Severance Amount/	Vested Options	Unvested Options <sup>(4)</sup>	Restricted Stock/ Units <sup>(5)</sup>	Benefit Continuation <sup>(6)</sup>	Outplacement Counseling <sup>(7)</sup>	Estimated Tax Gross Up <sup>(9)</sup>	Total
<i>Daniel C. Ustian</i>	<b>Cash Payment</b>	<sup>(4)</sup>		<b>Units<sup>(5)</sup></b>				
Involuntary Not for Cause or Good Reason Termination <sup>(1)</sup>	\$ 6,254,000	\$ 1,642,670		\$ 1,353,533	\$ 30,677	\$ 25,000		\$ 9,305,880
Change in Control <sup>(2)</sup>	\$ 17,599,134	\$ 1,642,670		\$ 1,353,533	\$ 92,030	\$ 25,000	\$ 6,720,935	\$ 27,433,302
Disability <sup>(3)</sup>	\$ 708,000			\$ 1,353,533				\$ 2,061,533
Death <sup>(8)</sup>				\$ 1,353,533				\$ 1,353,533
Voluntary and Involuntary for Cause Termination								
<i>William A. Caton</i>								
Involuntary Not for Cause or Good Reason Termination <sup>(1)</sup>	\$ 3,176,750	\$ 129,744		\$ 628,514	\$ 19,454	\$ 25,000		\$ 3,979,462
Change in Control <sup>(2)</sup>	\$ 7,652,965	\$ 129,744		\$ 628,514	\$ 58,360	\$ 25,000		\$ 8,494,583
Disability <sup>(3)</sup>	\$ 393,000			\$ 628,514				\$ 1,021,514
Death <sup>(8)</sup>				\$ 628,514				\$ 628,514
Voluntary and Involuntary for Cause Termination								
<i>Terry M. Endsley</i>								
Involuntary Not for Cause or Good Reason Termination <sup>(1)</sup>	\$ 2,380,000	\$ 166,658		\$ 478,908	\$ 15,125	\$ 25,000		\$ 3,065,691
Change in Control <sup>(2)</sup>	\$ 4,146,720	\$ 166,658		\$ 478,908	\$ 45,377	\$ 25,000	\$ 1,468,655	\$ 6,331,318
Disability <sup>(3)</sup>	\$ 336,000			\$ 478,908				\$ 814,908
Death <sup>(8)</sup>				\$ 478,908				\$ 478,908
Voluntary and Involuntary for Cause Termination								

**Table of Contents**

NEO	Severance Amount/ Cash Payment	Vested Options (4)	Unvested Options (4)	Restricted Stock/ Units (5)	Benefit Continuation (6)	Outplacement Counseling (7)	Estimated Tax Gross Up (9)	Total
<i>Deepak T. Kapur</i> Involuntary Not for Cause or Good Reason Termination (1)	\$ 2,720,000	\$ 189,369		\$ 478,908	\$ 25,877	\$ 25,000		\$ 3,439,154
Change in Control (2)	\$ 7,241,374	\$ 189,369		\$ 478,908	\$ 77,631	\$ 25,000	\$ 2,364,665	\$ 10,376,947
Disability (3)	\$ 384,000			\$ 478,908				\$ 862,908
Death (8)				\$ 478,908				\$ 478,908
Voluntary and Involuntary for Cause Termination								
<i>Pamela J. Turbeville</i> Involuntary Not for Cause or Good Reason Termination (1)	\$ 1,334,375	\$ 569,517		\$ 305,718	\$ 11,435	\$ 25,000		\$ 2,246,045
Change in Control (2)	\$ 5,058,433	\$ 569,517		\$ 305,718	\$ 34,305	\$ 25,000	\$ 1,887,463	\$ 7,880,436
Disability (3)	\$ 256,200			\$ 305,718				\$ 561,918
Death (8)				\$ 305,718				\$ 305,718
Voluntary and Involuntary for Cause Termination								
<i>Steven K. Covey</i> Involuntary Not for Cause or	\$ 1,546,875	\$ 137,240		\$ 305,718	\$ 18,017	\$ 25,000		\$ 2,032,850
Good Reason Termination (1)								
Change in Control (2)	\$ 4,450,185	\$ 137,240		\$ 305,718	\$ 54,051	\$ 25,000	\$ 1,615,890	\$ 6,588,084
Disability (3)	\$ 297,000			\$ 305,718				\$ 602,718
Death (8)				\$ 305,718				\$ 305,718
Voluntary and Involuntary for Cause Termination								

(1) This calculation, as described in the ESA, is 150% to 200% of the sum of the executive's annual base salary plus annual target bonus plus a pro rata portion of the annual target bonus.

(2) The Change in Control calculation, as defined in the ESA, is 300% of the sum of the executive's annual base salary plus annual target bonus plus a pro rata portion of the annual target bonus. This amount also includes the lump sum payment equal to the actuarial present value of their benefits under each non-qualified pension plan based on assuming, when determining the amount of their benefit, that each of their ages are three years older and that each has three more years of credited service.

**Table of Contents**

- (3) This amount is 60% of annualized base salary as of October 31, 2008 and is not offset by other sources of income, such as social security. It represents the amount that would be paid annually over the term of the disability.
- (4) The per share value for options is equal to the difference between the option exercise price and the closing price as of the last day of the fiscal year (October 31, 2008), which was \$30.12 per share. Please refer to the Outstanding Equity Awards Table for more information on this subject.
- (5) The value of restricted stock, RSU or PSU is based on the October 31, 2008 closing price of \$30.12 per share.
- (6) These amounts represent the Company's cost and do not include the portion that the officer would pay for this extension of coverage. Company provided life insurance equal to five times base salary. Coverage may continue for 12 months for a termination following an involuntary not-for-cause termination or good reason termination. Coverage may continue for 36 months for a termination following a Change in Control.
- (7) This represents our cost for executive level outplacement counseling and services.
- (8) Surviving spouse benefits are payable under the applicable pension plan. Messrs. Ustian, Endsley and Covey are participants in the defined benefit pension plan that provide surviving spouse benefits. Mr. Kapur and Ms. Turbeville participate in our defined contribution plans and a defined benefit plan that provides a surviving spouse benefit. Mr. Caton has not yet met the service requirement to be eligible for surviving spouse benefits.
- (9) Internal Revenue Code Section 280G Tax Gross-up if any.

**Compensation of Directors Fiscal Year 2008**

The following table provides information concerning the compensation of our non-employee directors for fiscal year 2008. Directors who are employees of the Company receive no compensation for their services as directors or as members of the Board or a committee thereof. For a complete understanding of the table, please review the footnotes and the narrative disclosures that follow the table.

**2008 Director Compensation Table**

<b>Name</b>	<b>Fees Earned or Paid in Cash (\$)<sup>(1)</sup></b>	<b>Stock Awards (\$)<sup>(2)(3)(4)</sup></b>	<b>Option Awards (\$)<sup>(5)(6)(7)</sup></b>	<b>All Other Compensation (\$)<sup>(8)</sup></b>	<b>Total (\$)</b>
Y. Marc Belton	\$ 109,500	\$ 3,704	\$ 13,900		\$ 127,104
Eugenio Clariond	\$ 97,500	\$ 81,126	\$ 13,900		\$ 192,526
John D. Correnti	\$ 130,038	\$ 3,704	\$ 13,900	\$ 134,225	\$ 281,867
Dr. Abbie J. Griffin <sup>(9)</sup>	\$ 112,500	\$ 3,704	\$ 13,900		\$ 130,104
Michael N. Hammes	\$ 177,000	\$ 81,126	\$ 13,900		\$ 272,026
David D. Harrison	\$ 204,000	\$ 3,704			\$ 207,704
James H. Keyes	\$ 224,250	\$ 81,126	\$ 13,900		\$ 319,276
Klinger, Steven J.	\$ 41,020	\$ 3,704			\$ 44,724
Southwood J. Morcott <sup>(10)</sup>	\$ 64,962		\$ 13,900		\$ 78,862
Dennis D. Williams <sup>(11)</sup>	\$ 82,500				\$ 82,500

- (1) Under our Non-Employee Directors Deferred Fee Plan (the Deferred Fee Plan), our directors who are not employees receive an annual retainer and meeting fees payable at their election either in shares of our common stock or in cash. A director may also elect to defer any portion of

such compensation until a later date. Each such election is made prior to December 31<sup>st</sup> for the next succeeding calendar year. Since March 1, 2006 and continuing through September 11, 2008, we had been subject to the blackout trading rules of Regulation BTR of the SEC which generally prohibit directors and executive officers of Navistar from engaging in any transaction involving Company stock where participants in an individual account plan (such as a 401 (k) plan) are temporarily prohibited from engaging in transactions in the Company's stock in their company-sponsored individual account plan. We were subject to Regulation BTR because of the delay in filing our 2007 financial results and inability to continue to offer our common stock as an investment option under our 401 (k) plans. Because the BTR blackout was in place when our directors made their deferral elections for calendar year 2008 they were unable to defer any of their compensation in shares of our common stock for 2008. Eugenio Clariond, John D. Correnti, and James H. Keyes elected to defer the receipt of some or all of their cash compensation received for their quarterly retainer fees and meeting fees in 2008. The amount of cash compensation deferred by Mr. Clariond, Mr. Correnti, and Mr. Keyes in 2008 has been allocated to a deferred cash account under each of their names. The deferred cash compensation earns interest compounded quarterly at the end of each calendar quarter at the rate equivalent to the then current prime rate. The cash compensation deferred by Mr. Clariond and Mr. Correnti in 2008 will be distributed within 60 days after their separation from service with us. The cash compensation deferred by Mr. Keyes in 2008 will be distributed in annual installments over a 5 year period after his separation from service with us. Mr. Clariond deferred receipt of 100% of his quarterly retainer fees and 100% of his meeting fees from November 1, 2007 December 31, 2007, and he deferred receipt of 50% percent of his quarterly retainer fees and 50% of his meeting fees, from January 1, 2008 October 31, 2008, for a total cash compensation deferral amount in 2008 of \$60,000. Mr. Correnti deferred receipt of all of his quarterly retainer fees from November 1, 2007 December 31, 2007, for a total cash compensation deferral amount in 2008 of \$15,750. Mr. Keyes deferred receipt of 100% of his retainer fees and meeting fees from November 1, 2007 December 31, 2007, for a total cash compensation deferral amount in 2008 of \$62,250.

- (2) On September 18, 2008 each non-employee director was granted an award of 1,333 RSUs. The RSUs vest ratably over a 3 year period (25% on the first two anniversary's of the date of grant and 50% on the third anniversary of the date of grant, so that in three years the RSUs will be 100% vested). All unvested RSUs are forfeited when a director ceases to be a member of the Board for any reason other than death, total and permanent disability or a qualified retirement. Southwood Morcott did not receive RSUs because he retired from the Board, as noted in footnote 8, prior to the grant date, and at the request of the UAW, the UAW representative director, Dennis Williams, does not receive RSUs.

**Table of Contents**

- (3) Reflects the amortized dollar amount recognized as expense for financial statement reporting purposes in accordance with SFAS 123(R) and not the compensation realized by the directors. The grant date fair value of the RSUs granted in 2008 was \$81,126, which was based on the closing price of our stock on September 11, 2008, which was \$60.86. The date of the award agreement representing the RSUs was September 18, 2008, however, under the provisions of SFAS 123(R), September 11, 2008 was determined to be the grant date for calculating expense for financial statement reporting purposes (the closing price of our stock on September 18, 2008 was \$55.365). The compensation expense recognized by us for the RSUs is spread out over the service period (3 years) and we do not adjust the expense based on actual gains or losses. We recognize the entire expense of an RSU award made to retirement eligible directors on the date of grant because once a director attains retirement eligibility there is no longer a substantial risk of forfeiture of their RSUs. Of the directors listed in the table above, Mr. Clariond, Mr. Hammes and Mr. Keyes were retirement eligible on the date the RSUs were granted. On October 21, 2008, the Board amended Navistar's Corporate Governance Guidelines to provide that non-employee directors were eligible to retire from the Board after they attained 5 years of service. For those non-employee directors affected by the new retirement eligibility criteria, the remaining expense of their RSU was accelerating as of the next measurement date (November 1, 2009) and that expense will be recognized in fiscal 2009. If other directors become retirement eligible we will accelerate any remaining expense on their awards at the time they attain retirement eligibility and recognize it as of the next measurement date.
- (4) The aggregate number of stock awards outstanding for each non-employee director as of October 31, 2008, including deferred stock units owned by Mr. Clariond, Mr. Correnti, and Mr. Keyes, is indicated in the table below. All of these stock awards and deferred units are 100% vested except for the RSUs granted in September 2008, which vest over a three year period as described in footnote (2) above.

Name	Stock Awards (#)
Y. Marc Belton	3,292
Eugenio Clariond	7,374
John D. Correnti	15,707
Dr. Abbie J. Griffin	3,452
Michael N. Hammes	4,312
David D. Harrison	1,333
James H. Keyes	17,757
Steven J. Klinger	1,333
Southwood J. Morcott	1,000

- (5) No stock options were granted in 2008. The values in this column reflects the dollar amount, without any reduction for risk of forfeiture, recognized as expense for financial statement reporting purposes related to stock options awarded to our directors in previous years. We calculated these amounts in accordance with the provisions of SFAS No. 123(R). The compensation expense recognized by us for stock options is calculated using the fair value of our common stock on the date of grant (we use the Black-Scholes option pricing model for this calculation) and then we amortize the expense over the vesting period of the options (generally 3 years) and we do not adjust the expense based on actual gains or losses. We recognize the entire expense of a stock option grant made to retirement eligible directors on the date of grant because once a director attains retirement eligibility there is no longer a substantial risk of forfeiture of their options. The table below includes the assumptions used to calculate the compensation expense for the stock options on a grant-date by grant-date basis.

Grant Date	Assumptions			Risk-			Grant Date Fair Value of 1 Option
	Exercise Price	Volatility	Expected Life (Years)	Free Interest Rate (%)	Dividend Yield (%)		
10/18/2005	\$26.15	41.10%	4.8 years	4.15%	0%		\$10.81

- (6) At the request of the UAW, the UAW representative director, Mr. Dennis D. Williams, does not receive stock option grant awards.
- (7) The aggregate number of stock options outstanding for each non-employee director as of October 31, 2008 is indicated in the table below.



Edgar Filing: NAVISTAR INTERNATIONAL CORP - Form DEF 14A

<b>Name</b>	<b>Total Stock Option Awards Outstanding at 2007 Year End (#)</b>	<b>Option Awards Granted During 2008 (#)<sup>(a)</sup></b>	<b>Grant Date Fair Value of Option Awards Granted During Year (\$)</b>
Y. Marc Belton	23,000		
Eugenio Clariond	16,000		
John D. Correnti <sup>(b)</sup>	23,000		
Dr. Abbie J. Griffin	18,500		
Michael N. Hammes	16,500		
James H. Keyes	16,000		
Southwood J. Morcott	1,334		

(a) No stock option grant awards were made in 2008 to our directors.

(b) Because of the Blackout Period described in footnote 1 above, Mr. Correnti had 2,000 non-qualified stock options with an exercise price of \$23.88 expire on December 17, 2007.

(8) Represents the dollar value of a settlement and release of claims related to stock options that expired (see footnote (b) above) while we were subject to the Blackout Period described in footnote 1 above.

(9) Dr. Abbie J. Griffin was not re-nominated for election at the Annual Meeting.

(10) Mr. Morcott retired from the Board effective April 15, 2008.

**Table of Contents**

(11) At the request of the UAW, the organization which elected Mr. Williams to the Board, the entire cash portion of Mr. Williams' annual retainer and attendance fees, are contributed to a trust which was created in 1993 pursuant to a restructuring of our retiree health care benefits. The dollar amount of the cash compensation contributed to the trust during 2008 was \$82,500.

**Director Fees and Equity Compensation**

Annual Retainer: \$60,000 (25% of each director's annual retainer is paid in the form of restricted stock each year.)

Lead Director Additional Annual Retainer: \$20,000

Attendance Fees: \$1,500 for each Board or Committee meeting attended (including any telephone meetings), and \$1,500 per day for any special services performed at the request of a Committee Chair and/or Chairman of the Board. We also reimburse directors for expenses related to attendance.

Committee Chairman Additional Annual Retainer: \$9,000 for the Chairman of Compensation, Nominating and Governance and Finance Committees, and \$12,000 for the Chairman of the Audit Committee.

Committee Member Additional Annual Retainer: \$3,000 for members of the Audit Committee.

Stock Options: 4,000 shares annually. (The exercise price of these options is equal to the fair market value of our common stock on the date of grant. The options expire 10 years after the grant date.)

Other Benefits: We also pay the premiums on directors' and officers' liability insurance policies covering the directors and reimburse directors for expenses related to attending director continuing education seminars.

**Share Ownership Requirements for Non-Employee Directors**

To encourage directors to own our shares, one-fourth of each director's annual retainer is paid in the form of restricted stock each year. The stock is priced as of the date the first quarterly disbursement of the annual retainer is due. The restricted stock portion of the annual retainer will be provided pursuant to the Plan. For additional information regarding the Plan, see Note 20, *Stock-based compensation plans*, to our consolidated financial statements included in our Form 10-K for the fiscal year ended October 31, 2008. Our Board temporarily suspended the requirement that at least one-fourth of the annual retainer be paid in the form of restricted stock each year during the period in which the directors were prohibited by the securities laws from acquiring shares of our common stock. Now that the Blackout Period as described above has ended, the requirement that at least one-fourth of the annual retainer be paid in the form of restricted stock will resume in 2009. Each director, except for the UAW director, who has served on the Board for at least five years is expected to own a minimum of 2,000 shares of common stock or deferred stock units.

**Deferred Fee Plan For Non-Employee Directors**

Under our Non-Employee Directors Deferred Fee Plan, directors may defer fees otherwise payable in the form of cash or restricted stock. The amount otherwise payable in cash may be deferred in cash or in deferred stock units. Any amount deferred in cash is

generally paid to the director, with interest at the prime rate, at the date specified by the director at the time of his or her election to defer. The amount otherwise payable in restricted stock may be deferred in deferred stock units. Any amount deferred in deferred stock units is credited into the director's account at the then current market price. Such units are generally distributed to the director in the form of our common stock at the date specified by the director at

**Table of Contents**

the time of his or her election to defer. Elections to defer are made in the calendar year prior to year in which the fees are earned. Due to the Blackout Period described above, non-employee directors were precluded from making an election to defer payment of all or a portion of their retainer and meeting fees in stock units for calendar year 2008. For calendar year 2009 non-employee directors will once again be able to defer all or a portion of their retainer and meeting fees in stock units.

**Lead Director**

On December 11, 2007 the Board created the position of lead director of the Board and appointed Mr. Michael N. Hammes to serve as lead director. Upon the recommendation of the Nominating and Governance Committee, on February 19, 2008, the Board approved an additional retainer of \$20,000 per year for the lead director position.

**Compensation Committee Interlocks and Insider Participation**

None

**EQUITY COMPENSATION PLAN INFORMATION**

This table provides information regarding the equity securities authorized for issuance under our equity compensation plans as of October 31, 2008.

Plan Category <sup>(1)</sup>	(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 stockholders	4,031,240 <sup>(2)</sup>	\$ 34.8537 <sup>(3)</sup>	1,895,980 <sup>(4)</sup>
Equity compensation plans not approved by stockholders <sup>(5)</sup>	2,245,036 <sup>(6)</sup>	34.1917 <sup>(7)</sup>	<sup>(8)</sup>
<b>Total</b>	<b>6,276,276</b>	N/A	<b>1,895,980</b>

(1) This table does not include information regarding our 401(k) plans. Our 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, 2008, there were 373,290 shares of common stock outstanding and held in these plans.

(2) This number includes stock options granted under our 1994 Performance Incentive Plan (the 1994 Plan) and restoration stock options, deferred share units and premium share units (as described in the Executive Stock Ownership Program discussed below) granted under our 2004 Performance Incentive Plan (the Plan). Prior to February 17, 2004, restoration stock options were granted under our 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 who own non-qualified stock options that were vested prior to December 31, 2004 may also defer the receipt of shares of common stock due in connection with a restoration stock option exercise of these options. Participants who elect to defer receipt of these shares will receive deferred stock units. The deferral feature is not available for non-qualified stock options that vest on or after January 1, 2005. Stock options awarded to employees for the purchase of common stock from the 1994 Plan and the 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 as to one-third of the shares on each of the first three anniversaries of the

## Edgar Filing: NAVISTAR INTERNATIONAL CORP - Form DEF 14A

date of grant, so that in three years the shares are 100% vested. Awards of restricted stock granted under the 1994 Plan and awards of restricted stock and restricted stock units ( RSUs ) granted under the Plan were established by the Board 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. As of October 31, 2008, 1,583,874 stock option awards remain outstanding for shares of common stock reserved for issuance under the 1994 Plan, and 1,871,365 stock option awards, 3,607 deferred share units, 29,274 premium share units and 542,670 RSUs remain outstanding for shares of common stock reserved for issuance under the Plan. For more information on the Plan see footnote 4 below.

- (3) RSUs, deferred share units and premium shares units granted under such plans do not have an exercise price and are settled only for shares of our common stock on a one-for-one basis. These awards have been disregarded for purposes of computing the weighted-average exercise price. For more information on deferred share units and premium share units see the discussion under the paragraph below entitled The Ownership Program.

**Table of Contents**

- (4) The Plan was approved by the Board and the independent Compensation and Governance Committee on October 15, 2003, and, subsequently by our stockholders on February 17, 2004. Our 2004 Plan was subsequently amended on April 21, 2004, March 23, 2005, December 12, 2005, April 16, 2007, June 18, 2007 and May 27, 2008. The Plan replaced, on a prospective basis, our 1994 Plan, the 1998 Supplemental Stock Plan, both of which expired on December 16, 2003, and our 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 Plan. Shares subject to awards under the 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 delivery of shares to the participant again become available for awards. This number represents the remaining number of unused shares from the year ended October 31, 2008, which are available for issuance for the following year.
- (5) The following plans were not approved by our stockholders: 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 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, 2008, no stock option awards remain outstanding and no shares of common stock are 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 as to one-third of the shares on each of the first three anniversaries of the date of grant, so that in three years the shares are 100% vested. Awards of restricted stock granted under the Interim Plan were established by the Board 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 our stockholders. 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 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 as to one-third of the shares on each of the first three anniversaries of the date of grant, so that in three years the shares are 100% vested. Awards of restricted stock granted under the Supplemental Plan are established by the Board or committee thereof at the time of issuance. As of October 31, 2008, 2,053,682 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, 2008 there were 22,239 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 approved the terms of the Ownership Program, and on April 17, 2001, October 15, 2002 and August 30, 2004, the Board approved certain amendments thereto. In general, the Ownership Program requires all of our officers and senior managers to acquire, by direct purchase or through salary or annual bonus reduction, an ownership interest in NIC by acquiring a designated amount of our 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 9,342 DSUs (which includes 3,607 DSUs granted under the 2004 PIP after February 17, 2004) outstanding as of October 31, 2008. Premium share units ( PSUs ) may also be awarded to participants who complete their ownership requirement on an accelerated basis. PSUs vest as to one-third of the shares on each of the first three anniversaries of the date of grant, so that in three years the shares are 100% vested. There were 78,629 PSUs (which includes 29,274 PSUs granted under the 2004 PIP after February 17, 2004) outstanding as of October 31, 2008. Each vested DSU and PSU will be settled by delivery of one share of common stock. Such settlement will occur within 10 days after a participant's termination of employment. DSUs and 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 on December 16, 1997 and 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 of our non-employee directors 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, 2008, 80,500 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 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, 2008, there were 33,975 outstanding deferred stock units under the Deferred Fee Plan.

- (6) Includes 22,239 deferred stock units granted under the Supplemental Plan, 5,735 DSUs and 48,905 PSUs granted under the Ownership Program and 33,975 deferred stock units granted under the Deferred Fee Plan; all of which were outstanding as of October 31, 2008 under such plans.
- (7) 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 our common stock on a one-for-one basis, these awards have been disregarded for purposes of computing the weighted-average exercise price.
- (8) Upon approval of the Plan by our stockholders 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.

**Table of Contents**

***OTHER MATTERS***

***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 SEC and to provide copies of those reports to Navistar. Based solely on our review of copies of those reports received by us or written representations that all such reports were timely filed, we believe that our directors, executive officers and greater than ten beneficial percent stockholders made all required filings on time.

***Availability of Form 10-K and Annual Report to Stockholders***

The Company is providing an Annual Report to stockholders who receive this proxy statement. The Company will also provide copies of the Annual Report to brokers, dealers, banks, voting trustees, and their nominees for the benefit of their beneficial owners of record. Additional copies of the Annual Report, which also contains the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2008 (not including documents incorporated by reference) are available without charge to stockholders upon written request to Navistar c/o the Corporate Secretary at 4201 Winfield Road, P.O. Box 1488, Warrenville, IL 60555. You may review Company filings with the SEC by visiting the Company's website at <http://ir.navistar.com> (click on Filings).

***Matters Raised at the Meeting not Included in this Proxy Statement***

We do not know of any matters to be acted upon at the Annual Meeting other than those discussed in this proxy statement. If any other matter is presented, proxy holders will vote on the matter in their discretion.



**Table of Contents**

***ADMISSION & TICKET REQUEST PROCEDURE***

**Admission**

Admission is limited to stockholders of record on January 2, 2009 or a stockholder's authorized proxy holder or a representative. **In each case, the individual must have an admission ticket and valid photo identification to be admitted to the meeting. In addition, share ownership will be verified.**

**Admission Ticket for Registered Holders**

If your Navistar shares are registered in your name and you received your proxy material by mail, an admission ticket is attached to your proxy card.

If your Navistar shares are registered in your name and you received or accessed your proxy materials electronically over the Internet, and you plan on attending the meeting, click the appropriate box on the electronic proxy card or follow the telephone instructions and when prompted, if you plan to attend the meeting in person, press 1, and an admission ticket will be held for you at the registration desk at the Annual Meeting. You will need a valid photo identification to pick up your ticket.

**Admission Ticket for Beneficial Holders**

If your Navistar shares are held in a bank or brokerage account you may obtain an admission ticket in advance by submitting a request by mail to Curt A. Kramer, Corporate Secretary, 4201 Winfield Road, P.O. Box 1488, Warrenville, IL 60555 or by facsimile to (630) 753-3982

**Ticket Request Deadline**

Ticket requests for all Beneficial Holders and for Beneficial Holders and Registered Holders appointing a representative to attend and/or vote on his/her behalf, must include all information specified in the applicable table below and be submitted in writing and received by the Company on or before February 13, 2009. No requests will be processed after that date.

**To Submit Request**

Submit requests by mail to Curt A. Kramer, Corporate Secretary, 4201 Winfield Road, P.O. Box 1488, Warrenville, IL 60555 or by facsimile to (630) 753-3982. Ticket requests by telephone will not be accepted.

**Authorized Proxy Representative**

A stockholder may appoint a representative to attend the meeting and/or vote on his/her behalf. The admission ticket must be requested by the stockholder but will be issued in the name of the authorized representative. Individuals holding admission tickets that are not issued in their name will not be admitted to the meeting. Stockholder information specified below and a written proxy authorization must accompany the ticket request.



**Table of Contents**

**Registered Stockholders**

**Beneficial Holders**

*(if appointing a representative to attend and/or vote on his/her behalf)*

For ownership verification provide:

name(s) of stockholder

address

phone number

social security number and/or stockholder account number; or

a copy of your proxy card showing stockholder name and address

Also include:

name of authorized proxy representative, if one appointed

address where tickets should be mailed and phone number

For ownership verification provide:

a copy of your December/January brokerage account statement

showing Navistar stock ownership as of the record date (1/2/09);

a letter from your broker, bank or other nominee verifying your record date (1/2/09) ownership; or

a copy of your brokerage account voting instruction card showing stockholder name and address

Also include:

name of authorized proxy representative, if one appointed

address where tickets should be mailed and phone Number

Table of Contents

**APPENDIX A**

**NAVISTAR INTERNATIONAL CORPORATION**

**2004 PERFORMANCE INCENTIVE PLAN**

**(AMENDED AND RESTATED AS OF JANUARY 9, 2009)**

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, and approved by Stockholders at the Corporation s annual meeting held on February 17, 2004. The Plan replaces the Navistar 1994 Performance Incentive Plan and the Navistar 1998 Supplemental Stock Plan, each of which terminated December 16, 2003 under the terms of the plans, and the Plan replaces and supersedes the Navistar 1988 Non-Employee Directors Stock Option Plan. The Plan was amended on December 14, 2004 and approved by Stockholders at the Corporation s annual meeting held on March 23, 2005. The Plan was subsequently amended on December 13, 2005, April 16, 2007, June 18, 2007, May 27, 2008 and December 16, 2008. The Plan is hereby further amended and restated as of January 9, 2009.

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

**Table of Contents**

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 Compensation Committee 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.

**Table of Contents**

(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 as a full-time Employee, 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 Nonqualified Stock Option earlier awarded under the Plan or any other plan of the Corporation, including an earlier awarded Restoration Stock Option (an Underlying Option ); provided, however, that in no event shall a Restoration Stock Option be granted in respect of any Underlying Option awarded under the Plan or any other plan of the Corporation on or after December 16, 2008.

(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, except as otherwise specified in Section XI(3), subject to a substantial risk of forfeiture.

**Table of Contents**

(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 during the period beginning January 1 and ending March 15 of the year following the end of the Fiscal Year to which the Annual Incentive Award relates, subject to any acceleration or delay in payment permitted under Code Section 409A, as defined in Section XXII.

**Table of Contents**

(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; provided that in the case of any Nonqualified Stock Option, the Committee may permit a feature that provides for the deferral of compensation, including, but not limited to, a feature that allows a holder of a Nonqualified Stock Option to elect deferred delivery of profit shares, only with respect to any Nonqualified Stock Option that was earned and vested on December 31, 2004, determined pursuant to and in accordance with Code Section 409A, as defined in Section XXII. 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



**Table of Contents**

certifies in writing 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 (i) cashless exercise, (ii) the Corporation withholding from the shares of Common Stock otherwise issuable upon exercise of the Stock Option a number of shares of Common Stock having a fair market value equal, as of the date of exercise, to the Exercise Price of the Stock Option multiplied by the number of shares of Common Stock in respect of which the Stock Option shall have been exercised ( Net-Exercise ), or (iii) 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 on the date of exercise unrestricted Common Stock already owned by the Participant, 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.

**Table of Contents**

(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 a Underlying Option that was granted under the Plan prior to December 16, 2008. Restoration Stock Options granted under the Plan in respect of any Underlying Option awarded hereunder prior to December 16, 2008 may be granted 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, 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) To the extent permitted by the Committee under Section V(5), 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,

**Table of Contents**

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.

(13) Notwithstanding any provision of the Plan to the contrary, (a) the exercise of a Stock Option granted under the Plan at any time on or after April 16, 2007 shall be settled solely in shares of Common Stock, and under no circumstances whatsoever shall a Stock Option be exercisable with respect to any period during which the exercise of such Stock Option would violate Applicable Law, as defined in Section XXII, and (b) in accordance with both the terms of the Prospectus for the Plan and the power and authority reserved to the Committee under Section XIII, and to the fullest extent permitted under Applicable Law, as defined in Section XXII, the exercise of a Stock Option granted under the Plan at any time before April 16, 2007 shall be settled solely in shares of Common Stock, and under no circumstances whatsoever shall a Stock Option be exercisable with respect to any period during which the exercise of such Stock Option would violate Applicable Law, as defined in Section XXII.

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

**Table of Contents**

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 exercise, Net-Exercise, as defined in Section VII(4), 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 on the date of exercise unrestricted Common Stock already owned by the Participant, 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.

**Table of Contents**

(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.

**Table of Contents**

(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 on the date of exercise 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) Its 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 AND STOCK UNITS

(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, except that any Award (or portion thereof) of Restricted Stock

**Table of Contents**

or Restricted Stock Units granted under the Plan representing a Non-Employee Director's first quarterly retainer shall be immediately vested upon 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,

**Table of Contents**

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, on the date that the amount of tax to be withheld is determined, unrestricted Common Stock already owned by the Participant, or (iii) by any combination of cash or unrestricted Common Stock. In addition, the Committee may permit, in the Award Agreement or otherwise, 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



**Table of Contents**

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

**Table of Contents**

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 construed in accordance with applicable Federal laws and, to the extent not inconsistent therewith or pre-empted thereby, with the laws of the State of Delaware

**Table of Contents**

(without regard to the conflicts of laws provisions of that State or any other jurisdiction), including applicable regulations, rules, and such other applicable authorities thereunder ( Applicable Law ). Accordingly, for the avoidance of doubt, the receipt, exercise, issuance, and disposition, as appropriate, of any Award, Common Stock, Stock Option, or other incentive or award under the Plan is expressly conditioned upon and subject to any and all limitations, restrictions, prohibitions, or such other conditions imposed by Applicable Law, including, but not limited to, applicable Federal and state securities law. Without limiting the generality and applicability of the foregoing and notwithstanding any provision of the Plan to the contrary, if and to the extent any amounts payable or benefits provided under this Plan are subject to, and would otherwise violate, the requirements of Section 409A of the Internal Revenue Code, including applicable regulations, rules, and such other applicable authorities thereunder ( Code Section 409A ), such amounts or benefits shall be paid or provided under such other conditions, determined by the Committee in its sole discretion, that cause the provision of such amounts or benefits to comply with, or not to be subject to, Code Section 409A and this Plan shall be construed and administered accordingly to achieve that objective.

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.

**Table of Contents**

**NAVISTAR INTERNATIONAL CORPORATION**

**4201 WINFIELD ROAD**

**P.O. BOX 1488**

**WARRENVILLE, IL 60555**

**VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

You may vote by telephone or Internet 24 hours a day, 7 days a week. Your telephone or Internet vote authorizes the named proxies in the same manner as if you had executed a proxy card.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

**ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS**

If you would like to reduce the costs incurred by us in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery please visit our Investor Relations Website at <http://ir.navistar.com>.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:      NAVST1      KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY  
**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

**NAVISTAR INTERNATIONAL CORPORATION**    **For All**    **Withhold All**    **For All Except**    To withhold authority to vote for any individual nominee(s), mark **For All Except** and write the number(s) of the nominee(s) on the line below.

**THE BOARD OF DIRECTORS**  
**RECOMMENDS A VOTE FOR ITEMS 1, 2**  
**AND 3.**

**Vote on Directors**

1. ELECTION OF DIRECTORS

**Nominees:**

01) Y. Marc Belton

02) Terry M. Endsley

03) Michael N. Hammes

**Vote on Proposal**

- |   | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---|------------|----------------|----------------|
| 2. Vote to ratify the selection of KPMG LLP as our independent registered public accounting firm.                     | ..         | ..             | ..             |
| 3. Vote to approve the material terms of the measurements and goals set forth in our 2004 Performance Incentive Plan. | ..         | ..             | ..             |

The foregoing items of business are more fully described in the Proxy Statement accompanying this card. The Board of Directors of the Company has fixed the close of business on January 2, 2009, as the record date for the determination of stockholders entitled to notice of, and to vote at, the Annual Meeting and at any adjournment or postponement thereof.

This proxy is solicited on behalf of the company's Board of Directors. The shares represented by this proxy will be voted in accordance with the instruction given by the undersigned stockholder(s). The Board of Directors recommends a vote For each of the above proposals.

For address changes and/or comments, please check this box and write them on the back where indicated.

Please indicate if you plan to attend this meeting.

**Yes      No**

**(NOTE:** Please sign exactly as your name(s) appear(s) hereon. All holders must sign. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. If a corporation, please sign in full corporate name, by authorized officer. If a partnership, please sign in partnership name by authorized person.)

Signature [PLEASE SIGN  
 WITHIN BOX] \_\_\_\_\_ Date \_\_\_\_\_

Signature (Joint Owners) \_\_\_\_\_ Date \_\_\_\_\_

**Table of Contents**

**ADMISSION TICKET**

**(Not Transferable)**

**NAVISTAR INTERNATIONAL CORPORATION**

**2009 Annual Meeting of Stockholders**

**Tuesday, February 17, 2009**

**11:00 a.m. Central Standard Time**

**Hyatt Lisle Hotel**

**1400 Corporetum Drive**

**Lisle, Illinois 60532**

**PHOTO IDENTIFICATION WILL BE REQUIRED**

Please present this admission ticket in order to gain admittance to the meeting. This ticket admits only the stockholder listed on the reverse side and is not transferable.

**Important Notice Regarding Internet Availability of Proxy Materials for the Annual Meeting:** The Notice and Proxy Statement and Annual Report and Form 10-K Wrap are available at [www.proxyvote.com](http://www.proxyvote.com).

**NAVISTAR INTERNATIONAL CORPORATION**

**PROXY AND VOTING INSTRUCTION**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

**ANNUAL MEETING OF STOCKHOLDERS - FEBRUARY 17, 2009**

Edgar Filing: NAVISTAR INTERNATIONAL CORP - Form DEF 14A

At the Annual Meeting of Stockholders of Navistar International Corporation (the company ) on February 17, 2009, or at any adjournments thereof, the undersigned hereby appoints Daniel C. Ustian, Terry M. Endsley and Steven K. Covey, and each of them, proxies with power of substitution to vote, as indicated on the matters set forth on the reverse side hereof and in their discretion upon such other business as may properly come before the meeting.

This card also serves to instruct the trustee of each defined contribution plan sponsored by the company or any of its subsidiaries how to vote the shares of the company s stock credited to the accounts of the undersigned under any such plan at the close of business on January 2, 2009, as directed herein on the matters listed on the reverse side, and, in their discretion, on any other matters that may come before the meeting. To the extent that the trustee has not received the directions from the undersigned by February 12, 2009, the trustee will act in accordance with the Employee Benefit Plan documents.

**You are encouraged to specify your choices by marking the appropriate boxes. However, if you wish to vote in accordance with the Board of Directors recommendations, simply sign and return this card.**

**THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS DIRECTED BY THE STOCKHOLDER(S). IF NO SUCH DIRECTIONS ARE MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF THE NOMINEES LISTED ON THE REVERSE SIDE FOR THE BOARD OF DIRECTORS AND FOR EACH PROPOSAL.**

**Address Changes/Comments:** \_\_\_\_\_

\_\_\_\_\_

(If you noted any Address Changes/Comments above, please mark corresponding box on the reverse side.)

**PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED REPLY ENVELOPE**

**CONTINUED AND TO BE SIGNED ON REVERSE SIDE**