

NAVISTAR INTERNATIONAL CORP
Form DEF 14A
January 16, 2009
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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.

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- (2) Aggregate number of securities to which transaction applies:
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- (1) Amount Previously Paid:
- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
- (4) Date Filed:

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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:

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THE ANNUAL REPORT AND PROXY STATEMENT ARE AVAILABLE AT

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

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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.

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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

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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

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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.

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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.

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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.¹ 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

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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.

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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.*

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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.

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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.

Name	Maximum Indebtedness During Fiscal 2008(\$)	Aggregate Outstanding Balance as of December 31, 2008(\$)	Interest Rate (%)
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.

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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.

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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 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⁽¹⁾**(as of January 12, 2009)**

	Audit	Compensation	Executive	Finance	Nominating & Governance
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			

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

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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.

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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

and Compliance Hotline	Write to the Audit Committee	E-mail the Audit Committee
<p>1 -877-734-2548</p> <p>or via the Internet at</p> <p>tnwinc.com/webreport/default.asp</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;">Audit.committee@navistar.com</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

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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.

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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

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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.

Persons or Groups of Persons	Options
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 ⁽¹⁾
Steve K. Covey Senior Vice President, Chief Ethics Officer and General Counsel	82,503
All current executive officers as a group ⁽²⁾	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

⁽¹⁾ Includes 40,614 restoration stock option grants.

⁽²⁾ 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.

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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

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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.

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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%

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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%

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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

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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.

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- (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,

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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. Atman, 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.

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- (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 ⁽¹⁾	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 ⁽²⁾	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.

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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.

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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.

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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 50th percentile (market median). We established a policy of targeting base salaries at the 50th 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 75th percentile. Our incentive compensation plans provide executives with the opportunity to earn total compensation at the 50th percentile of the competitive market for target corporate performance and at the 75th 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.

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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

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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

Named Executive Officer	Corporate /Business Unit Weight	Business Unit ⁽¹⁾
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

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- (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

Named Executive Officer	Target as a % of Base Salary	2008 Annual Incentive Amount Earned
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.

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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.

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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 ⁽¹⁾	Executive Physical Program ⁽²⁾	Flexible Perquisite Program ⁽³⁾	Pension /Retirement/ 401(k) Plans ⁽⁴⁾					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)

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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**

Named Executive Officer	Annual Flexible Perquisite Payment
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.

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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 (\$) ⁽¹⁾	Option Awards (\$) ⁽²⁾	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value & Non-Qualified Deferred Compensation Earnings (\$) ⁽³⁾	All Other Compensation (\$) ⁽⁴⁾	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 ⁽⁷⁾			–			