

NAVISTAR INTERNATIONAL CORP  
Form DEF 14A  
January 20, 2012  
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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:  X  
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))**
- X
- 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)

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\_\_\_\_\_ No fee required.

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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**

**2701 NAVISTAR DRIVE**

**LISLE, ILLINOIS 60532**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**TUESDAY, FEBRUARY 21, 2012**

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

**HYATT LISLE HOTEL**

**1400 CORPORETUM DRIVE**

**LISLE, ILLINOIS 60532**

January 20, 2012

To our stockholders:

On behalf of the Board of Directors of Navistar International Corporation you are cordially invited to attend our 2012 Annual Meeting of Stockholders, which will be held on February 21, 2012, at 11:00 a.m. Central Time, at the Hyatt Lisle Hotel, 1400 Corporetum Drive, Lisle, Illinois 60532. At our annual meeting, our stockholders will be asked to:

- .. Approve an amendment to our Restated Certificate of Incorporation, as amended, to declassify our Board of Directors;
- .. Elect as directors the nominees named in the accompanying proxy statement;
- .. Ratify the appointment of our independent registered public accounting firm;
- .. Act on an advisory vote on executive compensation; and
- .. Conduct any other business properly brought before the meeting.

The accompanying proxy statement and the form of proxy are first being made available to our stockholders on January 20, 2012. In order to attend our 2012 Annual Meeting of Stockholders, you must have an admission ticket to attend. Procedures for requesting an admission ticket are detailed on page 81 of the accompanying proxy statement. Attendance and voting is limited to stockholders of record at the close of business on January 13, 2012.

By Order of the Board of Directors,

Curt A. Kramer

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Secretary

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

**FOR THE STOCKHOLDERS MEETING TO BE HELD ON FEBRUARY 21, 2012:**

**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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**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 2012 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 (i) Proposal 1 the approval of an amendment to our Restated Certificate of Incorporation, as amended, (our Certificate of Incorporation) to declassify our Board, (ii) Proposal 2 the election of the nominees named in this proxy statement as directors, (iii) Proposal 3 the ratification of the appointment of Navistar's independent registered public accounting firm, and (iv) Proposal 4 the advisory vote on executive compensation, a so-called Say-on-Pay proposal. In addition, management may report on the performance of Navistar and respond to appropriate questions from stockholders.

**Q: How does the Board recommend that I vote?**

**A.** The Board recommends that you vote:

FOR the approval of the amendment to our Certificate of Incorporation to declassify our Board (Proposal 1);

FOR the election of each of the director nominees (Proposal 2);

FOR the ratification of the appointment of KPMG LLP, as our independent registered public accounting firm (Proposal 3); and

FOR the approval of the advisory vote on executive compensation (Proposal 4).

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

**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 13, 2012;

An authorized proxy holder of a stockholder of record on January 13, 2012; or

An authorized representative of a stockholder of record who has been designated to present a properly-submitted stockholder proposal.

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 and Ticket Request Procedure on page 81 of this proxy statement.



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### **Q: What is a stockholder of record?**

**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, BNY Mellon Investor Services (the *Transfer Agent*). If you hold Navistar 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 *street name*, the stockholder of record of the shares is your bank, broker or other intermediary. Navistar only has access to ownership records for the stockholders of record. So, if you are not a stockholder of record, for the purpose of requesting a ticket to attend the Annual Meeting, we will need 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 has set January 13, 2012, as the record date for the Annual Meeting. Holders of shares of Navistar common stock ( *Common Stock* ) on that date are entitled to one vote per share. As of January 13, 2012, there were approximately 69,097,189 shares of Common Stock outstanding. If you hold shares of our Common Stock as 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 2701 Navistar Drive, Lisle, Illinois 60532 at least ten (10) days prior to the Annual Meeting and will also be available for examination at the Annual Meeting.

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

**A:** *For stockholders of record:* 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 in person 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.

*For holders in street name:* You will receive instructions from your bank or broker that you must follow in order for your shares to be voted.

### **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 2701 Navistar Drive, Lisle, Illinois 60532, (ii) signing and returning a new proxy card with a later date, (iii) validly submitting a later-dated vote by telephone or via the Internet on or before 11:59 pm EST on February 20, 2012 or (iv) attending the Annual Meeting and voting in person. For all methods of voting, the last vote cast will supersede all previous votes.



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*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 elections for the Annual Meeting.

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

**A:** *For stockholders of record:* If you are the stockholder of record and you do not vote by proxy card, by telephone or via the Internet or in person at the Annual Meeting, your shares will not be voted at the Annual Meeting.

*For holders in street name:* 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 considers the approval of the amendment to our Certificate of Incorporation to declassify our Board (Proposal 1) and the ratification of the appointment of our independent registered public accounting firm (Proposal 3) 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, such as the election of directors (Proposal 2) and the Say-On-Pay proposal (Proposal 4), and you have not provided voting instructions to the bank or brokerage firm with respect to that proposal, the bank or brokerage firm cannot vote the shares on that proposal. The missing votes for these non-routine matters are called broker non-votes.

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

**A:** Under Navistar's Amended and Restated By-Laws (the By-Laws ), holders of at least one-third of the shares of Common Stock outstanding on the record date 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:** It will depend on each proposal.

Proposal 1 (amendment to our Certificate of Incorporation) requires the affirmative vote of at least a majority of the outstanding shares of our Common Stock.

Proposal 2 (election of directors) requires a plurality vote of the shares present or represented by proxy at the Annual Meeting and entitled to vote, meaning that the director nominees with the greatest number of 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.

Proposal 3 (ratification of the appointment of our independent registered public accounting firm) requires the affirmative vote of a majority of the shares present or represented by proxy at the Annual Meeting and entitled to vote.

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Proposal 4 (Say-On-Pay proposal) represents an advisory vote and the results will not be binding on the Board or the Company. The affirmative vote of a majority of the shares present or represented by proxy at the Annual Meeting and entitled to vote on the matter will constitute the stockholders' non-binding approval with respect to our executive compensation programs. Our Board will review the voting results and take them into consideration when making future decisions regarding executive compensation.

With respect to Proposals 1, 3 and 4 you may vote FOR, AGAINST or ABSTAIN. If you abstain from voting on any of these proposals, the abstention will have the same effect as an AGAINST vote. With respect to Proposal 2, you may vote FOR all nominees, WITHHOLD your vote as to all nominees, or FOR all nominees except those specific nominees from whom you WITHHOLD your vote. A properly executed proxy marked WITHHOLD with respect to the election of one or more directors will not be voted with respect to the director or directors indicated. Proxies may not be voted for more than three directors and stockholders may not cumulate votes in the election of directors. If you abstain from voting on Proposal 2, the abstention will not have an effect on the outcome of the vote.

Broker non-votes will not affect the outcome on a proposal that requires a plurality vote (Proposal 2) or on a proposal that requires the approval of a majority of the votes present in person or represented by proxy and entitled to vote (Proposals 3 and 4), but will have the effect of a vote against matters that require approval of a majority of the outstanding shares entitled to vote (Proposal 1).

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 Common Stock in street name, your broker or bank may notify you that your household will receive only one annual report and proxy statement for the Company if you hold stock through that broker or bank. In this practice known as house-holding, you were deemed to have consented to receiving only one annual report and proxy statement for your household. 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, 2701 Navistar Drive, Lisle, Illinois 60532, (331) 332-2143.

### **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 proxy 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.

Shares held in street name 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.

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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 shares held in street name) 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. We have hired Alliance Advisors to assist in the solicitation of proxies. Alliance Advisors' fees are estimated to be \$9,000, plus out-of-pocket expenses, to assist in the solicitation. Proxies may also 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.

### **Q: When are stockholder proposals or nominations due for the 2013 Annual Meeting of Stockholders?**

**A:** Our annual meeting of stockholders is typically held on the third Tuesday in February. Accordingly, we expect to hold our 2013 annual meeting of stockholders on or around February 19, 2013. Any stockholder proposal for inclusion in the Company's proxy materials for the 2013 annual meeting of stockholders pursuant to SEC Rule 14a-8 under the Securities Exchange Act of 1934 (the "Exchange Act") must be received by the Company's Corporate Secretary no later than September 22, 2012. Any proposal may be included in next year's proxy statement only if such proposal complies with the Company's By-Laws and the rules and regulations promulgated by the SEC, including Rule 14a-8.

In addition, the Company's By-Laws require that the Company be given advance written notice of nominations for election to the Board and other matters that stockholders wish to present for action at an annual meeting of stockholders (other than matters included in the Company's proxy materials in accordance with Rule 14a-8 under the Exchange Act). For matters to be presented at the 2013 annual meeting, the Company's Corporate Secretary must receive such notice no earlier than August 25, 2012, and no later than October 24, 2012. The notice must contain, and be accompanied by, certain information as specified in the Company's By-Laws. The Company recommends that any stockholder wishing to nominate a director at, or bring any other item before, an annual meeting of stockholders review the Company's By-Laws, which are available on the Company's website at <http://ir.navistar.com/documents.cfm>. All stockholder proposals and director nominations must be delivered to Navistar by mail c/o the Corporate Secretary at 2701 Navistar Drive, Lisle, Illinois 60532.

### **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 properly 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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**Q: How can I find the results of the Annual Meeting?**

**A:** Preliminary results will be announced at the Annual Meeting. Final results will be published in a Current Report on Form 8-K to be filed with the SEC within four business days after the Annual Meeting. If the official results are not available at that time, we will provide preliminary voting results in the Form 8-K and will provide the final results in an amendment to the Form 8-K as soon as they become available.

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**PROPOSAL 1 APPROVE AN AMENDMENT TO OUR RESTATED CERTIFICATE OF INCORPORATION**

Article Seventh of our Certificate of Incorporation currently divides the Board into three classes (Class I, Class II and Class III). One additional director not in any class is elected by the United Automobiles, Aerospace and Agricultural Implement Workers of America, as holders of the Company's Series B Preference Stock. Each member of a class is elected for a three-year term, with the terms staggered so that approximately one-third of directors stand for election each year. There are currently three Class I directors, whose term expires at the Annual Meeting; three Class II directors, whose term expires at the 2013 annual meeting; and three Class III directors, whose term expires at the 2014 annual meeting.

Classified boards provide effective protection against hostile takeover tactics and proxy contests because they make it difficult to gain control of the board of directors without the cooperation or approval of incumbent directors. A classified board also fosters continuity and stability, not only on the board but also in the overall business of a company, since a majority of directors will always have prior experience as directors of the company.

However, annually elected boards are perceived as increasing the accountability of directors to stockholders as they provide stockholders with the opportunity to register their views at each annual meeting on the performance of the entire board of directors over the prior year. Many institutional investors believe that the election of directors is the primary means for stockholders to influence corporate governance policies and to hold management accountable for implementing those policies. Others support declassification because it removes an anti-takeover defense for the board of directors the stockholders prefer to have in their own hands.

After careful consideration, and as part of an agreement reached with some of our stockholders, the Board has determined that it would be in the best interests of the Company and its stockholders to amend our Certificate of Incorporation as set forth in Appendix A of this proxy statement, to phase out classification of our Board and provide instead for the annual election of directors as further described below (the "Declassification Amendment"). The Board unanimously approved, and recommends that the stockholders approve, the Declassification Amendment.

If the Declassification Amendment is approved by our stockholders, then we will amend our Certificate of Incorporation and directors elected at the Annual Meeting and thereafter will be elected for one-year terms at each annual meeting of stockholders. Therefore, the Class I directors would stand for election at the Annual Meeting for one-year terms, the Class I and Class II directors would stand for election at the 2013 annual meeting for one-year terms, and beginning with the 2014 annual meeting, the Board will be completely declassified and all directors will be subject to annual election to one-year terms. Consistent with Delaware law, the Declassification Amendment also provides that once declassification of the Board is accomplished at the 2014 annual meeting, thereafter directors may be removed with or without cause.

If the Declassification Amendment is not approved by the stockholders, our Board will remain classified and our directors will continue to be subject to our Certificate of Incorporation's current classification. In such case, the three Class I directors to be elected at the Annual Meeting would be elected to a three-year term to serve until the 2015 annual meeting and until their respective successors are duly elected and qualified. Similarly, the Class II and Class III directors would continue to be elected to three-year terms as provided in our existing Certificate of Incorporation.

To be approved at the Annual Meeting, the Declassification Amendment requires the affirmative vote of at least a majority of the outstanding shares of our Common Stock. An abstention will have the same

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effect as a vote against the proposal. If approved, the Declassification Amendment will become effective during the Annual Meeting and prior to the election of directors, so that persons elected directors at the Annual Meeting will be elected to a one-year term.

The general description of the proposed amendment to the Certificate of Incorporation set forth above is qualified in its entirety by reference to the text of the proposed amendment to the Certificate of Incorporation which is attached as Appendix A to this proxy statement.

**YOUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSAL 1.**

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**PROPOSAL 2 ELECTION OF DIRECTORS**

Our Board consists of 10 directors.<sup>1</sup> One director is appointed by the United Automobiles, Aerospace and Agricultural Implement Workers of America (the UAW ) and is not part of our classified Board. The remaining nine directors are divided into three equal classes for purposes of election (i.e., Class I, Class II and Class III). Only the three members of Class I of our classified Board are up for election at the Annual Meeting.

As explained in further detail on page 8 of this proxy statement, the Board is proposing to amend our Certificate of Incorporation to move to annual elections of all our directors. This action cannot take place, however, until approved by stockholders. Accordingly, if the proposed amendment in Proposal 1 is not approved by our stockholders, the three Class I nominees will be elected to a three-year term expiring at our 2015 annual meeting of stockholders. If our stockholders approve Proposal 1 to amend our Certificate of Incorporation to move to annual election of all our directors, then the Class I nominees will be elected to a one-year term expiring at our 2013 annual meeting of stockholders.

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. We know of no reason why any nominee would be unable to accept nomination or election. All nominees have consented to be named in this proxy statement and to serve if elected.

The following summarizes additional information about each of the nominees and continuing directors as of the date of this proxy statement, including their business experience, director positions held currently or at any time during the last five years, involvement in certain legal or administrative proceedings, if applicable, and the experiences, qualifications, attributes or skills that qualify our nominees and continuing directors to serve as directors of the Company. The nominees were evaluated and recommended by the Nominating and Governance Committee in accordance with the process for nominating directors as found on page 20 of this proxy statement.

***YOUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE NOMINEES PRESENTED IN PROPOSAL 2.***

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

**David D. Harrison,\*** 64, Director since 2007 (*Committees: Audit and Compensation*). Mr. Harrison served as Executive Vice President and Chief Financial Officer of Pentair, Inc., a \$3 billion global manufacturing company, with more than 13,000 employees, from 2000 until his retirement in February 2007. He also served as Executive Vice President and Chief Financial Officer of Pentair, Inc. from 1994 to 1996. Prior to joining Pentair, he held several executive positions with General Electric Co. and Borg Warner Corp from 1972 through 1994. Mr. Harrison is currently managing partner of HCI, Inc., a real estate investment firm, and has served in that capacity since 2007. He is also a director of National Oilwell Varco, Inc. (*Committee: Audit (Chair)*), a leading global manufacturer of oil well drilling equipment, and James Hardie (*Committees: Audit and Compensation (Chair)*), a world leader in fibre cement technology.

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Mr. Harrison is an experienced director having spent over 40 years in manufacturing. He has a distinguished finance background (BA in Accounting, MBA in Finance and is a Certified Management Accountant), having significant expertise in corporate finance roles and information technology, as well as international operations experience in Western Europe, Eastern Europe and Canada and public company director experience. In addition to those described above, Mr. Harrison has skills and experience in accounting, corporate governance, human resources, compensation and employee benefits, mergers and acquisitions, tax and treasury matters, which well qualifies him to serve on our Board.

**Steven J. Klinger,\*** 52, Director since 2008 (*Committees: Audit and Compensation*). Mr. Klinger was President and Chief Operating Officer of Smurfit-Stone Container Corporation, a global paperboard and paper-based packaging company, from 2006 until his retirement in December 2010. Prior to this position, he served as Executive Vice President, Packaging, Pulp & Global Procurement at Georgia-Pacific Corporation, a pulp and paper company, from 2003 to 2006, and President of Packaging at Georgia-Pacific from 2000 to 2002. Prior to 2000, he held numerous other positions within Georgia-Pacific and acquired significant experience in international and domestic sales, heavy process manufacturing and acquisitions and divestitures during 28 years in the pulp and paper industry. Mr. Klinger also served as a director of Smurfit-Stone Container Corporation from December 2008 to December 2010. On January 26, 2009, Smurfit-Stone Container Corporation filed for voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code and emerged from bankruptcy on June 20, 2010.

Mr. Klinger has served in accounting roles as a former Internal Auditor, Division Controller and Assistant Operations Controller, and as a Director of Corporate Development he led over \$2 billion of divestitures and participated in over \$10 billion of mergers and acquisitions. He has experience selling products and running operations internationally in Canada, Mexico, China, South America, Europe, the Middle East, Central America and Southeast Asia and has been responsible for multiple joint ventures in the US, Canada, China, Central America and Southeast Asia. As a result of these professional and other experiences, Mr. Klinger possesses particular knowledge and experience in a variety of areas, including accounting, finance, manufacturing (domestic and international), sales and marketing (domestic and international), mergers and acquisitions, purchasing and union/labor relations, which contributes greatly to the Board's composition and well qualifies him to serve on our Board.

**Michael N. Hammes,\*** 70, Director since 1996 (*Committees: Compensation, Finance (Chair), Nominating and Governance (Chair) and Executive*). Mr. Hammes has also served as Lead Director of the Company since December 2007. 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 retirement as Chief Executive Officer 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, and held a variety of executive positions with Ford and Chrysler including President of



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Chrysler's International Operations and President of Ford's European Truck Operations. He is Chairman of James Hardie (*Committees: Audit, Compensation and Nominating and Governance*), a world leader in fibre cement technology, and a director of DynaVox Mayer-Johnson (*Committee: Nominating and Governance and Audit*), the leading provider of speech generating devices and symbol-adapted special education software. Mr. Hammes is also a member of the Board of Directors of DeVilbiss, which is involved in medical equipment for the health care industry.

As a result of these professional and other experiences, including his experience as a member of other public company boards of directors, Mr. Hammes possesses particular knowledge and experience in a variety of areas, including accounting, corporate governance, distribution, finance, manufacturing (domestic and international), marketing, non-U.S. sales/distribution and product development, which strengthens the Board's collective knowledge, capabilities and experience. Likewise, his experience and leadership in serving as Chairman and Chief Executive Officer for three different companies for fifteen years well qualifies him to serve on our Board.

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

**Class II Directors Whose Term Expires at the 2013 Annual Meeting**

**Eugenio Clariond,\*** 68, Director since 2002 (*Committees: Finance and Nominating and Governance*). Mr. Clariond 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 also a director of Texas Industries, Inc. (*Committees: Audit and Governance (Chair)*), a producer of construction materials, Johnson Controls, Inc. (*Committees: Finance and Compensation*), a global diversified company in the building and automotive industries, and Mexichem S.A. (*Committees: Audit and Governance*), a Mexican chemical company. Mr. Clariond served as Chairman of Verzatec, S.A., producer of aluminum and plastic construction parts, from 2004 to 2010, as director of the Mexico Fund, Inc. from 2005 to 2010, and as director of Grupo Financiero Banorte, S.A., a Mexican bank, from 2000 to June 2011. He was also Chairman of the Mexican Fund for Nature Conservancy, a founding member and past Vice-Chairman of the World Business Council for Sustainable Development, and Chairman of the United States-Mexico Business Committee of the Mexican Business Council for Foreign Trade. He is also a director of Monterrey Tech and the Center of Studies from the Private Sector for Sustainable Development. He is on the Advisory Board of the McCombs School of Business at the University of Texas at Austin, the Harte Research Institute for Gulf of Mexico Studies and the Jacobs School of Engineering of the University of California at San Diego. He has also been active in promoting Mexico's foreign trade and was involved in the negotiation of the North American Free Trade Agreement. As a result of the positions and experience described above, Mr. Clariond has leadership experience with large, complex and diverse organizations, including in the automotive industry, and experience in strategic planning which well qualifies him to serve on our Board. His years of service on other public company boards provide him with additional perspectives from which to view the Company's operations and the Board's activities. Mr. Clariond's skills in accounting, corporate governance, finance, human resources/compensation/employee benefits, manufacturing (domestic and international), marketing, mergers and acquisitions and non-U.S. sales and distribution strengthen the Board's collective knowledge, capabilities and experience.

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**Diane H. Gulyas,\*** 55, Director since 2009 (*Committee: Finance*). Ms. Gulyas is the President responsible for E.I. DuPont De Nemours and Company's (DuPont) performance polymers, which contains three business units—engineering polymers, elastomers and films, with annual revenues of approximately \$5 billion. She joined DuPont in 1978 and spent her first 10 years in a variety of sales, marketing, technical and systems development positions, primarily in the company's polymers business. She later served as vice president and general manager for DuPont's advanced fiber business and then group vice president of the \$3 billion electronic and communication technologies platform. In April 2004, she was named chief marketing and sales officer, where she was responsible for corporate branding and marketing communications, market research, e-business and marketing/sales capability worldwide. She was named to her current position in October 2009.

As a result of these professional and other experiences, Ms. Gulyas possesses executive and management experience that well qualifies her to serve on our Board. Her skills in engineering, manufacturing (domestic and international), marketing and non-U.S. sales and distribution contribute greatly to the Board's composition.

**General (Retired) Stanley A. McChrystal,** 57, Director since 2011 (*Committee: Finance*). Gen. McChrystal, is a retired 34-year U.S. Army veteran of multiple wars. He commanded the U.S. and NATO's security mission in Afghanistan, served as the director of the Joint Staff and was the Commander of Joint Special Operations Command, where he was responsible for the nation's deployed military counter terrorism efforts. Gen. McChrystal is a graduate of the United States Military Academy at West Point, the United States Naval Command and Staff College and was a military fellow at both the Council on Foreign Relations and the Kennedy School of Government at Harvard University. Currently the General is a member of the Board of Directors of JetBlue Airways Corporation (*Committees: Compensation, Corporate Governance and Nominating and Airline Safety*), a commercial airline, Chairman of the board of Siemens Government Technologies, Inc., a wholly-owned indirect subsidiary and a Federal Business Entity of Siemens AG, since December 2011, and since August 2011 a member of the Board of Advisors of General Atomics, a world leader of resources for high-technology systems ranging from the nuclear fuel cycle to remotely operated surveillance aircraft, airborne sensors, and advanced electric, electronic, wireless and laser technologies. He also teaches a seminar on leadership at the Jackson Institute for Global Affairs at Yale University and serves alongside his wife on the Board of Directors for the Yellow Ribbon Fund, a non-profit organization committed to helping wounded veterans and their families.

As a former senior military leader, Gen. McChrystal has experience in logistics, talent management and experience with government and regulatory affairs and military contracting. Gen. McChrystal's years of military leadership and service are of great value to the Board as the Company expands its global and military businesses.

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**Class III Directors Whose Term Expires at the 2014 Annual Meeting**

**James H. Keyes,\*** 71, Director since 2002 (*Committees: Audit (Chair), Compensation, Nominating and Governance and Executive*). Mr. Keyes 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. (*Committees: Compensation, Governance and Executive*) and is a member of the Board of Trustees of Fidelity Mutual Funds (*Committees: Audit and Compliance*). He was also formerly a director of LSI Logic Corporation, an electronics company that designs semiconductors and software that accelerate storage and networking in datacenters and mobile networks.

Mr. Keyes has broad experience as former chief executive officer of a public company, experience as a certified public accountant, experience as a member of other public company boards of directors, and he has a Masters in Business Administration. He possesses strong skills and experience in accounting, corporate governance, finance, human resources/compensation/employee benefits, manufacturing (domestic and international), mergers and acquisitions and treasury matters, which well qualifies him to serve on our Board.

**John D. Correnti,\*** 64, Director since 1994 (*Committees: Audit, Nominating and Governance and Compensation (Chair)*). Mr. Correnti serves as Chairman and Chief Executive Officer of Steel Development Company, LLC, a steel mill operational and development company, since 2007. 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. He was Chairman and Chief Executive Officer of SteelCorr, LLC from 2002 to 2005, and Chairman and Chief Executive Officer of Birmingham Steel Corporation, a manufacturer of steel and steel products, from 1999 to 2002. On June 3, 2002, Birmingham Steel Corporation filed for voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code. Mr. Correnti served as Chief Executive Officer, President and Vice Chairman of Nucor Company, a mini mill manufacturer of steel products, from 1996 to 1999, and as its President and Chief Operating Officer and as a director from 1991 to 1996. He is Executive Chairman of the Board of Directors of Calisolar, a private solar cells manufacturer, and a director of Corrections Corporation of America, a public provider of correctional solutions (*Committee: Compensation*). He also serves on the Clarkson University Board of Trustees and the Mississippi University for Women Foundation Board.

Mr. Correnti's executive leadership and experience gained through his service as a chief executive of established and start-up companies, both public and private, and his public company director experience contributes significantly to the Board's composition. His skills and experience in accounting, corporate governance, distribution, engineering, human resources, compensation, and employee benefits, manufacturing (domestic and international), marketing, mergers and acquisitions, domestic sales and distribution and purchasing matters well qualifies him to serve on our Board.

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**Daniel C. Ustian**, 61, Director since 2002 (*Committee: Executive*). Mr. Ustian serves as President and Chief Executive Officer of Navistar since 2003 and Chairman of the Board since 2004. He has also held numerous positions with Navistar, Inc., including serving as Chairman of the Board of Directors of Navistar, Inc. since 2004, President and Chief Executive Officer since 2003 and a director since 2002. Prior to these positions he served as President and Chief Operating Officer of Navistar, Inc., from 2002 to 2003, President of the Engine Group of Navistar, Inc. from 1999 to 2002, and Group Vice President and General Manager of the Engine & Foundry Group of Navistar, Inc. from 1993 to 1999. He is a member of the Business Roundtable and the Society of Automotive Engineers and has served as a director of AGCO Corporation, a leading global manufacturer of agricultural equipment, since March 2011.

Mr. Ustian's knowledge of the Company and its operations, including his experience running the engine business, the foundry and other experiences at the Company over the last 37 years, is invaluable to the Board in evaluating and directing the Company's future. As a result of his professional and other experiences, Mr. Ustian possesses particular knowledge and experience in a variety of areas, including corporate governance, distribution, engineering, manufacturing (domestic and international), marketing, mergers and acquisitions, sales/military/government and union/labor relations, which strengthens the Board's collective knowledge, capabilities and experience and well qualifies him to serve on our Board.

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

**Dennis D. Williams**,\*\* 58, Director since 2006. (*Committee: Finance*). Mr. Williams has served as UAW's Secretary Treasurer and Director, Agricultural Implement and Transnational Departments since June 2010. Prior to this position, Mr. Williams served as Director of UAW Region 4 from 2001 to June 2010 and as Assistant Director of Region 4 from 1995 to 2001. 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.

- (1) Mr. William H. Osborne, age 51 and a director since 2009, resigned as a director in April 2011. He was replaced by Gen. (Retired) Stanley A. McChrystal in April 2011. Mr. Osborne was President and Chief Executive Officer of Federal Signal Corporation, a manufacturer and marketer of fire, safety and municipal infrastructure equipment, from September 2008 until November 2010. Prior to joining Federal Signal Corporation he served in a number of senior-level positions with Ford Motor Company. Most recently, he served as President and Chief Executive Officer of Ford of Australia from February 2008 to September 2008. Previously, he served as President and Chief Executive Officer of Ford of Canada from November 2005 to January 2008, and as Executive Director, Pickup Truck and Commercial Vehicles, North American Truck Business of Ford Motor Company from December 2003 to November 2005. His earlier assignments included a variety of roles in product design, development and engineering. Prior to joining Ford, he held positions at Chrysler and General Motors from 1977 to 1990. He also served as a director of Federal Signal Corporation. Mr. Osborne currently works for Navistar, Inc. as Vice President Custom Products (see Related Party Transactions and Approval Policy on page 17 for more detail).

\* 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 postretirement 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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**Involvement in Certain Legal Proceedings**

On August 5, 2010, the SEC announced that a final administrative settlement had been reached with the Company and certain current and former employees of the Company, including Mr. Ustian, the Company's Chairman, President and Chief Executive Officer, regarding the SEC's investigation of matters surrounding the Company's restatement of its financial results from 2002 through the first three quarters of 2005. As part of the administrative settlement, without admitting or denying any wrongdoing, Mr. Ustian consented to a cease and desist order requiring future compliance with an internal accounting control provision of the federal securities laws and, pursuant to Section 304 of the Sarbanes-Oxley Act of 2002, agreed to return to the Company an aggregate of \$1,320,000 (paid through the tender of shares of Common Stock) representing his fiscal 2004 monetary bonus, the only bonus that he received during the restatement period.

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**CORPORATE GOVERNANCE**

***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/documents.cfm>. 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.

***RELATED PARTY TRANSACTIONS AND APPROVAL POLICY***

Our Policy and Procedures with Respect to Related Person Transactions governs the review, approval and ratification of transactions involving the Company and related persons where the amount involved exceeds \$120,000. Related persons include our executive officers, directors, director nominees, 5% stockholders and immediate family members of such persons, and entities in which one of these persons has a direct or indirect material interest. Under this 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 then assesses 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.

A copy of our Policy and Procedures with Respect to Related Person Transactions is available on the Investor Relations section of our website at <http://ir.navistar.com/documents.cfm>.

Since the beginning of fiscal year 2011, the following four related-person transactions occurred:

The first originally occurred in August 2008 and relates 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

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Financial Corporation, Mrs. Moran received annual compensation and benefits for fiscal 2011 of less than \$255,000, which includes base salary, annual incentive, company 401(k) matching contributions and other standard benefits available to all employees generally, and was granted 1,250 stock options and 500 cash-settled restricted stock units. Mrs. Moran's compensation and benefits are comparable to other employees with equivalent qualifications, experience, and responsibilities at the Company. Moreover, Mrs. Moran's annual compensation is market bench-marked periodically by our Corporate Compensation Department and determined outside of the related person's reporting structure. Since Mrs. Moran's employment pre-dated Mr. Moran's appointment as our Vice President and Treasurer, that relationship was permissible under the applicable provisions of our Policy and Procedures with Respect to Related Person Transactions and did not require Audit Committee approval. Any material change in the terms of Mrs. Moran's employment would, however, need to be approved by the Audit Committee.

The second originally occurred in September 2009 and relates to our Chief Financial Officer, Andrew Cederroth, whose brother-in-law, Daniel McEachern, is a materials manager at Navistar Defense, LLC. As materials manager at Navistar Defense, Mr. McEachern received annual compensation and benefits for fiscal 2011 of less than \$172,000, which includes base salary, annual incentive, company 401(k) matching contributions and other standard benefits available to all employees generally. Mr. McEachern's compensation and benefits are comparable to other employees with equivalent qualifications, experience, and responsibilities at the Company. Moreover, Mr. McEachern's annual compensation is market bench-marked periodically by our Corporate Compensation Department and determined outside of the related person's reporting structure. Since Mr. McEachern's employment predated Mr. Cederroth's appointment as our Executive Vice President and Chief Financial Officer, that relationship was permissible under the applicable provisions of our Policy and Procedures with Respect to Related Person Transactions and did not require Audit Committee approval. Any material change in the terms of Mr. McEachern's employment would, however, need to be approved by the Audit Committee.

The third occurred in April 2011 and relates to our Vice President Custom Products, William H. Osborne. Mr. Osborne served as one of our directors from August 2009 through April 2011, at which time he resigned as a director and accepted his current position. As Vice President Custom Products, Mr. Osborne received annual compensation and benefits for fiscal 2011 of less than \$652,000, which includes base salary, bonus, perquisites, company 401(k) matching contributions and other standard benefits available to all employees generally, and was granted 10,000 stock options and 4,000 cash-settled performance shares. Mr. Osborne's compensation and benefits are comparable to other employees with equivalent qualifications, experience, and responsibilities at the Company. Moreover, Mr. Osborne's annual compensation is market bench-marked periodically by our Corporate Compensation Department. The Audit Committee determined that Mr. Osborne's appointment as Vice President Custom Products was in the best interests of the Company and approved the transaction.

The fourth occurred during fiscal year 2011 and relates to our Chief Executive Officer, Daniel Ustian, whose son, Eric Ustian, collaborated with Wild Eyes Productions, a company specializing in documentaries, feature films and 3D technologies, to produce a 3D marketing video for the International ProStar. Eric Ustian and the principals of Wild Eyes Production are currently forming a joint venture to provide media production services to corporate clients such as Navistar. The Company paid Wild Eyes Productions \$170,326.13 through the date hereof, which covered production costs and labor. The Audit Committee determined that Eric Ustian's involvement with Wild Eyes was not inconsistent with the best interests of the Company and approved and ratified the transaction.

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### ***DIRECTOR INDEPENDENCE DETERMINATIONS***

We believe that a majority of the members of our Board should be independent non-employee directors. Our Board has affirmatively determined that nine of our ten directors, each of Messrs. Clariond, Correnti, Hammes, Harrison, Keyes, Klinger, McChrystal and Williams and Ms. Gulyas, qualifies as an independent director in accordance with the NYSE's independence requirements and our own internal guidelines for determining director independence. Each of these directors has also been determined to be financially literate. All of the members of our Audit Committee, Compensation Committee, Finance 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/documents.cfm>. 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.

### ***BOARD LEADERSHIP STRUCTURE***

The Company's Corporate Governance Guidelines allow the Board to select the Chairman of the Board and the CEO and to determine from time to time whether the positions are combined and filled by one person or separated and filled by two persons. Currently, our Board leadership structure consists of a Chairman (who is also our CEO), an independent Lead Director and strong committee chairs. The Board has determined that selecting our CEO as Chairman is in the best interests of the Company and its stockholders because this leadership structure promotes a unified vision for our Company, strengthens the ability of the CEO to develop and implement strategic initiatives and facilitates our Board's efficient and effective functioning.

The Board also believes the combination of Chairman and CEO position is appropriate in light of the independent oversight provided by the Board and the appointment of an independent Lead Director. On October 18, 2011, the Board reappointed Mr. Michael N. Hammes to serve as Lead Director for a one-year term. Our Lead Director's duties and responsibilities include: (i) facilitating communications and information sharing among the independent directors; (ii) advising on Board meeting agendas; (iii) advising on meeting materials; (iv) participating in the evaluation and selection of candidates for selection to the Board; (v) participating in the recruiting of new directors; (vi) overseeing the Board self-evaluation process and individual director evaluations, if such individual director evaluations are performed; (vii) participating in the evaluation of the CEO; (viii) participating in the development of recommendations to the Board for the election of Board committee members and the appointment of committee chairs; (ix) chairing Board meetings in the absence of the Chair; (x) making recommendations about retention of consultants reporting to the Board; (xi) attending all Board committee meetings; and (xii) consulting with the CEO prior to the CEO's personal transactions in the Company's securities. In addition, the Lead Director provides feedback to the CEO regarding the other directors' comments and concerns.

### ***RISK OVERSIGHT***

Our Board has overall responsibility for the oversight of risk management at our Company. Day-to-day risk management is the responsibility of management, which has implemented an Enterprise Risk



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Management process to identify, assess, manage and monitor risks that face our Company. Enterprise Risk Management operates within our Internal Audit and Sarbanes-Oxley Compliance department and coordinates its efforts with that department. Our Board, either as a whole or through its committees, regularly discusses with management our major risk exposures, their potential impact on our Company, and the steps we take to monitor and control such exposures.

While our Board has general oversight responsibility for risk at our Company, the Board has delegated some of its risk oversight duties to the various Board committees. In particular, the Audit Committee is responsible for generally reviewing and discussing the Company's policies and guidelines with respect to risk assessment and risk management. It also focuses on the management of financial risk exposure and oversees financial statement compliance and control environment risk exposure. The Nominating and Governance Committee oversees risks related to corporate governance, including risk related to the political environment. The Compensation Committee assists our Board in overseeing the management of risks arising from our compensation policies and programs and programs related to assessment, selection, succession planning, training and development of executives of the Company. Finally, the Finance Committee is responsible for overseeing policies with respect to financial risk assessment and financial risk management including, without limitation, risks relating to liquidity/access to capital and macroeconomic trends/environment risks. Each of the Board committees periodically reviews these risks and then discusses the process and results with the full Board.

The Board believes the combined role of Chairman and CEO is an effective structure for the Board to understand the risks associated with the Company's strategic plans and objectives. Additionally, maintaining an independent Board with a Lead Director permits open discussion and assessment of the Company's ability to manage these risks.

## ***NOMINATING DIRECTORS***

You may recommend any person as a candidate for director by writing to our Corporate Secretary at 2701 Navistar Drive, Lisle, Illinois 60532 and complying with the procedures set forth in our By-Laws. Your letter must be received by the Company's Corporate Secretary no earlier than August 25, 2012, and no later than October 24, 2012, and must include all of the information required by our By-Laws including, but not limited to, the proposed nominee's biographical information and principal occupation; the number of shares of capital stock of the Company which are owned by the proposed nominee, appropriate information about the proposed nominee that would be required to be included in a proxy statement under the rules of the SEC, the number of shares held by you, information about the relationship between the proposed nominee and you, and a representation that you intend to appear in person or by proxy at the meeting to nominate the proposed nominee. Your letter must be accompanied by the written consent of the proposed nominee to being named as a nominee and to serve as a director if elected. You may only recommend a candidate for director if you hold shares of the Company's stock on the date you give the notice described above and on the record date for the annual meeting of stockholders at which you propose such nominee be elected.

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:

knowledge and contacts in the Company's industry and other relevant industries;

positive reputation in the business community;

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

experiences and achievements that provide the nominee with the ability to exercise good business judgment;

ability to make significant contributions to the Company's success;

ability to work successfully with other directors;

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;

ability to assist and evaluate the Company's management;

is involved only in other activities or interests that do not create a conflict with his or her responsibilities to the Company and its stockholders;

understands and meets his or her 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

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, ethnicity, education, and other attributes which contribute to the Board's diversity.

The satisfaction of the above criteria is implemented and assessed through ongoing consideration of directors and nominees by the Nominating and Governance Committee and the Board, as well as the Board's self-evaluation process. Based upon these activities and its review of the current composition of the Board, the Nominating and Governance Committee and the Board believe that these criteria have been satisfied.

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.

## ***BOARD COMMITTEES AND MEETINGS***

The Board 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 October 2011, the Board conducted an evaluation of the directors, the committees and the Board.

The Board has five standing committees: an Audit Committee, a Compensation Committee, an Executive Committee, a Finance Committee and a 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/documents.cfm>. The provisions governing our Executive Committee are set forth in Article III of our By-Laws, a copy of which is available on the Investor Relations section of our website at <http://ir.navistar.com/documents.cfm>.



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In fiscal year 2011, the full Board met ten times. In addition, the Board's independent directors met three times in regularly scheduled executive sessions to (i) evaluate the performance of the Chief Executive Officer, (ii) discuss corporate strategies and (iii) discuss the Board's self-evaluation. 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.

During fiscal year 2011, each of the directors except Dennis Williams attended 93% or more of all the meetings of the Board and the committees on which he or she serves. The average attendance of all directors in fiscal 2011 was 96%. Dennis Williams attended 63% of the Board and committee meetings on which he serves. Mr. Williams' absence from these meetings was due to his attendance at UAW negotiations, which he is required to attend as UAW Secretary Treasurer and Director, Agricultural Implement and Transnational Departments. We encourage all Board members to attend all meetings, including the Annual Meeting. All of our directors attended our 2011 annual meeting of stockholders.

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

Committee Membership					
(as of December 31, 2011)					
	Audit	Compensation	Executive	Finance	Nominating & Governance
Eugenio Clariond				ü	ü
John D. Correnti	ü	ü *			ü
Diane H. Gulyas				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			
Stanley A. McChrystal				ü	
Daniel C. Ustian			ü *		
Dennis D. Williams				ü	

\* Indicates the chair of the committee

**Audit Committee** The Audit Committee assists the Board in fulfilling its responsibility for oversight of the Company's financial reporting process, the Company's legal and regulatory compliance, the independence, qualifications and performance of the Company's independent registered public accounting firm and the performance of the Company's internal audit function. The Audit Committee reviewed the fiscal year 2011 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 registered public accounting firm 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 reviews and decides on conflicts of interest and related person transactions that may affect executive officers and directors and also discusses policies and guidelines with respect to risk assessment and risk management. Additional information on the roles and responsibilities of the Audit Committee is provided under "Audit Committee Reports" on page 25 of this proxy statement. The Board designated Mr. John D. Correnti, Mr. David D. Harrison, Mr. James H. Keyes and Mr. Steven J. Klinger as audit committee financial experts, as defined by applicable law, rules and regulations. In fiscal year 2011, the Audit Committee held nine meetings. The Audit Committee conducted an evaluation of its performance in October 2011.

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**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, reviews and approves the Company's compensation strategy and any associated risk, 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 reviews basic changes to non-represented employees' base compensation and incentive and benefit plans. The Compensation Committee also oversees the development and implementation of succession plans for senior executives (with the exception of our CEO) and positions as needed. Additional information on the roles and responsibilities of the Compensation Committee is provided in the CD&A on page 31 of this proxy statement. The Compensation Committee held four meetings in fiscal year 2011. The Compensation Committee conducted an evaluation of its performance in October 2011.

**Executive Committee** The Executive Committee is comprised of three directors, two 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 two meetings in fiscal year 2011.

**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 investment spending and capital expenditure budgets. The Finance Committee also oversees the Company's policies with respect to financial risk assessment and financial risk management. The Finance Committee held six meetings in fiscal year 2011. The Finance Committee conducted an evaluation of its performance in October 2011.

**Nominating and Governance Committee** The Nominating and Governance Committee is responsible for the organizational structure of the Board and its committees, recommending to the Board the directors to serve on the standing Board committees, reviewing and making recommendations to the Board concerning nominees for election as directors, CEO succession planning, reviewing and making recommendations to the Board concerning corporate governance practices and policies and changes to the Company's Certificate of Incorporation and By-Laws and overseeing risks related to corporate governance. In addition, the Nominating and Governance Committee leads the Board in its self-evaluation process. The Nominating and Governance Committee held six meetings in fiscal year 2011. The Nominating and Governance Committee conducted an evaluation of its performance in October 2011.

## ***COMMUNICATION WITH THE BOARD***

Interested parties may communicate with any of our directors, our Board as a group, our non-employee directors as a group or any committees of the Board by sending an e-mail to [presiding.director@navistar.com](mailto:presiding.director@navistar.com) or by writing to the Presiding Director, c/o the Corporate Secretary, at 2701 Navistar Drive, Lisle, Illinois 60532. The Board has given the Corporate Secretary the discretion to distribute communications to the director or directors, after ascertaining whether the communications are appropriate to duties and responsibilities of the Board. 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.

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***CODE OF CONDUCT***

Our Code of Conduct embodies 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. A copy of our Code of Conduct is available on the Investor Relations section of our website at <http://ir.navistar.com/documents.cfm>. 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/documents.cfm>) 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
	Audit Committee	
1 -877-734-2548	c/o Corporate Secretary	
or via the Internet at	Navistar International Corporation	Audit.committee@navistar.com
tnwinc.com/webreport/default.asp	2701 Navistar Drive	
	Lisle, Illinois 60532	

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**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, including the system of internal controls. KPMG LLP ( KPMG ), our independent registered public accounting firm, is 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 our independent registered public accounting firm. 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 independent registered public accounting firm.

The Audit Committee discussed with KPMG the overall scope and execution of the independent audit and reviewed and discussed the audited financial statements with management. Discussions about the Company's audited financial statements included KPMG's 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 KPMG other matters required by Statement on Auditing Standards No. 114 (AICPA, Professional Standards, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. KPMG 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 registered public accounting firm's communications with the Audit Committee concerning independence, and the Audit Committee discussed the independence of the independent registered public accounting firm with management and KPMG. The Audit Committee concluded that KPMG's 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, 2011 for filing with the SEC. In addition, the Audit Committee engaged KPMG to serve as the Company's independent registered public accounting firm for fiscal year 2012.

Audit Committee

James H. Keyes, Chairman

John D. Correnti

David D. Harrison

Steven J. Klinger

**Table of Contents****PERSONS OWNING MORE THAN FIVE PERCENT OF NAVISTAR COMMON STOCK**

This table indicates, as of December 31, 2011, all persons we know to be beneficial owners of more than 5% of our Common Stock. This information is based, in part, on a review of Schedule 13D, Schedule 13G and Section 16 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 (A)
Wellington Management Company, LLP 280 Congress Street, Boston, MA 02210	7,290,064(B)	10.50%
High River Limited Partnership Hopper Investments LLC Barberry Corp.	7,251,426(C)	10.45%
Icahn Offshore LP		
Icahn Partners LP		
Icahn Onshore LP		
Icahn Capital LP		
IPH GP LLC		
Icahn Enterprises Holdings L.P.		
Icahn Enterprises G.P. Inc.		
Beckton Corp.		
White Plains Plaza, 445 Hamilton Avenue, Suite 1210 White Plains, NY 10601		
Icahn Partners Master Fund LP		
Icahn Partners Master Fund II LP		
Icahn Partners Master Fund III LP		
c/o Walkers SPV Limited, P.O. Box 908GT, 87 Mary Street		



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George Town, Grand Caymans, Cayman Islands

Carl C. Icahn

c/o Icahn Associates Corp., 767 Fifth Avenue, 47<sup>th</sup> Floor,

New York, NY 10153

Owl Creek I, L.P.	6,153,303(D)	8.86%
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Owl Creek II, L.P.

Owl Creek Overseas Master Fund, Ltd.

Owl Creek Advisors, LLC

Owl Creek Asset Management, L.P.

Jeffrey A. Altman

640 Fifth Avenue, 20th Floor, New York, NY 10019

FMR LLC	4,894,586(E)	7.05%
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Edward C. Johnson 3d

82 Devonshire Street, Boston, Massachusetts 02109

(A) Applicable percentage ownership is based upon 69,416,056 shares of Common Stock outstanding as of December 31, 2011.

(B) As reported in Schedule 13G/A filed September 12, 2011 with the SEC by Wellington Management Company, LLP ( Wellington ). It is reported in the Schedule 13G/A that 7,290,064 shares of Common Stock are beneficially owned by Wellington. Wellington has shared voting power over 6,305,294 shares and shared dispositive power over 7,290,064 shares, and is an investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E).

(C) As reported in Schedule 13D/A filed with the SEC on November 3, 2011 by High River Limited Partnership ( High River ), Hopper Investments LLC ( Hopper ), Barberry Corp. ( Barberry ), Icahn Partners Master Fund LP ( Icahn Master ), Icahn

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Partners Master Fund II LP ( Icahn Master II ), Icahn Partners Master Fund III LP ( Icahn Master III ), Icahn Offshore LP ( Icahn Offshore ), Icahn Partners LP ( Icahn Partners ), Icahn Onshore LP ( Icahn Onshore ), Icahn Capital LP ( Icahn Capital ), IPH GP LLC ( IPH ), Icahn Enterprises Holdings L.P. ( Icahn Enterprises Holdings ), Icahn Enterprises G.P. Inc. ( Icahn Enterprises GP ), Beckton Corp. ( Beckton ), and Carl C. Icahn, a citizen of the United States of America (collectively, the Reporting Persons ), the Reporting Persons reported the following: High River has sole voting power and sole dispositive power with regard to 1,450,285 shares of Common Stock and each of Hopper, Barberry and Mr. Icahn has shared voting power and shared dispositive power with regard to such shares of Common Stock; Icahn Master has sole voting power and sole dispositive power with regard to 2,407,531 shares of Common Stock and each of Icahn Offshore, Icahn Capital, IPH, Icahn Enterprises Holdings, Icahn Enterprises GP, Beckton and Mr. Icahn has shared voting power and shared dispositive power with regard to such shares of Common Stock; Icahn Master II has sole voting power and sole dispositive power with regard to 813,634 shares of Common Stock and each of Icahn Offshore, Icahn Capital, IPH, Icahn Enterprises Holdings, Icahn Enterprises GP, Beckton and Mr. Icahn has shared voting power and shared dispositive power with regard to such shares of Common Stock; Icahn Master III has sole voting power and sole dispositive power with regard to 357,953 shares of Common Stock and each of Icahn Offshore, Icahn Capital, IPH, Icahn Enterprises Holdings, Icahn Enterprises GP, Beckton and Mr. Icahn has shared voting power and shared dispositive power with regard to such shares of Common Stock. Icahn Partners has sole voting power and sole dispositive power with regard to 2,222,023 shares of Common Stock and each of Icahn Onshore, Icahn Capital, IPH, Icahn Enterprises Holdings, Icahn Enterprises GP, Beckton and Mr. Icahn has shared voting power and shared dispositive power with regard to such shares of Common Stock.

Barberry is the sole member of Hopper, which is the general partner of High River. Icahn Offshore is the general partner of each of Icahn Master, Icahn Master II and Icahn Master III. Icahn Onshore is the general partner of Icahn Partners. Icahn Capital is the general partner of each of Icahn Offshore and Icahn Onshore. Icahn Enterprises Holdings is the sole member of IPH, which is the general partner of Icahn Capital. Beckton is the sole stockholder of Icahn Enterprises GP, which is the general partner of Icahn Enterprises Holdings. Carl C. Icahn is the sole stockholder of each of Barberry and Beckton. As such, Mr. Icahn is in a position indirectly to determine the investment and voting decisions made by each of the Reporting Persons. In addition, Mr. Icahn is the indirect holder of approximately 92.6% of the outstanding depository units representing limited partnership interests in Icahn Enterprises L.P. ( Icahn Enterprises ). Icahn Enterprises GP is the general partner of Icahn Enterprises, which is the sole limited partner of Icahn Enterprises Holdings. See the Schedule 13D/A filing by the Reporting Persons for certain disclaimers of beneficial ownership

- (D) As reported in Schedule 13D filed December 19, 2011 with the SEC by Owl Creek I, L.P., Owl Creek II, L.P., Owl Creek Overseas Master Fund, Ltd. ( Owl Creek Overseas ), Owl Creek Advisors, LLC, Owl Creek Asset Management, L.P. and Jeffrey A. Altman. It is reported in the Schedule 13G/A that (1) 97,433 shares of Common Stock are beneficially owned by Owl Creek I, L.P., over which it has shared voting power and shared dispositive power, (2) 1,498,685 shares of Common Stock are beneficially owned by Owl Creek II, L.P., over which it has shared voting power and shared dispositive power, (3) 4,506,995 shares of Common Stock are beneficially owned by Owl Creek Overseas, over which it has shared voting power and shared dispositive power, (4) 6,103,113 shares of Common Stock are beneficially owned by Owl Creek Advisors, LLC, over which it has shared voting power and shared dispositive power, (5) 6,103,113 shares of Common Stock are beneficially owned by Owl Creek Asset Management, L.P. over which it has shared voting power and shared dispositive power, (6) 6,153,303 shares of Common Stock are beneficially owned by Jeffrey A. Altman, over which he has shared voting power and shared dispositive power and (7) Owl Creek Advisors, LLC is the general partner of Owl Creek I and Owl Creek II and the manager of Owl Creek Overseas, and as such has the power to direct the affairs of Owl Creek I, Owl Creek II and Owl Creek Overseas. Owl Creek Asset Management, L.P. is the investment manager of Owl Creek I, Owl Creek II and Owl Creek Overseas, and as such has the power to direct the affairs of Owl Creek I, Owl Creek II and Owl Creek Overseas. 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.
- (E) As reported in Schedule 13G/A filed June 10, 2011 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/A that (1) Fidelity is the beneficial owner of 2,768,534 shares of Common Stock 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, and FMR, through its control of Fidelity, and the funds each have sole power to dispose of 2,768,534 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) Strategic Advisers, Inc., a wholly-owned subsidiary of FMR and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, provides investment advisory services to individuals. As such, FMR's beneficial ownership includes 2,320 shares of Common Stock, beneficially owned through Strategic Advisers. (4) 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 65,600 shares of Common Stock 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, (5) Edward C. Johnson 3d and FMR, through its control of PGALLC, each has sole dispositive power over 65,600 shares and sole power to vote or to direct the voting of 65,600 shares owned by the institutional

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account(s) or funds advised by PGALLC as reported above, (6) 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 stockholders have entered into a stockholders' 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 stockholders' 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, (7) 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 1,031,993 shares of Common Stock as a result of its serving as investment manager of institutional accounts owning such shares, (8) Edward C. Johnson 3d and FMR, through its control of PGATC, each has sole dispositive power over 1,031,993 shares and sole power to vote or to direct the voting of 1,020,623 shares of Common Stock owned by the institutional accounts managed by PGATC as reported above, (9) 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 1,026,139 shares of Common Stock, and (10) FIL has sole dispositive power over 1,026,139 shares and sole power to vote or direct the voting of 1,019,799 shares and no power to vote or direct the voting of 6,340 shares of Common Stock held by the international funds as reported above. Partnerships controlled predominantly by members of the family of Edward C. Johnson own shares of FIL voting stock with the right to cast approximately 47% of the total votes which may be cast by all holders of FIL voting stock.

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

The following table sets forth certain information regarding beneficial ownership of our Common Stock as of December 31, 2011 by: (i) each of our directors or nominees for director; (ii) each of our executive officers named in the Summary Compensation Table on page 49 ( NEOs ); and (iii) all of our directors, nominees for director and executive officers as a group. In general, beneficial ownership includes those shares a director, nominee for director or NEO has the power to vote or transfer, stock units with no risk of forfeiture 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	Owned <sup>(1)</sup>	Number of DSUs, PSUs or RSUs With No Risk of Forfeiture <sup>(2)</sup>	Obtainable Through Stock Option Exercise	Total	Percent of Class
Andrew J. Cederoth	19,641	5,073	41,777	66,491	*
Eugenio Clariond <sup>(4)</sup>	127,758	11,965	23,601	163,324	*
John D. Correnti	4,988	13,257	23,601	41,846	*
Steven K. Covey	24,875	4,961	107,889	137,725	*
Gregory W. Elliott	16,414	177	55,671	72,262	*
Diane H. Gulyas	2,216	338	4,001	6,555	*
Michael N. Hammes	5,320		6,401	11,721	*
David D. Harrison	3,333	1,009	7,601	11,943	*
Deepak T. Kapur	61,557	5,879	171,998	239,434	*
James H. Keyes	2,341	16,424	23,601	42,366	*
Steven J. Klinger	6,341		7,601	13,942	*
Stanley A. McChrystal	1,508			1,508	*
Daniel C. Ustian	142,067	36,030	720,308	898,405	1.3
Dennis D. Williams <sup>(3)</sup>					*
All Directors and Executive Officers as a Group (18 persons) <sup>(5)</sup>	466,561	100,660	1,344,238	1,911,459	<sup>(6)</sup> 2.8

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

(1) The number of shares shown for each NEO (and all directors and executive officers as a group) includes the number of shares of Common Stock owned indirectly, as of December 31, 2011, by such executive officers in our Retirement Accumulation Plan, as reported to us by the Plan trustee.

(2) The number of DSUs, PSUs and RSUs owned by each director and NEO (and all directors and executive officers as a group) includes deferred share units ( DSUs ), premium share units ( PSUs ) and restricted stock units ( RSUs ). For additional information on DSUs, PSUs and RSUs see below.

(3) At the request of the UAW, the UAW representative director, Dennis Williams, does not receive stock or stock option grant awards.

(4) Includes 125,500 shares Mr. Clariond owns indirectly through Ecrehi, CV LP.

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(5) Includes current directors and executive officers as a group.

(6) Includes shares over which there is shared voting and investment power as follows: directors and executive officers as a group 131,414 shares.

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**DSUs PSUs and RSUs**

Under our Executive Stock Ownership Program, executives may defer their cash bonus into DSUs. If an executive officer elects to defer a cash bonus, the number of shares shown for such NEO includes these DSUs. These DSUs vest immediately. The number of shares shown as owned for each NEO (and all NEOs as a group) also includes 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 DSUs. If a director elects to defer a portion of their annual retainer and/or meeting fees into DSUs, these DSUs are shown as owned.

Under our 2004 Performance Incentive Plan ( 2004 PIP ) and prior plans, executives may defer the receipt of shares of 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 elected to defer receipt of these shares into stock units, these stock units are also shown as owned. The deferral feature has been eliminated with respect to future stock option grants under the 2004 PIP and for non-qualified stock options granted from prior plans that vest on or after January 1, 2005.

Under our 2004 PIP, RSUs were granted to our NEOs on December 16, 2008 and December 15, 2009. The December 2008 and 2009 RSUs vest ratably over a three year period with 1/3<sup>rd</sup> vesting on each of the first three anniversaries of the date of grant, so that in 3 years the RSUs are 100% vested.

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**COMPENSATION**

***COMPENSATION COMMITTEE REPORT***

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

**The Compensation Committee**

John D. Correnti, Chairperson  
David D. Harrison  
Michael N. Hammes  
James H. Keyes  
Steven J. Klinger

**The Independent Members of the**

Board of Directors (non Compensation Committee members)  
Eugenio Clariond  
Diane Gulyas  
General (Retired) Stanley A. McChrystal  
Dennis D. Williams

***COMPENSATION DISCUSSION AND ANALYSIS***

The Compensation Committee has the responsibility to approve and monitor all compensation and benefit programs for our executive officers (which, for purposes of this proxy statement, the term executive officer means senior leadership of the Company, including Section 16 Officers and NEOs) and makes recommendations for the compensation and benefits of our Chief Executive Officer (the CEO), which is then approved by the independent members of our Board. As part of its responsibility, the Compensation 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 Compensation 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/documents.cfm>.

***Executive Summary***

Our long-term business strategy is focused on three pillars: (i) Great Products, (ii) Profitable Growth, and (iii) Competitive Cost Structure. Two key enablers to this strategy are our ability to (i) leverage the resources we have and those of our partners, and (ii) control our destiny.

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In fiscal year 2011, we had a strong full-year earnings performance reflecting the Company's continued execution of our strategy. Drivers of this performance included higher revenues and improved margins in our core North American truck business, sustained military sales and profitability of our engine business. We also saw revenues from outside of North America grow to more than \$3 billion as well as ongoing benefits from our engineering integration.

Consolidated financial performance factors such as net income, earnings per share, and manufacturing segment profit are considered by the Compensation Committee in their review and approval of short-term and long-term incentive plan design and payment decisions for our executive officers. These financial metrics have demonstrated positive trends over the last three fiscal years, as shown in the charts below.

(1) See the Reg G Non-GAAP Reconciliation in [Appendix B](#) of this proxy statement for additional information.

(2) The Manufacturing segment collectively represents the Company's Truck, Engine and Parts segments.

At our 2011 annual meeting of stockholders, our stockholders expressed their continued support of our executive compensation programs by approving our non-binding advisory vote on our executive compensation. More than 98% of votes cast supported our executive compensation policies and practices. In fiscal year 2011, we reviewed our executive compensation programs in light of our business results and our stockholder support of our executive compensation programs. We also held meetings with our institutional investors in order to solicit their views regarding, among other things, our executive compensation practices. Following such review and consideration, we continue to believe that our executive compensation programs are designed to support our company and our business strategies in concert with our compensation philosophies and guiding principles.

Consistent with our commitment to best practices in executive compensation, some of the compensation practices we continued to follow in fiscal year 2011 include the following:

We do not have employment contracts.

We do not provide tax gross-ups to Section 16 Officers.

We do not provide excise tax gross-ups on Change in Control payments.

We do not provide single trigger Change in Control benefits.

Our NEOs and directors are subject to stock ownership guidelines.

The vesting period for our NEOs' stock options and RSUs is over a 36 month period.



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A summary of certain key reviews and changes to our executive compensation program in fiscal year 2011 include the following:

In late fiscal year 2010, the Compensation Committee approved a new long-term incentive program under our 2004 PIP for fiscal year 2011, which includes a total stockholder return plan for certain select executive officers, which includes our NEOs, focused on increasing stockholder value and outperforming the competition. Awards were granted to the NEOs under this program in fiscal year 2011.

The Compensation Committee reviewed executive stock ownership guidelines in comparison to our peer group and market practices. Based on this review, the Compensation Committee found our executive stock ownership guidelines competitive and did not make changes to the program in fiscal year 2011, but the Compensation Committee will continue to monitor trends and consider future changes.

The Compensation Committee as well as our entire Board reviewed our Human Resources People Strategy to address succession and executive development.

Details regarding these changes are further explained in the respective sections throughout the CD&A and this proxy statement.

Set forth below is fiscal year 2010 and 2011 compensation for our CEO as determined under SEC rules. The SEC's calculation of total compensation (reflected in the column entitled "Total") includes several items that are driven by accounting and actuarial assumptions, which are not necessarily reflective of compensation actually received by our CEO. To supplement the SEC-required disclosure, we have included an additional column in the table below entitled "Total Realized Value," which shows total compensation realized by our CEO in each of the last two fiscal years.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value & Non-Qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)	Total Realized Value (\$) <sup>(1)</sup>
<b>Daniel C. Ustian</b> Chairman, President & Chief Executive Officer	2011	1,238,333		4,671,420	4,996,330	1,450,000	2,717,837	93,835	15,167,755	2,782,168
	2010	1,180,000	1,946,000	646,567	2,670,606	1,947,000	1,913,848	78,448	10,382,469	7,071,246

(1) The amounts in the Total Realized Value column differ from the Total column in the Summary Compensation Table. This is not intended to replace the required disclosure based upon SEC requirements but instead provides additional information on value actually realizable by our CEO. Total Realized Value equals the total of 1) Salary, 2) Bonus, 3) Realized Value of Stock Awards, 4) Realized Value of Option Awards, 5) Non-Equity Incentive-Plan Compensation (Annual Incentive), 6) Realized Value of Change in Pension Value & Non-Qualified Deferred Compensation Earnings, and 7) All Other Compensation. Realized Value of Stock Awards for 2011 includes the performance share award value if paid had the performance period ended on October 31, 2011 which totaled \$0, and for 2010 includes the restricted stock unit award calculated using the average of the high and low stock price on October 31, 2010 (October 29, 2010 trading date), which totaled \$856,130. Realized Value of Option Awards includes in-the-money stock option values as of October 31, 2011 which totaled \$0, and October 31, 2010 (October 29, 2010 trading date), which totaled \$1,063,668.

**Detailed Review of Executive Compensation****Compensation Philosophy and Objectives**

Our executive compensation program for our executive officers, is designed to closely align executive rewards with corporate, group and individual performance and the total return to stockholders. Our Compensation Committee has developed an overall compensation philosophy

that is built on a foundation of the following guiding principles:

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

*Pay-for-Performance:* 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.

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

*Ownership and Responsibility:* Compensation programs are designed to recognize individual contributions as well as link executive and stockholder interests through programs that reward our executive officers, based on the financial success of the Company and increases to stockholder value.

**Market Compensation Review**

We continuously monitor the competitiveness of our executive compensation program. Over the past few years, the Compensation Committee has reviewed various components of our executive compensation program to ensure that (i) pay opportunities are competitive with the market, (ii) there is an appropriate link between performance and pay and (iii) the program supports our stated compensation philosophy. For example, in fiscal year 2010, we redesigned our Annual Incentive Plan ( AI Plan ) to be further tied to our business strategy while driving key performance behaviors. We also amended our Executive Severance Agreements ( ESA ) to eliminate the excise tax gross-ups upon a change in control and to ensure alignment with competitive best practices and regulatory compliance. Additionally, we approved our Total Shareholder Return ( TSR ) program for fiscal year 2011 for certain select executive officers under our 2004 PIP. The TSR program includes incentives based on increasing stockholder value and outperforming the competition.

Our review process included consultation with Exequity, an independent compensation consultancy firm, which compared the compensation of our executive officers, on short-term incentives, long-term incentives, ESAs and our overall compensation and benefits philosophy to that of our compensation peer group and broader market practice. Exequity was engaged by the Compensation Committee and reports solely to the Compensation Committee. The Compensation Committee has the sole authority to approve the terms of engagement. Exequity did not provide any services to the Company other than executive compensation consulting services during fiscal year 2011. The Compensation Committee considered both Exequity s advice and management s opinion in determining the compensation strategy. On an ad hoc basis, the Compensation Committee may engage Exequity to provide information regarding specific executive compensation topics of interest.

For fiscal year 2011, our compensation peer group of 23 companies was chosen from a cross section of manufacturing and transportation and equipment companies that have revenues ranging from one half to two times our revenues. 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 Exequity and management when the Compensation Committee requests specific executive compensation analyses. The Compensation Committee approved the following peer group for fiscal year 2011.

**Fiscal Year 2011 Compensation Peer Group**

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

Our Compensation Committee also reviewed a broader industry survey published by Aon Hewitt for additional compensation market data. Please refer to [Appendix C](#) of this proxy statement for a list of participants in Aon Hewitt s 2011 TCM survey. For individual executive positions, if the market data

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from the peer group of companies was not statistically reliable because of the small sample size, we also used the manufacturing group (or if that sample size is not large enough, the all-industry group) of this 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.

In fiscal year 2011, for base salary, short-term incentives, and long-term incentives, we targeted the 50<sup>th</sup> percentile (market median). We established a policy of targeting base salaries at the 50<sup>th</sup> percentile (market median) of the competitive market, based on peer group practices. We refer to this as the competitive market data, competitive market, or the like. We consider an executive officer to be compensated competitively if his or her base salary is within 80 to 120 percent of the market median. Under special circumstances, when we are recruiting for critical roles, we may target an executive officer's salary up to the 75<sup>th</sup> percentile. Our incentive compensation plans provide executive officers with the opportunity to earn total compensation at the 50<sup>th</sup> percentile of the competitive market for target consolidated, business unit, and/or individual performance and at the 75<sup>th</sup> percentile for distinguished consolidated, business unit, and/or individual performance.

Typically, our CEO makes recommendations to the Compensation Committee regarding annual base salary increases for the NEOs other than himself (see the section entitled *Summary of the Executive Salary Planning Approval Process* below). For our AI Plan, our CEO may recommend that the Compensation Committee adjust awards to reflect individual performance and/or overall results. For long-term incentives, awards generally follow our fixed share guidelines with no adjustments recommended by our CEO. However our CEO does have discretion for certain select executive officers eligible for the performance shares awarded under the TSR program, described in *Long-Term Incentives* on page 42 of this proxy statement.

## **Pay Mix**

Our pay mix of base salary, short-term incentives, and long-term incentives ( Total Direct Compensation or TDC ) generally tracks the marketplace. The major components of TDC, specifically short-term and long-term incentives, are contingent upon performance and, therefore, fluctuate with our financial results and share price. This structure supports our pay-for-performance compensation philosophy.

The pay mix for NEOs is displayed on the left.  
For the CEO:

90% of TDC is at risk

12% of TDC is tied to achievement of annual  
incentive goals

78% of TDC is tied to achievement of share  
price or financial goals over a longer period

For all other NEOs:

78% of TDC is at risk

15% of TDC is tied to achievement of annual  
incentive goals

63% of TDC is tied to achievement of share  
price or financial goals over a longer period

**Table of Contents****Elements of Executive Compensation**

The key elements of our executive compensation program include base salary, short-term incentives, 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 Compensation Committee considers the total compensation and benefits package when making any compensation decision.

**Base Salary**

We pay each executive officer a competitive base salary, on a monthly basis, for services rendered during the year. Base salaries for executive officers are typically 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 the fiscal year.

**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.

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

The CEO reviews and approves and/or adjusts all salary recommendations for executive officers.

The Compensation Committee reviews the salary for the CEO and reviews and approves 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 Compensation Committee then recommends and the independent members of the Board approve or adjust the salary recommendation for the CEO. We have a detailed procedure in place for reviewing the performance of the CEO and determining the annual salary of the CEO as described in greater detail below.

After a two year freeze on performance-based salary increases due to the economic environments of 2009 and 2010, traditional base salary performance increases were provided in fiscal year 2011. The table below sets for the base salary for our NEOs for fiscal year 2011, as well as their previous base salary.

**NEO Fiscal Year 2011 Base Salary**

NEO	Previous Base Salary	Effective Date	FY2011 Base Salary	Effective Date
Daniel C. Ustian	\$ 1,180,000	January 1, 2008	\$ 1,250,000	January 1, 2011
Andrew J. Cederoth	\$ 470,000	September 24, 2009 <sup>(1)</sup>	\$ 513,500	November 1, 2010
Deepak T. Kapur	\$ 640,000	November 1, 2007	\$ 672,000	November 1, 2010
Steven K. Covey	\$ 495,000	November 1, 2007	\$ 548,600	November 1, 2010
Gregory W. Elliott	\$ 420,000	June 1, 2008 <sup>(2)</sup>	\$ 441,000	November 1, 2010

(1) Base increase due to promotion to Chief Financial Officer.

- (2) Base increase due to promotion to Senior Vice President Human Resources and Administration.

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### **CEO Performance Evaluation**

Each year, typically in December, the Compensation 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 for the start of that year. The CEO presents this information solely to the 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's short-term incentive award under our AI Plan for the prior fiscal year and base salary for the new fiscal year. The chair of the Compensation Committee then informs the CEO of the compensation decisions and the performance evaluation on which those decisions were based.

In December 2010, based on the recommendation of the Compensation Committee, the independent members of the Board approved a base salary increase for Mr. Ustian from \$1,180,000 to \$1,250,000 effective January 1, 2011.

In December 2011, based on the recommendation of the Compensation Committee, the independent members of the Board approved a base salary increase for Mr. Ustian from \$1,250,000 to \$1,290,000 effective January 1, 2012. In this regard, the Compensation Committee awarded performance increases in general to the base salary for executive officers effective in fiscal year 2012. Also, in December 2011, the independent members of the Board approved a fiscal year 2011 AI Plan award ( AI Award ) slightly above the Target level for Mr. Ustian based upon both the Company's strong financial results and his achievements within our three strategic pillars of great products, competitive costs and profitable growth in fiscal year 2011. As discussed in the Annual Incentive section below, the Company's fiscal year 2011 pro forma Consolidated Normalized Earnings Per Share ( EPS ) was \$4.71, which is slightly above the Target level.

### **Annual Incentive**

The AI Plan is a short-term incentive program that exists to reward, motivate and retain employees as well as align rewards with performance for the fiscal year. The AI Plan is a key element in the executive compensation package as we intend for a significant portion of an executive officer's total compensation to be performance-related. The AI Plan for fiscal year 2011 was based on attaining financial and non-financial performance goals established and approved by the Compensation Committee. The AI Plan is authorized under our stockholder approved 2004 PIP. The 2004 PIP is an omnibus plan that allows for various awards such as cash, stock options, stock appreciation rights, RSUs, PSUs, DSUs and performance shares. The AI Plan and the 2004 PIP do not currently have claw-back provisions, which, for example, would retract a prior incentive award when financial results are restated after the award was paid. Our intent is to implement a claw-back provision soon after the final SEC rules and guidelines on this topic are adopted.

Historically, the profitability of our business has been heavily influenced by the cycle of North American truck sales. Consolidated financial goals for our AI Plan had in the past been based on return on pro forma equity ( ROE ). This truck industry volume measure is re-evaluated annually due to cyclical fluctuations. The amount of income required to earn an AI Award was calculated using this ROE target and then converted to an EPS goal. During our fiscal year 2010 review and redesign of our AI Plan, we reaffirmed that our overall goals should still be based upon truck industry volume as the demand for our products is closely tied to this metric. However, while ROE and industry volume remain the foundation for our AI Award calculation, EPS is our primary performance factor.

The key features of our AI Plan in fiscal year 2011 are as follows:

Performance based upon EPS

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Growth Business Adjustment

To include the impact of new businesses or growth opportunities

Overall adjustment for business unit and individual performance

Degree of difficulty of the role / complexity of the business

Judgment (performance as evaluated by the CEO in conjunction with management and the Compensation Committee)

Our AI Plan ties into our overall strategy of great products, competitive costs and profitable growth and is intended to drive key behaviors including:

Focusing on reducing the impact of cyclicalities

Ensuring the Company is profitable at all points of the cycle

Improving cost structure

Improving conversion rate of operating income into net income

Controlling our destiny

Reduce the impact of unforeseen events on our financial results

The AI Plan has threshold, target, distinguished, and super-distinguished performance payout levels for the executive officers which range from 25% to 200% of target. Based upon performance, in some years, we may not make payments under the AI Plan, but we also have the ability under the AI 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.

The following were factors in the 2011 AI Plan:

*Consolidated Financial Performance:* For all of our executive officers, 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 that it is important to encourage executive officers to work together to achieve the best consolidated organizational results rather than solely focus on individual business unit results. Consolidated financial goals are based on our EPS, as determined by the Compensation Committee. The EPS goal is established based on an expected industry volume and an additional adjustment takes place to account for the sustainable revenues and margins from the Company's growth businesses.



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The following table outlines the fiscal year 2011 EPS goals based upon a forecast for truck industry volume of 265,000 units, growth business revenue of \$2.0 billion, and an estimated share count of 73.6 million shares of Common Stock.

<b>Goal</b>	<b>Annual Incentive EPS (\$)</b>
Threshold (25% of Target)	3.78
Target (100%)	4.69
Distinguished (150% of Target)	5.53
Super Distinguished (200% of Target)	6.28

Final fiscal year 2011 EPS was \$22.64, however, this amount includes the impact of three issues that were not included in the EPS goals. We do not believe these issues are indicative of fiscal year 2011 performance and should be excluded from our fiscal year results when comparing to our EPS goals.

*Tax Valuation Allowance Release:* Our results include a net \$1.527 billion benefit from the release of a portion of the Company's income tax valuation allowance and the resulting recognition of U.S. income tax. The valuation allowance release was based on our assessment that it is more likely than not that we will realize a substantial portion of our domestic deferred tax assets and is reflective of the continued positive outlook of the Company's operations.

*Restructuring of North American Manufacturing Operations:* Our results include \$127 million of restructuring and related charges in fiscal year 2011, primarily resulting from our plans to close our Chatham, Ontario, heavy truck plant and Workhorse chassis plant in Union City, Indiana, and to significantly scale back operations at our Monaco recreational vehicle headquarters and motor coach manufacturing plant in Coburg, Oregon. These costs include restructuring charges, impairment charges related to certain intangible assets and property plant and equipment primarily related to these facilities, and other related charges. The restructuring and related charges recorded are based on restructuring plans that have been committed to by management and are based upon management's best estimates of future events.

*Incremental Other Post Employment Benefits Expenses:* Our results include \$24 million in incremental other post-employment benefit ( OPEB ) expenses that we incurred primarily as the result of a court-ordered reinstatement of prior benefits that existed before an administrative change to the prescription drug program affecting plan participants who are Medicare eligible. Of the amount recognized, approximately \$15 million relates to retroactive expenses and \$9 million relates to expenses incurred after the court ruling.

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We have calculated a pro forma EPS for purposes of determining annual incentive that excludes the impact of these three issues from our fiscal year results, and adjusts for the difference in the actual diluted weighted shares outstanding of 76.1 million versus the 73.6 million shares assumed when the AI Plan EPS goals were determined, in order to provide an appropriate comparison to our EPS goals.

	<b>Net Income (in millions)</b>	<b>EPS (\$)</b>
As reported	1,723	22.64
Plus manufacturing operations restructuring	127	1.67
Plus incremental OPEB expenses	24	0.32
Less valuation allowance expenses	(1,527)	(20.07)
Plus share count assumption adjustment		0.15
Pro forma	347	4.71

With the exclusion of the impact of the three issues noted above, pro forma EPS used to determine annual incentive was \$4.71, which is 101.2% of Target under the annual incentive straight-line interpolation between performance payout levels.

In fiscal year 2011, we also incurred engineering integration costs of \$64 million related to the consolidation of our truck and engine engineering operations as well as the move to our new world headquarters in Lisle, Illinois. These costs were a known issue when annual incentive goals were set and thus were included in the Target EPS used to determine annual incentive. The earnings guidance we provided to our stockholders, \$5.00 to \$6.00 EPS, did not include the impact of our engineering integration efforts or the retroactive portion of the incremental OPEB expenses. Our pro forma EPS used to determine annual incentive, as adjusted for engineering integration costs, non-retroactive incremental OPEB expenses and the share count assumption, to compare to our earnings guidance in our Form 10-K for fiscal year 2011, is shown below.

	<b>Net Income (in millions)</b>	<b>EPS (\$)</b>
Pro forma	347	4.71
Less share count assumption adjustment		(0.15)
Plus engineering integration costs	64	0.84
Less non-retroactive incremental OPEB expenses	(9)	(0.12)
Adjusted	402	5.28

The adjusted EPS of \$5.28 is within the guidance range of \$5.00 to \$6.00 EPS.

*Business Unit and Individual Performance:* The AI Plan is funded based on consolidated financial performance but may be adjusted based on assessment of business unit/functional group performance as well as individual performance.

The CEO in consultation with the Compensation Committee establishes goals for the Company including its major business units and/or functions. Performance relative to the goals is

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assessed quantitatively and qualitatively at the end of the fiscal year. A participant's award may be adjusted based on the performance of their business unit and/or functional area as well as their individual performance.

Individual performance 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 appraisal and evaluation. The TPM assessment reviews how well the executive performed with regard to both individual goals and defined skills and behaviors.

Generally only financial goals are applicable to awards for our NEOs except where business unit and/or individual performance is used for downward discretion. However, for fiscal year 2011, in no event will any NEO receive an award greater than their predetermined share of a pool equal to 1.75% of EBIT over \$50 million.

In conjunction with the 2011 AI Plan factors stated above, the following are additional factors used to determine the total 2011 AI Plan pool:

Achievement of pre-established financial and non-financial goals

Market expectations

Senior management expectations such as whether our accomplishments differentiate the Company in the marketplace, and whether we have prepared the business to be successful in the future

Affordability

The Compensation Committee reserves the right to reduce the aggregate amounts paid under the 2011 AI Plan. Generally, AI Awards are not paid when consolidated financial results are below threshold. In any event, under no circumstances will the AI Plan provide payments when net income is negative.

The Compensation Committee has the discretion to adjust a bonus payment. In doing so, the Compensation Committee historically considers the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code). While the Compensation Committee generally intends for incentive compensation to be tax deductible, there may be instances when the Compensation Committee decides to award a non-deductible amount. The Compensation Committee did not award a non-deductible amount under the AI Plan for fiscal year 2011.

**Table of Contents****Fiscal Year 2011 Annual Incentive Target Award Percentages and Amount Earned**

Named Executive Officer	Business Unit	Target as a % of Base Salary	Maximum NEO Payment available under our 2011 AI pool	2011 AI Amount Earned <sup>(1)</sup>
<b>Daniel C. Ustian</b>	Corporate			
	/Consolidated	110%	\$2,470,650	\$1,450,000
<b>Andrew J. Cederroth</b>	Corporate			
	/Consolidated	75%	\$ 736,444	\$ 372,416
<b>Deepak T. Kapur</b>	Truck	75%	\$ 950,250	\$ 487,368
<b>Steven K. Covey</b>	Corporate			
	/Consolidated	65%	\$ 665,175	\$ 344,823
<b>Gregory W. Elliott</b>	Corporate			
	/Consolidated	65%	\$ 546,394	\$ 277,191

(1) Final NEO awards were based upon consolidated financial performance and then the Compensation Committee used downward discretion to make individual award decisions based upon their business unit or functional area as well as individual performance.

As previously discussed in the CEO Performance Evaluation section on page 37 of this proxy statement, Mr. Ustian's award is based slightly above the Target level of performance, which is consistent with the pro forma EPS used to determine annual incentive.

All other NEO's fiscal year 2011 AI Awards were slightly below the Target level of performance. Each of their achievements are highlighted below:

Mr. Cederroth's achievements included financial management which supports our profitable growth and competitive cost structure pillars.

Mr. Kapur's achievements included global expansion and entry into new military contracts, in support of our great products pillar.

Mr. Covey's achievements included legal guidance which supports controlling our destiny.

Mr. Elliott's achievements included culture and leadership initiatives which support leveraging the resources we have and those of our partners.

**Long-Term Incentives**

Our objectives for including long-term incentives as part of our executive officers' total compensation package include:

Aligning executive and stockholder interests by tying compensation to share price appreciation;

Emphasizing returns to stockholders; and

Cultivating ownership.

To manage the allocation of shares in the 2004 PIP, the Compensation Committee uses 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 assists us in managing dilution and provides a similar mix of equity vehicles for similar job roles. Historically, we

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granted stock options only. However, beginning in 2008 we incorporated the use of RSUs and cash-settled RSUs, and cash-settled performance shares in December 2010.

We have never backdated stock options. In addition, as set forth in the 2004 PIP, we prohibit stock option repricing. However, within the 2004 PIP, there was historically a Restoration Stock Option Program. Specifically, the Restoration Stock Option Program allowed an executive officer 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 December 2008, the Compensation Committee approved the elimination of the Restoration Stock Option Program under the 2004 PIP in connection with future long-term incentive grants, beginning with the grants made in December 2008.

In fiscal year 2011, our Compensation Committee engaged Exequity to work together with the Compensation Committee and management to review the competitiveness of our long-term incentive program. The Compensation Committee approved the long-term incentive design for fiscal year 2011 in October 2010 and granted awards in December 2010.

This process began with an overall review of executive compensation positioning for base salary, annual incentive and long-term incentives. We found that our overall compensation program was competitive except for the long-term incentive values for certain executive officers. This determination led to our decision to design a long-term incentive program for certain select executive officers that moves them closer to the competitive market. For these select executive officers, we modified our traditional fixed share guideline to a targeted long-term incentive economic value, which is stated below in the NEO Fiscal Year 2011 Long-Term Incentive Awards table.

In order to do this, a TSR program was added to the long-term incentive program of the 2004 PIP. The TSR program changes the equity mix for select executive officers, to provide them with financial opportunities when there is increased stockholder value and the Company outperforms its competition. These select executive officers are granted a mix of 50% stock options and 50% cash-settled performance shares based upon the TSR program.

The following are key features of the TSR program:

Three-year performance period compared to our peer group.

After the three-year performance period, if performance is at or exceeds Target (performance at the 50<sup>th</sup> percentile or above as compared to our industry peer group), the cycle ends and payments are settled in cash.

After the three-year performance period, if performance is less than Target, the cycle is extended for two additional years and measured for the entire five year period. Under this extension, participants can earn up to Target less any earnings for the first three year measurement period.

Beginning and ending share prices are measured using the average price during 90 day trading periods.

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TSR program performance measurement:

TSR Percentile Ranking	TSR Payout as a % of Target
<30 <sup>th</sup> percentile	0%
30 <sup>th</sup> percentile	0%
40 <sup>th</sup> percentile	50%
50 <sup>th</sup> percentile	100% (Target)
75 <sup>th</sup> percentile	150%
90 <sup>th</sup> percentile	200%

Provides long-term incentive values at 75<sup>th</sup> percentile or above if warranted by Company performance relative to its peers.

In December 2010, the Compensation Committee approved long-term incentive awards under our 2004 PIP for fiscal year 2011 for eligible plan participants. Select executive officers received a grant mix of 50% stock options and 50% cash-settled performance shares based upon the TSR program described above. All other eligible participants received a grant mix of 50% stock options and 50% cash-settled RSUs. The stock options have a seven (7) year term and both stock options and cash-settled RSUs vest ratably over a three year period.

#### NEO Fiscal Year 2011 Long-Term Incentive Awards

NEO	Stock Options	Cash-settled Performance Shares (based upon TSR at Target)	Targeted Economic Value
Daniel C. Ustian	137,800	55,120	\$6,200,000
Andrew J. Cederroth	27,800	11,100	\$1,250,000
Deepak T. Kapur	33,300	13,300	\$1,500,000
Steven K. Covey	20,000	8,000	\$ 900,000
Gregory W. Elliott	13,400	5,600	\$ 625,000

As discussed in the Annual Incentive section on page 37 of this proxy statement, operationally we had strong earnings performance in fiscal year 2011 and surpassed Target EPS performance. However, we do not believe this performance is reflected in our stock price and relative TSR results as of the end of fiscal year 2011. We expect our stock price to climb and provide future long-term incentive value.

We also believe that the accounting values that are required to be reported on the Summary Compensation Table for the TSR performance shares may be misleading. To provide more useful information, the chart below illustrates the difference between the accounting value (at grant date and as of fiscal year end) and the amount that would have been paid had the requisite performance period ended on October 31, 2011. As you can see, our NEOs have realized no value from these awards in fiscal year 2011, and the total value of these awards using our stock price as of October 31, 2011, is approximately 60% of the grant date value of these awards.

**Table of Contents****Realized Value of NEO Fiscal Year 2011 Long-Term Incentive Awards**

	<b>Ustian</b>	<b>Cederoth</b>	<b>Kapur</b>	<b>Covey</b>	<b>Elliott</b>
<b>TSR Performance Share Awards (cash-settled)</b>					
Grant Date Value <sup>(a)</sup>	\$4,671,420	\$940,725	\$1,127,175	\$678,000	\$474,600
Value as of October 31, 2011 <sup>(a)</sup>	\$2,628,122	\$529,248	\$634,144	\$381,440	\$267,008
Realized Value as of October 31, 2011 <sup>(b)</sup>	\$0	\$0	\$0	\$0	\$0
<b>Stock Option Awards</b>					
Grant Date Value <sup>(c)(d)</sup>	\$3,637,920	\$733,920	\$879,120	\$528,000	\$353,760
Value as of October 31, 2011 <sup>(d)</sup>	\$2,426,658	\$489,558	\$586,413	\$352,200	\$235,974
Realized Value as of October 31, 2011 <sup>(b)</sup>	\$0	\$0	\$0	\$0	\$0
<b>Total</b>					
Grant Date Value	\$8,309,340	\$1,674,645	\$2,006,295	\$1,206,000	\$828,360
Value as of October 31, 2011	\$5,054,780	\$1,018,806	\$1,220,557	\$733,640	\$502,982
Realized Value as of October 31, 2011	\$0	\$0	\$0	\$0	\$0

(a) Valued using Monte Carlo Simulation in accordance with FASB ASC Topic 718

(b) Amounts that would have been paid had the requisite performance period ended on October 31, 2011

(c) Restoration awards not included

(d) Estimated using Black-Scholes model

The grant date value in the chart above is the amount we are required to include in the Summary Compensation Table on page 49 of this proxy statement and, for accounting purposes, uses an \$84.75 stock price in its valuation. That price is 143.8% higher than our actual stock price of \$58.915 on the date the TSR performance shares were granted, which was the price the Compensation Committee considered when making long-term incentive grants for fiscal year 2011. We do not think these grant date value amounts fairly represent our NEOs' true compensation and we believe the Summary Compensation Table overstates the true value of the stock awards and option awards to our NEOs. For more information, please refer to footnotes 1 and 2 related to stock awards and option awards in the Summary Compensation Table on page 49 of this proxy statement.

**Executive Stock Ownership Program**

We believe that it is important to encourage our executive officers to hold a material amount of our Common 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 fiscal year 2011, our stock ownership guidelines applied to approximately 60 executive officers, the majority of who hold the title of vice president and above. These executive officers are expected to meet the ownership level for their position within five years of attaining that position. The ownership requirements range from 75% to 300% of base salary (225% to 300% for NEOs) and are fixed at the number of shares that are required to be held as of the date of an executive officer's promotion or hire, based on the fair market value of the shares at that time.

During fiscal year 2011, the Compensation Committee engaged Exequity to work together with the Compensation Committee and management to review our current executive stock ownership program. An analysis of current requirements, market practice and trend data in addition to executive interview



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feedback was compiled. Overall, our program was determined to be fair and provides executive officers with various methods to achieve their ownership requirements, including but not limited to, open market purchases, restricted stock units, salary reduction, and Navistar shares invested in 401(k) plans. Based upon these findings and the current economic climate, our Compensation Committee did not recommend changes to the program but continues to monitor the effectiveness of the program for potential future changes.

**Executive Stock Ownership as of October 31, 2011**

Named Executive Officer	Ownership Requirement		Number of Shares Owned
	as a % of Base Salary	Number of Shares Required	
Daniel C. Ustian	300%	60,806	182,913
Andrew J. Cederoth	225%	29,183	32,528
Deepak T. Kapur	225%	25,568	70,857
Steven K. Covey	225%	15,666	30,652
Gregory W. Elliott	225%	16,070	20,720

**Executive Benefits and Perquisites**

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

NEO	Life Insurance <sup>(1)</sup>	Executive Physical Program <sup>(2)</sup>	Flexible Perquisite Program <sup>(3)</sup>	Pension /Retirement/401(k) Plans <sup>(4)</sup>					Retiree Medical Benefits <sup>(5)</sup>
				RPSE	MRO	RAP	SRAP	SERP	
Daniel C. Ustian	ü	ü	ü	ü	ü	ü		ü	ü
Andrew J. Cederoth	ü	ü	ü	ü		ü	ü	ü	ü
Deepak T. Kapur	ü	ü	ü			ü	ü	ü	
Steven K. Covey	ü	ü	ü	ü	ü	ü		ü	ü
Gregory W. Elliott	ü	ü	ü			ü	ü	ü	

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

(2) 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 overall health of our key executives.

(3) Executive Flexible Perquisites for our NEOs. We maintain a flexible perquisite program for our NEOs, which we believe is competitive and consistent with our overall compensation program, and which assists us in the attraction and retention of 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 prospectively in equal installments in May and November.

**Table of Contents****Annual Flexible Perquisite Fiscal Year 2011**

Named Executive Officer	Annual Flexible Perquisite Payment (\$)
Daniel C. Ustian	46,000
Andrew J. Cederoth	37,000
Deepak T. Kapur	37,000
Steven K. Covey	28,000
Gregory W. Elliott	28,000

In certain circumstances, where a commercial flight is not available to meet an NEOs travel schedule, our NEOs and directors are authorized to 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 fiscal year 2011, 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 spouse travel expense is included in taxable compensation of the NEO.

Effective November 1, 2009, the Compensation Committee approved a policy statement that eliminates all tax gross-ups for perquisites and other similar benefits to Section 16 Officers, including NEOs.

**(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.

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

Managerial Retirement Objective Plan ( MRO ). 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 limitations had not applied to the RPSE.

Retirement Accumulation Plan ( RAP ). This is our tax-qualified defined contribution/401(k) plan for salaried employees. Our NEOs receive age-weighted contributions and/or matching contributions depending on their eligibility for other retirement income programs and retiree medical coverage.

Supplemental Retirement Accumulation Plan ( SRAP ). 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 limitations had not been in place.

Supplemental Executive Retirement Plan ( SERP ). 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 of this proxy statement

(5) 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**

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We do not have employment contracts with our executive officers as employment with each of them is at will. However, like many companies, to ensure stability and continuity of management, we provide our executive officers with an ESA, which provides for severance benefits in the event of a specified termination such as an involuntary termination or a termination in connection with a change in control. Our ESAs were last modified effective January 1, 2010 to be more consistent with market competitive practices. Please refer to the *Potential Payments Upon Termination or Change-in-Control* on page 62 of this proxy statement for more information.

### **Role of Executive Officers in Compensation Decisions**

The Compensation Committee makes all compensation decisions for the Section 16 Officers, excluding the CEO, whose compensation is approved by the independent members of the Board. The

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CEO makes recommendations to the Compensation Committee regarding the compensation for his direct reports (which includes the other NEOs) based on a review of their performance, job responsibilities, and impact to our business strategy. The CEO does not make recommendations to the Compensation 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 Compensation 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.

#### **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 on page 61 of this proxy statement for more information on the subject.

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

In November 2005, we began accounting for our equity based long-term incentive awards under the 2004 PIP in accordance with the guidance on share-based payments.

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

The table below summarizes the total compensation paid to or earned by each of our NEOs for the fiscal years ended October 31, 2011, 2010, and 2009:

**Summary Compensation Table**

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) <sup>(1)</sup>	Option Awards (\$) <sup>(2)</sup>	Change in Pension Value & Non-Equity Incentive Plan Compensation			Total (\$)
						Non-Qualified Deferred Compensation Earnings (\$) <sup>(3)</sup>	All Other Compensation (\$) <sup>(4)</sup>		
<b>Daniel C. Ustian</b> Chairman, President & Chief Executive Officer	2011	1,238,333		4,671,420	4,996,330 <sup>(5)</sup>	1,450,000	2,717,837	93,835	15,167,755
	2010	1,180,000	1,946,000 <sup>(6)</sup>	646,567	2,670,606 <sup>(7)</sup>	1,947,000	1,913,848	78,448	10,382,469
	2009	1,180,000		409,081	948,640	1,946,000	3,622,886	74,519	8,181,126
<b>Andrew J. Cederoth</b> Executive Vice President & Chief Financial Officer	2011	513,500		1,079,641 <sup>(8)</sup>	926,796 <sup>(9)</sup>	372,416	34,635	220,525	3,147,513
	2010	470,000		358,050	575,262	475,000	116,201	89,928	2,084,441
	2009	321,534		19,733	45,768	350,000	455,558	43,298	1,235,891
<b>Deepak T. Kapur</b> President, Truck Group	2011	672,000		1,127,175	879,120	487,368	717,949	171,674	4,055,286
	2010	640,000		225,464	575,262	600,000	316,393	154,673	2,511,792
	2009	640,000		142,636	330,776	500,000	1,041,363	137,070	2,791,845
<b>Steven K. Covey</b> Senior Vice President, Chief Ethics Officer & General Counsel	2011	548,600		753,840 <sup>(10)</sup>	528,000	344,823	1,214,931	39,565	3,429,759
	2010	495,000		146,049	428,873 <sup>(11)</sup>	482,625	857,040	36,479	2,446,066
	2009	495,000		92,387	214,276	400,000	1,393,687	37,257	2,632,607
<b>Gregory W. Elliott</b> Senior Vice President Human Resources and Administration	2011	441,000		568,929 <sup>(12)</sup>	353,760	277,191	168,059	87,923	1,896,862

(1) The amounts reported in this column reflect the aggregate fair value of stock-based awards (other than stock options) granted in the year computed in accordance with FASB ASC Topic 718, except that in compliance with SEC requirements, for awards that are subject to performance conditions, we reported the value at the grant date based upon the probable outcome of such conditions. These amounts are not paid to or realized by the officer. The fair values of stock-based awards are estimated using the average price of our stock on the grant date. Stock-based awards settle in Common Stock on a one-for-one basis. The grant date fair values of each individual stock based award in 2011 are set forth in the 2011 Grant of Plan-Based Awards table on page 51 of this proxy statement. Additional information about these values is included in Note 19 to our audited financial statements included in our Form 10-K for fiscal year 2011. A description of PSUs appears in the narrative text following the 2011 Grants of Plan-Based Awards table on page 51 of this proxy statement. In December 2010 we granted performance shares to our NEOs that vest at the end of the third fiscal year following the grant date. Our NEOs earn performance shares only if our total shareholder return over the three year performance period compares favorably to that of a 23 company peer group. Potential payouts range from 0% to 200% of the target values of these awards. The amounts in this table assume achievement of the target level of performance (100% payout) for such awards at \$84.75 per share. Assuming performance at the highest level, the aggregate grant date values of the stock awards for each of our NEOs would be as follows: \$9,342,840 for Mr. Ustian; \$1,881,450 for Mr. Cederoth; \$2,254,350 for Mr. Kapur; \$1,356,000 for Mr. Covey; and \$949,200 for Mr. Elliott. We believe that the values that are required to be reported for our performance shares may be misleading. The \$84.75 price we are required to use

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to calculate the amount in this column is 143.8% higher than our actual stock price of \$58.915 on the date the performance shares were granted. The \$58.915 price is the stock price the Compensation Committee considered when making long-term

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incentive grants for fiscal year 2011. We do not think the above amounts fairly represent our executives' true compensation but rather overstate the true value of the stock awards to our executives for fiscal year 2011. For more information, please refer to the table Realized Value of NEO Fiscal Year 2011 Long-Term Incentive Awards on page 45 of this proxy statement.

- (2) The amounts reported in this column reflect the aggregate fair value of stock options, including restoration stock options, granted in the year computed in accordance with FASB ASC Topic 718. These amounts are not paid to or realized by the officer. Assumptions used in the calculation of these values are included in Note 19 to our audited financial statements included in our Form 10-K for fiscal year 2011. A description of stock options appears in the narrative text following the 2011 Grants of Plan-Based Awards table on page 51 of this proxy statement.
- (3) This amount represents the change in the actuarial present value of the RPSE and MRO for Messrs. Ustian and Covey. This amount also represents the change in actuarial present value of the SERP and certain interest on the SRAP for Messrs. Kapur and Elliott. For Mr. Cederoth the amount represents the change in actuarial present value of the RPSE and SERP as well as certain interest on the SRAP.
- (4) This includes such items as flexible perquisites cash allowances, Company-paid life insurance premiums, Company contributions to the RAP and the SRAP, as well as taxable spouse travel.

NEO	Flexible Perquisites	Company-Paid Life Insurance	RAP Contribution	SRAP Contribution	Taxable Spouse Travel	All Other Comp Total
Ustian	\$ 46,000	\$ 28,498			\$ 19,337	\$ 93,835
Cederoth	\$ 37,000	\$ 2,924	\$ 12,250	\$ 164,825	\$ 3,526	\$ 220,525
Kapur	\$ 37,000	\$ 18,901	\$ 15,925	\$ 97,522	\$ 2,326	\$ 171,674
Covey	\$ 28,000	\$ 11,565				\$ 39,565
Elliott	\$ 28,000	\$ 3,726	\$ 14,272	\$ 41,925		\$ 87,923

- (5) Includes the grant date fair value of 75,468 restoration stock option awards granted on February 1, 2011 and 35,746 restoration stock option awards granted on April 5, 2011.
- (6) This amount represents a one-time award in recognition of Mr. Ustian's achievements, including his foresight in creating the military business and providing continuing leadership to make it sustainable; his work in bringing an end to a protracted dispute with one of the Company's suppliers in a manner that set the stage for the formation of a significant new partnership with that supplier; his leadership in navigating the Company through the loss of a significant customer and setting the stage for the Company's engine business to be successful; the many actions he has taken and continues to take to develop a business model that provides profitability at the bottom of the business cycle; and his leadership in making strategic acquisitions to position the Company for future successes.
- (7) Includes the grant date fair value of 24,578 restoration stock option awards granted on April 12, 2010 and 55,469 restoration stock option awards granted on April 14, 2010.
- (8) Includes the grant date fair value of 750 PSUs that were granted on April 4, 2011. The average of our high/low stock price on the date of grant was \$69.425 per share. Also includes the grant date fair value of 2,228 PSUs that were granted on September 18, 2011, the average of our high/low stock price on the date of grant was \$38.98 per share.
- (9) Includes the grant date fair value of 9,730 restoration stock option awards granted on March 28, 2011.
- (10) Includes the grant date fair value of 1,200 PSUs that were issued on January 13, 2011. The average of the high/low of our stock price on the date of grant was \$63.20 per share.

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(11) Includes the grant date fair value of 2,417 restoration stock option awards granted on June 18, 2010.

(12) Includes the grant date fair value of 531 PSUs that were granted on January 13, 2011. The average of our high/low of our stock price on the date of grant was \$63.20 per share. Also includes the grant date fair value of 1,559 PSUs that were granted on September 18, 2011. The average of our high/low of our stock price on the date of grant was \$38.98 per share

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**Table of Contents****Grants of Plan-Based Awards Table Fiscal Year 2011**

The following table provides information for each of our NEOs with respect to annual and long-term incentive award opportunities, including the range of potential payouts under non-equity incentive plans for the fiscal year ending October 31, 2011. Specifically the table presents the fiscal year 2011 grants of AI Awards, performance shares, stock options, restoration stock options, and PSUs. All stock awards and option awards were granted under the 2004 PIP.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards <sup>(1)</sup>			Estimated Future Payouts Under Incentive Plan Awards <sup>(2)</sup>			All Other Stock Awards: Number of Shares of Stock or Units <sup>(3)</sup>	All Other Option Awards: Number of Securities Underlying Options # <sup>(4)</sup>	Exercise or Base Price Of Option Awards <sup>(5)</sup>	Market Price on Grant Date <sup>(5)</sup>	Grant Date Fair Value of Stock and Option Awards <sup>(6)</sup>
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (\$)					
Daniel C. Ustian												
AI Award		\$ 343,750	\$ 1,375,000	\$ 2,750,000						\$	\$	\$
Performance	12/14/10				27,560	55,120	110,240					4,671,420
Stock Option	12/14/10								137,800	58.915	58.91	3,637,920
Restoration	2/1/11								5,637	64.69	63.57	55,299
Restoration	2/1/11								58,820	64.69	63.57	728,192
Restoration	2/1/11								9,133	64.69	63.57	113,067
Restoration	2/1/11								1,878	64.69	63.57	23,250
Restoration	4/5/11								35,746	64.905	69.39	438,603
Andrew J. Cederoth												
AI Award		96,281	385,125	770,250								
Performance	12/14/10				5,550	11,100	22,200					940,725
Stock Option	12/14/10								27,800	58.915	58.91	733,920
Restoration	3/28/11								1,700	68.015	67.64	39,695
Restoration	3/28/11								3,099	68.015	67.64	72,362
Restoration	3/28/11								2,397	68.015	67.64	39,287
Restoration	3/28/11								2,534	68.015	67.64	41,532
PSU	4/4/11							750				52,069
PSU	9/18/11							2,228				86,847
Deepak T. Kapur												
AI Award		126,000	504,000	1,008,000								
Performance	12/14/10				6,650	13,300	26,600					1,127,175
Stock Option	12/14/10								33,300	58.915	58.91	879,120
Steven K. Covey												
AI Award		89,148	356,590	713,180								
Performance	12/14/10				4,000	8,000	16,000					678,000
Stock Option	12/14/10								20,000	58.915	58.91	528,000
PSU	1/13/11							1,200				75,840
Gregory W. Elliott												
AI Award		71,663	286,650	573,300								
Performance	12/14/10				2,800	5,600	11,200					474,600
Stock Option	12/14/10								13,400	58.915	58.91	353,760
PSU	1/13/11							531				33,559
PSU	9/18/11							1,559				60,770

(1) These amounts represent compensation opportunity for fiscal year 2011 under the AI Plan. For additional information regarding such awards, see *Annual Incentives* on page 37 of this proxy statement. Under the AI Plan, Threshold is 25% of Target, Target is 100% and for purposes of this table Maximum equals

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Super Distinguished which is 200% of Target.

- (2) *TSR Performance Share Units*. The amounts shown represent the threshold, target and maximum number of TSR performance share awards that we awarded in fiscal year 2011 to the NEO s under our 2004 PIP as we describe more fully under *Long-Term Incentives* on page 42 of this proxy statement. The threshold amount is total shareholder return at or above the 40<sup>th</sup> percentile as compared to total shareholder return of an industry peer group of 23 companies over a three year performance period. Payments are prorated for performance between the 40<sup>th</sup> and 90<sup>th</sup> percentiles. We pay the awards in cash settled restricted stock units, with each unit equal to the fair market value of one share of our Common Stock at the time the units are earned. If after the three-year performance period, the performance is at or above Target, the cycle ends and payments are settled in cash. If after the three-year performance period, the performance is less than Target, the cycle is extended for two additional years and measured for the entire five year period. Under this extension, participants can earn up to Target less any earnings for the first three year measurement period.

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(3) *Premium Share Units.* The amounts shown represent the number of PSUs awarded to the NEOs in the fiscal year. PSUs represent shares of Common Stock granted pursuant to our Executive Stock Ownership Program and is based on the attainment of certain stock ownership thresholds. PSUs generally vest over a three year period with 1/3 of the award vesting on each of the first three anniversaries of the date on which they are awarded. PSUs do not have an exercise price and are settled only for shares of our Common Stock on a one-for-one basis. Settlement of PSUs will occur within 10 days after an NEO's separation of employment or at such later date as required by Internal Revenue Code Section 409A.

(4) *Stock Options and Restoration Stock Options.* The amounts shown represent the number of stock options or restoration stock options granted to each NEO in the fiscal year. The stock options generally vest over a three year period with 1/3 vesting on each of the first three anniversaries of the date on which they are awarded. The stock options expire 7 years after the date of grant.

Restoration stock options are awarded in connection with an exercise of a non-qualified stock option whereby shares are used to pay the exercise price of the options (grant price times the number of options exercised) and the tax liability on the transaction. Restoration options are then granted with an exercise price equal to the then current fair market price in an amount equal to the number of shares used to pay the cost of the original option, plus the number of shares needed to cover the tax liability on the transaction. Restoration stock options vest as to 100% of the shares six months after the date of grant (or if sooner, one month before the end of the term of the underlying stock option from which it was exercised) and will expire under the terms of the underlying stock option from which it was exercised, otherwise the restoration stock options have the same general terms and conditions of non-qualified stock options the Company grants. The net shares or profit shares (the difference between the exercise price of the options and the value of the shares on the date of exercise, less withholding tax) on the restoration stock option exercise, generally cannot be transferred for a period of three years. The Restoration Stock Option Program was eliminated for all stock options granted on or after December 16, 2008.

(5) The exercise price per share is the Fair Market Value (average of high and low price) of Common Stock on the date of grant. The market price is the closing price of our Common Stock on the date of grant.

(6) The amounts shown do not reflect realized compensation by the NEOs. The amounts shown represent the value of the stock option, restoration stock option, TSR performance shares and PSU awards granted to the NEOs based on the grant date fair value of the awards as determined in accordance with FASB ASC Topic 718. The TSR Performance shares awards are reflected at the target payout level. If the TSR performance share awards were reflected at maximum payout levels, the totals in this column would be \$6,494,790 for Mr. Ustian, \$1,307,913 for Mr. Cederroth, \$1,567,139 for Mr. Kapur, \$942,640 for Mr. Covey, \$659,848 for Mr. Elliott.

**Table of Contents****Outstanding Equity Awards at 2011 Fiscal Year-End**

The following table provides information on the holdings of stock options and stock awards by our NEOs as of the fiscal year ending October 31, 2011. The table includes unexercised and unvested stock option awards; unvested PSUs, unvested RSUs and unvested performance shares. The vesting information for each grant is provided in the footnotes to this table, based on the stock option or stock award grant date. The market value of the stock awards is based on the closing price of our Common Stock as of October 31, 2011, the last trading day of the fiscal year, which was \$42.07. For additional information about the stock option awards and stock awards, see the description of long-term incentive compensation in the Compensation Discussion and Analysis on page 31 of this proxy statement.

Name	Option Awards				Stock Awards			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
	Number of Securities Underlying Unexercised Options (#) <sup>(1)</sup>		Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock Held that Have Not Vested	Market Value of Shares or Units of Stock Held that Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	
	Exercisable	Unexercisable						
<b>Daniel C. Ustian</b>	2,895		42.88500	12/09/2013	6,019	253,219	55,120	2,628,121
	133,905		42.88500	12/10/2013	12,038	506,439		
	136,800		40.91500	12/14/2014				
	136,800		26.15000	10/18/2015				
	61,104	30,552	22.65500	12/16/2018				
	30,552	61,104	35.80500	12/15/2016				
		137,800	58.91500	12/14/2017				
	5,637		64.69000	4/17/2012				
	67,953		64.69000	12/11/2011				
	1,878		64.69000	12/10/2012				
	35,746		69.90500	2/20/2013				
<b>Total:</b>	<b>613,270</b>	<b>229,456</b>			<b>18,057</b>	<b>759,658</b>	<b>55,120</b>	<b>2,628,121</b>
<b>Andrew J. Cederroth</b>		1,474	22.65500	12/16/2018	290	12,200	11,100	529,248
	10,653	21,306	35.80500	12/15/2016	6,666	280,439		
		27,800	58.91500	12/14/2017	750	31,553		
	2,534		68.015	12/10/2013	2,228	93,732		
	2,397		68.015	12/9/2013				
	4,799		68.015	12/14/2014				
<b>Total:</b>	<b>20,383</b>	<b>50,580</b>			<b>9,934</b>	<b>417,924</b>	<b>11,100</b>	<b>529,248</b>
<b>Deepak T. Kapur</b>	12,233		44.66	9/3/2013	2,099	88,305	13,300	634,144
	6,993		42.885	12/9/2013	4,198	176,610		
	40,707		42.885	12/10/2013				
	47,700		40.915	12/14/2014				
	21,306	10,653	22.655	12/16/2018				
	10,653	21,306	35.805	12/15/2016				
		33,300	58.915	12/14/2017				
<b>Total:</b>	<b>139,592</b>	<b>65,259</b>			<b>6,297</b>	<b>264,915</b>	<b>13,300</b>	<b>634,144</b>
<b>Steven K. Covey</b>	2,218		42.885	12/9/2013	1,359	57,173	8,000	381,440
	282		42.885	12/10/2013	2,719	114,388		
	30,900		40.915	12/14/2014	1,200	50,484		
	30,900		26.15	10/18/2015				
	13,802	6,901	22.655	12/16/2018				
	6,901	13,802	35.805	12/15/2016				
	1,847		57.38	12/10/2012				
	570		57.38	12/11/2012				

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		20,000	58.915	12/14/2017				
<b>Total:</b>	<b>87,420</b>	<b>40,703</b>			<b>5,278</b>	<b>222,045</b>	<b>8,000</b>	<b>381,440</b>

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Name	Option Awards				Number of Shares or Units of Stock Held that Have Not Vested	Stock Awards		Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
	Number of Securities Underlying Unexercised Options #(1)		Option Exercise Price (\$)	Option Expiration Date		Market Value of Shares or Units of Stock Held that Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	
	Exercisable	Unexercisable			(#)(2)(3)	(\$)		(\$)
Gregory W. Elliott	2,465		26.385	12/10/2012	1,359	57,173	5,600	267,008
	6,735		26.385	12/11/2012	2,719	114,388		
	3,209		42.885	12/9/2013	531	22,339		
	3,391		42.885	12/10/2013	1,559	65,587		
	6,600		40.915	12/14/2014				
	10,400		26.15	10/18/2015				
	6,901	13,802	22.655	12/16/2018				
	6,901	13,802	35.805	12/15/2016				
		13,400	58.915	12/14/2017				
<b>Total:</b>	<b>46,602</b>	<b>41,004</b>			<b>6,158</b>	<b>259,487</b>	<b>5,600</b>	<b>267,008</b>

- (1) All options, other than restoration options, became or will become exercisable under the following schedule: one-third on each of the first three anniversaries of the date of grant. In the event an optionee exercises a non-qualified option with already-owned shares, he or she may be eligible to receive restoration options, if at the time of exercise an election was made to restore the exercised options. Restoration options contain the same expiration dates and other terms as the options they replace except that they have an exercise price per share equal to the fair market value of the common stock on the date the restoration option is granted and become exercisable in full six months after they are granted or one month before the end of the remaining term of the options they replace.
- (2) The RSUs and PSUs become vested under the following schedule: 1/3<sup>rd</sup> on each of the first three anniversaries of the date of grant. The TSR performance shares are fully vested on October 31, 2013 and eligible for payment if performance conditions are met. The value reported for the TSR performance shares was based on achieving performance goals at target level.

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(3) The vesting dates of outstanding unexercisable stock options and unvested RSUs, PSUs and TSR performance shares at October 31, 2011 are listed below:

Name	Type of Award	Grant Date	Number of Unexercised or Unvested Shares Remaining from Original Grant	Number of Shares Vesting and Vesting Date in 2011	Number of Shares Vesting and Vesting Date in 2012	Number of Shares Vesting and Vesting Date in 2013	Number of Shares Vesting and Vesting Date in 2014
<b>Daniel C. Ustian</b>	RSUs	12/16/2008	6,019	6,019 on 12/16/2011			
	RSUs	12/15/2009	12,038	6,019 on 12/15/2011	6,019 on 12/15/2012		
	Options	12/16/2008	30,522	30,552 on 12/16/2011			
	Options	12/15/2009	61,104	30,552 on 12/15/2011	30,552 on 12/15/2012		
	Options	12/14/2010	137,800	45,934 on 12/14/2011	45,933 on 12/14/2012	45,933 on 12/14/2013	
	Perform	12/14/2010	55,120				55,120 on 10/31/2013
<b>Andrew J. Cederoth</b>	RSUs	12/16/2008	290	290 on 12/16/2011			
	RSUs	12/15/2009	6,666	3,333 on 12/15/2011	3,333 on 12/15/2012		
	Options	12/16/2008					