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

FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2016

Commission File No. 001-14817

PACCAR Inc
(Exact name of registrant as specified in its charter)

Delaware	**91-0351110**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
777 - 106th Ave. N.E., Bellevue, WA	**98004**
(Address of principal executive offices)	**(Zip Code)**

(425) 468-7400
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $1 par value – 350,537,271 shares as of October 31, 2016

PACCAR Inc – Form 10-Q

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Consolidated Statements of Comprehensive Income (Unaudited)
(Millions Except Per Share Amounts)

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	**2016**	2015
TRUCK, PARTS AND OTHER:				
Net sales and revenues	**$ 3,953.2**	$ 4,546.2	**$12,079.6**	$13,880.3
Cost of sales and revenues	**3,371.5**	3,851.3	**10,274.5**	11,822.7
Research and development	**59.2**	57.6	**179.6**	173.1
Selling, general and administrative	**105.5**	107.0	**326.0**	324.7
European Commission charge			**833.0**	
Interest and other expense, net	**1.6**	4.9	**4.2**	10.7
	3,537.8	4,020.8	**11,617.3**	12,331.2
Truck, Parts and Other Income Before Income Taxes	**415.4**	525.4	**462.3**	1,549.1
FINANCIAL SERVICES:				
Interest and fees	**105.9**	110.9	**320.4**	332.9
Operating lease, rental and other revenues	**190.3**	190.1	**562.6**	546.6
Revenues	**296.2**	301.0	**883.0**	879.5
Interest and other borrowing expenses	**32.2**	29.2	**95.1**	87.9
Depreciation and other expenses	**162.6**	152.5	**469.9**	438.8
Selling, general and administrative	**25.3**	24.0	**74.9**	71.4
Provision for losses on receivables	**5.1**	2.4	**14.5**	8.7
	225.2	208.1	**654.4**	606.8
Financial Services Income Before Income Taxes	**71.0**	92.9	**228.6**	272.7
Investment income	**8.5**	6.2	**20.6**	16.6
Total Income Before Income Taxes	**494.9**	624.5	**711.5**	1,838.4
Income taxes	**148.7**	193.3	**478.6**	581.6
Net Income	**$ 346.2**	$ 431.2	**$ 232.9**	$ 1,256.8
Net Income Per Share				
Basic	**$ .99**	$ 1.21	**$ .66**	$ 3.54
Diluted	**$ .98**	$ 1.21	**$ .66**	$ 3.53
Weighted Average Number of Common Shares Outstanding				
Basic	**351.0**	355.0	**351.1**	355.1
Diluted	**351.8**	355.9	**351.8**	356.1
Dividends declared per share	**$ .24**	$ .24	**$ .72**	$ .68
Comprehensive Income	**$ 346.6**	$ 282.6	**$ 323.2**	$ 878.4

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets (Millions)

	September 30 2016 (Unaudited)	December 31 2015*
ASSETS		
TRUCK, PARTS AND OTHER:		
Current Assets		
Cash and cash equivalents	**$ 1,722.3**	$ 1,929.9
Trade and other receivables, net	**1,025.9**	879.0
Marketable debt securities	**1,078.9**	1,448.1
Inventories, net	**824.1**	796.5
Other current assets	**218.3**	245.7
Total Truck, Parts and Other Current Assets	**4,869.5**	5,299.2
Equipment on operating leases, net	**1,059.7**	992.2
Property, plant and equipment, net	**2,251.3**	2,176.4
Other noncurrent assets, net	**414.9**	387.4
Total Truck, Parts and Other Assets	**8,595.4**	8,855.2
FINANCIAL SERVICES:		
Cash and cash equivalents	**65.6**	86.5
Finance and other receivables, net	**9,078.3**	9,303.6
Equipment on operating leases, net	**2,608.9**	2,380.8
Other assets	**620.7**	483.7
Total Financial Services Assets	**12,373.5**	12,254.6
	$ 20,968.9	$ 21,109.8

* The December 31, 2015 consolidated balance sheet has been derived from audited financial statements.

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets (Millions)

	September 30 2016 (Unaudited)	December 31 2015*
LIABILITIES AND STOCKHOLDERS' EQUITY		
TRUCK, PARTS AND OTHER:		
Current Liabilities		
Accounts payable, accrued expenses and other	**$ 2,295.9**	$ 2,071.7
Dividend payable		492.6
Total Truck, Parts and Other Current Liabilities	**2,295.9**	2,564.3
Residual value guarantees and deferred revenues	**1,120.6**	1,047.4
Other liabilities	**737.4**	720.2
Total Truck, Parts and Other Liabilities	**4,153.9**	4,331.9
FINANCIAL SERVICES:		
Accounts payable, accrued expenses and other	**374.9**	356.9
Commercial paper and bank loans	**2,516.0**	2,796.5
Term notes	**6,014.3**	5,795.0
Deferred taxes and other liabilities	**931.6**	889.1
Total Financial Services Liabilities	**9,836.8**	9,837.5
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value - authorized 1.0 million shares, none issued		
Common stock, $1 par value - authorized 1.2 billion shares, issued 351.7 million and 351.3 million shares	**351.7**	351.3
Additional paid-in capital	**92.8**	69.3
Treasury stock, at cost - 1.1 million and nil shares	**(56.3)**	
Retained earnings	**7,516.7**	7,536.8
Accumulated other comprehensive loss	**(926.7)**	(1,017.0)
Total Stockholders' Equity	**6,978.2**	6,940.4
	$ 20,968.9	$ 21,109.8

* The December 31, 2015 consolidated balance sheet has been derived from audited financial statements.

See Notes to Consolidated Financial Statements.

Condensed Consolidated Statements of Cash Flows (Unaudited)
(Millions)

	Nine Months Ended September 30 2016	2015
OPERATING ACTIVITIES:		
Net income	**$ 232.9**	$ 1,256.8
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization:		
Property, plant and equipment	**230.6**	221.4
Equipment on operating leases and other	**515.0**	457.9
Provision for losses on financial services receivables	**14.5**	8.7
Other, net	**2.2**	(14.8)
Pension contributions	**(65.1)**	(59.2)
Change in operating assets and liabilities:		
Trade and other receivables	**(195.4)**	(140.9)
Wholesale receivables on new trucks	**211.8**	(367.3)
Sales-type finance leases and dealer direct loans on new trucks	**105.7**	21.2
Inventories	**(7.4)**	(25.1)
Accounts payable and accrued expenses	**152.6**	286.0
Income taxes, warranty and other	**293.1**	206.5
Net Cash Provided by Operating Activities	**1,490.5**	1,851.2
INVESTING ACTIVITIES:		
Originations of retail loans and direct financing leases	**(2,026.4)**	(2,242.5)
Collections on retail loans and direct financing leases	**1,852.8**	2,013.7
Net decrease (increase) in wholesale receivables on used equipment	**5.4**	(19.4)
Purchases of marketable debt securities	**(796.2)**	(995.0)
Proceeds from sales and maturities of marketable debt securities	**1,166.9**	778.9
Payments for property, plant and equipment	**(242.0)**	(187.5)
Acquisitions of equipment for operating leases	**(1,202.3)**	(1,093.2)
Proceeds from asset disposals	**320.9**	340.1
Other, net	**(.5)**	3.2
Net Cash Used in Investing Activities	**(921.4)**	(1,401.7)
FINANCING ACTIVITIES:		
Payments of cash dividends	**(745.2)**	(595.7)
Purchases of treasury stock	**(56.3)**	(70.7)
Proceeds from stock compensation transactions	**11.3**	16.2
Net (decrease) increase in commercial paper and short-term bank loans	**(283.6)**	7.4
Proceeds from term debt	**1,864.4**	1,936.5
Payments on term debt	**(1,622.6)**	(1,268.8)
Net Cash (Used in) Provided by Financing Activities	**(832.0)**	24.9
Effect of exchange rate changes on cash	**34.4**	(85.9)
Net (Decrease) Increase in Cash and Cash Equivalents	**(228.5)**	388.5
Cash and cash equivalents at beginning of period	**2,016.4**	1,737.6
Cash and cash equivalents at end of period	**$ 1,787.9**	$ 2,126.1

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

NOTE A - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. For further information, refer to the consolidated financial statements and footnotes included in PACCAR Inc's (PACCAR or the Company) Annual Report on Form 10-K for the year ended December 31, 2015.

Earnings per Share: Basic earnings per common share are computed by dividing earnings by the weighted average number of common shares outstanding, plus the effect of any participating securities. Diluted earnings per common share are computed assuming that all potentially dilutive securities are converted into common shares under the treasury stock method. The dilutive and antidilutive options are shown separately in the table below.

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	**2016**	2015
Additional shares	**738,500**	910,600	**679,400**	983,000
Antidilutive options	**1,099,600**	1,139,100	**1,943,500**	590,900

New Accounting Pronouncements: In October 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-16 *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory.* The amendment in this ASU requires recognition of income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Currently the recognition of current and deferred income taxes for an intra-entity asset transfer is recognized when the asset has been sold to an outside party. This ASU is effective for annual reporting periods beginning after December 15, 2017 and interim periods within those annual reporting periods. Early adoption is permitted. The Company is currently evaluating the impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The amendment in this ASU addresses diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The ASU is effective for annual periods beginning after December 15, 2017 and interim periods within those annual periods. Early adoption is permitted. The standard should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the standard retrospectively, the standard would be applied prospectively as of the earliest date practicable. The Company is currently evaluating the impact on its Consolidated Statement of Cash Flows.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendment in this ASU requires entities having financial assets measured at amortized cost to estimate credit reserves under an expected credit loss model rather than the current incurred loss model. Under this new model, expected credit losses will be based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect collectability. The ASU is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods. Early adoption is permitted, but not earlier than annual and interim periods beginning after December 15, 2018. The Company is currently evaluating the impact on its consolidated financial statements.

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* which amends the existing accounting standards for leases. Under the new lease standard, lessees will recognize a right-of-use asset and a lease liability for virtually all leases (other than short-term leases). Lessor accounting is largely unchanged. The ASU is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods. Early adoption is permitted. The Company is currently evaluating the impact on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendment in this ASU addresses the recognition, measurement, presentation and disclosure of financial instruments. The ASU is effective for annual periods beginning after December 15, 2017 and interim periods within those annual periods. The Company is currently evaluating the impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. This ASU amends the existing accounting standards for revenue recognition. Under the new revenue recognition model, a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The FASB has subsequently issued several related ASUs to clarify the implementation guidance in ASU 2014-09. This ASU is effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, but no sooner than annual and interim periods beginning after December 15, 2016. The standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently evaluating the transition alternatives and impact on the Company's consolidated financial statements.

The FASB also issued the following standards, which are not expected to have a material impact on the Company's consolidated financial statements.

Standard	Description	Effective Date*
2016-09	*Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.*	January 1, 2017
2015-11	*Inventory (Topic 330): Simplifying the Measurement of Inventory.*	January 1, 2017

* The Company expects to adopt on the effective date.

The Company adopted the following standards effective January 1, 2016, none of which had a material impact on the Company's consolidated financial statements.

Standard	Description
2015-07	*Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).*
2015-05	*Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement.*
2015-03	*Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.*
2015-15	*Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measure of Debt Issuance Costs Associated with Line-of-Credit Arrangements.*
2014-12	*Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period.*

NOTE B - Investments in Marketable Debt Securities

The Company's investments in marketable debt securities are classified as available-for-sale. These investments are stated at fair value with any unrealized gains or losses, net of tax, included as a component of accumulated other comprehensive income (loss) (AOCI).

The Company utilizes third-party pricing services for all of its marketable debt security valuations. The Company reviews the pricing methodology used by the third-party pricing services, including the manner employed to collect market information. On a quarterly basis, the Company also performs review and validation procedures on the pricing information received from the third-party providers. These procedures help ensure that the fair value information used by the Company is determined in accordance with applicable accounting guidance.

The Company evaluates its investment in marketable debt securities at the end of each reporting period to determine if a decline in fair value is other-than-temporary. Realized losses are recognized upon management's determination that a decline in fair value is other-than-temporary. The determination of other-than-temporary impairment is a subjective process, requiring the use of judgments and assumptions regarding the amount and timing of recovery. The Company reviews and evaluates its investments at least quarterly to identify investments that have indications of other-than-temporary impairments. It is reasonably possible that a change in estimate could occur in the near term relating to other-than-temporary impairment. Accordingly, the Company considers several factors when evaluating debt securities for other-than-temporary impairment, including whether the decline in fair value of the security is due to increased default risk for the specific issuer or market interest-rate risk.

In assessing default risk, the Company considers the collectability of principal and interest payments by monitoring changes to issuers' credit ratings, specific credit events associated with individual issuers as well as the credit ratings of any financial guarantor, and the extent and duration to which amortized cost exceeds fair value.

In assessing market interest rate risk, including benchmark interest rates and credit spreads, the Company considers its intent for selling the securities and whether it is more likely than not the Company will be able to hold these securities until the recovery of any unrealized losses.

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

Marketable debt securities at September 30, 2016 and December 31, 2015 consisted of the following:

At September 30, 2016	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. tax-exempt securities	**$ 499.1**	**$ 1.2**	**$ .4**	**$ 499.9**
U.S. corporate securities	**52.4**	**.4**		**52.8**
U.S. government and agency securities	**16.1**	**.2**		**16.3**
Non-U.S. corporate securities	**326.7**	**1.9**		**328.6**
Non-U.S. government securities	**98.7**	**1.1**		**99.8**
Other debt securities	**81.0**	**.5**		**81.5**
	$ 1,074.0	**$ 5.3**	**$ .4**	**$ 1,078.9**

At December 31, 2015	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. tax-exempt securities	$ 505.0	$ .7	$ .3	$ 505.4
U.S. corporate securities	76.7	.1	.1	76.7
U.S. government and agency securities	15.7	.1	.1	15.7
Non-U.S. corporate securities	585.6	1.8	.4	587.0
Non-U.S. government securities	192.7	1.1	.1	193.7
Other debt securities	69.6	.1	.1	69.6
	$ 1,445.3	$ 3.9	$ 1.1	$ 1,448.1

The cost of marketable debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Amortization, accretion, interest and dividend income and realized gains and losses are included in investment income. The cost of securities sold is based on the specific identification method. Gross realized gains were $4.2 and $1.7 for the nine months ended September 30, 2016 and 2015, respectively, and gross realized losses were $.1 for both the nine month periods ended September 30, 2016 and 2015.

Marketable debt securities with continuous unrealized losses and their related fair values were as follows:

	September 30, 2016		December 31, 2015	
	Less than Twelve Months	**Twelve Months or Greater**	Less than Twelve Months	Twelve Months or Greater
Fair value	**$ 292.5**		$ 579.0	
Unrealized losses	**.4**		1.1	

For the investment securities in gross unrealized loss positions identified above, the Company does not intend to sell the investment securities. It is more likely than not that the Company will not be required to sell the investment securities before recovery of the unrealized losses, and the Company expects that the contractual principal and interest will be received on the investment securities. As a result, the Company recognized no other-than-temporary impairments during the periods presented.

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

Contractual maturities on marketable debt securities at September 30, 2016 were as follows:

Maturities:	Amortized Cost	Fair Value
Within one year	**$ 284.7**	**$ 284.9**
One to five years	**777.3**	**782.0**
Six to ten years	**2.0**	**2.0**
More than ten years	**10.0**	**10.0**
	$ 1,074.0	**$ 1,078.9**

NOTE C - Inventories

Inventories are stated at the lower of cost or market. Cost of inventories in the U.S. is determined principally by the last-in, first-out (LIFO) method. Cost of all other inventories is determined principally by the first-in, first-out (FIFO) method.

Inventories include the following:

	September 30 2016	December 31 2015
Finished products	**$ 488.5**	$ 443.6
Work in process and raw materials	**508.6**	528.9
	997.1	972.5
Less LIFO reserve	**(173.0)**	(176.0)
	$ 824.1	$ 796.5

Under the LIFO method of accounting (used for approximately 46% of September 30, 2016 inventories), an actual valuation can be made only at the end of each year based on year-end inventory levels and costs. Accordingly, interim valuations are based on management's estimates of those year-end amounts.

NOTE D - Finance and Other Receivables

Finance and other receivables include the following:

	September 30 2016	December 31 2015
Loans	**$ 3,980.2**	$ 4,011.7
Direct financing leases	**2,759.4**	2,719.5
Sales-type finance leases	**875.9**	969.8
Dealer wholesale financing	**1,764.0**	1,950.1
Operating lease receivables and other	**150.3**	131.9
Unearned interest: Finance leases	**(337.1)**	(364.6)
	$ 9,192.7	$ 9,418.4
Less allowance for losses:		
Loans and leases	**(99.5)**	(99.2)
Dealer wholesale financing	**(6.5)**	(7.3)
Operating lease receivables and other	**(8.4)**	(8.3)
	$ 9,078.3	$ 9,303.6

Recognition of interest income and rental revenue is suspended (put on non-accrual status) when the receivable becomes more than 90 days past the contractual due date or earlier if some other event causes the Company to determine that collection is not probable. Accordingly, no finance receivables more than 90 days past due were accruing interest at September 30, 2016 or December 31, 2015. Recognition is resumed if the receivable becomes current by the payment of all amounts due under the terms of the existing contract and collection of remaining amounts is considered probable (if not contractually modified) or if the customer makes scheduled payments for three months and collection of remaining amounts is considered probable (if contractually modified). Payments received while the finance receivable is on non-accrual status are applied to interest and principal in accordance with the contractual terms.

Allowance for Credit Losses

The Company continuously monitors the payment performance of its finance receivables. For large retail finance customers and dealers with wholesale financing, the Company regularly reviews their financial statements and makes site visits and phone contact as appropriate. If the Company becomes aware of circumstances that could cause those customers or dealers to face financial difficulty, whether or not they are past due, the customers are placed on a watch list.

The Company modifies loans and finance leases in the normal course of its Financial Services operations. The Company may modify loans and finance leases for commercial reasons or for credit reasons. Modifications for commercial reasons are changes to contract terms for customers that are not considered to be in financial difficulty. Insignificant delays are modifications extending terms up to three months for customers experiencing some short-term financial stress, but not considered to be in financial difficulty. Modifications for credit reasons are changes to contract terms for customers considered to be in financial difficulty. The Company's modifications typically result in granting more time to pay the contractual amounts owed and charging a fee and interest for the term of the modification.

When considering whether to modify customer accounts for credit reasons, the Company evaluates the creditworthiness of the customers and modifies those accounts that the Company considers likely to perform under the modified terms. When the Company modifies loans and finance leases for credit reasons and grants a concession, the modifications are classified as troubled debt restructurings (TDR). The Company does not typically grant credit modifications for customers that do not meet minimum underwriting standards since the Company normally repossesses the financed equipment in these circumstances. When such modifications do occur, they are considered TDRs.

On average, modifications extended contractual terms by approximately three months in 2016 and seven months in 2015 and did not have a significant effect on the weighted average term or interest rate of the total portfolio at September 30, 2016 and December 31, 2015.

The Company has developed a systematic methodology for determining the allowance for credit losses for its two portfolio segments, retail and wholesale. The retail segment consists of retail loans and direct and sales-type finance leases, net of unearned interest. The wholesale segment consists of truck inventory financing loans to dealers that are collateralized by trucks and other collateral. The wholesale segment generally has less risk than the retail segment. Wholesale receivables generally are shorter in duration than retail receivables, and the Company requires periodic reporting of the wholesale dealer's financial condition, conducts periodic audits of the trucks being financed and in many cases, obtains guarantees or other security such as dealership assets. In determining the allowance for credit losses, retail loans and finance leases are evaluated together since they relate to a similar customer base, their contractual terms require regular payment of principal and interest, generally over 36 to 60 months, and they are secured by the same type of collateral. The allowance for credit losses consists of both specific and general reserves.

The Company individually evaluates certain finance receivables for impairment. Finance receivables that are evaluated individually for impairment consist of all wholesale accounts and certain large retail accounts with past due balances or otherwise determined to be at a higher risk of loss. A finance receivable is impaired if it is considered probable the Company will be unable to collect all contractual interest and principal payments as scheduled. In addition, all retail loans and leases which have been classified as TDRs and all customer accounts over 90 days past due are considered impaired. Generally, impaired accounts are on non-accrual status. Impaired accounts classified as TDRs which have been performing for 90 consecutive days are placed on accrual status if it is deemed probable that the Company will collect all principal and interest payments.

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

Impaired receivables are generally considered collateral dependent. Large balance retail and all wholesale impaired receivables are individually evaluated to determine the appropriate reserve for losses. The determination of reserves for large balance impaired receivables considers the fair value of the associated collateral. When the underlying collateral fair value exceeds the Company's recorded investment, no reserve is recorded. Small balance impaired receivables with similar risk characteristics are evaluated as a separate pool to determine the appropriate reserve for losses using the historical loss information discussed below.

The Company evaluates finance receivables that are not individually impaired on a collective basis and determines the general allowance for credit losses for both retail and wholesale receivables based on historical loss information, using past due account data and current market conditions. Information used includes assumptions regarding the likelihood of collecting current and past due accounts, repossession rates, the recovery rate on the underlying collateral based on used truck values and other pledged collateral or recourse. The Company has developed a range of loss estimates for each of its country portfolios based on historical experience, taking into account loss frequency and severity in both strong and weak truck market conditions. A projection is made of the range of estimated credit losses inherent in the portfolio from which an amount is determined as probable based on current market conditions and other factors impacting the creditworthiness of the Company's borrowers and their ability to repay. After determining the appropriate level of the allowance for credit losses, a provision for losses on finance receivables is charged to income as necessary to reflect management's estimate of incurred credit losses, net of recoveries, inherent in the portfolio.

In determining the fair value of the collateral, the Company uses a pricing matrix and categorizes the fair value as Level 2 in the hierarchy of fair value measurement. The pricing matrix is reviewed quarterly and updated as appropriate. The pricing matrix considers the make, model and year of the equipment as well as recent sales prices of comparable equipment through wholesale channels to the Company's dealers (principal market). The fair value of the collateral also considers the overall condition of the equipment.

Accounts are charged-off against the allowance for credit losses when, in the judgment of management, they are considered uncollectible, which generally occurs upon repossession of the collateral. Typically the timing between the repossession and charge-off is not significant. In cases where repossession is delayed (e.g., for legal proceedings), the Company records a partial charge-off. The charge-off is determined by comparing the fair value of the collateral, less cost to sell, to the recorded investment.

For the following credit quality disclosures, finance receivables are classified into two portfolio segments, wholesale and retail. The retail portfolio is further segmented into dealer retail and customer retail. The dealer wholesale segment consists of truck inventory financing to PACCAR dealers. The dealer retail segment consists of loans and leases to participating dealers and franchises that use the proceeds to fund customers' acquisition of commercial vehicles and related equipment. The customer retail segment consists of loans and leases directly to customers for the acquisition of commercial vehicles and related equipment. Customer retail receivables are further segregated between fleet and owner/operator classes. The fleet class consists of customer retail accounts operating more than five trucks. All other customer retail accounts are considered owner/operator. These two classes have similar measurement attributes, risk characteristics and common methods to monitor and assess credit risk.

The allowance for credit losses is summarized as follows:

	2016				
	Dealer		Customer		
	Wholesale	Retail	Retail	Other*	Total
Balance at January 1	$ 7.3	$ 10.3	$ 88.9	$ 8.3	$ 114.8
Provision for losses	(1.0)	(.7)	14.5	1.7	14.5
Charge-offs			(17.0)	(1.9)	(18.9)
Recoveries			4.0	.1	4.1
Currency translation and other	.2	.1	(.6)	.2	(.1)
Balance at September 30	$ 6.5	$ 9.7	$ 89.8	$ 8.4	$ 114.4

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

	2015				
	Dealer		Customer		
	Wholesale	Retail	Retail	Other*	Total
Balance at January 1	$ 9.0	$ 11.9	$ 93.6	$ 7.5	$ 122.0
Provision for losses	.1	(.8)	7.3	2.1	8.7
Charge-offs	(.2)		(8.7)	(1.2)	(10.1)
Recoveries			2.6	.3	2.9
Currency translation and other	(.5)	(.2)	(5.6)	.8	(5.5)
Balance at September 30	$ 8.4	$ 10.9	$ 89.2	$ 9.5	$ 118.0

* Operating leases and other trade receivables.

Information regarding finance receivables evaluated and determined individually and collectively is as follows:

	Dealer		**Customer**	
At September 30, 2016	**Wholesale**	**Retail**	**Retail**	**Total**
Recorded investment for impaired finance receivables evaluated individually	**$ 1.5**		**$ 55.4**	**$ 56.9**
Allowance for impaired finance receivables determined individually	**.1**		**5.3**	**5.4**
Recorded investment for finance receivables evaluated collectively	**1,762.5**	**$ 1,421.7**	**5,801.3**	**8,985.5**
Allowance for finance receivables determined collectively	**6.4**	**9.7**	**84.5**	**100.6**

	Dealer		Customer	
At December 31, 2015	Wholesale	Retail	Retail	Total
Recorded investment for impaired finance receivables evaluated individually	$ 5.0		$ 64.0	$ 69.0
Allowance for impaired finance receivables determined individually	.3		6.5	6.8
Recorded investment for finance receivables evaluated collectively	1,945.1	$ 1,561.3	5,711.1	9,217.5
Allowance for finance receivables determined collectively	7.0	10.3	82.4	99.7

The recorded investment for finance receivables that are on non-accrual status is as follows:

	September 30 2016	December 31 2015
Dealer:		
Wholesale	**$ 1.5**	$ 5.0
Customer retail:		
Fleet	**44.0**	50.7
Owner/operator	**8.6**	10.0
	$ 54.1	$ 65.7

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

Impaired Loans

Impaired loans are summarized below. The impaired loans with a specific reserve represent the unpaid principal balance. The recorded investment of impaired loans as of September 30, 2016 and December 31, 2015 was not significantly different than the unpaid principal balance.

	Dealer		Customer Retail		
At September 30, 2016	**Wholesale**	**Retail**	**Fleet**	**Owner/ Operator**	**Total**
Impaired loans with a specific reserve	**$ 1.5**		**$ 14.6**	**$ 2.1**	**$ 18.2**
Associated allowance	**(.1)**		**(2.5)**	**(.5)**	**(3.1)**
	$ 1.4		**$ 12.1**	**$ 1.6**	**$ 15.1**
Impaired loans with no specific reserve			**10.7**	**.1**	**10.8**
Net carrying amount of impaired loans	**$ 1.4**		**$ 22.8**	**$ 1.7**	**$ 25.9**
Average recorded investment*	**$ 3.7**		**$ 27.8**	**$ 2.4**	**$ 33.9**

* Represents the average during the 12 months ended September 30, 2016.

	Dealer		Customer Retail		
At December 31, 2015	Wholesale	Retail	Fleet	Owner/ Operator	Total
Impaired loans with a specific reserve	$ 5.0		$ 21.7	$ 2.4	$ 29.1
Associated allowance	(.3)		(3.5)	(.5)	(4.3)
	$ 4.7		$ 18.2	$ 1.9	$ 24.8
Impaired loans with no specific reserve			6.5	.3	6.8
Net carrying amount of impaired loans	$ 4.7		$ 24.7	$ 2.2	$ 31.6
Average recorded investment*	$ 6.6		$ 26.8	$ 2.3	$ 35.7

* Represents the average during the 12 months ended September 30, 2015.

During the period the loans above were considered impaired, interest income recognized on a cash basis was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	**2016**	2015
Interest income recognized:				
Dealer wholesale				
Customer retail - fleet	**$ .2**	$ .4	**$ .8**	$ 1.0
Customer retail - owner/operator	**.1**	.1	**.3**	.3
	$ .3	$ .5	**$ 1.1**	$ 1.3

Credit Quality

The Company's customers are principally concentrated in the transportation industry in North America, Europe and Australia. The Company's portfolio assets are diversified over a large number of customers and dealers with no single customer or dealer balances representing over 5% of the total portfolio assets. The Company retains as collateral a security interest in the related equipment.

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

At the inception of each contract, the Company considers the credit risk based on a variety of credit quality factors including prior payment experience, customer financial information, credit-rating agency ratings, loan-to-value ratios and other internal metrics. On an ongoing basis, the Company monitors credit quality based on past due status and collection experience as there is a meaningful correlation between the past due status of customers and the risk of loss.

The Company has three credit quality indicators: performing, watch and at-risk. Performing accounts pay in accordance with the contractual terms and are not considered high-risk. Watch accounts include accounts 31 to 90 days past due and large accounts that are performing but are considered to be high-risk. Watch accounts are not impaired. At-risk accounts are accounts that are impaired, including TDRs, accounts over 90 days past due and other accounts on non-accrual status. The tables below summarize the Company's finance receivables by credit quality indicator and portfolio class.

	Dealer		**Customer Retail**		
At September 30, 2016	**Wholesale**	**Retail**	**Fleet**	**Owner/ Operator**	**Total**
Performing	**$ 1,750.4**	**$ 1,421.7**	**$ 4,832.6**	**$ 939.7**	**$ 8,944.4**
Watch	**12.1**		**21.1**	**7.9**	**41.1**
At-risk	**1.5**		**46.8**	**8.6**	**56.9**
	$ 1,764.0	**$ 1,421.7**	**$ 4,900.5**	**$ 956.2**	**$ 9,042.4**

	Dealer		Customer Retail		
At December 31, 2015	Wholesale	Retail	Fleet	Owner/ Operator	Total
Performing	$ 1,922.4	$ 1,561.3	$ 4,680.6	$ 996.6	$ 9,160.9
Watch	22.7		27.0	6.9	56.6
At-risk	5.0		53.8	10.2	69.0
	$ 1,950.1	$ 1,561.3	$ 4,761.4	$ 1,013.7	$ 9,286.5

The tables below summarize the Company's finance receivables by aging category. In determining past due status, the Company considers the entire contractual account balance past due when any installment is over 30 days past due. Substantially all customer accounts that were greater than 30 days past due prior to credit modification became current upon modification for aging purposes.

	Dealer		**Customer Retail**		
At September 30, 2016	**Wholesale**	**Retail**	**Fleet**	**Owner/ Operator**	**Total**
Current and up to 30 days past due	**$ 1,763.2**	**$ 1,421.7**	**$ 4,870.7**	**$ 945.0**	**$ 9,000.6**
31 – 60 days past due	**.6**		**15.9**	**5.9**	**22.4**
Greater than 60 days past due	**.2**		**13.9**	**5.3**	**19.4**
	$ 1,764.0	**$ 1,421.7**	**$ 4,900.5**	**$ 956.2**	**$ 9,042.4**

	Dealer		Customer Retail		
At December 31, 2015	Wholesale	Retail	Fleet	Owner/ Operator	Total
Current and up to 30 days past due	$ 1,949.8	$ 1,561.3	$ 4,733.6	$ 1,002.7	$ 9,247.4
31 – 60 days past due			8.3	5.4	13.7
Greater than 60 days past due	.3		19.5	5.6	25.4
	$ 1,950.1	$ 1,561.3	$ 4,761.4	$ 1,013.7	$ 9,286.5

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

Troubled Debt Restructurings

The balance of TDRs was $45.7 and $52.3 at September 30, 2016 and December 31, 2015, respectively. At modification date, the pre-modification and post-modification recorded investment balances for finance receivables modified during the period by portfolio class are as follows:

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	Recorded Investment		Recorded Investment	
	Pre-Modification	Post-Modification	Pre-Modification	Post-Modification
Fleet	**$ 9.1**	**$ 9.1**	**$ 23.1**	**$ 23.0**
Owner/operator	**.4**	**.4**	**3.7**	**3.7**
	$ 9.5	**$ 9.5**	**$ 26.8**	**$ 26.7**

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	Recorded Investment		Recorded Investment	
	Pre-Modification	Post-Modification	Pre-Modification	Post-Modification
Fleet	$ 3.5	$ 3.5	$ 9.8	$ 9.7
Owner/operator	1.3	1.3	3.7	3.7
	$ 4.8	$ 4.8	$ 13.5	$ 13.4

The effect on the allowance for credit losses from such modifications was not significant at September 30, 2016 and 2015.

TDRs modified during the previous twelve months that subsequently defaulted (i.e., became more than 30 days past due) during the period by portfolio class are as follows:

Nine Months Ended September 30,	**2016**	2015
Fleet	**$ .1**	$ 5.0
Owner/operator	**.4**	.3
	$ .5	$ 5.3

During the nine months ended September 30, 2016 and 2015, there were no significant TDRs that subsequently defaulted and were charged-off.

Repossessions

When the Company determines a customer is not likely to meet its contractual commitments, the Company repossesses the vehicles which serve as collateral for the loans, finance leases and equipment under operating leases. The Company records the vehicles as used truck inventory included in Financial Services other assets on the Consolidated Balance Sheets. The balance of repossessed inventory at September 30, 2016 and December 31, 2015 was $33.1 and $14.6, respectively. Proceeds from the sales of repossessed assets were $34.2 and $38.1 for the nine months ended September 30, 2016 and 2015, respectively. These amounts are included in proceeds from asset disposals in the Condensed Consolidated Statements of Cash Flows. Write-downs of repossessed equipment on operating leases are recorded as impairments and included in Financial Services depreciation and other expenses on the Consolidated Statements of Comprehensive Income.

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

NOTE E - Product Support Liabilities

Product support liabilities are estimated future payments related to product warranties, optional extended warranties and repair and maintenance (R&M) contracts. The Company generally offers one year warranties covering most of its vehicles and related aftermarket parts. For vehicles equipped with engines manufactured by PACCAR, the Company generally offers two year warranties on the engine. Specific terms and conditions vary depending on the product and the country of sale. Optional extended warranty and R&M contracts can be purchased for periods which generally range up to five years. Warranty expenses and reserves are estimated and recorded at the time products or contracts are sold based on historical data regarding the source, frequency and cost of claims, net of any recoveries. The Company periodically assesses the adequacy of its recorded liabilities and adjusts them as appropriate to reflect actual experience. Revenue from extended warranty and R&M contracts is deferred and recognized to income generally on a straight-line basis over the contract period. Warranty and R&M costs on these contracts are recognized as incurred.

Changes in product support liabilities are summarized as follows:

Warranty Reserves	**2016**	2015
Balance at January 1	**$ 346.2**	$ 310.8
Cost accruals	**159.7**	210.7
Payments	**(194.9)**	(170.9)
Change in estimates for pre-existing warranties	**(2.5)**	(9.4)
Currency translation	**(6.7)**	(6.1)
Balance at September 30	**$ 301.8**	$ 335.1

Deferred Revenues on Extended Warranties and R&M Contracts	**2016**	2015
Balance at January 1	**$ 524.8**	$ 462.0
Deferred revenues	**276.5**	252.2
Revenues recognized	**(205.6)**	(182.3)
Currency translation	**(7.2)**	(14.8)
Balance at September 30	**$ 588.5**	$ 517.1

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

NOTE F - Stockholders' Equity

Comprehensive Income

The components of comprehensive income are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	**2016**	2015
Net income	**$ 346.2**	$ 431.2	**$ 232.9**	$ 1,256.8
Other comprehensive income (loss) (OCI):				
Unrealized gains on derivative contracts	**5.1**	3.7	**8.0**	6.7
Tax effect	**(2.2)**	(.9)	**(2.7)**	(1.5)
	2.9	2.8	**5.3**	5.2
Unrealized (losses) gains on marketable debt securities	**(3.7)**		**2.1**	(2.5)
Tax effect	**1.2**		**(.6)**	.7
	(2.5)		**1.5**	(1.8)
Pension plans	**10.3**	17.8	**32.7**	41.5
Tax effect	**(3.4)**	(5.8)	**(10.6)**	(13.9)
	6.9	12.0	**22.1**	27.6
Foreign currency translation (losses) gains	**(6.9)**	(163.4)	**61.4**	(409.4)
Net other comprehensive income (loss)	**.4**	(148.6)	**90.3**	(378.4)
Comprehensive income	**$ 346.6**	$ 282.6	**$ 323.2**	$ 878.4

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

Accumulated Other Comprehensive Income (Loss)

The components of AOCI and the changes in AOCI, net of tax, included in the Consolidated Balance Sheets consisted of the following:

Three Months Ended September 30, 2016	**Derivative Contracts**	**Marketable Debt Securities**	**Pension Plans**	**Foreign Currency Translation**	**Total**
Balance at July 1, 2016	**$ (4.0)**	**$ 6.1**	**$ (375.2)**	**$ (554.0)**	**$ (927.1)**
Recorded into AOCI	**(7.9)**	**(.7)**	**2.1**	**(6.9)**	**(13.4)**
Reclassified out of AOCI	**10.8**	**(1.8)**	**4.8**		**13.8**
Net other comprehensive income (loss)	**2.9**	**(2.5)**	**6.9**	**(6.9)**	**.4**
Balance at September 30, 2016	**$ (1.1)**	**$ 3.6**	**$ (368.3)**	**$ (560.9)**	**$ (926.7)**

Three Months Ended September 30, 2015	Derivative Contracts	Marketable Debt Securities	Pension Plans	Foreign Currency Translation	Total
Balance at July 1, 2015	$ (11.1)	$ 3.5	$ (417.5)	$ (384.5)	$ (809.6)
Recorded into AOCI	26.3	.2	5.1	(163.4)	(131.8)
Reclassified out of AOCI	(23.5)	(.2)	6.9		(16.8)
Net other comprehensive income (loss)	2.8		12.0	(163.4)	(148.6)
Balance at September 30, 2015	$ (8.3)	$ 3.5	$ (405.5)	$ (547.9)	$ (958.2)

Nine Months Ended September 30, 2016	**Derivative Contracts**	**Marketable Debt Securities**	**Pension Plans**	**Foreign Currency Translation**	**Total**
Balance at January 1, 2016	**$ (6.4)**	**$ 2.1**	**$ (390.4)**	**$ (622.3)**	**$ (1,017.0)**
Recorded into AOCI	**(33.9)**	**4.1**	**7.8**	**61.4**	**39.4**
Reclassified out of AOCI	**39.2**	**(2.6)**	**14.3**		**50.9**
Net other comprehensive income	**5.3**	**1.5**	**22.1**	**61.4**	**90.3**
Balance at September 30, 2016	**$ (1.1)**	**$ 3.6**	**$ (368.3)**	**$ (560.9)**	**$ (926.7)**

Nine Months Ended September 30, 2015	Derivative Contracts	Marketable Debt Securities	Pension Plans	Foreign Currency Translation	Total
Balance at January 1, 2015	$ (13.5)	$ 5.3	$ (433.1)	$ (138.5)	$ (579.8)
Recorded into AOCI	31.2	(.8)	6.9	(409.4)	(372.1)
Reclassified out of AOCI	(26.0)	(1.0)	20.7		(6.3)
Net other comprehensive income (loss)	5.2	(1.8)	27.6	(409.4)	(378.4)
Balance at September 30, 2015	$ (8.3)	$ 3.5	$ (405.5)	$ (547.9)	$ (958.2)

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

Reclassifications out of AOCI during the three months ended September 30, 2016 and 2015 are as follows:

AOCI Components	Line Item in the Consolidated Statements of Comprehensive Income	Three Months Ended September 30 2016	2015
Unrealized (gains) and losses on derivative contracts:			
Truck, Parts and Other			
Foreign-exchange contracts	Net sales and revenues	**$ (11.1)**	$ (.3)
	Cost of sales and revenues		(.6)
	Interest and other expense, net	**(.3)**	(1.5)
Financial Services			
Interest-rate contracts	Interest and other borrowing expenses	**28.2**	(29.3)
	Pre-tax expense increase (reduction)	**16.8**	(31.7)
	Tax (benefit) expense	**(6.0)**	8.2
	After-tax expense increase (reduction)	**10.8**	(23.5)
Unrealized (gains) and losses on marketable debt securities:			
Marketable debt securities	Investment income	**(2.4)**	(.3)
	Tax expense	**.6**	.1
	After-tax income increase	**(1.8)**	(.2)
Pension plans:			
Truck, Parts and Other			
Actuarial loss	Cost of sales and revenues	**3.4**	5.6
	Selling, general and administrative	**3.2**	4.3
		6.6	9.9
Prior service costs	Cost of sales and revenues	**.2**	.2
	Selling, general and administrative	**.1**	.1
		.3	.3
Financial Services			
Actuarial loss	Selling, general and administrative	**.3**	.4
	Pre-tax expense increase	**7.2**	10.6
	Tax benefit	**(2.4)**	(3.7)
	After-tax expense increase	**4.8**	6.9
Total reclassifications out of AOCI		**$ 13.8**	$ (16.8)

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

Reclassifications out of AOCI during the nine months ended September 30, 2016 and 2015 are as follows:

AOCI Components	Line Item in the Consolidated Statements of Comprehensive Income	Nine Months Ended September 30 2016	2015
Unrealized (gains) and losses on derivative contracts:			
Truck, Parts and Other			
Foreign-exchange contracts	Net sales and revenues	**$ (17.6)**	
	Cost of sales and revenues	**.6**	$ 2.8
	Interest and other expense, net	**1.6**	(3.2)
Financial Services			
Interest-rate contracts	Interest and other borrowing expenses	**78.5**	(37.1)
	Pre-tax expense increase (reduction)	**63.1**	(37.5)
	Tax (benefit) expense	**(23.9)**	11.5
	After-tax expense increase (reduction)	**39.2**	(26.0)
Unrealized (gains) and losses on marketable debt securities:			
Marketable debt securities	Investment income	**(3.5)**	(1.4)
	Tax expense	**.9**	.4
	After-tax income increase	**(2.6)**	(1.0)
Pension plans:			
Truck, Parts and Other			
Actuarial loss	Cost of sales and revenues	**10.3**	16.8
	Selling, general and administrative	**9.7**	12.8
		20.0	29.6
Prior service costs	Cost of sales and revenues	**.7**	.7
	Selling, general and administrative	**.2**	.2
		.9	.9
Financial Services			
Actuarial loss	Selling, general and administrative	**.8**	1.3
	Pre-tax expense increase	**21.7**	31.8
	Tax benefit	**(7.4)**	(11.1)
	After-tax expense increase	**14.3**	20.7
Total reclassifications out of AOCI		**$ 50.9**	$ (6.3)

Stock Compensation Plans

Stock-based compensation expense was $2.0 and $11.1 for the three months and nine months ended September 30, 2016, respectively, and $2.2 and $12.3 for the three and nine months ended September 30, 2015, respectively. Realized tax benefits related to the excess of deductible amounts over expense recognized amounted to $.1 and $.3 for the three and nine months ended September 30, 2016, respectively, and $.5 and $2.7 for the three and nine months ended September 30, 2015, respectively, have been classified as a financing cash flow.

During the first nine months of 2016, the Company issued 413,806 common shares under deferred and stock compensation arrangements.

Other Capital Stock Changes

The Company purchased nil and 1.1 million of treasury shares during the three and nine months ended September 30, 2016, respectively.

NOTE G - Income Taxes

For the third quarter, the effective tax rate declined to 30.0% in 2016 from 31.0% in 2015, primarily due to the mix of income generated in jurisdictions with lower tax rates in 2016 as compared to 2015, partially offset by lower research tax credits in 2016. For the first nine months, the effective tax rate was 67.3% in 2016 compared to 31.6% in 2015. Substantially all of the difference in tax rates was due to the non-deductible expense of $833.0 for the EC settlement in 2016.

NOTE H - Segment Information

PACCAR operates in three principal segments: Truck, Parts and Financial Services. The Company evaluates the performance of its Truck and Parts segments based on operating profits, which excludes investment income, other income and expense, the EC charge and income taxes. The Financial Services segment's performance is evaluated based on income before income taxes. The accounting policies of the reportable segments are the same as those applied in the consolidated financial statements as described in Note A of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Truck and Parts

The Truck segment includes the design and manufacture of high-quality, light-, medium- and heavy-duty commercial trucks and the Parts segment includes the distribution of aftermarket parts for trucks and related commercial vehicles, both of which are sold through the same network of independent dealers. These segments derive a large proportion of their revenues and operating profits from operations in North America and Europe. The Truck segment incurs substantial costs to design, manufacture and sell trucks to its customers. The sale of new trucks provides the Parts segment with the basis for parts sales that may continue over the life of the truck, but are generally concentrated in the first five years after truck delivery. To reflect the benefit the Parts segment receives from costs incurred by the Truck segment, certain expenses are allocated from the Truck segment to the Parts segment. The expenses allocated are based on a percentage of the average annual expenses for factory overhead, engineering, research and development and selling, general and administrative (SG&A) expenses for the preceding five years. The allocation is based on the ratio of the average parts direct margin dollars (net sales less material and labor costs) to the total truck and parts direct margin dollars for the previous five years. The Company believes such expenses have been allocated on a reasonable basis. Truck segment assets related to the indirect expense allocation are not allocated to the Parts segment.

Financial Services

The Financial Services segment derives its earnings primarily from financing or leasing of PACCAR products and services provided to truck customers and dealers. Revenues are primarily generated from operations in North America and Europe.

Other

Included in Other is the Company's industrial winch manufacturing business. Also within this category are other sales, income and expense not attributable to a reportable segment, including the EC charge and a portion of corporate expenses.

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

	Three Months Ended September 30 2016	Three Months Ended September 30 2015	Nine Months Ended September 30 2016	Nine Months Ended September 30 2015
Net sales and revenues:				
Truck	**$ 3,429.0**	$ 3,969.1	**$ 10,499.4**	$ 12,178.3
Less intersegment	**(258.3)**	(224.4)	**(717.0)**	(681.1)
External customers	**3,170.7**	3,744.7	**9,782.4**	11,497.2
Parts	**777.2**	789.1	**2,276.0**	2,341.9
Less intersegment	**(12.4)**	(11.1)	**(35.3)**	(34.7)
External customers	**764.8**	778.0	**2,240.7**	2,307.2
Other	**17.7**	23.5	**56.5**	75.9
	3,953.2	4,546.2	**12,079.6**	13,880.3
Financial Services	**296.2**	301.0	**883.0**	879.5
	$ 4,249.4	$ 4,847.2	**$ 12,962.6**	$ 14,759.8
Income (loss) before income taxes:				
Truck	**$ 284.9**	$ 388.3	**$ 918.4**	$ 1,147.5
Parts	**138.3**	145.4	**406.3**	430.0
Other*	**(7.8)**	(8.3)	**(862.4)**	(28.4)
	415.4	525.4	**462.3**	1,549.1
Financial Services	**71.0**	92.9	**228.6**	272.7
Investment income	**8.5**	6.2	**20.6**	16.6
	$ 494.9	$ 624.5	**$ 711.5**	$ 1,838.4
Depreciation and amortization:				
Truck	**$ 107.6**	$ 101.9	**$ 329.5**	$ 300.8
Parts	**1.9**	1.5	**5.4**	4.6
Other	**3.9**	3.8	**11.7**	10.9
	113.4	107.2	**346.6**	316.3
Financial Services	**136.8**	123.7	**399.0**	363.0
	$ 250.2	$ 230.9	**$ 745.6**	$ 679.3

* Other includes the $833.0 European Commission charge for the first nine months of 2016.

NOTE I - Derivative Financial Instruments

As part of its risk management strategy, the Company enters into derivative contracts to hedge against interest rates and foreign currency risk. Certain derivative instruments designated as either cash flow hedges or fair value hedges are subject to hedge accounting. Derivative instruments that are not subject to hedge accounting are held as economic hedges. The Company's policies prohibit the use of derivatives for speculation or trading. At the inception of each hedge relationship, the Company documents its risk management objectives, procedures and accounting treatment. All of the Company's interest-rate and certain foreign-exchange contracts are transacted under International Swaps and Derivatives Association (ISDA) master agreements. Each agreement permits the net settlement of amounts owed in the event of default and certain other termination events. For derivative financial instruments, the Company has elected not to offset derivative positions in the balance sheet with the same counterparty under the same agreements and is not required to post or receive collateral.

Exposure limits and minimum credit ratings are used to minimize the risks of counterparty default. The Company's maximum exposure to potential default of its swap counterparties is limited to the asset position of its swap portfolio. The asset position of the Company's swap portfolio is $82.7 at September 30, 2016.

The Company uses regression analysis to assess effectiveness of interest-rate contracts on a quarterly basis. For foreign-exchange contracts, the Company performs quarterly assessments to ensure that critical terms continue to match. All components of the derivative instrument's gain or loss are included in the assessment of hedge effectiveness. Gains or losses on the ineffective portion of cash flow hedges are recognized currently in earnings. Hedge accounting is discontinued prospectively when the Company determines that a derivative financial instrument has ceased to be a highly effective hedge.

Interest-Rate Contracts: The Company enters into various interest-rate contracts, including interest-rate swaps and cross currency interest-rate swaps. Interest-rate swaps involve the exchange of fixed for floating rate or floating for fixed rate interest payments based on the contractual notional amounts in a single currency. Cross currency interest-rate swaps involve the exchange of notional amounts and interest payments in different currencies. The Company is exposed to interest-rate and exchange-rate risk caused by market volatility as a result of its borrowing activities. The objective of these contracts is to mitigate the fluctuations on earnings, cash flows and fair value of borrowings. Net amounts paid or received are reflected as adjustments to interest expense.

At September 30, 2016, the notional amount of the Company's interest-rate contracts was $3,394.9. Notional maturities for all interest-rate contracts are $296.8 for the remainder of 2016, $740.2 for 2017, $1,057.4 for 2018, $962.3 for 2019, $139.0 for 2020 and $199.2 thereafter.

Foreign-Exchange Contracts: The Company enters into foreign-exchange contracts to hedge certain anticipated transactions and assets and liabilities denominated in foreign currencies, particularly the Canadian dollar, the euro, the British pound, the Australian dollar, the Brazilian real and the Mexican peso. The objective is to reduce fluctuations in earnings and cash flows associated with changes in foreign currency exchange rates. At September 30, 2016, the notional amount of the outstanding foreign-exchange contracts was $593.5. Foreign-exchange contracts mature within one year.

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

The following table presents the balance sheet classification, fair value, gross and pro forma net amounts of derivative financial instruments:

	September 30, 2016		December 31, 2015	
	Assets	**Liabilities**	Assets	Liabilities
Derivatives designated under hedge accounting:				
Interest-rate contracts:				
Financial Services:				
Other assets	**$ 82.7**		$ 132.2	
Deferred taxes and other liabilities		**$ 64.2**		$ 46.7
Foreign-exchange contracts:				
Truck, Parts and Other:				
Other current assets	**10.0**		3.9	
Accounts payable, accrued expenses and other		**.3**		.2
Total	**$ 92.7**	**$ 64.5**	$ 136.1	$ 46.9
Economic hedges:				
Interest-rate contracts:				
Financial Services:				
Deferred taxes and other liabilities		**$ .1**		
Foreign-exchange contracts:				
Truck, Parts and Other:				
Other current assets	**$ .2**		$ .9	
Accounts payable, accrued expenses and other		**.4**		$ .3
Financial Services:				
Other assets	**4.8**		.3	
Deferred taxes and other liabilities		**.7**		1.0
Total	**$ 5.0**	**$ 1.2**	$ 1.2	$ 1.3
Gross amounts recognized in Balance Sheets	**$ 97.7**	**$ 65.7**	$ 137.3	$ 48.2
Less amounts not offset in financial instruments:				
Truck, Parts and Other:				
Foreign-exchange contracts	**(.5)**	**(.5)**	(.4)	(.4)
Financial Services:				
Interest-rate contracts	**(7.8)**	**(7.8)**	(3.3)	(3.3)
Foreign-exchange contracts			(.2)	(.2)
Pro forma net amount	**$ 89.4**	**$ 57.4**	$ 133.4	$ 44.3

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

Fair Value Hedges

Changes in the fair value of derivatives designated as fair value hedges are recorded in earnings together with the changes in fair value of the hedged item attributable to the risk being hedged. The (income) or expense recognized in earnings related to fair value hedges was included in interest and other borrowing expenses in the Financial Services segment of the Consolidated Statements of Comprehensive Income as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	**2016**	2015
Interest-rate swaps	**$ 3.7**	$ (4.2)	**$ (1.3)**	$ (5.3)
Term notes	**(3.8)**	4.0	**.6**	4.6

Cash Flow Hedges

Substantially all of the Company's interest-rate contracts and some foreign-exchange contracts have been designated as cash flow hedges. Changes in the fair value of derivatives designated as cash flow hedges are recorded in AOCI to the extent such hedges are considered effective. Amounts in AOCI are reclassified into net income in the same period in which the hedged transaction affects earnings. The maximum length of time over which the Company is hedging its exposure to the variability in future cash flows is 4.9 years. The Company recognized no gains or losses on the ineffective portions for the three and nine month periods ended September 30, 2016 and 2015.

The following table presents the pre-tax effects of derivative instruments recognized in other comprehensive income (loss) (OCI):

	Three Months Ended September 30 2016		**Nine Months Ended September 30 2016**	
	Interest-Rate Contracts	**Foreign-Exchange Contracts**	**Interest-Rate Contracts**	**Foreign-Exchange Contracts**
Gain (loss) recognized in OCI:				
Truck, Parts and Other		**$ 13.9**		**$ 23.8**
Financial Services	**$ (25.6)**		**$ (78.9)**	
Total	**$ (25.6)**	**$ 13.9**	**$ (78.9)**	**$ 23.8**

	Three Months Ended September 30 2015		Nine Months Ended September 30 2015	
	Interest-Rate Contracts	Foreign-Exchange Contracts	Interest-Rate Contracts	Foreign-Exchange Contracts
Gain recognized in OCI:				
Truck, Parts and Other		$ 8.5		$ 5.5
Financial Services	$ 26.9		$ 38.7	
Total	$ 26.9	$ 8.5	$ 38.7	$ 5.5

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

Expense (income) reclassified out of AOCI into income was as follows:

	Three Months Ended September 30 2016		**Nine Months Ended September 30 2016**	
	Interest-Rate Contracts	**Foreign-Exchange Contracts**	**Interest-Rate Contracts**	**Foreign-Exchange Contracts**
Truck, Parts and Other:				
Net sales and revenues		**$ (11.1)**		**$ (17.6)**
Cost of sales and revenues				**.6**
Interest and other expense, net		**(.3)**		**1.6**
Financial Services:				
Interest and other borrowing expenses	**$ 28.2**		**$ 78.5**	
Total	**$ 28.2**	**$ (11.4)**	**$ 78.5**	**$ (15.4)**

	Three Months Ended September 30 2015		Nine Months Ended September 30 2015	
	Interest-Rate Contracts	Foreign-Exchange Contracts	Interest-Rate Contracts	Foreign-Exchange Contracts
Truck, Parts and Other:				
Net sales and revenues		$ (.3)		
Cost of sales and revenues		(.6)		$ 2.8
Interest and other expense, net		(1.5)		(3.2)
Financial Services:				
Interest and other borrowing expenses	$ (29.3)		$ (37.1)	
Total	$ (29.3)	$ (2.4)	$ (37.1)	$ (.4)

The amount of gain recorded in AOCI at September 30, 2016 that is estimated to be reclassified into earnings in the following 12 months if interest rates and exchange rates remain unchanged is approximately $6.2, net of taxes. The fixed interest earned on finance receivables will offset the amount recognized in interest expense, resulting in a stable interest margin consistent with the Company's risk management strategy.

The amount of losses reclassified out of AOCI into net income based on the probability that the original forecasted transactions would not occur was nil and $.3 for the three and nine months ended September 30, 2016, respectively, and nil for the three and nine month periods ended September 30, 2015.

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

Economic Hedges

For other risk management purposes, the Company enters into derivative instruments that do not qualify for hedge accounting. These derivative instruments are used to mitigate the risk of market volatility arising from borrowings and foreign currency denominated transactions. Changes in the fair value of economic hedges are recorded in earnings in the period in which the change occurs.

The expense (income) recognized in earnings related to economic hedges was as follows:

	Three Months Ended September 30, 2016		**Nine Months Ended September 30, 2016**	
	Interest-Rate Contracts	**Foreign-Exchange Contracts**	**Interest-Rate Contracts**	**Foreign-Exchange Contracts**
Truck, Parts and Other:				
Net sales and revenues		**$ (.4)**		**$ (.4)**
Cost of sales and revenues		**.3**		**1.4**
Interest and other expense, net		**(1.3)**		**(.5)**
Financial Services:				
Interest and other borrowing expenses	**$ .1**	**(3.1)**	**$ .1**	**(11.3)**
Selling, general and administrative		**(.9)**		**(2.5)**
Total	**$ .1**	**$ (5.4)**	**$ .1**	**$ (13.3)**

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	Interest-Rate Contracts	Foreign-Exchange Contracts	Interest-Rate Contracts	Foreign-Exchange Contracts
Truck, Parts and Other:				
Cost of sales and revenues		$ (.8)		$ .6
Interest and other expense, net		(4.9)		(4.1)
Financial Services:				
Interest and other borrowing expenses		(.3)		(7.8)
Selling, general and administrative		(.7)		(1.4)
Total		$ (6.7)		$ (12.7)

NOTE J - Fair Value Measurements

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Inputs to valuation techniques used to measure fair value are either observable or unobservable. These inputs have been categorized into the fair value hierarchy described below.

Level 1 – Valuations are based on quoted prices that the Company has the ability to obtain in actively traded markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market or exchange traded market, valuation of these instruments does not require a significant degree of judgment.

Level 2 – Valuations are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuations are based on model-based techniques for which some or all of the assumptions are obtained from indirect market information that is significant to the overall fair value measurement and which require a significant degree of management judgment.

There were no transfers of assets or liabilities between Level 1 and Level 2 of the fair value hierarchy during the nine months ended September 30, 2016. The Company's policy is to recognize transfers between levels at the end of the reporting period.

The Company uses the following methods and assumptions to measure fair value for assets and liabilities subject to recurring fair value measurements.

Marketable Securities: The Company's marketable debt securities consist of municipal bonds, government obligations, investment-grade corporate obligations, commercial paper, asset-backed securities and term deposits. The fair value of U.S. government obligations is determined using the market approach and is based on quoted prices in active markets and are categorized as Level 1.

The fair value of U.S. government agency obligations, non-U.S. government bonds, municipal bonds, corporate bonds, asset-backed securities, commercial paper and term deposits is determined using the market approach and is primarily based on matrix pricing as a practical expedient which does not rely exclusively on quoted prices for a specific security. Significant inputs used to determine fair value include interest rates, yield curves, credit rating of the security and other observable market information and are categorized as Level 2.

Derivative Financial Instruments: The Company's derivative contracts consist of interest-rate swaps, cross currency swaps and foreign currency exchange contracts. These derivative contracts are traded over the counter, and their fair value is determined using industry standard valuation models, which are based on the income approach (i.e., discounted cash flows). The significant observable inputs into the valuation models include interest rates, yield curves, currency exchange rates, credit default swap spreads and forward rates and are categorized as Level 2.

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

Assets and Liabilities Subject to Recurring Fair Value Measurement

The Company's assets and liabilities subject to recurring fair value measurements are either Level 1 or Level 2 as follows:

At September 30, 2016	Level 1	Level 2	Total
Assets:			
Marketable debt securities			
U.S. tax-exempt securities		$ 499.9	$ 499.9
U.S. corporate securities		52.8	52.8
U.S. government and agency securities	$ 15.4	.9	16.3
Non-U.S. corporate securities		328.6	328.6
Non-U.S. government securities		99.8	99.8
Other debt securities		81.5	81.5
Total marketable debt securities	$ 15.4	$1,063.5	$1,078.9
Derivatives			
Cross currency swaps		$ 77.6	$ 77.6
Interest-rate swaps		5.1	5.1
Foreign-exchange contracts		15.0	15.0
Total derivative assets		$ 97.7	$ 97.7
Liabilities:			
Derivatives			
Cross currency swaps		$ 51.6	$ 51.6
Interest-rate swaps		12.7	12.7
Foreign-exchange contracts		1.4	1.4
Total derivative liabilities		$ 65.7	$ 65.7

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

At December 31, 2015	Level 1	Level 2	Total
Assets:			
Marketable debt securities			
U.S. tax-exempt securities		$ 505.4	$ 505.4
U.S. corporate securities		76.7	76.7
U.S. government and agency securities	$ 15.1	.6	15.7
Non-U.S. corporate securities		587.0	587.0
Non-U.S. government securities		193.7	193.7
Other debt securities		69.6	69.6
Total marketable debt securities	$ 15.1	$ 1,433.0	$ 1,448.1
Derivatives			
Cross currency swaps		$ 130.5	$ 130.5
Interest-rate swaps		1.7	1.7
Foreign-exchange contracts		5.1	5.1
Total derivative assets		$ 137.3	$ 137.3
Liabilities:			
Derivatives			
Cross currency swaps		$ 37.2	$ 37.2
Interest-rate swaps		9.5	9.5
Foreign-exchange contracts		1.5	1.5
Total derivative liabilities		$ 48.2	$ 48.2

Fair Value Disclosure of Other Financial Instruments

For financial instruments that are not recognized at fair value, the Company uses the following methods and assumptions to determine the fair value. These instruments are categorized as Level 2, except cash which is categorized as Level 1 and fixed rate loans which are categorized as Level 3.

Cash and Cash Equivalents: Carrying amounts approximate fair value.

Financial Services Net Receivables: For floating-rate loans, wholesale financings, and operating lease and other trade receivables, carrying values approximate fair values. For fixed rate loans, fair values are estimated using the income approach by discounting cash flows to their present value based on current rates for comparable loans. Finance lease receivables and related allowance for credit losses have been excluded from the accompanying table.

Debt: The carrying amounts of financial services commercial paper, variable rate bank loans and variable rate term notes approximate fair value. For fixed rate debt, fair values are estimated using the income approach by discounting cash flows to their present value based on current rates for comparable debt.

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

The Company's estimate of fair value for fixed rate loans and debt that are not carried at fair value was as follows:

	September 30, 2016		December 31, 2015	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Assets:				
Financial Services fixed rate loans	**$ 3,633.9**	**$ 3,662.4**	$ 3,660.6	$ 3,729.0
Liabilities:				
Financial Services fixed rate debt	**4,964.3**	**5,009.1**	4,167.9	4,192.2

NOTE K - Employee Benefit Plans

The Company has several defined benefit pension plans, which cover a majority of its employees. The following information details the components of net pension expense for the Company's defined benefit plans:

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2016	2015	**2016**	2015
Service cost	**$ 22.2**	$ 22.9	**$ 66.7**	$ 68.7
Interest on projected benefit obligation	**23.4**	23.0	**71.1**	69.2
Expected return on assets	**(35.2)**	(35.2)	**(106.9)**	(105.7)
Amortization of prior service costs	**.3**	.3	**.9**	.9
Recognized actuarial loss	**6.9**	10.3	**20.8**	30.9
Net pension expense	**$ 17.6**	$ 21.3	**$ 52.6**	$ 64.0

During the three and nine months ended September 30, 2016, the Company contributed $5.8 and $65.1 to its pension plans, respectively, and $3.5 and $59.2 for the three and nine months ended September 30, 2015, respectively.

NOTE L - European Commission Settlement

In the first half of 2016, the Company recorded a charge of €752.7 ($833.0) in connection with an investigation by the EC of all major European truck manufacturers, including DAF Trucks N.V., its subsidiary DAF Trucks Deutschland GmbH (collectively, "DAF") and the Company as their parent. On July 19, 2016, the EC reached a settlement with DAF and the Company under which the EC imposed a fine of €752.7 ($833.0) for infringement of European Union competition rules. DAF paid the fine in August 2016.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW:

PACCAR is a global technology company whose Truck segment includes the design and manufacture of high-quality light-, medium- and heavy-duty commercial trucks. In North America, trucks are sold under the Kenworth and Peterbilt nameplates, in Europe, under the DAF nameplate and in Australia and South America, under the Kenworth and DAF nameplates. The Parts segment includes the distribution of aftermarket parts for trucks and related commercial vehicles. The Company's Financial Services segment derives its earnings primarily from financing or leasing PACCAR products in North America, Europe and Australia. The Company's Other business includes the manufacturing and marketing of industrial winches.

Third Quarter Highlights:

- Worldwide net sales and revenues were $4.25 billion in 2016 compared to $4.85 billion in 2015, reflecting primarily lower truck volumes in North America.
- Truck sales were $3.17 billion in 2016 compared to $3.74 billion in 2015, reflecting lower industry truck sales in the U.S. and Canada, partially offset by higher truck sales in Europe.
- Parts sales were $764.8 million in 2016 compared to $778.0 million in 2015, reflecting slightly lower demand in North America.
- Financial Services revenues were $296.2 million in 2016 compared to $301.0 million in 2015. The decrease was primarily due to currency translation effects and lower revenues from used truck sales, partially offset by higher revenues from an increase in average operating lease assets.
- Net income was $346.2 million ($.98 per diluted share) in 2016 compared to $431.2 million ($1.21 per diluted share) in 2015, reflecting lower truck and parts sales in North America, partially offset by increased truck sales in Europe.
- Capital investments were $111.4 million in 2016 compared to $93.7 million in 2015.
- Research and development (R&D) expenses were $59.2 million in 2016 compared to $57.6 million in 2015.

First Nine Months Highlights:

- Worldwide net sales and revenues were $12.96 billion in 2016 compared to $14.76 billion in 2015, reflecting primarily lower truck volumes in North America.
- Truck sales were $9.78 billion in 2016 compared to $11.50 billion in 2015, reflecting lower industry truck sales in the U.S. and Canada, partially offset by higher truck sales in Europe.
- Parts sales were $2.24 billion in 2016 compared to $2.31 billion in 2015, reflecting primarily lower demand in North America.
- Financial Services revenues were $883.0 million in 2016 compared to $879.5 million in 2015 primarily due to higher average earning assets, partially offset by currency translation effects and lower yields.
- Net income was $232.9 million ($.66 per diluted share) in 2016. On July 19, 2016, the EC concluded its investigation of all major European truck manufacturers and reached a settlement with DAF. Excluding the $833.0 million non-recurring, non-tax-deductible EC charge recorded in the first half of 2016, the Company earned adjusted net income (non-GAAP) of $1.07 billion ($3.03 per diluted share) in 2016 compared to net income of $1.26 billion ($3.53 per diluted share) in 2015. The operating results reflect lower truck and parts sales in North America, partially offset by increased truck sales in Europe. See Reconciliation of Non-GAAP to GAAP Financial Measures on page 52.

- Capital investments were $265.8 million in 2016 compared to $181.1 million in 2015 reflecting additional investments for a new parts distribution center in Renton, Washington and construction of a new cab paint facility in Europe.
- R&D expenses were $179.6 million in 2016 compared to $173.1 million in 2015.

The Company has launched a new proprietary tandem axle in North America that reduces vehicle weight by up to 150 pounds and improves fuel economy. The axle will be available to customers in January 2017. In addition, the Company is enhancing its range of MX engines for 2017. The updated PACCAR engines will deliver increased power and reduced operating costs for North American customers.

In the third quarter, the Company launched its DAF Connect telematics system, which provides customers with fleet management data to enhance vehicle and driver performance. Customers can access information through an online service, enabling them to optimize vehicle utilization and uptime, reduce operational expenses and enhance logistical efficiency.

The PACCAR Financial Services (PFS) group of companies has operations covering four continents and 23 countries. The global breadth of PFS and its rigorous credit application process support a portfolio of loans and leases with total assets of $12.37 billion. PFS issued $1.84 billion in medium-term notes during the first nine months of 2016 to support portfolio growth and repay maturing debt.

Truck Outlook

Class 8 truck industry retail sales in the U.S. and Canada in 2016 are expected to be 215,000 to 225,000 units compared to 278,400 in 2015. Estimates for the U.S. and Canada Class 8 truck industry retail sales in 2017 are in the range of 200,000 to 230,000 units. In Europe, the 2016 truck industry registrations for over 16-tonne vehicles are projected to increase to a range of 290,000 to 300,000 units, compared to 269,100 truck registrations in 2015. In Europe, the 2017 truck industry sales in the above 16-tonne truck market are projected to be in a range of 260,000 to 290,000 units. In South America, heavy-duty truck industry sales in 2016 are estimated to be in a range of 60,000 to 70,000 units compared to 74,000 in 2015. In South America, the 2017 heavy-duty truck industry sales are estimated to be in a range of 70,000 to 80,000 units.

Parts Outlook

In 2016, PACCAR Parts sales in North America are expected to be 2-4% lower than 2015 sales. In 2017, parts sales are expected to grow 2-4%. In Europe, 2016 aftermarket parts sales are expected to be comparable to 2015 sales. In 2017, Europe aftermarket sales are expected to increase 1-3%.

Financial Services Outlook

Based on the truck market outlook, average earning assets in 2016 are expected to be comparable to the record levels achieved in 2015. Current good levels of freight tonnage, freight rates and fleet utilization are contributing to customers' profitability and cash flow. If current freight transportation conditions decline due to weaker economic conditions, then past due accounts, truck repossessions and credit losses would likely increase from the current low levels and new business volume would likely decline. In 2017, average earning assets are expected to be comparable to 2016.

Capital Spending and R&D Outlook

Capital investments in 2016 are expected to be $375 to $400 million, and R&D is expected to be $240 to $250 million focused on enhanced aftermarket support, manufacturing facilities and new product development.

In 2017, capital investments are projected to be $375 to $425 million, and R&D is expected to be $270 to $300 million. The Company is investing for future growth in PACCAR's integrated powertrain, advanced driver assistance and truck connectivity technologies, and additional capacity and operating efficiency of the Company's manufacturing and parts distribution facilities. DAF's new $110 million cab paint facility is on schedule to open in mid-2017, and Financial Services will open its new used truck center in Chicago, Illinois early next year.

See the Forward-Looking Statements section of Management's Discussion and Analysis for factors that may affect these outlooks.

RESULTS OF OPERATIONS:

	Three Months Ended September 30		**Nine Months Ended September 30**	
($ in millions, except per share amounts)	**2016**	2015	**2016**	2015
Net sales and revenues:				
Truck	**$ 3,170.7**	$ 3,744.7	**$ 9,782.4**	$11,497.2
Parts	**764.8**	778.0	**2,240.7**	2,307.2
Other	**17.7**	23.5	**56.5**	75.9
Truck, Parts and Other	**3,953.2**	4,546.2	**12,079.6**	13,880.3
Financial Services	**296.2**	301.0	**883.0**	879.5
	$ 4,249.4	$ 4,847.2	**$12,962.6**	$14,759.8
Income (loss) before income taxes:				
Truck	**$ 284.9**	$ 388.3	**$ 918.4**	$ 1,147.5
Parts	**138.3**	145.4	**406.3**	430.0
Other*	**(7.8)**	(8.3)	**(862.4)**	(28.4)
Truck, Parts and Other	**415.4**	525.4	**462.3**	1,549.1
Financial Services	**71.0**	92.9	**228.6**	272.7
Investment income	**8.5**	6.2	**20.6**	16.6
Income taxes	**(148.7)**	(193.3)	**(478.6)**	(581.6)
Net income	**$ 346.2**	$ 431.2	**$ 232.9**	$ 1,256.8
Diluted earnings per share	**$ .98**	$ 1.21	**$ .66**	$ 3.53
Return on revenues	**8.1%**	8.9%	**1.8%**	8.5%
Adjusted return on revenues**	**8.1%**	8.9%	**8.2%**	8.5%

* Other includes the EC charge of $833.0 for the first nine months of 2016.

** Calculated using adjusted net income $1,065.9 for the first nine months of 2016. See page 52 for a reconciliation of non-GAAP to GAAP financial measures.

The following provides an analysis of the results of operations for the Company's three reportable segments - Truck, Parts and Financial Services. Where possible, the Company has quantified the impact of factors identified in the following discussion and analysis. In cases where it is not possible to quantify the impact of factors, the Company lists them in estimated order of importance. Factors for which the Company is unable to specifically quantify the impact include market demand, fuel prices, freight tonnage and economic conditions affecting the Company's results of operations.

2016 Compared to 2015:

Truck

The Company's Truck segment accounted for 75% of revenues in the third quarter and first nine months of 2016 compared to 77% and 78% in the third quarter and first nine months of 2015, respectively.

The Company's new truck deliveries are summarized below:

	Three Months Ended September 30			Nine Months Ended September 30		
	2016	2015	% Change	**2016**	2015	% Change
U.S. and Canada	**18,800**	24,200	(22)	**57,100**	75,400	(24)
Europe	**11,600**	11,100	5	**38,200**	32,400	18
Mexico, South America, Australia and other	**4,500**	4,100	10	**11,700**	11,500	2
Total units	**34,900**	39,400	(11)	**107,000**	119,300	(10)

In the first nine months of 2016, industry retail sales in the heavy-duty market in the U.S. and Canada decreased to 166,700 units from 212,000 units in the same period of 2015. The Company's heavy-duty truck retail market share was 27.9% in the first nine months of 2016 compared to 28.1% in the first nine months of 2015. The medium-duty market was 65,100 units in the first nine months of 2016 compared to 60,400 units in the same period of 2015. The Company's medium-duty market share was 15.8% in the first nine months of 2016 and 16.0% in the first nine months of 2015.

The over 16-tonne truck market in Western and Central Europe in the first nine months of 2016 was 224,700 units compared to 194,900 units in the first nine months of 2015. DAF market share was 15.6% in the first nine months of 2016 compared to 14.6% in the same period of 2015. The 6 to 16-tonne market in the first nine months of 2016 was 38,400 units compared to 34,600 units in the first nine months of 2015. DAF market share in the 6 to 16-tonne market in the first nine months of 2016 was 9.7% compared to 8.9% in the same period of 2015.

($ in millions)	Three Months Ended September 30			Nine Months Ended September 30		
	2016	2015	% Change	**2016**	2015	% Change
Truck net sales and revenues:						
U.S. and Canada	**$ 1,901.5**	$ 2,535.3	(25)	**$ 5,855.7**	$ 7,982.8	(27)
Europe	**843.2**	816.2	3	**2,821.9**	2,393.4	18
Mexico, South America, Australia and other	**426.0**	393.2	8	**1,104.8**	1,121.0	(1)
	$ 3,170.7	$ 3,744.7	(15)	**$ 9,782.4**	$11,497.2	(15)
Truck income before income taxes	**$ 284.9**	$ 388.3	(27)	**$ 918.4**	$ 1,147.5	(20)
Pre-tax return on revenues	**9.0%**	10.4%		**9.4%**	10.0%	

In the third quarter, the Company's worldwide truck net sales and revenues decreased to $3.17 billion in 2016 from $3.74 billion in 2015, primarily due to lower truck deliveries in the U.S. and Canada, partially offset by higher truck deliveries in Europe and Mexico. In the first nine months, worldwide truck net sales and revenues decreased to $9.78 billion in 2016 from $11.50 billion in 2015, primarily due to lower truck deliveries in the U.S. and Canada, partially offset by higher truck deliveries in Europe.

For the third quarter and first nine months of 2016, Truck segment income before income taxes and pre-tax return on revenues reflect the lower truck unit deliveries.

The major factors for the changes in net sales and revenues, cost of sales and revenues and gross margin between the three months ended September 30, 2016 and 2015 for the Truck segment are as follows:

($ in millions)	Net Sales and Revenues	Cost of Sales and Revenues	Gross Margin
Three Months Ended September 30, 2015	$ 3,744.7	$ 3,267.0	$ 477.7
(Decrease) increase			
Truck delivery volume	(567.3)	(489.2)	(78.1)
Average truck sales prices	(33.9)		(33.9)
Average per truck material, labor and other direct costs		(3.3)	3.3
Factory overhead and other indirect costs		(6.8)	6.8
Operating leases	20.8	20.4	.4
Currency translation	6.4	8.1	(1.7)
Total decrease	(574.0)	(470.8)	(103.2)
Three Months Ended September 30, 2016	$ 3,170.7	$ 2,796.2	$ 374.5

- Truck delivery volume reflects lower truck deliveries in the U.S. and Canada, which resulted in lower sales ($611.6 million) and cost of sales ($519.9 million), partially offset by higher truck deliveries in Mexico which resulted in higher sales ($43.4 million) and cost of sales ($34.2 million).
- Average truck sales prices decreased sales by $33.9 million, primarily due to lower price realization in the U.S. and Canada ($22.2 million) and in Mexico ($9.8 million).
- Average cost per truck decreased cost of sales by $3.3 million, primarily due to lower material costs.
- Factory overhead and other indirect costs decreased by $6.8 million, primarily due to lower maintenance costs ($5.9 million).
- Operating lease revenues increased by $20.8 million and cost of sales increased by $20.4 million due to higher average asset balances.
- The currency translation effect on sales and cost of sales reflects an increase in the value of foreign currencies relative to the U.S. dollar.
- Truck gross margins in the third quarter of 2016 decreased to 11.8% from 12.8% in the third quarter of 2015 due to the factors noted above.

The major factors for the changes in net sales and revenues, cost of sales and revenues and gross margin between the nine months ended September 30, 2016 and 2015 for the Truck segment are as follows:

($ in millions)	Net Sales and Revenues	Cost of Sales and Revenues	Gross Margin
Nine Months Ended September 30, 2015	$ 11,497.2	$ 10,087.8	$ 1,409.4
(Decrease) increase			
Truck delivery volume	(1,582.8)	(1,347.4)	(235.4)
Average truck sales prices	(150.9)		(150.9)
Average per truck material, labor and other direct costs		(136.3)	136.3
Factory overhead and other indirect costs		(37.1)	37.1
Operating leases	63.0	61.5	1.5
Currency translation	(44.1)	(39.1)	(5.0)
Total decrease	(1,714.8)	(1,498.4)	(216.4)
Nine Months Ended September 30, 2016	$ 9,782.4	$ 8,589.4	$ 1,193.0

- Truck delivery volume reflects lower truck deliveries in the U.S. and Canada, which resulted in lower sales ($2,017.5 million) and cost of sales ($1,703.9 million), partially offset by higher truck deliveries in Europe which resulted in higher sales ($415.0 million) and cost of sales ($329.1 million).
- Average truck sales prices decreased sales by $150.9 million, primarily due to lower price realization in the U.S. and Canada ($89.0 million) and Europe ($57.0 million).
- Average cost per truck decreased cost of sales by $136.3 million, primarily due to lower material costs.
- Factory overhead and other indirect costs decreased $37.1 million, primarily due to lower salaries and related expenses ($15.7 million) and lower maintenance costs ($12.7 million).
- Operating lease revenues increased by $63.0 million and cost of sales increased by $61.5 million due to higher average asset balances.
- The currency translation effect on sales and cost of sales reflects a decline in the value of foreign currencies relative to the U.S. dollar.
- Truck gross margins in the first nine months of 2016 of 12.2% decreased slightly from 12.3% in the same period in 2015 primarily due to the factors noted above.

Truck SG&A for the third quarter of 2016 was $47.8 million compared to $46.5 million in the third quarter of 2015. In the first nine months of 2016, Truck SG&A increased to $147.6 million from $137.7 million in the first nine months of 2015, primarily due to higher salaries and related expenses.

As a percentage of sales, Truck SG&A increased to 1.5% in the third quarter and first nine months of 2016 from 1.2% in the third quarter and first nine months of 2015, primarily due to lower net sales.

Parts

The Company's Parts segment accounted for 18% and 17% of revenues in the third quarter and first nine months of 2016, respectively, compared to 16% in the third quarter and first nine months of 2015.

($ in millions)	Three Months Ended September 30 2016	2015	% Change	Nine Months Ended September 30 2016	2015	% Change
Parts net sales and revenues:						
U.S. and Canada	**$ 501.5**	$ 510.9	(2)	**$ 1,440.0**	$ 1,495.7	(4)
Europe	**185.5**	189.8	(2)	**570.8**	576.2	(1)
Mexico, South America, Australia and other	**77.8**	77.3	1	**229.9**	235.3	(2)
	$ 764.8	$ 778.0	(2)	**$ 2,240.7**	$ 2,307.2	(3)
Parts income before income taxes	**$ 138.3**	$ 145.4	(5)	**$ 406.3**	$ 430.0	(6)
Pre-tax return on revenues	**18.1%**	18.7%		**18.1%**	18.6%	

The Company's worldwide parts net sales and revenues for the third quarter decreased to $764.8 million in 2016 from $778.0 million in 2015, and for the first nine months, worldwide parts net sales and revenues decreased to $2.24 billion in 2016 from $2.31 billion in 2015, primarily due to lower aftermarket demand in North America.

For the third quarter and first nine months of 2016, the decrease in Parts segment income before income taxes and pre-tax return on revenues was primarily due to lower sales volume and margins in North America.

The major factors for the changes in net sales, cost of sales and gross margin between the three months ended September 30, 2016 and 2015 for the Parts segment are as follows:

($ in millions)	Net Sales	Cost of Sales	Gross Margin
Three Months Ended September 30, 2015	**$ 778.0**	**$ 564.4**	**$ 213.6**
(Decrease) increase			
Aftermarket parts volume	**(8.7)**	**(4.9)**	**(3.8)**
Average aftermarket parts sales prices	**3.3**		**3.3**
Average aftermarket parts direct costs		**.1**	**(.1)**
Warehouse and other indirect costs		**1.7**	**(1.7)**
Currency translation	**(7.8)**	**(1.3)**	**(6.5)**
Total decrease	**(13.2)**	**(4.4)**	**(8.8)**
Three Months Ended September 30, 2016	**$ 764.8**	**$ 560.0**	**$ 204.8**

- Aftermarket parts sales volume decreased by $8.7 million and related cost of sales decreased by $4.9 million, primarily due to lower market demand in North America.
- Average aftermarket parts sales prices increased sales by $3.3 million reflecting higher price realization.

- Warehouse and other indirect costs increased $1.7 million mainly due to higher depreciation expense.
- The currency translation effect on sales and cost of sales reflects a decrease in the value of foreign currencies relative to the U.S. dollar.
- Parts gross margins in the third quarter of 2016 decreased to 26.8% from 27.5% in the third quarter of 2015 due to the factors noted above.

The major factors for the changes in net sales, cost of sales and gross margin between the nine months ended September 30, 2016 and 2015 for the Parts segment are as follows:

($ in millions)	Net Sales	Cost of Sales	Gross Margin
Nine Months Ended September 30, 2015	**$ 2,307.2**	**$ 1,673.5**	**$ 633.7**
(Decrease) increase			
Aftermarket parts volume	**(39.3)**	**(27.3)**	**(12.0)**
Average aftermarket parts sales prices	**(4.6)**		**(4.6)**
Average aftermarket parts direct costs		**(9.1)**	**9.1**
Warehouse and other indirect costs		**6.7**	**(6.7)**
Currency translation	**(22.6)**	**(9.1)**	**(13.5)**
Total decrease	**(66.5)**	**(38.8)**	**(27.7)**
Nine Months Ended September 30, 2016	**$ 2,240.7**	**$ 1,634.7**	**$ 606.0**

- Aftermarket parts sales volume decreased by $39.3 million and related cost of sales decreased by $27.3 million primarily due to lower market demand in North America.
- Average aftermarket parts sales prices decreased sales by $4.6 million reflecting lower price realization.
- Average aftermarket parts direct costs decreased $9.1 million due to lower material costs.
- Warehouse and other indirect costs increased $6.7 million, primarily due to start-up costs and higher depreciation expense for the new distribution center in Renton, Washington, and higher maintenance expense.
- The currency translation effect on sales and cost of sales reflects a decline in the value of foreign currencies relative to the U.S. dollar.
- Parts gross margins in the first nine months of 2016 decreased to 27.0% from 27.5% in the first nine months of 2015 due to the factors noted above.

Parts SG&A expense for the third quarter of 2016 was $48.1 million compared to $48.2 million in the third quarter of 2015. In the first nine months of 2016, Parts SG&A was $144.3 million compared to $145.2 million in the first nine months of 2015.

As a percentage of sales, Parts SG&A increased to 6.3% in the third quarter of 2016 from 6.2% in the third quarter of 2015. For the first nine months of 2016, Parts SG&A as a percentage of sales was 6.4%, up from 6.3% in the first nine months of 2015. The increase for both periods was primarily due to lower net sales.

Financial Services

The Company's Financial Services segment accounted for 7% of revenues in the third quarter and first nine months of 2016 compared to 6% in the third quarter and first nine months of 2015.

($ in millions)	Three Months Ended September 30			Nine Months Ended September 30		
	2016	2015	% Change	**2016**	2015	% Change
New loan and lease volume:						
U.S. and Canada	**$ 654.4**	$ 730.9	(10)	**$ 1,849.2**	$ 2,073.8	(11)
Europe	**248.6**	233.8	6	**795.8**	740.7	7
Mexico and Australia	**155.4**	165.7	(6)	**423.9**	470.1	(10)
	$ 1,058.4	$ 1,130.4	(6)	**$ 3,068.9**	$ 3,284.6	(7)
New loan and lease volume by product:						
Loans and finance leases	**$ 710.4**	$ 862.7	(18)	**$ 2,144.3**	$ 2,445.3	(12)
Equipment on operating lease	**348.0**	267.7	30	**924.6**	839.3	10
	$ 1,058.4	$ 1,130.4	(6)	**$ 3,068.9**	$ 3,284.6	(7)
New loan and lease unit volume:						
Loans and finance leases	**7,210**	8,380	(14)	**21,880**	24,180	(10)
Equipment on operating lease	**3,290**	2,790	18	**9,040**	8,290	9
	10,500	11,170	(6)	**30,920**	32,470	(5)
Average earning assets:						
U.S. and Canada	**$ 7,505.4**	$ 7,647.8	(2)	**$ 7,464.2**	$ 7,399.5	1
Europe	**2,616.3**	2,511.1	4	**2,682.2**	2,467.1	9
Mexico and Australia	**1,463.6**	1,485.7	(1)	**1,463.8**	1,549.3	(6)
	$11,585.3	$11,644.6	(1)	**$11,610.2**	$11,415.9	2
Average earning assets by product:						
Loans and finance leases	**$ 7,286.8**	$ 7,227.3	1	**$ 7,303.8**	$ 7,218.4	1
Dealer wholesale financing	**1,592.3**	1,871.5	(15)	**1,680.7**	1,729.1	(3)
Equipment on lease and other	**2,706.2**	2,545.8	6	**2,625.7**	2,468.4	6
	$11,585.3	$11,644.6	(1)	**$11,610.2**	$11,415.9	2
Revenues:						
U.S. and Canada	**$ 173.6**	$ 177.5	(2)	**$ 512.4**	$ 507.9	1
Europe	**71.8**	69.9	3	**214.8**	206.7	4
Mexico and Australia	**50.8**	53.6	(5)	**155.8**	164.9	(6)
	$ 296.2	$ 301.0	(2)	**$ 883.0**	$ 879.5	
Revenue by product:						
Loans and finance leases	**$ 92.1**	$ 95.4	(3)	**$ 278.0**	$ 289.7	(4)
Dealer wholesale financing	**13.8**	15.5	(11)	**42.4**	43.2	(2)
Equipment on lease and other	**190.3**	190.1		**562.6**	546.6	3
	$ 296.2	$ 301.0	(2)	**$ 883.0**	$ 879.5	
Income before income taxes	**$ 71.0**	$ 92.9	(24)	**$ 228.6**	$ 272.7	(16)

For the third quarter, new loan and lease volume was $1,058.4 million in 2016 compared to $1,130.4 million in 2015 and for the first nine months was $3,068.9 million in 2016 compared to $3,284.6 million in 2015, primarily due to lower truck deliveries in the U.S. and Canada.

In the third quarter of 2016, PFS finance market share on new PACCAR truck sales was 27.3% compared to 24.9% in the third quarter of 2015. In the first nine months of 2016, PFS finance market share on new PACCAR truck sales was 25.7% compared to 25.3% in the first nine months of 2015.

In the third quarter, PFS revenue decreased to $296.2 million in 2016 from $301.0 million in 2015, primarily due to the effects of translating weaker foreign currencies to the U.S. dollar and lower revenues from used truck sales, partially offset by higher revenues from an increase in average operating lease assets. In the first nine months, PFS revenue increased to $883.0 million in 2016 from $879.5 million in 2015, primarily due to higher average earning asset balances, partially offset by the effects of translating weaker foreign currencies to the U.S. dollar and lower yields. The effects of currency translation lowered PFS revenues by $5.5 million and $19.2 million for the third quarter and first nine months of 2016, respectively.

In the third quarter, PFS income before income taxes decreased to $71.0 million in 2016 from $92.9 million in 2015, primarily due to lower results on returned lease assets, higher borrowing rates, a higher provision for losses on receivables, and the effects of translating weaker foreign currencies to the U.S. dollar. For the first nine months, PFS income before income taxes decreased to $228.6 million in 2016 from $272.7 million in 2015, primarily due to lower results on returned lease assets, lower yields and higher borrowing rates, a higher provision for losses on receivables and the effects of translating weaker foreign currencies to the U.S. dollar, partially offset by lower average earning assets. The currency exchange impact lowered PFS income before income taxes by $2.0 million and $7.1 million for the third quarter and first nine months of 2016, respectively.

The major factors for the changes in interest and fees, interest and other borrowing expenses and finance margin between the three months ended September 30, 2016 and 2015 are outlined below:

($ in millions)	Interest and Fees	Interest and Other Borrowing Expenses	Finance Margin
Three Months Ended September 30, 2015	$ 110.9	$ 29.2	$ 81.7
(Decrease) increase			
Average finance receivables	(3.0)		(3.0)
Average debt balances		(.6)	.6
Yields	.9		.9
Borrowing rates		4.3	(4.3)
Currency translation	(2.9)	(.7)	(2.2)
Total (decrease) increase	(5.0)	3.0	(8.0)
Three Months Ended September 30, 2016	$ 105.9	$ 32.2	$ 73.7

- Average finance receivables decreased $239.2 million (excluding foreign exchange effects) in the third quarter of 2016 as a result of lower dealer wholesale financing, partially offset by loans and finance leases and retail portfolio volume exceeding collections.
- Average debt balances decreased $171.2 million (excluding foreign exchange effects) in the third quarter of 2016. The lower average debt balances reflect lower funding for a lower average earning asset portfolio (portfolio includes loans, finance leases, wholesale and equipment on operating lease).
- Higher portfolio yields (4.9% in 2016 compared to 4.8% in 2015) increased interest and fees by $.9 million.
- Higher borrowing rates (1.5% in 2016 compared to 1.3% in 2015) were primarily due to higher debt market rates in North America, partially offset by lower debt market rates in Europe.
- The currency translation effects reflect a decline in the value of foreign currencies relative to the U.S. dollar.

The major factors for the changes in interest and fees, interest and other borrowing expenses and finance margin between the nine months ended September 30, 2016 and 2015 are outlined below:

($ in millions)	Interest and Fees	Interest and Other Borrowing Expenses	Finance Margin
Nine Months Ended September 30, 2015	**$ 332.9**	**$ 87.9**	**$ 245.0**
Increase (decrease)			
Average finance receivables	**3.3**		**3.3**
Average debt balances		**.7**	**(.7)**
Yields	**(5.0)**		**(5.0)**
Borrowing rates		**9.7**	**(9.7)**
Currency translation	**(10.8)**	**(3.2)**	**(7.6)**
Total (decrease) increase	**(12.5)**	**7.2**	**(19.7)**
Nine Months Ended September 30, 2016	**$ 320.4**	**$ 95.1**	**$ 225.3**

- Average finance receivables increased $33.4 million (excluding foreign exchange effects) in the first nine months of 2016 as a result of retail portfolio new business volume exceeding collections.
- Average debt balances increased $63.7 million (excluding foreign exchange effects) in the first nine months of 2016. The higher average debt balances reflect a higher level of funding for a higher average earning asset portfolio (portfolio includes loans, finance leases, wholesale and equipment on operating lease).
- Lower portfolio yields (4.9% in 2016 compared to 5.0% in 2015) decreased interest and fees by $5.0 million. The lower portfolio yields reflect higher lending volumes in Europe at lower relative market rates.
- Higher borrowing rates (1.5% in 2016 compared to 1.4% in 2015) were primarily due to higher debt market rates in North America, partially offset by lower debt market rates in Europe.
- The currency translation effects reflect a decline in the value of foreign currencies relative to the U.S. dollar.

The following table summarizes operating lease, rental and other revenues and depreciation and other expenses:

($ in millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	**2016**	2015
Operating lease and rental revenues	**$ 180.2**	$ 174.0	**$ 534.9**	$ 516.1
Used truck sales and other	**10.1**	16.1	**27.7**	30.5
Operating lease, rental and other revenues	**$ 190.3**	$ 190.1	**$ 562.6**	$ 546.6
Depreciation of operating lease equipment	**$ 130.4**	$ 118.2	**$ 378.1**	$ 346.0
Vehicle operating expenses	**22.2**	21.6	**67.2**	69.2
Cost of used truck sales and other	**10.0**	12.7	**24.6**	23.6
Depreciation and other expenses	**$ 162.6**	$ 152.5	**$ 469.9**	$ 438.8

The major factors for the changes in operating lease, rental and other revenues, depreciation and other expenses and lease margin between the three months ended September 30, 2016 and 2015 are outlined below:

($ in millions)	Operating Lease, Rental and Other Revenues	Depreciation and Other Expenses	Lease Margin
Three Months Ended September 30, 2015	$ 190.1	$ 152.5	$ 37.6
(Decrease) increase			
Used truck sales	(5.9)	(5.4)	(.5)
Results on returned lease assets		7.3	(7.3)
Average operating lease assets	6.9	5.6	1.3
Revenue and cost per asset	1.5	1.8	(.3)
Currency translation and other	(2.3)	.8	(3.1)
Total increase (decrease)	.2	10.1	(9.9)
Three Months Ended September 30, 2016	$ 190.3	$ 162.6	$ 27.7

- A lower volume of used truck sales and lower price realization decreased operating lease, rental and other revenues by $5.9 million. Depreciation and other expenses decreased by $5.4 million due to lower volume, partially offset by impairments of used trucks reflecting lower used truck prices.
- Results on returned lease assets increased depreciation and other expenses by $7.3 million, primarily due to gains on sales of returned lease units in 2015 versus losses in 2016.
- Average operating lease assets increased $157.4 million (excluding foreign exchange effects), which increased revenues by $6.9 million and related depreciation and other expenses by $5.6 million.
- Revenue per asset increased $1.5 million primarily due to higher rental rates in Europe, partially offset by lower rental utilization. Cost per asset increased $1.8 million primarily due to higher depreciation expense in Europe, partially offset by lower vehicle and maintenance expenses.
- The currency translation effects reflect a decline in the value of foreign currencies relative to the U.S. dollar.

The major factors for the changes in operating lease, rental and other revenues, depreciation and other expenses and lease margin between the nine months ended September 30, 2016 and 2015 are outlined below:

($ in millions)	Operating Lease, Rental and Other Revenues	Depreciation and Other Expenses	Lease Margin
Nine Months Ended September 30, 2015	$ 546.6	$ 438.8	$ 107.8
(Decrease) increase			
Used truck sales	(3.1)	(1.6)	(1.5)
Results on returned lease assets		14.7	(14.7)
Average operating lease assets	17.8	14.4	3.4
Revenue and cost per asset	8.7	7.2	1.5
Currency translation and other	(7.4)	(3.6)	(3.8)
Total increase (decrease)	16.0	31.1	(15.1)
Nine Months Ended September 30, 2016	$ 562.6	$ 469.9	$ 92.7

- A lower volume of used truck sales and lower price realization decreased operating lease, rental and other revenues by $3.1 million. Depreciation and other expenses decreased by $1.6 million due to lower volume, partially offset by impairments of used trucks reflecting lower used truck prices.
- Results on returned lease assets increased depreciation and other expenses by $14.7 million, primarily due to gains on sales of returned lease units in 2015 versus losses in 2016.
- Average operating lease assets increased $156.3 million (excluding foreign exchange effects), which increased revenues by $17.8 million and related depreciation and other expenses by $14.4 million.
- Revenue per asset increased $8.7 million primarily due to higher rental rates in Europe, partially offset by lower rental utilization and lower fuel revenue. Cost per asset increased $7.2 million primarily due to higher depreciation expense in Europe, partially offset by lower vehicle and maintenance expenses and lower fuel expense.
- The currency translation effects reflect a decline in the value of foreign currencies relative to the U.S. dollar.

The following table summarizes the provision for losses on receivables and net charge-offs:

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
($ in millions)	Provision For Losses on Receivables	Net Charge-Offs	Provision For Losses on Receivables	Net Charge-Offs
U.S. and Canada	$ 3.9	$ 3.8	$ 10.2	$ 11.2
Europe	.2	.4	1.0	.9
Mexico and Australia	1.0	.7	3.3	2.7
	$ 5.1	$ 4.9	$ 14.5	$ 14.8

($ in millions)	Three Months Ended September 30, 2015 Provision For Losses on Receivables	Three Months Ended September 30, 2015 Net Charge-Offs	Nine Months Ended September 30, 2015 Provision For Losses on Receivables	Nine Months Ended September 30, 2015 Net Charge-Offs
U.S. and Canada	$ 1.0	$ .9	$ 4.3	$ 2.2
Europe	.4	.3	1.6	1.6
Mexico and Australia	1.0	1.6	2.8	3.4
	$ 2.4	$ 2.8	$ 8.7	$ 7.2

The provision for losses on receivables was $5.1 million for the third quarter of 2016, an increase of $2.7 million compared to the third quarter of 2015, reflecting higher retail portfolio balances in the U.S. and Canada and Europe, partially offset by improved portfolio performance in Europe. For the first nine months of 2016, the provision for losses on receivables was $14.5 million, an increase of $5.8 million compared to the first nine months of 2015, reflecting higher losses in the oil and gas sector in the U.S. and Canada, higher retail portfolio balances in the U.S. and Canada and Europe, partially offset by improved portfolio performance in Europe.

The Company modifies loans and finance leases as a normal part of its Financial Services operations. The Company may modify loans and finance leases for commercial reasons or for credit reasons. Modifications for commercial reasons are changes to contract terms for customers that are not considered to be in financial difficulty. Insignificant delays are modifications extending terms up to three months for customers experiencing some short-term financial stress, but not considered to be in financial difficulty. Modifications for credit reasons are changes to contract terms for customers considered to be in financial difficulty. The Company's modifications typically result in granting more time to pay the contractual amounts owed and charging a fee and interest for the term of the modification. When considering whether to modify customer accounts for credit reasons, the Company evaluates the creditworthiness of the customers and modifies those accounts that the Company considers likely to perform under the modified terms. When the Company modifies loans and finance leases for credit reasons and grants a concession, the modifications are classified as troubled debt restructurings (TDR).

The post-modification balance of accounts modified during the nine months ended September 30, 2016 and 2015 are summarized below:

($ in millions) Nine Months Ended September 30,	**2016** Recorded Investment	**2016** % of Total Portfolio*	2015 Recorded Investment	2015 % of Total Portfolio*
Commercial	**$ 186.8**	**3.4%**	$ 119.9	2.2%
Insignificant delay	**80.1**	**1.5%**	49.3	.9%
Credit – no concession	**45.9**	**.8%**	30.9	.6%
Credit – TDR	**26.7**	**.5%**	13.4	.2%
	$ 339.5	**6.2%**	$ 213.5	3.9%

* Recorded investment immediately after modification as a percentage of ending retail portfolio, on an annualized basis.

Modification activity increased in the first nine months of 2016 compared to the first nine months of 2015. The increase in modifications for commercial reasons primarily reflects a higher volume of refinancings, including a contract modification for one large customer in the U.S. The increase in modifications for insignificant delay reflects more fleet customers requesting payment relief for up to three months. Credit – no concession modifications increased primarily due to extensions granted to two customers in Mexico. Credit – TDR modifications increased mainly due to contract modifications for two large fleet customers in the U.S.

The following table summarizes the Company's 30+ days past due accounts:

	September 30 2016	December 31 2015	September 30 2015
Percentage of retail loan and lease accounts 30+ days past due:			
U.S. and Canada	**.3%**	.3%	.4%
Europe	**.6%**	.7%	.8%
Mexico and Australia	**2.2%**	1.3%	1.8%
Worldwide	**.6%**	.5%	.6%

Accounts 30+ days past due of .6% at September 30, 2016 increased from .5% at December 31, 2015, primarily due to higher past due accounts in Mexico and Australia, partially offset by lower past dues in Europe. The Company continues to focus on maintaining low past due balances.

When the Company modifies a 30+ days past due account, the customer is then generally considered current under the revised contractual terms. The Company modified $2.8 million of accounts worldwide during the third quarter of 2016, $2.6 million during the fourth quarter of 2015 and $5.0 million during the third quarter of 2015 that were 30+ days past due and became current at the time of modification. Had these accounts not been modified and continued to not make payments, the pro forma percentage of retail loan and lease accounts 30+ days past due would have been as follows:

	September 30 2016	December 31 2015	September 30 2015
Pro forma percentage of retail loan and lease accounts 30+ days past due:			
U.S. and Canada	**.3%**	.3%	.4%
Europe	**.6%**	.7%	.8%
Mexico and Australia	**2.5%**	1.6%	2.2%
Worldwide	**.6%**	.6%	.7%

Modifications of accounts in prior quarters that were more than 30 days past due at the time of modification are included in past dues if they were not performing under the modified terms at September 30, 2016, December 31, 2015 and September 30, 2015. The effect on the allowance for credit losses from such modifications was not significant at September 30, 2016, December 31, 2015 and September 30, 2015.

The Company's annualized pre-tax return on average earning assets for Financial Services was 2.4% and 2.6% for the third quarter and the first nine months of 2016, respectively, compared to 3.2% for the same periods in 2015.

Other

Other includes the winch business as well as sales, income and expenses not attributable to a reportable segment, including the EC charge and a portion of corporate expense. Other sales represent less than 1% of consolidated net sales and revenues for both the third quarter and first nine months of 2016 and 2015. Other SG&A declined to $9.6 million for the third quarter of 2016 from $12.3 million for the third quarter of 2015, and for the first nine months, other SG&A decreased to $34.0 million in 2016 from $41.8 million in 2015. The decrease in SG&A for both periods was primarily due to lower salaries and related expenses and lower professional fees.

For the third quarter, other income (loss) before tax was a loss of $7.8 million in 2016 compared to a loss of $8.3 million in 2015. For the first nine months, other income (loss) before tax was a loss of $862.4 million in 2016 compared to a loss of $28.4 million in 2015. The higher loss in the first nine months of 2016 was primarily due to the EC charge and lower pre-tax results from the winch business which has been affected by lower oilfield related business.

Investment income in the third quarter increased to $8.5 million in 2016 from $6.2 million in 2015, primarily due to higher realized gains in 2016. For the first nine months, investment income increased to $20.6 million in 2016 from $16.6 million in 2015, primarily due to higher realized gains and higher average portfolio balances, partially offset by the effects of translating weaker foreign currencies to the U.S. dollar.

Income Taxes

For the third quarter, the effective tax rate declined to 30.0% in 2016 from 31.0% in 2015, primarily due to the mix of income generated in jurisdictions with lower tax rates in 2016 as compared to 2015, partially offset by lower research tax credits in 2016. For the first nine months, the effective tax rate was 67.3% in 2016 compared to 31.6% in 2015, and substantially all of the difference in tax rates was due to the non-deductible expense of $833.0 million for the EC charge in 2016.

($ in millions)	**Three Months Ended September 30**		**Nine Months Ended September 30**	
	2016	2015	**2016**	2015
Domestic income before taxes	**$ 318.5**	$ 437.7	**$ 959.6**	$ 1,311.2
Foreign income (loss) before taxes	**176.4**	186.8	**(248.1)**	527.2
Total income before taxes	**$ 494.9**	$ 624.5	**$ 711.5**	$ 1,838.4
Domestic pre-tax return on revenues	**13.2%**	14.5%	**13.2%**	14.3%
Foreign pre-tax return on revenues	**9.6%**	10.2%	**(4.4)%**	9.5%
Total pre-tax return on revenues	**11.6%**	12.9%	**5.5%**	12.5%

For the third quarter and first nine months of 2016, the decline in income before income taxes and return on revenues for domestic operations was primarily due to lower revenues from truck operations.

For the third quarter of 2016, the decline in income before income taxes and return on revenues for foreign operations was primarily due to lower Parts segment margins and lower Financial Services results. For the first nine months of 2016, the EC charge of $833.0 million resulted in a loss before income taxes and a negative return on revenues for foreign operations. In the first nine months, excluding the EC charge, foreign operations income before income taxes and return on revenues increased primarily due to improved revenues and margins from European truck operations.

LIQUIDITY AND CAPITAL RESOURCES:

($ in millions)	**September 30 2016**	December 31 2015
Cash and cash equivalents	**$ 1,787.9**	$ 2,016.4
Marketable debt securities	**1,078.9**	1,448.1
	$ 2,866.8	$ 3,464.5

The Company’s total cash and marketable debt securities at September 30, 2016 decreased $597.7 million from the balances at December 31, 2015, primarily due to a decrease in marketable debt securities.

The change in cash and cash equivalents is summarized below:

($ in millions) Nine Months Ended September 30,	**2016**	2015
Operating activities:		
Net income	**$ 232.9**	$ 1,256.8
Net income items not affecting cash	**762.3**	673.2
Changes in operating assets and liabilities, net	**495.3**	(78.8)
Net cash provided by operating activities	**1,490.5**	1,851.2
Net cash used in investing activities	**(921.4)**	(1,401.7)
Net cash (used in) provided by financing activities	**(832.0)**	24.9
Effect of exchange rate changes on cash	**34.4**	(85.9)
Net (decrease) increase in cash and cash equivalents	**(228.5)**	388.5
Cash and cash equivalents at beginning of period	**2,016.4**	1,737.6
Cash and cash equivalents at end of period	**$ 1,787.9**	$ 2,126.1

Operating activities: Cash provided by operations decreased by $360.7 million to $1,490.5 million in the first nine months of 2016 from $1,851.2 million in 2015. Lower operating cash flows reflect lower net income of $1,023.9 million in 2016, which includes payment of the $833.0 million EC charge. In addition, there were lower cash inflows of $133.4 million from lower purchases of goods and services exceeding payments in accounts payable and accrued expenses. These outflows were offset by Financial Services segment wholesale receivables of $579.1 million as the first nine months of 2016 was a cash inflow of $211.8 million versus a cash outflow of $367.3 million in 2015. In addition, there was a lower cash outflow for payment of income taxes of $181.1 million.

Investing activities: Cash used in investing activities decreased by $480.3 million to $921.4 million in the first nine months of 2016 from $1,401.7 million in 2015. Lower net cash used in investing activities reflects $586.8 million from marketable debt securities as there was $370.7 million in net proceeds from sales of marketable debt securities in the first nine months of 2016 versus $216.1 million in net purchases of marketable debt securities in 2015. This was partially offset by higher cash used in the acquisitions of equipment for operating leases of $109.1 million and higher payments for property, plant and equipment of $54.5 million.

Financing activities: Cash used in financing activities was $832.0 million for the first nine months of 2016 compared to cash provided by financing activities of $24.9 million in 2015. The Company paid $745.2 million in dividends in the first nine months of 2016 compared to $595.7 million in 2015; the increase of $149.5 million was primarily due to an increase for the 2015 special dividend paid in January 2016. In the first nine months of 2016, the Company issued $1,864.4 million of term debt, repaid term debt of $1,622.6 million and reduced its outstanding commercial paper and short-term bank loans by $283.6 million. In the first nine months of 2015, the Company issued $1,936.5 million of term debt, increased its outstanding commercial paper and short-term bank loans by $7.4 million and repaid term debt of $1,268.8 million. This resulted in cash used in borrowing activities of $41.8 million in the first nine months of 2016, $716.9 million lower than the cash provided by borrowing activities of $675.1 million in 2015.

Credit Lines and Other

The Company has line of credit arrangements of $3.43 billion, of which $3.26 billion were unused at September 30, 2016. Included in these arrangements are $3.0 billion of syndicated bank facilities, of which $1.0 billion expires in June 2017, $1.0 billion expires in June 2020 and $1.0 billion expires in June 2021. The Company intends to replace these credit facilities on or before expiration with facilities of similar amounts and duration. These credit facilities are maintained primarily to provide backup liquidity for commercial paper borrowings and maturing medium-term notes. There were no borrowings under the syndicated bank facilities for the nine months ended September 30, 2016.

On September 23, 2015, PACCAR's Board of Directors approved the repurchase of up to $300.0 million of the Company's common stock, and as of September 30, 2016, $192.6 million of shares have been repurchased pursuant to the 2015 authorization.

Truck, Parts and Other

The Company provides funding for working capital, capital expenditures, R&D, dividends, stock repurchases and other business initiatives and commitments primarily from cash provided by operations. Management expects this method of funding to continue in the future. On July 19, 2016, the EC concluded its investigation of all major European truck manufacturers and reached a settlement with DAF under which the EC imposed a fine on DAF of €752.7 million ($833.0 million) for infringement of European Union competition rules. The fine is not tax deductible. In August 2016, DAF paid the fine.

Investments for property, plant and equipment in the first nine months of 2016 increased to $260.0 million from $180.2 million for the same period of 2015, primarily due to higher investments by DAF in Europe and the construction of a new parts distribution center in Renton, Washington. Over the past decade, the Company's combined investments in worldwide capital projects and R&D totaled $6.05 billion, and have significantly increased the operating capacity and efficiency of its facilities and enhanced the quality and operating efficiency of the Company's premium products.

In 2016, capital investments are expected to be $375 to $400 million and R&D is expected to be $240 to $250 million focused on enhanced aftermarket support, manufacturing facilities and new product development. In 2017, capital investments are expected to be $375 to $425 million, and R&D is expected to be $270 to $300 million. The Company is investing for future growth in PACCAR's integrated powertrain, advanced driver assistance and truck connectivity technologies, and additional capacity and operating efficiency of the Company's manufacturing and parts distribution facilities.

The Company conducts business in certain countries which have been experiencing or may experience significant financial stress, fiscal or political strain and are subject to the corresponding potential for default. The Company routinely monitors its financial exposure to global financial conditions, global counterparties and operating environments. As of September 30, 2016, the Company's exposures in such countries were insignificant.

Financial Services

The Company funds its financial services activities primarily from collections on existing finance receivables and borrowings in the capital markets. The primary sources of borrowings in the capital markets are commercial paper and medium-term notes issued in the public markets and, to a lesser extent, bank loans. An additional source of funds is loans from other PACCAR companies.

The Company issues commercial paper for a portion of its funding in its Financial Services segment. Some of this commercial paper is converted to fixed interest rate debt through the use of interest-rate swaps, which are used to manage interest-rate risk.

In November 2015, the Company's U.S. finance subsidiary, PACCAR Financial Corp. (PFC), filed a shelf registration under the Securities Act of 1933. The total amount of medium-term notes outstanding for PFC as of September 30, 2016 was $4.65 billion. The registration expires in November 2018 and does not limit the principal amount of debt securities that may be issued during that period.

As of September 30, 2016, the Company's European finance subsidiary, PACCAR Financial Europe, had €1,319.7 million available for issuance under a €2.50 billion medium-term note program listed on the Professional Securities Market of the London Stock Exchange. This program replaced an expiring program in the second quarter of 2016 and is renewable annually through the filing of new listing particulars.

In April 2016, PACCAR Financial Mexico registered a 10.00 billion peso medium-term note and commercial paper program with the Comision Nacional Bancaria y de Valores. The registration expires in April 2021 and limits the amount of commercial paper (up to one year) to 5.00 billion pesos. At September 30, 2016, 8.17 billion pesos were available for issuance.

In the event of a future significant disruption in the financial markets, the Company may not be able to issue replacement commercial paper. As a result, the Company is exposed to liquidity risk from the shorter maturity of short-term borrowings paid to lenders compared to the longer timing of receivable collections from customers. The Company believes its cash balances and investments, collections on existing finance receivables, syndicated bank lines and current investment-grade credit ratings of A+/A1 will continue to provide it with sufficient resources and access to capital markets at competitive interest rates and therefore contribute to the Company maintaining its liquidity and financial stability. A decrease in these credit ratings could negatively impact the Company's ability to access capital markets at competitive interest rates and the Company's ability to maintain liquidity and financial stability. PACCAR believes its Financial Services companies will be able to continue funding receivables, servicing debt and paying dividends through internally generated funds, access to public and private debt markets and lines of credit.

RECONCILIATION OF NON-GAAP TO GAAP FINANCIAL MEASURES:

This Form 10-Q includes "adjusted net income (non-GAAP)" and "adjusted net income per diluted share (non-GAAP)", which are financial measures that are not in accordance with U.S. generally accepted accounting principles ("GAAP"), since they exclude the non-recurring EC charge. These measures differ from the most directly comparable measures calculated in accordance with GAAP and may not be comparable to similarly titled non-GAAP financial measures used by other companies.

Management utilizes these non-GAAP measures to evaluate the Company's performance and believes these measures allow investors and management to evaluate operating trends by excluding a significant non-recurring charge that is not representative of underlying operating trends.

Reconciliations of adjusted net income (non-GAAP) and adjusted net income per diluted share (non-GAAP) to the most directly comparable GAAP measures are as follows:

(in millions)	Nine Months Ended September 30, 2016
Adjusted net income (non-GAAP)	$ 1,065.9
Non-recurring European Commission charge	(833.0)
Net income	$ 232.9

	Nine Months Ended September 30, 2016
Per diluted share:	
Adjusted net income (non-GAAP)	$ 3.03
Non-recurring European Commission charge	(2.37)
Net income	$ .66

FORWARD-LOOKING STATEMENTS:

This report contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements relating to future results of operations or financial position and any other statement that does not relate to any historical or current fact. Such statements are based on currently available operating, financial and other information and are subject to risks and uncertainties that may affect actual results. Risks and uncertainties include, but are not limited to: a significant decline in industry sales; competitive pressures; reduced market share; reduced availability of or higher prices for fuel; increased safety, emissions, or other regulations resulting in higher costs and/or sales restrictions; currency or commodity price fluctuations; lower used truck prices; insufficient or under-utilization of manufacturing capacity; supplier interruptions; insufficient liquidity in the capital markets; fluctuations in interest rates; changes in the levels of the Financial Services segment new business volume due to unit fluctuations in new PACCAR truck sales or reduced market shares; changes affecting the profitability of truck owners and operators; price changes impacting truck sales prices and residual values; insufficient supplier capacity or access to raw materials; labor disruptions; shortages of commercial truck drivers; increased warranty costs or litigation; or legislative and governmental regulations. A more detailed description of these and other risks is included under the heading Part 1, Item 1A, “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in the Company's market risk during the nine months ended September 30, 2016. For additional information, refer to Item 7A as presented in the 2015 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Principal Executive Officer and Principal Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the period covered by this report. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

There have been no significant changes in the Company's internal controls over financial reporting that occurred during the fiscal quarter covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

For Items 3, 4 and 5, there was no reportable information for the nine months ended September 30, 2016.

ITEM 1. LEGAL PROCEEDINGS

The Company and its subsidiaries are parties to various lawsuits incidental to the ordinary course of business. Management believes that the disposition of such lawsuits will not materially affect the Company's business or financial condition.

ITEM 1A. RISK FACTORS

For information regarding risk factors, refer to Part I, Item 1A as presented in the 2015 Annual Report on Form 10-K. Except for the item described below, there have been no other material changes in the Company's risk factors during the nine months ended September 30, 2016.

Product Liability, Litigation and Regulatory Actions. Following the recent EC settlement, claims and a petition to certify a claim as a class action have been filed against DAF and other truck manufacturers. Others may bring EC-related claims against the Company or its subsidiaries. While the Company believes it has meritorious defenses, such claims will likely take a significant period of time to resolve. An adverse outcome of such proceedings could have a material impact on the Company's results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

For Items 2(a) and (b), there was no reportable information for the nine months ended September 30, 2016.

(c) Issuer purchases of equity securities.

On September 23, 2015, the Company's Board of Directors approved a plan to repurchase up to $300 million of the Company's outstanding common stock. As of September 30, 2016, the Company has repurchased 3.8 million shares for $192.6 million under this plan. There were no repurchases made under this plan during the third quarter of 2016.

ITEM 6. EXHIBITS

Any exhibits filed herewith are listed in the accompanying index to exhibits.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PACCAR Inc
(Registrant)

Date November 4, 2016

By /s/ M. T. Barkley
M. T. Barkley
Senior Vice President and Controller
(Authorized Officer and Chief Accounting Officer)

PACCAR Inc – Form 10-Q

INDEX TO EXHIBITS

Exhibit (in order of assigned index numbers)

Exhibit Number		Exhibit Description	Form	Date of First Filing	Exhibit Number	File Number
(3)	(i)	Articles of Incorporation:				
		Amended and Restated Certificate of Incorporation of PACCAR Inc	10-Q	May 4, 2016	3(i)	001-14817
	(ii)	Bylaws:				
		Fourth Amended and Restated Bylaws of PACCAR Inc	8-K	April 29, 2016	3(ii)	001-14817
(4)		Instruments defining the rights of security holders, including indentures**:				
		(a) Indenture for Senior Debt Securities dated as of November 20, 2009 between PACCAR Financial Corp. and The Bank of New York Mellon Trust Company, N.A.	S-3	November 20, 2009	4.1	333-163273
		(b) Forms of Medium-Term Note, Series M (PACCAR Financial Corp.)	S-3	November 20, 2009	4.2 and 4.3	333-163273
		(c) Forms of Medium-Term Note, Series N (PACCAR Financial Corp.)	S-3	November 7, 2012	4.2 and 4.3	333-184808
		(d) Forms of Medium-Term Note, Series O (PACCAR Financial Corp.)	S-3	November 5, 2015	4.2 and 4.3	333-207838
		(e) Form of InterNotes, Series C (PACCAR Financial Corp.)	S-3	November 5, 2015	4.4	333-207838
		(f) Terms and Conditions of the Notes applicable to the €1,500,000 Medium Term Note Programme of PACCAR Financial Europe B.V. prior to May 9, 2014	10-Q	November 7, 2013	4(i)	001-14817
		(g) Terms and Conditions of the Notes applicable to the €1,500,000 Medium Term Note Programme of PACCAR Financial Europe B.V. set forth in the Base Prospectus dated May 9, 2014	10-Q	November 6, 2014	4(h)	001-14817
		(h) Terms and Conditions of the Notes applicable to the €1,500,000 Medium Term Note Programme of PACCAR Financial Europe B.V. set forth in the Listing Particulars dated May 11, 2015	10-Q	August 6, 2015	4(g)	001-14817

** Pursuant to the Instructions to Exhibits, certain instruments defining the rights of holders of long-term debt securities of the Company and its wholly owned subsidiaries are not filed because the total amount of securities authorized under any such instrument does not exceed 10 percent of the Company's total assets. The Company will file copies of such instruments upon request of the Commission.

Exhibit Number		Exhibit Description	Form	Date of First Filing	Exhibit Number	File Number
(10)		Material Contracts:				
	(a)	PACCAR Inc Amended and Restated Supplemental Retirement Plan	10-K	February 27, 2009	10(a)	001-14817
	(b)	Amended and Restated Deferred Compensation Plan	10-Q	May 5, 2012	10(b)	001-14817
	(c)	Deferred Incentive Compensation Plan (Amended and Restated as of December 31, 2004)	10-K	February 27, 2006	10(b)	001-14817
	(d)	Second Amended and Restated PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-Employee Directors	DEF14A	March 14, 2014	10(v)	001-14817
	(e)	PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-Employee Directors, Form of Restricted Stock Agreement for Non-Employee Directors	10-K	February 27, 2009	10(e)	001-14817
	(f)	PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-Employee Directors, Form of Deferred Restricted Stock Unit Agreement for Non-Employee Directors	8-K	December 10, 2007	99.3	001-14817
	(g)	Amendment to Compensatory Arrangement with Non-Employee Directors	10-K	February 26, 2015	10(g)	001-14817
	(h)	PACCAR Inc Senior Executive Yearly Incentive Compensation Plan (effective 01/01/16)	10-Q	August 6, 2015	10(i)	001-14817
	(i)	PACCAR Inc Long Term Incentive Plan	8-K	September 19, 2016	10(j)	001-14817
	(j)	PACCAR Inc Long Term Incentive Plan, Nonstatutory Stock Option Agreement and Form of Option Grant Agreement	8-K	January 25, 2005	99.1	001-14817
	(k)	Amendment One to PACCAR Inc Long Term Incentive Plan, Nonstatutory Stock Option Agreement and Form of Option Grant Agreement	10-Q	August 7, 2013	10(k)	001-14817
	(l)	PACCAR Inc Long Term Incentive Plan, 2014 Form of Nonstatutory Stock Option Agreement	10-Q	August 7, 2013	10(l)	001-14817

Exhibit Number	Exhibit Description		Form	Date of First Filing	Exhibit Number	File Number
	(m)	PACCAR Inc Long Term Incentive Plan, Form of Restricted Stock Award Agreement	8-K	February 5, 2007	99.1	001-14817
	(n)	PACCAR Inc Long Term Incentive Plan, 2010 Form of Restricted Stock Award Agreement	10-K	February 26, 2010	10(m)	001-14817
	(o)	PACCAR Inc Long Term Incentive Plan, Alternate Form of Restricted Stock Award Agreement	10-K	March 1, 2011	10(n)	001-14817
	(p)	PACCAR Inc Long Term Incentive Plan, 2016 Restricted Stock Award Agreement	10-Q	August 6, 2015	10(q)	001-14817
	(q)	PACCAR Inc Savings Investment Plan, Amendment and Restatement effective September 1, 2016*				
	(r)	Memorandum of Understanding, dated as of May 11, 2007, by and among PACCAR Engine Company, the State of Mississippi and certain state and local supporting governmental entities	8-K	May 16, 2007	10.1	001-14817
	(s)	Letter Waiver Dated as of July 22, 2008 amending the Memorandum of Understanding, dated as of May 11, 2007, by and among PACCAR Engine Company, the State of Mississippi and certain state and local supporting governmental entities	10-Q	October 27, 2008	10(o)	001-14817
	(t)	Second Amendment to Memorandum of Understanding dated as of September 26, 2013, by and among PACCAR Engine Company, the Mississippi Development Authority and the Mississippi Major Economic Impact Authority	10-Q	November 7, 2013	10(u)	001-14817
	(u)	Second Amended and Restated PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-Employee Directors, Form of Amended Deferred Restricted Stock Unit Grant Agreement	10-K	February 26, 2015	10(t)	001-14817

Exhibit Number		Exhibit Description	Form	Date of First Filing	Exhibit Number	File Number
	(v)	Second Amended and Restated PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-Employee Directors, Form of Amended Restricted Stock Grant Agreement	10-K	February 26, 2015	10(u)	001-14817
(31)		Rule 13a-14(a)/15d-14(a) Certifications:				
	(a)	Certification of Principal Executive Officer*				
	(b)	Certification of Principal Financial Officer*				
(32)		Section 1350 Certifications:				
		Certification pursuant to rule 13a-14(b) and section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. section 1350)*				
(101.INS)		XBRL Instance Document*				
(101.SCH)		XBRL Taxonomy Extension Schema Document*				
(101.CAL)		XBRL Taxonomy Extension Calculation Linkbase Document*				
(101.DEF)		XBRL Taxonomy Extension Definition Linkbase Document*				
(101.LAB)		XBRL Taxonomy Extension Label Linkbase Document*				
(101.PRE)		XBRL Taxonomy Extension Presentation Linkbase Document*				

* filed herewith

Exhibit 10(q)

PACCAR INC SAVINGS INVESTMENT PLAN

Amendment and Restatement Effective September 1, 2016

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PACCAR INC SAVINGS INVESTMENT PLAN

(As Amended and Restated Effective September 1, 2016)

Effective January 1, 1955, Pacific Car and Foundry Company, the corporate predecessor of PACCAR Inc (a Delaware corporation), adopted the Pacific Car and Foundry Company Profit Sharing Plan and executed a Trust Agreement to provide profit-sharing benefits for its salaried employees.

The Plan has been subsequently amended and restated and has been renamed the “PACCAR Inc Savings Investment Plan.” Effective April 1, 2005, PACCAR Inc amended and restated the Plan to provide that a portion of the Plan will constitute an employee stock ownership plan within the meaning of IRC section 4975(e)(7). Effective January 1, 2006, PACCAR Inc amended and restated the Plan to comply with final regulations under IRC section 401(k) and to make certain other amendments. Effective January 1, 2007, PACCAR Inc further amended and restated the Plan to incorporate amendments requested by the Internal Revenue Service in its October 23, 2008 determination letter for the Plan. Effective January 1, 2009, PACCAR Inc amended and restated the Plan to comply with the Pension Protection Act of 2006 and to make certain other amendments. Effective September 1, 2016, PACCAR Inc amended and restated the Plan to incorporate previously adopted amendments and to make certain other amendments. Certain provisions, which are specifically identified, have a different effective date.

ARTICLE 1

PURPOSE AND SCOPE

1.1 Purpose of Plan

The purposes of this amended and restated Plan are:

(a) To encourage systematic savings and investment by Eligible Employees as a means of building financial security;

(b) To increase the identification of Eligible Employees with the Company’s financial success;

(c) To provide Eligible Employees with a flexible savings and investment program enabling them to make decisions concerning the rate of return and relative risk of the investments made for their Accounts, as their personal or economic conditions change; and

(d) To offer additional inducements which will attract and retain Eligible Employees with the knowledge and skills necessary for the Company’s success.

The Plan provides for contributions to be made by the Company to aid in accomplishing these purposes.

The Plan and the Trust Agreement are intended to meet the requirements of IRC sections 401(a), 401(k) and 501(a). The assets of the Plan are held in trust and are invested for the exclusive purpose of providing benefits to Members of the Plan and their Beneficiaries.

The Plan is intended to qualify as an eligible individual account plan under section 407(d)(3) of ERISA, which is permitted to acquire and hold any amount of qualifying employer securities, and a portion of the Plan is intended to qualify as an employee stock ownership plan under IRC section 4975(e)(7), which portion is designed to invest primarily in PACCAR Stock.

1.2 Scope of Plan

The Plan, as set forth herein, applies to Members who are in employment as Employees on or after September 1, 2016. The rights and benefits, if any, of a former Employee shall be determined in accordance with the provisions of the Plan as in effect on the date when his employment terminated.

ARTICLE 2

DEFINITIONS AND CONSTRUCTION

2.1 General Definitions

The following words and phrases when used herein shall have the following meanings, unless the context otherwise requires:

(a) "Accounts" means a Member's Employee, Salary Deferral and Company Contributions Accounts (to the extent applicable).

(b) "Aggregate 401(k) Contributions" means, for any Plan Year, the sum of the following: (1) the Member's Salary Deferrals for the Plan Year; and (2) the Company Contributions allocated to the Member's Accounts as of a date within the Plan Year, to the extent that such Company Contributions are aggregated with Salary Deferrals pursuant to Section 4.10. The foregoing Paragraph (1) to the contrary notwithstanding, Aggregate 401(k) Contributions shall not include Age 50 Catch-Up Deferrals and the Excess Deferrals of a Nonhighly Compensated Employee that are refunded to such Nonhighly Compensated Employee pursuant to Section 4.5, provided that such Excess Deferrals are solely attributable to elective deferrals (within the meaning of section 402(g)(3) of the IRC) under a plan or plans (including the Plan) maintained by PACCAR Inc or any Subsidiary (as defined in Section 2.1(mm) without regard to the last sentence thereof).

(c) "Aggregate 401(m) Contributions" means, for any Plan Year, the sum of the following: (1) the Company Contributions allocated to the Member's Accounts as of a date within the Plan Year; and (2) the Member's Salary Deferrals for the Plan Year, to the extent that such Salary Deferrals are aggregated with Company Contributions pursuant to Section 5.7.

(d) “Beneficiary” means a person designated pursuant to Section 8.9(c) who is entitled to receive all or part of a Member’s Benefit under the Plan in the event of such Member’s death prior to the total distribution of such Benefit.

(e) “Benefit” means the nonforfeitable balance in a Member’s Accounts (reduced by the amount of any loan balance that remains outstanding under Article 9 at the time such Benefit is paid or at the time of the Member’s death, whichever is earlier, and reduced by any prior distribution to the Member) which is distributable to such Member under the Plan, determined pursuant to Article 8.

(f) “Company” means (1) PACCAR Inc and (2) all of its Subsidiaries which have been designated to participate in the Plan by PACCAR Inc and which have accepted such designation in writing, while such designation is in effect.

(g) “Company Contributions” means amounts contributed to the Plan by the Company pursuant to Article 5.

(h) “Company Contributions Account” means the account to which is credited a Member’s share of Company Contributions pursuant to Article 5, as more specifically described in Article 7.

(i) “Compensation” means “wages” paid to a Member by the Company while such Member is an Eligible Employee, and includes the amounts described in section 3401(a) of the IRC for purposes of income tax withholding at the source, but determined:

(1) Without regard to any rules that limit the remuneration included in “wages” based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in section 3401(a)(2) of the IRC);

(2) By including elective deferrals excludable from the Member’s gross income under section 125, section 132(f)(4) or section 402(e)(3) of the IRC and made to a plan maintained by the Company, including amounts contributed to the Plan as Salary Deferrals;

(3) By excluding reimbursements or other expense allowances (such as, for example, hardship allowances, currency allowances, housing allowances, education allowances, car allowances, tuition reimbursement, tax equalization payments to relocated Employees or Employees on foreign service, cost-of-living allowances to Employees on foreign service), fringe benefits (cash and non-cash), moving expenses, deferred compensation, payments received under an extended or long-term disability plan maintained by the Company, welfare benefits, payments received under the Company’s Long Term Incentive Plan or any similar plan and amounts realized from the exercise, sale, exchange or other disposition of a stock option or stock appreciation right; and

(4) By excluding amounts in excess of the dollar amount set forth in section 401(a)(17)(A) of the IRC, as adjusted by the Commissioner of the Internal Revenue Service to reflect increases in the cost-of-living in accordance with section 401(a)(17)(B). If the Plan Year is less than 12 consecutive months, the compensation limit shall be prorated accordingly. With respect to Salary Deferrals, the indexed compensation limit shall be applied as follows: the percentage deferral elected by the Member under Section 4.1 shall apply to his or her entire Compensation for the payroll period (even if on an annualized basis Compensation would exceed the indexed compensation limit, provided, however, that aggregate Salary Deferrals for the Plan Year shall not exceed the lesser of (i) the dollar limitation under section 402(g) of the IRC (described in Section 4.5) or (ii) the dollar amount determined by multiplying the indexed compensation limit by the maximum deferral percentage permitted under Section 4.1.

(j) "Eligible Employee" means any Employee of the Company who is receiving Compensation, as defined in Section 2.1(i). "Eligible Employee" does not include (1) any individual whose employment is covered by a collective-bargaining agreement (unless the collective-bargaining agreement expressly provides for the individual's participation in the Plan), (2) any individual who is neither a resident nor citizen of the United States, (3) any "leased employee" (within the meaning of section 414(n) of the IRC) or any individual who would be a leased employee but for the period-of-service requirement under section 414(n) of the IRC, (4) any individual who is not classified by the Company as an Employee (but, for example, is classified as an "independent contractor") even if such individual is later determined to be an Employee, and (5) any individual who is subject to a written agreement that provides that such individual shall not be eligible to participate in the Plan. If, during any period, the Company has not treated an individual as an Employee and, for that reason, has not withheld employment taxes with respect to that individual, then that individual shall not be an Eligible Employee for that period, even in the event that the individual is determined, retroactively, to have been an Employee during all or any portion of that period.

(k) "Employee" means any individual who (1) is a common-law employee of PACCAR Inc or any of its Subsidiaries under the customary employer-employee relationship or (2) is, with respect to PACCAR Inc or any of its Subsidiaries, a "leased employee" (within the meaning of section 414(n) of the IRC).

(l) "Employee Accounts" means the account to which a Member's Member Contributions were credited, as further described in Section 7.1(c), and which is adjusted for any distributions and withdrawals by the Member.

(m) "ERISA" means the Employee Retirement Income Security Act of 1974 (P.L. 93-406) and includes subsequent amendments of such Act. Reference to a section of ERISA shall include such section and any comparable section of any future legislation amending, supplementing or superseding such section.

(n) "Excess Aggregate Contributions" means the amount by which the Aggregate 401(m) Contributions of Highly Compensated Employees are reduced pursuant to Section 5.6.

(o) "Excess Contributions" means the amount by which the Aggregate 401(k) Contributions of Highly Compensated Employees are reduced pursuant to Section 4.9.

(p) "Excess Deferrals" means the amount of a Member's Salary Deferrals and elective deferrals (within the meaning of section 402(g)(3) of the IRC), other than Age 50 Catch-Up Deferrals, that exceed the limits set forth in Section 4.5.

(q) "Fiduciary" means a person having specific fiduciary responsibilities for Plan or Trust Fund administration, as further described in Article 12.

(r) "Highly Compensated Employee" means any active Employee who:

(1) Was a five-percent owner of PACCAR stock (as defined in Section 416 of the IRC taking into account the attribution rules as defined in Section 318(a) of the IRC) at any time during the Plan Year or the preceding Plan Year; or

(2) For the preceding Plan Year:

(i) Received Total Compensation from PACCAR Inc and any Subsidiary (as defined in Section 2.1 (mm) without regard to the last sentence thereof) of more than the dollar amount set forth in section 414(q) of the IRC (or such larger amount as may be provided on account of cost of living adjustments pursuant to sections 414(q) and 415(d) of the IRC); and

(ii) Provided the Company elects to apply this rule in accordance with the consistency and other requirements in regulations, was a member of the Top-Paid Group.

The term "Highly Compensated Employee" shall also include a former Employee who separated from service (or was deemed to have separated) prior to the determination year, performs no service for PACCAR Inc or any Subsidiary (as defined in Section 2.1(mm) without regard to the last sentence thereof) during the determination year, and was a Highly Compensated Employee as an active Employee for either the separation year or any determination year ending on or after the Employee's 55th birthday.

The determination of who is a Highly Compensated Employee, including the determinations of the number and identity of Employees in the Top-Paid Group, will be made in accordance with section 414(q) of the IRC and regulations thereunder.

(s) "Investment Options" means with respect to any Plan Year or portion of a Plan Year, the investment media selected by the Company and established under the Trust Fund for investment of one or more types of contributions under the Plan.

(t) "Investment Manager" means any person (other than the Trustee appointed pursuant to Article 6 and the Company):

(1) Who has the power to manage, acquire or dispose of any assets of the Plan;

(2) Who is (i) registered as an investment adviser under the Investment Advisers Act of 1940; (ii) a bank, as defined in such Act; or (iii) an insurance company qualified to perform services described in (1) above under the laws of more than one state; and

(3) Who has acknowledged in writing that he (it) is a Fiduciary with respect to the Plan.

(u) "IRC" means the United States Internal Revenue Code of 1986 and includes subsequent amendments of such Code. Reference to a section of the IRC shall include such section and any comparable section of any future legislation amending, supplementing or superseding such section

(v) "Layoff" means one of the following types of layoff for lack of work: (1) layoff due to the closure of a plant or other facility, (2) layoff due to job elimination on account of technological change, change in business focus or similar change, without reassignment of duties to another position (all as determined by the Company), (3) layoff due to a general or limited manpower reduction program mandated by the Company or (4) layoff due to the sale or other transfer of all or substantially all of the assets of a division, facility or line of business to a buyer other than a Subsidiary.

(w) "Member" means an individual who is included in Plan membership pursuant to Article 3. "Member" includes a Restricted Member, unless the Plan otherwise provides or the context otherwise requires.

(x) "Member Contributions" means any amounts contributed to the Plan by a Member prior to February 1, 1983.

(y) "Nonhighly Compensated Employee" for any Plan Year means any active Employee who is not a Highly Compensated Employee.

(z) "PACCAR Stock" means the common stock of PACCAR Inc or any of its Subsidiaries which is readily tradable on an established securities market.

(aa) "PACCAR Stock Fund" is described in Section 6.2.

(bb) Period of Service

An Employee's "Period of Service" shall commence on his Employment Date or Reemployment Date (as the case may be) and shall end when he quits, retires, is discharged, or dies. In determining whether an Employee has completed a 12-month Period of Service, the following rules shall apply:

(1) Bridging Rule

In the case of an Employee who quit, retired or was discharged, his Period of Service shall include the period following such quit, retirement or discharge, if he is rehired as an Employee within 12 months after the date when he first became absent from active employment (whether by reason of such quit, retirement or discharge or for any other reason).

(2) Aggregation Method

In the case of a reemployed Employee, all of his separate Periods of Service shall be aggregated and treated as a single continuous Period of Service. When partial months are aggregated, 30 days shall be deemed to equal one full month.

(3) Service Records; Additional Credit

An Employee's Period of Service shall be determined by the Company on the basis of employment records or on such other reasonable and nondiscriminatory basis as it may adopt. The Company, pursuant to its administrative rules, may recognize as a Period of Service any period of time not otherwise described in this Section, subject to such conditions and limitations as it may adopt.

(4) Definitions

As used in this Section, the following words and phrases shall have the following meanings:

(A) "Employment Date" means the date on which the Employee's active employment as an Employee commences.

(B) "Reemployment Date" means the date on which the Employee's active employment as an Employee recommences following an absence which is not included in the Employee's aggregate Period of Service under (a) above.

(cc) "Plan" means this PACCAR Inc Savings Investment Plan, as amended from time to time.

(dd) "Plan Year" means the calendar year.

(ee) "Required Beginning Date" means, with respect to a Member:

(1) if he attains or attained age 70 ½ before January 1, 1999 (and after January 1, 1989), April 1 of the calendar year following the calendar year in which he attains or attained age 70 ½;

(2) if he attains age 70 ½ on or after January 1, 1999, and is not a five-percent owner of PACCAR stock (as defined in Section 416 of the IRC and taking into account any modifications under Section 401(a)(9) of the IRC), April 1 of the calendar year following the later of the calendar year in which he ceases to be an Employee or the calendar year in which he attains age 70 ½; and

(3) if he attains age 70 ½ on or after January 1, 1999, and is a five-percent owner of PACCAR stock (as defined in Section 416 of the IRC and taking into account any modifications under Section 401(a)(9) of the IRC), April 1 of the calendar year following the calendar year in which he attains age 70 ½.

(ff) "Restricted Member" means a Member who has limited membership rights under the Plan, as further described in Section 3.4.

(gg) "Retirement" means termination of employment as an Employee (for a reason other than death) after a Member has fulfilled all requirements for a normal or early retirement benefit under any Retirement Plan.

(hh) "Retirement Plan" means the PACCAR Inc Retirement Plan, the PACCAR Inc Retirement Plan for Weekly Paid Salaried Employees in effect prior to June 1, 1989, or any other defined-benefit or defined-contribution plan (other than this Plan) maintained by PACCAR Inc or any of its Subsidiaries which covers a Member and which is intended primarily to provide retirement income to its members, as determined and designated by the Company.

(ii) "Rollover Contributions" means any amounts contributed to the Plan by an Eligible Employee under Section 4.14.

(jj) "Salary Deferrals" means amounts paid to the Plan by the Company on a Member's behalf pursuant to Section 4.1.

(kk) "Salary Deferral Account" means the account to which a Member's Salary Deferrals are credited, as further described in Section 7.1(b), and which is adjusted for any distributions and withdrawals by the Member.

(ll) "Section 414(s) Compensation" means any one of the following definitions of compensation received by an Employee from PACCAR Inc and any Subsidiary (as defined in Section 2.1(mm) without regard to the last sentence thereof):

(1) Compensation as defined in section 1.415-2(d) and (d)(3) of the Income Tax Regulations or any successor thereto;

(2) Compensation as defined in Income Tax Regulation section 1.415-2(d)(10) or any successor thereto.

(3) "Wages" within the meaning of section 3401(a) and all other payments of compensation (in the course of such employer's trade or business) for which such employer is required to furnish the Employee a written statement under sections 6041(d), 6051(a)(3), and 6052, but determined without regard to any rules under section 3401(a) that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in section 3401(a)(2)).

(Generally, this option is wages as reflected on the taxable federal wages box of the Form W-2 of the Employee.)

(4) "Wages" as defined in section 3401(a) of the IRC for purposes of income tax withholding at the source, but determined without regard to any rules that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in section 3401(a)(2) of the IRC);

(5) Any of the definitions of Section 414(s) Compensation set forth in Paragraphs (1), (2), (3) and (4) above, reduced by all of the following items (even if includable in gross income): reimbursements or other expense allowances, fringe benefits (cash and noncash), moving expenses, deferred compensation and welfare benefits;

(6) Any of the definitions of Section 414(s) Compensation set forth in Paragraphs (1), (2), (3), (4) and (5) above, modified to include any elective contributions made by a member of the Affiliated Group on behalf of the Employee that are not includable in gross income under section 125, 132(f)(4), 402(e)(3), 402 (h) or 403(b) of the IRC; or

(7) Any reasonable definition of compensation that does not by design favor Highly Compensated Employees and that satisfies the nondiscrimination requirement set forth in section 1.414(s)-lT(d)(2) of the Income Tax Regulations or the successor thereto.

Any definition of Section 414(s) Compensation shall be used consistently to define the compensation of all Employees taken into account in satisfying the requirements of an applicable provision of this Plan for the relevant determination period. Section 414(s) Compensation shall not include compensation paid to an Employee for a Plan Year in excess of the dollar amount set forth in section 401(a)(17)(A) of the IRC (as adjusted by the Commissioner of Internal Revenue to reflect increases in the cost-of-living in accordance with section 401(a)(17)(B)). For purposes of these limitations, if the Plan Year is less than 12 consecutive months, the limitation shall be prorated accordingly.

(mm) "Subsidiary" means any corporation which is a member of a "controlled group of corporations" (within the meaning of IRC section 1563(a), determined without regard to IRC sections 1563(a)(4) and 1563(e)(3)(C)) of which group PACCAR Inc is also a member, while such a corporation. "Subsidiary" also means, to the extent and for the purposes specified by the Company from time to time, any other corporation in which PACCAR Inc, or one or more of its Subsidiaries or affiliated corporations, has an ownership interest.

(nn) "Top-Paid Group" for any Plan Year means the top 20 percent (in terms of Total Compensation) of all Employees of PACCAR Inc and its Subsidiaries (as defined in Section 2.1(mm) without regard to the last sentence thereof) on a U.S. dollar payroll, excluding the following:

(1) Any Employee covered by a collective bargaining agreement except to the extent otherwise provided under Income Tax Regulation 1.414(q)-lT;

(2) Any Employee who has not completed six-month Period of Service at the end of the Plan Year;

(3) Any Employee who normally works less than 17 ½ hours per week;

(4) Any Employee who normally works no more than six months during any year; and

(5) Any Employee who has not attained the age of 21 at the end of the Plan Year.

(oo) "Total Compensation" means "wages" as defined in section 3401(a) of the IRC for purposes of income tax withholding at the source, but determined:

(1) Without regard to any rules that limit the remuneration included in "wages" based on the nature of location of the employment of the services performed (such as the exception for agricultural labor in section 3401(a)(2) of the IRC); and

(2) By including amounts deferred but not refunded under a cafeteria plan, as such term is defined in section 125(c) of the IRC and under a plan, including this Plan, qualified under section 401(k) of the IRC, and amounts excludable from a Member's gross income under section 132(f)(4) of the IRC.

(pp) "Totally Disabled" or "Total Disability" means, that because of injury or sickness the Member (1) has been paid long-term disability benefits for a period of at least 24 months under the PACCAR Inc Long-Term Disability Plan or any other long-term disability plan maintained by the Company or any of its subsidiaries, and continues to be eligible for such benefits under such long-term disability plan, (2) is eligible to receive disability benefits under the federal Social Security program, or (3) has a life expectancy of 24 months or less which has been certified in writing by an attending physician and approved by the Company.

(qq) "Trust Agreement" means the trust agreement or agreements entered into by the Company and a Trustee pursuant to Section 6.1.

(rr) "Trust Fund" means the assets of the Plan held in trust by a Trustee pursuant to a Trust Agreement.

(ss) "Trustee" means the corporate Fiduciary or Fiduciaries appointed from time to time by the Company to hold the assets of the Plan in trust pursuant to a Trust Agreement.

(tt) "USERRA" means the Uniformed Services Employment and Reemployment Rights Act of 1994, as amended.

(uu) "Valuation Date" means each business day.

Certain other defined terms used in particular provisions of the Plan are defined where used.

2.2 Construction

Any gender, where appearing in the Plan, shall be deemed to include the other gender, the singular shall include the plural, and the plural shall include the singular, unless the context otherwise requires. Titles are for reference only. In the event of a conflict between a title and the text of the Plan, the text of the Plan shall control. In the event of a conflict between the text of the Plan and any summary, description or other information regarding the Plan, the text of the Plan shall control.

ARTICLE 3

ELIGIBILITY AND MEMBERSHIP

3.1 Commencement of Membership

Only an Eligible Employee may become a Member of the Plan. Any other individual is excluded from becoming a Member until such time as he becomes an Eligible Employee. An Eligible Employee may elect to become a Member as soon as reasonably practicable as of or after the date he becomes an Employee, provided that he is then an Eligible Employee. An Eligible Employee who does not elect to become a Member when he is first eligible to do so may elect to become such a Member at any time thereafter.

3.2 Enrollment Procedures

An Eligible Employee who wishes to become a Member shall apply for membership in such manner as specified under the Company’s administrative procedures. In filing an application for membership, an Eligible Employee shall agree to abide by the terms and conditions of the Plan and to provide such elections, designations or other information as the Company deems necessary for the proper administration of the Plan. An application to become a Member shall be implemented as soon as reasonably practicable after its receipt.

Eligible Employees subject to automatic enrollment pursuant to Section 4.1 shall be deemed to have applied for membership in such manner as specified under the Company’s administrative procedures.

3.3 Termination of Membership

An Eligible Employee, having become a Member, shall cease to be such a Member upon the termination of his employment as an Eligible Employee (although he will continue as a Restricted Member until the earlier of (a) his death or (b) the full distribution of any Benefit to which he is entitled under the Plan).

3.4 Restricted Membership

(a) Status as Restricted Member

As long as any portion of the Benefit to which a Member is entitled under the Plan has not been distributed, such Member (while living) shall have the status of a Restricted Member for any period with respect to which:

(1) The Member is contributing no Salary Deferrals under the Plan, whether as a result of a suspension of contributions pursuant to Section 4.4, as a result of a determination by the Company pursuant to Section 4.2, because the Member is receiving no Compensation, or for other reasons;

(2) The Member fails to qualify as an Eligible Employee, whether by reason of a change in employment status, a transfer to a Subsidiary which does not participate in the Plan, or for other reasons, but remains an Employee; or

(3) Employment as an Employee has terminated but the distribution of any Benefit to which the Member is entitled has not been completed.

An Employee (while living) shall also have the status of a Restricted Member if he is not a Member for all purposes of the Plan but has made a Rollover Contribution and such Contribution has not been fully distributed.

(b) Effect of Restricted Membership

The following rules shall apply to Restricted Members and their Accounts with respect to periods during which they are Restricted Members:

(1) Except as provided in Section 5.2, no Company Contributions shall be credited to a Restricted Member's Company Contributions Account; and

(2) No Salary Deferrals shall be contributed to a Restricted Member's Salary Deferral Accounts.

ARTICLE 4

SALARY DEFERRALS AND ROLLOVER CONTRIBUTIONS

4.1 Amount of Salary Deferrals

Salary Deferrals are required of all Members other than Restricted Members. Subject to Section 4.15 and the limitations of this Article 4 and Article 15, any such Member may elect to contribute Salary Deferrals equal to any whole percentage of his Compensation received each pay period after becoming a Member, but not in excess of 75 percent of such Compensation. Salary Deferrals are not permitted to be made by a Member for any payday on which such Member is not an Eligible Employee.

If any individual who becomes an Eligible Employee on or after September 1, 2016 (other than an individual who becomes an Eligible Employee on September 1, 2016 solely as a result of the inclusion of commissioned salesmen in the group of Eligible Employees effective September 1, 2016) fails to make a Salary Deferral election in the manner specified by the Company's administrative procedures, then with respect to the first payroll processed as soon as administratively feasible more than 45 days after such an Employee becomes an Eligible Employee, the Eligible Employee shall be deemed to have elected to contribute Salary Deferrals equal to five percent of his Compensation received in that pay period and in each pay period thereafter. Unless an Eligible Employee files an investment election in the manner specified by the Company's administrative procedures, any amounts contributed to the Plan pursuant to this paragraph shall be invested in a default investment fund prescribed by the Company. An Eligible Employee may revoke or change any such deemed contribution or investment election in the manner specified by the Company's administrative procedures.

The amount of a Member's Salary Deferrals shall be withheld by the Company from his Compensation on each payday. All Salary Deferrals so withheld shall be paid by the Company to the Trustee as soon as reasonably practicable, but in no event later than the 15th day of the month next following the month in which they would otherwise have been payable to the Member in cash. Salary Deferrals shall be fully vested and nonforfeitable at all times.

For Federal income tax purposes (and, wherever permitted, for state and local tax purposes), Salary Deferrals shall be deemed to be employer contributions to the Plan, and a Member's election to commence or continue his membership in the Plan shall constitute an election to have his taxable compensation reduced by the amount of all of his Salary Deferrals.

On or after February 1, 1983, no Member shall make any Member Contributions to the Plan. However, Member Contributions made before February 1, 1983, shall remain credited to the Member's Employee Accounts until they are withdrawn or distributed pursuant to the provisions of the Plan.

4.2 Involuntary Reduction of Salary Deferral Rate

At any time prior to or during a Plan Year, the Company (at its sole discretion) may reduce the maximum rate at which any Member may contribute Salary Deferrals to the Plan for such Plan Year or during the remainder of such Plan Year, or the Company may require that any Member discontinue all Salary Deferrals for the remainder of such Plan Year, for the purpose of meeting the special nondiscrimination rules under the IRC. Any reduction or discontinuance of Salary Deferrals may be applied selectively to individual Members or to particular classes of Members, as the Company may determine. In addition to requiring a prospective reduction or discontinuance of Salary Deferrals, the Company may distribute to any Member such portion of the Salary Deferrals that he already contributed for a Plan Year as it determines is necessary to meet the special nondiscrimination rules under the IRC for such year, as provided in Sections 4.5, 4.9 and 15.3 below.

4.3 Voluntary Change of Salary Deferral Rate

A Member may elect at any time to change the rate of his Salary Deferrals prospectively to any other percentage permitted under this Article 4. Any election pursuant to this Section 4.3 shall be made in accordance with the Company's administrative procedures applicable at the time of the election.

4.4 Voluntary and Involuntary Suspension of Salary Deferrals

A Member may elect to suspend all Salary Deferrals at any time, thereby becoming a Restricted Member pursuant to Section 3.4. Any such election shall be made in accordance with the Company's administrative procedures. Any election to resume Salary Deferrals shall become effective as soon as reasonably practicable after it is received.

A Member who takes a hardship withdrawal under Section 10.3 shall be suspended from making Salary Deferrals under the Plan, thereby becoming a Restricted Member pursuant to Section 3.4, for six months. Such suspension shall be made pursuant to the Company's administrative procedures.

When a Member resumes Salary Deferrals following a voluntary or involuntary suspension, he may make new elections under this Article 4 regarding the amount and allocation thereof; provided, however, that if he does not make such new elections, his previous elections shall be applicable.

4.5 Return of Excess Deferrals

Subject to Section 4.15, the aggregate Salary Deferrals of any Member for any calendar year, together with his or her elective deferrals under any other plan or arrangement to which section 402(g) of the IRC applies and that is maintained by PACCAR Inc or any Subsidiary (as defined in Section 2.1(mm) without regard to the last sentence thereof), shall not exceed the dollar amount set forth in section 402(g) of the IRC (or such larger amount as may be adopted by the Commissioner of Internal Revenue to reflect a cost-of-living adjustment). In the event that such aggregate Salary Deferrals and elective deferrals of any Member for any calendar year exceed the dollar amount set forth in section 402(g) of the IRC (or such larger amount as may be adopted by the Commissioner of Internal Revenue to reflect a cost-of-living adjustment), then such portion of the Excess Deferrals, and any income or loss allocable to such portion for the calendar year (but not for the period between the end of the calendar year and the date of distribution of such Excess Deferrals) shall be refunded to the Member not later than the April 15 next following the close of such calendar year. Such income (and loss) allocable to Excess Deferrals shall be determined in accordance with Treasury Regulation section 1.402(g)-l(e)(5).

In the event that a Member's elective deferrals (within the meaning of section 402(g)(3) of the IRC) for a calendar year exceed the dollar amount set forth in section 402(g) of the IRC (or such larger amount as may be adopted by the Commissioner of Internal Revenue to reflect a cost-of-living adjustment) solely because such Member participated in this Plan and a plan or arrangement maintained by an employer other than PACCAR Inc or any Subsidiary (as defined in Section 2.1(mm) without regard to the last sentence thereof), then such

Member may designate all or a portion of such Excess Deferrals as attributable to this Plan and may request a refund of such portion in accordance with the Company's administrative procedures on or before the March 1 next following the close of such calendar year. If timely notice is received, then such a Member's Excess Deferrals, and any income or loss allocable thereto, shall be refunded to the Member from this Plan no later than the April 15 next following the close of such calendar year.

4.6 Average Deferral Percentage Limitation

The Plan shall satisfy the average deferral percentage test provided in section 401(k)(3) of the IRC and section 1.401(k)-1 of the Income Tax Regulations issued thereunder. Subject to the special rules described in Section 4.11, the Aggregate 401(k) Contributions of Highly Compensated Employees shall not exceed the limits described below:

(a) An Actual Deferral Percentage shall be determined for each Highly Compensated Employee who, at any time during the Plan Year, is a member (including a suspended Member) or is eligible to participate in the Plan, which Actual Deferral Percentage shall be the ratio, computed to the nearest one-hundredth of one percent, of the Highly Compensated Employee's Aggregate 401(k) Contributions for the Plan Year to the Highly Compensated Employee's Section 414(s) Compensation for the Plan Year;

(b) An Actual Deferral Percentage shall be determined for each Nonhighly Compensated Employee who, at any time during the Plan Year, is a Member (including a suspended Member) or is eligible to participate in the Plan, which Actual Deferral Percentage shall be the ratio, computed to the nearest one-hundredth of one percent, of the Nonhighly Compensated Employee's Aggregate 401(k) Contributions for the Plan Year to the Nonhighly Compensated Employee's Section 414(s) Compensation for the Plan Year;

(c) The Actual Deferral Percentages (including zero percentages) of Highly Compensated Employees and Nonhighly Compensated Employees shall be separately averaged to determine each group's Average Deferral Percentage; and

(d) The Aggregate 401(k) Contributions of Highly Compensated Employees shall constitute Excess Contributions and shall be reduced, pursuant to Sections 4.8 and 4.9, to the extent that the Average Deferral Percentage of Highly Compensated Employees exceeds the greater of (1) 125 percent of the Average Deferral Percentage of Nonhighly Compensated Employees or (2) the lesser of (A) 200 percent of the Average Deferral Percentage of Nonhighly Compensated Employees or (B) the Average Deferral Percentage of Nonhighly Compensated Employees plus two percentage points.

4.7 Determination of Maximum Actual Deferral Percentage and Dollar Amount of Excess Contributions

The maximum Actual Deferral Percentage shall be determined by use of a leveling process, whereby the Aggregate 401(k) Contributions of the Highly Compensated Employee with the highest Actual Deferral Percentage are reduced to the extent required to (a) eliminate all Excess Contributions or (b) cause such Highly Compensated Employee's Actual Deferral Percentage to equal the Actual Deferral Percentage of the Highly Compensated Employee with the next-highest Actual Deferral Percentage. Such leveling process shall be repeated until the average deferral percentage test is satisfied.

With regard to each Highly Compensated Employee whose Actual Deferral Percentage is in excess of the maximum permitted Actual Deferral Percentage, a dollar amount of Excess Contributions shall then be determined by subtracting the product of the maximum permitted Actual Deferral Percentage and the Highly Compensated Employee's Section 414(s) Compensation from the Highly Compensated Employee's Aggregate 401(k) Contributions. The amounts shall then be aggregated to determine the total dollar amount of Excess Contributions.

4.8 Allocation of Excess Contributions to Highly Compensated Employees

Any Excess Contributions for a Plan Year shall be allocated to Highly Compensated Employees by use of a leveling process, whereby the Aggregate 401(k) Contributions of the Highly Compensated Employee with the highest dollar amount of Aggregate 401(k) Contributions are reduced to the extent required to (a) eliminate all Excess Contributions or (b) cause such Highly Compensated Employee's Aggregate 401(k) Contributions to equal the Aggregate 401(k) Contributions of the Highly Compensated Employee with the next-highest Aggregate 401(k) Contributions. Such leveling process shall be repeated until all Excess Contributions for such Plan Year are allocated to Highly Compensated Employees.

4.9 Distribution of Excess Contributions

Excess Contributions allocated to Highly Compensated Employees for the Plan Year pursuant to Section 4.8, together with any income or loss allocable to such Excess Contributions for the Plan Year (but not for the period between the end of the Plan Year and the date of distribution of such Excess Contributions) shall be distributed to such Highly Compensated Employees not later than the March 15 next following the close of such Plan Year, if possible, and in any event no later than 12 months following the close of such Plan Year. Such income (and loss) allocable to Excess Contributions shall be determined in accordance with Treasury Regulation section 1.401(k)-2(b)(2)(iv). Any Salary Deferrals distributed pursuant to this Section 4.9 shall not be included in the Salary Deferrals that attract a Company Contribution under Section 5.2. Notwithstanding the foregoing, to the extent Excess Contributions allocated to a Highly Compensated Employee for the Plan Year pursuant to Section 4.8 could otherwise constitute Age 50 Catch-Up Deferrals pursuant to Section 4.15, such Excess Contributions shall be recharacterized as Age 50 Catch-Up Deferrals for the Plan Year rather than be distributed to the Highly Compensated Employee as described above.

4.10 Qualified Company Contributions

The Company, in its sole discretion, may include all or a portion of the Company Contributions for a Plan Year in Aggregate 401(k) Contributions taken into account in applying the Average Deferral Percentage limitation described in Section 4.6 for such Plan Year, provided that the requirements of section 1.401(k)-2(a)(6) of the Income Tax Regulations are satisfied.

4.11 Special Rules

The following special rules shall apply for purposes of this Article 4:

(a) The amount of Excess Deferrals to be distributed to a Member for a calendar year pursuant to Section 4.5 shall be reduced by the amount of any Excess Contributions previously distributed to such Member for the Plan Year ending within such calendar year;

(b) The amount of Excess Contributions to be distributed to a Member for a Plan Year pursuant to Section 4.8 shall be reduced by the amount of any Excess Deferrals previously distributed to such Member for the calendar year ending with such Plan Year;

(c) For purposes of applying the limitation described in Section 4.6, the Actual Deferral Percentage of any Highly Compensated Employee who is eligible to make Salary Deferrals and to make elective deferrals (within the meaning of section 402(g)(3) of the IRC) under any other plans, contracts or arrangements maintained by PACCAR Inc or any Subsidiary (as defined in Section 2.1(mm) without regard to the last sentence thereof) shall be determined as if all such Salary Deferrals and elective deferrals were made under a single arrangement (other than those plans that may not be permissively aggregated); provided, however, that if such plans have different plan years, the plans are aggregated with respect to contributions made within this Plan's Plan Year only;

(d) In the event that this Plan is aggregated with one or more other plans in order to satisfy the requirements of IRC section 401(a)(4), 401(k) or 410(b), then all such aggregated plans, including the Plan, shall be treated as a single plan for all purposes under all such IRC sections (except for purposes of the average benefit percentage provisions of IRC section 410(b)(2)(A)(ii));

(e) In the event that the mandatory disaggregation rules of Treasury Regulation section 1.401(k)-1(b) apply to the Plan, or to the Plan and other plans with which it is aggregated as described in Subsection (d) above, then the limitation described in Section 4.6 shall be applied as if each mandatorily disaggregated portion of the Plan (or aggregated plans) were a single arrangement

(f) Provided this limit is applied uniformly in determining the Average Deferral Percentage limitation for the Plan Year, the Company may limit Section 414(s) Compensation to the amount of such compensation paid to the Eligible Employee during the portion of the Plan Year that such Member was an Eligible Employee; and

(g) If the Plan permits participation in the 401(k) portion of the Plan prior to an Eligible Employee's satisfaction of the minimum age and service requirements of section 410(a)(1)(A) of the IRC and if section 410(b)(4)(B) of the IRC is applied in determining “whether the 401(k) portion of the Plan meets the requirements of section 410(b) of the IRC, then for purposes of performing the average deferral percentage test, the test may be performed separately with regard to Eligible Employees who have not met the minimum age and service requirements of section 410(a)(1)(A) of the IRC or, alternatively, Eligible Employees who have not met the minimum age and service requirements of section 410(a)(1)(A) of the IRC may instead be excluded in the determination of the Average Deferral Percentage for Nonhighly Compensated Employees, but not in the determination of the Average Deferral Percentage for Highly Compensated Employees.

4.12 Allocation of Salary Deferrals

A Member shall elect to allocate his Salary Deferrals among the Investment Options designated by the Company. Each Eligible Employee shall elect, when he enrolls in the Plan, to allocate Salary Deferrals to one or more Investment Options in any whole percentage increment. A Member who is an Employee may elect to change the relative amounts of future Salary Deferrals being allocated to one or more Investment Options in any whole percentage increment.

4.13 Diversification of Salary Deferral Account or Employee Account

Any Member may elect to transfer any whole percentage of the amount of the Member’s Salary Deferral Account or Employee Account then invested in one Investment Option to another Investment Option as permitted by the Company’s administrative procedures.

An election under this Section 4.13 may be made at any time to be effective as soon as reasonably practicable after it is received. Any election under this Section 4.13 shall be made in accordance with the Company’s administrative procedures.

4.14 Rollover Contributions

In accordance with the Company’s administrative procedures, any Eligible Employee may make one or more Rollover Contributions to the Plan. An Eligible Employee who makes a Rollover Contribution at a time when he or she is not a Member for other purposes shall become a Restricted Member. A Rollover Contribution shall be permitted only if it meets all of the following conditions:

(a) The contribution must be made entirely in the form of U.S. dollars;

(b) The Eligible Employee must demonstrate that the contribution is attributable to the Eligible Employee’s participation (or the participation of the Eligible Employee’s deceased spouse, or the participation of the Eligible Employee’s former spouse and the Eligible Employee is an alternate payee as to such former spouse under such other plan pursuant to a qualified domestic relations order under section 414(p) of the IRC) in another employer’s retirement plan, or in an individual retirement account or annuity described in section 408(a) or 408(b) of the IRC, and that the contribution qualifies as a rollover distribution from a plan that meets the requirements of section 401(a) or 403(a) of the IRC, an annuity contract described in section 403(b) of the IRC, an eligible plan under section 457 (b) of the IRC which is maintained by a state, political subdivision of a state or any agency or instrumentality of a state or political subdivision of a state, or an individual retirement account or annuity described in section 408(a) or 408(b) of the IRC; and

(c) The contribution is not attributable to employee after-tax contributions.

A Rollover Contribution shall be paid to the Trustee in a lump sum in cash in accordance with the Trustee's administrative procedures. The Rollover Contribution shall be allocated among one or more Investment Options in any whole percentage increment as the Member may elect. Such election shall be made in accordance with the Company's administrative procedures.

4.15 Age 50 Catch-Up Rules

Eligible Members (as defined in Section 4.15(a) below) may make additional Salary Deferrals ("Age 50 Catch-Up Deferrals") up to the amounts specified in Section 4.15(b) below.

(a) For purposes of this Section 4.15, "Eligible Member" means a Member who meets the following requirements:

(1) The Member has attained the age of 50 before the close of the Plan Year.

(2) The Member may make no other Salary Deferrals due to the limit described in Section 4.5 or the limits imposed under Section 4.1 or Section 15.

(b) The maximum amount of Age 50 Catch-Up Deferrals an Eligible Member may make during a Plan Year shall not exceed the lesser of:

(1) the Age 50 Catch-Up Amount; or

(2) the excess, if any, of (i) the Eligible Member's Compensation for the Plan Year, over (ii) any other Salary Deferrals made on behalf of the Eligible Member for such Plan Year without regard to this Section 4.15.

(c) The "Age 50 Catch-Up Amount" for each Plan Year shall be the amount set forth in section 414(v)(2)(B)(i) of the IRC. For Plan Years beginning after 2006, the Age 50 Catch-Up Amount specified in this Section 4.15(c) shall be adjusted as provided in section 414(v)(2)(C) of the IRC.

Age 50 Catch-Up Deferrals made pursuant to this Section 4.15 shall not be taken into account for purposes of the provisions of the Plan implementing the limitations of section 402(g) and section 415 of the IRC. The Plan shall not be treated as failing to satisfy the provisions of the Plan implementing the requirements of sections 401(k)(3), 401(k)(11), 401(k)(12), 410(b) or 416 of the IRC by reason of such Age 50 Catch-Up Deferrals.

ARTICLE 5

COMPANY CONTRIBUTIONS

5.1 Amount of Company Contributions

The Company may, in its sole discretion, make one or more Company Contributions during each Plan Year with respect to Members' Salary Deferrals (other than Age 50 Catch-Up Deferrals). The Company's rate of contribution and the frequency and manner in which the Company makes its contribution shall be decided by the Company in its sole discretion with respect to each such Plan Year. Company Contributions initially may be paid to a suspense account maintained by the Trustee as part of the Plan.

The last full Plan Year for which such discretionary Company Contributions may be made is the Plan Year ending December 31, 2015. The period beginning January 1, 2016 and ending August 31, 2016 shall be treated as a short Plan Year for purposes of the above paragraph, and thereafter Company Contributions, if any, shall be made on a pay period basis, as described below.

Effective with respect to pay periods ending on or after September 1, 2016, the Company may, in its sole discretion, make one or more Company Contributions during each pay period with respect to Members' Salary Deferrals (other than Age 50 Catch-Up Deferrals). The Company's rate of contribution and the frequency and manner in which the Company makes its contribution shall be decided by the Company in its sole discretion with respect to each such pay period.

The aggregate amount of Company Contributions for each Plan Year or pay period shall be equal to the sum of the amounts allocated for such Plan Year or pay period to Members pursuant to Section 5.2. Company Contributions may be made in the form of PACCAR Stock. Company Contributions shall be paid to the Trustee as soon as practicable following the end of the period for which the contributions are being made, but shall in no event be paid to the Trustee later than the due date for filing the Company's federal income tax return (including extensions) for the applicable Plan Year.

5.2 Allocation of Company Contributions

Company Contributions, determined under the first two paragraphs of Section 5.1, shall be allocated as of the last day of each Plan Year to the Company Contributions Account of each Member who has completed a 12-month Period of Service on or before the last day of such Plan Year and who is an Employee on such date, or who terminated employment during such Plan Year due to:

(a) Death;

(b) Total Disability;

(c) Entry into the armed forces of the United States;

(d) Layoff;

(e) Retirement (as defined in Section 2.1(gg)); or

(f) The Company's decision to relocate the Member's spouse who is also an Employee of the Company, if the Member relocates with the spouse and is not offered a job with the Company at the new location,

provided such terminated Member defers distribution of his Plan Benefit to a date later than the last day of the Plan Year in which he separates from service.

The allocation shall be in an amount equal to the lesser of (1) a percentage, to be determined each Plan Year in the Company's sole discretion, of the aggregate Salary Deferrals (other than Age 50 Catch-Up Deferrals) made by each eligible Member during the Plan Year, not including Salary Deferrals returned to the Member pursuant to Sections 4.5, 4.9 or 15.3, or (2) a percentage, to be determined each Plan Year in the Company's sole discretion, of Compensation received during the portion of the Plan Year that the eligible Member is an Eligible Employee and a Member (including a Restricted Member) and has completed a 12-month Period of Service (in the current or a prior Plan Year). Company Contributions may be allocated in the form of PACCAR Stock which shall be valued for allocation purposes on the basis of the average price per share of all shares of PACCAR Stock paid to the Plan as part of the Company Contributions and acquired with suspense-account funds during the Plan Year pursuant to Section 5.1.

The period beginning January 1, 2016 and ending August 31, 2016 shall be treated as a short Plan Year for purposes of the above two paragraphs.

Effective with respect to pay periods ending on or after September 1, 2016, Company Contributions, determined under Section 5.1, shall be allocated as of the last day of each pay period to the Company Contributions Account of each Member. The allocation shall be in an amount equal to the lesser of (1) a percentage, to be determined with respect to each pay period in the Company's sole discretion, of the aggregate Salary Deferrals (other than Age 50 Catch-Up Deferrals) made by each eligible Member during the pay period, not including Salary Deferrals returned to the Member pursuant to Sections 4.5, 4.9 or 15.3, or (2) a percentage, to be determined with respect to each pay period in the Company's sole discretion, of Compensation received during the pay periods in which the eligible Member is an Eligible Employee and a Member (including a Restricted Member. In addition, the Company shall allocate additional Company Contributions as necessary during each pay period to ensure that each Member receives the full amount of Company Contributions based upon the aggregate Salary Deferrals eligible to attract Company Contributions made by each eligible Member during the Plan Year. Company Contributions may be allocated in the form of PACCAR Stock.

5.3 <u>Average Contribution Percentage Limitation</u>

The Plan shall satisfy the average contribution percentage test provided in section 401(m)(2) of the IRC and section 1.401(m)-1 of the regulations issued thereunder. Subject to the special rules described in Section 5.8, the Aggregate 401(m) Contributions of Highly Compensated Employees shall not exceed the limits described below:

(a) An Actual Contribution Percentage shall be determined for each Highly Compensated Employee who is eligible to receive an allocation of Company Contributions under Section 5.2 (assuming, for this purpose, that Salary Deferrals have been allocated to such individual's Accounts), which Actual Contribution Percentage shall be the ratio, computed to the nearest one-hundredth of one percent, of the Highly Compensated Employee's Aggregate 401(m) Contributions for the Plan Year to the Highly Compensated Employee's Section 414(s) Compensation for the Plan Year;

(b) An Actual Contribution Percentage shall be determined for each Nonhighly Compensated Employee who, at any time during the Plan Year, is a Member (including a suspended Member) or is eligible to participate in the Plan, which Actual Contribution Percentage shall be the ratio, computed to the nearest one-hundredth of one percent, of the Nonhighly Compensated Employee's Aggregate 401(m) Contributions for the Plan Year to the Nonhighly Compensated Employee's Section 414(s) Compensation for the Plan Year;

(c) The Actual Contribution Percentages (including zero percentages) of Highly Compensated Employees and Nonhighly Compensated Employees shall be separately averaged to determine each group's Average Contribution Percentage; and

(d) The Aggregate 401(m) Contributions of Highly Compensated Employees shall constitute Excess Aggregate Contributions and shall be reduced, pursuant to Sections 5.5 and 5.6, to the extent that the Average Contribution Percentage of Highly Compensated Employees exceeds the greater of (1) 125 percent of the Average Contribution Percentage of Nonhighly Compensated Employees or (2) the lesser of (A) 200 percent of the Average Contribution Percentage of Nonhighly Compensated Employees or (B) the Average Contribution Percentage of Nonhighly Compensated Employees plus two percentage points.

5.4 Determination of Maximum Actual Contribution Percentage and Dollar Amount of Excess Aggregate Contributions

The maximum Actual Contribution Percentage shall be determined by use of a leveling process, whereby the Aggregate 401 (m) Contributions of the Highly Compensated Employee with the highest Actual Contribution Percentage are reduced to the extent required to (a) eliminate all Excess Aggregate Contributions or (b) cause such Highly Compensated Employee's Actual Contribution Percentage to equal the Actual Contribution Percentage of the Highly Compensated Employee with the next-highest Actual Contribution Percentage. Such leveling process shall be repeated until the average contribution percentage test is satisfied.

With regard to each Highly Compensated Employee whose Actual Contribution Percentage is in excess of the maximum permitted Actual Contribution Percentage, a dollar amount of Excess Aggregate Contributions shall then be determined by subtracting the product of the maximum permitted Actual Contribution Percentage and the Highly Compensated Employee's Section 414(s) Compensation from the Highly Compensated Employee's Aggregate 401(m) Contributions. The amounts shall then be aggregated to determine the total dollar amount of Excess Aggregate Contributions.

5.5 Allocation of Excess Aggregate Contributions to Highly Compensated Employees

Any Excess Aggregate Contributions for a Plan Year shall be allocated to Highly Compensated Employees by use of a leveling process, whereby the Aggregate 401(m) Contributions of the Highly Compensated Employee with the highest Aggregate 401(m) Contributions are reduced to the extent required to (a) eliminate all Excess Aggregate Contributions or (b) cause such Highly Compensated Employee's Aggregate 401(m) Contributions to equal the Aggregate 401(m) Contributions of the Highly Compensated Employee with the next-highest Aggregate 401(m) Contributions. Such leveling process shall be repeated until all Excess Aggregate Contributions for such Plan Year are allocated to Highly Compensated Employees.

5.6 Distribution of Excess Aggregate Contributions

Excess Aggregate Contributions allocated to Highly Compensated Employees for the Plan Year pursuant to Section 5.5, together with any income or loss allocable to such Excess Aggregate Contributions for the Plan Year (but not for the period between the end of the Plan Year and the date of distribution of such Excess Aggregate Contributions) shall be distributed to such Highly Compensated Employees not later than the March 15 next following the close of such Plan Year, if possible, and in any event no later than 12 months following the close of such Plan Year. Such income (and loss) allocable to Excess Aggregate Contributions shall be determined in accordance with Treasury Regulation section 1.401(m)-2(b)(2)(iv).

5.7 Use of Salary Deferrals

The Company, in its sole discretion, may include all or a portion of the Salary Deferrals (other than Age 50 Catch-Up Deferrals) for a Plan Year in Aggregate 401(m) Contributions taken into account in applying the Average Contribution Percentage limitation described in Section 5.3 for such Plan Year, provided that the requirements of section 1.401(m)-2(b)(6) of the Income Tax Regulations are satisfied.

5.8 Special Rules

The following special rules shall apply for purposes of this Article 5:

(a) For purposes of applying the limitation described in Section 5.3, the Actual Contribution Percentage of any Highly Compensated Employee who is eligible to participate in the Plan and to make employee contributions or receive an allocation of matching contributions (within the meaning of section 401(m)(4)(A) of the IRC) under any other plans, contracts or arrangements maintained by PACCAR Inc or any Subsidiary (as defined in Section 2.1(mm) without regard to the last sentence thereof) shall be determined as if Company Contributions allocated to such Highly Compensated Employee's Accounts and all such employee contributions and matching contributions were made under a single arrangement (other than those plans that may not be permissively aggregated); provided, however, that if such plans have different plan years, the plans are aggregated with respect to contributions made within this Plan's Plan Year only;

(b) In the event that this Plan is aggregated with one or more other plans in order to satisfy the requirements of IRC section 401(a)(4), 401(m) or 410(b), then all such aggregated plans, including the Plan, shall be treated as a single plan for all purposes under all such IRC sections (except for purposes of the average benefit percentage provisions of IRC section 410(b)(2)(A)(ii));

(c) In the event that the mandatory disaggregation rules of Treasury Regulation section 1.401(m)-1(b) apply to the Plan, or to the Plan and other plans with which it is aggregated as described in Subsection (b) above, then the limitation described in Section 5.3 shall be applied as if each mandatorily disaggregated portion of the Plan (or aggregated plans) were a single arrangement;

(d) Provided this limit is applied uniformly in determining the Actual Contribution Percentage limitation for the Plan Year, the Company may limit Section 414(s) Compensation to the amount of such compensation paid to the Eligible Employee during the portion of the Plan Year that such Member was an Eligible Employee; and

(e) If the Plan permits participation in the 401(m) portion of the Plan prior to an Eligible Employee's satisfaction of the minimum age and service requirements of section 410(a)(1)(A) of the IRC and if section 410(b)(4)(B) of the IRC is applied in determining whether the 401(m) portion of the Plan meets the requirements of section 410(b) of the IRC, then for purposes of performing the average contribution percentage test, the test may be performed separately with regard to Eligible Employees who have not met the minimum age and service requirements of section 410(a)(1)(A) of the IRC or, alternatively, Eligible Employees who have not met the minimum age and service requirements of section 410(a)(1)(A) of the IRC may instead be excluded in the determination of the Average Contribution Percentage for Nonhighly Compensated Employees, but not in the determination of the Average Contribution Percentage for Highly Compensated Employees.

5.9 Company Contributions in PACCAR Stock

The Company may elect to pay all or part of any Company Contribution in the form of PACCAR Stock. For purposes of determining the amount of the Company's deduction under section 404 of the IRC, shares of PACCAR Stock so contributed shall be valued at the last-transaction price quoted by the National Market System of the National Association of Securities Dealers and reported by The Wall Street Journal with respect to the date on which such shares are paid to the Plan.

5.10 Diversification of Company Contributions Account

Any Member may elect at any time to transfer any whole percentage of the amount of the Member's Company Contributions Account then invested in one Investment Option (including the PACCAR Stock Fund) to another Investment Option (including the

PACCAR Stock Fund) in accordance with the Company's administrative procedures. Any future Company Contributions allocated to such Member may, in the Company's sole discretion, continue to be allocated to the Member's Company Contributions Account in the form of PACCAR Stock.

The Beneficiary of a deceased Member shall have the same investment rights as herein described.

5.11 Return of Company Contributions

Any other provision of the Plan notwithstanding, each Company Contribution under Section 5.1 is expressly conditioned upon the deductibility of such contribution under Section 404 of the IRC. If the deductibility of a Company Contribution is denied, then the amount for which a deduction is disallowed (reduced by any losses incurred with respect to such amount) shall be returned to the Company within 12 months after the date of the disallowance. In addition, if all or part of a Company Contribution is attributable to a mistake of fact, then the excess of such Company Contribution over the amount which would have been contributed in the absence of the mistake of fact (reduced by any losses incurred with respect to such excess) shall be returned to the Company within 12 months after the date of such Company Contribution.

ARTICLE 6

THE TRUSTEE AND THE TRUST FUND

6.1 The Trustee and Investment Managers

The exclusive authority and discretion to manage and control the Trust Fund shall be vested in the Trustee, except to the extent that the Trust Agreement provides that the Trustee is subject to the directions of the Company or an Investment Manager appointed by the Company. Accordingly, subject to the provisions of the Plan, the Company shall enter into one or more Trust Agreements in such form and containing such provisions as the Company may deem appropriate, including (without limitation) constraints on the investment of the Trust Fund and the power and authority of the Trustee to amend the Trust Agreement or to terminate the trust. All Salary Deferrals, Rollover Contributions and Company Contributions under the Plan shall be paid to the Trustee to be held, invested and distributed subject to the terms and conditions of the Plan and the Trust Agreement.

The Company from time to time may appoint one or more Investment Managers with respect to all or any portion of the Trust Fund and may enter into an investment management agreement with any Investment Manager so appointed. Each Investment Manager so appointed shall have the exclusive authority and discretion to manage and control the assets of the Trust Fund assigned to him (it), except to the extent that the applicable investment management agreement provides that such Investment Manager is subject to the directions of the Company or a Trustee.

6.2 Investment Funds

The Trust Fund shall consist of the PACCAR Stock Fund and one or more Investment Options selected by the Company. For purposes of investment, the Trustee may divide any part of the Trust Fund into one or more sub-funds. The Trustee may physically segregate the assets of any sub-fund, invest the assets of such sub-fund separately, and account separately for the income, gains, expenses and losses of such sub-fund.

The "PACCAR Stock Fund" shall be invested in PACCAR Stock. The PACCAR Stock Fund shall consist of all PACCAR Stock held by the Trustee, and all cash held by the Trustee which is derived from dividends on PACCAR Stock, Company Contributions to be invested in PACCAR Stock, Salary Deferrals by Members that are to be invested in PACCAR Stock, Member Contributions that are to be invested in PACCAR Stock, Rollover Contributions that are to be invested in PACCAR Stock, and proceeds from sales of PACCAR Stock (except while such cash may be otherwise invested as provided under the Trust Agreement). All dividends on PACCAR Stock and all proceeds from the sale of PACCAR Stock shall be invested in the PACCAR Stock Fund, except as otherwise provided in the Plan.

6.3 Voting of PACCAR Stock

Trust Fund assets invested in PACCAR Stock may be registered in the name of the Trustee or any nominee; provided that the Trustee's records evidence the interest of the Trust Fund therein. Each Member shall be entitled to vote the whole number of shares of PACCAR Stock credited to him in his Company Contributions Account, Salary Deferral Account, and Employee Account as of the most recent practicable Valuation Date prior to the record date for each meeting of shareholders of PACCAR Inc. Each Member, prior to such meeting, shall be furnished with the proxy statement for such meeting, together with a form to be sent to the Trustee on which may be set forth the Member's instructions as to the manner of voting such shares of PACCAR Stock. Upon receipt of such instructions (which the Trustee shall hold in confidence), the Trustee shall vote such shares in accordance therewith. The Trustee shall vote all shares of PACCAR Stock held by it upon any matter as to which no instructions were given by Members within such reasonable period of time prior to any shareholder meeting as may be specified by the Trustee, or which cannot be voted pursuant to Members' instructions, in direct proportion to the shares of PACCAR Stock with respect to which it has received timely voting instructions by Members.

6.4 Other Instructions by Members

In the event that any person or group of persons makes a tender offer subject to section 14(d) of the Securities Exchange Act of 1934 to acquire all or part of the outstanding shares of PACCAR Stock, including the PACCAR Stock held in the Trust Fund ("Acquisition Offer"), each Member shall be entitled to direct the Trustee confidentially to tender all or part of those shares of PACCAR Stock that would then be subject to such Member's voting instructions under Section 6.3. If the Trustee receives an instruction by the date communicated by the Company to Members, the Trustee shall tender such shares in accordance with such instruction. Any PACCAR Stock as to which the Trustee does not receive timely instructions shall not be tendered by the Trustee. The Company shall distribute to each Member all appropriate materials pertaining to the Acquisition Offer, including the statement of the position of the Company with respect to such offer issued pursuant to Rule 14e-2 under the Securities Exchange Act of 1934, as soon as practicable after such materials are issued; provided, however, that if the Company fails to issue such statement within five business days after the commencement of such offer, the Company shall distribute such materials to each Member without the statement by the Company and shall separately distribute such statement as soon as practicable after it is issued.

6.5 Trust Fund Investment Losses: Interest in Trust Fund

All payments of Benefits shall be made solely from the assets of the Trust Fund. No Fiduciary guarantees the Trust Fund or any Company Contributions, Salary Deferrals, Rollover Contributions or Member Contributions in any manner against investment loss or depreciation in asset value. Except only as expressly provided by the Plan, and then only to the extent of his Benefit payable under the Plan from the assets of the Trust Fund, no person shall have any right to, or interest in, any assets of the Trust Fund.

6.6 ERISA 404(c) Requirements

The Plan is intended to comply with section 404(c) of ERISA with respect to Salary Deferral Accounts. Accordingly, with respect to the investment of such Accounts, the Plan shall satisfy, among other requirements, Subsections (a), (b) and (c) below.

(a) Choice of Broad Range of Investment Alternatives. The Member shall be able to choose from at least three "core" investment alternatives. Each core investment alternative shall be diversified, shall demonstrate materially different risk and return characteristics from each other core investment alternative and shall, when combined with other Investment Options, tend to minimize through diversification the overall risk of the Member's portfolio. In the aggregate, the three core investment alternatives shall constitute a broad range of alternatives such that, by choosing among them, a Member may achieve a portfolio with risk and return characteristics at any point within the range normally appropriate to the Member's portfolio.

(b) Frequency of Investment Instructions. The Member shall be able to give investment instructions to a person designated by the Company as an agent for this purpose. The person shall be obligated to comply with the instructions of the Member, except as otherwise permitted by law. The Member shall be able to give investment instructions for each investment alternative as frequently as is appropriate given the volatility of the investment, but no less frequently than once within every three-month period.

(c) Provision of Sufficient Information to Member or Beneficiary. The Member shall be provided information sufficient to make informed decisions regarding the Plan's Investment Options. Such information shall include:

(1) An explanation that the Plan is intended to be in compliance with ERISA section 404(c) and that Plan fiduciaries may be relieved of liability for losses that arise from the Member's investment choices;

(2) A description of all Investment Options, including a general description of the investment objectives of each and the level of diversification in each;

(3) An explanation that Members and Beneficiaries may review any prospectuses or similar materials made available to the Plan for each Investment Option;

(4) The identification of any designated investment manager;

(5) An explanation of the circumstances under which a Member may give investment instructions, together with any limitations on those instructions;

(6) A description of any transaction fees, charges or expenses to a Member's Account in connection with the purchase or sale of any Investment Option;

(7) The name, address and telephone number of the Plan fiduciary responsible for providing information on request with a description of such information available upon request;

(8) An explanation of the established procedures designed to provide for the confidentiality of information concerning the purchase, holding or sale of PACCAR Stock;

(9) A copy of the most recent prospectus in the case of an initial purchase in an Investment Option subject to the Securities Act of 1933; and

(10) Any materials provided to the Plan that relate to the exercise of voting, tender or similar rights passed through to Members and Beneficiaries.

Information that must be provided on request in accordance with Department of Labor Regulation 2550.404c-1(b)(2) includes certain information relating to financial reports of Investment Options, operating expenses of the portfolio assets of the Investment Options, overall investment performance of the Investment Options and information relating to the shares of an investment in the requesting Members' Account. Additional information may be available upon request.

The Beneficiary of a Member shall have the same investment rights as herein described where such Beneficiary becomes entitled to a Member's Salary Deferral Account under the Plan.

6.7 Expenses of Plan and Trust

The fees of the Trustee and any Investment Manager, and the expenses of administering the Trust Fund and the Plan, shall be paid out of the Trust Fund pursuant to the terms of the Trust Agreement, or by or through offsets attributable to the Plan's investment options, except such expenses as are paid by the Company.

6.8 Forfeitures

Any forfeitures that arise under the Plan shall be placed in an unallocated Account, which may be invested in any Investment Option at the discretion of the Company, and which will be applied to correct administrative errors, pay reasonable administrative expenses, or reduce Company Contributions under Section 5, all as determined in the sole discretion of the Company.

ARTICLE 7

ACCOUNTS AND VALUATIONS

7.1 Types of Accounts

Accounts shall be established and maintained for each Member which reflect his interest in contributions made under the Plan and the investment experience thereof. A Member's interest in the Plan shall consist of one or more of the following Accounts:

(a) Company Contributions Account

A Company Contributions Account, reflecting Company Contributions made on behalf of a Member with respect to periods after June 30, 1978 and earnings, losses and expenses attributable to such Company Contributions.

(b) Salary Deferral Accounts

A Salary Deferral Account, reflecting Salary Deferrals (including Age 50 Catch-Up Deferrals) and Rollover Contributions made by a Member to the Plan and earnings, losses and expenses attributable to such Salary Deferrals (including Age 50 Catch-Up Deferrals) and Rollover Contributions. A Salary Deferral Account may also include amounts transferred from a Prior Profit Sharing Account effective July 1, 1987, and earnings, losses and expenses attributable to such amounts.

(c) Employee Accounts

An Employee Account, reflecting Member Contributions made by a Member to the Plan prior to February 1, 1983 and earnings, losses and expenses attributable to such Member Contributions.

Such separate Accounts are maintained for accounting purposes and shall not require a segregation of Trust Fund assets to each Account.

7.2 Valuation of Accounts

As of each Valuation Date, the fair market value and balance of each Member's Accounts shall be determined, as provided in (a), (b), (c) and (d) below. Any lawful procedure may be used for determining the fair market value and balance of Accounts; provided that such procedure is consistent with this Section 7.2.

(a) Valuation of Trust Fund

The Company shall ascertain from the Trustee the fair market value of the assets of each portion of the Trust Fund as of the Valuation Date. The fair market value of PACCAR Stock shall be the last-transaction price quoted by the National Market System of the National Association of Securities Dealers and reported by The Wall Street journal with respect to the Valuation Date.

(b) Contributions Credited

Each Member's Company Contributions Account shall be credited with the amount of any Company Contributions allocated as of a day or days within the Plan Year as the Company shall determine in its sole discretion. Each Member's Salary Deferral Accounts shall be credited with the amount of Salary Deferrals withheld, transfers from Company Contributions Accounts received and Rollover Contributions received in such calendar month.

(c) Charges Against Accounts

The amount of any transfers, withdrawals, loans and distributions of Benefits effected during the calendar month ending with the Valuation Date shall be charged against each Member's Company Contributions, Salary Deferral and Employee Accounts, as applicable.

(d) Allocation of Dividends

Notwithstanding any other provision of the Plan, a Member may, in accordance with procedures established by the Company, elect to have any cash dividends paid on PACCAR Stock that is held in the Member's Company Contributions Account, Salary Deferral Account or Employee Account, as applicable, paid directly to such Member in cash or allocated to the Member's Account(s) and re-invested in PACCAR Stock. In the absence of a proper election by the Member, any such cash dividend shall be allocated to the Member's Account(s) and re-invested in PACCAR Stock.

7.3 Statements for Members

A statement for each Member shall be prepared and distributed to the Member annually or more frequently, as determined by the Company. Such statement shall reflect the status (including the fair market value) of the Member's Accounts and shall contain such other information as the Company may determine.

ARTICLE 8

AMOUNT AND DISTRIBUTION OF BENEFITS

8.1 Vesting and Amount of Benefits

Each Member's interest in his Accounts is 100 percent vested at all times. In the case of a reemployed Member who previously incurred a forfeiture from his Company Contributions Account under the Plan as in effect prior to January 1, 1989, any such forfeiture may be restored to the Member's Company Contributions Account if the Member satisfies the requirements of the Plan as in effect prior to January 1, 1989, concerning the repayment of prior forfeitures. Benefits to which a Member is entitled are distributable to such Member or his Beneficiary, as the case may be, as further provided in this Article 8. The amount distributable to the Member shall be determined as of the later of (a) the Valuation Date coinciding with or immediately following the date of the Member's termination of employment or (b) the Valuation Date coinciding with or immediately preceding the distribution date elected by the Member under Section 8.2.

8.2 Normal Time of Distribution

Subject to Sections 8.3, 8.4 and 8.8, a Member's Benefit shall be distributed to him on (or as soon as reasonably practicable after) the date that he has elected. The distribution election shall be made in accordance with the Company's administrative procedures, and where applicable, such procedures shall require the consent (written, if necessary) of the Member to the distribution of his Benefit before he attains age 65.

8.3 Time of Distribution

A Member who is Totally Disabled may elect to receive his Plan Benefit in accordance with the Company's administrative procedures. In the case of a Member who is not Totally Disabled, the Benefit shall not be distributed before the later of the following dates:

(a) The date when the Member ceases to be an Employee; or

(b) The date when the election is received.

Notwithstanding Section 14.2(c), for purposes of Plan distributions, a Member shall be treated as having ceased to be an Employee under the Plan during any period in which the Member is performing service in the uniformed services while on active duty for a period of more than thirty (30) days (as described in section 3401(h)(2)(A) of the IRC). If a Member elects to receive a distribution by reason of such deemed cessation of employment, and the Member otherwise would not have been treated as having ceased to be an Employee under the Plan, the Member may not make Salary Deferrals during the 6-month period beginning on the date of the distribution.

8.4 Special Rules Regarding Distribution

(a) If a Member other than a five-percent owner of PACCAR stock (as defined in section 416 of the IRC and taking into account any modifications under section 401(a)(9) of the IRC) is still an Employee as of the April 1 following the calendar year in which he attains age 70 ½, in addition to the in-service withdrawal options available under Article 10, he may elect (in the manner specified under the Company's administrative procedures) to receive or commence payment of his Benefit in the form described in Subsection (b) below. If he does not so elect, payment shall be deferred to the date he ceases to be an Employee, in which case his Benefit shall be paid or commence as soon as reasonably practicable thereafter, but not later than April 1 of the calendar year following the calendar year in which he ceases to be an Employee.

(b) A Member who is still an Employee as of April 1 of the calendar year following the calendar year in which he attains age 70 ½ may elect annual installments consisting entirely of cash based upon his life expectancy or the joint life expectancy of himself and his Beneficiary. Subject to such other administrative ordering rules as the Company may adopt, the installment payments shall be taken (1) first from the Member's Member Contributions which were not previously withdrawn or distributed; and (2) from the Investment Options in which the Member's Accounts are invested on a pro rata basis.

(c) Notwithstanding the foregoing, distributions otherwise required by this Section 8.4 and section 401(a)(9) of the IRC shall be waived with respect to the 2009 calendar year in accordance with the Worker, Retiree, and Employer Recovery Act of 2008, unless the Member elects to continue them. If a Member elects to receive a distribution that would have been required by this Section 8.4 and section 401(a)(9) of the IRC with respect to the 2009 calendar year without regard to this paragraph, such distribution will be treated as an eligible rollover distribution subject to Section 8.13.

(d) All distributions under the Plan shall be made in accordance with section 401(a)(9) of the IRC and the regulations thereunder, including Income Tax Regulation sections 1.401(a)(9)-1 through 9. Such regulations are incorporated in the Plan by reference and shall override any inconsistent provisions of the Plan.

8.5 Reemployment

In the event that a Member is reemployed and becomes a Member of the Plan prior to the distribution of his entire Benefit relating to his earlier period of employment, then (a) any election of a deferred distribution date under Section 8.2 shall be disregarded; (b) any installment payments in process shall be discontinued; and (c) the Member's entire Benefit, including the Benefit relating to the period following his reemployment, shall be distributed in accordance with the latest distribution election form filed by the Member, after his reemployment, pursuant to Section 8.2.

8.6 Available Forms of Distribution

A Member whose employment as an Employee terminates may elect to have his Benefit distributed in one of the following forms:

(a) A lump sum consisting of the whole shares of PACCAR Stock held in the Member's Company Contributions Account, Salary Deferral Account and Employee Account as of the Valuation Date coincident with or immediately preceding distribution of the Member's Benefit, and cash equal to the balance of the Member's Benefit;

(b) A lump sum consisting entirely of cash;

(c) Monthly, quarterly or annual installments consisting entirely of cash, payable over a period of at least one year and not to exceed 15 years, subject to the limitations of Section 8.4(d). Subject to such other administrative ordering rules as the Company may adopt, installment payments shall be taken (1) first from the Member's Member Contributions which were not previously withdrawn or distributed; and (2) from the Investment Options in which the Member's Accounts are invested on a pro rata basis.

A Member who has commenced installment payments under this Subsection (c) may elect, in accordance with the Company's administrative procedures, to terminate the remaining scheduled installments at any time, and shall be eligible to elect distribution of the remaining value of his Accounts in any other form of distribution available under this Section 8.6; provided, however, that any new election of installment payments shall be subject to the same 15 year maximum payment period that applied to the original installment payments.

8.7 Election of a Form of Distribution

(a) General Rule

A Member entitled to a Benefit shall elect a form of distribution under Section 8.6 in accordance with the Company's administrative procedures. Such election shall include such information as the Company may reasonably require and, if the distribution is to be made prior to the Member's attainment of age 65, the election shall be made no more than 180 days prior to the distribution date elected by the Member.

(b) Member Who Fails to Elect Payment Form

If a Member's Benefit must be paid after he ceases to be an Employee on account of his Required Beginning Date, he shall elect a form of distribution under Section 8.6 for this Benefit. If the Member fails to elect any form of distribution for such Benefit before his Required Beginning Date, then such Benefit shall be distributed in the form of annual installments consisting entirely of cash based upon his life expectancy described in Section 8.4(b).

8.8 Small Benefits

Any other provision of this Article 8 notwithstanding, effective for distributions made on or after September 1, 2016, if the value of a Member's entire Benefit equals $5,000 or less before the first payment of such Benefit is made, then the Benefit automatically shall be paid to such Member (or, in the case of his termination as a result of his death, to his Beneficiary) in a single lump sum in cash no earlier than as soon as administratively practicable after the Member's termination and without his consent. If the value of a benefit payable to an alternate payee pursuant to a qualified domestic relations order (as defined in section 414(p) of the IRC) ("QDRO") is not more than $5,000 and payment of such benefit has not commenced, such benefit shall be paid automatically to such alternate payee in a single lump sum in cash no earlier than as soon as administratively practicable after the QDRO is received by the Plan and without the alternate payee's consent.

If an automatic lump sum distribution payable to a Member who has not attained age 65 is more than $1,000, and if the Member does not elect to have such distribution paid directly to an Eligible Retirement Plan in accordance with Section 8.13 or to receive the distribution directly, then the distribution shall be directly rolled over to an individual retirement account designated by the Company. The preceding sentence shall not apply to amounts distributed to a Beneficiary or to an alternate payee pursuant to a QDRO.

8.9 Survivors' Benefits

(a) Member Dies Before Benefit Distribution

This Subsection (a) shall apply in the event that a Member dies before his Benefit has commenced. Such Member's Benefit ordinarily shall be paid to his Beneficiary in the form of a single lump sum in cash, and the distribution ordinarily shall be made as soon as reasonably practicable after the Member's death. A Beneficiary may, however, make request to defer the distribution of the Benefit to which such Beneficiary is entitled. However, the distribution shall in no event be made later than five years after the Member's death. A Beneficiary shall make the request to receive the Benefit to which such Beneficiary is entitled or to defer receipt in accordance with the Company's administrative procedures.

(b) Member Dies After Benefit Distribution Has Commenced

This Subsection (b) shall apply in the event that a Member dies after his Benefit has commenced in the form of installment payments under Section 8.4(b), 8.6(c) or 8.7(b), but before the total value of his Accounts has been distributed.

If a Member dies after installment payments under Section 8.6(c), or annual installment payments based upon the Member's life expectancy under Section 8.4(b) or 8.7(b), have commenced, but before the total value of his Accounts has been distributed, the balance of the Member's Accounts shall be paid to his Beneficiary in the form of a single lump sum in cash, and the distribution shall be made as soon as reasonably practicable after the Member's death.

If a Member dies after annual installment payments based upon the joint life expectancy of the Member and his Beneficiary under Section 8.4(b) have commenced, but before the total value of his Accounts has been distributed, the scheduled annual installments shall continue to the Beneficiary. However, the Beneficiary may elect at any time, in accordance with the Company's administrative procedures, to terminate the remaining scheduled installments and to receive the balance of the Member's Accounts in the form of a single lump sum in cash.

(c) Designating a Beneficiary

Upon commencement of membership, each Member shall name one or more persons as the Beneficiary who will receive any distribution payable under the Plan in the event of the Member's death in accordance with procedures established by the Company. If the Member has not made an effective designation of a Beneficiary or if none of the named Beneficiaries is living when any distribution is to be made, then (1) the spouse of the deceased Member shall be the Beneficiary or (2) if the Member has no spouse living at the time of such distribution, then the living children of the deceased Member shall be the Beneficiaries in equal shares or (3) if the Member has neither spouse nor children living at the time of such payment, the estate of the Member shall be the Beneficiary. The Member may change his designation of a Beneficiary from time to time in accordance with procedures established by the Company. Any other provision of this Subsection (b) notwithstanding, in the case of a married Member, any designation of a person other than his spouse as Beneficiary shall be effective only if the spouse consents to the designation in writing and such written consent is witnessed by a notary public.

8.10 No Alienation of Benefits; Qualified Domestic Relations Order

No benefit payable under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution or levy of any kind, either voluntary or involuntary, prior to actually being received by the person entitled to such benefit under the terms of the Plan; and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge or otherwise dispose of any right to a benefit payable hereunder shall be void. However, neither of the following shall constitute a violation of this Section 8.10:

(a) The creation or recognition of a right in an alternate payee to any pension payable with respect to a Member pursuant to a qualified domestic relations order (as defined in IRC Section 414(p)), as determined in accordance with procedures established by the Company, and the payment of benefits in accordance with the applicable requirements of such order; or

(b) The Trustee's compliance with instructions from the Company to reduce a Member's benefit by amounts the Member is ordered or required to pay the Plan, where such order or requirement: (i) arises under a judgment of conviction for a crime involving the Plan, under a civil judgment (including a consent order or decree) entered by a court on or after August 5, 1997 in an action brought in connection with a violation of part 4 of subtitle B of title I of ERISA or under a settlement entered into on or after August 5, 1997 with the Department of Labor asserting a violation of part 4 of subtitle B of title I of ERISA; and (ii) the judgment, order, decree or settlement expressly provides for the offset of all or part of the amount ordered or required to be paid to the Plan against the Member's benefits provided under the Plan.

Pursuant to a qualified domestic relations order, the Plan may distribute any benefit payable to an alternate payee in the form of a single lump sum in cash prior to the earliest date upon which the Member could receive his Benefit. To the extent that a qualified domestic relations order creates, assigns, or recognizes the right of an alternate payee to any portion of the Benefit otherwise payable to or with respect to a Member, such portion shall not thereafter be taken into account in determining the Benefit payable to or with respect to that Member under the Plan.

8.11 Facility of Payment

Whenever, in the Company's opinion, a person entitled to receive any distribution of a Benefit or installment thereof is under a legal disability or is physically or mentally incapacitated in any way so as to be unable to manage his financial affairs, the Company may direct the Trustee to make distribution to such person or to his legal representative or to a relative or friend of such person for his benefit; or the Company may direct the Trustee to apply the payment for the benefit of such person in such manner as the Company considers advisable.

8.12 Payments Discharge Plan; Adverse Claims

Any payment or distribution made to any person in full compliance with the terms of the Plan shall fully discharge the Company, the Plan and any Trustee or insurance company making such payment from all adverse claims thereto respecting which prior written notice has not been given to any such entity making or directing the payment or distribution. If the Company has received actual written notice of any adverse claim to any payment or distribution not yet made, the Company may suspend distribution and take such other action as it deems necessary or advisable to protect the Plan or its Members and Beneficiaries, until the respective rights of all interested persons have been determined to the satisfaction of the Company.

8.13 Direct Rollovers

(a) Direct Rollover Option

Notwithstanding any provision of the Plan to the contrary that would otherwise limit a Distributee's election under this Section, a Distributee may elect, at the time and in the manner prescribed by the Company, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a Direct Rollover.

(b) Definition of Eligible Rollover Distribution

Effective with respect to distributions made after December 31, 2006, an Eligible Rollover Distribution is any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated beneficiary, or for a specified period of 10 years or more;

any distribution to the extent such distribution is required under section 401(a)(9) of the IRC; the portion of any distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities), except to the extent that such portion is directly rolled over to a qualified trust described in section 401(a) of the IRC, or an annuity contract described in section 403(b) of the IRC, which agrees to separately account for the portion which is not so includible, or such portion is rolled over to an individual retirement account or annuity described in section 408(a) or 408(b) of the IRC; and a distribution which is made upon hardship of the Distributee.

(c) Definition of Eligible Retirement Plan

Effective with respect to an Eligible Rollover Distribution made after December 31, 2006, an Eligible Retirement Plan is an individual retirement account described in section 408(a) of the IRC; an individual retirement annuity described in section 408(b) of the IRC; an annuity plan described in section 403(a) of the IRC; an annuity contract described in Section 403(b) of the IRC; an eligible plan under Section 457(b) of the IRC maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state, that agrees to account separately for the Eligible Rollover Distribution; or a qualified trust described in section 401(a) of the IRC that accepts the Distributee's Eligible Rollover Distribution. With respect to the portion of an Eligible Rollover Distribution that is not includible in gross income (if it were paid to the Distributee), an "Eligible Retirement Plan" is limited to a qualified trust described in section 401(a) of the IRC, or an annuity contract described in section 403(b) of the IRC, that agrees to account separately for the portion which is includible in gross income and the portion which is not so includible, or an individual retirement account or annuity described in section 408(a) or 408(b) of the IRC. Effective with respect to an Eligible Rollover Distribution made on or after July 1, 2007 to a Beneficiary who is not the Employee's or former Employee's surviving spouse, an "Eligible Retirement Plan" is limited to an individual retirement account or annuity described in section 408(a) or 408(b) of the IRC established for the purpose of receiving the Eligible Rollover Distribution on behalf of such Beneficiary and that agrees to be treated as an inherited individual retirement account or annuity within the meaning of section 402 (c)(11) of the IRC. Effective with respect to an Eligible Rollover Distribution made after December 31, 2007, "Eligible Retirement Plan" also includes a Roth IRA described in section 408A of the IRC.

(d) Definition of Distributee

Effective with respect to distributions made on or after July 1, 2007, a Distributee includes an Employee, former Employee, Beneficiary (other than the Member's estate) or a spouse or former spouse who is an Alternate Payee under a qualified domestic relations order.

(e) Definition of Direct Rollover

A Direct Rollover is a payment by the Plan directly to the Eligible Retirement Plan specified by the Distributee.

(f) Waiver of Waiting Period

An Eligible Rollover Distribution may commence less than 30 days after the notice required under Income Tax Regulation section 1.411(a)-11(c) and section 402(f) is given; provided that (1) the Member is clearly informed that the Member has the right to a period of at least 30 days after receiving the notice to consider the decision of whether or not to elect a distribution (and, if applicable, the particular distribution option), and (2) the Member, after receiving the notice, affirmatively elects a distribution.

ARTICLE 9

LOANS

9.1 Amount of Loans

A Member or Restricted Member who is an Employee, and an Employee who is not a Member but who is a Restricted Member as a result of making one or more Rollover Contributions to the Plan, may obtain a cash loan from his Employee and Salary Deferral Accounts; provided, however, that (a) he or she shall not be permitted to obtain a loan under the Plan if, at any time in the prior 12 months, he or she defaulted on a Plan loan (as determined in accordance with the Company's administrative procedures), and (b) he or she shall not be permitted to obtain more than two new loans in any Plan Year. The minimum amount of the loan shall be $1,000. The maximum amount of the loan shall be subject to the limitations of Section 9.2. All loan amounts not evenly divisible by $100 shall be rounded down to the nearest $100.

9.2 Aggregate Loan Limitation

No loan shall be granted under the Plan if it would cause the aggregate balance of all loans which a Member or Restricted Member thereafter has outstanding under this Plan or under any other qualified plan maintained by any PACCAR Inc or any of its Subsidiaries (determined without regard to the last sentence of Section 2.1(mm)) to exceed the least of the following:

(a) $50,000, less the highest outstanding loan balance during the period of 12 consecutive months ending on the day before a new loan is made; or

(b) One-half of the value of the Member's or Restricted Member's Accounts (or such lesser amount as may be required pursuant to Regulation 2550.408b-1(f) of the Department of Labor).

9.3 Terms of Loans

A loan to a Member or Restricted Member shall be made on such terms and conditions as the Company may determine, provided that the loan shall:

(a) Be evidenced by a promissory note signed by the Member or Restricted Member and secured by one-half of the value of his Accounts (regardless of whether a particular Account provided funds for the loan under Section 9.1);

(b) Bear interest at a fixed rate (determined by the Company) commensurate with the interest rates charged for similar loans by commercial lenders;

(c) Provide for level amortization over its term with payments at monthly or more frequent intervals, as determined by the Company;

(d) Provide for loan payments (1) to be withheld whenever possible through periodic payroll deductions from the Member's or Restricted Member's compensation from the Company or (2) to be paid by check or money order whenever payroll withholding is not possible;

(e) Provide for repayment in full on or before the earlier of (1) the distribution date elected by the Member pursuant to Section 8.2 or (2) the date five years after the loan is made (or the date 15 years after the loan is made if the loan is used to acquire a dwelling which, within a reasonable period of time, is used as the principal residence of the Member);

(f) Provide that a Member or Restricted Member may not receive any distribution from any of his Accounts under Article 8 until the loan obligation is repaid, except to the extent that all or any part of such distribution is used to repay the outstanding balance of the loan; and

(g) Provide that a Member's or Restricted Member's Accounts shall not be applied to the satisfaction of the Member's loan obligations before the Accounts become distributable under Article 8, unless the Company determines that the loan obligations are in default and takes such actions as the Company deems necessary or appropriate to cause the Plan to realize on its security for the loan as permitted under the IRC and the Income tax Regulations thereunder.

9.4 Company Consent

The Company, based on the criteria set forth in this Article 9, may withhold its consent to any loan or may consent only to the borrowing of a part of the amount requested by the Member. The Company shall act upon requests for loans in a uniform and nondiscriminatory manner, consistent with the requirements of section 401(a), section 401(k), section 4975 and related provisions of the IRC.

9.5 Source of Loans

If a Member requests and is granted a loan, the amount of the loan shall be disbursed from the Trust Fund. The promissory note executed by the Member shall be held by the Trustee or by the Company as agent of the Trustee and the promissory note shall be treated as an investment of the Trust Fund.

9.6 Disbursement of Loans

A Member may request a loan in accordance with the Company's administrative procedures. A loan shall be disbursed as soon as reasonably practicable after the date on which the prescribed loan request is received (subject to the Company's consent).

9.7 Valuation Date

For purposes of this Article 9, the value of a Member's Accounts shall be determined as of the Valuation Date coinciding with or next following the date the prescribed loan request is received.

9.8 Loan Fees

A Member who obtains a loan under this Article 9 shall be required to pay such fees as the Company may impose in order to defray the cost of administering loans from the Plan.

ARTICLE 10

WITHDRAWALS

10.1 Regular Withdrawals

Any Member who is an Employee may withdraw an amount from his Employee Accounts and Company Contributions Account not in excess of the sum of the following:

(a) The previously unwithdrawn and undistributed value of the Member's Employee Accounts as of the last Valuation Date in the 1988 Plan Year; and

(b) The previously unwithdrawn and undistributed shares of PACCAR Stock allocated to the Member's Company Contributions Account as of the last Valuation Date in the 1988 Plan Year.

10.2 Withdrawals After Age 59 ½

Any Member who is an Employee and who has attained age 59 ½ may withdraw an amount from his Accounts in one of the following forms:

(a) A lump sum consisting of all of the whole shares of PACCAR Stock held in the Member's Accounts, and cash equal to the balance of the Member's Accounts (excluding the amount of any loan balance that remains outstanding under Article 9); or

(b) Any amount from the Member's Accounts (excluding the amount of any loan balance that remains outstanding under Article 9) in a lump sum consisting entirely of cash.

10.3 Hardship Withdrawals

Any Member who is an Employee, who has not attained age 59 ½ and who has taken all other available distributions from the Plan may withdraw an amount from his Accounts not in excess of the amount necessary to satisfy an immediate and heavy financial need, as long as the Member has demonstrated that no resources other than such withdrawal are reasonably available to meet such need. The maximum amount that may be withdrawn is the amount credited to the Member's Accounts, excluding any income credited to a Member's Salary Deferrals (including Age 50 Catch-Up Deferrals) after the last Valuation Date in the 1988 Plan Year, qualified nonelective contributions and qualified matching contributions (and income allocable thereto), and any other amounts that are prohibited from being withdrawable upon hardship under the rules applicable to qualified plans under section 401(a) of the IRC or the Income Tax Regulations issued thereunder.

(a) Immediate and Heavy Financial Need

The following shall constitute an immediate and heavy financial need:

(1) Unreimbursed medical expenses described in section 213(d) of the IRC previously incurred by the Member, the Member's spouse, Beneficiary, children or any dependents of the Member (as defined in section 152 of the IRC determined without regard to subsections 152(b)(1), 152(b)(2), or 152(d)(1)(b)) or necessary for these persons to obtain medical care described in section 213(d) of the IRC;

(2) Costs related directly to the purchase (excluding mortgage payments) of a principal residence of the Member;

(3) Payment of tuition and related educational fees and room and board expenses for the next twelve (12) months of post-secondary education for the Member, his or her spouse, Beneficiary, children, or dependents (as defined in section 152 of the IRC determined without regard to subsections 152(b)(1), 152(b)(2), or 152(d)(1)(b));

(4) The need to prevent the eviction of the Member from his or her principal residence or foreclosure on the mortgage of the Member's principal residence;

(5) Payment of funeral expenses for a Member's deceased parent, spouse, Beneficiary, children or any dependents of the Member (as defined in section 152 of the IRC determined without regard to subsection 152(d)(1)(b));

(6) The payment of expenses for the repair of damage to the Member's principal residence that would qualify for the casualty deduction under section 165 of the IRC (determined without regard to whether the loss exceeds 10% of adjusted gross income); or

(7) Any other expense or indebtedness which the Internal Revenue Service announces constitutes an immediate and heavy financial need, taking into account all of the relevant facts and circumstances as set forth under section 1.401(k)-1(d)(3)(iii)(A) of the Treasury Regulations. The Plan will be nondiscriminatory.

(b) Withdrawal Demonstrated as Necessary to Satisfy Need.

A withdrawal will be demonstrated as necessary to satisfy an immediate and heavy financial need of the Member if the amount of the withdrawal is not in excess of the amount of the Member's immediate and heavy financial need (including amounts necessary to pay any federal, state or local income taxes or penalties reasonably anticipated to result from the withdrawal) and the Member certifies (and the Company does not have knowledge to the contrary) that the need cannot be relieved:

(1) Through reimbursement or compensation by insurance, or otherwise,

(2) By reasonable liquidation of the Member's assets, to the extent such liquidation would not itself cause an immediate and heavy financial need,

(3) By cessation of Salary Deferrals under the Plan, or

(4) By other distributions or nontaxable loans from plans (including the Plan) maintained by the Company or by any other employer, or by borrowing from commercial sources on reasonable commercial terms.

The Member's resources shall be deemed to include those assets of his or her spouse and minor children that are reasonably available to the Member.

A Member who takes a hardship withdrawal hereunder shall be suspended from making Salary Deferrals under the Plan for six months, as described in Section 4.4.

10.4 Source of Withdrawals

(a) Regular Withdrawals

Regular withdrawals pursuant to Section 10.1 shall be paid from the available sources in the following sequence, as necessary, until the full amount has been satisfied:

(1) First, from the Member's Member Contributions which were not previously withdrawn or distributed;

(2) Second, from other amounts credited to the Member's Employee Accounts (to the extent that the balance in the Member's Employee Accounts exceeds his unwithdrawn and undistributed Member Contributions and to the extent that such amounts are available under Section 10.1(a); and

(3) Last, from the Member's Company Contributions Account (to the extent that the Company Contributions Account is available under Section 10.1(b)).

Subject to the preceding sentence and such other administrative ordering rules as the Company may adopt, the withdrawal from a Member's Accounts shall be taken from the Investment Options in which such Accounts are invested on a pro rata basis.

(b) Age 59 ½ and Hardship Withdrawals

To the extent that less than the full value of the Member's Accounts is being withdrawn and subject to such other administrative ordering rules as the Company may adopt, (1) age 59 ½ withdrawals pursuant to Section 10.2 shall be taken first from the Member's Member Contributions which were not previously withdrawn or distributed; and (2) age 59 ½ and hardship withdrawals pursuant to Sections 10.2 and 10.3, as applicable, shall be taken from the Investment Options in which the Member's Accounts are invested on a pro rata basis.

10.5 Application for Withdrawals: Time and Form of Distribution

A Member who wishes to make any withdrawal under this Article 10 shall request a withdrawal in accordance with the Company's administrative procedures. The withdrawal distribution shall be paid as soon as reasonably practicable after receipt of such request. Except as provided in Section 10.2(a), withdrawal distributions shall be made only in cash. The amount available for withdrawal (including the value of any PACCAR Stock to be distributed in kind or converted to cash) shall be determined as soon as reasonably practicable after the date on which the withdrawal request form is received.

10.6 Limitations on Withdrawals

The total value of any withdrawal distribution shall not be less than $500, unless the aggregate amount available for withdrawal is less than $500, in which event only such aggregate amount may be withdrawn.

ARTICLE 11

SALE OF STOCK TO TRUSTEE

A Member or his Beneficiary may offer to sell to the Trustee any shares of PACCAR Stock distributed from the Member's Company Contributions Account, Salary Deferral Account, or Employee Account as a Benefit under Article 8. Any such offer shall be made in writing on the prescribed form. To the extent that the Trustee has cash available for investment in PACCAR Stock, it may purchase pursuant to the Trust Agreement any shares of PACCAR Stock so offered at the last-transaction price quoted by the National Market System of the National Association of Securities Dealers and reported by The Wall Street Journal with respect to the trading day on which such offer was received by the Trustee at the address prescribed by it for this purpose. No commission shall be paid in connection with any such purchase.

ARTICLE 12

PLAN ADMINISTRATION

12.1 Company as Plan Administrator

The Company is the named Fiduciary which has the discretionary authority to control and manage the operation and administration of the Plan, and it is the "administrator" of the Plan (as such term is used in ERISA). The Company shall make such regulations, rules, interpretations, procedures and computations, and shall take such other action to administer the Plan, as it may deem appropriate. Any regulations, rules and interpretations adopted by the Company shall be conclusive and binding on all persons. Any regulations, rules and procedures of general application established by the Company for the administration or operation of the Plan shall be consistent with any applicable requirements of ERISA and the IRC. In administering the Plan, the Company shall act in a nondiscriminatory manner to the extent required by section 401(a) and related provisions of the IRC and shall at all times discharge its duties with respect to the Plan in accordance with the standards set forth in section 404(a)(1) of ERISA.

12.2 Carrying out Fiduciary Duties

Any person or group of persons may serve in more than one Fiduciary capacity with respect to the Plan, and any Fiduciary may employ one or more persons to render advice with regard to such Fiduciary's responsibilities under the Plan.

The Company may designate, by written instrument signed by both parties, one or more persons to carry out the Company's Fiduciary responsibilities (other than Trustee responsibilities) under the Plan. The Company's duties and responsibilities as administrator and sponsor of the Plan which have not been delegated to others pursuant to the preceding sentence shall be carried out by its directors, officers and employees. Such directors, officers and employees shall act on behalf and in the name of the Company in their respective capacities as directors, officers and employees and not as individual Fiduciaries.

12.3 Appointment of Public Accountant

The Company shall engage an independent qualified public accountant to conduct such examinations and to express such opinions as may be required by section 103(a)(3) of ERISA. The Company in its discretion may remove and discharge the person so engaged, but in such case it shall appoint a successor independent qualified public accountant to perform such examinations and to express such opinions.

12.4 Reliance on Plan Records; Member's Duty to Notify

In connection with the Company's administration of the Plan, it is the responsibility of any person having rights under the Plan to notify the Company in writing of the current status of any matters affecting such rights, including (without limitation) the designation of Beneficiaries, the exercise of elections, facts relevant to employment and marital status, and the correct address to which matters affecting such person shall be mailed or delivered. The Company may rely solely on the records of the Plan, as modified by any such written notice, and on information otherwise available to the Company, in its administration of the Plan. The Company in administering the Plan may further rely on information or advice furnished by the Trustee, actuaries, counsel or other persons retained to advise or assist the Plan.

ARTICLE 13

CLAIMS AND REVIEW PROCEDURES

13.1 Applications for Benefits

Any application for benefits under the Plan shall be submitted to the Company. Any application shall be in writing on the prescribed form and shall be addressed as follows:

Savings Investment Plan
PACCAR Inc
P.O. Box 1518
Bellevue, Washington 98009

13.2 Denial of Applications

In the event that any application for benefits is denied in whole or in part, the Company shall notify the applicant in writing of his right to an independent review of the denial. Such written notice shall set forth, in a manner calculated to be understood by the applicant, specific reasons for the denial, specific references to the Plan provisions on which the denial is based, a description of any information or material necessary to perfect the application, an explanation of why such material is necessary, an explanation of the Plan's review procedure, (including an explanation of the applicant's right to initiate a lawsuit under section 502(a) of ERISA if the applicant's appeal is denied), and, in the case of a Disability Claim (defined below), each specific internal rule, guideline, protocol or other similar criteria relied upon in making such denial (or a statement that such criteria were relied upon and will be provided free of charge to the applicant upon request), if any. An application shall be granted, or written notice of a denial shall be given to the applicant, within 90 days (45 days in the case of a Disability Claim) after the Company receives a proper application, unless special circumstances (which are matters beyond the control of the Plan in the case of a Disability Claim) require an extension of time for processing the application. In no event shall such an extension exceed a period of 90 days (30 days in the case of a Disability Claim) from the end of the initial 90-day period (45-day period in the case of a Disability Claim). If such an extension is required, written notice thereof shall be furnished to the applicant before the end of the initial 90-day period (45-day period in the case of a Disability Claim) indicating the circumstances requiring an extension of time and the date by which the Company expects to render a decision. If the Company determines that a decision on a Disability Claim cannot be rendered within the initial 30-day extension period due to matters beyond the control of the Plan, the period for making a determination may be extended for an additional 30 days, provided that written notice is furnished to the applicant before the end of the initial 30-day extension period indicating the circumstances requiring an additional extension of time and the date by which the Company expects to render a decision. In the case of any extension with respect to a Disability Claim, the notice of extension shall specifically explain the standards on which benefit entitlement is based, the unresolved issues that prevent a decision on the Disability Claim, the additional information needed to resolve those issues and that the applicant shall have a period of 45 days within which to provide the specified information. For purposes of this Article 13, "Disability Claim" shall mean a claim for benefits under the Plan based on an applicant's Total Disability pursuant to Section 2.1(pp)(3) of the Plan.

13.3 Requests for Review

Any person whose application for benefits is denied in whole or in part (or such person's duly authorized representative) may appeal from the denial by submitting to the Company a request for an independent review of such application within 60 days (180 days in the case of a Disability Claim) after receiving written notice of the denial. Such independent review shall take into consideration all relevant documents and other information submitted by the applicant, whether or not such information was submitted in the initial benefit determination and, in the case of a Disability Claim, shall be conducted without deference to the initial determination. The Company shall give the applicant (or such applicant's authorized representative), upon request and free of charge, copies of and/or an opportunity to review pertinent documents (except legally privileged materials) in preparing such request for review and an opportunity to submit issues and comments in writing. In the case of a Disability Claim, the Company shall identify each medical or vocational expert whose advice was obtained in connection with such denial, whether or not such advice was relied upon in making the denial. The request for review shall be in writing and shall be addressed as follows:

Savings Investment Plan
PACCAR Inc
P.O. Box 1518
Bellevue, Washington 98009

The request for review shall set forth all of the grounds on which it is based, all facts in support of the request and any other matters which the applicant deems pertinent. The Company may require the applicant to submit such additional facts, documents or other material as it may deem necessary or appropriate in making its review. Any review of a denied application shall be conducted in the name of the Company by a panel of three or more individuals who did not take part in the initial processing of such application and, in the case of a Disability Claim, who are not subordinate to any person who took part in such initial processing. The review panel shall be the named fiduciary that has the authority to act with respect to any appeal from a denial of a claim for benefits. Any decision on appeal of a Disability Claim that is based in whole or in part on a medical judgment shall be made in consultation with an appropriate health care professional who did not take part in the initial processing of such application and is not subordinate to any person who took part in such initial processing.

13.4 Decision on Review

The Company shall act upon each request for review within 60 days (45 days in the case of Disability Claim) after receipt thereof, unless special circumstances require an extension of time for processing, but in no event shall the decision on review be rendered more than 120 days (90 days in the case of a Disability Claim) after the Company receives a proper request for review. If such an extension is required, written notice thereof shall be furnished to the applicant before the end of the initial 60-day period (45-day period in the case of Disability Claim). The Company shall give prompt, written notice of its decision to the applicant. In the event that the Company confirms the denial of the application for benefits in whole or in part, such notice shall set forth, in a manner calculated to be understood by the applicant, the specific reasons for such denial, specific references to the Plan provisions on which the decision is based, a statement that the applicant (or the applicant's duly authorized representative) has the right, upon request and free of charge, to receive copies of and/or to review all pertinent documents (other than legally privileged documents), an explanation of the applicant's right to initiate a lawsuit under section 502(a) of ERISA, and, in the case of a Disability Claim, each specific internal rule, guideline, protocol or other similar criteria relied upon in making such denial (or a statement that such criteria were relied upon and will be provided free of charge to the applicant upon request). In the case of a Disability Claim, such notice shall also include the following statement: "You and the Plan may have other voluntary alternative dispute resolution options, such as mediation. One way to find out what may be available is to contact the local U.S. Department of Labor Office and your State insurance regulatory agency."

13.5 Exhaustion of Administrative Remedies; Limitations

No legal or equitable action for benefits under the Plan shall be brought unless and until the claimant (a) has submitted a written application for benefits in accordance with Section 13.1, (b) has been notified that the application is denied, (c) has filed a written request for an independent review of the application in accordance with Section 13.3 and (d) has been notified in writing that the Company has affirmed the denial of the application; provided, however, that such an action may be brought after the Company has failed to act on the claim within a time period prescribed by Sections 13.2 or 13.4.

ARTICLE 14

GENERAL PROVISIONS

14.1 Information and Reports to Members

Each Member shall be advised periodically of the general provisions and the financial condition of the Plan and his Benefit hereunder, as required by law. In addition, the Company shall also furnish to any Member or Beneficiary, upon written request, such information respecting the Plan and such person's Benefit hereunder as may be required by law, but may require payment of a reasonable charge covering the cost of providing such data, as permitted by law.

14.2 Compliance With USERRA

(a) Any other provision of the Plan notwithstanding, with regard to an Employee who after serving in the uniformed services is reemployed within the time required by USERRA, contributions shall be made and benefits and service credit shall be provided under the Plan with respect to his or her qualified military service (as defined in section 414(u)(5) of the IRC) in accordance with section 414(u) of the IRC. Furthermore, notwithstanding any provision of the Plan to the contrary, Member loan payments may be suspended during a period of qualified military service.

(b) In the case of a Member who dies on or after January 1, 2007 while performing qualified military service (as defined in section 414(u) of the IRC), the Member's Beneficiary shall be entitled to any additional benefits (other than contributions relating to the period of qualified military service) provided under the Plan as if the Member had resumed employment immediately prior to his or her death.

(c) (i) An individual receiving "Differential Wage Payments" (as defined in section 3401(h)(2) of the IRC) shall be treated as an Employee, and (ii) the Differential Wage Payments shall be treated as Compensation and as compensation under section 415(c)(3) of the IRC.

14.3 Applicable Law

The Plan and the Trust Agreement are intended to establish a profit-sharing plan and trust qualified under IRC sections 401 (a), 401(k) and 501 and maintained in conformity with said sections and regulations issued thereunder, and in conformity with other applicable provisions of Federal law and regulations governing profit-sharing plans and trusts. Subject to the preceding sentence and to the extent not preempted by Federal law, the Plan shall be governed and construed in accordance with the laws of the State of Washington and shall be governed thereby.

14.4 No Employment Rights Conferred

Nothing in the Plan shall be deemed to give any person any right to remain in the employ of the Company.

14.5 Service Upon Plan; Limitations on Actions Against Plan

Valid service of any legal process upon the Company shall constitute service of process upon the Plan. Any legal proceedings against the Plan shall be commenced within one year, or within any greater period allowed by ERISA section 413, after the cause of action arises, and if not commenced within the applicable period above described, shall be deemed abandoned and forever barred.

14.6 Plan Office; Records

The records of the Plan shall be maintained on a Plan Year basis. The principal office of the Plan, where all Plan records shall be kept, shall be located at the principal office of PACCAR Inc. Copies of all documents constituting a part of the Plan and any related documents shall also be made available at other locations, as may be required by law. The Company shall allow any Member or Beneficiary reasonable access to any documents under which the Plan is established or operated, if a request for such access is made in accordance with the Company's administrative procedure.

14.7 Form of Applications, Elections and Other Communications

All applications, authorizations, designations, elections, instructions or any other communications required or permitted of any person under the Plan shall be made in accordance with procedures established by the Company and, if it is deemed necessary or advisable, shall include the consent of such person's spouse.

14.8 Spousal Consents

This Section 14.8 shall apply whenever the consent of a Member's spouse is required for an election, waiver or designation made by such Member under the Plan. Any spousal consent shall be in writing and shall be witnessed by a Plan representative (if permitted by the Company) or by a notary public. The spousal consent shall acknowledge the effect of the Member's action and shall, if applicable, specify the non-spouse Beneficiary being designated (including any class of Beneficiaries or contingent Beneficiaries). The spousal consent shall be irrevocable. Any other provision of the Plan notwithstanding, no spousal consent shall be required if (a) it is established in accordance with the Company's administrative procedures that there is no spouse or that the spouse cannot be located or (b) the Member is legally separated or has been abandoned (within the meaning of local law) and has an appropriate court order, unless a qualified domestic relations order provides otherwise. If the spouse is legally incompetent to give consent, the spouse's legal guardian (including the Member) may give consent.

14.9 Merger, Consolidation and Transfer of Assets or Liabilities

The Plan may not be merged or consolidated with any other plan, and no assets or liabilities of the Trust Fund may be transferred to any other plan, unless each Member would (if the Plan then terminated) receive a Benefit immediately after the merger, consolidation or transfer which is equal to or greater than the Benefit such Member would have been entitled to receive immediately before such merger, consolidation or transfer (if the Plan had been terminated).

ARTICLE 15

CONTRIBUTION LIMITATIONS

15.1 Basic Limitation

A Member's Annual Additions with respect to any calendar year shall in no event exceed his Contribution Limitation for such calendar year.

In the event that a Member's Contribution Limitation would be exceeded, his Annual Additions shall be reduced to an amount equal to his Contribution Limitation by reducing the components of his Annual Additions as necessary in accordance with the correction methods specified in Section 6.06(2) and (3) of Revenue Procedure 2008-50 or its successor.

In applying these rules, this Plan and any other plan required to be aggregated with this Plan under Treas. Reg. § 1.415(f)-1 shall be treated as one plan.

15.2 Effect on Future Contributions

Articles 4 and 5 notwithstanding, the Salary Deferrals which a Member is permitted to contribute and his share of Company Contributions shall be reduced prospectively to the extent required by Section 15.1. The aggregate amount of the Company Contributions that otherwise would be made under Article 5 shall be reduced accordingly.

15.3 Definitions

As used in this Article 15, the following words and phrases shall have the following meanings:

(a) "Affiliate" means any corporation which is a member of a "controlled group of corporations" (within the meaning of IRC section 1563(a), determined without regard to IRC sections 1563(a)(4) and 1563(e)(3)(C), and as modified by IRC section 415(h)) of which group PACCAR Inc is also a member.

(b) "Annual Additions" with respect to any calendar year means the sum of the following:

(1) Employee contributions made by the Member under all qualified defined-contribution or defined-benefit plans maintained by PACCAR Inc or any Affiliate, and any other plan required to be aggregated with this Plan pursuant to Treas. Reg. § 1.415(f)-1, during such calendar year;

(2) Employer contributions and forfeitures allocated to the Member under all qualified defined-contribution plans maintained by PACCAR Inc or any Affiliate, other than this Plan, and any other plan required to be aggregated with this Plan pursuant to Treas. Reg. § 1.415(f)-1, as of any date within such calendar year;

(3) Salary Deferrals contributed by the Member under this Plan during such calendar year;

(4) Company Contributions allocated to the Member under this Plan as of any date within such calendar year; and

(5) Any other amounts required to be included in Annual Additions by Treas. Reg. §1.415(c)-1(b).

Notwithstanding the foregoing, Annual Additions shall not include any amounts required to be excluded from Annual Additions by Treas. Reg. § 1.415(c)-1(b).

(c) "Compensation" for purposes of this Article 15 only, means compensation as described in Treas. Reg. § 1.415(c)-2(d)(4). Compensation shall also include compensation paid after severance from employment to the extent permitted Treas. Reg. § 1.415(c)-2(e)(3).

(d) "Contribution Limitation" with respect to any calendar year means the lesser of (1) 100 percent of the Member's Compensation for such calendar year or (2) the dollar amount set forth in section 415(c)(1)(A) of the IRC (as adjusted by the Commissioner of the Internal Revenue to reflect increases in the cost-of-living in accordance with section 415(d)(1)(C) of the IRC).

15.4 Incorporation by Reference.

To the extent not otherwise provided herein and to the extent inconsistent with the provisions hereof and except as prohibited by applicable regulations under the IRC, the applicable limitations on contributions under section 415 of the IRC and the final regulations issued April 5, 2007 thereunder, are incorporated by reference and shall control over any contrary or omitted provisions in the Plan.

ARTICLE 16

AMENDMENT OR TERMINATION OF PLAN

16.1 Plan May Be Amended or Terminated

It is the intention of the Company that the Plan will continue indefinitely, but the Company may, by action of its Board of Directors, its Executive Chairman, its Chief Executive Officer or a committee or individual(s) acting pursuant to a valid delegation of authority, at any time and for any reason, amend the Plan retroactively or prospectively, terminate the Plan or permanently discontinue Company Contributions hereunder without terminating the Trust Agreement or the other provisions of the Plan.

16.2 Amendments Cannot Reduce Accrued Benefits

No amendment of the Plan shall reduce the Benefit of any Member accrued under the Plan prior to the date when the amendment is adopted, except to the extent that a reduction in accrued benefits may be permitted by ERISA; and no amendment of the Plan nor any other action taken by the Company shall divert any part of the assets of the Trust Fund to purposes other than the exclusive purposes of providing benefits to Members or Beneficiaries who have an interest in the Plan and of defraying the reasonable expenses of administering the Plan and the Trust Fund, except as provided in Section 5.11.

16.3 Procedure Upon Plan Terminations

Upon termination of the Plan, the Company shall perform the procedures which would have been required pursuant to the Plan had the Plan termination date been a Valuation Date. Upon completion of such procedures, the balances in each Member's Accounts shall be distributed to such Member (or his Beneficiary) as provided in Article 8. Upon termination of the Plan, no part of the Trust Fund shall revert to the Company, except as provided in Section 5.11.

16.4 Partial Terminations

If any partial termination (as determined by the Company in accordance with any applicable IRC provisions) of the Plan occurs, then the balances in the Accounts of those Members with respect to whom the Plan is so terminated shall be distributed as provided in Section 16.3.

16.5 Intent to Comply with ERISA

It is the intent of Sections 16.3 and 16.4 that a termination or partial termination of the Plan be accomplished in accordance with ERISA section 403. In the event that the provisions of ERISA section 403(d)(1) or regulations adopted thereunder require that the assets of the Plan be allocated or distributed in a different manner upon any termination of the Plan, then the assets of the Plan shall instead be allocated or distributed as such provisions may require.

16.6 Fiduciary Powers Continue Until Distribution Complete

Until the final distribution of any Plan assets allocated on account of any termination or partial termination of the Plan, the Trust Fund shall continue, and the Company and the Trustee shall continue to have and may exercise all of the powers conferred upon them by the Plan and the Trust Agreement.

ARTICLE 17

PRIOR PROFIT SHARING PLAN

The Plan amends and restates the PACCAR Inc Profit Sharing Plan, as in effect on June 30, 1978. The following rules apply with respect to the rights and benefits of Members under the Plan on such date:

17.1 No Reduction of Accrued Benefit

No provision of the amended and restated Plan is intended to reduce or limit any benefit which accrued under the provisions of the Plan as in effect from time to time prior to July 1, 1978.

17.2 Full Vesting

The balance in the Prior Profit Sharing Account of a Member who was an Employee on July 1, 1978 (plus the Member’s share of any Company Contributions or forfeitures made or imposed with respect to periods prior to July 1, 1978, but allocated thereafter), shall be fully vested and nonforfeitable, effective as of July 1, 1978. Such balance shall remain fully vested and nonforfeitable on and after July 1, 1987, upon transfer of the Prior Profit Sharing Account balance to the Member’s Salary Deferral Accounts.

17.3 Continuing Distributions

Amounts being paid to a Member or Beneficiary in accordance with the provisions of the Plan in effect from time to time prior to July 1, 1978, shall continue to be paid in accordance with such provisions.

17.4 Company Contributions

No Company contribution shall be made to any Prior Profit Sharing Account with respect to any period after June 30, 1978, but such a contribution may be made after June 30, 1978, with respect to a prior period.

17.5 Effective Date

With respect to periods prior to July 1, 1978, the rights of any person regarding a Prior Profit Sharing Account shall be determined and administered exclusively under the provisions of the Plan as in effect at the applicable time.

ARTICLE 18

SPECIAL TOP-HEAVY RULES

18.1 Determination of Top-Heavy Status

Any other provision of the Plan notwithstanding, this Article 18 shall apply to any Plan Year in which the Plan is a Top-Heavy Plan. The Plan shall be considered a “Top-Heavy Plan” for a Plan Year if, as of the Determination Date for such Plan Year, the Top-Heavy Ratio for the Aggregation Group exceeds 60 percent.

18.2 Minimum Allocations

For any Plan Year during which the Plan is a Top-Heavy Plan, Company Contributions allocated to the Accounts of each Member who is not a Key Employee, but who is an Employee on the last day of such Plan Year, shall not be less than the lesser of (a) three percent of Wages or (b) the greatest allocation, expressed as a percentage of Compensation made to any Member who is a Key Employee.

This Section 18.2 shall not apply to any Member for a Plan Year during which the Member received a minimum accrued benefit described in section 416(c)(1) of the IRC under a qualified defined-benefit plan maintained by PACCAR Inc or any of its Subsidiaries (determined without regard to the last sentence of Section 2.1(mm)). However, this Section 18.2 shall apply to any Eligible Employee who could become a Member under Section 3.1 but who has not elected to do so.

18.3 Definitions

For purposes of this Article 18 only, the following definitions shall apply:

(a) "Aggregation Group" means either the Required Aggregation Group or any Permissive Aggregation Group, as the Company may elect.

(b) "Determination Date" means the last day of the Plan Year prior to the applicable Plan Year.

(c) "Key Employee" means a key employee, as defined in section 416(i) of the IRC.

(d) "Permissive Aggregation Group" means a group of qualified plans which includes (1) the Required Aggregation Group and (2) one or more plans of the Company or a Subsidiary which are not part of the Required Aggregation Group. A Permissive Aggregation Group, when viewed as a single plan, must satisfy the requirements of sections 401(a)(4) and 410 of the IRC.

(e) "Required Aggregation Group" means a group of qualified plans which includes (1) each plan of the Company or a Subsidiary in which a Key Employee participates and (2) each other plan of the Company or a Subsidiary which enables any plan in which a Key Employee participates to meet the requirements of sections 401(a)(4) or 410 of the IRC.

(f) "Top-Heavy Ratio" means a percentage determined pursuant to section 416(g) of the IRC. In applying section 416 (g) of the IRC, the valuation date shall be the Determination Date.

(g) "Wages" means "wages" as defined in section 3401(a) of the IRC for purposes of income tax withholding at the source, but determined without regard to any rules that limit the remuneration included in "wages" based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in section 3401(a)(2) of the IRC). "Wages" does not include Salary Deferrals or amounts in excess of the dollar amount set forth in section 401(a)(17)(A) of the IRC (as adjusted by the Commissioner of Internal Revenue to reflect increases in the cost-of-living in accordance with section 401(a)(17)(B)).

ARTICLE 19

EXECUTION

To record the amendment and restatement of the Plan to read as set forth herein, generally effective as of September 1, 2016, PACCAR Inc has executed this Plan on July 5, 2016.

PACCAR Inc

By ____________________
Title: Executive Chairman

Dated: 7/5/16

By ____________________
Title: Chief Executive Officer

Dated: June 30, 2016

EXHIBIT 31(a)

CERTIFICATIONS

I, Ronald E. Armstrong, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PACCAR Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date November 4, 2016

/s/ Ronald E. Armstrong
Ronald E. Armstrong
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31(b)

CERTIFICATIONS

I, Robert J. Christensen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PACCAR Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date November 4, 2016

/s/ Robert J. Christensen
Robert J. Christensen
President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32

CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of PACCAR Inc (the "Company") on Form 10-Q for the quarter ended September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certify, pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. section 1350), that to the best of our knowledge and belief:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date November 4, 2016

By /s/ Ronald E. Armstrong
Ronald E. Armstrong
Chief Executive Officer
PACCAR Inc
(Principal Executive Officer)

By /s/ Robert J. Christensen
Robert J. Christensen
President and Chief Financial Officer
PACCAR Inc
(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.