PACCAR INC
Form 10-Q
August 03, 2016
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 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 x 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 x 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 x	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 x

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 350,528,311 shares as of July 31, 2016

Table of Contents

PACCAR Inc Form 10-Q

INDEX

		Page
PART I.	FINANCIAL INFORMATION:	
ITEM 1.	FINANCIAL STATEMENTS:	
	Consolidated Statements of Comprehensive Income (Loss) Three and Six Months Ended June 30, 2016 and 2015 (Unaudited)	3
	Consolidated Balance Sheets June 30, 2016 (Unaudited) and December 31, 2015	4
	Condensed Consolidated Statements of Cash Flows Six Months Ended June 30, 2016 and 2015 (Unaudited)	6
	Notes to Consolidated Financial Statements (Unaudited)	7
ITEM 2.	MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	34
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	54
ITEM 4.	CONTROLS AND PROCEDURES	54
PART II.	OTHER INFORMATION:	
ITEM 1.	LEGAL PROCEEDINGS	54
ITEM 1A.	RISK FACTORS	54
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	55
ITEM 6.	EXHIBITS	55
SIGNATURE		56
INDEX TO EXHIBITS		57

- 2 -

Table of Contents

PACCAR Inc Form 10-Q

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(Millions Except Per Share Amounts)

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
TRUCK, PARTS AND OTHER:				
Net sales and revenues	**$ 4,115.8**	$ 4,786.1	**$ 8,126.4**	$ 9,334.1
Cost of sales and revenues	**3,489.4**	4,061.2	**6,903.0**	7,971.4
Research and development	**60.8**	59.3	**120.4**	115.5
Selling, general and administrative	**110.2**	108.2	**220.5**	217.7
European Commission charge	**(109.6)**		**833.0**	
Interest and other expense, net	**2.5**	1.3	**2.6**	5.8
	3,553.3	4,230.0	**8,079.5**	8,310.4
Truck, Parts and Other Income Before Income Taxes	**562.5**	556.1	**46.9**	1,023.7
FINANCIAL SERVICES:				
Interest and fees	**107.1**	111.1	**214.5**	222.0
Operating lease, rental and other revenues	**190.3**	182.7	**372.3**	356.5
Revenues	**297.4**	293.8	**586.8**	578.5
Interest and other borrowing expenses	**32.6**	29.6	**62.9**	58.7
Depreciation and other expenses	**156.4**	145.9	**307.3**	286.3
Selling, general and administrative	**25.1**	23.9	**49.6**	47.4
Provision for losses on receivables	**6.0**	3.6	**9.4**	6.3
	220.1	203.0	**429.2**	398.7

Financial Services Income Before Income Taxes	**77.3**	90.8	**157.6**	179.8
Investment income	**6.4**	5.3	**12.1**	10.4
Total Income Before Income Taxes	**646.2**	652.2	**216.6**	1,213.9
Income taxes	**164.9**	205.0	**329.9**	388.3
Net Income (Loss)	**$ 481.3**	$ 447.2	**$ (113.3)**	$ 825.6
Net Income (Loss) Per Share				
Basic	**$ 1.37**	$ 1.26	**$ (.32)**	$ 2.32
Diluted	**$ 1.37**	$ 1.26	**$ (.32)**	$ 2.32
Weighted Average Number of Common Shares Outstanding				
Basic	**350.9**	355.3	**351.1**	355.2
Diluted	**351.6**	356.3	**351.1**	356.2
Dividends declared per share	**$ .24**	$ .22	**$ .48**	$ .44
Comprehensive Income (Loss)	**$ 443.4**	$ 554.9	**$ (23.4)**	$ 595.8

See Notes to Consolidated Financial Statements.

Table of Contents

PACCAR Inc Form 10-Q

Consolidated Balance Sheets (Millions)

	June 30 2016 (Unaudited)	December 31 2015*
ASSETS		
TRUCK, PARTS AND OTHER:		
Current Assets		
Cash and cash equivalents	**$ 1,970.9**	$ 1,929.9
Trade and other receivables, net	**1,070.2**	879.0
Marketable debt securities	**1,426.3**	1,448.1
Inventories, net	**824.9**	796.5
Other current assets	**245.7**	245.7
Total Truck, Parts and Other Current Assets	**5,538.0**	5,299.2
Equipment on operating leases, net	**1,039.0**	992.2
Property, plant and equipment, net	**2,210.5**	2,176.4
Other noncurrent assets, net	**412.6**	387.4
Total Truck, Parts and Other Assets	**9,200.1**	8,855.2
FINANCIAL SERVICES:		
Cash and cash equivalents	**94.0**	86.5
Finance and other receivables, net	**9,054.7**	9,303.6
Equipment on operating leases, net	**2,503.5**	2,380.8
Other assets	**574.9**	483.7
Total Financial Services Assets	**12,227.1**	12,254.6
	$ 21,427.2	$ 21,109.8

* The December 31, 2015 consolidated balance sheet has been derived from audited financial statements.
See Notes to Consolidated Financial Statements.

Table of Contents

PACCAR Inc Form 10-Q

Consolidated Balance Sheets (Millions)

	June 30 2016 (Unaudited)	December 31 2015*
LIABILITIES AND STOCKHOLDERS EQUITY		
TRUCK, PARTS AND OTHER:		
Current Liabilities		
Accounts payable, accrued expenses and other	$ 2,338.3	$ 2,071.7
European Commission liability	835.9	
Dividend payable		492.6
Total Truck, Parts and Other Current Liabilities	3,174.2	2,564.3
Residual value guarantees and deferred revenues	1,099.6	1,047.4
Other liabilities	716.6	720.2
Total Truck, Parts and Other Liabilities	4,990.4	4,331.9
FINANCIAL SERVICES:		
Accounts payable, accrued expenses and other	375.9	356.9
Commercial paper and bank loans	2,426.3	2,796.5
Term notes	6,018.1	5,795.0
Deferred taxes and other liabilities	906.8	889.1
Total Financial Services Liabilities	9,727.1	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 351.6 million and 351.3 million shares	351.6	351.3
Additional paid-in capital	86.7	69.3
Treasury stock, at cost -1.1 million and nil shares	(56.3)	
Retained earnings	7,254.8	7,536.8
Accumulated other comprehensive loss	(927.1)	(1,017.0)

Total Stockholders Equity	**6,709.7**	6,940.4
	$ 21,427.2	$ 21,109.8

* The December 31, 2015 consolidated balance sheet has been derived from audited financial statements.
See Notes to Consolidated Financial Statements.

Table of Contents

PACCAR Inc Form 10-Q

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Millions)

	Six Months Ended June 30	
	2016	2015
OPERATING ACTIVITIES:		
Net (loss) income	**$ (113.3)**	$ 825.6
Adjustments to reconcile net (loss) income to cash provided by operations:		
Depreciation and amortization:		
Property, plant and equipment	**155.5**	146.2
Equipment on operating leases and other	**339.9**	302.2
Provision for losses on financial services receivables	**9.4**	6.3
Other, net	**(5.9)**	(45.0)
Pension contributions	**(59.3)**	(55.7)
European Commission charge	**833.0**	
Change in operating assets and liabilities:		
Trade and other receivables	**(215.7)**	(216.0)
Wholesale receivables on new trucks	**226.0**	(353.4)
Sales-type finance leases and dealer direct loans on new trucks	**85.8**	33.2
Inventories	**(12.3)**	1.5
Accounts payable and accrued expenses	**225.3**	481.3
Income taxes, warranty and other	**181.0**	60.9
Net Cash Provided by Operating Activities	**1,649.4**	1,187.1
INVESTING ACTIVITIES:		
Originations of retail loans and direct financing leases	**(1,366.6)**	(1,455.9)
Collections on retail loans and direct financing leases	**1,238.8**	1,339.0
Net decrease (increase) in wholesale receivables on used equipment	**14.2**	(11.8)
Purchases of marketable debt securities	**(543.8)**	(711.0)
Proceeds from sales and maturities of marketable debt securities	**572.3**	516.6
Payments for property, plant and equipment	**(152.0)**	(99.4)
Acquisitions of equipment for operating leases	**(767.2)**	(733.3)
Proceeds from asset disposals	**218.2**	241.1
Net Cash Used in Investing Activities	**(786.1)**	(914.7)

FINANCING ACTIVITIES:		
Payments of cash dividends	**(661.0)**	(510.5)
Purchases of treasury stock	**(56.3)**	
Proceeds from stock compensation transactions	**7.4**	12.7
Net (decrease) increase in commercial paper and short-term bank loans	**(389.2)**	106.3
Proceeds from term debt	**1,366.5**	1,306.3
Payments on term debt	**(1,109.2)**	(909.5)
Net Cash (Used in) Provided by Financing Activities	**(841.8)**	5.3
Effect of exchange rate changes on cash	**27.0**	(52.2)
Net Increase in Cash and Cash Equivalents	**48.5**	225.5
Cash and cash equivalents at beginning of period	**2,016.4**	1,737.6
Cash and cash equivalents at end of period	**$ 2,064.9**	$ 1,963.1

See Notes to Consolidated Financial Statements.

Table of Contents

PACCAR Inc Form 10-Q

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 and the non-recurring European Commission charge) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 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 (Loss) per Share: Basic earnings (loss) per common share are computed by dividing earnings (loss) by the weighted average number of common shares outstanding, plus the effect of any participating securities. Diluted earnings (loss) per common share are computed assuming that all potentially dilutive securities are converted into common shares under the treasury stock method. For the six months ended June 30, 2016, potentially dilutive options of 654,200 were excluded from the calculation of diluted loss per share as their inclusion would have been antidilutive due to the net loss. The dilutive and antidilutive options are shown separately in the table below.

	Three Months Ended June 30		**Six Months Ended June 30**	
	2016	2015	**2016**	2015
Additional shares	**704,800**	1,022,200		1,022,000
Antidilutive options	**1,934,300**	551,100	**2,597,600**	583,400

New Accounting Pronouncements: In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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.

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.

Table of Contents

PACCAR Inc Form 10-Q

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

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.

Table of Contents

PACCAR Inc Form 10-Q

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

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.

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

At June 30, 2016	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. tax-exempt securities	**$ 490.3**	**$ 2.7**		**$ 493.0**
U.S. corporate securities	**100.9**	**.5**	**$ .1**	**101.3**
U.S. government and agency securities	**16.2**	**.3**		**16.5**
Non-U.S. corporate securities	**554.6**	**2.9**	**.1**	**557.4**
Non-U.S. government securities	**154.1**	**1.8**		**155.9**
Other debt securities	**101.6**	**.6**		**102.2**
	$ 1,417.7	**$ 8.8**	**$ .2**	**$ 1,426.3**

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 $1.3 and $1.2 for the six months ended June 30, 2016 and 2015, respectively, and gross realized losses were $.1 for both the six

month periods ended June 30, 2016 and 2015.

Table of Contents

PACCAR Inc Form 10-Q

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

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

	June 30, 2016		December 31, 2015	
	Less than Twelve Months	**Twelve Months or Greater**	Less than Twelve Months	Twelve Months or Greater
Fair value	**$ 213.4**		$ 579.0	
Unrealized losses	**.2**		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.

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

Maturities:	**Amortized Cost**	**Fair Value**
Within one year	**$ 436.3**	**$ 436.8**
One to five years	**981.3**	**989.4**
Six to ten years	**.1**	**.1**
	$ 1,417.7	**$ 1,426.3**

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:

	June 30 2016	December 31 2015
Finished products	**$ 505.5**	$ 443.6
Work in process and raw materials	**495.0**	528.9
	1,000.5	972.5
Less LIFO reserve	**(175.6)**	(176.0)
	$ 824.9	$ 796.5

Under the LIFO method of accounting (used for approximately 48% of June 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.

PACCAR Inc Form 10-Q

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

NOTE D - Finance and Other Receivables

Finance and other receivables include the following:

	June 30 2016	December 31 2015
Loans	$ 3,988.9	$ 4,011.7
Direct financing leases	2,750.5	2,719.5
Sales-type finance leases	897.4	969.8
Dealer wholesale financing	1,736.5	1,950.1
Operating lease receivables and other	140.1	131.9
Unearned interest: Finance leases	(344.3)	(364.6)
	$ 9,169.1	$ 9,418.4
Less allowance for losses:		
Loans and leases	(99.6)	(99.2)
Dealer wholesale financing	(6.3)	(7.3)
Operating lease receivables and other	(8.5)	(8.3)
	$ 9,054.7	$ 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 June 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.

PACCAR Inc Form 10-Q

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

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 June 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.

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 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.

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

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	**(1.1)**		**(.5)**	**9.6**	**1.4**	**9.4**
Charge-offs				**(9.7)**	**(1.6)**	**(11.3)**
Recoveries				**1.3**	**.1**	**1.4**
Currency translation and other	**.1**		**.1**	**(.4)**	**.3**	**.1**
Balance at June 30	**$ 6.3**		**$ 9.9**	**$ 89.7**	**$ 8.5**	**$ 114.4**

				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	.2		(.5)	5.2	1.4	6.3
Charge-offs				(5.2)	(.9)	(6.1)
Recoveries				1.5	.2	1.7

Currency translation and other	(.5)	(.1)	(3.7)	.7	(3.6)
Balance at June 30	$ 8.7	$ 11.3	$ 91.4	$ 8.9	$ 120.3

* Operating leases and other trade receivables.

Table of Contents

PACCAR Inc Form 10-Q

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

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

At June 30, 2016	**Dealer Wholesale**	**Dealer Retail**	**Customer Retail**	**Total**
Recorded investment for impaired finance receivables evaluated individually	**$ 2.6**		**$ 64.9**	**$ 67.5**
Allowance for impaired finance receivables determined individually	**.1**		**5.8**	**5.9**
Recorded investment for finance receivables evaluated collectively	**1,733.9**	**$ 1,446.8**	**5,780.8**	**8,961.5**
Allowance for finance receivables determined collectively	**6.2**	**9.9**	**83.9**	**100.0**

At December 31, 2015	Dealer Wholesale	Dealer Retail	Customer 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:

	June 30 2016	December 31 2015
Dealer:		
Wholesale	**$ 2.6**	$ 5.0
Customer retail:		
Fleet	**52.9**	50.7
Owner/operator	**8.8**	10.0
	$ 64.3	$ 65.7

Table of Contents

PACCAR Inc Form 10-Q

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

Impaired Loans

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

	Dealer		Customer Retail		
At June 30, 2016	**Wholesale**	**Retail**	**Fleet**	**Owner/ Operator**	**Total**
Impaired loans with a specific reserve	**$ 2.6**		**$ 23.3**	**$ 2.0**	**$ 27.9**
Associated allowance	**(.1)**		**(3.2)**	**(.4)**	**(3.7)**
	$ 2.5		**$ 20.1**	**$ 1.6**	**$ 24.2**
Impaired loans with no specific reserve			**5.6**	**.3**	**5.9**
Net carrying amount of impaired loans	**$ 2.5**		**$ 25.7**	**$ 1.9**	**$ 30.1**
Average recorded investment*	**$ 4.2**		**$ 28.1**	**$ 2.4**	**$ 34.7**

* Represents the average during the 12 months ended June 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*	$	7.2	$	24.4	$	2.5	$	34.1

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

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

	Three Months Ended June 30				Six Months Ended June 30			
		2016		2015		**2016**		2015
Interest income recognized:								
Dealer wholesale								
Customer retail - fleet	**$**	**.3**	$	.3	**$**	**.6**	$	.6
Customer retail - owner/operator		**.1**		.1		**.2**		.2
	$	**.4**	$	.4	**$**	**.8**	$	.8

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.

Table of Contents

PACCAR Inc Form 10-Q

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 June 30, 2016	**Wholesale**	**Retail**	**Fleet**	**Owner/ Operator**	**Total**
Performing	**$ 1,724.0**	**$ 1,446.8**	**$ 4,783.7**	**$ 963.5**	**$ 8,918.0**
Watch	**9.9**		**26.0**	**7.6**	**43.5**
At-risk	**2.6**		**56.1**	**8.8**	**67.5**
	$ 1,736.5	**$ 1,446.8**	**$ 4,865.8**	**$ 979.9**	**$ 9,029.0**

	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 June 30, 2016	**Wholesale**	**Retail**	**Fleet**	**Owner/ Operator**	**Total**
Current and up to 30 days past due	**$ 1,736.0**	**$ 1,446.8**	**$ 4,826.6**	**$ 969.5**	**$ 8,978.9**
31 60 days past due	**.3**		**20.7**	**6.0**	**27.0**
Greater than 60 days past due	**.2**		**18.5**	**4.4**	**23.1**
	$ 1,736.5	**$ 1,446.8**	**$ 4,865.8**	**$ 979.9**	**$ 9,029.0**

	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

Table of Contents

PACCAR Inc Form 10-Q

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

Troubled Debt Restructurings

The balance of TDRs was $49.1 and $52.3 at June 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 June 30, 2016 Recorded Investment		**Six Months Ended June 30, 2016 Recorded Investment**	
	Pre-Modification	**Post-Modification**	**Pre-Modification**	**Post-Modification**
Fleet	**$ 6.4**	**$ 6.4**	**$ 14.0**	**$ 13.9**
Owner/operator	**1.4**	**1.4**	**3.3**	**3.3**
	$ 7.8	**$ 7.8**	**$ 17.3**	**$ 17.2**

	Three Months Ended June 30, 2015 Recorded Investment		Six Months Ended June 30, 2015 Recorded Investment	
	Pre-Modification	Post-Modification	Pre-Modification	Post-Modification
Fleet	$ 2.4	$ 2.4	$ 6.3	$ 6.2
Owner/operator	1.5	1.5	2.4	2.4
	$ 3.9	$ 3.9	$ 8.7	$ 8.6

The effect on the allowance for credit losses from such modifications was not significant at June 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:

Six Months Ended June 30,	**2016**	2015
Fleet	**$ 6.7**	
Owner/operator	**.1**	$ .5

	$	**6.8**	$	.5

During the six months ended June 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 June 30, 2016 and December 31, 2015 was $23.9 and $14.6, respectively. Proceeds from the sales of repossessed assets were $21.7 and $31.8 for the six months ended June 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 (Loss).

Table of Contents

PACCAR Inc Form 10-Q

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	**109.3**	150.0
Payments	**(128.8)**	(112.6)
Change in estimates for pre-existing warranties	**(2.8)**	(3.2)
Currency translation	**(4.0)**	(3.5)
Balance at June 30	**$ 319.9**	$ 341.5

Deferred Revenues on Extended Warranties and R&M Contracts	**2016**	2015
Balance at January 1	**$ 524.8**	$ 462.0
Deferred revenues	**192.0**	164.9
Revenues recognized	**(135.9)**	(124.3)
Currency translation	**(7.0)**	(11.3)
Balance at June 30	**$ 573.9**	$ 491.3

Table of Contents

PACCAR Inc Form 10-Q

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

NOTE F - Stockholders Equity

Comprehensive Income (Loss)

The components of comprehensive income (loss) are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Net income (loss)	**$ 481.3**	$ 447.2	**$ (113.3)**	$ 825.6
Other comprehensive income (loss) (OCI):				
Unrealized gains on derivative contracts	**9.5**	3.2	**2.9**	3.0
Tax effect	**(2.6)**	(1.0)	**(.5)**	(.6)
	6.9	2.2	**2.4**	2.4
Unrealized gains (losses) on marketable debt securities	**2.6**	(3.0)	**5.8**	(2.5)
Tax effect	**(.8)**	.9	**(1.8)**	.7
	1.8	(2.1)	**4.0**	(1.8)
Pension plans	**15.4**	2.0	**22.4**	23.7
Tax effect	**(4.8)**	(1.3)	**(7.2)**	(8.1)
	10.6	.7	**15.2**	15.6
Foreign currency translation (losses) gains	**(57.2)**	106.9	**68.3**	(246.0)
Net other comprehensive (loss) income	**(37.9)**	107.7	**89.9**	(229.8)
Comprehensive income (loss)	**$ 443.4**	$ 554.9	**$ (23.4)**	$ 595.8

Table of Contents

PACCAR Inc Form 10-Q

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 June 30, 2016	**Derivative Contracts**	**Marketable Debt Securities**	**Pension Plans**	**Foreign Currency Translation**	**Total**
Balance at April 1, 2016	**$ (10.9)**	**$ 4.3**	**$ (385.8)**	**$ (496.8)**	**$ (889.2)**
Recorded into AOCI	**15.7**	**2.1**	**5.6**	**(57.2)**	**(33.8)**
Reclassified out of AOCI	**(8.8)**	**(.3)**	**5.0**		**(4.1)**
Net other comprehensive income (loss)	**6.9**	**1.8**	**10.6**	**(57.2)**	**(37.9)**
Balance at June 30, 2016	**$ (4.0)**	**$ 6.1**	**$ (375.2)**	**$ (554.0)**	**$ (927.1)**

Three Months Ended June 30, 2015	Derivative Contracts	Marketable Debt Securities	Pension Plans	Foreign Currency Translation	Total
Balance at April 1, 2015	$ (13.3)	$ 5.6	$ (418.2)	$ (491.4)	$ (917.3)
Recorded into AOCI	(16.4)	(1.9)	(6.3)	106.9	82.3
Reclassified out of AOCI	18.6	(.2)	7.0		25.4
Net other comprehensive income (loss)	2.2	(2.1)	.7	106.9	107.7
Balance at June 30, 2015	$ (11.1)	$ 3.5	$ (417.5)	$ (384.5)	$ (809.6)

Six Months Ended June 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	**(26.0)**	**4.8**	**5.7**	**68.3**	**52.8**
Reclassified out of AOCI	**28.4**	**(.8)**	**9.5**		**37.1**

	Derivative Contracts	Marketable Debt Securities	Pension Plans	Foreign Currency Translation	Total
Net other comprehensive income	**2.4**	**4.0**	**15.2**	**68.3**	**89.9**
Balance at June 30, 2016	**$ (4.0)**	**$ 6.1**	**$ (375.2)**	**$ (554.0)**	**$ (927.1)**

Six Months Ended June 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	4.9	(1.0)	1.8	(246.0)	(240.3)
Reclassified out of AOCI	(2.5)	(.8)	13.8		10.5
Net other comprehensive income (loss)	2.4	(1.8)	15.6	(246.0)	(229.8)
Balance at June 30, 2015	$ (11.1)	$ 3.5	$ (417.5)	$ (384.5)	$ (809.6)

PACCAR Inc Form 10-Q

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

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

AOCI Components	Line Item in the Consolidated Statements of Comprehensive Income (Loss)	Three Months Ended June 30 2016	2015
Unrealized (gains) and losses on derivative contracts:			
Truck, Parts and Other			
Foreign-exchange contracts	Net sales and revenues	**$ (1.7)**	$ .3
	Cost of sales and revenues	**.6**	.2
	Interest and other expense, net	**.2**	.2
Financial Services			
Interest-rate contracts	Interest and other borrowing expenses	**(7.6)**	25.4
	Pre-tax expense (reduction) increase	**(8.5)**	26.1
	Tax benefit	**(.3)**	(7.5)
	After-tax expense (reduction) increase	**(8.8)**	18.6
Unrealized (gains) and losses on marketable debt securities:			
Marketable debt securities	Investment income	**(.4)**	(.3)
	Tax expense	**.1**	.1
	After-tax income increase	**(.3)**	(.2)
Pension plans:			
Truck, Parts and Other			
Actuarial loss	Cost of sales and revenues	**3.5**	5.8
	Selling, general and administrative	**3.6**	4.2
		7.1	10.0
Prior service costs	Cost of sales and revenues	**.3**	.3

Financial Services			
Actuarial loss	Selling, general and administrative	**.3**	.5
	Pre-tax expense increase	**7.7**	10.8
	Tax benefit	**(2.7)**	(3.8)
	After-tax expense increase	**5.0**	7.0
Total reclassifications out of AOCI		**$ (4.1)**	$ 25.4

Table of Contents

PACCAR Inc Form 10-Q

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

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

AOCI Components	Line Item in the Consolidated Statements of Comprehensive Income (Loss)	Six Months Ended June 30 2016	2015
Unrealized (gains) and losses on derivative contracts:			
Truck, Parts and Other			
Foreign-exchange contracts	Net sales and revenues	**$ (6.5)**	$ .3
	Cost of sales and revenues	**.6**	3.4
	Interest and other expense, net	**1.9**	(1.7)
Financial Services			
Interest-rate contracts	Interest and other borrowing expenses	**50.3**	(7.8)
	Pre-tax expense increase (reduction)	**46.3**	(5.8)
	Tax (benefit) expense	**(17.9)**	3.3
	After-tax expense increase (reduction)	**28.4**	(2.5)
Unrealized (gains) and losses on marketable debt securities:			
Marketable debt securities	Investment income	**(1.1)**	(1.1)
	Tax expense	**.3**	.3
	After-tax income increase	**(.8)**	(.8)
Pension plans:			
Truck, Parts and Other			
Actuarial loss	Cost of sales and revenues	**6.9**	11.2
	Selling, general and administrative	**6.5**	8.5
		13.4	19.7
Prior service costs	Cost of sales and revenues	**.5**	.5
	Selling, general and administrative	**.1**	.1

		.6	.6
Financial Services			
Actuarial loss	Selling, general and administrative	**.5**	.9
	Pre-tax expense increase	**14.5**	21.2
	Tax benefit	**(5.0)**	(7.4)
	After-tax expense increase	**9.5**	13.8
Total reclassifications out of AOCI		**$ 37.1**	$ 10.5

Stock Compensation Plans

Stock-based compensation expense was $1.9 and $9.1 for the three months and six months ended June 30, 2016, respectively, and $2.3 and $10.1 for the three and six months ended June 30, 2015, respectively. Realized tax benefits related to the excess of deductible amounts over expense recognized amounted to $.1 and $.2 for the three and six months ended June 30, 2016, respectively, and $1.0 and $2.2 for the three and six months ended June 30, 2015, respectively, have been classified as a financing cash flow.

During the first half of 2016, the Company issued 326,205 common shares under deferred and stock compensation arrangements.

Table of Contents

PACCAR Inc Form 10-Q

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

Other Capital Stock Changes

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

NOTE G - Income Taxes

The effective tax rate for the second quarter of 2016 declined to 25.5% from 31.4% for the second quarter of 2015, and the effective tax rate for the first half of 2016 was 152.3% compared to 32.0% in the same period of 2015. Substantially all of the difference in tax rates for both periods was due to the non-taxable favorable $109.6 adjustment to the European Commission (EC) charge in the second quarter of 2016 and the non-deductible expense of $833.0 for the EC charge in the first half of 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.

Table of Contents

PACCAR Inc Form 10-Q

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

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Net sales and revenues:				
Truck	**$ 3,598.0**	$ 4,228.4	**$ 7,070.4**	$ 8,209.2
Less intersegment	**(256.8)**	(245.0)	**(458.7)**	(456.7)
External customers	**3,341.2**	3,983.4	**6,611.7**	7,752.5
Parts	**769.5**	788.4	**1,498.8**	1,552.8
Less intersegment	**(13.1)**	(11.9)	**(22.9)**	(23.6)
External customers	**756.4**	776.5	**1,475.9**	1,529.2
Other	**18.2**	26.2	**38.8**	52.4
	4,115.8	4,786.1	**8,126.4**	9,334.1
Financial Services	**297.4**	293.8	**586.8**	578.5
	$ 4,413.2	$ 5,079.9	**$ 8,713.2**	$ 9,912.6
Income (loss) before income taxes:				
Truck	**$ 329.4**	$ 420.1	**$ 633.5**	$ 759.2
Parts	**133.4**	145.7	**268.0**	284.6
Other*	**99.7**	(9.7)	**(854.6)**	(20.1)
	562.5	556.1	**46.9**	1,023.7
Financial Services	**77.3**	90.8	**157.6**	179.8
Investment income	**6.4**	5.3	**12.1**	10.4
	$ 646.2	$ 652.2	**$ 216.6**	$ 1,213.9
Depreciation and amortization:				
Truck	**$ 112.3**	$ 101.9	**$ 221.9**	$ 198.9
Parts	**1.9**	1.6	**3.5**	3.1
Other	**3.9**	3.5	**7.8**	7.1
	118.1	107.0	**233.2**	209.1
Financial Services	**134.8**	120.3	**262.2**	239.3

$	**252.9**	$	227.3	**$**	**495.4**	$	448.4

* Other includes a favorable adjustment to the European Commission charge of $109.6 in the second quarter of 2016 and an expense of $(833.0) for the first half 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.

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

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 $100.7 at June 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 June 30, 2016, the notional amount of the Company s interest-rate contracts was $3,345.7. Notional maturities for all interest-rate contracts are $500.8 for the remainder of 2016, $743.2 for 2017, $1,058.1 for 2018, $714.6 for 2019, $139.4 for 2020 and $189.6 thereafter. Substantially all of these contracts are floating to fixed swaps that effectively convert an equivalent amount of commercial paper and other variable rate debt to fixed rates.

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 June 30, 2016, the notional amount of the outstanding foreign-exchange contracts was $416.2. Foreign-exchange contracts mature within one year.

Table of Contents

PACCAR Inc Form 10-Q

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:

	June 30, 2016		December 31, 2015	
	Assets	**Liabilities**	Assets	Liabilities
Derivatives designated under hedge accounting:				
Interest-rate contracts:				
Financial Services:				
Other assets	**$ 100.7**		$ 132.2	
Deferred taxes and other liabilities		**$ 53.2**		$ 46.7
Foreign-exchange contracts:				
Truck, Parts and Other:				
Other current assets	**9.6**		3.9	
Accounts payable, accrued expenses and other		**.6**		.2
Total	**$ 110.3**	**$ 53.8**	$ 136.1	$ 46.9
Economic hedges:				
Foreign-exchange contracts:				
Truck, Parts and Other:				
Other current assets	**$ .6**		$ .9	
Accounts payable, accrued expenses and other		**$ .6**		$ .3
Financial Services:				
Other assets	**4.5**		.3	
Deferred taxes and other liabilities		**.6**		1.0
Total	**$ 5.1**	**$ 1.2**	$ 1.2	$ 1.3
Gross amounts recognized in Balance Sheets	**$ 115.4**	**$ 55.0**	$ 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	**(10.9)**	**(10.9)**	(3.3)	(3.3)
Foreign-exchange contracts			(.2)	(.2)
Pro forma net amount	**$ 104.0**	**$ 43.6**	$ 133.4	$ 44.3

Table of Contents

PACCAR Inc Form 10-Q

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 (Loss) as follows:

	Three Months Ended June 30		**Six Months Ended June 30**	
	2016	2015	**2016**	2015
Interest-rate swaps	**$ (3.0)**	$ .3	**$ (5.0)**	$ (1.1)
Term notes	**2.8**	(.5)	**4.4**	.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 six month periods ended June 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 June 30, 2016		**Six Months Ended June 30, 2016**	
	Interest-Rate Contracts	**Foreign-Exchange Contracts**	**Interest-Rate Contracts**	**Foreign-Exchange Contracts**
Gain (loss) recognized in OCI:				
Truck, Parts and Other		**$ 9.6**		**$ 9.9**
Financial Services	**$ 8.4**		**$ (53.3)**	
Total	**$ 8.4**	**$ 9.6**	**$ (53.3)**	**$ 9.9**

	Three Months Ended June 30, 2015		Six Months Ended June 30, 2015	
	Interest-Rate Contracts	Foreign-Exchange Contracts	Interest-Rate Contracts	Foreign-Exchange Contracts
(Loss) gain recognized in OCI:				
Truck, Parts and Other		$ (3.0)		$ (3.0)
Financial Services	$ (19.9)		$ 11.8	
Total	$ (19.9)	$ (3.0)	$ 11.8	$ (3.0)

Table of Contents

PACCAR Inc Form 10-Q

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

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

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	Interest-Rate Contracts	**Foreign-Exchange Contracts**	**Interest-Rate Contracts**	**Foreign-Exchange Contracts**
Truck, Parts and Other:				
Net sales and revenues		**$ (1.7)**		**$ (6.5)**
Cost of sales and revenues		**.6**		**.6**
Interest and other expense, net		**.2**		**1.9**
Financial Services:				
Interest and other borrowing expenses	**$ (7.6)**		**$ 50.3**	
Total	**$ (7.6)**	**$ (.9)**	**$ 50.3**	**$ (4.0)**

	Three Months Ended June 30, 2015		Six Months Ended June 30, 2015	
	Interest-Rate Contracts	Foreign-Exchange Contracts	Interest-Rate Contracts	Foreign-Exchange Contracts
Truck, Parts and Other:				
Net sales and revenues		$ .3		$ .3
Cost of sales and revenues		.2		3.4
Interest and other expense, net		.2		(1.7)
Financial Services:				
Interest and other borrowing expenses	$ 25.4		$ (7.8)	
Total	$ 25.4	$ .7	$ (7.8)	$ 2.0

The amount of loss recorded in AOCI at June 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 $.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 gains (losses) reclassified out of AOCI into net income based on the probability that the original forecasted transactions would not occur was $.3 and ($.3) for the three and six months ended June 30, 2016, respectively, and nil for the three and six month periods ended June 30, 2015.

PACCAR Inc Form 10-Q

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.

For the three and six month periods ended June 30, 2016 and 2015, expense (income) recognized in earnings related to interest-rate contracts was nil. The expense (income) recognized in earnings related to foreign-exchange contracts was as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Truck, Parts and Other:				
Cost of sales and revenues	**$ .1**	$ (.3)	**$ 1.1**	$ (2.0)
Interest and other expense, net	**.9**	(.5)	**.8**	1.6
Financial Services:				
Interest and other borrowing expenses	**(10.6)**	(3.3)	**(8.2)**	(17.8)
Selling, general and administrative	**.5**	(.4)	**(1.6)**	(.6)
Total	**$ (9.1)**	$ (4.5)	**$ (7.9)**	$ (18.8)

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 six months ended June 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.

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

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.

Table of Contents

PACCAR Inc Form 10-Q

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 June 30, 2016	Level 1	Level 2	Total
Assets:			
Marketable debt securities			
U.S. tax-exempt securities		$ 493.0	$ 493.0
U.S. corporate securities		101.3	101.3
U.S. government and agency securities	$ 15.6	.9	16.5
Non-U.S. corporate securities		557.4	557.4
Non-U.S. government securities		155.9	155.9
Other debt securities		102.2	102.2
Total marketable debt securities	$ 15.6	$ 1,410.7	$ 1,426.3
Derivatives			
Cross currency swaps		$ 91.9	$ 91.9
Interest-rate swaps		8.8	8.8
Foreign-exchange contracts		14.7	14.7
Total derivative assets		$ 115.4	$ 115.4
Liabilities:			
Derivatives			
Cross currency swaps		$ 36.9	$ 36.9
Interest-rate swaps		16.3	16.3
Foreign-exchange contracts		1.8	1.8
Total derivative liabilities		$ 55.0	$ 55.0

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.

Table of Contents

PACCAR Inc Form 10-Q

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:

	June 30, 2016		December 31, 2015	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Assets:				
Financial Services fixed rate loans	**$ 3,637.5**	**$ 3,737.8**	$ 3,660.6	$ 3,729.0
Liabilities:				
Financial Services fixed rate debt	**4,968.4**	**5,033.0**	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 June 30		**Six Months Ended June 30**	
	2016	2015	**2016**	2015
Service cost	**$ 22.6**	$ 24.2	**$ 44.5**	$ 45.8
Interest on projected benefit obligation	**24.1**	23.3	**47.7**	46.2
Expected return on assets	**(36.1)**	(35.7)	**(71.7)**	(70.5)
Amortization of prior service costs	**.3**	.3	**.6**	.6
Recognized actuarial loss	**7.4**	10.5	**13.9**	20.6
Net pension expense	**$ 18.3**	$ 22.6	**$ 35.0**	$ 42.7

During the three and six months ended June 30, 2016, the Company contributed $54.2 and $59.3 to its pension plans, respectively, and $53.0 and $55.7 for the three and six months ended June 30, 2015, respectively.

NOTE L - Commitments and Contingencies

In the first quarter of 2016, the Company recorded a charge of 850.0 ($942.6) 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 concluded its investigation by reaching 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. As a result of the settlement, the Company reversed, in the second quarter of 2016, 97.3 ($109.6) of the previously recorded charge. The fine will be paid by DAF within

three months after notification from the EC. The fine is not tax deductible. DAF has sufficient liquidity to fund a payment in the amount of the fine.

The Company and its subsidiaries are parties to various lawsuits incidental to the ordinary course of business. Except for the EC matter noted above, management believes that the disposition of such lawsuits will not materially affect the Company s business or financial condition.

PACCAR Inc Form 10-Q

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.

Consolidated net sales and revenues in the second quarter of 2016 were $4.41 billion compared to $5.08 billion in the second quarter of 2015. In the first six months of 2016, net sales and revenues were $8.71 billion compared to $9.91 billion in the same period of 2015. The Company s worldwide truck net sales and revenues in the second quarter of 2016 were $3.34 billion compared to $3.98 billion in the second quarter of 2015. In the first six months of 2016, truck net sales were $6.61 billion compared to $7.75 billion in the same period of 2015. Decreases in truck sales were primarily due to lower industry truck sales in the U.S. and Canada, partially offset by higher truck sales in Europe. The Company s worldwide parts net sales and revenues were $756.4 million in the second quarter of 2016 compared to $776.5 million in the second quarter of 2015. In the first six months of 2016, parts net sales were $1.48 billion compared to $1.53 billion in the same period of 2015. Decreases in parts sales were primarily due to lower demand in North America. Financial Services revenues were $297.4 million in the second quarter of 2016 compared to $293.8 million in the second quarter of 2015. In the first six months of 2016, Financial Services revenues were $586.8 million compared to $578.5 million in the same period of 2015. The increase in Financial Services revenues was primarily due to higher average earning assets, partially offset by lower yields.

Second quarter 2016 net income was $481.3 million ($1.37 per diluted share). The Company earned adjusted net income (non-GAAP) of $371.7 million ($1.06 per diluted share) in the second quarter of 2016, excluding a favorable $109.6 million adjustment to the non-recurring charge established in the first quarter this year for the EC investigation of all European truck manufacturers. On July 19, 2016, the EC concluded its investigation by reaching a settlement with DAF. The Company earned net income of $447.2 million ($1.26 per diluted share) in the second quarter last year. In the first half of 2016, the Company reported a net loss of $113.3 million ($.32 per diluted share). Excluding the non-recurring $833.0 million EC charge, the Company earned adjusted net income (non-GAAP) of $719.7 million ($2.05 per diluted share) in the first half of 2016. In the first half of last year, the Company earned net income of $825.6 million ($2.32 per diluted share). Excluding the non-recurring charge, the second quarter and first half 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.

In the second quarter and first half of 2016, the Company s capital investments were $92.3 million and $154.4 million compared to $49.7 million and $87.0 million in the second quarter and first half of 2015. Research and development (R&D) expenses were $60.8 million and $120.4 million in the second quarter and first half of 2016 compared to $59.3 million and $115.5 million in the second quarter and first half of 2015.

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 $12.23 billion. PFS issued $1.34 billion in medium-term notes during the first half of 2016 to support portfolio growth.

PACCAR Inc Form 10-Q

Truck Outlook

Truck industry retail sales in the U.S. and Canada in 2016 are expected to be 220,000 to 240,000 units compared to 278,400 in 2015. In Europe, the 2016 truck industry registrations for over 16-tonne vehicles are projected to increase to a range of 280,000 to 300,000 units, compared to the 269,100 truck registrations in 2015. 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.

Parts Outlook

In 2016, PACCAR Parts sales in North America are expected to be comparable to 2015 sales and Europe aftermarket sales are expected to increase slightly, reflecting steady global retail parts demand.

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 strong 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.

Capital Spending and R&D Outlook

Capital investments in 2016 are expected to be $325 to $375 million, and R&D is expected to be $240 to $260 million focused on enhanced aftermarket support, manufacturing facilities and new product development.

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

Table of Contents

PACCAR Inc Form 10-Q

RESULTS OF OPERATIONS:

($ in millions, except per share amounts)	Three Months Ended June 30 **2016**	2015	Six Months Ended June 30 **2016**	2015
Net sales and revenues:				
Truck	**$ 3,341.2**	$ 3,983.4	**$ 6,611.7**	$ 7,752.5
Parts	**756.4**	776.5	**1,475.9**	1,529.2
Other	**18.2**	26.2	**38.8**	52.4
Truck, Parts and Other	**4,115.8**	4,786.1	**8,126.4**	9,334.1
Financial Services	**297.4**	293.8	**586.8**	578.5
	$ 4,413.2	$ 5,079.9	**$ 8,713.2**	$ 9,912.6
Income (loss) before income taxes:				
Truck	**$ 329.4**	$ 420.1	**$ 633.5**	$ 759.2
Parts	**133.4**	145.7	**268.0**	284.6
Other*	**99.7**	(9.7)	**(854.6)**	(20.1)
Truck, Parts and Other	**562.5**	556.1	**46.9**	1,023.7
Financial Services	**77.3**	90.8	**157.6**	179.8
Investment income	**6.4**	5.3	**12.1**	10.4
Income taxes	**(164.9)**	(205.0)	**(329.9)**	(388.3)
Net income (loss)	**$ 481.3**	$ 447.2	**$ (113.3)**	$ 825.6
Diluted earnings (loss) per share	**$ 1.37**	$ 1.26	**$ (.32)**	$ 2.32
Return on revenues	**10.9%**	8.8%	**(1.3)%**	8.3%
Adjusted return on revenues**	**8.4%**	8.8%	**8.3%**	8.3%

* Other includes a favorable adjustment to the EC charge of $109.6 in the second quarter of 2016 and an expense of $(833.0) for the first half of 2016.

** Calculated using adjusted net income of $371.7 for the second quarter and $719.7 for the first half 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.

Table of Contents

PACCAR Inc Form 10-Q

2016 Compared to 2015:

Truck

The Company s Truck segment accounted for 76% of revenues in the second quarter and first six months of 2016 compared to 78% in the second quarter and first six months of 2015.

($ in millions)	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	% Change	**2016**	2015	% Change
Truck net sales and revenues:						
U.S. and Canada	**$ 2,006.7**	$ 2,821.6	(29)	**$ 3,954.2**	$ 5,447.5	(27)
Europe	**969.3**	804.7	20	**1,978.7**	1,577.2	25
Mexico, South America, Australia and other	**365.2**	357.1	2	**678.8**	727.8	(7)
	$ 3,341.2	$ 3,983.4	(16)	**$ 6,611.7**	$ 7,752.5	(15)
Truck income before income taxes	**$ 329.4**	$ 420.1	(22)	**$ 633.5**	$ 759.2	(17)
Pre-tax return on revenues	**9.9%**	10.5%		**9.6%**	9.8%	

The Company s worldwide truck net sales and revenues in the second quarter and first half of 2016 decreased to $3.34 billion and $6.61 billion, respectively, from $3.98 billion and $7.75 billion in the same periods in 2015, respectively, primarily due to lower truck deliveries in the U.S. and Canada. This was partially offset by higher truck deliveries in Europe.

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

The Company s new truck deliveries are summarized below:

	Three Months Ended	Six Months Ended

	June 30			June 30		
	2016	2015	% Change	**2016**	2015	% Change
U.S. and Canada	**19,800**	26,800	(26)	**38,300**	51,200	(25)
Europe	**13,100**	11,200	17	**26,600**	21,300	25
Mexico, South America, Australia and other	**3,900**	3,600	8	**7,200**	7,400	(3)
Total units	**36,800**	41,600	(12)	**72,100**	79,900	(10)

In the first six months of 2016, industry retail sales in the heavy-duty market in the U.S. and Canada decreased to 115,800 units from 138,100 units in the same period of 2015. The Company s heavy-duty truck retail market share was 26.6% in the first half of 2016 compared to 27.7% in the first half of 2015. The medium-duty market was 45,600 units in the first half of 2016 compared to 41,200 units in the same period of 2015. The Company s medium-duty market share was 15.4% in both the first six months of 2016 and 2015.

The over 16-tonne truck market in Western and Central Europe in the first six months of 2016 was 154,500 units compared to 130,700 units in the first six months of 2015. DAF market share was 16.0% in the first six months of 2016 compared to 14.8% in the same period of 2015. The 6 to 16-tonne market in the first six months of 2016 was 25,500 units compared to 22,400 units in the first six months of 2015. DAF market share in the 6 to 16-tonne market in the first six months of 2016 was 9.9% compared to 9.0% in the same period of 2015.

Table of Contents

PACCAR Inc Form 10-Q

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

($ in millions)	Net Sales	Cost of Sales	Gross Margin
Three Months Ended June 30, 2015	**$ 3,983.4**	**$ 3,477.6**	**$ 505.8**
(Decrease) increase			
Truck delivery volume	**(594.6)**	**(504.2)**	**(90.4)**
Average truck sales prices	**(72.4)**		**(72.4)**
Average per truck material, labor and other direct costs		**(64.6)**	**64.6**
Factory overhead and other indirect costs		**(14.5)**	**14.5**
Operating leases	**16.9**	**16.1**	**.8**
Currency translation	**7.9**	**6.7**	**1.2**
Total decrease	**(642.2)**	**(560.5)**	**(81.7)**
Three Months Ended June 30, 2016	**$ 3,341.2**	**$ 2,917.1**	**$ 424.1**

Truck delivery volume reflects lower truck deliveries in the U.S. and Canada which resulted in lower sales ($784.6 million) and cost of sales ($659.3 million), partially offset by higher truck deliveries in Europe which resulted in higher sales ($179.4 million) and cost of sales ($142.9 million).

Average truck sales prices decreased sales by $72.4 million, primarily due to lower price realization in Europe ($51.7 million) and the U.S. and Canada ($25.0 million).

Average cost per truck decreased cost of sales by $64.6 million, primarily due to lower material costs.

Factory overhead and other indirect costs decreased $14.5 million, primarily due to lower salaries and related expenses ($6.1 million) and lower supplies, repairs and maintenance costs ($5.3 million).

Operating lease revenues increased by $16.9 million and cost of sales increased by $16.1 million due to higher average asset balances.

The currency translation effect on sales and cost of sales reflects an increase in the value of euro relative to the U.S. dollar, partially offset by a decline in the value of other foreign currencies relative to the U.S. dollar, primarily the Canadian dollar.

Truck gross margins were 12.7% in both the second quarter of 2016 and 2015 reflecting the factors noted above.

Table of Contents

PACCAR Inc Form 10-Q

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

($ in millions)	Net Sales	Cost of Sales	Gross Margin
Six Months Ended June 30, 2015	**$ 7,752.5**	**$ 6,820.8**	**$ 931.7**
(Decrease) increase			
Truck delivery volume	**(1,015.5)**	**(858.2)**	**(157.3)**
Average truck sales prices	**(117.0)**		**(117.0)**
Average per truck material, labor and other direct costs		**(133.0)**	**133.0**
Factory overhead and other indirect costs		**(30.3)**	**30.3**
Operating leases	**42.2**	**41.1**	**1.1**
Currency translation	**(50.5)**	**(47.2)**	**(3.3)**
Total decrease	**(1,140.8)**	**(1,027.6)**	**(113.2)**
Six Months Ended June 30, 2016	**$ 6,611.7**	**$ 5,793.2**	**$ 818.5**

Truck delivery volume reflects lower truck deliveries in the U.S. and Canada which resulted in lower sales ($1,405.9 million) and cost of sales ($1,184.0 million), partially offset by higher truck deliveries in Europe which resulted in higher sales ($405.5 million) and cost of sales ($329.0 million).

Average truck sales prices decreased sales by $117.0 million, primarily due to lower price realization in the U.S. and Canada ($66.8 million) and Europe ($53.3 million).

Average cost per truck decreased cost of sales by $133.0 million, primarily due to lower material costs.

Factory overhead and other indirect costs decreased $30.3 million, primarily due to lower salaries and related expenses ($12.7 million) and lower maintenance costs ($6.8 million).

Operating lease revenues increased by $42.2 million and cost of sales increased by $41.1 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, primarily the Canadian and the Australian dollar.

Truck gross margins in the first six months of 2016 of 12.4% increased from 12.0% in the same period in 2015 primarily due to the factors noted above.

Truck SG&A for the second quarter of 2016 increased to $50.7 million from $45.4 million in the second quarter of 2015. In the first six months of 2016, Truck SG&A increased to $99.8 million from $91.2 million in the first six months of 2015. The increase in the second quarter and first half was primarily due to higher salaries and related expenses.

As a percentage of sales, Truck SG&A increased to 1.5% in the second quarter and first six months of 2016 from 1.1% in the second quarter of 2015 and 1.2% in the first half of 2015, primarily due to lower net sales.

Table of Contents

PACCAR Inc Form 10-Q

Parts

The Company s Parts segment accounted for 17% of revenues in the second quarter and first six months of 2016 compared to 15% in the second quarter and first six months of 2015.

	Three Months Ended June 30			Six Months Ended June 30		
($ in millions)	**2016**	2015	% Change	**2016**	2015	% Change
Parts net sales and revenues:						
U.S. and Canada	**$ 483.3**	$ 501.7	(4)	**$ 938.5**	$ 984.8	(5)
Europe	**192.1**	191.4		**385.3**	386.4	
Mexico, South America, Australia and other	**81.0**	83.4	(3)	**152.1**	158.0	(4)
	$ 756.4	$ 776.5	(3)	**$ 1,475.9**	$ 1,529.2	(3)
Parts income before income taxes	**$ 133.4**	$ 145.7	(8)	**$ 268.0**	$ 284.6	(6)
Pre-tax return on revenues	**17.6%**	18.8%		**18.2%**	18.6%	

The Company s worldwide parts net sales and revenues for the second quarter decreased to $756.4 million in 2016 from $776.5 million in 2015, and for the first six months, worldwide parts net sales and revenues decreased to $1.48 billion in 2016 from $1.53 billion in 2015, reflecting lower aftermarket demand in North America.

For the second quarter and first half 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 and revenues, cost of sales and revenues and gross margin between the three months ended June 30, 2016 and 2015 for the Parts segment are as follows:

($ in millions)	**Net Sales**	**Cost of Sales**	**Gross Margin**
Three Months Ended June 30, 2015	**$ 776.5**	**$ 562.7**	**$ 213.8**
(Decrease) increase			
Aftermarket parts volume	**(16.1)**	**(6.7)**	**(9.4)**
Average aftermarket parts sales prices	**(5.9)**		**(5.9)**

Average aftermarket parts direct costs		**(4.1)**	**4.1**
Warehouse and other indirect costs		**2.5**	**(2.5)**
Currency translation	**1.9**	**1.2**	**.7**
Total decrease	**(20.1)**	**(7.1)**	**(13.0)**
Three Months Ended June 30, 2016	**$ 756.4**	**$ 555.6**	**$ 200.8**

Aftermarket parts sales volume decreased by $16.1 million and related cost of sales decreased by $6.7 million, primarily due to lower market demand in North America.

Average aftermarket parts sales prices decreased sales by $5.9 million reflecting lower price realization.

Average aftermarket parts direct costs decreased $4.1 million due to lower material costs.

Table of Contents

PACCAR Inc Form 10-Q

Warehouse and other indirect costs increased $2.5 million mainly due to costs for start-up of the new distribution center in Renton, Washington, higher depreciation and higher maintenance expense.

The currency translation effect on sales and cost of sales reflects an increase in the value of euro relative to the U.S. dollar, partially offset by a decline in the value of the Australian and the Canadian dollar relative to the U.S. dollar.

Parts gross margins in the second quarter of 2016 decreased to 26.5% from 27.5% in the second 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 six months ended June 30, 2016 and 2015 for the Parts segment are as follows:

($ in millions)	Net Sales	Cost of Sales	Gross Margin
Six Months Ended June 30, 2015	**$ 1,529.2**	**$ 1,109.1**	**$ 420.1**
(Decrease) increase			
Aftermarket parts volume	**(37.7)**	**(23.0)**	**(14.7)**
Average aftermarket parts sales prices	**(7.4)**		**(7.4)**
Average aftermarket parts direct costs		**(10.5)**	**10.5**
Warehouse and other indirect costs		**4.8**	**(4.8)**
Currency translation	**(8.2)**	**(5.7)**	**(2.5)**
Total decrease	**(53.3)**	**(34.4)**	**(18.9)**
Six Months Ended June 30, 2016	**$ 1,475.9**	**$ 1,074.7**	**$ 401.2**

Aftermarket parts sales volume decreased by $37.7 million and related cost of sales decreased by $23.0 million due to lower market demand in North America.

Average aftermarket parts sales prices decreased sales by $7.4 million reflecting lower price realization.

Average aftermarket parts direct costs decreased $10.5 million due to lower material costs.

Warehouse and other indirect costs increased $4.8 million, primarily due to costs for start-up of the new distribution center in Renton, Washington, higher depreciation 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, primarily the Australian and Canadian dollar.

Parts gross margins in the first half of 2016 decreased to 27.2% from 27.5% in the first half of 2015 due to the factors noted above.

Parts SG&A expense for the second quarter of 2016 was $48.4 million compared to $48.8 million in the second quarter of 2015. In the first six months of 2016, Parts SG&A was $96.2 million compared to $97.0 million in the first six months of 2015.

As a percentage of sales, Parts SG&A increased to 6.4% in the second quarter of 2016 from 6.3% in the second quarter of 2015. For the first six months of 2016, Parts SG&A as a percentage of sales was 6.5%, up from 6.3% in the first six months of 2015. The increase for both periods was primarily due to lower net sales.

Table of Contents

PACCAR Inc Form 10-Q

Financial Services

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

($ in millions)	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	% Change	**2016**	2015	% Change
New loan and lease volume:						
U.S. and Canada	**$ 702.9**	$ 782.3	(10)	**$ 1,194.8**	$ 1,342.9	(11)
Europe	**278.0**	268.9	3	**547.2**	506.9	8
Mexico and Australia	**139.4**	148.9	(6)	**268.5**	304.4	(12)
	$ 1,120.3	$ 1,200.1	(7)	**$ 2,010.5**	$ 2,154.2	(7)
New loan and lease volume by product:						
Loans and finance leases	**$ 801.2**	$ 898.8	(11)	**$ 1,433.9**	$ 1,582.6	(9)
Equipment on operating lease	**319.1**	301.3	6	**576.6**	571.6	1
	$ 1,120.3	$ 1,200.1	(7)	**$ 2,010.5**	$ 2,154.2	(7)
New loan and lease unit volume:						
Loans and finance leases	**7,900**	8,990	(12)	**14,670**	15,780	(7)
Equipment on operating lease	**3,180**	2,880	10	**5,750**	5,520	4
	11,080	11,870	(7)	**20,420**	21,300	(4)
Average earning assets:						
U.S. and Canada	**$ 7,471.4**	$ 7,464.8		**$ 7,443.2**	$ 7,272.1	2
Europe	**2,743.3**	2,433.8	13	**2,714.7**	2,444.6	11
Mexico and Australia	**1,464.9**	1,550.6	(6)	**1,464.5**	1,581.4	(7)
	$ 11,679.6	$ 11,449.2	2	**$ 11,622.4**	$ 11,298.1	3
Average earning assets by product:						
Loans and finance leases	**$ 7,360.4**	$ 7,236.0	2	**$ 7,311.8**	$ 7,213.7	1

Dealer wholesale financing	**1,676.1**	1,748.2	(4)	**1,724.8**	1,655.7	4
Equipment on lease and other	**2,643.1**	2,465.0	7	**2,585.8**	2,428.7	6
	$ 11,679.6	$ 11,449.2	2	**$ 11,622.4**	$ 11,298.1	3
Revenues:						
U.S. and Canada	**$ 171.6**	$ 169.5	1	**$ 338.8**	$ 330.4	3
Europe	**73.3**	68.7	7	**143.0**	136.8	5
Mexico and Australia	**52.5**	55.6	(6)	**105.0**	111.3	(6)
	$ 297.4	$ 293.8	1	**$ 586.8**	$ 578.5	1
Revenue by product:						
Loans and finance leases	**$ 93.2**	$ 96.7	(4)	**$ 185.9**	$ 194.3	(4)
Dealer wholesale financing	**13.9**	14.4	(3)	**28.6**	27.7	3
Equipment on lease and other	**190.3**	182.7	4	**372.3**	356.5	4
	$ 297.4	$ 293.8	1	**$ 586.8**	$ 578.5	1
Income before income taxes	**$ 77.3**	$ 90.8	(15)	**$ 157.6**	$ 179.8	(12)

For the second quarter, new loan and lease volume was $1,120.3 million in 2016 compared to $1,200.1 million in 2015 and for the first half was $2,010.5 million in 2016 compared to $2,154.2 million in 2015, primarily due to lower truck deliveries in the U.S. and Canada.

PACCAR Inc Form 10-Q

In the second quarter of 2016, PFS finance market share on new PACCAR truck sales was 26.4%, comparable to 26.7% in the second quarter of 2015. In the first six months of 2016, PFS finance market share on new PACCAR truck sales was 25.0% compared to 25.6% in the first six months of 2015.

In the second quarter of 2016, PFS revenue increased to $297.4 million from $293.8 million in the second quarter of 2015, and in the first six months of 2016, PFS revenue increased to $586.8 million from $578.5 million in the first six months of 2015. The increase for both periods was primarily due to higher average earning asset balances, partially offset by lower yields and the effects of translating weaker foreign currencies to the U.S. dollar. The effects of currency translation lowered PFS revenues by $4.4 million and $13.7 million for the second quarter and the first six months of 2016.

PFS income before income taxes decreased to $77.3 million in the second quarter of 2016 from $90.8 million in the second quarter of 2015, and in the first six months of 2016, PFS income before income taxes decreased to $157.6 million in 2016 from $179.8 million in 2015. The decrease for both periods was primarily due to lower yields, lower results on returned lease assets, higher provision for losses on receivables and the effects of translating weaker foreign currencies into the U.S. dollar, partially offset by higher average earning asset balances.

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

($ in millions)		Interest and Fees		Interest and Other Borrowing Expenses		Finance Margin
Three Months Ended June 30, 2015	$	111.1	$	29.6	$	81.5
Increase (decrease)						
Average finance receivables		.7				.7
Average debt balances				(.1)		.1
Yields		(1.7)				(1.7)
Borrowing rates				4.2		(4.2)
Currency translation		(3.0)		(1.1)		(1.9)
Total (decrease) increase		(4.0)		3.0		(7.0)
Three Months Ended June 30, 2016	$	107.1	$	32.6	$	74.5

Average finance receivables increased $57.9 million (excluding foreign exchange effects) in the second quarter of 2016 as a result of higher loans and finance leases and retail portfolio new business volume exceeding

collections, partially offset by lower dealer wholesale financing.

Average debt balances decreased $22.6 million (excluding foreign exchange effects) in the second quarter of 2016. The lower average debt balances reflect lower funding requirements as the higher average earning asset portfolio (which includes loans, finance leases, wholesale and equipment on operating lease) was funded with retained equity.

Lower portfolio yields (4.9% in 2016 compared to 5.0% in 2015) decreased interest and fees by $1.7 million. The lower portfolio yields reflect higher lending volumes in Europe at lower relative market rates.

Higher borrowing rates (1.6% 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.

Table of Contents

PACCAR Inc Form 10-Q

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

($ in millions)	Interest and Fees	Interest and Other Borrowing Expenses	Finance Margin
Six Months Ended June 30, 2015	**$ 222.0**	**$ 58.7**	**$ 163.3**
Increase (decrease)			
Average finance receivables	**6.3**		**6.3**
Average debt balances		**1.3**	**(1.3)**
Yields	**(5.9)**		**(5.9)**
Borrowing rates		**5.4**	**(5.4)**
Currency translation	**(7.9)**	**(2.5)**	**(5.4)**
Total (decrease) increase	**(7.5)**	**4.2**	**(11.7)**
Six Months Ended June 30, 2016	**$ 214.5**	**$ 62.9**	**$ 151.6**

Average finance receivables increased $228.7 million (excluding foreign exchange effects) in the first six months of 2016 as a result of higher dealer wholesale balances and retail portfolio new business volume exceeding collections.

Average debt balances increased $183.0 million (excluding foreign exchange effects) in the first six months of 2016. The higher average debt balances reflect funding for a higher average earning asset portfolio, including 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 $5.9 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 June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Operating lease and rental revenues	**$ 180.5**	$ 173.7	**$ 354.7**	$ 342.1
Used truck sales and other	**9.8**	9.0	**17.6**	14.4
Operating lease, rental and other revenues	**$ 190.3**	$ 182.7	**$ 372.3**	$ 356.5
Depreciation of operating lease equipment	**$ 126.2**	$ 112.5	**$ 247.7**	$ 227.8
Vehicle operating expenses	**22.1**	25.5	**45.0**	47.6
Cost of used truck sales and other	**8.1**	7.9	**14.6**	10.9
Depreciation and other expenses	**$ 156.4**	$ 145.9	**$ 307.3**	$ 286.3

Table of Contents

PACCAR Inc Form 10-Q

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 June 30, 2016 and 2015 are outlined below:

($ in millions)	Operating Lease, Rental and Other Revenues	Depreciation and Other Expenses	Lease Margin
Three Months Ended June 30, 2015	$ 182.7	$ 145.9	$ 36.8
Increase (decrease)			
Used truck sales	.6	.3	.3
Results on returned lease assets		4.3	(4.3)
Average operating lease assets	5.3	4.2	1.1
Revenue and cost per asset	2.8	2.7	.1
Currency translation and other	(1.1)	(1.0)	(.1)
Total increase (decrease)	7.6	10.5	(2.9)
Three Months Ended June 30, 2016	$ 190.3	$ 156.4	$ 33.9

A higher volume of used truck sales increased operating lease, rental and other revenues by $.6 million, partially offset by lower price realization. Depreciation and other expenses increased by $.3 million due to higher volume and impairments of used trucks reflecting lower used truck prices.

Results on returned lease assets increased depreciation and other expenses by $4.3 million, primarily due to gains on sales of returned lease units in 2015 versus losses in 2016.

Average operating lease assets increased $168.5 million (excluding foreign exchange effects), which increased revenues by $5.3 million and related depreciation and other expenses by $4.2 million.

Revenue per asset increased $2.8 million primarily due to higher rental rates in Europe, partially offset by lower rental utilization. Cost per asset increased $2.7 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.

- 45 -

Table of Contents

PACCAR Inc Form 10-Q

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

($ in millions)	Operating Lease, Rental and Other Revenues	Depreciation and Other Expenses	Lease Margin
Six Months Ended June 30, 2015	**$ 356.5**	**$ 286.3**	**$ 70.2**
Increase (decrease)			
Used truck sales	**2.8**	**3.8**	**(1.0)**
Results on returned lease assets		**7.4**	**(7.4)**
Average operating lease assets	**10.9**	**8.8**	**2.1**
Revenue and cost per asset	**7.2**	**5.4**	**1.8**
Currency translation and other	**(5.1)**	**(4.4)**	**(.7)**
Total increase (decrease)	**15.8**	**21.0**	**(5.2)**
Six Months Ended June 30, 2016	**$ 372.3**	**$ 307.3**	**$ 65.0**

A higher volume of used truck sales increased operating lease, rental and other revenues by $2.8 million, partially offset by lower price realization. Depreciation and other expenses increased by $3.8 million due to higher volume and impairments of used trucks reflecting lower used truck prices.

Results on returned lease assets increased depreciation and other expenses by $7.4 million, primarily due to gains on sales of returned lease units in 2015 versus losses in 2016.

Average operating lease assets increased $161.8 million (excluding foreign exchange effects), which increased revenues by $10.9 million and related depreciation and other expenses by $8.8 million.

Revenue per asset increased $7.2 million primarily due to higher rental rates in Europe, partially offset by lower rental utilization and lower fuel revenue. Cost per asset increased $5.4 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 June 30, 2016		Six Months Ended June 30, 2016	
($ in millions)	Provision For Losses on Receivables	Net Charge-Offs	Provision For Losses on Receivables	Net Charge-Offs
U.S. and Canada	$ 4.2	$ 3.0	$ 6.3	$ 7.4
Europe	.7	.6	.8	.5
Mexico and Australia	1.1	1.1	2.3	2.0
	$ 6.0	$ 4.7	$ 9.4	$ 9.9

PACCAR Inc Form 10-Q

	Three Months Ended June 30, 2015		Six Months Ended June 30, 2015	
($ in millions)	Provision For Losses on Receivables	Net Charge-Offs	Provision For Losses on Receivables	Net Charge-Offs
U.S. and Canada	$ 2.7	$ 1.0	$ 3.3	$ 1.3
Europe	.1	.5	1.2	1.3
Mexico and Australia	.8	.8	1.8	1.8
	$ 3.6	$ 2.3	$ 6.3	$ 4.4

The provision for losses on receivables was $6.0 million for the second quarter of 2016, an increase of $2.4 million compared to the second quarter of 2015. For the first half of 2016, the provision for losses on receivables was $9.4 million, an increase of $3.1 million compared to the first half of 2015. The increase for both periods was primarily due to higher retail portfolio balances in the U.S. and Canada and 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 six months ended June 30, 2016 and 2015 are summarized below:

($ in millions)

Six Months Ended June 30,	**2016**		2015	
	Recorded Investment	**% of Total Portfolio***	Recorded Investment	% of Total Portfolio*
Commercial	**$ 93.9**	**2.6%**	$ 90.3	2.5%
Insignificant delay	**57.1**	**1.6%**	32.9	.9%
Credit no concession	**16.3**	**.4%**	27.2	.8%

Credit TDR		**17.2**	**.5%**		8.6	.2%
	$	**184.5**	**5.1%**	$	159.0	4.4%

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

During the first six months of 2016, total modification activity increased compared to the first six months of 2015, primarily due to higher modifications for insignificant delays and credit TDRs, partially offset by lower modifications for credit no concession. The increase in modifications for insignificant delay reflects more retail customers requesting contract modification. The increase in modifications for credit TDR primarily reflects the contract modification of two large fleet customers.

Table of Contents

PACCAR Inc Form 10-Q

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

	June 30 2016	December 31 2015	June 30 2015
Percentage of retail loan and lease accounts 30+ days past due:			
U.S. and Canada	**.3%**	.3%	.3%
Europe	**.8%**	.7%	.8%
Mexico and Australia	**2.4%**	1.3%	2.3%
Worldwide	**.7%**	.5%	.6%

Accounts 30+ days past due of .7% at June 30, 2016 increased from .5% at December 31, 2015, primarily due to higher past due accounts in Mexico and Australia. 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 $.9 million of accounts worldwide during the second quarter of 2016, $2.6 million during the fourth quarter of 2015 and $4.0 million during the second 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:

	June 30 2016	December 31 2015	June 30 2015
Pro forma percentage of retail loan and lease accounts 30+ days past due:			
U.S. and Canada	**.3%**	.3%	.3%
Europe	**.8%**	.7%	.8%
Mexico and Australia	**2.5%**	1.6%	2.6%
Worldwide	**.7%**	.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 June 30, 2016, December 31, 2015 and June 30, 2015. The effect on the allowance for credit losses from such modifications was not significant at June 30, 2016, December 31, 2015 and June 30, 2015.

The Company s annualized pre-tax return on average earning assets for Financial Services was 2.7% for the second quarter and the first six months of 2016 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 second quarter and first half of 2016 and 2015. Other SG&A declined to $10.9 million for the second quarter of 2016 from $14.0 million for the second quarter of 2015, reflecting lower salaries and related expenses in 2016. For the first half, other SG&A was $24.4 million in 2016 compared to $29.5 million in 2015, primarily due to lower salaries and related expenses and lower professional fees. For the second quarter, other income (loss) before tax was income of $99.7 million in 2016 compared to a loss of $9.7 million in 2015, reflecting the favorable $109.6 million adjustment to the EC charge. For the first six months, other income (loss) before tax was a loss of $854.6 million in 2016 compared to a loss of $20.1 million in 2015. The higher loss in the first half 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.

PACCAR Inc Form 10-Q

Investment income for the second quarter was $6.4 million in 2016 compared to $5.3 million in 2015, and for the first six months, investment income was $12.1 million in 2016 compared to $10.4 million in 2015. The higher investment income in the second quarter and first six months of 2016 primarily reflects higher average portfolio balances, partially offset by the effects of translating weaker foreign currencies to the U.S. dollar.

Income Taxes

The effective tax rate for the second quarter of 2016 declined to 25.5% from 31.4% for the second quarter of 2015, and the effective tax rate for the first half of 2016 was 152.3% compared to 32.0% in the same period of 2015. Substantially all of the difference in tax rates for both periods was due to the non-taxable favorable $109.6 million adjustment to the EC charge in the second quarter of 2016 and the non-deductible expense of $833.0 million for the EC charge in the first half of 2016.

($ in millions)	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Domestic income before taxes	**$ 327.9**	$ 466.4	**$ 641.1**	$ 873.5
Foreign income (loss) before taxes	**318.3**	185.8	**(424.5)**	340.4
Total income before taxes	**$ 646.2**	$ 652.2	**$ 216.6**	$ 1,213.9
Domestic pre-tax return on revenues	**13.3%**	14.3%	**13.1%**	14.1%
Foreign pre-tax return on revenues	**16.3%**	10.2%	**(11.1)%**	9.1%
Total pre-tax return on revenues	**14.6%**	12.8%	**2.5%**	12.2%

For the second quarter and first half 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 second quarter of 2016, the increase in income before income taxes and return on revenues for foreign operations was primarily due to the favorable $109.6 million adjustment to the EC charge and improved revenues and margins from European truck operations. For the first half 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. Excluding the EC charge, first half 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)		June 30 2016		December 31 2015
Cash and cash equivalents	$	2,064.9	$	2,016.4
Marketable debt securities		1,426.3		1,448.1
	$	3,491.2	$	3,464.5

The Company s total cash and marketable debt securities at June 30, 2016 increased $26.7 million from the balances at December 31, 2015, due to an increase in cash and cash equivalents, partially offset by a decrease in marketable debt securities.

Table of Contents

PACCAR Inc Form 10-Q

The change in cash and cash equivalents is summarized below:

($ in millions)

Six Months Ended June 30,		**2016**		2015
Operating activities:				
Net (loss) income	**$**	**(113.3)**	$	825.6
Net income items not affecting cash		**498.9**		409.7
European Commission charge		**833.0**		
Changes in operating assets and liabilities, net		**430.8**		(48.2)
Net cash provided by operating activities		**1,649.4**		1,187.1
Net cash used in investing activities		**(786.1)**		(914.7)
Net cash (used in) provided by financing activities		**(841.8)**		5.3
Effect of exchange rate changes on cash		**27.0**		(52.2)
Net increase in cash and cash equivalents		**48.5**		225.5
Cash and cash equivalents at beginning of period		**2,016.4**		1,737.6
Cash and cash equivalents at end of period	**$**	**2,064.9**	$	1,963.1

Operating activities: Cash provided by operations increased by $462.3 million to $1,649.4 million in the first half of 2016 compared to $1,187.1 million in 2015. The net loss in 2016 reflects the EC non-cash charge of $833.0 million. Higher operating cash flows reflect $579.4 million from wholesale receivables as the first half of 2016 was a cash inflow of $226.0 million vs. a cash outflow of $353.4 million in 2015. In addition, higher cash from operations reflects a lower cash outflow for advanced payment of income taxes of $181.0 million, which was partially offset by a lower cash inflow of $256.0 million from accounts payable and accrued expenses as purchases of goods and services exceeded payments.

Investing activities: Cash used in investing activities decreased by $128.6 million to $786.1 million in the first half of 2016 from $914.7 million in 2015. Lower net cash used in investing activities reflects $222.9 million from marketable debt securities as there was $28.5 million in net proceeds from sales of marketable debt securities in the first half of 2016 vs. $194.4 million in net purchases of marketable debt securities in 2015. This was partially offset by higher payments for property, plant and equipment of $52.6 million and acquisitions of equipment for operating leases of $33.9 million.

Financing activities: Cash used in financing activities was $841.8 million for the first half of 2016 compared to cash provided by financing activities of $5.3 million in 2015. The Company paid $661.0 million in dividends in the first half of 2016 compared to $510.5 million in 2015; the increase of $150.5 million was primarily due to an increase for the 2015 special dividend paid in January 2016. In addition, the Company repurchased 1.1 million shares of common

stock for $56.3 million in the first half of 2016. In the first half of 2016, the Company issued $1,366.5 million of term debt, repaid term debt of $1,109.2 million and reduced its outstanding commercial paper and short-term bank loans by $389.2 million. In the first half of 2015, the Company issued $1,306.3 million of term debt, increased its outstanding commercial paper and short-term bank loans by $106.3 million and repaid term debt of $909.5 million. This resulted in cash used in borrowing activities of $131.9 million in the first half of 2016, $635.0 million lower than the cash provided by borrowing activities of $503.1 million in 2015.

Credit Lines and Other

The Company has line of credit arrangements of $3.38 billion, of which $3.21 billion were unused at June 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 six months ended June 30, 2016.

PACCAR Inc Form 10-Q

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 June 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. In the first quarter of 2016, the Company recorded a charge of 850 million ($942.6 million) in connection with an investigation by EC of all major European truck manufacturers. On July 19, 2016, the EC concluded its investigation by reaching 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. As a result of the settlement, the Company reversed, in the second quarter of 2016, 97.3 million ($109.6 million) of the previously recorded charge. The fine will be paid by DAF within three months after notification from the EC. The fine is not tax deductible. DAF has sufficient liquidity to fund a payment in the amount of the fine. The Company s regular quarterly dividend will not be impacted by the EC charge.

Investments for property, plant and equipment in the first half of 2016 increased to $151.5 million from $87.0 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 $6.0 billion, and have significantly increased the operating capacity and efficiency of its facilities and enhance the quality and value of the Company s premium products.

In 2016, capital investments are expected to be $325 to $375 million and R&D is expected to be $240 to $260 million focused on enhanced aftermarket support, manufacturing facilities and new product development.

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 June 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 June 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.

PACCAR Inc Form 10-Q

As of June 30, 2016, the Company s European finance subsidiary, PACCAR Financial Europe, had 1,308.1 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 June 30, 2016, 8.30 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.

PACCAR Inc Form 10-Q

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)	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Adjusted net income (non-GAAP)	$ 371.7	$ 719.7
Non-recurring European Commission charge	109.6	(833.0)
Net income (loss)	$ 481.3	$ (113.3)

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Per diluted share:		
Adjusted net income (non-GAAP)	$ 1.06	$ 2.05
Non-recurring European Commission charge	.31	(2.37)
Net income (loss)	$ 1.37	$ (.32)

(in millions)	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Shares used in per diluted share calculations:		
Non-GAAP	351.6	351.8
GAAP	351.6	351.1

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.

Table of Contents

PACCAR Inc Form 10-Q

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in the Company s market risk during the six months ended June 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 six months ended June 30, 2016.

ITEM 1. LEGAL PROCEEDINGS

In the first quarter of 2016, the Company recorded a charge of 850.0 million ($942.6 million) 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 concluded its investigation by reaching a settlement with DAF and the Company under which the EC imposed a fine of 752.7 million ($833.0 million) for infringement of European Union competition rules. As a result of the settlement, the Company reversed, in the second quarter of 2016, 97.3 million ($109.6 million) of the previously recorded charge. The fine will be paid by DAF within three months after notification from the EC. The fine is not tax deductible. DAF has sufficient liquidity to fund a payment in the amount of the fine.

The Company and its subsidiaries are parties to various lawsuits incidental to the ordinary course of business. Except for the EC matter noted above, 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 six months ended June 30, 2016.

Product Liability, Litigation and Regulatory Actions. Following the recent settlement of the EC investigation, it is possible that purchasers of trucks in Europe may bring damage claims against truck manufacturers, including the Company. While any such potential claims would likely take a significant period of time to resolve, and the Company believes it has meritorious defenses, an adverse outcome of any such proceedings could have a material impact on the Company s results of operations.

Table of Contents

PACCAR Inc Form 10-Q

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

For Items 2(a) and (b), there was no reportable information for the six months ended June 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 June 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 second quarter of 2016.

ITEM 6. EXHIBITS

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

Table of Contents

PACCAR Inc Form 10-Q

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 August 3, 2016	By	/s/ M. T. Barkley M. T. Barkley Senior Vice President and Controller (Authorized Officer and Chief Accounting Officer)

Table of Contents

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	10-Q	August 6, 2015	4(g)	001-14817

Programme of PACCAR Financial Europe
B.V. set forth in the Listing Particulars dated
May 11, 2015

PACCAR Inc Form 10-Q

Exhibit Number		Exhibit Description	Form	Date of First Filing	Exhibit Number	File Number
	**	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.				
(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	DEF14A	March 10, 2011	Appendix B	001-14817
	(i)	PACCAR Inc Senior Executive Yearly Incentive Compensation Plan (effective 01/01/16)	10-Q	August 6, 2015	10(i)	001-14817
	(j)	PACCAR Inc Long Term Incentive Plan	10-Q	August 6, 2015	10(j)	001-14817
	(k)		8-K	January 25, 2005	99.1	001-14817

PACCAR Inc Long Term Incentive Plan,
Nonstatutory Stock Option Agreement and
Form of Option Grant Agreement

PACCAR Inc Form 10-Q

Exhibit Number	Exhibit Description		Form	Date of First Filing	Exhibit Number	File Number
	(l)	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
	(m)	PACCAR Inc Long Term Incentive Plan, 2014 Form of Nonstatutory Stock Option Agreement	10-Q	August 7, 2013	10(l)	001-14817
	(n)	PACCAR Inc Long Term Incentive Plan, Form of Restricted Stock Award Agreement	8-K	February 5, 2007	99.1	001-14817
	(o)	PACCAR Inc Long Term Incentive Plan, 2010 Form of Restricted Stock Award Agreement	10-K	February 26, 2010	10(m)	001-14817
	(p)	PACCAR Inc Long Term Incentive Plan, Alternate Form of Restricted Stock Award Agreement	10-K	March 1, 2011	10(n)	001-14817
	(q)	PACCAR Inc Long Term Incentive Plan, 2016 Restricted Stock Award Agreement	10-Q	August 6, 2015	10(q)	001-14817
	(r)	PACCAR Inc Savings Investment Plan, Amendment and Restatement effective January 1, 2009	10-K	March 1, 2011	10(r)	001-14817
	(s)	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
	(t)	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
	(u)	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

PACCAR Inc Form 10-Q

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 Deferred Restricted Stock Unit Grant Agreement	10-K	February 26, 2015	10(t)	001-14817
	(w)	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