

PACCAR INC  
Form PRE 14A  
March 08, 2018  
Table of Contents

**SCHEDULE 14A INFORMATION**  
**PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE**  
**SECURITIES EXCHANGE ACT OF 1934**  
**(AMENDMENT NO. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Definitive Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Additional Materials

Soliciting Material under Rule 14a-12

**PACCAR INC**  
**(Name of Registrant as Specified In Its Charter)**

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

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

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:



**Table of Contents**

March 21, 2018

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of PACCAR Inc, which will be held at the Meydenbauer Center, located at 11100 N.E. 6<sup>th</sup> Street, Bellevue, Washington, 98004, at 10:30 a.m. on Tuesday, May 1, 2018.

The principal business of the Annual Meeting is stated on the attached Notice of Annual Meeting of Stockholders. We will also provide an update on the Company's activities. The Board of Directors recommends a vote **FOR** Items 1 and 2; and a vote **AGAINST** Item 3.

Your **VOTE** is important. Whether or not you plan to attend the Annual Meeting, please vote your proxy either by mail, telephone or the internet.

Sincerely,

Mark C. Pigott

Executive Chairman of the Board

**Table of Contents**

**Notice of Annual Meeting of Stockholders**

The Annual Meeting of Stockholders of PACCAR Inc will be held at 10:30 a.m. on Tuesday, May 1, 2018, at the Meydenbauer Center, located at 11100 N.E. 6<sup>th</sup> Street, Bellevue, Washington, 98004, for these purposes:

1. To elect as directors four Class I nominees and three Class II nominees named in the attached proxy statement to serve one-year terms ending in 2019.
2. To approve the Second Amended and Restated Certificate of Incorporation to eliminate the supermajority vote requirement for the removal of directors.
3. To vote on a stockholder proposal regarding special stockholder meetings if properly presented at the meeting.
4. To transact such other business as may properly come before the meeting.

Stockholders entitled to vote at this meeting are those of record as of the close of business on March 7, 2018.

**IMPORTANT: The vote of each stockholder is important regardless of the number of shares held. Whether or not you plan to attend the meeting, please complete and return your proxy form.**

**Directions to the Meydenbauer Center can be found on the back cover of the attached proxy statement.**

By order of the Board of Directors

I. E. Song

Secretary

Bellevue, Washington

March 21, 2018

**Table of Contents**

**TABLE OF CONTENTS**

<u>General Information</u>	1
<u>Voting Rights</u>	1
<u>Voting by Proxy</u>	1
<u>Proxy Voting Procedures</u>	1
<u>Online Availability of Annual Meeting Materials</u>	2
<u>Multiple Stockholders Sharing the Same Address</u>	2
<u>Vote Required and Method of Counting Votes</u>	2
<u>Stock Ownership of Certain Beneficial Owners</u>	3
<u>Stock Ownership of Directors and Executive Officers</u>	4
<u>Expenses for Solicitation</u>	5
<b><u>Item 1: Election of Directors</u></b>	5
<u>Board Governance</u>	8
<u>Compensation of Directors</u>	11
<u>Stock Ownership Guidelines for Non-Employee Directors</u>	12
<u>Policies and Procedures for Transactions with Related Persons</u>	12
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	13
<u>Compensation of Executive Officers</u>	13
<u>Compensation Discussion and Analysis ( CD&amp;A )</u>	13
<u>Compensation Committee Report</u>	24
<u>Summary Compensation</u>	25
<u>Grants of Plan-Based Awards</u>	26
<u>Outstanding Equity Awards at Fiscal Year-End</u>	27
<u>Option Exercises and Stock Vested</u>	28
<u>Pension Benefits</u>	29
<u>Nonqualified Deferred Compensation</u>	30
<u>Potential Payments Upon Termination or Change in Control</u>	31
<u>CEO Pay Ratio Disclosure</u>	33
<u>Audit Committee Report</u>	34
<u>Independent Auditors</u>	35
<u>Stockholder Return Performance Graph</u>	36
<b><u>Item 2: Approval of Second Amended and Restated Certificate of Incorporation</u></b>	37
<u>Stockholder Proposal</u>	38
<b><u>Item 3: Stockholder Proposal Regarding Special Stockholder Meetings</u></b>	38
<u>Board of Directors Response</u>	39
<u>Stockholder Proposals and Director Nominations for 2019</u>	40
<u>Other Business</u>	40
<u>Appendix A: Second Amended and Restated Certificate of Incorporation</u>	A-1
<u>Directions to Meydenbauer Center</u>	Back Cover

**Table of Contents**

**PROXY STATEMENT**

The Board of Directors of PACCAR Inc issues this proxy statement to solicit proxies for use at the Annual Meeting of Stockholders at 10:30 a.m, local time, on Tuesday, May 1, 2018, at the Meydenbauer Center in Bellevue, Washington. This proxy statement includes information about the business matters that will be voted upon at the meeting. The executive offices of the Company are located at 777 106<sup>th</sup> Avenue N.E., Bellevue, Washington 98004. This proxy statement and proxy form were sent to stockholders on or about March 21, 2018.

**GENERAL INFORMATION**

**Voting Rights**

Stockholders eligible to vote at the meeting are those identified as owners at the close of business on the record date, March 7, 2018. Each outstanding share of common stock is entitled to one vote on each of the items presented at the meeting. At the close of business on March 7, 2018, the Company had 352,085,628 shares of common stock outstanding and entitled to vote.

Stockholders may vote in person at the meeting or by proxy. Execution of a proxy does not affect the right of a stockholder to attend the meeting. **The Board recommends that stockholders exercise their right to vote by promptly completing and returning the proxy form either by mail, telephone or the internet.**

**Voting by Proxy**

Mark C. Pigott and Charles R. Williamson are designated proxy holders to vote shares on behalf of stockholders at the 2018 Annual Meeting. The proxy holders are authorized to:

vote shares as instructed by the stockholders who have properly completed and returned the proxy form;

vote shares as recommended by the Board when stockholders have executed and returned the proxy form, but have given no instructions; and

vote shares at their discretion on any matter not identified in the proxy form that is properly brought before the Annual Meeting. The Trustee for the PACCAR Inc Savings Investment Plan (the "SIP") votes shares held in the SIP according to each member's instructions on the proxy form. If no voting instructions are received, the Trustee will vote the shares in direct proportion to the shares for which it has received timely voting instructions, as provided in the SIP.

**Proxy Voting Procedures**

The proxy form allows registered stockholders to vote in one of three ways:

*Mail.* Stockholders may complete, sign, date and return the proxy form in the pre-addressed, postage-paid envelope provided.

*Telephone.* Stockholders may call the toll-free number listed on the proxy form and follow the voting instructions given.

*Internet.* Stockholders may access the internet address listed on the proxy form and follow the voting instructions given.





## **Table of Contents**

Telephone and internet voting procedures authenticate each stockholder by using a control number. The voting procedures will confirm that your instructions have been properly recorded. Stockholders who vote by telephone or internet should not return the proxy form.

Stockholders who hold shares through a broker or agent should follow the voting instructions received from that broker or agent.

*Revoking Proxy Voting Instructions.* A proxy may be revoked by a later-dated proxy or by written notice to the Secretary of the Company at any time before it is voted. Stockholders who hold shares through a broker should contact the broker or other agent if they wish to change their vote after executing the proxy.

## **Online Availability of Annual Meeting Materials**

**Important Notice Regarding the Availability of Proxy Materials for the Annual Stockholder Meeting to be held at 10:30 a.m. on May 1, 2018, at the Meydenbauer Center in Bellevue, Washington. The 2018 proxy statement and the 2017 Annual Report to stockholders are available on the Company's website at [www.paccar.com/2018annualmeeting](http://www.paccar.com/2018annualmeeting).**

Stockholders who hold shares in a bank or brokerage account who previously elected to receive the annual meeting materials electronically and now wish to change their election and receive paper copies may contact their bank or broker to change their election.

Stockholders who receive annual meeting materials electronically will receive a notice when the proxy materials become available with instructions on how to access them over the internet.

## **Multiple Stockholders Sharing the Same Address**

Registered stockholders at a shared address who would like to discontinue receipt of multiple copies of the annual report and proxy statement in the future should write to EQ Shareowner Services, Attn: Householding, P.O. Box 64854, St. Paul, Minnesota 55164-0854. Street name stockholders at a shared address who would like to discontinue receipt of multiple copies of the annual report and proxy statement in the future should contact their bank or broker.

Some street name stockholders elected to receive one copy of the 2017 Annual Report and 2018 Proxy Statement at a shared address prior to the 2018 Annual Meeting. If those stockholders now wish to change that election, they may do so by contacting their bank, broker or PACCAR at 425.468.7495 or P.O. Box 1518, Bellevue, Washington 98009.

## **Vote Required and Method of Counting Votes**

The presence at the Annual Meeting, in person or by duly authorized proxy, of a majority of all the stock issued and outstanding and having voting power shall constitute a quorum for the transaction of business. Abstentions are counted as shares present at the meeting.

## **Item 1: Election of Directors**

In an uncontested director election, each director nominee shall be elected by the affirmative vote of the majority of the votes cast with respect to that director's election at any meeting for the election of directors at which a quorum is present. A majority of votes cast means that the number of shares voted for a director's election exceeds 50 percent of the number of votes cast with respect to that director's election. Votes cast include votes against but exclude abstentions and broker nonvotes with respect to that director's election. Pursuant to the Company Bylaws, an incumbent director that is not elected by a majority vote will tender his or her

**Table of Contents**

resignation subject to acceptance by the Board. The Company’s Certificate of Incorporation does not provide for cumulative voting. Proxies signed, dated and returned unmarked will be voted **FOR** all of the nominees for Class I Director and Class II Director. **Please note that brokers and custodians may not vote on the election of directors in the absence of specific client instruction. Those who hold shares in such accounts are encouraged to provide voting instructions to the broker or custodian.**

If any nominee is unable to act as director because of an unexpected occurrence, the proxy holders may vote the proxies for another person or the Board of Directors may reduce the number of directors to be elected.

**Item 2:**

Proxies signed, dated and returned unmarked will be voted **FOR** Item 2.

To be approved, Item 2 must receive the affirmative vote of two-thirds of the shares outstanding. Abstentions will have the effect of a vote against the item.

**Item 3:**

Proxies signed, dated and returned unmarked will be voted **AGAINST** Item 3.

To be approved, Item 3 must receive the affirmative vote of a majority of shares present in person or by proxy and entitled to vote at the Annual Meeting. Abstentions will have the effect of a vote against the item.

**STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS**

The following persons are known to the Company to be the beneficial owner of five percent or more of the Company’s common stock as of December 31, 2017 (amounts shown are rounded to whole shares):

Name and Address of Beneficial Owner	Shares Beneficially Owned	Percent of Class
BlackRock, Inc. 40 East 52nd Street New York, NY 10022	29,378,299(a)	8.4
The Vanguard Group 100 Vanguard Blvd. Malvern, PA 19355	24,643,975(b)	7.0

(a) BlackRock, Inc. and its subsidiaries reported on Schedule 13G filed January 29, 2018 that it has sole voting power over 24,864,051 shares and sole dispositive power over 29,378,299 shares.

(b) The Vanguard Group reported on Schedule 13G filed February 9, 2018 that it has sole voting power over 493,736 shares; shared voting power over 77,866 shares; sole dispositive power over 24,083,726 shares and shared dispositive power over 560,249 shares.

**Table of Contents****STOCK OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS**

The following list includes all shares of the Company's common stock beneficially owned by each Company director, director nominee and Named Executive Officer, and by Company directors and executive officers as a group as of March 7, 2018 (amounts shown are rounded to whole share amounts).

Name	Shares Beneficially Owned	Percent of Class
Ronald E. Armstrong	[ ](a)	*
Robert A. Bengston	[ ](a)	*
Dame Alison J. Carnwath	[ ](b)	*
Robert J. Christensen	86,566(a)	*
Beth E. Ford	[ ](b)	*
Kirk S. Hachigian	[ ](b)	*
Luiz Kaufmann	[ ](b)	*
Roderick C. McGeary	[ ](b)	*
Gary L. Moore	[ ](a)	*
John M. Pigott	[ ](b)(c)	[ ]
Mark C. Pigott	[ ](d)	[ ]
T. Kyle Quinn	[ ](a)	*
Harrie C. Schippers	[ ](a)	*
Mark A. Schulz	[ ](b)	*
Gregory M. E. Spierkel	[ ](b)	*
Charles R. Williamson	[ ](b)	*
<b>Total of all directors and executive officers as a group (24 individuals)</b>	[ ]	[ ]

\*Does not exceed one percent.

- (a) Includes shares allocated in the Company's SIP for which the participant has sole voting and investment power as follows: R. E. Armstrong [ ]; R. A. Bengston [ ]; G. L. Moore [ ]; T. K. Quinn [ ]; H. C. Schippers [ ]. Includes restricted shares for which the participant has voting power as follows: R. E. Armstrong 53,856; R. A. Bengston 7,317; R. J. Christensen 9,975; G. L. Moore 12,383; T. K. Quinn 6,617; H. C. Schippers 9,680. Also includes options to purchase shares exercisable within 60 days of March 7, 2018 as follows: R. E. Armstrong 238,678; R. A. Bengston 24,272; G. L. Moore 49,842; T. K. Quinn 75,820; H. C. Schippers 56,194. Also includes deferred cash awards accrued as stock units without voting rights under the Deferred Compensation Plan and the Long-Term Incentive Plan that are settled in shares of common stock as follows: R. A. Bengston [ ]; T. K. Quinn [ ].
- (b) Includes shares in the Restricted Stock and Deferred Compensation Plan for Non-Employee Directors (the RSDC Plan) over which the participant has sole voting but no investment power. Also includes deferred stock units without voting rights to be settled in shares of common stock as follows: B. E. Ford [ ]; K. S. Hachigian [ ]; L. Kaufmann [ ]; R. C. McGeary [ ]; J. M. Pigott [ ]; M. A. Schulz [ ]; G. M. E. Spierkel [ ]; C. R. Williamson [ ].
- (c) Includes shares held in the name of a spouse and/or children to which beneficial ownership is disclaimed. Includes the same 1,308,892 shares reported by M. C. Pigott which are owned by a corporation over which he has no voting or investment power. These shares are reported once in the total ownership summary.

## Edgar Filing: PACCAR INC - Form PRE 14A

- (d) Includes [ ] shares allocated in the SIP for which he has sole voting and investment power and 1,308,892 shares owned by a corporation over which he has no voting or investment power. Also includes options to purchase 749,744 shares exercisable within 60 days of March 7, 2018, and deferred cash awards accrued as [ ] stock units without voting rights under the Deferred Compensation Plan and the Long-Term Incentive Plan that are settled in shares of common stock. Includes shares held in the name of a spouse and/or children to which beneficial ownership is disclaimed.

**Table of Contents**

**EXPENSES FOR SOLICITATION**

Expenses for solicitation of proxies will be paid by the Company. Solicitation will be by mail, except for any electronic, telephone or personal solicitation by directors, officers and employees of the Company, which will be made without additional compensation. The Company has retained D. F. King & Co., Inc. to aid in the solicitation of stockholders for a fee of approximately \$8,500 plus reimbursement of expenses. The Company will request banks and brokers to solicit proxies from their customers and will reimburse those banks and brokers reasonable out-of-pocket costs for this solicitation.

**ITEM 1: ELECTION OF DIRECTORS**

Four Class I directors and three Class II directors are to be elected at the meeting. The persons named below have been designated by the Board as nominees for election as Class I directors and Class II directors for a term expiring at the Annual Meeting of Stockholders in 2019. All of the nominees are currently serving as directors of the Company.

**BOARD NOMINEES FOR CLASS I DIRECTORS**

**(TERMS EXPIRE AT THE 2019 ANNUAL MEETING)**

BETH E. FORD, age 54, is chief operating officer, business units, at Land O Lakes, a member-owned agricultural production and dairy cooperative and has held that position since December 2017. She previously served as group executive vice president and chief operating officer from 2015-2017 and as executive vice president and chief supply chain and operations officer at Land O Lakes since 2012. Ms. Ford served as executive vice president and head of supply chain at International Flavor and Fragrances (2008-2011). Ms. Ford has been chair of the board of directors of Clearwater Paper Corporation since 2017 and a director since 2013. She is on the Dean's Advisory Committee for the College of Business at Iowa State University and the Columbia University Business School Deming Center Board of Advisors. She has served as a director of the Company since April 2015. Ms. Ford has the attributes and qualifications listed in the Company guidelines for board membership including an MBA from Columbia University Business School and a BBA from Iowa State University. Ms. Ford has a background in agribusiness, chemicals, consumer package goods, publishing and oil and gas gained through 30 years in operating and senior leadership positions with global companies including International Flavor and Fragrances, PepsiCo, Hachette Book Group, Scholastic Corporation and Mobil Corporation.

KIRK S. HACHIGIAN, age 58, is non-executive chairman of JELD-WEN, inc., a global manufacturer of windows and doors and has held that position since 2016. He is serving as interim chief executive officer of JELD-WEN, inc. effective February 27, 2018. He previously served as chairman, president and chief executive officer of JELD-WEN, inc. from April 2014 to December 2015, as a principal of SkyKarr Capital LLC, a private investment firm, from 2013 to March 2014 and as chairman, president and chief executive officer of Cooper Industries plc, a global manufacturer of electrical products, from 2006 until it was acquired by Eaton Corporation in 2013. He has served as lead director for Allegion plc and as a director of NextEra Energy Inc. since 2013. He has served as a director of the Company since 2008. Mr. Hachigian has the attributes and qualifications listed in the Company guidelines for board membership including a degree in engineering from UC Berkeley and an MBA from the University of Pennsylvania's Wharton School. Prior to his 11 years of service with Cooper, he served eight years as an executive with General Electric Corporation including two years in Mexico and three years in Asia.

RODERICK C. MCGEARY, age 67, served in consulting and audit roles with KPMG LLP from 1972 to 2000 culminating in the position as co-vice chairman of consulting (1997-1999). He has served as a director of Raymond James Financial, Inc. since September 2015. He was chairman of BearingPoint Inc., formerly KPMG Consulting, LLC, a management and technology consulting firm, from 2004-2009 and was its interim chief executive officer from 2004-2005. BearingPoint filed for protection under Chapter 11 of the U.S. Bankruptcy

---

**Table of Contents**

Code in February 2009 and its plan under Chapter 11 was declared effective as of December 30, 2009. He has served as a director of Cisco Systems since 2003. He previously served as non-executive chairman of Tegile Systems, Inc. (2010-2012) and as a director of Dionex Corporation (2004-2011) and National Semiconductor Corporation (2009-2011). He has served as a director of the Company since 2012. Mr. McGearly has the attributes and qualifications listed in the Company guidelines for board membership including a B.S. degree in accounting from Lehigh University, strong experience as a certified public accountant and extensive experience in management and technology consulting.

MARK A. SCHULZ, age 65, is currently president and chief executive officer of M. A. Schulz and Associates, a management consulting firm, and a founding partner in Fontinalis Partners, LLC, a transportation technology strategic investment firm. He served as president of international operations at Ford Motor Company from 2005 until his retirement in 2007 and in a variety of executive roles during 35 years with Ford, including running Ford's Mazda, Jaguar, Land Rover and Aston Martin affiliates and setting up manufacturing and distribution operations in South America, Europe, Asia and Africa. He has served as a director of Dana Incorporated since 2008 and previously served as a director of YRC Worldwide, Inc. (2007-2009), and as a director of the National Committee of United States-China Relations and the United States-China Business Council. He has served as a director of the Company since 2012. Mr. Schulz has the attributes and qualifications listed in the Company guidelines for board membership including engineering degrees from Valparaiso University and the University of Michigan, an MBA from the University of Detroit, an M.S. in management from the Massachusetts Institute of Technology as well as over 35 years of management experience in the automotive industry worldwide.

**THE BOARD RECOMMENDS A VOTE FOR EACH OF THE NOMINEES.**

**BOARD NOMINEES FOR CLASS II DIRECTORS**

**(TERMS EXPIRE AT THE 2019 ANNUAL MEETING)**

MARK C. PIGOTT, age 64, is Executive Chairman of the Company and has held that position since April 2014. Mr. Pigott was Chairman and Chief Executive Officer of the Company from January 1997 to April 2014, Vice Chairman from January 1995 to December 1996, Executive Vice President from December 1993 to January 1995, Senior Vice President from January 1990 to December 1993, and Vice President from October 1988 to December 1989. He has served as a director of Franklin Resources Inc., an investment management company, since 2011. He is the brother of John M. Pigott, a director of the Company. He has served as a director of the Company since 1994. Mr. Pigott has the attributes and qualifications listed in the Company guidelines for board membership including engineering and business degrees from Stanford University, thorough knowledge of the global commercial vehicle industry and an outstanding record of profitable growth generated through 39 years with the Company. PACCAR has benefited from an excellent record of industry-leading stockholder returns generated under his leadership.

CHARLES R. WILLIAMSON, age 69, served as chairman of the board of Weyerhaeuser Company, a forest products company (2009-2016), and of Talisman Energy Inc., a Canadian oil and gas company (2009-2015). He continues to serve on the board of Weyerhaeuser Company as lead independent director. He served as chairman and chief executive officer of Unocal, the California-based energy company, from 2001 until Unocal merged with Chevron in August 2005. Mr. Williamson was the chairman of the US-ASEAN Business Council (2002-2005). He has served as a director of the Company since 2006 and has served as lead director since 2014. Mr. Williamson has the attributes and qualifications listed in the Company guidelines for board membership including a Ph.D in geology from the University of Texas at Austin and a 28-year career in technical and management positions with Unocal around the world that provided a broad perspective on international markets in Europe and Asia and culminated in four years as its chairman and chief executive officer.

RONALD E. ARMSTRONG, age 63, is Chief Executive Officer of the Company and has held that position since April 2014. Mr. Armstrong served as President of the Company from January 2011 to April 2014, Executive Vice President from August to December 2010, Senior Vice President from December 2007 to

---

**Table of Contents**

July 2010, and Vice President from November 2002 to November 2007. Previously, he was a senior manager with Ernst & Young where he worked for 16 years. He has served as a director of the Company since 2014. Mr. Armstrong has the attributes and qualifications listed in the Company guidelines for board membership. He is a certified public accountant, has a degree in accounting from the University of Central Oklahoma, and thorough knowledge of the global commercial vehicle industry gained through 24 years with the Company.

**THE BOARD RECOMMENDS A VOTE FOR EACH OF THE NOMINEES.**

**CLASS III DIRECTORS**

**(TERMS EXPIRE AT THE 2019 ANNUAL MEETING)**

DAME ALISON J. CARNWATH, age 65, is chairman of Land Securities plc, the United Kingdom's largest property company listed on the London Stock Exchange and has held that position since 2008. She has also been a senior adviser to Evercore Partners, an independent corporate finance advisory firm (formerly known as Lexicon Partners) since 2005, and chairman of the advisory board at Living Bridge Equity Partners, LLP, a private equity firm (formerly known as ISIS Equity Partners, LLP) since 1999, both based in the United Kingdom. She has served as a director of Collier Capital Ltd. since May 2015. She has been a member of the supervisory board and chair of the audit committee of BASF, a leading chemical company based in Germany, since 2014, and she has served as a director of Zurich Insurance Group since 2012. She previously served as non-executive chair of MF Global Holdings Ltd. (2008-2010); and as a non-executive director of the Man Group plc (2001-2013), a United Kingdom based company. She has served as a director of the Company since 2005. Dame Alison has the attributes and qualifications listed in the Company guidelines for board membership including certification as a chartered accountant, service as chairman (1999-2004) and chief executive (2001) of the Vitec Group plc, a British supplier to the broadcast industry, and 32 years' experience in international finance and investment banking including three years as a managing director of Donaldson, Lufkin and Jenrette (1997-2000).

JOHN M. PIGOTT, age 54, is a partner in Beta Business Ventures, LLC, a private investment company concentrating in natural resources, and was a partner in the predecessor company Beta Capital Group, LLC since 2003. He is the brother of Mark C. Pigott, a director of the Company. He has served as a director of the Company since 2009. Mr. Pigott has the attributes and qualifications listed in the Company guidelines for board membership including an engineering degree from Stanford and an MBA from UCLA, a background in manufacturing gained through 12 years with the Company including five years as a senior manager of Company truck operations in the United Kingdom and in the United States. He is a substantial long-term stockholder in the Company.

GREGORY M. E. SPIERKEL, age 61, served as chief executive officer of Ingram Micro Inc., a worldwide distributor of technology products, from 2005-2012. He previously served as president from March 2004 to April 2005. During his 14-year tenure with that company he held other senior positions including executive vice president. He was also a director of Ingram Micro (2005-2012). He has served as a director of MGM Resorts International since 2013 and as a director of Schneider Electric (Paris) since October 2014. He has served as a director of the Company since 2008. Mr. Spierkel has the attributes and qualifications listed in the Company guidelines for board membership including an MBA from Georgetown University and 32 years of management experience around the world including seven years as chief executive of Ingram Micro.

***Retiring Class III Director***

LUIZ KAUFMANN, age 72, is managing partner of L. Kaufmann Consultores in Sao Paulo, Brasil, a company which provides investment banking services and operational leadership in mergers and acquisitions and has held that position since 2008. He currently also serves as CEO and is a director of El Tejar Limited, a company that has agricultural operations in South America and has held that position since 2013. He has served on the advisory councils for Nubank and Endless Mobile since 2013. He previously served as president and CEO of Kroton Educacional (2009-2010) and as President and CEO (2006-2008) and as a director (2001-2006) of Medial Saude. He previously served as a director of several Brazilian companies, including GOL, a Brazilian

---

## **Table of Contents**

airline (2004-2016), and Vivo, the largest mobile telecom company in Brasil (2005-2009). He previously held CEO positions at several Brazilian companies including Aracruz Celulose, a eucalyptus pulp producer (1993-1998), and Financial Grupo Multiplic (1985-1990), a diversified financial group. He also served as the managing director of Arthur D. Little in Brasil (1977-1984). He has served as a director of the Company since 2012. He will retire from the Board effective April 29, 2018.

### ***Incoming Class III Director***

FRANKLIN L. FEDER, age 66, served as chief executive officer, Alcoa Latin America & Caribbean of Alcoa Inc. from 2004 – 2014. He previously served as vice president and director of corporate development of Alcoa Inc. from 1999 – 2004, chief financial officer of Alcoa Latin America from 1994 – 1999 and director corporate planning from 1990 – 1994. He was also managing partner of Technomic Consultores from 1978 – 1988, and a partner at Booz, Allen & Hamilton from 1989 – 1990. He currently serves as a director of Intercement, Companhia Brasileira de Alumínio, AES Tiete, Unigel, Instituto Ethos, WRI Brasil and Sitawi, all Brasil-based companies. Mr. Feder has the attributes and qualifications listed in the Company guidelines for board membership including an MBA from IMD in Lausanne, Switzerland and a BA from the Getulio Vargas Foundation in Sao Paulo, Brasil. He was elected by the Board effective April 30, 2018 to serve for the remainder of Luiz Kaufmann’s term as a Class III director.

## **BOARD GOVERNANCE**

The Board of Directors has determined that the following persons served as independent directors in 2017 as defined by NASDAQ Rule 5605(a)(2): Dame Alison J. Carnwath, Beth E. Ford, Kirk S. Hachigian, Luiz Kaufmann, Roderick C. McGeary, Mark A. Schulz, Gregory M. E. Spierkel and Charles R. Williamson.

The Board of Directors maintains a corporate governance section on the Company’s website, which includes key information about its governance practices. The Company’s Corporate Governance Guidelines, its Board committee charters and its Code of Business Conduct and Code of Ethics for Senior Financial Officers are located at [www.paccar.com/company/corporateresponsibility/boardofdirectors.asp](http://www.paccar.com/company/corporateresponsibility/boardofdirectors.asp).

The Company’s leadership structure includes an Executive Chairman, a Chief Executive Officer and an independent lead director who serves for a three-year term. C. R. Williamson currently serves as lead director. This leadership structure, in which the roles of the Executive Chairman and Chief Executive Officer are separate, together with an experienced and engaged lead director and independent key committees, is appropriate for the Company at this time because it effectively allocates authority, responsibility and oversight between management, the Executive Chairman and the independent members of the Board.

The Company has policies to ensure a strong and independent board. The Board regularly meets in executive session without management. The lead director presides over the executive sessions of the Board’s independent directors. Seventy-three percent of the Company’s eleven current directors are independent as defined under NASDAQ rules.

The Board oversees risk through management presentations at Board meetings and through its Audit, Compensation and Nominating and Governance Committees. The Audit Committee charter provides that the Committee shall discuss with management the Company’s risk exposures, including cybersecurity risk, and the steps management has taken to monitor and control such exposures. As part of this process, the Committee receives periodic reports from the Company’s internal auditor and from its general counsel and the Committee reports to the full Board at least four times a year. The Compensation Committee oversees risk arising from the Company’s compensation programs and annually reviews how those programs manage and mitigate risk. The Nominating and Corporate Governance Committee oversees potential risks regarding governance by monitoring legal developments and trends.



**Table of Contents**

Stockholders may contact the Board of Directors by writing to: The Board of Directors, PACCAR Inc, 11th Floor, P.O. Box 1518, Bellevue, WA 98009, or by e-mailing [PACCAR.Board@paccar.com](mailto:PACCAR.Board@paccar.com). The Corporate Secretary will receive, process and acknowledge receipt of all written stockholder communications. Suggestions or concerns involving accounting, internal controls or auditing matters will be directed to the Audit Committee chairman. Concerns regarding other matters will be directed to the individual director or committee named in the correspondence. If no identification is made, the matter will be directed to the Executive Committee of the Board.

The Board of Directors met four times during 2017. Each member attended at least 75 percent of the combined total of meetings of the Board of Directors and the committees of the Board on which each served. All Company directors are expected to attend each annual stockholder meeting. All directors attended the annual stockholder meeting in April 2017.

The Board has four standing committees. The members of each committee are listed below with the chairman of each committee listed first:

<b>Audit Committee</b>	<b>Compensation Committee</b>	<b>Executive Committee</b>	<b>Nominating and Governance Committee</b>
R. C. McGeary	G. M. E. Spierkel	M. C. Pigott	C. R. Williamson
A. J. Carnwath	B. E. Ford	J. M. Pigott	A. J. Carnwath
L. Kaufmann	K. S. Hachigian	C. R. Williamson	R. C. McGeary
G. M. E. Spierkel	M. A. Schulz		M. A. Schulz

The Audit Committee has responsibility for the selection, evaluation and compensation of the independent auditors and approval of all services they provide. The Committee annually assesses the independent public accounting firm’s qualifications, independence, performance and whether there should be a rotation of the Company’s independent accounting firm. The Committee and its chairperson are involved in the selection of the audit firm’s lead engagement partner. The Committee reviews the Company’s annual and quarterly financial statements, monitors the integrity and effectiveness of the audit process and reviews the corporate compliance programs. It monitors the Company’s system of internal controls over financial reporting and oversees the internal audit function.

The Audit Committee charter describes the Committee’s responsibilities. It is posted at [www.paccar.com/company/corporateresponsibility/auditcommittee.asp](http://www.paccar.com/company/corporateresponsibility/auditcommittee.asp). All four members of the Audit Committee meet the independence and financial literacy requirements of the SEC and NASDAQ rules. The Board of Directors designated all four members of the Audit Committee as financial experts. The Committee met seven times in 2017.

**Compensation Committee**

The Compensation Committee has responsibility for reviewing and approving salaries and other compensation matters for executive officers. It administers the Long-Term Incentive Plan, the Senior Executive Yearly Incentive Compensation Plan and the Deferred Compensation Plan. The Committee establishes base salaries and annual and long-term performance goals for executive officers. It considers the opinion of the CEO when determining compensation for the executives that report to him. It also evaluates the CEO’s performance annually in executive session. It approves the attainment of annual and long-term goals by the executive officers.

The Committee has authority to employ a compensation consultant to assist in the evaluation of the compensation of the Company’s CEO and other executive officers. It did not employ a compensation consultant

## **Table of Contents**

in 2017. The Compensation Committee charter describes the Committee's responsibilities. It is posted at [www.paccar.com/company/corporateresponsibility/compensationcommittee.asp](http://www.paccar.com/company/corporateresponsibility/compensationcommittee.asp). All four members of the Compensation Committee meet the director independence requirements of the SEC and NASDAQ rules, the outside director requirements of Section 162(m) of the Internal Revenue Code, and the nonemployee director requirements of Rule 16b-3 of the Securities Exchange Act of 1934. The Committee met five times in 2017.

### **Nominating and Governance Committee**

The Nominating and Governance Committee is responsible for evaluating director candidates and selecting nominees for approval by the independent members of the Board of Directors. It also makes recommendations to the Board on corporate governance matters including director compensation.

The Committee has established written criteria for the selection of new directors, which are available at [www.paccar.com/company/corporateresponsibility/boardguidelines.asp](http://www.paccar.com/company/corporateresponsibility/boardguidelines.asp). The criteria state that a diversity of perspectives, skills and business experience relevant to the Company's global operations should be represented on the Board including international business, manufacturing, financial services and aftermarket customer programs. To be a qualified director candidate, a person must have achieved significant success in business, education or public service, must not have a conflict of interest and must be committed to representing the long-term interests of the stockholders. In addition, the candidate must have the following attributes:

the highest ethical and moral standards and integrity;

the intelligence, education and experience to make a meaningful contribution to board deliberations;

the commitment, time and diligence to effectively discharge board responsibilities;

mature judgment, objectivity, practicality and a willingness to ask difficult questions; and

the commitment to work together as an effective group member to deliberate and reach consensus for the betterment of the stockholders and the long-term viability of the Company.

The Committee considers the names of director candidates submitted by management and members of the Board of Directors. It also considers recommendations by stockholders submitted in writing to: Chairman, Nominating and Governance Committee, PACCAR Inc, 11<sup>th</sup> Floor, P.O. Box 1518, Bellevue, WA 98009. Nominations by stockholders must include information set forth in the Company Bylaws. The Committee engages the services of a private search firm from time to time to assist in identifying and screening director candidates. The Committee evaluates qualified director candidates and selects nominees for approval by the members of the Board of Directors.

The Company's Bylaws provide for proxy access by eligible stockholders. Stockholder nominations require compliance with Article III, Section 7 of the Bylaws.

The Nominating and Governance Committee charter describes the Committee's responsibilities. It is posted at [www.paccar.com/company/corporateresponsibility/nominatingcommittee.asp](http://www.paccar.com/company/corporateresponsibility/nominatingcommittee.asp). Each of the four Committee members meets the independence requirements of the NASDAQ rules. The Committee met four times in 2017.

### **Executive Committee**

The Executive Committee acts on routine Board matters when the Board is not in session. The Committee took action twice in 2017.



**Table of Contents****COMPENSATION OF DIRECTORS**

The following table provides information on compensation for non-employee directors who served during the fiscal year ending December 31, 2017:

**Summary Compensation**

<b>Name</b>	<b>Fees Earned or Paid in Cash (a) (\$)</b>	<b>Stock Awards (b) (\$)</b>	<b>All Other Compensation (c)(\$)</b>	<b>Total (d)(\$)</b>
A. J. Carnwath	130,000	130,052	5,000	265,052
B. E. Ford	120,000	130,052	10,000	260,052
K. S. Hachigian	115,000	130,052	5,000	250,052
L. Kaufmann	115,000	130,052		245,052
R. C. McGeary	135,000	130,052	5,000	270,052
J. M. Pigott	100,000	130,052	5,000	235,052
M. A. Schulz	120,000	130,052	10,000	260,052
G. M. E. Spierkel	135,000	130,052	5,000	270,052
C. R. Williamson	140,000	130,052	10,000	280,052

- (a) Fees for non-employee directors include the 2017 annual retainer of \$100,000, paid quarterly, and committee meeting fees of \$5,000 per meeting. In addition, an annual \$10,000 retainer is payable quarterly to the lead director and the chairman of the audit, compensation, and nominating and governance committees. If newly elected or retired during the calendar year, the non-employee director receives a prorated retainer. A single meeting attendance fee is paid when more than one committee meeting is held on the same day. B. E. Ford, L. Kaufmann and C. R. Williamson elected to defer retainer and meeting fees into stock units pursuant to the terms of the RSDC Plan described in the narrative below.
- (b) The grant date fair value of the restricted stock award granted on January 3, 2017 to non-employee directors was \$130,052, calculated in accordance with FASB ASC Topic 718. See Note Q, Stock Compensation Plans, to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. On December 31, 2017, non-employee directors held unvested shares of restricted stock as follows: Dame A. J. Carnwath 6,656; M. A. Schulz 1,991; C. R. Williamson 6,656. In lieu of restricted stock, some non-employee directors held unvested restricted stock units including additional deferred stock units credited as a result of dividend equivalents earned with respect to the restricted stock units as follows: B. E. Ford 12,227; K. S. Hachigian 24,143; L. Kaufmann 25,378; R. C. McGeary 12,791; J. M. Pigott 21,974; M. A. Schulz 6,865; G. M. E. Spierkel 25,071; C. R. Williamson 38,231.
- (c) Directors may participate in the Company's matching gift program on the same basis as U.S. salaried employees. Under the program, the PACCAR Foundation matches donations participants make to eligible educational institutions up to a maximum annual donation of \$5,000 per participant. In 2017, the PACCAR Foundation matched gifts of \$5,000 made by B. E. Ford, M. A. Schulz and C. R. Williamson to educational institutions. In addition, the PACCAR Foundation made donations of \$5,000 each to charitable organizations selected by Dame A. J. Carnwath, B. E. Ford, K. S. Hachigian, R. C. McGeary, J. M. Pigott, M. A. Schulz, G. M. E. Spierkel and C. R. Williamson.
- (d) B. E. Ford, L. Kaufmann and C. R. Williamson deferred some or all of their cash compensation earned in 2017 into stock units. None of the deferred compensation earned a rate of interest that exceeded 120 percent of the applicable federal long-term rate prescribed under Section 1274(d) of the Internal Revenue Code. Perquisites were less than the \$10,000 reporting threshold.

---

**Table of Contents**

**Non-Employee Director Compensation Program**

In addition to the cash compensation described in footnote (a) above, on the first business day of the year, each non-employee director received \$130,000 in restricted stock or restricted stock units under the RSDC Plan. The number of shares received is determined by dividing \$130,000 by the closing price of a share of Company stock on the first business day of the year and rounding up to the nearest whole share. Non-employee directors newly elected during the calendar year receive a prorated award to reflect the number of calendar quarters the director will serve in the year of election. Restricted shares vest three years after the date of grant or upon retirement, death or disability. Directors receive dividends and voting rights on all shares during the vesting period. If non-employee directors elect to receive a credit to the stock unit account in lieu of a grant of restricted stock, the account is credited with the number of shares otherwise applicable to the grant of restricted stock and subject to the same vesting conditions as discussed below.

Non-employee directors may elect to defer all or a part of their cash retainer and fees to an income account or to a stock unit account under the RSDC Plan. The income account accrues interest at a rate equal to the simple combined average of the monthly Aa Industrial Bond yield averages for the immediately preceding quarter and is compounded quarterly. Stock unit accounts are credited with the number of shares of Company common stock that could have been purchased at the closing price on the date the cash compensation is payable. Thereafter, dividends earned are treated as if they were reinvested at the closing price of Company stock on the date the dividend is payable. Those electing stock units have no voting rights in the stock. The balances in a director's deferred accounts are paid out at or after retirement or termination in accordance with the director's deferred account election. The balance in the stock unit account is distributed in shares of the Company's common stock. The aggregate number of deferred stock units accumulated in the deferral account of participating non-employee directors is reflected in footnote (b) to the Stock Ownership Table on page 4.

The Company provides transportation or reimburses non-employee directors for travel and out-of-pocket expenses incurred in connection with their services. It also pays or reimburses directors for expenses incurred to participate in continuing education programs related to their service as a PACCAR director.

Effective January 1, 2018, the \$130,000 grant under the RSDC Plan has been increased to \$150,000 per year; the \$100,000 annual cash retainer has been increased to \$110,000; the annual \$10,000 fee paid to the chairman of each of the audit, compensation and nominating and governance committees has been increased to \$15,000; and the annual \$10,000 fee paid to the lead independent director has been increased to \$25,000. Committee meeting fees of \$5,000 per meeting paid to the directors for attendance at committee meetings remain the same.

**Stock Ownership Guidelines for Non-Employee Directors**

Effective January 1, 2018, all non-employee directors are expected to hold at least five times their annual cash retainer in Company stock and/or deferred stock units while serving as a director. Directors have five years from date of appointment to attain this ownership threshold. All non-employee directors with five or more years of service have the required stockholding as of January 1, 2018.

**POLICIES AND PROCEDURES FOR TRANSACTIONS WITH RELATED PERSONS**

Under its Charter, the Audit Committee of the Board of Directors is responsible for reviewing and approving related-person transactions as set forth in Item 404 of the Securities and Exchange Commission Regulation S-K. The Committee will consider whether such transactions are in the best interests of the Company and its stockholders. The Company has written procedures designed to bring such transactions to the attention of management. Management is responsible for presenting related-person transactions to the Audit Committee for review and approval.

---

**Table of Contents**

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

The Company believes that all of its directors and executive officers complied with all reporting requirements of Section 16(a) of the Securities and Exchange Act on a timely basis during 2017, except for the following transactions. On February 7, 2017, the following officers received restricted stock awards and stock options under the Company's Long Term Incentive Plan: R. E. Armstrong, G. L. Moore, M. T. Barkley, R. A. Bengston, T. K. Quinn, R. P. Feight, J. K. LeVier, H. C. Schippers and D. C. Siver. In addition, C. M. Dozier, A. L. Ley, J. D. Clack and M. A. Davila received stock options under the Company's Long Term Incentive Plan. All such restricted stock awards and stock options were reported on Forms 4 on February 14 or 15, 2017. On February 15, 2017, T. K. Quinn deferred a portion of his incentive compensation cash award into stock units under the Deferred Compensation Plan; the acquisition of the stock units was reported on a Form 4 on March 9, 2017. On May 15, 2017, D. C. Anderson was appointed General Counsel and Vice President; his Initial Statement of Beneficial Ownership on Form 3 was filed on June 14, 2017.

**COMPENSATION OF EXECUTIVE OFFICERS**

**COMPENSATION DISCUSSION AND ANALYSIS ( CD&A )**

**Executive Summary of Company Performance and Compensation Practices**

In 2017, the Company reported record revenues and net income of \$1.68 billion. Net income included a \$173.4 million one-time benefit from the new U.S. tax law. PACCAR delivered Total Shareholder Return (TSR) of 14.8 percent. The Company has achieved 79 consecutive years of net income, paid annual dividends every year since 1941 and delivered an average annual total return to stockholders over the past 15 years of 15.1 percent versus 9.9 percent for the S&P 500.

***2017 Financial Results and Business Highlights:***

Record revenues of \$19.46 billion

Adjusted net income of \$1.50 billion<sup>1</sup>, the second highest in the Company's history

8.6% after-tax return on revenue

Record stockholders' equity of \$8.05 billion

Total dividends declared of \$2.19 per share

Introduced proprietary PACCAR automated transmissions and front and rear axles in North America

Achieved record PACCAR Parts revenues and pre-tax income

Opened the PACCAR Innovation Center in Silicon Valley

The new DAF XF and CF models earned the International Truck of the Year 2018 award

## Edgar Filing: PACCAR INC - Form PRE 14A

Achieved record U.S. and Canada Class 8 heavy-duty retail market share of 30.7%

Delivered a record 29,700 medium-duty trucks globally

<sup>1</sup> Adjusted net income consists of GAAP net income of \$1.68 billion, excluding the one-time tax benefit of \$173.4 million

## **Table of Contents**

### ***Key Compensation and Governance Practices***

The Company emphasizes pay for performance and equity-based incentive programs designed to compensate executives for generating outstanding performance for stockholders.

Incentive-based pay ( Pay for Performance ) represents approximately 66 percent of the Named Executive Officers' target total compensation.

Net income is the key metric in the annual incentive compensation program.

The key metrics for long-term incentive cash awards are the three-year change in net income, return on sales and return on capital compared with Peer Companies.

Executive officer stock ownership guidelines and holding requirements align executives' long-term goals with that of stockholders.

There are no employment contracts, excise tax gross ups or significant perquisites for executive officers.

The Company does not discount, backdate, reprice or grant equity awards retroactively and prohibits the buy-out of underwater options.

The Company prohibits the hedging or pledging of Company stock or purchasing stock on margin for directors and executive officers.

The Company may claw back executive officer incentive compensation where a financial restatement is caused by fraud and the incentive compensation was based on financial results impacted by the restatement.

### **Compensation Program Objectives and Structure**

PACCAR's compensation programs are directed by the Compensation Committee of the Board of Directors (the Committee), composed exclusively of independent directors. The programs are designed to attract and retain high-quality executives, link incentives to the Company's performance and align the interests of management with those of stockholders. These programs offer compensation that is competitive with companies that operate in the same industries globally. PACCAR's goal is to achieve superior performance measured against its industry peers. The Company has delivered 79 consecutive years of net income, paid annual dividends every year since 1941 and delivered excellent stockholder returns. The Company outperformed the S&P 500 index for the 15-year period ending December 31, 2017. Average annual total return to stockholders for the 15-year period was 15.1 percent versus 9.9 percent for the S&P 500. The compensation framework has these components:

#### ***Short-term performance compensation:***

Salary. The fixed amount of compensation for performing day-to-day responsibilities.



## Edgar Filing: PACCAR INC - Form PRE 14A

Annual incentive cash compensation. Annual cash awards that focus on the attainment of Company profit targets and individual business unit goals.

***Long-term performance compensation:***

An equity- and cash-based Long-Term Incentive Plan ( LTIP ) that focuses on long-term growth in stockholder value, including three-year performance versus industry peers as measured by net income change, return on sales and return on capital. The equity-based compensation consists of stock options and restricted stock.

## **Table of Contents**

The Committee believes that this combination of salary, cash incentives and equity-based compensation provides appropriate incentives for executives to deliver superior short- and long-term business performance and stockholder returns.

The Named Executive Officers and all U.S. salaried employees participate in the Company's retirement programs. The Named Executive Officers also participate in the Company's unfunded Supplemental Retirement Plan described on page 29, which provides a retirement benefit to those employees affected by the maximum benefit limitations permitted for qualified plans by the Internal Revenue Code and other qualified plan benefit limitations.

The Company does not provide any other significant perquisites or executive benefits to its Named Executive Officers.

### **Stockholder Approval for the Company's Executive Compensation Programs**

In 2017, stockholders voted on an advisory basis to approve the compensation of the Named Executive Officers (known as a "say on pay" vote), with 95 percent of the shares voting to approve the Company's compensation practices. The Committee believes the stockholder vote affirms the Company's conservative approach to executive compensation. The next "say on pay" vote will be held in 2020. In 2017, an advisory vote was taken on the frequency of review of our executive compensation program. A majority of the shares that voted on this proposal approved a three-year period for review of the executive compensation program.

### **Executive Compensation Criteria**

The Committee considers a number of important factors when reviewing and determining executive compensation, including job responsibilities, Company performance, business unit performance, individual performance and compensation for executives among peer organizations. The Committee also considers the opinion of the Chief Executive Officer when determining compensation for the executives that report to him.

**Industry Compensation Comparison Groups.** The Committee periodically utilizes information from published compensation surveys as well as compensation data from Peer Companies to determine if compensation for the Chief Executive Officer and other executive officers is competitive with the market. The Committee believes that comparative compensation information should be used in its deliberations. It does not specify a "target" compensation level for any given executive but rather a range of target compensation. The Committee has discretion to determine the nature and extent to which it will use comparative compensation data.

**Role of Compensation Consultants.** The Committee periodically retains a compensation consultant to assess the competitiveness of the Company's compensation programs. In 2016, the Committee retained Mercer, a wholly owned subsidiary of Marsh and McLennan Companies, to evaluate the executive base salaries and total compensation structure, which were previously reviewed in 2015. Mercer compiled compensation data from the Company's Peer Companies, as well as from a Mercer study concerning executive compensation in the United States and a Willis Towers Watson survey. Mercer provided the Committee with aggregated data obtained from

the surveyed companies. The review found that the Company's salary structure midpoints were on average six percent below the market median and the base salaries for the executive officers were on average 10 percent

below the market median. Mercer reported its findings to the Committee and proposed a revised salary structure with midpoints increased six percent to approximately the market median. The Committee adopted the proposed executive salary structure effective January 1, 2017.

**Table of Contents**

**Peer Companies.** As part of its analysis of comparative data, the Committee includes compensation data from Peer Companies. In particular, the Company measures its financial performance against Peer Companies when evaluating achievement of the cash portion of the LTIP Company performance goal. The Committee reviews the composition of the Peer Companies annually to ensure the companies are appropriate for comparative purposes. The Peer Companies are listed below. The Peer Group Index is listed on page 36.

Company Name	FY 2017 Revenue (in \$ billions)
<b>PACCAR Inc</b>	<b>19.5</b>
AGCO Corporation	8.3
Caterpillar Inc.	45.5
CNH Industrial N.V.	27.4
Cummins Inc.	20.4
Dana Incorporated	7.2
Deere & Company	29.7
Eaton Corporation	20.4
Meritor Inc.	3.3
Navistar International Corp.	8.6
Oshkosh Corporation	6.8
AB Volvo	39.2
<b>Elements of Total Compensation</b>	

The Company's executive compensation program is comprised of base salaries, annual incentive cash and long-term incentives consisting of cash, stock options and restricted stock.

Compensation Element	Designed To Reward	Relationship To The Objectives
<b>Base Salary</b>	Experience, knowledge of the industry, duties and scope of responsibility	Provides a level of cash compensation to attract and retain talented executives to the Company who can continue to improve the Company's overall performance
<b>Short-Term Incentive Compensation</b>	Success in achieving annual objectives	Motivates executives to achieve specific Company-wide and business unit objectives  Provides competitive compensation to attract and retain talented executives
<b>Long-Term Incentive Compensation</b>	Continued excellence and attainment of objectives over time  Success in long-term growth and development	Motivates executives to achieve long-term business unit and Company-wide objectives  Aligns the executives' interests with long-term stockholder interests in order to increase overall stockholder value  Provides competitive compensation to attract and retain talented executives

**Table of Contents**

**Compensation Mix.** The Company's executive compensation program structure includes a balance of salary and annual and long-term incentives, including Company equity. For 2017, the Committee approved target allocations as displayed below. The Company believes these allocations promote its objectives of profitable growth and superior long-term results, which benefit stockholders.

**Base Salary.** Base salary provides a level of compensation that is competitive with industry Peer Companies to attract and retain high-caliber executives. The midpoints of the base salary ranges are set at approximately the market median of the 2016 Mercer report with the minimum salary at 70 percent of the midpoint and the maximum salary at 130 percent of the midpoint. An executive officer's actual salary relative to this salary range reflects his or her responsibility, experience, tenure with the Company and individual performance.

The Committee reviews base salaries every 12 to 24 months and may or may not approve changes. Consistent with this practice, the Committee reviewed the salary of each Named Executive Officer in 2017. The Committee considered performance, the addition of new responsibilities and the midpoint in the Mercer 2016 salary report. The Chief Executive Officer suggested salary revisions for the other Named Executive Officers. The Committee approved the salary percentage increases for 2017 as follows: H. C. Schippers, 40 percent, reflecting his promotion and expanded responsibilities as Executive Vice President and Chief Financial Officer and for his contribution towards increased business unit profit margins and market share; G. L. Moore, 27.3 percent, reflecting his expanded responsibilities as Executive Vice President and for his contribution towards increased business unit profit margins and market share; R. A. Bengston, 11.1 percent; and T. K. Quinn, 4.5 percent. The Committee believes these increases align the Named Executive Officers with the salaries of the median of the industry Peer Group reflecting current market trends and the additional responsibilities that some of the Named Executive Officers have assumed over the past 12 months. R. J. Christensen retired on February 1, 2017 and received a restricted stock award for meeting the 2016 performance goal under the long-term incentive program described below. The Committee believes that the base salary of each Named Executive Officer is appropriate based on scope of responsibility, experience, tenure with the Company, individual performance and competitive pay practices.

**Table of Contents**

**Annual Incentive Cash Compensation ( IC ).** This program provides yearly cash incentives for the Named Executive Officers to achieve annual Company profit and business unit goals. Subject to the funding maximums established by the Committee that are described below under the heading IC Funding Limit for 162(m) Purposes , the Committee sets annual performance goals and a threshold, target and maximum award for each Named Executive Officer, expressed as a percentage of base salary. 2017 awards are measured on a sliding scale as follows:

% of Goal Achieved	<70%	70%	85%	100%	115%	130%	140% and above
% of Target Paid	0%	40%	70%	100%	130%	160%	200%

A hallmark of the annual cash incentive program has been a consistent and rigorous focus on achieving the Company's annual net income goal. The Committee has chosen net income, not EBITDA or operating profit, as the chief financial metric for this program because it is the primary indicator of corporate performance to stockholders. When setting incentive compensation goals for the Named Executive Officers, the Committee believes that corporate performance is an appropriate measure of individual performance. Accordingly, the majority of the 2017 annual incentive compensation for the Chief Executive Officer and a substantial portion of the annual incentive compensation for each of the Named Executive Officers is based upon Company net income performance. The net income goal is proposed by Company management and approved by the Board and the Committee before or within the first 90 days of each year. The target level represents an amount of net income that the Committee determines is attainable with excellent performance under expected economic conditions. The remaining goals for the other Named Executive Officers were based upon individual business unit or leadership criteria determined by the Chief Executive Officer. The Committee assesses annual goal achievement and approves awards for the Named Executive Officers.

**Table of Contents**

For 2017, the Company's net income target was \$1.23 billion with a minimum incentive compensation threshold of \$.93 billion and a maximum incentive compensation threshold of \$1.63 billion. Actual net income achieved was \$1.68 billion, including a \$173.4 million tax benefit from the new U.S. tax law. This one-time tax benefit was excluded for purposes of calculating 2017 goal attainment. Adjusted net income of \$1.50 billion was the figure used in calculating the 2017 incentive compensation awards. The Committee approved award payments of 154.4 percent of the net income target award, which corresponds with achievement of 127.2 percent of the net income goal for each eligible Named Executive Officer. The Committee approved an overall payment for R. E. Armstrong of 155.8 percent of target, based on 127.2 percent achievement of the Company profit goal and 130 percent for his leadership in achieving the Company's strategic initiatives. The Committee approved an overall payment for H. C. Schippers of 149.0 percent of target, including 120.3 percent achievement of the business unit profit goal and 125 percent achievement for his leadership of Company growth initiatives. The Committee approved an overall payment for G. L. Moore of 151.1 percent of target including 125.8 percent achievement of the business unit profit goals and 120 percent achievement for his leadership of Company growth initiatives. The Committee approved an overall payment for R. A. Bengston of 128.4 percent of target including 98.2 percent achievement of the business unit profit goals and 120 percent achievement for his leadership of Company growth initiatives. The Committee approved an overall payment for T. K. Quinn of 152.2 percent of target including 129.3 percent achievement of the business unit profit goal and 120 percent for his leadership of Company growth initiatives. The Committee exercised discretion to reduce each Named Executive Officer's maximum funding amount described below under the heading "IC Funding Limit for 162(m) Purposes" in determining payout as described above. The following table outlines the 2017 goals and incentive awards for each Named Executive Officer:

Name and Principal Position	Performance Measure	Target Award		Award Achieved as a % of Target
		as a % of Base Salary	Performance Measure as a % of Target	
R. E. Armstrong	Company Profit Goal	125	75	155.8
Chief Executive Officer	Business Leadership		25	
H. C. Schippers	Company Profit Goal	80	40	149.0
President & Chief Financial Officer	Business Unit Profit		30	
	Business Leadership		30	
G. L. Moore	Company Profit Goal	80	50	151.1
Executive Vice President	Business Unit Profit		25	
	Business Leadership		25	
R. A. Bengston	Company Profit Goal	70	40	128.4
Senior Vice President	Business Unit Profit		40	
	Business Leadership		20	
T. K. Quinn	Company Profit Goal	70	20	152.2
Senior Vice President	Business Unit Profit		50	
	Business Leadership		30	

**IC Funding Limit for 162(m) Purposes.** IC Awards for the Named Executive Officers are subject to the terms of the Senior Executive Yearly Incentive Compensation Plan (the "IC Plan") approved by the stockholders as required by Section 162(m) of the Internal Revenue Code. The maximum amount that may be paid to any eligible participant in any year under the IC Plan is \$4,500,000. Pursuant to the IC Plan, the Committee established a yearly funding plan limit for 2017 IC awards equal to a percentage of the Company's net income (the "Annual Pool") and assigned a percentage of the Annual Pool to each Named Executive Officer. The 2017 funding limit equaled three percent of the Company's net income and the corresponding maximum share of such pool for the Chief Executive Officer and the next four most highly compensated

## Edgar Filing: PACCAR INC - Form PRE 14A

executive officers was 48.7%, 16.2%, 16.2%, 10.0% and 8.9%, respectively. The Committee, in its sole discretion, may reduce or eliminate (but not increase) any award otherwise payable to the Named Executive Officers under each officer's funding

**Table of Contents**

maximum based on the achievement of the IC Plan goals, an assessment of individual performance and other factors within the discretion of the Committee. The Committee exercised such discretion in determining the IC awards for 2017 performance. The deductibility of performance-based compensation under Section 162(m) is discussed in more detail under **Effect of Tax Treatment** on page 23.

**Long-Term Incentive Compensation ( LTIP ).** The Company's long-term incentive program is based on a multi-year performance period and provides annual grants of stock options and cash incentive awards. The program also includes restricted stock, which is awarded to certain executives based on the attainment of an annual performance goal and vests over three years. The LTIP aligns the interests of executives with those of stockholders to focus on long-term growth in stockholder value. The 2017 target for each element of the long-term compensation program for each Named Executive Officer is calculated as a percentage of base salary as indicated in the table below:

<b>Name</b>	<b>Long-Term Cash</b>	<b>Stock Options</b>	<b>Restricted Stock</b>
R. E. Armstrong	180%	355%	180%
H. C. Schippers	90%	230%	90%
G. L. Moore	90%	230%	90%
R. A. Bengston	80%	190%	65%
T. K. Quinn	80%	190%	65%

**Long-term incentive compensation cash award.** This program focuses on long-term growth in stockholder value by providing an incentive for superior Company performance that is measured against Peer Companies' performance over a three-year period. Company performance is measured by the three-year change in net income, return on sales and return on capital (weighted equally) as compared to the Peer Companies ( Company Performance Goal ). Named Executive Officers and all executive officers are eligible for a long-term incentive cash award based upon three-year performance goals approved by the Committee with a new performance period beginning every calendar year. Subject to the funding maximums established by the Committee that are described below under the heading **LTIP Funding Limit for 162(m) Purposes**, the Committee approved the following goals for the 2017-2019 cycle:

<b>Name</b>	<b>Financial Performance and Individual Performance</b>	
	<b>Measures for</b>	<b>Performance Measure as</b>
	<b>LTIP 2017-2019 Cycle</b>	<b>a % of Target</b>
R. E. Armstrong	Company Performance Goal	75
	Business Leadership	25
H. C. Schippers	Company Performance Goal	50
	Business Unit Profit	25
	Business Leadership	25
G. L. Moore	Company Performance Goal	50
	Business Unit Profit	25
	Business Leadership	25
R. A. Bengston	Company Performance Goal	35
	Business Unit Profit	30



Edgar Filing: PACCAR INC - Form PRE 14A

T. K. Quinn	Business Leadership	35
	Company Performance Goal	25
	Business Unit Profit	50
	Business Leadership	25

**Table of Contents**

The Committee believes that the three-year change in net income, return on sales and return on capital are excellent indicators of the Company's performance against the Peer Companies. The Company has used this rigorous comparison goal for over 15 years. During that period the Company ranked above 50 percent of the Peer Companies in 12 of the 15 years, demonstrating excellent performance against the Peer Companies and providing superior returns to stockholders. The target amount will be earned if the Company's financial performance ranks above at least half of the Peer Companies. The maximum cash award amount will be earned if the Company's financial performance ranks above all of the Peer Companies. No award will be earned if the Company's financial performance ranks in the bottom 25 percent of the Peer Companies.

The remaining portion of the award for the Chief Executive Officer and the Named Executive Officers is based upon individual business unit and leadership goals determined by the Committee for the Chief Executive Officer, and by the Chief Executive Officer for the other Named Executive Officers, measured over a three-year performance cycle. The Committee assesses goal achievement for the prior three-year period in April following completion of the applicable cycle and approves awards for the Named Executive Officers at such time. Long-term incentive cash awards are measured on a sliding scale as indicated below:

% of Goal Achieved	<75%	75%	100%	125%	150% and above
% of Target Paid	0%	50%	100%	150%	200%

In April 2017, the Committee determined cash awards for the three-year period ending December 31, 2016. For the 2014-2016 LTIP cycle, the Company ranked second among the twelve Peer Companies and the Committee approved a payout of 172.7 percent of target on the Company Performance Goal for each Named Executive Officer. The award for R. E. Armstrong was based 100 percent on the Company Performance Goal.

All other Named Executive Officers in the 2014-2016 LTIP cycle had goals in addition to the Company Performance Goal. The award for H. C. Schippers was based 35 percent on business unit profit at DAF and Leyland and 25 percent on business unit leadership. The Committee determined that H. C. Schippers exceeded each goal and approved an overall payout of 139.1 percent of target. The award for G. L. Moore was based 40 percent on business unit profit at Kenworth and 30 percent on business unit leadership. The Committee determined that G. L. Moore exceeded each goal and approved an overall payout of 167.8 percent of target. The award for R. A. Bengston was based 35 percent on business unit profit in Financial Services and 30 percent on business unit leadership. The Committee determined that R. A. Bengston exceeded each goal and approved an overall payout of 126.3 percent of target. The award for T. K. Quinn was based 35 percent on business unit profit at Peterbilt and 40 percent on business unit leadership. The Committee determined that T. K. Quinn exceeded each goal and approved an overall payout of 161.2 percent of target. The Committee exercised discretion to reduce each Named Executive Officer's maximum funding amount described below under the heading "LTIP Funding Limit for 162(m) Purposes" in determining payout as described above. The long-term cash awards for the 2015-2017 LTIP cycle have not been determined as of the date of this proxy statement because Peer Group comparison data was not available.

***LTIP Funding Limit for 162(m) Purposes.*** The maximum cash portion amount that may be paid to any eligible participant in any year under the LTIP program is \$7,000,000. The LTIP awards for the Named Executive Officers are subject to the conditions of payment set forth in the Long-Term Incentive Plan for purposes of determining deductibility under Section 162(m). Pursuant to the LTIP, the Committee established a funding limit for the 2017-2019 LTIP performance cycle equal to one percent of the Company's cumulative net income and the maximum share of such pool assigned to the Chief Executive Officer and the next four most highly compensated executive officers was 52.0%, 15.0%, 15.0%, 9.5% and 8.5%, respectively. The Committee, in its sole discretion, may reduce or eliminate (but not increase) any award otherwise payable to the Named Executive Officers under each officer's funding maximum based on the achievement of the LTIP goals, an assessment of individual performance and other factors within the discretion of the Committee. The deductibility of performance-based compensation under Section 162(m) is discussed in more detail under "Effect of Tax Treatment" on page 23.

---

**Table of Contents**

**Stock options.** The Committee includes stock options in its compensation program because stock options link the interests of executives directly with stockholders' interests through increased individual stock ownership. Stock options are granted by the Committee once each year on a predetermined date after the fourth-quarter earnings release and are not repriced, backdated or purchased by the Company. The number of options is determined by multiplying the executive's base salary on the grant date by a target award percentage and dividing by the average closing price of the Company's stock on the first five trading days of the year. The exercise price of stock options is the closing price of the Company's stock on the date of grant. Options become exercisable at the end of a three-year vesting period and expire ten years after the date of grant. A participant who elects to retire at age 62 with 15 years of service, but before age 65, has ten years from date of grant to exercise vested options and a prorated number of stock options which are not otherwise exercisable at the time of retirement will become immediately exercisable, and may thereafter be exercised by the participant at any time within ten years after the date of grant. A participant who retires at or after age 65 has the full term to exercise options and unvested options will continue to vest. Vesting may be accelerated in the event of a change in control.

The Compensation Committee granted stock options on February 7, 2017 in accordance with the target award percentages listed on page 19. All stock options granted in 2017 vest and become exercisable on January 1, 2020, and remain exercisable until February 7, 2027 unless the participant's employment terminates earlier for reasons other than retirement, or the participant is demoted to an ineligible position.

**Annual restricted stock program.** Performance-based restricted stock is included in the program because it links the interests of executives directly with stockholders' interests through increased individual stock ownership and adds a performance goal that is tied to the success of our business. The Committee sets a Company performance goal on or before the first 90 days of the year, and restricted stock grants are made in the following year if the Committee determines that the performance goal is achieved. The number of restricted shares is determined by multiplying the executive's base salary by the target award percentage and dividing by the average closing price of the Company's stock on the first five trading days of the year. The restricted shares are valued at the closing price of the Company's stock on the date of grant. The restricted stock vests 25 percent on the first day of the month following the grant and an additional 25 percent on each succeeding first of January. Unvested shares are forfeited upon termination unless termination is by reason of death, disability or retirement. All shares vest immediately upon a change in control. Each Named Executive Officer has the same rights as all other stockholders to vote the shares and receive cash dividends.

The performance goal for 2017 was four percent after-tax return on revenue. The goal was determined based on the return on revenues of heavy- and medium-duty truck manufacturers in Europe and North America. Return on revenue is defined as net income divided by total revenues.

On February 7, 2018, the Committee determined that the 2017 performance goal was achieved and approved restricted stock consistent with the target award percentages listed on page 19. The restricted stock granted on February 7, 2017 for 2016 performance is included on page 25.

**Compensation of the Chief Executive Officer**

The Committee applies the same compensation philosophy, policies and comparative data analysis to the Chief Executive Officer as it applies to the other Named Executive Officers. The Chief Executive Officer is the only officer with overall responsibility for all corporate functions and, as a result, has a greater percentage of his total compensation based on the overall financial performance of the Company. Under R. E. Armstrong's leadership in 2017, the Company achieved record revenue and the second highest net income in the Company's history. The Committee reviewed the Chief Executive Officer's salary in 2017 versus the market data and approved a 12 percent salary increase, effective January 1, 2017.

---

## **Table of Contents**

### **Deferral of Annual and Long-Term Performance Awards**

The Committee administers a Deferred Compensation Plan described on page 30 which allows eligible employees to defer cash incentive awards into an income account or a stock unit account. Both accounts are unfunded and unsecured. This program provides tax and retirement planning benefits to participants and market-based returns on amounts deferred. Certain deferrals are subject to Internal Revenue Code Section 409A. Payouts from the income account are made in cash either in a lump sum or in a maximum of 15 annual installments in accordance with the executive's payment election. Stock unit accounts are paid out in Company stock either in a one-time distribution or in a maximum of 15 annual installments. Participation in the Deferred Compensation Plan is voluntary.

### **Stock Ownership Guidelines**

The Company's executive officers are required to meet stock ownership guidelines that reflect alignment of senior executives' long-term goals with that of the Company stockholders. The minimum number of shares of company stock and deferred stock units expected to be held by each category of executive officer is as follows: the Chief Executive Officer—five times base salary; other Named Executive Officers—three times base salary; and other executive officers—one times base salary. Company executive officers have three years from the first January after the executive first holds the qualifying position to attain the stock ownership target. The Committee reviews compliance with the guidelines each year. Executives who are not in compliance with the ownership threshold must retain all vested restricted stock and at least 50% of after-tax shares acquired through the exercise of stock options until the applicable stock ownership threshold is met. As of January 1, 2018, all executive officers either had achieved the stock ownership threshold or were within the time allowed to meet it.

### **Effect of Post-Termination Events**

The Company has no written employment agreement with its Chief Executive Officer or with any Named Executive Officer. Executive compensation programs provide full benefits only if a Named Executive Officer remains with the Company until normal retirement at age 65. In general, upon a termination without cause a Named Executive Officer retains vested benefits but receives no enhancements or severance. In a termination for cause, the executive forfeits all benefits except those provided under a qualified pension plan. Long-term cash incentives are prorated upon retirement at age 62, with 15 years of service, or death and are awarded at the maximum level upon a change in control. The annual restricted stock grants become fully vested at retirement, death or a change in control. The Company believes that the benefits described in this section help it attract and retain its executive officers by providing financial security in the event of certain qualifying terminations of employment or a change in control of the Company. The fact that the Company provides these benefits does not materially affect other decisions that the Company makes regarding compensation. The Company maintains a separation pay plan for all U.S. salaried employees that provides a single payment of up to six months of base salary in the event of job elimination in a business restructuring or reduction in the workforce. The Named Executive Officers are eligible for the benefit on the same terms as any other eligible U.S. salaried employee.

### **Effect of Tax Treatment**

Company policy is to structure certain compensation arrangements in a manner intended to preserve tax deductions for executive compensation under Section 162(m). Cash awards paid under either the IC Plan or the LTIP and stock options and performance-based restricted stock awards granted to Named Executive Officers who are subject to the \$1 million dollar annual deduction limitation under Section 162(m) are subject to certain conditions of payment intended to preserve deductibility imposed under Section 162(m). The Committee can exercise discretion to reduce or eliminate any IC or LTIP award otherwise payable to the Named Executive Officers. The Committee retains the flexibility to pay compensation that is not fully deductible within the limitations of Section 162(m) if it determines that such action is in the best interests of the Company and its stockholders in order to attract, retain and reward outstanding executives. The Company offers compensation programs that are intended to be tax efficient for the Company and for the executive officers.

## **Table of Contents**

The exemption from Section 162(m)'s deduction limit for performance-based compensation has been repealed under the Tax Cuts and Jobs Act (the Tax Act), effective for taxable years beginning after December 31, 2017. As a result of such repeal, compensation paid to executive officers in excess of \$1 million will not be deductible unless it qualifies for transition relief applicable to certain arrangements in place as of November 2, 2017 and not subsequently modified. The scope of the transition relief is uncertain at this time and it is expected that further guidance will be provided by the Internal Revenue Service. The Committee will review such guidance and consider the impact of the Tax Act on the Company's compensation programs.

### **Compensation Forfeiture**

In the event the Board determines that an executive officer has engaged in misconduct detrimental to the Company, including fraudulent conduct which results in a material inaccuracy in the Company's financial statements, the officer may be terminated for cause and all unpaid compensation forfeited. Cause is defined to include: an act of embezzlement, fraud or theft; the deliberate disregard of the rules of the Company or a subsidiary; any unauthorized disclosure of any of the secret or confidential information of the Company or a subsidiary; any conduct which constitutes unfair competition with the Company or a subsidiary; or inducing any customer of the Company or a subsidiary to breach any contracts with the Company or a subsidiary. The provisions do not allow for recoupment of base salary which has been previously paid.

In the event the Board determines that an executive officer has engaged in fraud that has caused or substantially contributed to material restatement of the Company's financial statements, the Board in its discretion may recover from the officer or former officer any incentive compensation award which was based in whole or in part on financial results that were subject to a material restatement.

### **Changes Approved For 2018**

Harrie Schippers was elected as the President and Chief Financial Officer (CFO) effective January 1, 2018.

### **Conclusion**

The Company's compensation programs are designed and administered in a manner consistent with its conservative executive compensation philosophy and guiding principles. The programs emphasize the retention of key executives and appropriate rewards for excellent results. The Committee monitors these programs in recognition of the dynamic marketplace in which the Company competes for talent. The Company will continue to emphasize pay-for-performance and equity-based incentive programs that compensate executives for results that are consistent with generating outstanding performance for its stockholders.

## **COMPENSATION COMMITTEE REPORT**

The Committee reviewed and discussed the Compensation Discussion and Analysis Section (CD&A) for 2017 with management. Based on the Committee's review and its discussions with management, the Committee recommends to the Board of Directors that the Compensation Discussion and Analysis Section be included in the Company's proxy statement for the 2018 Annual Meeting.

### **THE COMPENSATION COMMITTEE**

G. M. E. Spierkel, Chairman

B. E. Ford

K. S. Hachigian

M. A. Schulz

**Table of Contents****Summary Compensation**

The following table provides information on compensation for the Named Executive Officers for the last three fiscal years that ended December 31, 2017:

Name and Principal Position	Year	Salary (\$)	Stock	Option	Non-Equity	Change in Pension Value and Nonqualified	All Other Compensation (\$)(e)	Total (\$)
			Awards (Restricted Stock) (\$)(a)	Awards (\$)(b)	Incentive Plan Compensation (\$)(c)	Deferred Compensation Earnings (\$)(d)		
R. E. Armstrong Chief Executive Officer	2017	1,347,308	2,472,823	772,366	2,629,125	3,805,090	13,500	11,040,212
	2016	1,210,000	2,212,000	693,623	2,348,500	2,354,372	13,250	8,831,745
	2015	1,186,730	693,306	640,749	3,846,036	3,203,768	13,250	9,583,839
H. C. Schippers President & Chief Financial Officer*	2017	679,230	228,995	259,483	808,326	634,557	13,500	2,624,091
G. L. Moore Executive Vice President	2017	697,116	562,005	259,483	846,160	1,123,366	13,500	3,501,630
	2016	547,693	283,900	204,268	739,900	776,997	13,250	2,566,008
R. A. Bengston Senior Vice President	2017	499,039	332,199	153,121	449,400	946,193	13,500	2,393,452
	2016	449,615	283,900	138,061	566,145	538,546	13,250	1,989,517
	2015	427,692	224,106	124,721	604,903	531,428	13,250	1,926,100
T. K. Quinn Senior Vice President	2017	449,616	295,273	134,747	479,430	444,746	66,608	1,870,420
	2016	440,000	283,900	134,997	729,224	227,285	13,250	1,828,656
	2015	444,923	238,098	132,514	665,298	161,986	13,250	1,656,069
R. J. Christensen (retired 2/1/2017)	2017	86,154	825,762	0	0	5,294	13,500	930,710
	2016	800,000	774,300	348,786	1,660,660	1,579,983	13,250	5,176,979
	2015	774,769	513,546	323,404	2,152,891	1,589,071	13,250	5,366,931

\* H. C. Schippers was elected President and Chief Financial Officer effective January 1, 2018.

- (a) Represents the grant date fair value of restricted stock awards on February 7, 2017, February 4, 2016, and February 4, 2015, calculated in accordance with FASB ASC Topic 718. For additional information, refer to Notes in the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the applicable fiscal year as shown in footnote (b) below.
- (b) Represents the aggregate grant date fair value of stock options granted under the Company's Long-Term Incentive Plan (LTIP) on February 7, 2017, February 4, 2016, and February 4, 2015, calculated in accordance with FASB ASC Topic 718. For additional accounting information, including the Company's Black-Scholes-Merton option pricing model assumptions, refer to Note Q in the Consolidated Financial Statements in the Company's Annual Reports on Form 10-K for 2017, 2016 and 2015.
- (c) Amounts for 2017 represent the awards earned under the IC Plan in 2017 that are determined and paid in 2018. Cash awards earned under the LTIP for the 2015-2017 cycle will not be determined until late April 2018. Amounts for 2016 and 2015 include IC and LTIP cash

awards.

- (d) Represents the aggregate change in value during 2017 of benefits accrued under the Company's qualified defined-benefit retirement plan and Supplemental Retirement Plan (R. E. Armstrong \$3,805,090; H. C. Schippers \$304,332; G. L. Moore \$1,123,366; R. A. Bengston \$930,397; T. K. Quinn \$444,746); H. C. Schippers change in value of benefits accrued under the DAF defined benefit plan and his transition agreement, \$95,984 and \$234,241, respectively; and the interest earned under the Deferred Compensation Plan in excess of 120 percent of the applicable federal long-term rate as prescribed under Section 1274(d) of the Internal Revenue Code (R. E. Armstrong \$0; H. C. Schippers \$0; G. L. Moore \$0; R. A. Bengston

**Table of Contents**

\$15,796; T. K. Quinn \$0; R. J. Christensen \$5,294); Company retirement benefits are described in the accompanying Pension Benefits disclosure.

- (e) Represents Company matching contributions to the Company's 401(k) Savings Investment Plan of \$13,500 for each Named Executive Officer for 2017 and \$13,250 for each of 2016 and 2015. Amount also includes \$53,108 in tax equalization in 2017 for moving expenses for T. K. Quinn. Aggregate perquisites were less than \$10,000 for all Named Executive Officers.

**Grants of Plan-Based Awards**

The following table shows all plan-based awards granted to the Named Executive Officers during 2017:

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (a)			Estimated Future Payouts Under Equity Incentive Plan Awards Target (#)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$)
		Threshold (\$)	Target (\$)	Maximum (\$)					
<b>R. E. Armstrong</b>									
Restricted Stock (b)	2/7/2017				36,564				2,472,823
Stock Options (b)	2/7/2017						73,140	67.63	772,366
LTIP Cash (b)		165,682	2,430,000	4,860,000					
Annual Incentive Cash (c)		168,750	1,687,500	3,375,000					
<b>H. C. Schippers</b>									
Restricted Stock (b)	2/7/2017				3,386				228,995
Stock Options (b)	2/7/2017						24,572	67.63	259,483
LTIP Cash (b)		28,636	630,000	1,260,000					
Annual Incentive Cash (c)		32,550	542,501	1,085,002					
<b>G. L. Moore</b>									
Restricted Stock (b)	2/7/2017				8,310				562,005
Stock Options (b)	2/7/2017						24,572	67.63	259,483
LTIP Cash (b)		28,636	630,000	1,260,000					
Annual Incentive Cash (c)		11,200	560,000	1,120,000					
<b>R. A. Bengston</b>									
Restricted Stock (b)	2/7/2017				4,912				332,199
Stock Options (b)	2/7/2017						14,500	67.63	153,121
LTIP Cash (b)		12,727	400,000	800,000					
Annual Incentive Cash (c)		28,000	350,000	700,000					
<b>T. K. Quinn</b>									
Restricted Stock (b)	2/7/2017				4,366				295,273
Stock Options (b)	2/7/2017						12,760	67.63	134,747
LTIP Cash (b)		8,000	352,000	704,000					
Annual Incentive Cash (c)		25,200	315,000	630,000					
<b>R. J. Christensen</b>									
Restricted Stock (b)	2/7/2017				12,210				825,762



## Edgar Filing: PACCAR INC - Form PRE 14A

- (a) See the Compensation Discussion and Analysis for how these amounts are determined.
- (b) Represents grants and awards under the LTIP described on page 19. The grant date fair value of restricted stock awards is the number of restricted shares multiplied by the closing price of Company stock on the grant date of \$67.63.
- (c) Represents awards under the Company's Senior Executive Yearly Incentive Compensation Plan ( IC Plan ) described on page 18.

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

The following table shows all outstanding stock option and restricted stock awards held by the Named Executive Officers on December 31, 2017:

Name	Option Awards(a)					Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Vesting Date	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market
							Value of Shares or Units of Stock That Have Not Vested (\$)(f)
R. E. Armstrong	21,758	0	36.12	1/1/2013	2/2/2020	2,775(b)	197,247
	31,380	0	50.50	1/1/2014	2/3/2021	22,120(c)	1,572,290
	49,102	0	43.24	1/1/2015	2/2/2022	27,423(d)	1,949,227
	43,672	0	47.81	1/1/2016	2/6/2023		
	34,394	0	59.15	1/1/2017	2/7/2024		
	0	58,372	62.46	1/1/2018	2/4/2025		
	0	92,382	50.00	1/1/2019	2/4/2026		
	0	73,140	67.63	1/1/2020	2/7/2027		
H. C. Schippers	9,414	0	50.50	1/1/2014	2/3/2021	725(b)	51,533
	15,854	0	43.24	1/1/2015	2/2/2022	1,994(c)	141,734
	11,424	0	47.81	1/1/2016	2/6/2023	2,539(d)	180,472
	10,848	0	59.15	1/1/2017	2/7/2024		
	0	8,654	62.46	1/1/2018	2/4/2025		
	0	11,568	50.00	1/1/2019	2/4/2026		
	0	24,572	67.63	1/1/2020	2/7/2027		
G. L. Moore	5,736	0	50.50	1/1/2014	2/3/2021	747(b)	53,097
	13,220	0	43.24	1/1/2015	2/2/2022	2,838(c)	201,725
	10,164	0	47.81	1/1/2016	2/6/2023	6,232(d)	442,971
	9,360	0	59.15	1/1/2017	2/7/2024		
	0	11,362	62.46	1/1/2018	2/4/2025		
	0	27,206	50.00	1/1/2019	2/4/2026		
	0	24,572	67.63	1/1/2020	2/7/2027		
R. A. Bengston	12,910	0	59.15	1/1/2017	2/7/2024	897(b)	63,759
	0	11,362	62.46	1/1/2018	2/4/2025	2,838(c)	201,725
	0	18,388	50.00	1/1/2019	2/4/2026	3,684(d)	261,859
	0	14,500	67.63	1/1/2020	2/7/2027		
T. K. Quinn	9,964	0	30.81	1/1/2012	2/6/2019	953(b)	67,739
	10,228	0	36.12	1/1/2013	2/2/2020	2,838(c)	201,725
	8,108	0	50.50	1/1/2014	2/3/2021	3,274(d)	232,716
	12,296	0	43.24	1/1/2015	2/2/2022		
	9,436	0	47.81	1/1/2016	2/6/2023		
	13,716	0	59.15	1/1/2017	2/7/2024		
	0	12,072	62.46	1/1/2018	2/4/2025		
	0	17,980	50.00	1/1/2019	2/4/2026		
0	12,760	67.63	1/1/2020	2/7/2027			
R. J. Christensen	NA	NA	NA	NA	NA	18,954(e)	1,347,250

## Edgar Filing: PACCAR INC - Form PRE 14A

- (a) Represents stock options granted under the LTIP. The vesting date may be accelerated if a change in control occurs. Options expire ten years from the date of grant unless employment is terminated earlier.
- (b) Represents restricted stock granted on February 4, 2015. Twenty-five percent of the shares vested on March 1, 2015 and 25 percent vest on each subsequent January 1 until the shares are fully vested. The remaining vesting date is January 1, 2018.
- (c) Represents restricted stock granted on February 4, 2016. Twenty-five percent of the shares vested on March 1, 2016 and 25 percent vest on each subsequent January 1 until the shares are fully vested. The remaining vesting dates are January 1, 2018 and January 1, 2019.

**Table of Contents**

- (d) Represents restricted stock granted on February 7, 2017. Twenty-five percent of the shares vested on March 1, 2017 and 25 percent vest on each subsequent January 1 until the shares are fully vested. The remaining vesting dates are January 1, 2018, January 1, 2019 and January 1, 2020.
- (e) Represents restricted stock granted on February 4, 2015, February 4, 2016 and February 7, 2017. 8,979 of the shares vested on January 1, 2018. The remaining 9,975 shares will vest on Mr. Christensen's 62<sup>nd</sup> birthday in 2018.
- (f) The amount shown represents the number of shares multiplied by the closing price of the Company's stock on December 31, 2017 of \$71.08.

**Option Exercises and Stock Vested**

The following table shows all stock options exercised and restricted stock awards that vested during 2017 for the Named Executive Officers and the value realized upon exercise or vesting:

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$ (a))	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$ (b))
R. E. Armstrong	43,212	1,384,555	25,842	1,677,904
H. C. Schippers	5,314	172,904	3,456	223,303
G. L. Moore	22,742	721,896	5,004	325,802
R. A. Bengston	20,472	470,611	4,152	268,886
T. K. Quinn	2,786	61,704	4,119	266,381
R. J. Christensen	63,852	1,003,273	11,103	718,365

- (a) The dollar amounts shown are determined by multiplying the number of shares of the Company's common stock by the difference between the per-share market price of the Company's common stock at the time of exercise and the exercise price of the options.
- (b) The dollar amounts are determined by multiplying the number of restricted shares that vested by the per-share closing price of the Company's common stock on the vesting date.

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

The following table shows the present value of the retirement benefit payable to the Named Executive Officers as of December 31, 2017:

<b>Name</b>	<b>Plan Name</b>	<b>Number of Years Credited Service (#)</b>	<b>Present Value of Accumulated Benefit (\$)</b>	<b>Payments During Last Fiscal Year (\$)</b>
R. E. Armstrong	Retirement Plan	24	1,294,961	0
	Supplemental Retirement Plan	24	14,651,662	0
H. C. Schippers	Retirement Plan (DAF)	30	425,851	0
	Retirement Plan (US)	1	89,833	0
	Supplemental Retirement Plan	1	300,577	0
	Transition Agreement	1	234,241	0
G. L. Moore	Retirement Plan	30	1,036,849	0
	Supplemental Retirement Plan	30	3,046,685	0
R. A. Bengston	Retirement Plan	25	1,367,712	0
	Supplemental Retirement Plan	25	3,018,437	0
T. K. Quinn	Retirement Plan	12	469,473	0
	Supplemental Retirement Plan	12	1,111,532	0
R. J. Christensen	Retirement Plan	33	1,450,737	\$ 84,172
	Supplemental Retirement Plan	33	8,280,023	\$ 436,734

The Company's U.S. qualified noncontributory retirement plan has been in effect since 1947. The Named Executive Officers participate in this plan on the same basis as other U.S. salaried employees. Employees are eligible to become a member in the plan after completion of 12 months of employment with at least 1,000 hours of service. The plan provides benefits based on years of service and salary. Participants are vested in their retirement benefits after five years of service.

The benefit for each year of service, up to a maximum of 35 years, is equal to one percent of the highest average salary plus 0.5 percent of highest average salary in excess of the Social-Security-covered compensation level. Highest average salary is defined as the average of the highest 60 consecutive months of an employee's cash compensation, which includes base salary and annual incentive cash compensation, but it excludes compensation under the LTIP. The benefits are not subject to any deduction for Social Security or other offset amounts. Benefits from the plan are paid as a monthly single-life annuity or, if married, actuarially-equivalent 50 percent, 75 percent or 100 percent joint and survivor annuity options are also available. Survivor benefits based on the 50 percent joint and survivor option will be paid to an eligible spouse if the employee is a vested member in the plan and dies before retirement.

The Company's unfunded U.S. Supplemental Retirement Plan ( SRP ) provides a retirement benefit to those affected by the maximum benefit limitations permitted for qualified plans by the Internal Revenue Code and to those deferring incentive compensation bonuses. The benefit is equal to the amount of normal pension benefit reduction resulting from the application of maximum benefit and salary limitations and the exclusion of deferred incentive compensation bonuses from the retirement plan benefit formula. Benefits from the plan are paid as a lifetime monthly annuity or a single lump-sum distribution at the executive's election and the benefits will be paid at the later of: (1) termination of employment or (2) the date the participant attains age 55. If the participant dies before the supplemental benefit commencement date, the participant's surviving spouse will be eligible to receive a survivor pension for the amount by which the total survivor pension benefit exceeds the surviving spouse's retirement plan benefit. Executives terminated for cause, as defined in the Plan, forfeit all SRP benefits.

Normal retirement age under both plans is 65, and participants may retire early between ages 55 and 65 if they have 15 years of service. For retirement at ages 55 through 61 with 15 years of service, pension benefits are

**Table of Contents**

reduced four percent per year from age 65. For retirement at or after age 62 with 15 years of service, there is no reduction in retirement benefits. As of December 31, 2017, R. E. Armstrong, G. L. Moore and R. A. Bengston are eligible for an unreduced early retirement benefit.

H. C. Schippers' transition agreement provides that if he works for PACCAR in the United States for at least five years, then an additional year of credited service will be added to his nonqualified retirement benefit for each fully completed year of service.

H. C. Schippers participated in the Company's pension program in the Netherlands on the same basis as other DAF Eindhoven employees. DAF participates in the Metal and Electrical Engineering Industry Pension Fund (the Fund), a multi-employer defined benefit plan covering employees of the country's metal industry. The benefit is based on a percentage of the career average salary up to the annually indexed salary maximum multiplied by years of service up to age 67 per January 1, 2017. In 2017, the percentage of salary was 1.875 percent and the yearly indexed maximum salary was 72,222. Survivor benefits include a pension up to 70 percent of the participant's benefit and a 14 percent pension for surviving children to age 18 or 27 if they are in school. Participants contribute 50 percent of the premiums and are vested from date of hire. Normal retirement benefits begin at age 67 and participants may retire early at or after age 55 with reduced benefits.

The Pension Plan table shows the present value of the accrued retirement benefits for the Named Executive Officers under the Company's retirement plan and Supplemental Retirement Plan based on highest average salary and service as of December 31, 2017 and the present value of H. C. Schippers' accrued benefits under the Fund and his transition agreement. Present value calculations for each Named Executive Officer under age 62 assumed that each remains employed until age 62, if eligible for unreduced benefits, or age 65 if not. Additional assumptions include the use of Citigroup's December 31, 2017 and December 31, 2016 yield curves to discount future payouts (equivalent to a discount rate of 3.55 percent and 4.05 percent, respectively, for the Plan in aggregate). The mortality assumptions use the RP-2006 Male Annuitant Mortality Table projected generationally with projection scale MP-2017 (MP-2016 for 2016).

**Nonqualified Deferred Compensation**

The following table provides information about the deferred compensation accounts of the Named Executive Officers as of December 31, 2017. Amounts deferred reflect cash awards payable in prior years but voluntarily deferred by the executive.

Name	Executive Contribution in	Aggregate Earnings in	Aggregate Withdrawals/ Distributions	Aggregate Balance as of 12/31/2017
	2017 (\$)	2017 (\$)	(\$)	(a)(\$)
R. E. Armstrong	0	0	0	0
H. C. Schippers	0	0	0	0
G. L. Moore	0	0	0	0
R. A. Bengston	0	426,823	0	4,982,079
T. K. Quinn	240,644	16,532	0	278,102
R. J. Christensen	0	27,746	0	726,416

(a) To the extent required to be reported, all cash awards were reported as compensation to the Named Executive Officer in the Summary Compensation Table for previous years.

The Company's Deferred Compensation Plan provides all eligible employees, including the Named Executive Officers, an opportunity to voluntarily defer all or part of the cash awards earned and payable under the LTIP and the IC Plan. The Company makes no contributions to the Plan. Accounts are credited with interest or dividend equivalents as described below.

**Table of Contents**

A portion of the amount in the 2017 Aggregate Earnings column is reported in the Summary Compensation Table for the Named Executive Officers as follows: R. A. Bengston \$15,796. Certain of the Named Executive Officers have elected to defer into an income account, a stock unit account or any combination of each. Deferral elections were made in the year before the award was payable. Cash awards were credited to the income account on the date the award was payable and interest is compounded monthly on the account balance based on the simple combined average of the daily Aa Industrial Bond yield average for the immediately preceding month. The Named Executive Officer may elect to be paid out the balance in the income account in a lump sum or in up to 15 substantially equal annual installments. Cash awards credited to the stock unit account are treated as if they had been invested in the Company's common stock on the date the cash award is payable. Dividend equivalents are credited to the stock unit account and treated as if they had been invested in the Company's common stock on the date the dividend is paid to stockholders. A Named Executive Officer's stock unit account is paid out in Company stock either in a one-time distribution or in a maximum of 15 annual installments, at the election of the Named Executive Officer. Payment of a Named Executive Officers income account and stock unit account will be made or commence to be made in the first January following the Named Executive Officer's termination of employment, unless the Named Executive Officer elects to have payment occur or commence on an earlier date, except that payment on account of termination of employment to a participant who is a specified employee for purposes of Section 409A on the Internal Revenue Code will not be made prior to the first day of the month following the six-month anniversary of termination of employment. If the Named Executive Officer dies before his or her interest under the Deferred Compensation Plan has been distributed, his or her interest will be distributed to his or her beneficiary. A Named Executive Officer will forfeit his or her entire interest under the Deferred Compensation Plan if he or she is terminated by the Company for cause or if the Named Executive Officer refuses to provide advice or counsel to the Company or any of its subsidiaries after the Named Executive Officer's termination of employment.

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

The Named Executive Officers do not have severance or change in control agreements with the Company. The information below describes certain compensation that would become payable under existing plans if each Named Executive Officer's employment terminated or a change in control occurred on December 31, 2017. These payments do not include deferred compensation balances and the present value of accumulated Supplemental Retirement Plan benefits reported in the Nonqualified Deferred Compensation and Pension Benefits tables.

	<b>R. E. Armstrong (\$)</b>	<b>H. C. Schippers (\$)</b>	<b>G. L. Moore (\$)</b>	<b>R. A. Bengston (\$)</b>	<b>T. K. Quinn (\$)</b>
<b>Termination for Cause</b>	0	0	0	0	0
<b>Termination Without Cause</b>	0	0	0	0	0
<b>Retirement</b>					
Annual Incentive Plan	2,629,125	808,326	846,160	449,400	NA
Long-Term Cash Award	1,650,000	199,628	240,000	240,000	NA
Restricted Stock	3,718,763	373,738	697,792	527,342	NA
<b>Total</b>	<b>7,997,888</b>	<b>1,381,692</b>	<b>1,783,952</b>	<b>1,216,742</b>	<b>NA</b>
<b>Death</b>					
Annual Incentive Plan	2,629,125	808,326	846,160	449,400	479,430
Long-Term Cash Award	3,670,000	533,277	706,667	553,333	548,333
Restricted Stock	3,718,763	373,738	697,792	527,342	502,180
<b>Total</b>	<b>10,017,888</b>	<b>1,715,341</b>	<b>2,250,619</b>	<b>1,530,075</b>	<b>1,529,943</b>
<b>Change in control</b>					
Annual Incentive Plan	3,375,000	1,085,002	1,120,000	700,000	630,000
Long-Term Cash Award	7,340,000	1,066,555	1,413,333	1,106,667	1,096,667
Restricted Stock	3,718,763	373,738	697,792	527,342	502,180
<b>Total</b>	<b>14,433,763</b>	<b>2,525,295</b>	<b>3,231,125</b>	<b>2,334,009</b>	<b>2,228,847</b>

---

**Table of Contents**

**Termination for Cause.** If a Named Executive Officer had been terminated for cause, as defined in the Company's LTIP Administrative Guidelines, all unpaid cash incentives under the IC Plan and the LTIP, stock options (vested and unvested), restricted stock, deferred compensation balances and accrued Supplemental Retirement Plan benefits would have been immediately forfeited.

**Resignation or Termination Without Cause.** If a Named Executive Officer had resigned or been terminated without cause, all unpaid incentives under the IC Plan and the LTIP, unvested stock options and restricted stock would have been immediately forfeited. Vested stock options would remain exercisable for one month from the date of termination.

Deferred compensation balances, as described in the Nonqualified Deferred Compensation Table, would be paid in a lump sum or in installments according to the payment election filed by the Named Executive Officer. The Named Executive Officer may elect to have such payments made or commence in any January that is at least 12 months from the date of such payment election, but no later than the first January following the year in which the executive attains age 70-1/2.

Accrued Supplemental Retirement Plan benefits described under the Pension Benefits Table would be paid in a form previously elected by the Named Executive Officer. R. E. Armstrong, R. A. Bengston and G. L. Moore would receive single lump-sum cash payments. H. C. Schippers and T. K. Quinn would receive monthly annuities payable for life. If termination occurred on December 31, 2017, these payments would be made or would commence in accordance with the terms of the Plan on January 1, 2018 for R. E. Armstrong, H. C. Schippers, G. L. Moore, R. A. Bengston and T. K. Quinn.

**Retirement.** All Named Executive Officers except T. K. Quinn were eligible for early retirement benefits. Deferred compensation balances and accumulated Supplemental Retirement Plan benefits would have been payable for the Named Executive Officers as described above under Resignation or Termination Without Cause. Annual incentive compensation earned in 2017 would have been paid in the first quarter of 2018 and long-term incentive cash awards earned under the 2015-2017 performance cycle would be paid in May 2018 based on actual performance against goals. The long-term performance awards in the table reflect target awards. LTIP cash awards for incomplete cycles are prorated for retirement after age 62, with 15 or more years of service. Unvested stock options would have been immediately forfeited and vested stock options would have remained exercisable for the full term following retirement at or after age 62. All outstanding annual restricted stock for the Named Executive Officers under age 62 would continue to vest according to the vesting schedule until age 62 when they would vest in full. The amount listed for restricted stock in the table reflects continued service vesting of unvested shares at the fair market value on December 31, 2017, which was \$71.08 per share.

**Death.** In the event of the death of a Named Executive Officer on December 31, 2017, beneficiaries of the Named Executive Officer would have been entitled to receive all of the benefits that would have been paid to a Named Executive Officer who had retired on that date as described above, with the following exceptions:

Long-term incentive cash awards earned under the 2016-2018 LTIP performance cycle and the 2017-2019 LTIP performance cycle would have been paid on a prorated basis (2/3 and 1/3, respectively) following completion of the cycle, based on actual performance against goals.

All outstanding restricted stock would vest immediately.

**Change in control.** Benefits payable in the event of a change in control on December 31, 2017 are the same as benefits payable in the event of death on the same date (as described above) with the following exceptions:

Named Executive Officers employed on December 31, 2017 would have been entitled to a maximum IC award for 2017 (200 percent of target), a maximum long-term incentive cash award under the 2015-2017 performance cycle of the LTIP and a maximum prorated award under the 2016-2018 and the



---

**Table of Contents**

2017-2019 performance cycles based on the number of full or partial months completed in the performance cycle. The maximum payment amounts are shown in the table above and would have been paid in a lump sum immediately following the change in control.

All outstanding restricted stock would vest immediately.

Deferred compensation balances would have been paid as a single lump sum in cash from the income account and whole shares of the Company's common stock from the stock account immediately following the change in control.

In addition, in the event of a change in control, the Compensation Committee of the Board of Directors has the discretionary authority to provide the following additional benefits:

Immediate vesting of all unvested stock options. The value of unvested options that could have been immediately vested upon a change in control on December 31, 2017 for each Named Executive Officer was: R. E. Armstrong \$2,702,912; H. C. Schippers \$403,224; G. L. Moore \$756,216; R. A. Bengston \$535,584; T. K. Quinn \$527,101.

Increased Supplemental Retirement Plan Benefits. If the Committee chooses to terminate the Supplemental Retirement Plan upon a change in control, the value of accrued benefits under the plan would be paid in a single lump sum immediately following the change in control. The additional Supplemental Retirement Plan benefits that would have been paid had the plan been terminated following a change in control on December 31, 2017 are as follows: R. E. Armstrong \$1,766,339; H. C. Schippers \$33,788; G. L. Moore \$391,196; R. A. Bengston \$330,602; T. K. Quinn \$462,664. In addition, H. C. Schippers would be entitled to an additional benefit of \$200,054 accrued under his transition agreement. For purposes of calculating the value of the benefit to be paid upon such a plan termination, the normal actuarial factors and assumptions used to determine Actuarial Equivalent under the qualified retirement plan will be used with the exception of the interest rate, which will be zero percent.

**CEO PAY RATIO DISCLOSURE**

PACCAR identified its median employee using the employee population on October 1, 2017, and used total cash compensation as the appropriate consistently applied compensation measure in order to determine the median paid employee. Total cash compensation paid to each employee for the period from January 1, 2017 to September 30, 2017 was reviewed for all global employees. PACCAR believes total cash compensation reasonably reflects annual compensation. The identified median employee's total annual compensation will be compared to the CEO's total annual compensation, both as calculated in accordance with the requirements of the Summary Compensation Table. The CEO's cash award earned for the 2015-2017 LTIP cycle will not be determined until April 30, 2018. The CEO pay ratio will be disclosed in the Form 8-K when the LTIP payment is made.

**Table of Contents**

**AUDIT COMMITTEE REPORT**

The Audit Committee of the Board of Directors has furnished the following report:

The Audit Committee is comprised of four members, each of whom meets the independence and financial literacy requirements of SEC and NASDAQ rules. It adopted a written charter outlining its responsibilities that was approved by the Board of Directors. A current copy of the Audit Committee's charter is posted at [www.paccar.com/company/corporateresponsibility/auditcommittee.asp](http://www.paccar.com/company/corporateresponsibility/auditcommittee.asp). The Board of Directors designated all Audit Committee members as Audit Committee financial experts.

Among the Committee's responsibilities are the selection and evaluation of the independent auditors and the review of the financial statements. The Committee reviewed and discussed the audited consolidated financial statements for the most recent fiscal year with management. In addition, the Committee discussed under Auditing Standard No. 1301, Communications with Audit Committees, all matters required to be discussed with the independent auditors Ernst & Young LLP. The Committee received from Ernst & Young LLP the written disclosures and letter required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence and discussed with them their independence. Based on the Audit Committee's review of the audited financial statements and its discussions with management and the independent auditors, the Committee recommends to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, and be filed with the Securities and Exchange Commission.

**THE AUDIT COMMITTEE**

R. C. McGeary, Chairman

A. J. Carnwath

L. Kaufmann

G. M. E. Spierkel

**Table of Contents****INDEPENDENT AUDITORS**

Ernst & Young LLP performed the audit of the Company's financial statements for 2017 and has been selected to perform this function for 2018. Partners from the Seattle office of Ernst & Young LLP will attend the Annual Meeting and will have the opportunity to make statements if they desire and will be available to respond to appropriate questions.

The Audit Committee approved the engagement of the independent auditors, Ernst & Young LLP. The Audit Committee has also adopted policies and procedures for preapproving all audit and non-audit work performed by Ernst & Young LLP. The audit services engagement terms and fees and any changes to them require Audit Committee preapproval. The Committee has also preapproved the use of Ernst & Young LLP for specific categories of non-audit, audit-related and tax services up to a specific annual limit. Any proposed services exceeding preapproved limits require specific Audit Committee preapproval. Ernst & Young LLP has served as the Company's independent auditor since 1945. The Company's complete preapproval policy was attached to the Company's 2004 proxy statement as Appendix E, available upon request.

The services provided for the years ended December 31, 2017 and December 31, 2016 are as follows:

	(in millions)	
	2017	2016
Audit	\$ 7.95	\$ 7.36
Audit-Related	.20	.19
Tax	.45	.47
All Other	.00	.00
<b>Total</b>	<b>\$ 8.60</b>	<b>\$ 8.02</b>

**Audit Fees.** In the year ended December 31, 2017, the independent auditors, Ernst & Young LLP, charged the Company \$7.95 million for professional services rendered for the audit of the Company's annual financial statements included in the Company's Annual Report on Form 10-K, audit of the effectiveness of the Company's internal control over financial reporting, reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q, and services provided in connection with statutory and regulatory filings.

**Audit-Related Fees.** In the year ended December 31, 2017, the independent auditors, Ernst & Young LLP, billed the Company \$.20 million for audit-related professional services. These services included employee benefit plan (pension and 401(k)) audits and other assurance services not directly related to the audit of the Company's consolidated financial statements.

**Tax.** In the year ended December 31, 2017, the independent auditors, Ernst & Young LLP, billed the Company \$.45 million for tax services, which included fees for tax return preparation for the Company, consulting on audits and inquiries by taxing authorities and the effects that the tax law changes and present and future transactions may have on the Company's tax liabilities.

**All Other Fees.** In the year ended December 31, 2017, Ernst & Young LLP was not engaged to perform professional services other than those authorized above.

**Table of Contents****STOCKHOLDER RETURN PERFORMANCE GRAPH**

The following line graph compares the yearly percentage change in the cumulative total stockholder return on the Company's common stock, to the cumulative total return of the Standard & Poor's Composite 500 Stock Index and the return of the industry peer group of companies identified in the graph (the Peer Group Index) for the last five fiscal years ended December 31, 2017. Effective January 1, 2015, the Company revised its peer group to include CNH Industrial N.V. (the parent company of Iveco) and remove Scania AB, which was acquired by Volkswagen in 2014 and is no longer publicly traded. Standard & Poor's has calculated a return for each company in the Peer Group Index weighted according to its respective capitalization at the beginning of each period with dividends reinvested on a monthly basis. Management believes that the identified companies and methodology used in the graph for the Peer Group Index provides a better comparison than other indices available. The Peer Group Index consists of AGCO Corporation, Caterpillar Inc., CNH Industrial N.V., Cummins Inc., Dana Incorporated, Deere & Company, Eaton Corporation, Meritor Inc., Navistar International Corporation, Oshkosh Corporation and AB Volvo. CNH Industrial is included from September 30, 2013, when it began trading on the New York Stock Exchange. The comparison assumes that \$100 was invested December 31, 2012, in the Company's common stock and in the stated indices and assumes reinvestment of dividends.

	2012	2013	2014	2015	2016	2017
PACCAR Inc	100	134.90	159.43	116.19	160.79	184.60
S&P 500 Index	100	132.39	150.51	152.59	170.84	208.14
Peer Group Index	100	116.35	111.61	87.57	124.93	190.50

---

**Table of Contents**

**ITEM 2: APPROVAL OF SECOND AMENDED AND RESTATED CERTIFICATE OF INCORPORATION**

After careful consideration and upon the recommendation of the Board's Nominating and Governance Committee, which is comprised entirely of independent directors, the Board has unanimously determined that the Company and its stockholders should amend PACCAR's Restated Certificate of Incorporation to eliminate the supermajority vote requirement for the removal of directors, as described below. **The Board recommends that PACCAR stockholders vote FOR approval of this amendment to the Restated Certificate of Incorporation.**

PACCAR has excellent corporate governance policies and practices that enhance stockholder returns. Its conservative policies ensure that the Company is governed in accordance with the highest standards of integrity and in the best interest of its stockholders. PACCAR has instituted several corporate governance enhancements, including amendment of the Company's Bylaws to provide stockholders with proxy access and the right to call a special meeting, and amendment of the Company's Restated Certificate of Incorporation to provide for annual election of directors.

At the 2017 Annual Meeting of Stockholders, 52% of the shares voted in favor of an advisory proposal to eliminate the supermajority voting provisions of the Company's Certificate of Incorporation. The Board and the Nominating and Governance Committee carefully reviewed the various arguments regarding supermajority voting as well as the Company's responsiveness to stockholder proposals. The Board and the Nominating and Governance Committee believe that the Company's supermajority voting provisions ensure that a broad consensus of stockholders agree on significant corporate changes. However, the Board and the Nominating and Governance Committee also support director accountability, as shown by the Company's adoption of annual election of directors, and recognize a majority voting standard for removal of Directors is good corporate governance. Upon consideration of such matters, including the advisory vote of the PACCAR stockholders at the 2017 annual meeting regarding supermajority voting, the Board, upon the recommendation of the Nominating and Governance Committee, unanimously approved an amendment to the Restated Certificate of Incorporation to eliminate the supermajority requirement for the removal of directors and recommends its adoption by stockholders.

Currently, Article Seventh of the Restated Certificate of Incorporation provides that the affirmative vote of holders of two-thirds (2/3) of the outstanding shares of stock entitled to vote shall be necessary in order to remove, with or without cause, any Director or the entire Board of Directors. Following elimination of the supermajority voting requirement with respect to removal of Directors, any Director or the entire Board of Directors could be removed by the holders of a majority of the shares entitled to vote at an election of directors.

To implement the proposal, PACCAR stockholders are asked to vote in favor of amending Article Seventh of PACCAR's Restated Certificate of Incorporation. **The proposed amendment to the Restated Certificate of Incorporation, attached as Appendix A, requires an affirmative vote of two-thirds (2/3) of the outstanding shares in order to become effective.** If PACCAR stockholders approve the proposed amendment, the amendments will become effective upon the filing of a certificate of amendment to PACCAR's Restated Certificate of Incorporation with the Delaware Secretary of State. PACCAR intends to make that filing shortly after approval of the amendment by stockholders at the annual meeting.

If PACCAR stockholders do not approve the proposed Second Amended and Restated Certificate of Incorporation, the affirmative vote of holders of two-thirds (2/3) of the outstanding shares of stock entitled to vote will be necessary to remove, with or without cause, any Director or the entire Board of Directors. An abstention will have the same effect as a vote against this proposal.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ITEM 2.**

**Table of Contents**

**STOCKHOLDER PROPOSAL**

The Company has been advised that one stockholder intends to present a proposal at the Annual Meeting. The Company will furnish the name, address and number of shares held by the proponent upon receipt of a request for such information to the Secretary.

In accordance with the proxy regulations, the following is the complete text of the proposal exactly as submitted. **The stockholder proposal includes some assertions the Company believes are incorrect. The Company has not addressed all of these inaccuracies. The Company accepts no responsibility for the proposal.**

**ITEM 3: STOCKHOLDER PROPOSAL REGARDING SPECIAL STOCKHOLDER MEETINGS**

Proposal 3 Special Shareowner Meetings

Resolved, Shareowners ask our board to take the steps necessary (unilaterally if possible) to amend our bylaws and each appropriate governing document to give holders in the aggregate of 10% of our outstanding common stock the power to call a special shareowner meeting. This proposal does not impact our board's current power to call a special meeting.

This proposal is more important at PCAR because we have no right to act by written consent. Scores of Fortune 500 companies enable shareholders to call special meetings and to act by written consent. Special meetings allow shareowners to vote on important matters, such as electing new directors that can arise between annual meetings.

Shareowner input on the timing of shareowner meetings is especially important when events unfold quickly and issues may become moot by the next annual meeting. This is important because there could be 15-months or more between annual meetings.

A majority of the yes and no votes at PCAR supported a shareholder proposal in favor of a simple majority vote standard for shareholders and a near-majority voted for the shareholder proxy access proposal sponsored by the Comptroller of the City of New York. The votes in favor of these 2 shareholder proposals in 2017 would have been still higher if small shareholders had the same access to corporate governance information as large shareholders.

Furthermore our top management failed to publish the identity of the sponsors of these 2 shareholder proposals which could mean that yes-votes could have been still higher if the annual meeting proxy was edited in a neutral manner. The Comptroller of the City of New York has an excellent reputation for its leadership in fostering improved governance at major U.S. companies.

The mere mention of its name would have led more shareholders to vote yes for their shareholder proposal (or least started more shareholders thinking in that direction). Have you ever voted in November and read in the voting materials that you have to mail a letter to find out who sponsored certain ballot items? It is good that PCAR methods are not used in November elections.

Lagging corporate governance means that PCAR does not get the maximum benefit from major capital investments -for instance a new distribution facility in Toronto. Excellent corporate governance, including the adoption of shareholder proposals to improve governance quality, is a cost-effective way to improve company performance.

Adoption of these 2 proposals voted in 2017 and this new proposal would be a cost-effective way to improve company performance with minimal up-front cost.

Returning to the single topic of this proposal please vote for:

Special Shareowner Meetings Proposal 3

**Table of Contents**

**BOARD OF DIRECTORS RESPONSE**

**THE BOARD OF DIRECTORS OPPOSES THE PROPOSED RESOLUTION AND UNANIMOUSLY RECOMMENDS A VOTE AGAINST ITEM 3 FOR THE FOLLOWING REASONS:**

The Company amended its bylaws in December 2017 to provide that stockholders owning at least 25% of the outstanding shares may call stockholder meetings. Such a threshold is common among public companies, including Deere & Company, Caterpillar Inc., The Boeing Company, International Business Machines Corporation and Weyerhaeuser Company. **The Board believes that the 25% threshold is reasonable, appropriate and aligned with stockholder interests.**

The Board believes that special meetings should be convened only for extraordinary matters. The approved 25% threshold ensures that a special meeting should be called only for matters that are important to a significant number of stockholders.

PACCAR has excellent corporate governance policies and practices that enhance stockholder returns. Its conservative policies ensure that the Company is governed in accordance with the highest standards of integrity and in the best interest of its stockholders. After careful consideration, the Board of Directors believes that the resolution to give holders of 10% of the Company's outstanding shares the right to call a stockholder meeting is not in the best interests of the stockholders.

**Implementation of the 10% Ownership Threshold May Significantly Disrupt Company and Board Operations and Increase the Company's Costs**

Special stockholder meetings can (1) divert the Board and management from their duties and responsibilities to the Company, (2) encourage a more short-term focus at the expense of long-term stockholder value and (3) require significant time and expenditures to convene the special meeting. The Company has proven its ability to deliver long-term results for its stockholders. Stockholder returns have averaged 15.1% per year for the last 15 years compared to an average of 9.9% for the S&P 500.

**PACCAR's Corporate Governance Structure Provides for Meaningful Stockholder Participation**

The Company's current corporate governance structure provides for meaningful and significant stockholder input in director elections and governance. Stockholders have the opportunity to include their own proposals and director nominees for election in the Company's proxy and to present them at the annual meeting of stockholders. **Stockholders holding 25% of the Company's outstanding shares have the right to call a meeting of stockholders.**

PACCAR has excellent stockholder rights and corporate governance practices which include:

Annual election of directors	Majority (73%) of independent directors
Majority voting for directors	Lead independent director
Proxy access right	Fully independent Board committees

Rigorous director selection and evaluation process	Stock ownership policy for directors and executive officers
--	---

The Board regularly reviews developments in corporate governance and thoughtfully evaluates which practices would serve the best interests of the Company and its stockholders. The Company has excellent corporate governance practices. The Board believes that the proposal to lower the stock ownership threshold to 10% to call a stockholder meeting is not in the best interests of the Company and its stockholders.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST ITEM 3.**

**Table of Contents**

**STOCKHOLDER PROPOSALS AND DIRECTOR NOMINATIONS FOR 2019**

A stockholder proposal must be addressed to the Corporate Secretary and received at the principal executive offices of the Company, P.O. Box 1518, Bellevue, Washington 98009, by the close of business on November 21, 2018, to be considered for inclusion in the proxy materials for the Company's 2019 Annual Meeting of Stockholders. A stockholder nomination by an eligible stockholder for one or more director candidates for the Company's 2019 Annual Meeting of Stockholders may be included in the proxy if the Company receives information and notice of the nomination in compliance with Art. III, Section 7 of the Company's Bylaws no later than November 21, 2018, nor earlier than October 22, 2018.

For business to be brought before the Annual Meeting of Stockholders by a stockholder, other than those proposals or nominees included in the proxy materials, the Company's Bylaws (Art. III, Section 5 and Section 6) provide that notice of such business, including director nominations, must be received at the Company's principal executive offices not less than 90 nor more than 120 days prior to the first anniversary of the prior year's annual meeting. The notice must include the information stated in the Bylaws. A copy of the pertinent Bylaw provision is available upon request to the Corporate Secretary, PACCAR Inc, P.O. Box 1518, Bellevue, Washington 98009.

**OTHER BUSINESS**

The Company knows of no other business likely to be brought before the meeting.

I. E. Song

*Secretary*

March 21, 2018



**Table of Contents**

**Appendix A**

**SECOND AMENDED AND RESTATED CERTIFICATE OF INCORPORATION**

OF

PACCAR Inc

The Corporation's original certificate of incorporation was filed with the Secretary of State of the State of Delaware on November 19, 1971. The following Second Amended and Restated Certificate of Incorporation was duly proposed by the Corporation's Board of Directors and adopted by the Corporation's stockholders in accordance with the provisions of Sections 242 and 245 of the General Corporation Law of the State of Delaware. As a result of the foregoing, the certificate of incorporation of the Corporation is restated in its entirety as follows:

FIRST: The name of this Corporation shall be

PACCAR Inc .

SECOND: The Corporation's Registered Office shall be at 2711 Centerville Road, Suite 400, Wilmington, County of New Castle, Delaware 19808. The Corporation's Registered Agent shall be The Prentice-Hall Corporation System, Inc., a Delaware corporation, the business office of which is identical with the Corporation's Registered Office.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

FOURTH: The Corporation is authorized to issue 1,201,000,000 shares of stock of all classes, consisting of 1,200,000,000 shares of common stock having a par value of \$1 per share and 1,000,000 shares of preferred stock having no par value. Each holder of record of shares of common stock shall be entitled to one vote for each share of stock outstanding in his name of record on the books of the Corporation. The holders of shares of preferred stock shall have no vote other than as may be provided by resolution of the Board of Directors. Other than as here expressly provided, the Board of Directors of the Corporation is expressly granted the authority to fix by resolution or resolutions, the voting power, designations, preferences and relative participating optional or other special rights and the qualifications, limitations or restrictions thereof in respect of any class or classes of stock or any shares of any class of stock of the Corporation to the full extent permitted by the General Corporation Law of the State of Delaware.

Pursuant to the foregoing authority, the Board of Directors has previously authorized the issuance of Series A Junior Participating Preferred Stock by filing a Certificate of Designations of Series A Junior Participating Preferred Stock dated January 22, 1990 with the Secretary of State of the State of Delaware on January 31, 1990, and amended same by filing an Amended Certificate of Designations of Series A Junior Participating Preferred Stock dated February 25, 1999 with the Delaware Secretary of State on March 1, 1999. The number of shares included in the Series A Junior Participating Preferred Stock, and the rights, qualifications, limitations and restrictions thereof are set forth in Appendix A hereto.

FIFTH: The original Bylaws of the Corporation may be adopted by the incorporator. Thereafter the power to make, alter or repeal Bylaws is conferred upon the Directors of the Corporation.

SIXTH: The Corporation shall have and may exercise all powers and rights, including but not limited to the power to indemnify its directors, officers, employees and agents, or any of them, in all respects as and to the full extent authorized or permitted by the General Corporation Law of the State of Delaware as the same has been heretofore or may be hereafter amended and by the provisions of this Certificate.

A-1

**Table of Contents**

SEVENTH: The affirmative vote of holders of two-thirds (2/3) of the outstanding shares of stock entitled to vote shall be necessary for the following corporate actions:

- ~~1.~~ The removal, with or without cause, of any Director or the entire Board of Directors;
- ~~2.~~ Amendment of this Certificate of Incorporation;
- ~~3.~~ Adoption of an agreement of merger or consolidation;
- ~~4.~~ The sale, lease or exchange of all or substantially all of the Corporation's property and assets;
- ~~5.~~ Dissolution of the Corporation; and
- ~~6.~~ Approval of a stockholder action to make, alter or repeal the Bylaws.

EIGHTH: If any Unfriendly Suitor (as described below, hereafter Suitor) becomes the beneficial owner after the record date for the 1986 stockholders' meeting, directly or indirectly, of twenty percent (20%) or more of the outstanding shares of stock of the Corporation, then in addition to the two-thirds (2/3) voting requirement for any transactions described in paragraphs 3, 4 or 5 of Article SEVENTH (each called a Business Combination), the following shall also be necessary:

1. The cash, or fair market value of other consideration, to be received per share by stockholders of the Corporation in any Business Combination in which the Suitor has a direct or indirect material interest, other than solely as a Stockholder of the Corporation, shall not be less than the highest per share price (including brokerage commissions and/or soliciting dealers' fees) paid by the Suitor in acquiring any of its holdings of the Corporation's common stock.
2. The Suitor shall not have received the benefit, directly or indirectly of any loans, advances, guarantees, pledges or other financial assistance or tax benefits provided by the Corporation.

The term Suitor includes any person, corporation, or affiliate and any party with which the Suitor has a direct or indirect agreement, understanding or arrangement for the purpose of acquiring, holding or voting stock of the Corporation.

The affirmative vote of two-thirds (2/3) of the outstanding shares of stock entitled to vote, other than stock held by the Suitor, shall be necessary to amend this Article EIGHTH.

NINTH:

1. The number of the directors of the Corporation shall be fixed from time to time by or pursuant to the Bylaws of the Corporation. At each annual meeting of the stockholders of the Corporation, the successors of each director whose term expires at that meeting shall be elected to hold office for a term expiring at the next annual meeting of stockholders and until such director's successor shall have been elected and qualified.
- 2.

## Edgar Filing: PACCAR INC - Form PRE 14A

Newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office for a term expiring at the next annual meeting of stockholders and until such director's successor shall have been elected and qualified. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

TENTH: Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders and may not be effected by any consent in writing by the stockholders. Except as otherwise required by law and subject to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, special meetings of stockholders of the Corporation may be called only by the Board of Directors pursuant to a resolution approved by a majority of the entire Board of Directors.

---

**Table of Contents**

ELEVENTH: The liability of the Corporation's directors to the Corporation or its stockholders shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law as amended from time to time. Any amendment or repeal of this Article ELEVENTH shall not adversely affect any right or protection of a director for acts or omissions prior to such amendment or repeal.

TWELFTH:

1. Right to Indemnification. Each person made or threatened to be made a party to or involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a proceeding), by reason of the fact that he or she (or a person of whom he or she is the legal representative) is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of the proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the Delaware General Corporation Law, as it now exists or may be amended, against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by a person in connection with a proceeding. The indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that, except as provided in paragraph 2 of this Article TWELFTH, the Corporation shall indemnify any person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if the proceeding (or part thereof) was authorized by the Board of Directors of the Corporation. The right to indemnification conferred in this Article TWELFTH shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any proceeding in advance of its final disposition; provided, however, that, if the Delaware General Corporation Law requires, the payment of expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by a person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of the director or officer, to repay all amounts so advanced if it shall ultimately be determined that the director or officer is not entitled to be indemnified under this Article TWELFTH or otherwise. The Corporation may, by action of its Board of Directors, provide indemnification to employees and agents of the Corporation with the same scope and effect as the foregoing indemnification of directors and officers.
2. If a claim under paragraph 1 of this Article TWELFTH is not paid in full by the Corporation within thirty days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the cost and expense (including attorneys' fees) of prosecuting the claim. It shall be a defense to an action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has not met the standards of conduct which make it permissible under the Delaware General Corporation Law for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of the action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the claimant has not met the

**Table of Contents**

applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

3. The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Article TWELFTH shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, bylaw, agreement, vote of stockholders or disinterested directors or otherwise.
  
4. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against the expense, liability or loss under the Delaware General Corporation Law.

**Table of Contents**

**Directions to Meydenbauer Center**

**Driving Directions**

From I-405 northbound or southbound take Exit 13A west (NE 4th Street westbound).

Turn right onto 112<sup>th</sup> Avenue NE (heading north).

Turn left onto NE 6<sup>th</sup> Street and proceed into the Meydenbauer Center parking garage entrance on the right.

**Parking**

Please visit [www.meydenbauer.com](http://www.meydenbauer.com) for the latest information on parking availability in and around Meydenbauer Center.

Vehicles with two or more occupants may use the NE 6<sup>th</sup> Street HOV only off- and on-ramps. Cross 112<sup>th</sup> Avenue NE and turn right into the Meydenbauer Center parking garage.