PACCAR INC
Form DEF 14A
March 10, 2011

**SCHEDULE 14A INFORMATION**
**PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES EXCHANGE ACT OF 1934**

**(AMENDMENT NO. ___)**

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
x Definitive Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
o Definitive Additional Materials
o Soliciting Material under Rule 14a-12

PACCAR INC

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(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

March 10, 2011

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of PACCAR Inc, which will be held at the Meydenbauer Center, 11100 N.E. 6th Street, Bellevue, Washington, at 10:30 a.m. on Wednesday, April 20, 2011.

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, 2, 4 and 5; a vote of **THREE YEARS** on Item 3; and a vote **AGAINST** Items 6 and 7.

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

Sincerely,

Mark C. Pigott
Chairman of the Board and
Chief Executive Officer

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**Notice of Annual Meeting of Stockholders**

The Annual Meeting of Stockholders of PACCAR Inc will be held at 10:30 a.m. on Wednesday, April 20, 2011, at the Meydenbauer Center, 11100 N.E. 6th Street, Bellevue, Washington, for these purposes:

1. To elect as directors the four Class I nominees named in the attached proxy statement to serve three-year terms ending in 2014.
2. To vote on an advisory basis on the compensation of the Named Executive Officers.
3. To vote on an advisory basis on the frequency of the vote on the compensation of the Named Executive Officers.
4. To approve the PACCAR Inc Long Term Incentive Plan.
5. To approve the PACCAR Inc Senior Executive Yearly Incentive Compensation Plan.
6. To vote on a stockholder proposal regarding the supermajority vote provisions.
7. To vote on a stockholder proposal regarding a director vote threshold.
8. 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 February 23, 2011.

**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

J. M. D Amato
Secretary

Bellevue, Washington
March 10, 2011

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# 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. on Wednesday, April 20, 2011, 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 106th Avenue N.E. Bellevue, Washington 98004. This proxy statement and proxy form were first sent to stockholders on or about March 10, 2011.

## 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, February 23, 2011. Each outstanding share of common stock is entitled to one vote on all items presented at the meeting. At the close of business on February 23, 2011, the Company had 365,440,991 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 John M. Fluke, Jr., are designated proxy holders to vote shares on behalf of stockholders at the 2011 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.

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 Stockholder Meeting to be held at 10:30 a.m. on April 20, 2011, at Meydenbauer Center, Bellevue, Washington. The 2011 proxy statement and the 2010 Annual Report to stockholders are available on the Company s Website at www.paccar.com/2011annualmeeting/.**

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 contact Wells Fargo Shareowner Services at 1.877.602.7615 or 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 2010 Annual Report and 2011 Proxy Statement at a shared address prior to the 2011 Annual Meeting. If those stockholders now wish to change that election, they may do so by contacting their bank, broker, or PACCAR at 425.468.7520 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.

**Item 1: Election of Directors**

Directors are elected by a plurality of the votes of the shares present in person or by proxy and entitled to vote on the election of directors. If a stockholder does not vote on the election of directors because the authority to vote is withheld, because the proxy is not returned, because the broker holding the shares does not vote, or because of some other reason, the shares will not count in determining the total number of votes for each nominee. The Company s Certificate of Incorporation does not provide for cumulative voting. Proxies signed and returned unmarked will be voted **FOR** the nominees for Class I Director. **Please note that brokers and custodians may no longer 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.

**Items 2, 4, 5, 6 and 7:**

To be approved, items 2, 4, 5, 6 and 7 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 count as a vote against each item. Broker nonvotes do not affect the voting calculations. Proxies that are signed and returned unmarked will be voted **For** Items 2, 4 and 5 and **AGAINST** Items 6 and 7. Approval of Item 2, the compensation of the Named Executive Officers, is advisory only.

**Item 3: Frequency of Stockholder Vote on Compensation of the Named Executive Officers**

Stockholders may cast an advisory vote on how frequently stockholders will be asked to vote on the compensation of the Named Executive Officers. Stockholders may select every one, two or three years or may abstain from voting. The affirmative vote of a plurality of the shares present and entitled to vote at the Annual Meeting will constitute the stockholder preference. Abstentions will not affect the outcome of the vote. **Proxies that are signed and returned unmarked will be voted in accordance with the Board recommendation of three years.**

## STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following person is known to the Company to be the beneficial owner of five percent or more of the Company s common stock as of December 31, 2010 (amounts shown are rounded to whole shares):

| Name and Address of Beneficial Owner | Shares Beneficially Owned | Percent of Class |
|---|---|---|
| BlackRock, Inc.<br>40 East 52nd Street<br>New York, NY 10022 | 19,850,029(a) | 5.44 |

(a) BlackRock, Inc. and its subsidiaries reported on Schedule 13G filed February 7, 2011 that it has sole voting and investment power over 19,850,029 shares. BlackRock affiliates manage some cash and pension investments for the Company. BlackRock earned a fee of $1.35 million for these services in 2010.

## STOCK OWNERSHIP OF OFFICERS AND DIRECTORS

The following list includes all shares of common stock beneficially owned by each Company director and named executive officer, and by Company directors and executive officers as a group as of February 23, 2011 (amounts shown are rounded to whole share amounts):

| Name | Shares Beneficially Owned | Percent of Class |
|---|---|---|
| James G. Cardillo | 120,919(a)(e) | * |
| Alison J. Carnwath | 14,085(b) | * |
| Robert J. Christensen | 82,834(a) | * |
| John M. Fluke, Jr. | 26,872(b) | * |
| Kirk S. Hachigian | 7,828(b) | * |
| Stephen F. Page | 38,792(b) | * |
| Robert T. Parry | 15,968(b) | * |
| John M. Pigott | 2,342,124(b)(c) | * |
| Mark C. Pigott | 5,904,702(c)(d) | 1.61 |
| Thomas E. Plimpton | 362,776(a) | * |
| William G. Reed, Jr. | 686,534(b)(c) | * |
| Daniel D. Sobic | 109,072(a) | * |
| Gregory M. E. Spierkel | 8,578(b) | * |
| Warren R. Staley | 7,672(b) | * |
| Charles R. Williamson | 27,079(b) | * |
| Total of all directors and executive officers as a group (22 individuals) | 10,117,039 | 2.77 |

*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: J. G. Cardillo 35,874; R. J. Christensen 17,660; T. E. Plimpton 46,140; D. D. Sobic 21,785. Includes restricted shares for which the participant has voting power as follows: R. J. Christensen 4,686; T. E. Plimpton 26,568; D. D. Sobic 7,599. Also includes options to purchase shares exercisable as of February 23, 2011, as follows: J. G. Cardillo 54,798; R. J. Christensen 58,166; T. E. Plimpton 237,870; D. D. Sobic 74,048. Includes deferred cash awards accrued as stock units without voting rights under the Deferred Compensation Plan (the DC Plan) and the Long Term Incentive Plan (the LTIP) as follows: T. E. Plimpton 12,070.

(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 as follows: J. M. Fluke, Jr. 1,557; K. S. Hachigian 7,828; S. F. Page 31,023; R. T. Parry 8,852; J. M. Pigott 6,075; G. M. E. Spierkel 8,578; C. R. Williamson 15,145.

(c) Includes shares held in the name of a spouse and/or children to which beneficial ownership is disclaimed.

(d) Includes 65,816 shares allocated in the Company s SIP for which he has sole voting and investment power; 259,241 restricted shares for which he has sole voting power; and 1,308,892 shares owned by a corporation over which he has no voting or investment power. Also includes options to purchase 1,199,826 shares exercisable as of February 23, 2011, and deferred cash awards accrued as 149,598 stock units without voting rights under the DC Plan and the LTIP.

(e) J. G. Cardillo retired as President of the Company December 31, 2010.

## EXPENSES OF 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 Phoenix Advisory Partners 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 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 for a term expiring at the Annual Meeting of Stockholders in 2014. All of the nominees are currently serving as directors of the Company.

## BOARD NOMINEES FOR CLASS I DIRECTORS
## (TERMS EXPIRE AT THE 2014 ANNUAL MEETING)

JOHN M. FLUKE, JR., age 68, is chairman of Fluke Capital Management, L.P., a private investment company, and has held that position since 1990. He is also interim principal executive officer and a director of CellCyte Genetics Corporation, a biotechnology company, and has held that position since 2008. He is also a director of Tully s Coffee Corporation. He previously served as a director of American Seafoods Group (2002-2006), Cell Therapeutics Inc. (2002-2005), Primus International (2002-2006) and Peoples National Bank and its successor US Bank of Washington (1984-1997). He has served as a director of the Company since 1984. Mr. Fluke has the attributes and qualifications listed in the Company guidelines for board membership including a master s degree in engineering from Stanford, a background in manufacturing gained through 24 years with Fluke Corporation, a manufacturer and distributor of high-quality electronic test tools, including four years as CEO and six years as chairman, extensive knowledge of Company operations, and many years as an advisor to or board member for companies engaged in commercializing emerging technologies.

KIRK S. HACHIGIAN, age 51, is chairman, president and chief executive officer of Cooper Industries plc., a $5 billion global manufacturer of electrical products. He was named chairman in 2006, chief executive officer in 2005 and president in 2004. He previously served as a director of American Standard (2005-2007). 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 current position he served eight years as an executive with General Electric Corporation including two years in Mexico and three years in Asia.

STEPHEN F. PAGE, age 71, served as vice chairman and chief financial officer and a director of United Technologies Corporation (UTC), a provider of high-technology products and services to the building systems and aerospace industries, from 2002 until his retirement in April 2004. From 1997 to 2002 he was president and CEO of Otis Elevator Co., a subsidiary of UTC. He is also a director of Lowe s Companies, Inc. and Liberty Mutual Holding Co. Inc. He has served as a director of the Company since 2004. Mr. Page has the attributes and qualifications listed in the Company guidelines for board membership including a law degree from Loyola Law School, experience practicing corporate law, a strong background in financial management as a certified public accountant, and as a chief financial officer of Black & Decker and later of UTC, a publicly-traded $54 billion diversified global manufacturing company, as well as twelve years as a senior UTC executive.

THOMAS E. PLIMPTON, age 61, is Vice Chairman of the Company and has held that position since September 2008. He also serves as the Company s principal financial officer. He was President from January 2003 to September 2008, and Executive Vice President from August 1998 to January 2003. He has served as a director of the Company since 2009. Mr. Plimpton has the attributes and qualifications listed in the Company guidelines for board membership including a degree and experience in accounting, an MBA from Rockhurst University, thorough knowledge of the commercial vehicle industry, international business and information technology gained from 34 years with the Company including 15 years as a senior executive.

**CLASS II DIRECTORS (TERMS EXPIRE AT THE 2012 ANNUAL MEETING)**

MARK C. PIGOTT, age 57, is Chairman and Chief Executive Officer of the Company and has held that position since January 1997. He was a Vice Chairman of the Company from January 1995 to December 31, 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 is the brother of director John M. Pigott. 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 31 years with the Company. PACCAR has benefited from an excellent record of industry-leading stockholder returns generated under his leadership.

WARREN R. STALEY, age 68, served as chairman and chief executive officer of Cargill, Incorporated, an international marketer, processor and distributor of agricultural, food, financial and industrial products from 1999 until his retirement in 2007. He previously served as a director of US Bancorp (1999-2008) and Target Corporation (2001-2007). He has served as a director of the Company since 2008. Mr. Staley has the attributes and qualifications for board membership listed in the Company guidelines including an MBA from Cornell University and a 38-year career at Cargill, a global, diversified business with over $116 billion in revenue, that included 15 years in senior positions and culminated in eight years as its chairman and chief executive.

CHARLES R. WILLIAMSON, age 62, has served as chairman of the board of Weyerhaeuser Company and of Talisman Energy Inc. since 2009. He was chairman and chief executive officer of Unocal, the California-based energy company, from 2001 until Unocal merged with Chevron in August 2005. He served as executive vice president of Chevron from August 2005 until his retirement in December 2005. Mr. Williamson was the chairman of the US-ASEAN Business Council (2002-2005). He previously served as a director of Unocal (2000-2005). He has served as a director of the Company since 2006. 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.

**Retiring Class II Director**

WILLIAM G. REED, JR., age 72, was chairman of Simpson Investment Company, a forest products holding company and the parent of Simpson Timber Company, from 1971 through June 1996. He is also a director of Washington Mutual Inc. He previously served as a director of Microsoft Corporation (1987-2004), Safeco Corporation (1974-2008) and Washington Mutual Bank (1970-2008). Mr. Reed has the attributes and qualifications listed in the Company guidelines for board membership including an MBA from Harvard, 25 years as a chief executive managing in overseas markets and directorships with other large, publicly traded companies. He is a substantial long-term stockholder in the Company. He has served as a director of the Company since 1998 and will retire from the Board of Directors effective April 19, 2011.

**CLASS III DIRECTORS (TERMS EXPIRE AT THE 2013 ANNUAL MEETING)**

ALISON J. CARNWATH, age 58, is chairman of Land Securities plc, the United Kingdom s largest property company listed on the London Stock Exchange, a senior adviser to Lexicon Partners, an independent corporate finance advisory firm, and chairman of the management board and investment committee at ISIS Equity Partners, LLP, a private equity firm, all based in the United Kingdom. She is a director of the Man

Group plc, an FTSE 100 index member and Barclays plc, a global financial services company. She has served as a director of the Company since 2005. She previously served as chairman of MF Global Holdings Ltd, a U.S.- based financial services firm (2008-2010); and a director of Friends Provident plc (2002-2008), Gallaher Group plc (2004-2007) and Glas Cymru Cyfyngedig (2001-2007), all United Kingdom based companies. Ms. Carnwath 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 31 years experience in international finance and investment banking including three years as a managing director of Donaldson, Lufkin and Jenrette (1997-2000).

ROBERT T. PARRY, age 71, was president and chief executive officer of the Federal Reserve Bank of San Francisco from 1986 until his retirement in June 2004. In that position, he served on the Federal Open Market Committee of the Federal Reserve System, the governmental body that sets monetary policy and interest rates. He is also a director of the Janus Capital Group, Inc. He previously served as a director of Countrywide Financial Corp. (2004-2008). He has served as a director of the Company since 2004. Mr. Parry has the attributes and qualifications listed in the Company guidelines for board membership including an expertise in economics as reflected in a Ph.D from the University of Pennsylvania. He served 18 years as a chief executive with the Federal Reserve Bank of San Francisco as well as an economist and senior executive with Security Pacific Corporation (1970-1986).

JOHN M. PIGOTT, age 47, 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 54, is chief executive officer of Ingram Micro Inc., a $34 billion worldwide distributor of technology products, from 2005 to the present. He previously served as president from March 2004 to April 2005. During his twelve-year tenure with the company he has held other senior positions including executive vice president. He is also a director of Ingram Micro. 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 30 years of management experience around the world including five years as chief executive of Ingram Micro.

**THE BOARD RECOMMENDS A VOTE <u>FOR</u> EACH OF THE NOMINEES.**

## BOARD GOVERNANCE

The Board of Directors has determined that the following persons are independent directors as defined by NASDAQ Rule 5605(a)(2): Alison J. Carnwath, John M. Fluke, Jr., Kirk S. Hachigian, Stephen F. Page, Robert T. Parry, William G. Reed, Jr., Gregory M. E. Spierkel, Warren R. Staley, and Charles R. Williamson.

The Board of Directors maintains a corporate governance section on its 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.

The Company bylaws provide that the chairman of the board also serves as the chief executive officer ( CEO ). The Board believes the combined role of chairman and CEO promotes unified leadership and direction for the company, which allows for a single, clear focus for management to execute the company s strategy and business plans. This leadership structure has resulted in the continued excellent growth and long-term financial success of the company.

The Company has adopted policies to ensure a strong and independent board. The Board regularly meets in executive session without the presence of management. Board members rotate the chairmanship of these sessions. The Board has not designated a lead independent director, but it plans to appoint a lead director by the end of 2011. Seventy-five percent of the Company s directors are independent as defined under NASDAQ regulations.

The Board oversees risk through management presentations at Board meetings and through its Audit and Compensation Committees. The Audit Committee charter provides that the Committee shall discuss with management the Company s risk exposures 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 twice a year. The Compensation Committee oversees risk arising from the Company s compensation programs and annually reviews how those programs manage and mitigate risk.

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. 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 2010. 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 2010.

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

| **Audit Committee** | **Compensation Committee** | **Executive Committee** | **Nominating and Governance Committee** |
|---|---|---|---|
| S. F. Page | C. R. Williamson | M. C. Pigott | J. M. Fluke, Jr. |
| J. M. Fluke, Jr. | A. J. Carnwath | J. M. Fluke, Jr. | A. J. Carnwath |
| R. T. Parry | K. S. Hachigian | W. G. Reed, Jr. | S. F. Page |
| W. R. Reed, Jr. | G. M. E. Spierkel | | W. R. Staley |

*Audit Committee*

The Audit Committee has responsibility for the selection, evaluation and compensation of the independent auditors and approval of all services they provide. 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. 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 independent directors S. F. Page and J. M. Fluke, Jr., as Audit Committee financial experts. The Committee met six times in 2010.

*Compensation Committee*

The Compensation Committee has responsibility for reviewing and approving salaries and other compensation matters for executive officers. It administers the LTIP, the Senior Executive Yearly Incentive Compensation Plan and the DC 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 or other executive officers. The Committee does not retain a compensation consultant on an annual basis. In 2010, the Committee retained Mercer to conduct a competitive market review based on aggregated survey data from the durable goods manufacturing industry for which it was paid $19,251. Mercer reported the results to the Committee but provided no advice or recommendations. Mercer and its affiliates were retained by Company management to provide services unrelated to executive compensation, including insurance brokerage and benefit plan services. The aggregate fees paid for those other services in fiscal 2010 were $175,079. The Committee did not review or approve the other services provided by Mercer and its affiliates to the Company, as those services were approved by management in the normal course of business.

The Compensation Committee charter describes the Committee s responsibilities. It is posted at www.paccar.com/company/corporateresponsibility/compensationcommittee.asp. All four members of the Compensation Committee meet the director independence requirements of the NASDAQ rules and the outside director requirements of Section 162(m) of the Internal Revenue Code. The Committee met five times in 2010.

*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. 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, 11th 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 independent members of the Board of Directors. Kirk S. Hachigian, a director and nominee who has not previously stood for election, was presented to the Committee by a third-party search firm.

The Nominating and Governance Committee charter describes the Committee s responsibilities. It is posted at www.paccar.com/company/corporateresponsibility/nominatingcommittee.asp. Each of the four Committee members meets the independence requirements of the NASDAQ rules. The Committee met three times in 2010.

*Executive Committee*

The Executive Committee acts on routine Board matters when the Board is not in session. The Committee took action once in 2010.

## COMPENSATION OF DIRECTORS

The following table provides information on compensation for non-employee directors who served during the fiscal year ending December 31, 2010:

**Summary Compensation**

| **Name** | **Fees Earned or Paid in Cash (a) ($)** | **Stock Awards (b) ($)** | **All Other Compensation (c) ($)** | **Total (d) ($)** |
|---|---|---|---|---|
| A. J. Carnwath | 125,000 | 90,024 | | 215,024 |
| J. M. Fluke, Jr. | 125,000 | 90,024 | | 215,024 |
| K. S. Hachigian | 112,500 | 90,024 | | 202,524 |
| S. F. Page | 125,000 | 90,024 | 5,000 | 220,024 |
| R. T. Parry | 115,000 | 90,024 | 5,000 | 210,024 |
| J. M. Pigott | 105,000 | 90,024 | 5,000 | 200,024 |
| W. G. Reed, Jr. | 115,000 | 90,024 | | 205,024 |
| G. M. E. Spierkel | 125,000 | 90,024 | | 215,024 |
| W. R. Staley | 120,000 | 90,024 | 5,000 | 215,024 |
| C. R. Williamson | 125,000 | 90,024 | | 215,024 |

(a) Fees for non-employee directors include the 2010 annual retainer of $75,000, paid quarterly, board meeting fees of $7,500 per meeting and committee meeting fees of $5,000 per meeting. If elected or retired during the calendar year, the non-employee director receives a prorated retainer. A single meeting attendance fee is paid when a board and committee meeting are held on the same day. S. F. Page 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 aggregate grant date fair value of the restricted stock award granted on January 3, 2010, to non-employee directors was $90,024. See Note Q to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010. On December 31, 2010, non-employee directors held the following unvested shares of restricted stock or restricted stock units: A. J. Carnwath 7,073; J. M. Fluke, Jr., 7,073; K. S. Hachigian 6,115; S. F. Page 7,073; R. T. Parry 7,073; J. M. Pigott 1,976; W. G. Reed, Jr., 7,073; G. M. E. Spierkel 6,819; W. R. Staley 6,115; C. R. Williamson7,073.

(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.

(d) K. S. Hachigian, S. F. Page, R. T. Parry, J. M. Pigott, G. M. E. Spierkel and C. R. Williamson deferred some or all of their compensation earned in 2010. None of the deferred compensation earned interest that was in excess of 120 percent of the applicable federal long-term rate as prescribed under Section 1274(d) of the Internal Revenue Code. Perquisites were less than the $10,000 reporting threshold.

**Narrative to Director Compensation Table**

On the first business day of the year, each non-employee director receives $90,000 in restricted stock or restricted stock units under the RSDC Plan. The number of shares received is determined by dividing $90,000 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 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 mandatory retirement after age 72, death or disability. Directors receive dividends and voting rights on all shares during the vesting period. Effective January 1, 2008, the RSDC Plan was amended to allow non-employee directors to 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. Thereafter dividends earned are treated as if they were reinvested at the closing price of Company stock on the date the dividend is payable.

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. 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 Company provides transportation for 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.

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

All non-employee directors are expected to hold at least $200,000 worth of Company stock and/or deferred stock units while serving as a director. Directors have three years from date of appointment to attain this ownership threshold. All non-employee directors with three or more years of service are in compliance as of January 1, 2011.

## 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.

## 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 2010 except one transaction consisting of a gift of shares from M. C. Pigott to his children was filed late and was reported on a Form 4 in 2011.

# COMPENSATION OF EXECUTIVE OFFICERS

## COMPENSATION DISCUSSION AND ANALYSIS (CD&A)

### Compensation Program Objectives and Structure

PACCAR s compensation programs are designed to attract and retain high-quality executives, link incentives to the Company s superior 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. Under the supervision of the Compensation Committee of the Board of Directors (the Committee ), composed exclusively of independent directors, the Company compensation objectives utilize programs that have delivered 72 consecutive years of net income, annual dividends since 1941 and excellent stockholder returns. The Company has significantly outperformed the S&P 500 index for the ten-year period ending December 31, 2010. The Company has delivered an annualized total return to stockholders of 23.0 percent versus the S&P 500 1.4 percent return in the last decade. For 2010, PACCAR shareholders received a return of over 60 percent. The compensation framework has these components:

Short-term performance compensation:

- Salary. The fixed amount of compensation for performing day-to-day responsibilities.
- Annual incentive cash compensation. Annual cash awards that focus on the attainment of Company yearly profitability 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 growth in net income, return on sales and return on capital. The equity-based compensation consists of stock options and restricted stock.

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 25, 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.

### Executive Compensation Criteria

The Compensation Committee considers a number of important factors when reviewing and determining executive compensation, including 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 Compensation Committee periodically utilizes information from industry-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 Consultant.** The Committee does not retain a compensation consultant on an annual basis. In 2010, the Committee retained Mercer to conduct a competitive market review for the Company s Named Executive Officers. The Committee asked Mercer to analyze the competitiveness of all elements of compensation, including base salary, short- and long-term cash incentives and equity compensation, and to rely upon available and published management compensation survey data from the durable goods manufacturing industry. Mercer analyzed a 2009 Mercer Report (139 companies) and a 2009-2010 Towers Watson report (578 companies) and provided the Committee only with aggregated data obtained from the surveyed companies. PACCAR Named Executive Officer compensation was compared to positions at surveyed companies with similar duties and revenue responsibilities. Overall, the market review found that target total direct compensation (total cash and equity) for the Named Executive Officers was between the market 25th percentile and the median. Target annual incentives were below market median by between 10 and 54 percent of base salary. Mercer reported its findings to the Committee, but it did not make any recommendations or provide any advice based on its review. The Committee reviewed the study and approved an increase to the percent of base salary used to determine target annual incentive compensation opportunities, effective January 1, 2011, as described on page 18.

**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 and applicable goals under the restricted stock share match program. These companies also comprise the index used in the stock performance graph set forth in the Company s Annual Report on Form 10-K and page 39 of this proxy statement. The Committee reviews the composition of the Peer Companies annually to ensure the companies are appropriate for comparative purposes. It revised the Peer Companies for the 2011-2013 LTIP cycle as described on page 18 to better reflect the cyclicality of the commercial vehicle industry. The eleven Peer Companies for the three-year LTIP cycles beginning in 2008, 2009 and 2010 are:

| **Company Name** | | **2010 Revenue (in billions)** |
|---|---|---|
| Caterpillar Inc. | $ | 42.588 |
| Cummins Inc. | | 13.226 |
| Danaher Corporation | | 13.203 |
| Deere & Company | | 25.398 |
| Dover Corporation | | 7.133 |
| Eaton Corporation | | 13.715 |
| Harley-Davidson, Inc. | | 4.860 |
| Honeywell International Inc. | | 33.370 |
| Illinois Tool Works Inc. | | 15.870 |
| Ingersoll-Rand PLC | | 14.079 |
| United Technologies Corporation | | 54.326 |
| **PACCAR Inc** | | **10.293** |

**Elements of Total Compensation**

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

**Compensation Mix.** The Company s executive compensation program structure includes a balance of annual and long-term incentives, cash and Company equity. At higher levels of responsibility within the Company, the senior executives have a larger percentage of total compensation at risk based on Company performance incentive programs. For 2010, the Committee approved target allocations as displayed below. The Company believes these allocations promote its objectives of profitable growth and superior long-term results.

| **Chairman & CEO** | **Other Named Executive Officers** |
|---|---|
| **2010 Target Compensation Structure** | **2010 Average Target Compensation** |

**Base Salary.** Base salary provides a fixed, baseline level of compensation that is not contingent upon Company performance. It is important that base salaries are 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 2006 Hewitt survey, described on page 12 of the 2009 proxy statement, with minimums at 70 percent of the midpoint and maximums at 130 percent of the midpoint. The salary midpoints were not changed in 2010. An executive officer s actual salary relative to this salary range reflects his or her responsibility, experience 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 2010. The Committee considered performance, the addition of new responsibilities and the results of the Mercer compensation study in its review of salaries. The executive salaries had not been adjusted since 2008. The Committee approved the percent increase listed over the 2008 base salaries as follows: T. E. Plimpton received a 12.5 percent increase; J. G. Cardillo received an 8.0 percent increase; D. D. Sobic received a 3.3 percent increase; and R. J. Christensen received a 12.5 percent increase. The Chief Executive Officer suggested all salary revisions for the Named Executive Officers. The Committee believes that the base salary of each of the Named Executive Officers is appropriate based on scope of responsibility, tenure with the Company, individual performance and competitive pay practices.

**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. 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. In 2010, the Committee restored the maximum award achievable to 200 percent of target for 140 percent of goal achievement after a one-year reduction in 2009 to 160 percent of target for 130 percent goal achievement. 2010 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 profit goal. The Committee has chosen net profit, 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

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2010 goal for four of the Named Executive Officers is based entirely upon Company performance relative to an overall net profit goal proposed by Company management and approved by the Committee within the first 90 days of each year. The target level represents an amount of net profit that the Committee determines is attainable with outstanding performance under expected economic conditions. The Committee assesses annual goal achievement and approves awards for the Named Executive Officers.

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 Plan is $4,000,000. The Committee, in its sole discretion, may reduce or eliminate (but not increase) any award earned by the Named Executive Officers based on an assessment of individual performance.

For 2010, the Company s net profit target was $125 million and actual net profit was $457.6 million, an excellent result considering the difficult global recession in the transportation industry. The Committee approved award payments of 200 percent of the target award, which corresponds with achievement of 140 percent of the net profit goal for each Named Executive Officer. The Committee approved an overall payment for R. J. Christensen of 185 percent of target consisting of 140 percent achievement of the divisional net profit goal and 125 percent achievement for the business leadership goal of increasing business in South America. The Committee did not exercise discretion to make modifications to any award. The following table outlines the 2010 goals and incentive awards for each Named Executive Officer:

| **Name and Principal Position** | **Financial Performance Measure** | **Target Award as a % of Base Salary** | **Performance Measure as a % of Target** | **Award Achieved as a % of Target** |
|---|---|---|---|---|
| M. C. Pigott<br>Chairman & Chief Executive Officer | Company Profit Goal | 100 | 100 | 200 % |
| T. E. Plimpton<br>Vice Chairman | Company Profit Goal | 75 | 100 | 200 % |
| J. G. Cardillo<br>President | Company Profit Goal | 70 | 100 | 200 % |
| D. D. Sobic<br>Executive Vice President | Company Profit Goal | 60 | 100 | 200 % |
| R. J. Christensen<br>Executive Vice President | Company Profit Goal<br>Division Profit Goal<br>Business Leadership | 60 | 40<br>30<br>30 | 185 % |

**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, restricted stock and cash incentive awards. The LTIP aligns the interests of stockholders with those of executives to focus on long-term growth in stockholder value. The 2010 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:

| Name | Long-Term Cash | Stock Options | Restricted Stock |
|---|---|---|---|
| M. C. Pigott | 150% | 375% | 150% |
| T. E. Plimpton | 100% | 375% | 60% |
| J. G. Cardillo | 90% | 300% | 60% |
| D. D. Sobic | 70% | 260% | 50% |
| R. J. Christensen | 60% | 210% | 40% |

*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 three-year compound growth 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.

For the 2010-2012 cycle, the Committee approved the following goals:

| Name | Financial Performance and Individual Performance Measures for LTIP 2010-2012 Cycle | Performance Measure as a % of Target |
|---|---|---|
| M. C. Pigott | Company Performance Goal | 100 |
| T. E. Plimpton | Company Performance Goal | 100 |
| J. G. Cardillo | Company Performance Goal | 100 |
| D. D. Sobic | Company Performance Goal | 50 |
| | Business Unit Profit | 25 |
| | Business Unit Leadership | 25 |
| R. J. Christensen | Company Performance Goal | 50 |
| | Business Unit Profit | 25 |
| | Business Unit Leadership | 25 |

The Committee believes that three-year compound growth 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 ten years. During that period the Company has demonstrated extraordinary performance against the Peer Companies and provided 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 certain of the Named Executive Officers is based upon individual business unit goals determined by the Chief Executive Officer similar to those described above for the annual incentive plan, measured over a three-year performance cycle. The Committee assesses goal achievement for the prior three-year period in the 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 2010, the Committee determined cash awards for the three-year period 2007-2009 ending December 31, 2009. One hundred percent of the cash award for M. C. Pigott and T. E. Plimpton was based on the Company Performance Goal. For the 2007-2009 LTIP cycle, the Company achieved superior results and was third among all of Peer Companies that reported earnings. The Committee approved a payout of 155.6 percent of target on the Company Performance Goal for each Named Executive Officer reflecting excellent goal achievement and it did not exercise discretion to reduce or modify payment. The remaining 50 percent of the award for J. G. Cardillo was based on business unit performance. The Committee determined that J. G. Cardillo achieved 200 percent of his business unit performance objective, which resulted in an overall payout of 177.8 percent of target. The remaining award for D. D. Sobic was based 25 percent on business unit profit and 25 percent on business unit performance. The Committee determined that D. D. Sobic met the business unit performance goal and approved an overall payout of 117.8 percent of target. The remaining award for R. J. Christensen was based 30 percent on business unit profit and 40 percent on business unit performance. The Committee determined that R. J. Christensen exceeded the business unit performance goal and approved an overall payout of 106.7 percent of target. The long-term cash awards for the 2008-2010 LTIP cycle have not been determined as of the date of this proxy statement because Peer Group comparison data was not available.

The maximum amount that may be paid to any eligible participant in any year under this program is $6,000,000. The award is also subject to the conditions of payment set forth in the Long Term Incentive Plan, as required by Section 162(m) of the Internal Revenue Code. The Committee, in its sole discretion, may reduce or eliminate (but not increase) any award earned by the Named Executive Officers based on an assessment of individual performance.

*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. They become exercisable at the end of a three-year vesting period and expire ten years after the date of grant.

The Compensation Committee granted stock options on February 2, 2010. The number of options was determined by multiplying the executive s base salary on February 2, 2010, 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, February 2, 2010. All stock options granted in 2010 vest and become exercisable on January 1, 2013, and remain exercisable until January 2020 unless the participant s employment terminates for reasons other than retirement at age 65, or the participant is demoted to an ineligible position. Vesting may be accelerated in the event of a change in control.

*Annual restricted stock program.* Performance-based restricted stock is included in the program because it provides an opportunity for executives to earn Company equity with performance-based compensation deductible under Section 162(m) of the Internal Revenue Code. The Committee sets a Company performance goal during 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 restricted stock vests 25 percent per year over a four-year period beginning in the year of the grant. Unvested shares are forfeited upon termination unless termination is by reason of death, disability or retirement on or after age 62. 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.

As reported in the 2010 proxy statement, the restricted stock program was suspended in 2009 to reduce compensation expense during the recession and the Named Executive Officers did not receive restricted stock awards in 2010. The Committee reinstated the program in 2010 for awards made in 2011. In February 2011, the Committee determined that the performance goal was achieved and approved restricted stock awards consistent with the target award percentage described on page 15.

**Compensation of the Chief Executive Officer**

The Committee applies the same compensation philosophy, policies and comparative data analysis to the Chairman and 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 his leadership, the Company has significantly outperformed the S&P 500 index for the ten-year period ending December 31, 2010. The Company has delivered an annualized total return to stockholders of 23.0 percent versus the S&P 500 1.4 percent return in the last decade.

The Chief Executive Officer has received no increase in base salary since January 1, 2008. He received no restricted stock award in 2010 because the program was suspended and he declined his 2009 restricted stock award. The Committee reviewed his salary in 2010 and approved a 5.2 percent increase, effective January 1, 2011, which is consistent with the Company s overall compensation guidelines. The Company has a share match program that enables the Chief Executive Officer to purchase Company stock either by exercising stock options or through open market purchases. He may receive a matching award of restricted stock if rigorous performance goals are met. The program provides for a maximum of 562,500 restricted shares and an annual limit of 150,000 shares. Restricted match shares vest after five years if the Company s earnings per share growth over the same five-year period meets or exceeds at least fifty percent of the Peer Companies. The Chief Executive Officer has the same rights as all other stockholders to vote the shares and receive cash dividends. With certain exceptions, all restricted match shares will be forfeited if the performance threshold is not achieved or if the Chief Executive Officer terminates employment with the Company during the vesting period. If the purchased shares are sold before the vesting period, an equal number of restricted match shares will be forfeited. No matching shares were granted under this program in 2010.

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

The Committee administers a Deferred Compensation Plan described on page 26 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 units credited under the Deferred Compensation Plan are disbursed in a one-time payment of Company shares. Participation in the Deferred Compensation Plan is voluntary.

**Stock Ownership Guidelines**

The Board of Directors approved stock ownership guidelines for the Company s executive officers and directors to link their long-term economic interest directly to that of the Company stockholders. The Chief Executive Officer is expected to hold a minimum of five times his base salary in Company stock and/or deferred stock units. Other executive officers are expected to hold a minimum of one times their base salary in Company stock, vested stock options and/or deferred stock units. Executive officers have three years to attain this ownership threshold. All executive officers are in compliance as of January 1, 2011.

**Changes Approved for 2011**

The Committee approved the following changes in 2010 to be effective in 2011:

The Committee reviewed the Long Term Incentive Plan ( LTIP ) and the Senior Executive Yearly Incentive Compensation Plan ( SEI ) reflecting the requirement to obtain stockholder approval of each plan s performance goals in 2011. The Committee approved the addition of two performance goals, return on revenue and return on net assets, and approved an increase in the maximum LTIP cash award from $6.0 million to $6.5 million and an increase in the SEI maximum cash award from $4.0 to $4.5 million. The maximum cash awards had not been updated since 2006 and were adjusted to reflect inflation over the five-year period. The plan changes are effective January 1, 2011 subject to stockholder approval as described further in this proxy statement.

The Committee increased the percentage of base salary used to determine annual incentive compensation target awards for 2011 for the majority of the employees eligible for the program. This action was taken to better align PACCAR compensation with the market median based on the external study conducted by Mercer, which showed that PACCAR s target annual incentive compensation was between 10 and 54 percent below the market median. The 2011 target for each Named Executive Officer, calculated as a percentage of base salary, is indicated in the following table:

**Annual Incentive Compensation**

| | **Target Award as a % of Base Salary** | |
|---|---|---|
| **Name** | **New** | **Prior** |

| | | |
|---|---|---|
| M. C. Pigott | 110 | 100 |
| T. E. Plimpton | 90 | 75 |
| D. D. Sobic | 65 | 60 |
| R. J. Christensen | 65 | 60 |

The Committee approved a revision to the list of Peer Companies used to measure financial performance when evaluating the cash portion of the LTIP as described on page 13. Companies were ranked on how closely they matched the Company on industrial and revenue comparability, return on sales and business cycle correlation. Seven of the existing peers were removed because they did not meet one or more of the criteria and seven companies were added. Beginning with the 2011-2013 LTIP cycle, the eleven Peer Companies will be: Agco Corporation, ArvinMeritor Inc., Caterpillar Inc, Cummins Inc, Dana Holding Corporation, Deere & Company, Eaton Corporation, Navistar International Corporation, Oshkosh Corporation, Scania AB and AB Volvo.

**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. J. G. Cardillo retired at the end of 2010 at age 62 and forfeited unvested stock options and long-term incentive cash for the partially completed 2009-2011 and 2010-2012 cycles. All outstanding restricted stock awards vested on his retirement. 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. Annual and long-term cash incentives are prorated upon retirement at age 65 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 of 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 provide 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 Accounting or Tax Treatment**

Company policy is to structure compensation arrangements that preserve tax deductions for executive compensation under Section 162(m) of the Internal Revenue Code. Cash awards paid to Named Executive Officers under the IC Plan and under the LTIP are subject to certain conditions of payment intended to preserve deductibility imposed under Section 162(m). The Committee establishes a yearly funding plan limit equal to a percentage of the Company s net income and assigns each Named Executive Officer a percentage of each fund. In 2010, the funding limit for the Named Executive Officers under the IC Plan equaled three percent of the Company s net income and the limit for the LTIP equaled one percent of the Company s cumulative net income for the 2010-2012 performance cycle. The Committee can exercise discretion to reduce or eliminate any award earned by the Named Executive Officers based on an assessment of individual performance against preapproved goals. The cash incentive awards to the Named Executive Officers under both plans are subject to the pre-established funding and plan limits even if some or all of the executive s performance goals have been exceeded. 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.

**Conclusion**

The Company s compensation programs are designed and administered in a manner consistent with its 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 2010 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 2011 Annual Meeting.

**THE COMPENSATION COMMITTEE**

C. R. Williamson, Chairman
A. J. Carnwath
K. S. Hachigian
G. M. E. Spierkel

### Summary Compensation

The following table provides information on compensation for the Named Executive Officers for the last three fiscal years ended December 31, 2010:

| Name and Principal Position | Year | Salary ($) | Stock Awards ($)(a) | Option Awards ($)(b) | Non-Equity Incentive Plan Compensation ($)(c) | Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(d) | All Other Compensation ($)(e) | Total ($) |
|---|---|---|---|---|---|---|---|---|
| M. C. Pigott<br>Chairman and Chief | 2010 | 1,350,000 | 0 | 1,774,097 | 2,700,000 | 1,901,226 | 7,350 | 7,732,673 |